VIRGIN MONEY UK

Annual Report & Accounts 2021

Making you happier about money

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

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We are Virgin Money

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

Our Purpose and ambition drive our strategic priorities:

Our Purpose: Making you happier about money

Our strategic ambition: To disrupt the status quo

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

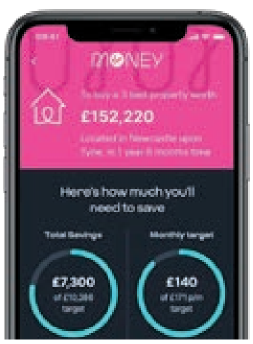
Powered by our
- Highly-recognised brand
- People with Purpose
- Digital platform

Delivered brilliantly in line with our Values
- Heartfelt service
- Red hot relevance
- Insatiable curiosity
- Straight up
- Smart disruption
- Delightfully surprising

With scale positions in key UK retail banking markets:

Mortgages
Simplifying mortgages to make homeowners' lives better

£58bn of lending



Personal
Helping our customers live and bank in a more rewarding way

£5bn of lending

£52bn of deposits

Business
Supporting business owners in realising their potential and achieving their dreams

£8bn of lending

£15bn of deposits

Accelerating our Digital First strategy

In today's world, achieving our strategic priorities means accelerating our development towards becoming a Digital First bank. We believe this will bring sustainable, long-term growth.

We have significant financial momentum...

- **Strong NIM growth** in FY21
- **Growing above market** in PCAs and Cards
- **Costs down 3% CAGR** since FY18
- **Statutory profit and 1p dividend** for FY21

...and the operating environment demands an accelerated digital strategy...

Customers and propositions: building best-in-class digital propositions and experiences

Colleagues and property: delivering an efficient bank with motivated colleagues

Digital: adopting an agile, cloud-based and automation-led approach

...so we're investing to drive the Group's digitisation and future growth...

Investing £275m to accelerate digital transformation

Developing and delivering exciting **new digital propositions**

Delivering £175m of gross savings; reinvesting half

Delivering above-market **growth in target segments**

Modernised tech platform and end-to-end digital customer journeys

Continuing to grow relationship deposits and current accounts

...to deliver our updated medium-term targets

Underlying cost: income ratio
<50%
by 2024

Statutory RoTE
10%
by 2024

Return to a sustainable dividend

Delivering on our Purpose in a digital world

2021 has been a year of significant progress. The acceleration of our Digital First strategy sets us up for an exciting future where we will deliver for all our customers, colleagues and stakeholders as we disrupt the status quo.

2021 has been a strong year for the Group. Our Digital First strategy will deliver for all our stakeholders and leaves the Group well positioned for future growth.

David Bennett
Chairman

Dear Stakeholder,
Since my appointment as Chairman, the COVID-19 pandemic has had a significant impact on individuals, society and the economy. As we move out of 2021, it is important to acknowledge what a challenging period this has been and that we continue to think of all those who have been impacted by the pandemic.

During COVID-19, the whole Bank has been unrelenting in its focus on supporting our customers and the communities in which we operate. As government support schemes conclude, it is imperative that we play our part in continuing to support the economic recovery by lending to customers and as we enter 2022, the Group is well placed to deliver on that.

Our colleagues have been pivotal in the successes of 2021, finding a positive operating rhythm despite the challenging and uncertain backdrop. I want to thank each of them for their efforts to support our Personal and Business customers throughout what has been an uncertain period.

As we look forward, the successful and timely roll-out of the vaccination programme has driven a continued improvement in the economic outlook in the UK. Against this improving backdrop, our robust asset quality and positive revisions to economic forecasts led to sizeable reductions in credit loss provisions, benefiting financial performance.

Despite the impacts of the pandemic, the Group has continued to make good progress in delivering the strategy set out at the Capital Markets Day in 2019, with integration substantially concluded and rebranding completed during the year, helping to drive a significant improvement in financial performance. For investors, we recognise the delivery of cost reduction in the Group has been a key focus and while gross cost savings have largely been delivered, there have been a number of headwinds that have resulted in a lower delivery of net cost reduction when compared with those targeted. Looking ahead, we are confident that delivery of our new Digital First strategy will support continued shareholder value creation over time.

Given the stronger financial performance in the year, it is pleasing to be able to return to paying a dividend with the Board declaring 1p in respect of 2021, subject to shareholder approval. The Group remains well capitalised, with a strong funding and liquidity position, to deliver on our ambitious strategic plan.

Accelerating our Digital First strategy
The acceleration of our Digital First strategy represents an exciting next phase in our strategy. Against an evolving backdrop, there has been a significant acceleration in the pace of digital development across banking and society. Virgin Money is well placed to respond to these additional opportunities for profitable growth and enhanced productivity.

Our Digital First strategy will expand on our existing platform with greater levels of digital origination and servicing across all of our products. The automation and simplification of the Group's IT architecture, in partnership with Microsoft, will provide a modern, scalable platform to support future growth. The Board has been active in its engagement in creating our new strategy, applying strong Purpose-driven principles to decision making in order to ensure we are delivering long-term sustainable benefits for all of our stakeholders.

As we deliver this, our ESG strategy continues to be at the core of what we do. As we evolve our operating model, I am pleased with the extensive ESG-related Board engagement including quarterly portfolio deep dives and our tailored Board training sessions focusing on the financial risks from climate change. We introduced our first greener mortgage and sustainability-linked business loan propositions in 2021 with further developments to come. The Group's recent commitment to drive towards net zero will be an important focus for the coming years.

As part of our overall inclusion strategy, I am pleased to note that we have met the targets set by the Hampton Alexander review and the Parker review in terms of Board diversity. The Board remains committed to ensuring membership reflects diversity in the broadest sense.

This strategic report covers our progress in more detail, particularly in the discussion of our strategic priorities on pages 12-20 and our sustainability strategy on pages 22-33. You can also find more on how the Board has engaged with our stakeholders on page 87.

Governance
Our commitment to good governance has continued to underpin our strategic delivery and ensures we constantly challenge our assumptions and risks. Significant progress has been made this year on stakeholder engagement and Board decision making with further details available within the s.172 compliance section on pages 87-93. As the Group evolves and grows, the Board continues to thoughtfully expand our skill set through in-depth training and strengthening its collective experience, particularly in the digital space. Further details of these are outlined in the Governance report overview on pages 76-82.

The Board remains committed over the coming years to continued further updates on the evolving landscapes of digital and ESG to ensure constructive challenge of the Executive team as they deliver our strategic plan. We also remain focused on further enhancing diversity and inclusion at Board level and throughout the organisation, building on what we have delivered in 2021.

Outlook
As we start to exit from the pandemic, with an improving economic backdrop, Virgin Money has an exciting opportunity through our strategy to simplify the Bank and accelerate our growth aspirations. The Board believes that our strategy is the right one and with a strong 2021 performance as a foundation, Virgin Money is well positioned to deliver profitable growth, in a cost effective and sustainable way, that supports all our stakeholders and disrupts the status quo.

Please also see my Chair's letter on page 64 of the Governance section.

David Bennett
Chairman
23 November 2021

Building a digital, growth-led future

We performed very strongly in FY21, with a return to statutory profit and positive financial momentum. We are well placed to accelerate our Digital First strategy driving profitable growth.

In 2021, the Group achieved a strong improvement in financial performance, and I'm excited about the next phase as we become a growth-oriented digital bank offering a best-in-class customer experience.

David Duffy
Chief Executive Officer

Dear stakeholder
As we announced earlier in the year, we have been reviewing options to accelerate our digital strategy. With that review now concluded, we recently published new medium-term growth and efficiency targets for the business. I'm pleased to report we have made significant strategic progress in the year, largely concluding our integration and rebranding programmes, alongside strengthened financials with the Group reporting a statutory profit this year. We conclude the year with a strong balance sheet and capital position that leaves us well positioned for the future. Given this stronger performance, the Board is pleased to be able to recommend a dividend of 1p per ordinary share. I'd like to thank all of our colleagues for their considerable efforts this year, especially given the uncertain backdrop driven by the pandemic.

As a result of COVID-19, the pace of digital change has accelerated, competition is increasing and customer expectations are rising rapidly. As we move into FY22, the Group is accelerating its digital investment to drive further efficiency and growth. We are pleased with the strength of our brand demonstrated by the growth shown by our existing propositions and our focus is now firmly on delivering the growth opportunities presented by the next phase of our strategy as we continue to disrupt the status quo.

Strong financial performance during FY21
Our strategy has continued to deliver improved financial momentum throughout the year, with support from a stronger economic backdrop. Underlying profit for the year was strong at £801m (FY20: £124m) and the Group returned to statutory profit in FY21, delivering £417m of profit before tax, driving a significant improvement in statutory RoTE to 10.2% (FY20: -6.2%). Underlying income improved 2% versus FY20, driven by stronger net interest income more than offsetting a weaker non-interest income performance. NIM improved to 1.62% (FY20: 1.56%) with positive momentum, demonstrated by Q4 NIM (1.70%). Underlying operating costs were 2% lower than FY20 as cost reductions were partially offset by higher variable remuneration in the fourth quarter. Impairments significantly improved in FY21 as the Group recognised a £131m credit (FY20: £501m charge) given the improving economic outlook and robust asset quality.

Lending balances finished 1% lower at £72.0bn as the Group managed volumes carefully through the year with a strong performance in unsecured balances, broadly stable mortgage balances and a reduction in Business lending. Deposit balances reduced 1% to £66.9bn with relationship deposits increasing by 19%, as we improved the mix of our deposit base, reducing our cost of funds. The improving economic outlook drove a reduction in credit provisions, however the balance sheet remains robust with total coverage now at 70bps (FY20: 103bps), ahead of pre-pandemic levels. Capital strengthened further in the period, with the transitional CET1 ratio improving c.150bps to 14.9% (14.4% excluding software benefit).

Given the significant improvement in financial performance and the robust capital position, the Board has recommended a 1p dividend subject to shareholder approval. It is pleasing to be in a position to resume capital returns, although we await the outcome of the solvency stress test (SST) and clarity on the broader economic backdrop before giving further guidance on our capital and dividend framework.

Accelerating Digital First
The benefits of a digital-led approach are already visible in the business today, with positive growth in our targeted segments from our established digitally-led propositions. personal current account (PCA) sales totalling c.135k increased 95% compared to last year with a good profile of more affluent and geographically diverse customers. Credit cards also continued to perform strongly following the launch of our credit card cashback proposition, with c.230k customers already signed up. The Group reported card balance growth of 4% in FY21 resulting in a higher market share; our customers continue to be affluent and of high quality, and we're well placed to grow further with a scaled, established franchise and a strong market share.

As we conclude our integration and rebranding programmes, the Group has delivered c.£130m of gross annual savings since FY18 with exit rate savings of c.£180m. Headwinds such as COVID-19, higher inflation and third-party supplier costs, as well as digital development and regulatory costs, have reduced the net savings since FY18. Following the review announced at H1 results, we've already launched key initiatives to accelerate the next phase of our strategy. Our digital acceleration focuses on three key areas: (i) customers and propositions, (ii) colleagues and property, and (iii) digital growth.

Our focus on ***customers and propositions*** will ensure we have best-in-class customer propositions targeting growth in key segments across Unsecured and Business lending. The launch of a national digital Business bank, an expansion of unsecured credit into Buy Now Pay Later (BNPL) and an innovative unsecured credit model for newer to credit customers will be important propositions. We remain focused on increasing PCA and BCA customer numbers, with refreshed Brighter Money Bundles, including debit card cashback, and in mortgages, we will deliver straight-through mortgage processing to drive further efficiency. The Group will also look to accelerate the growth of our investment proposition as part of our joint venture (JV) with abrdn.

Our focus on ***colleagues and property*** will see us embedding our Life More Virgin remote working model, supporting the rationalisation of our property footprint over time, including stores and offices. The Group will use offices as hubs for collaborative working and invest in these sites. This plan will also invest in our colleagues with improvements in technology, greater flexibility in working location and harmonisation of contracts ensuring we have an efficient Bank with motivated, productive colleagues.

Digital investment will drive automation throughout the business, delivering productivity gains, and will provide the enabling platform for digitally-driven growth in key segments. As part of our strategic partnership with Microsoft, we will invest to deliver a simpler technology platform with modern architecture, creating a scalable, secure, and resilient infrastructure platform. This modern platform will allow for faster and leaner delivery capabilities, drive improved product agility and reduce operating costs. This agile, modern banking system will enable us to address ever changing customer product needs, supporting a better customer experience, and a more efficient Bank in the future.

Launching a digital wallet
Alongside our work to develop a range of unique propositions, we will be developing a digital wallet collaborating with our strategic partner Global Payments. This will offer integrated payments, with BNPL capability and the potential for customers to earn and utilise Virgin Red's points, creating a differentiated offering among UK banks. The wallet will be available to all UK consumers, providing them with the opportunity to bring together payment solutions, Virgin Money cashback, rewards and credit facilities. The Group's improved digital merchant services proposition will be fully integrated into the Business bank with customer data and insights, and the Group expects to provide a further update on these developments in 2022.

ESG
We've continued to make good progress on embedding and delivering against our ESG strategy. We are pleased to have signed up to the Net Zero Banking Alliance and we've also made progress in defining and extending reporting, including our Scope 3 and financed emissions. During 2021, we launched targeted propositions including a greener mortgage product and sustainability-linked loans, supporting businesses of all sizes, and we look forward to developing further propositions in 2022.

Medium-term outlook
Accelerating our Digital First strategy will enable the Group to deliver valuable and differentiated propositions and experiences, to target digital-driven growth in key segments. These key segments are aligned to the Group's existing strategy to diversify the balance sheet, targeting above-market growth in higher yielding Business and Unsecured lending, while maintaining mortgage market share out to FY24. The Group is also targeting strong growth in new PCA and BCA customer numbers across the period as we continue to optimise our cost of funds. The continued diversification of both sides of the balance sheet will deliver a modest mix-driven net interest margin (NIM) expansion over the medium term while other income is targeted to grow as a proportion of total income.

Digital investment will also drive efficiency, with the Group targeting significant gross cost savings of c.£175m by FY24, with c.50% of these being either reinvested in the business or used to absorb the impact of inflation. Overall, the programme will see an acceleration of investment into FY22, where costs are now expected to be broadly stable, before the additional efficiency savings drive cost reductions out to FY24. The Group expects to deliver an underlying cost: income (CIR) ratio of <50% by FY24. In order to deliver these savings, the Group expects to incur c.£275m of restructuring charges across FY22-24 with around half the total amount incurred in FY22.

The Group has a clear path to deliver double digit returns by FY24 and is well placed to deliver strong, profitable growth through the acceleration of our digital strategy. We will provide further updates on the Group's long-term capital framework and dividend policy at H1 22, with a Capital Markets Day on our strategic opportunities and proposition developments during H2 22.

David Duffy
Chief Executive Officer
23 November 2021

Driving digital growth in a dynamic environment

Impact areas	What we are seeing	Our response
Improving economic outlook	The UK economy is expected to continue its strong recovery from the pandemic, supported in the near term by fiscal and monetary stimulus. There is a constructive outlook for key macroeconomic indicators including higher consumer spending, gross domestic product (GDP) growth and a solid outlook for house prices. There remains uncertainty surrounding the impact of the removal of government support along with the implications of recent stronger inflationary pressure and how this will impact on interest rates over time. **7%** 2022 base GDP forecast[1] **3%** Expected CPI in 2022[1]	We have reflected updated economics through our International Financial Reporting Standard (IFRS) 9 models driving a release in credit provisions; the improving backdrop will also support loan growth. Stronger forecasts across GDP and unemployment have allowed the Group to reduce its provision coverage to 70bps, while we are maintaining appropriate downside sensitivities to cover uncertainty. A continued improvement in the economic outlook will drive additional lending growth, and higher activity will support fee income. As the recovery continues, new Virgin Money-branded, digitally-distributed products provide a good base for our future growth plans that target key segments such as Business and Personal. **Find out more on how we manage risk on pages 42-49.**
Customer behaviour	The trend towards customers using online channels has been accelerated by COVID-19. We continue to see higher levels of digital sales as well as customers maintaining higher savings balances. Customer preferences are increasingly moving towards digital channels with rising expectations of functionality and ease of use. As restrictions have been lifted, there are signs of higher levels of household spending on non-essential items, but customers continue to retain higher savings balances built up during the pandemic. **19%** Relationship deposit growth **100%** Credit card sales online	We continue to build new digital propositions, and are enhancing and automating key customer journeys as we accelerate our Digital First strategy. Relationship deposit growth helps drive change in our deposit mix. We have executed strategic partnerships, allowing us to develop digital propositions faster in the future. We already distribute the majority of Personal products digitally and are adapting our store network accordingly. Through COVID-19 we have seen higher relationship deposit balances being held by customers, supporting a reduction in the overall cost of funds for the Group. **Find out more on our business model on pages 10 and 11.**
Competitive backdrop	Mortgage competition continues to be elevated with spreads returning to pre-pandemic levels. New entrants and Fintechs continue to be digitally focused. Excess liquidity is being deployed into mortgages by large UK banks, which has put pressure on spreads over the latter part of the year, although there have been recent signs of an easing in pressure. New entrants including digital-only Fintechs continue to target specific customer segments, but without a full relationship offering. **c.135k** VM-branded new PCA sales **7.4%** VM share of cards market	We continue to develop best-in-class propositions and experiences to target strong growth in our key segments. We are focused on deepening customer relationships and launching new propositions to target above-market growth in the Personal and Business markets. In mortgages, we will participate tactically and aim to maintain our market share. We also continue to target strong growth in relationship deposits, via innovative propositions, optimising our cost of funds and delivering improved operational and digital efficiency. **Find out more on how we compete in our business lines on pages 34-41.**

(1) Source: Oxford Economics Base Case, August 2021.

Impact areas	What we are seeing	Our response
Accelerating digital	Technological disruption continues to accelerate in the UK banking market, with investment in digital infrastructure becoming essential. Customer preference for digital channels requires a shift away from legacy technology and service platforms, towards digital, self-service models. The pandemic has increased the availability and evolution of digital services within wider society, providing additional customer pressure to match the experiences provided by Fintechs and non-banking players, particularly in areas such as payments. **c.2.5m** VM mobile app users **62%** VM PCA digital adoption in FY21	We are increasing our investment in digital by accelerating our Digital First strategy, supporting our ability to grow, be more efficient and more agile. Investing in improved technology, automation and digital propositions will allow us to deliver superior customer outcomes and generate benefits from efficient servicing. Reducing costs through applying digital technology will drive capacity for further reinvestment in new propositions, which we will be able to rapidly build and deploy. **Find out more on our strategic priorities on pages 12-20.**
Sustainability agenda	Sustainability is becoming an increasingly important factor for all stakeholders with banks playing a crucial role in delivering sustainable finance and inclusion. Public pressure on all companies to support and enable better environmental and societal impacts is increasing, and investors are increasingly taking steps to incorporate ESG factors into their investment decisions. Climate-related prudential and regulatory focus, such as governmental policy on the transition to a low-carbon economy, add to the growing need to demonstrate progress beyond good financial performance. **0.1%** Oil and gas lending **100%** electricity generated from renewable sources	We continue to execute on our ESG strategy to support a sustainable future and enhance our ESG disclosure, providing more insight for stakeholders. We have recently committed to net zero and are developing plans to deliver this. In 2021, we launched several propositions to drive positive environmental and societal impact, including greener mortgages and sustainability-linked business loans. We have developed our first TCFD report (see p.218), and expanded information on progress against our ESG priorities, see pp.22-33. **Find out more on our progress on sustainability on pages 22-33.**
Regulatory developments	The regulatory landscape continues to evolve at pace, to ensure the stability of the banking system and support positive outcomes for customers. The regulatory outlook continues to evolve with major UK banks continuing to be subject to ongoing monitoring and oversight from the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA). As the landscape changes banks are required to respond to ongoing prudential and conduct driven initiatives, as well as climate stress testing, reviews and other projects. Ongoing evolution of longer-term capital requirements, ensuring fair treatment of customers and stress testing remain areas of regulatory focus for the sector. **First** participation in SST **14.9%** Transitional CET1 ratio	We have invested significantly in our stress testing capabilities, while ensuring continued compliance in other areas of regulatory focus. The Group remains focused on ensuring that current and future customer products and services meet conduct standards and regulatory expectations, including working closely with partner administered products to meet FCA market rules. Following our inaugural participation in the PRA's Solvency Stress Test (SST), we await the outcome later this year, and continue to maintain prudent buffers above all regulatory requirements and internal risk appetite metrics, across capital, funding and liquidity. **Find out more on governance on pages 64-146.**

Digitally-enabled value creation

What we do and where

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

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

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

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

Supporting society
The Virgin Money Foundation supports grant making at a grassroots level in some of the most deprived areas of the UK while sustainability is a key focus in all of our activities

Key sources of value

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

Digital platform
We have invested to develop an innovative, scalable Open Banking-ready digital platform that supports all of our customers in one place. Our accelerated Digital First strategy and investment will build on this, with a modern, simplified cloud-based IT infrastructure supporting our ability to deliver profitable growth

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

People with purpose
Powered by our Purpose, our colleagues have many years of experience in delivering great outcomes for customers; we are up-skilling and supporting our colleagues to deliver in a digital future

Strong relationships
We leverage strong relationships with our various strategic partners and our stakeholders including our c.6.5m customers, c.7,000 colleagues and the communities we operate in, as well as with investors in both the equity and debt markets, government and regulators

Driven by our operating model

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

Personal
Customer deposits

Businesses
Customer deposits

Investors
Wholesale funding/capital

Liabilities cost us interest

-£

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

We support our customers

Banking operations
Payment and transaction banking systems, stores, contact centres, customer service, product manufacture and operations, all increasingly digitally led

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

How we make money

Income Interest and fees earned minus interest paid...

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

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

What makes us different?

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

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

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

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

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

...to deliver customer lending (assets) and other services

Mortgages

Unsecured lending

Business lending

through bringing together our capabilities across:

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

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

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

Assets earn us interest and fees

+£

Tax
...minus tax

Profit
...leaves us with profits or newly generated equity and capital

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

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

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

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

And delivering for our stakeholders

Customers
Delivering great value products, and an outstanding digital customer experience – Making you happier about money (see page 15)

Colleagues
Providing meaningful careers, development and an inclusive and ambitious culture, enabled by technology and our flexible 'A Life More Virgin' approach (see page 17)

Society
Contributing taxes and enhancing UK banking competition, with a progressive sustainability and ESG agenda (see page 22)

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

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

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

Section 172 statement
In undertaking its duties, the Board continues to be mindful of the need to appropriately balance the interests and expectations of the Group's various stakeholders. In this report, we describe how we have considered and worked with and for stakeholders as we seek to achieve our Purpose of Making you happier about money.

For our Section 172 statement, and more on how the Board has engaged with our stakeholders, please see page 87.

Accelerating our Digital First strategy

Our strategic priorities remain the right ones for delivering value to our stakeholders, but we are accelerating our Digital First strategy given rapid developments in the environment.

A digital strategy for a rapidly changing environment
Since launching our strategy at our Capital Markets Day in June 2019, the environment has changed significantly and, as a result of COVID-19, the pace of digital change has accelerated rapidly, customer behaviour and expectations have changed materially, and digital competition has intensified.

After concluding a comprehensive review of the Group's strategy, considering the external environment and the requirements for sustainable competitive advantage, the Board has decided to accelerate the next stage of our Digital First strategy, building on the strong financial momentum delivered during FY21.

The accelerated digital strategy will support additional growth with innovative, digital propositions and delivering targeted efficiency improvements. The programme aims to deliver best-in-class propositions and experiences for customers, an efficient and motivated workforce and an agile platform that supports additional productivity.

Our strategic partnership with Microsoft will deliver an upgraded operating platform, benefiting from the latest technology. This agile, modern banking platform will enable us to address ever-changing customer product needs, supporting a better customer experience, and delivering a scalable growth platform for the future.

Our strategic priorities continue to be the right ones to underpin our ambition to disrupt the status quo. A continued focus on delivering our efficiency goals and building seamless digital capability to delight customers and colleagues remain core to delivering a compelling proposition that delivers pioneering growth in our target segments.

Delivering across our strategic priorities will enable the Group to become a growth-oriented digital bank that offers a best-in-class experience and unique loyalty rewards for customers, and deliver sustainable double-digit returns for shareholders.

Launching a digital wallet

Collaborating with our strategic partner Global Payments, we will deliver a digital wallet. Open to all UK consumers, the wallet will offer integrated payments, with BNPL capability and the potential for customers to earn and utilise Virgin Red's points. The Group's improved digital merchant services proposition will also be fully integrated into the Business bank.

We have the right partnerships to support the digitisation of our products and processes, and now is the right time to leverage these partnerships to accelerate our Digital First strategy.

David Duffy
Chief Executive Officer

Making you happier about money

Our Purpose drives our strategic priorities, bringing value to our stakeholders

Accelerating our Digital First strategy

COVID-19 has significantly accelerated digital trends in banking. In today's operating environment, achieving our strategic priorities therefore means accelerating our development towards becoming a Digital First bank. We believe this will bring sustainable, long-term growth

This will be delivered through three key value drivers:

Customers and propositions: building best-in-class digital propositions and experiences

Colleagues and property: delivering an efficient bank with motivated colleagues

Digital: adopting an agile, cloud-based and automation-led approach

Which are aligned with our existing strategic priorities

Pioneering growth

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

See page 14

Delighted customers and colleagues

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

See pages 15 to 18

Super straight-forward efficiency

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

See page 19

Discipline and sustainability

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

See page 20

And with aligned sustainability goals

Build a brighter future

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

See page 26

Open doors

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

See page 30

Put our (carbon) foot down

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

See page 24

Straight-up ESG

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

See page 32

Pioneering growth

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

Balance sheet mix

Relationship deposits growth per annum

Loan to deposit ratio

What have we achieved in 2021?
As COVID-19 restrictions have eased, the Group has made strong progress in delivering the foundations of long-term sustainable growth. With rebranding activity now concluded, the vast majority of personal lending products are now VM-branded and the Group has also recently launched our new national digital Business bank with an exciting pipeline of products to follow.

Over the past year, the reaction to new, digital propositions has been positive. Sales of PCAs were up 95% compared to a year ago following the launch of our 'Brighter Money Bundles' campaign. The new customers attracted are geographically spread across the UK and 94% have registered for digital services. Customers attracted by the VM brand have also been more affluent than the Group's existing customers.

Credit cards have also outperformed the broader market growing 4% compared to a market that was down 6%. These are 100% digitally originated and the book continues to attract prime, affluent customers with a strong credit quality.

We continued to make good progress in driving a more diverse funding mix. Relationship deposits grew 19% in the year while term deposits declined 29%. The lower average cost of funds supported NIM expansion, while also leaving the Group well placed to drive future, profitable growth.

What will we achieve in the coming years?
The Group's Digital First strategy is targeting strong growth in key segments. This will include investing in digital propositions and continuing to diversify the loan book with faster growth in Personal unsecured products and Business lending. Overall the Group is focused on delivering above-market growth annually in both of these segments across FY22-24.

The Group is targeting continued growth in PCAs and business current accounts (BCAs) customer numbers building on the progress seen this year. A combination of investment in our digital channels and innovative propositions such as cashback and rewards will help us to drive continued progress.

The Group has a strong pipeline of new propositions into FY22. This includes an expansion of the unsecured credit model with the launch of an innovative new gen-Z subscription-based credit model and full BNPL capability. In the Business bank, the launch of M-track for business will support new customer acquisition. Personal banking rewards including debit cashback and the expansion of the Group's Reward programme are also set to launch next year.

Alongside these developments the Group will also be collaborating with its strategic partner Global Payments to develop a digital wallet. The wallet will offer integrated payments with full BNPL capability and the potential for customers to earn and utilise Virgin Red's points, creating a differentiated offering among UK banks. Available to all UK customers, the wallet will also connect the Group's improved merchant services offering to the Business bank. We expect to provide a further update during 2022.

Delighted customers and colleagues

Customers

- Enhance the customer experience
- Encourage digital adoption

Personal digital adoption

2021	62%
2020	56%
2019	51%

CMA service quality rankings

Top 3 ambition
for CMA business and personal banking service quality rankings over medium term

15th (2020: 9th)
Virgin Money – Personal

9th (2020: 6th – Yorkshire; 8th – Clydesdale)
Virgin Money – business

Group Smile Score

2021	51%
2020	54%
2019	50%

What have we achieved in 2021?
During the year, we have continued to build the right foundations in order to deliver on our strategic priority of delighting customers. The pandemic has rapidly shifted customer preferences and expectations, with customers increasingly seeking the ability to buy products and service their accounts using digital and mobile channels.

We are therefore continually developing our customer experience, propositions and digital services. We have responded to rapidly evolving customer demand with the creation of our new Customer Experience function, bringing together our customer servicing channels, operational support and customer experience development teams. This provides us with an opportunity to create consistently memorable experiences for our customers across all channels, while also driving efficiencies and building a sustainable, innovative delivery model.

This year, we have made numerous enhancements to customer experience, with new products, including our innovative 'Brighter Money Bundles' current account and rebranded, refreshed propositions, including the launch of the national Virgin Money Business bank. We recognise that our customer experience still lags those that are best in class, but we have the right foundations in place to deliver an improvement in how we service our customers.

Digital adoption among our customers is improving with 94% of new PCA customers digitally registered, and 62% overall digital adoption on PCAs (FY20: 56%), reflecting the development of enhanced digital services, consistently higher mobile log-ins and improved onboarding. The vast majority of our Personal sales are now digital at 96% (FY20: 91%), including 100% for credit cards, where 97% of all servicing interactions are also now carried out via a digital channel.

Delighted customers and colleagues continued

Our Customer Experience function is focused on the design and delivery of a first-class customer experience centred around Making you happier about money, bringing together all our customer touchpoints – our store network, contact centres, business relationship managers and digital channels.

Fergus Murphy
Chief Customer Experience Officer

Now that we've rebranded our Business bank, Virgin Money appears in the Competition and Markets Authority (CMA) rankings for the first time. We're currently sitting at 9th out of 14 brands, which is broadly consistent with our previous heritage rankings, but not where we aspire to be. Work to improve the digital Business banking experience, which includes the launch in FY22 of a new digital BCA with new features and improved customer journeys, should help us to improve our ranking (see page 39 for more).

Our PCA service ranking fell back to 15th out of 17, which is disappointing and partially reflects a number of new entrants being included in the rankings for the first time. It also reflects the impact of store closures, rebranding and some service outages during the early stages of roll-out of the mobile app. However, we are confident that we will start to see this improve as we benefit from the extensive digital developments we are making to improve service. These include improvement in app stability and reliability and the roll-out of digital ID and verification, which has already increased customer satisfaction. It is worth noting that initial indications suggest that customer satisfaction among those customers who are experiencing rebranded and improved digital onboarding journeys are consistently outperforming other interactions, demonstrating these changes are driving a higher quality of experience that will lead to improved rankings over time.

We were pleased to be awarded Winners in the CX Elite Awards 2021 'Adapting to the Pandemic' category, for the work we have done on 'Money on Your Mind', a ground-breaking service launched during the pandemic, which has provided support to customers and non-customers alike.

What will we achieve in the coming years?

Our customer strategy focuses on building deeper relationships and first-class, end-to-end experiences, centred around Making you happier about money. We intend to rapidly digitise our customer interactions, supported by the investment we are making in our accelerated 'Digital First' strategy.

We've identified the most important journeys for our customers and will focus on transforming our PCA, BCA, Mortgage and Payments journeys initially. Our PCA, BCA and Mortgage on-boarding journeys will deliver first-class, feel good, end-to-end experiences for our customers. We will use the Smile score metric (see below) to track our progress.

We are working to transform our operations and contact centre models. By digitising and automating routine journeys and customer touch-points, and simplifying back end processes, we can move colleagues away from dealing with basic enquiries and ensure they are there to provide support for the moments that really matter to customers.

We want to be the go-to provider for all of our customers' financial needs and, through our digital investment, we'll offer customers a single view of their relationship with us. This will be supported by a new customer relationship management platform, which will allow us to provide more topical, relevant and tailored customer engagement.

Finally, we will delight customers by continuing to roll out exciting new propositions. These include our digital only, fee-free BCA and money management tool, M-track, as well as the roll-out of debit card cashback and credit card instalment payments. These will be supported by our unique Virgin Red rewards, which will help us stand out from the competition, with a number of great ways to reward customers and connect to the wider Virgin Group.

Smile scores

In conjunction with Customer Experience industry thought leaders Forresters, we have developed an innovative, proprietary metric that captures the key role of customer's emotional response within their overall satisfaction. Our 'Smile score' asks customers to consider whether they got what they wanted on a transaction, how easy it was, and also, how the interaction made them feel. If a customer scores each of these three aspects at the highest ranking, that equates to a 'Smile'; and the % of interactions scored as a 'Smile' provides the 'Smile' score for the relevant product or service.

While we will still use net promoter scores (NPS) internally, including transactional NPS to reflect how we are performing against our peers, we will use Smile scores as our key customer experience metric given its ability to capture the role of emotion in customer advocacy.

Colleagues

> Colleagues delivering our Purpose

Colleague engagement

Senior gender diversity

What have we achieved in 2021

The past year has been particularly challenging for colleagues. Reorganisation activity that was paused at the onset of the pandemic resumed to support the delivery of strategic goals. The impact of these changes has been felt across the Group and the level of sustained change has created a difficult environment for colleagues. This has been further compounded by the ongoing impact of the pandemic, including the decision to award no pay increases or bonuses for 2020 given broader challenges around COVID-19. These factors have undoubtedly contributed to the fall in our engagement score. Despite this backdrop our colleagues have responded extraordinarily well, enabling us to continue to deliver for stakeholders.

At the same time, we have continued our journey towards A Life More Virgin and our new ways of working. To help shape our new colleague proposition we have adopted a 'test and learn' approach which has helped inform our thinking.

Our focus on colleague health, safety and well-being remains a key priority. We have continued to keep our workplaces safe, while delivering a comprehensive online programme to support colleagues with mind, body, family and financial well-being. We are committed to helping colleagues change how they think about mental health and provide a safe and caring environment where they can access the support needed. We are encouraged that in the 2021 myVoice engagement survey 84% of colleagues indicated they knew how to get help and support if feeling under pressure or stressed, and 82% have a good understanding of the well-being resources available to them.

We have continued to embed and celebrate our Purpose, Making you happier about money. Our inaugural PurposeFest, a week-long series of virtual events was attended by over 1,000 colleagues. A number of the events were hosted by charities and social enterprises from the Virgin Money Foundation and members of the Virgin Group.

Digital enablement

The vast majority of colleagues worked from home for the entire year. The world of work has undoubtedly changed forever, and we recognise the importance of applying what we've learnt to find new, better ways of working. As restrictions relax, we are moving to a more sustainable, future-fit, hybrid working model. We have worked closely with colleagues to take their input into how we should shape the new ways of working.

Being away from our office hubs has challenged how we stay connected at all levels of the organisation, however, we found that connecting with colleagues digitally is more inclusive, enabling us to reach a broader cross-section of our workforce. During the year, c.1,200 colleagues have participated in 12 Let's Talk and Type sessions with the Leadership Team. In addition, each of our Non-Executive Directors has participated in at least one of three Board Jams run throughout the year with c.300 colleagues in total.

This year, we have focused development on preparing leaders and colleagues to operate at their best in our new ways of working. We have guided over 1,100 people leaders through three workshops to support A Life More Virgin. The balanced focus on driving performance, building inclusive teams and supporting well-being has paid dividends – in this year's engagement survey 90% of colleagues reported their people leader acting in line with our Values, 15% ahead of the UK Financial Services norm. For colleagues, we've deployed Learning In A Life More Virgin. This is a digital, peer-to-peer programme designed to help colleagues work in teams, develop future capabilities and develop new ways of working. The 2,000+ regular participants score 15% higher for sustainable engagement in our engagement survey. This programme forms a weekly ritual, and complements quarterly development goals for all colleagues, quarterly learning for all, and targeted development at different career stages and for inclusion groups.

Key colleague metrics

	2021	2020
Colleague engagement score	**68%**	79%
Colleague engagement participation rate	**78%**	77%
Percentage of colleagues with share interests	**86%**	89%
Turnover rate	**9.4%**	5.7%
Absence rate	**3.8%**	4.4%

Diversity and inclusion

The past 18 months has also really challenged our thinking on diversity and inclusion, driven by the unequal impact of COVID-19 on different communities as well as the Black Lives Matter campaign. As a Group, we place inclusion at the heart of our culture. We are continually striving to build a workforce that represents the communities we serve. Achieving this is dependent on building a culture in which all colleagues can thrive. We've set ourselves significant representation targets, which are set out in the table below. These targets focus on our most senior layers in the organisation, our overall population, and then our top pay quartile. We've taken this approach to create momentum and to make a really sustainable change.

	2023 target	2025 targets	2030 targets
Gender	45–55% senior gender diversity	45–55% senior gender diversity	45–55% at top pay quartile
Ethnicity	14% of senior colleagues	10% Group wide	14% at top pay quartile
LGBTQ+	–	4% Group wide	5% at top pay quartile
Disability	–	8% Group wide	10% at top pay quartile

We have made good progress over the past 12 months including:

Creating the right culture:

- Our systemic approach has been recognised with a Gold TIDE award from the Employers Network for Equality and Inclusion – one of only 12 awarded this year.
- Increased colleague ethnicity disclosure from 65% to 72%.
- Increased membership across all our Inclusion Networks.
- 300 senior leaders completed our Inclusion Works programme designed to help them to understand biases, build psychological safety and role-model everyday acts of inclusion.
- 89% of colleagues told us they are comfortable being themselves at work.
- Our Board and Senior Leadership are committed to zero tolerance of harassment and bullying. We have a specific inclusion pledge and toolkit which backs this up.
- We are a Disability Confident Leader as a result of our work to create an environment where colleagues with disabilities can thrive.

Recruiting diverse talent:

- New ways of working create enhanced flexibility in location and working patterns to attract talent from a broader range of backgrounds.
- Updated recruitment processes including: refresh of preferred recruitment suppliers, commitment to diverse long and short lists, and enhanced data capture to support continuous improvement.
- Recruitment processes redesigned to support applicants with a disability.
- Hosted external events including a Recruitment Masterclass in partnership with Kings Talk and a Disability Confident event to emphasise the importance of inclusivity in our culture.

Developing diverse talent:

- We launched a career sponsorship programme supporting 23 ethnic minority colleagues, providing them with support to build capability and accelerate their career, in addition to matching them with a sponsor to help them progress. The sponsors also benefit from having a reverse mentoring relationship with their sponsees, helping them to understand the challenges experienced by ethnic minority colleagues.
- Everywoman learning platform launched, empowering women and supporting their career progression.

Our commitments under the Women in Finance and the Race at Work Charters reflect our belief that capturing and reporting data is key to support progress against our bold aspirations. We have worked hard to improve the diversity data we hold on colleagues, enabling us to track progress and focus on specific areas for improvement. The table at the foot of this page sets out the composition of our workforce at 30 September 2021. On gender pay, our mean pay gap reduced to 29.7% from 30.6% in the prior year but our median pay gap increased primarily as a consequence of ongoing organisational changes. For more detail, see our 2021 gender pay gap report www.virginmoneyukplc.com/corporate-sustainability/diversity-and-inclusion/gender/.

What will we achieve in the coming years?

Everything about the way we live and work has changed in the past 18 months. We asked ourselves tough questions about what 'going to work' means in a post-pandemic world and realised the answer is different for everyone. Our A Life More Virgin programme is our response to that challenge – our ambition to disrupt conventional thinking when it comes to the future of work. At its heart is a new deal for our colleagues, promising flexibility and fairness for all, enabled by a digital-first mindset and supported by our technology partners to deliver a more flexible remote working model.

The Purpose-led colleague proposition element of this programme puts more choice and control in colleagues' hands through the introduction of equal, flexible family leave for all, five extra well-being days' leave each year, and a location-agnostic approach to career progression enabled by enhanced remote working. As a result, it provides the Group with a competitive advantage in terms of talent retention and the recruitment of a diverse resource pool, and will continue to inspire colleagues to deliver on our Purpose.

The colleague proposition element of this programme has evolved through regular Board and Management engagement with colleagues, as well as insight from our regular engagement surveys and 'test and learn' experiments. We will begin implementing the final parts of our A Life More Virgin colleague proposition when the next phase of negotiations with our union concludes early in FY22.

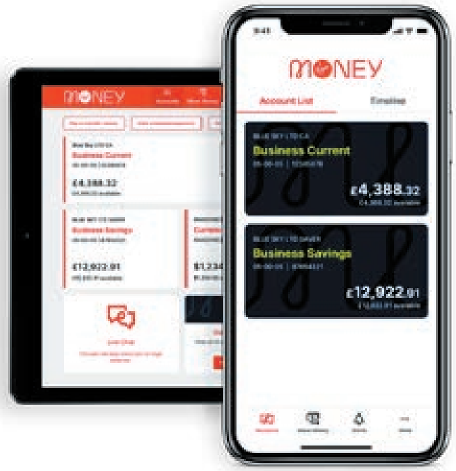
	2021		2020		2021
	Female (number/%)	Male (number/%)	Female (number/%)	Male (number/%)	Ethnic diversity(2)
Board	3 (33%)	6 (67%)	3 (33%)	6 (67%)	11%
Senior management(1)	31 (43%)	41 (57%)	39 (44%)	50 (56%)	2%
All colleagues	4,581 (58%)	3,276 (42%)	5,252 (59%)	3,650 (41%)	5%

(1) Senior Management excludes Executive Directors.

(2) Colleagues from an ethnic background as a percentage of colleagues who have shared details of their ethnicity. 72% of colleagues have shared this information.

Super straightforward efficiency

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



Underlying operating costs (£m)

Underlying cost:income ratio

Restructuring costs (£m)

What have we achieved in 2021?

The Group has continued to make progress on delivering greater efficiency in 2021. Since FY18, the Group has delivered a 3% CAGR reduction in underlying operating costs, reducing these to £902m in FY21. This has been achieved by the delivery of c.£180m of exit rate gross cost savings over the past three years. Given our decision to pause activity on transformation programmes during the pandemic, savings were delayed but have been weighted towards delivery in FY21 as we have looked to accelerate activity this year.

The pandemic has accelerated the use of cloud based-technology in banking and other aspects of our lives. Both the use of technology and the pace at which it can be deployed have increased. Given the changes in customer and colleague expectations, and the technology landscape, in 2021 we accelerated our strategy to digitise the Group while continuing to deliver integration and rebranding.

We are pleased with the progress we have made on integration. We have delivered greater than expected full time equivalent (FTE) synergies, and gone further than our initial plans on property and store rationalisation as customer and colleague requirements have shifted, accelerated by the pandemic. As part of rebranding we have retired legacy brands and, using our modern technology platform, have migrated customers to the Virgin Money brand. The vast majority of products and services are now sold under this brand, and we have recently launched our national Virgin Money Business bank.

This acceleration has required additional restructuring costs during 2021 which took us outside of the initial £360m of costs expected at the time of our Capital Markets Day, although this is partly in response to the changing environment since COVID-19. The pace of overall cost reduction has also been offset by some key headwinds including embedded COVID-19 costs, greater investment in regulatory requirements as we become a Tier 1 bank, higher investment in digital growth propositions such as our mortgage platform, and higher inflation and supplier costs.

Despite this, we have delivered an improved underlying cost income ratio in 2021, with ambitions to further improve this in coming years, to less than 50% by FY24. The progress made to date, including ongoing investment in our tech platform and digital customer propositions, means that despite the very difficult operating environment of the past two years, we are now very well positioned for the next stage of our strategy.

What will we achieve in the coming years?

We are pleased to have announced our accelerated Digital First strategy. A key component of this will be further improving the cost-efficiency and productivity of the Group. We have concluded that the competitive imperative of a post-pandemic world requires us to invest in further digitising our products and services and are confident that, as part of this strategy, we can deliver approximately £175 million in additional cost savings over three years, from c.£275m of restructuring investment.

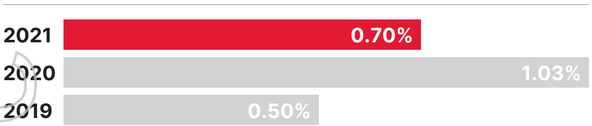
We have signed a contract with Microsoft to support the improvement of our operating platform, using modern, cost-effective cloud-enabled technology. This will also allow us to deliver digital efficiency solutions faster and support the automation of key customer processes while enabling a reduction in data centres, mainframe usage and the simplification of our IT estate. Offering colleagues an improved digital working experience will also support us in continuing to materially reduce our property footprint.

We plan to re-invest approximately 50% of our cost savings in further digital initiatives and customer propositions, and to absorb cost inflation. Alongside our growth ambitions, we believe that delivering this greater efficiency will support sustainable value creation for shareholders and an enhanced competitive position, delivering an underlying cost:income ratio of less than 50% by FY24 and enabling us to compete effectively in a rapidly changing digital marketplace.

Discipline and sustainability

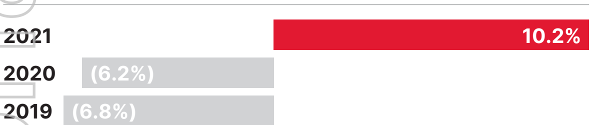
- > **Maintain a disciplined risk approach**
- > **Optimise the Group's capital base**
- > **Deliver sustainable returns**

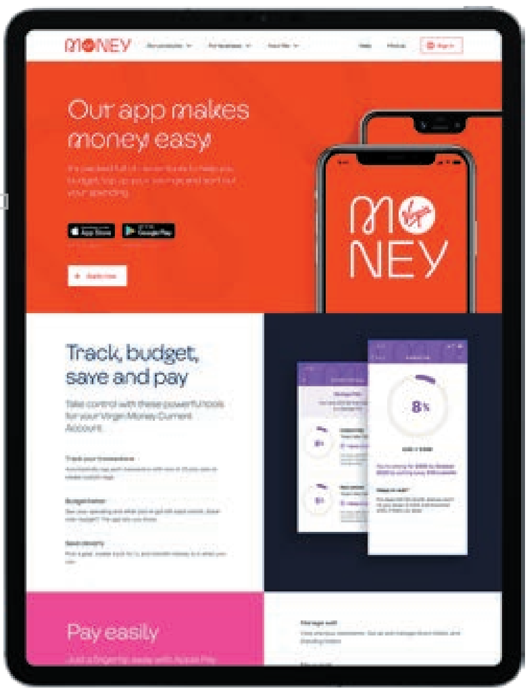
Coverage ratio



CET1 ratio

Statutory RoTE





What have we achieved in 2021?

During 2021, we have started to witness the stabilisation of some of the economic impacts of the COVID-19 pandemic. Economic assumptions used in the Group's IFRS 9 modelling of expected credit losses (ECLs) have therefore been upgraded to reflect the improving economic environment, incorporating a 6.4% weighted average GDP growth in 2021 and a c.5% weighted average peak rate of unemployment. We retain a conservative outlook for house prices, incorporating a c.3% recovery in 2021 while contracting in the outer years.

This improving outlook is reflected in a reduced provision coverage level from 1.03% at FY20 to 0.70% at FY21, which remains prudently above pre-pandemic levels. This release of provisions resulted in a FY21 impairment credit of £131m.

The overall reduction in ECL for the year contributed to a statutory profit and a double-digit statutory return on tangible equity (RoTE). This largely reversed the financial impact of the prudent provisioning taken in 2020 at the onset of the pandemic.

The Group is increasingly well capitalised at 14.9% CET1 following strong capital generation in FY21, reflecting growth in underlying profits and reduced RWAs. These were offset by Additional Tier 1 (AT1) distributions and exceptional items. The strength of the Group's capital position, and confidence in the future, meant the Board was able to recommend a dividend of 1p per share to be paid in March 2022, subject to shareholder approval.

What will we achieve in the coming years?

We continue to remain committed to delivering cost-efficient, profitable and sustainable growth, and continued capital generation and optimisation. The recovery of the economy after the pandemic allied to our investment in digital will enable us to target above-market growth areas in Business and Unsecured lending. We will continue to operate within risk appetite, but will relax some of the stricter underwriting standards applied during the pandemic and selectively target underserved segments where higher risk-adjusted returns are available.

The Group has also undertaken its first SST, with results expected in December 2021, and we look forward to updating stakeholders on our capital and dividend framework next year.

Work is continuing on the move to internal-ratings based (IRB) for our credit cards portfolio and the adoption of hybrid mortgage models, however we expect the net benefit of these to deliver positive RWA movements in outer years.

Finally, the Group expects a more normalised provision position going forward and the execution of our accelerated Digital First strategy will deliver cost-efficiency and ultimately sustainable profitability and continued progressive and sustainable dividends for shareholders.

Non-financial reporting information

As we develop more comprehensive disclosures in line with emerging recommendations and principles, we continue to comply with the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.

The table below aims to help stakeholders identify where they can find all relevant non-financial information in this report and online. All policies and statements listed can be accessed on the ESG Resource hub – https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub and further disclosure is available within the ESG Index on page 318.

Reporting requirement	Policies and standards which govern our approach	Risk management and additional information	
Environmental matters	Environmental and Social Policy Climate Change Policy Sensitive Sector Statement Responsible Lending Policy*	Environmental, social and governance How we manage risk TCFD Stakeholder engagement Climate risk	pg 22–33 pg 42–49 pg 218–234 pg 87–93 pg 110, 114
Colleagues	Code of Conduct Health & Safety Policy Physical & Personal Security Policy* Whistleblowing Policy Fit and Proper Diversity and Inclusion Policy	Colleagues Environmental, social and governance How we manage risk People risk Governance Conduct risk	pg 17–18 pg 22–33 pg 42–49 pg 114, 215 pg 76–99 pg 46–47, 113, 209
Human rights	Modern Slavery Statement Data Privacy Policy Supplier Code of Conduct Information Security Policy*	Environmental, social and governance Governance Regulatory and compliance risk Technology risk Risk Committee report	pg 22–33 pg 76–99 pg 46–47, 208 pg 48–49, 212 pg 109–114
Social matters	Open Doors Policy Political Involvement, Communications and Donations Policy	Colleagues Environmental, social and governance Stakeholder engagement Director's report How we manage risk Risk Committee report Credit risk Financial crime and fraud risk Strategic and enterprise risk	pg 17–18 pg 22–33 pg 87–93 pg 143 pg 42–49 pg 109–114 pg 154 pg 213 pg 214
Anti-corruption and anti-bribery	Anti-Bribery & Corruption Policy Anti-Money Laundering and Counter Terrorism Financing Policy Fraud and Cyber-Enabled Crime Policy Sanctions and Embargoes Policy	How we manage risk Risk Committee report Technology risk Financial crime and fraud risk	pg 42–49 pg 109–114 pg 48–49, 212 pg 48–49, 213
Policy embedding due diligence and outcomes		How we manage risk Risk report	pg 42–49 pg 148–216
Description of principal risks and impact on business activity		How we manage risk Risk report	pg 42–49 pg 148–216
Description of the business model		We are Virgin Money How we generate value	pg 2–3 pg 10–11
Non-financial key performance indicators		Our strategic priorities Environmental, social and governance Functional reviews CFO review	pg 12–20 pg 22–33 pg 34–41 pg 52–60

* Internal policies

Strong foundations for a sustainable future

2021 has been a year of strong progress on our sustainability strategy and driving positive social and environmental impact.

2021 was the first year of delivering our ESG strategy and as a Purpose-led business, Virgin Money has a huge opportunity to drive positive social and environmental change through everything we do. As we embed sustainability, we are focused on defining and delivering our plans against our 4 big goals. Whilst COVID-19 has presented additional challenges, the Group is well placed to deliver on its Purpose and ESG agenda.

During 2021, the Group has maintained its focus on reducing our impact on the environment and has subsequently signed up to the Net Zero Banking Alliance, expanding our target to deliver net zero operational emissions by 2030. During the year, we launched innovative new propositions for customers to support the transition towards net zero with the launch of our first greener mortgage, and the launch of our Sustainable Business Coach and sustainability-linked loans for business.

The Partnership for Carbon Accounting Financials (PCAF) has helped us to develop the parameters to understand our Scope 3 financed emissions. We (alongside the wider industry) have more work to do to evolve and refine this analysis, and model the factors within and outside of our control so that we can align our plans to the requirements of the 2015 Paris Agreement and the latest climate science.

We continued to develop our environmental focus further throughout 2021, sharing our journey in the lead up to and during COP26 in Glasgow. Our social media campaign engaged with Virgin Money customers and other users to share some of the key actions we are taking to help tackle the climate crisis.

During the year, our successful charity partnership with Macmillan saw our colleagues exceed our annual fundraising target. We also launched Virgin Money Macmillan Guides – a bespoke support service for people living with or affected by cancer, the first UK bank to offer such support. We are working with Fair By Design and the Global Open Finance Centre of Excellence (GOFCoE) to establish a national measure for poverty premiums – essential for how we collectively quantify the premium in order to develop solutions, measure the impact of these and reach our 2030 aspiration. We also rolled out ESG training across the Group in response to demand from our colleagues.

Our ESG strategic framework supports us in establishing the right priorities and culture across Virgin Money, helping us drive positive social and environmental impact through what we do. The Group is well placed to make progress and drive further change over the coming years.

You can read more about our progress and highlights in FY21 and our priorities going into FY22 on the following pages and in our first TCFD report on page 218, our refreshed United Nations Principles for Responsible Banking (UN PRB) report on page 311, and our updated ESG Resource hub on our website – https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub.

Strong foundations for a sustainable future

Guided by our Purpose of **Making you happier about money**, we seek to drive social and environmental impact through everything we do

	1	2	3	4
	Put our (carbon) foot down	Build a brighter future	Open doors	Straight-up ESG
Strategic priorities	Super straightforward efficiency	Pioneering growth	Delighted customers and colleagues	Discipline and sustainability
ESG principles	Reduce the negative impacts of our operations, suppliers and partners on society and the environment.	Deliver innovative products and services that help our customers make a positive impact on society and the environment.	Work with customers, colleagues and communities to encourage sustainable practices and economic activity that creates shared prosperity.	Align our strategic goals to ESG and embed them in all areas of the business with robust targets, tracking and disclosures.
2030 aspirations	Net zero operational and supplier carbon emissions.	At least halving our carbon emissions across everything we finance.	**Customer:** No Virgin Money customers paying a poverty premium. **Colleague:** Sponsor diverse talent at every level and achieve a fully diverse top-quartile of the organisation (gender, ethnicity, disability, LGBTQ+).	Variable remuneration linked to ESG progress.
SDG alignment	12 Responsible consumption and production; 13 Climate action	7 Affordable and clean energy; 8 Decent work and economic growth; 9 Industry, innovation and infrastructure; 13 Climate action	1 No poverty; 5 Gender equality; 8 Decent work and economic growth; 10 Reduced inequalities	16 Peace, justice and strong institutions

1 Put our (carbon) foot down

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

Sustainable Development Goal (SDG) alignment

12 RESPONSIBLE CONSUMPTION AND PRODUCTION — Ensure sustainable consumption and production patterns

13 CLIMATE ACTION — Take urgent action to combat climate change and its impacts

Approach

We're committed to reducing the negative environmental impacts of all that we do and have targeted reaching net zero by 2030. We look at our operational emissions through three lenses: property, colleagues and suppliers. We have maintained a strong position in managing our emissions (Scope 1, 2 and 3) from property and colleague business travel and we continued investing in energy efficiency measures, supply from renewable sources and reducing, reusing and recycling wherever possible.

Key achievements in 2021

Property

We started the year in a strong position with 100% of our electricity being generated from renewable sources[1], continuing to reduce waste as far as possible and maximise recycling rates. We delivered zero waste to landfill, which we have achieved consistently since 2014[2].

We made a pioneering switch from brown gas to Biogas[3] on 1 April 2021. We became one of the first UK retail banks to make this change and it helped us exceed our targeted reduction of combined Scope 1 and 2 emissions in FY21. We also reduced our paper usage by 25% this year, a c.55% reduction since 2019, while maintaining optionality for customers who need or have a preference to receive paper communications.

Colleagues

Our COVID-19 response drove an 80% reduction in corporate travel and enabled us to design a future way of working that permanently reduces the need for people to travel into and between office locations. Our new model provides colleagues with the flexibility to design the way of working that suits them and their team best, enabling the majority of colleagues to work remotely but collaborate in our hub locations. You can find out more within the colleague section on pages 17-18.

Suppliers

We are focused on better understanding our indirect (Scope 3) emissions and building a road map to reduce the emissions linked to our suppliers and partners. This year, we proactively engaged our top 100 suppliers to complete the Carbon Disclosure Project (CDP) Supplier Survey on Climate Change and achieved a 79% response rate, exceeding our target of 75%. This provides us with valuable data on our suppliers' current emissions and reduction plans which we will analyse and act upon during FY22.

Key challenges and what's next

We will focus on continued reduction in the operational emissions we already track, while extending our data capabilities to capture more of our indirect Scope 3 emissions relating to colleagues and suppliers. Over time, offsetting will become part of our strategy to reach net zero and this will form part of our planning during the coming year.

Property

As we are now using 100% green energy, our market-based footprint for Scope 1 market-based emissions will reduce further in FY22. We will maintain low levels of market-based

Operational emissions road map

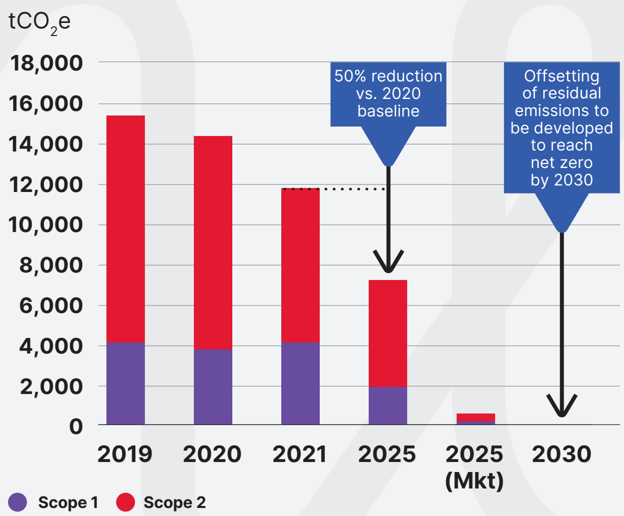


Chart shows reduction in GHG emissions on a location basis from 2019 to 2025. 2025 (Mkt) represents the target greenhouse gas (GHG) emissions measured on a market basis in 2025.

(1) Where Virgin Money are responsible for the supply rather than a third-party landlord or property owner.
(2) Assured for the Clydesdale and Yorkshire Banking Group since 2014, and the combined estate from 2019.
(3) We purchase a renewable gas guarantee of origin backed Green Gas Plus product.

emissions through sourcing of green electricity and green gas and will continue to look to reduce market-based emissions. We will also continue to implement energy efficiency initiatives. During FY21 we have replaced lighting with LED lights and switched to energy efficient mechanical and electrical assets on renewal.

Our Property strategy sets out a clear path to reduce our overall location-based energy consumption by 50% in FY25 from our FY20 baseline, with a shorter-term 10% reduction target set for FY22. The COVID-19 working model has led us to use more energy to heat buildings where we have lower occupancy, but we are committed to rightsizing our property footprint in Glasgow and Newcastle-upon-Tyne as well as delivering further energy efficiency and carbon reduction initiatives. Reducing location-based emissions will also depend on the UK energy grid becoming greener.

Colleagues
We surveyed colleagues working from home this year to understand the impact on their home energy usage and commuting and will use this data to start tracking total people emissions. This will inform our future approach to the balance between homeworking and business travel as we seek to minimise our carbon footprint, while balancing the need for collaboration.

Suppliers
Following strong engagement from our top 100 suppliers on the CDP Supplier Survey on Climate Change this year, we will continue to gather data on our suppliers' carbon emissions and commitments to transition to a low-carbon economy. Initially, we will work with the suppliers with the largest footprint to understand their plans to embed sustainability into their organisation and will look to commence work on an aligned road map towards 2030.

Progress against aspirations and targets and GHG emissions performance

	Actual 2020 (last year)	Actual 2021 (this year)[4]	2021 target	Future targets
Scope 1 emissions[5] – location-based (tCO_2e)	3,716	**4,066***	-5% (not met)	**2022:** -10% to 3,659t **2025:** -50% to 1,858t
Scope 2 emissions[6] – location-based (tCO_2e)	10,604	**7,678***	-5% (met)	**2022:** -10% to 6,910t **2025:** -50% to 5,302t
Scope 3 emissions[7] (tCO_2e)	5,391	**3,953**	-5% (met)	Under development
Total Scope 1, 2 (location-based) and 3 emissions (tCO_2e)	19,711	**15,697**	-5% (met)	Under development
Market-based Scope 1 emissions (tCO_2e)	n/a	**3,245***	n/a	**2022:** -80% to 649t
Market-based Scope 2 emissions (tCO_2e)	895	**908***	n/a	Under development
Total Scope 1, 2 (market-based) and 3 emissions (tCO_2e)	n/a	**8,106**	n/a	Under development
Energy (gas and electric) – measured by kWh	59,878	**55,017**	-5% (met)	**2022:** -10% to 49,515 **2025:** -50% to 29,939
Water consumption – measured by m^3 volume	90,008	**85,787**	-2% (met)	**2022:** -10% to 77,208m^3 **2025:** -50% to 45,004m^3
Intensity ratio: location-based CO_2e emissions per FTE (Scope 1 and 2) (tonnes/FTE)	1.70	**1.54***	n/a	Under development
Intensity ratio: market-based CO_2e emissions per FTE (Scope 1 and 2) (tonnes/FTE)	n/a	**0.53**	n/a	Under development

The Group GHG reporting is undertaken in line with our obligations under The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, and the UK's recently released Streamlined Energy and Carbon Reporting regulations. GHG emissions are reported in accordance with the GHG Protocol, which sets a global standard for how to measure, manage and report emissions. Scope 1 and 2 location-based emissions for the past 12 months are 18% lower than the previous year. Key factors driving a reduction in emissions have been the impact of COVID-19, which reduced energy consumption by c.8%, and a reduction in the Group's property footprint of c.7%.

The Group reports GHG emissions in accordance with the operational control approach, to define our boundary of responsibility. In line with our Environmental Reporting Criteria, the Group reports on all significant sources of GHG emissions from our business that are under our operational control. Our Environmental Reporting Criteria, which informs our annual GHG emissions reporting, can be found on the Group website https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub.

The only material estimated emissions in the GHG emission data relate to: leakage rates on refrigerant emissions; business travel where data for all individuals was not available; and energy consumed in properties where the landlord controls the supply and recharges the Group via a service charge arrangement, or where actual meter readings were not available before year end. In these instances, an average rate per kWh has been used.

Independent limited assurance

The Group engaged KPMG LLP to undertake an independent limited assurance engagement over the selected information highlighted in this report with a * using the assurance standards ISAE (UK) 3000 and ISAE 3410. KPMG has issued an unqualified opinion over the selected information. KPMG's full assurance report is available on the Group website – https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub.

(4) The reporting period for GHG emissions in the Group ran from 1 July 2020 to 30 June 2021.
(5) Generated from the gas and oil used in all buildings where the Group operates; emissions generated from Group-owned and leased vehicles used for business travel; and fugitive emissions arising from the use of air conditioning and chiller/refrigeration plant to service the Group's property portfolio.
(6) Generated from the use of electricity in all buildings from which the Group operates.
(7) Relates to business travel undertaken by all colleagues (rail, private vehicles, hired vehicles, contracted taxi services, air travel), waste, water and paper usage.

② Build a brighter future

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

SDG alignment

7 AFFORDABLE AND CLEAN ENERGY – Ensure access to affordable, reliable, sustainable and modern energy for all

8 DECENT WORK AND ECONOMIC GROWTH – Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE – Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation

13 CLIMATE ACTION – Take urgent action to combat climate change and its impacts

Approach

We're passionate about empowering and educating our customers, while offering products and services that help them lead more sustainable lives. Given the majority of our customer lending is for residential mortgages (81%) and to businesses (12%), these are the areas we have prioritised to understand our financed emissions and the route to supporting our customers to transition towards a low-carbon economy.

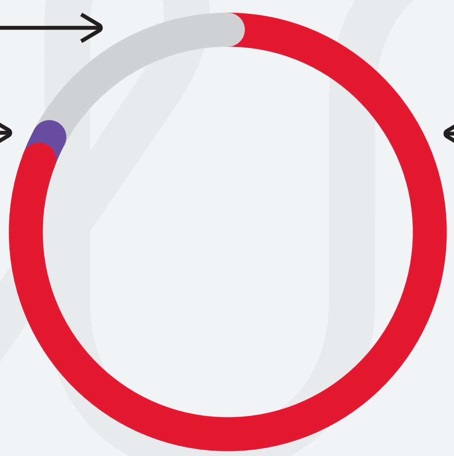
Given our low exposure to oil and gas within our business lending portfolio (0.1% of lending assets) we start from a strong place. Our sensitive sectors policy ensures we have a robust credit decisioning process on carbon-related business lending. However, we recognise the significant challenge of improving the energy efficiency of the UK's housing stock, which will support the transition to net zero. Our view is that achieving net zero across the economy will require a combination of industry initiatives and co-operation, government policy and regulation, a change in consumer behaviour and the development of products and services from lenders.

The UN PRB's Impact Assessment tool confirmed our view that our most significant financed emission balances are within our mortgage and agricultural Business banking portfolios. It also allowed us to identify more broadly, across all customer lending, the sustainable development areas where we have the most material impact. That said, we recognise there is more to be done to identify additional material sectors based on emissions intensity.

We have pursued two key priorities: firstly, to launch new customer propositions that will support a more sustainable future and secondly, calculating preliminary estimates of our financed emissions in mortgages and business lending[1]. This work will support future planning and setting science-based targets to reduce these over time.

You can read more about our approach to the financial risks and opportunities from climate change in our TCFD report on page 218 and we've pulled out some of the highlights here.

FY20 financed emissions as a proportion of total customer lending (initial estimates)[2]



Other[3]

Agriculture

1.6%

Attributed financed emissions – **573,946 tCO_2e**

Economic emissions intensity – **502 tCO_2e** per £m lent

Mortgages

81%

Attributed financed emissions – **712,257 tCO_2e**

Economic emissions intensity – **12.2 tCO_2e** per £m lent

(1) Initial focus on agriculture.
(2) More information on the preliminary financed emissions estimates, including the methodology, is available within our TCFD report.
(3) Includes remaining sectors within our business and Personal lending portfolios.

Key achievements in FY21

Financed emissions

Using PCAF methodology, we have sourced and analysed customer data from our mortgage and Business banking books to understand initial estimates of our financed emissions for FY20[(4)].

Using these estimates we have calculated an initial view which we will refine further over the next 12 months. Following our Net Zero Banking Alliance pledge, this enables us to start developing road maps towards our 2030 aspirations and to set science-based targets to measure progress.

Mortgage lending

In May, we launched our first greener mortgage. Initially targeting residential new build homes, we subsequently extended its availability to shared ownership homes. The proposition rewards our customers for purchasing an energy efficient new build home.

Our unique approach to green lending saw us partner with Carbon Neutral Britain[(5)] to build customer awareness of the GHG emissions generated from their home, and to offset 5 tonnes of CO_2, equivalent to the average emissions generated from a UK home in a year, committing us initially to planting 100,000 trees[(6)] through the partnership.

Business lending

In March, we launched sustainability-linked loans for the first time in Europe, accessible to businesses of any size. Eligibility is established using a new and science-based scoring system created in conjunction with Future-Fit Foundation and accessible through the Sustainable Business Coach. For qualifying businesses looking to borrow £250k or more, we don't apply an arrangement fee. We published a white paper in partnership with Future-Fit so customers and peers could leverage our methodology.

We have launched the digitised version of our Sustainable Business Coach in early October, through a mobile app that enables businesses to identify their high-priority goals and provides guidance to help them make progress.

By FY22, we aim to have 5% of our business portfolio in lending to 'sustainable leaders'[(7)], which is a stretching requirement for a business to attain. At the end of FY21, 3.7% of the business portfolio was lending to sustainable leaders. We also continued to increase our lending to businesses focused on renewable energy, growing our Energy and Environment portfolio by £61m in FY21 to £167m. Given our success we have increased our FY25 target for this portfolio to £500m, from £320m.

2% of our total customer lending is to the agriculture sector. During FY21, we've worked with a carbon consultancy firm, Carbon Metrics, who have conducted carbon audits with a pilot group of our agriculture customers. This exercise has enabled Virgin Money's agriculture specialists to gather critical knowledge on the role of carbon audits in the sector and to understand the benefit they can bring to customers and the broader supply chain. This knowledge will also support future proposition development to help reduce on-farm emissions.

Other activities

We have actively participated in government consultations[(8)] that seek to improve the energy efficiency of the UK housing stock. As a large mortgage lender, we believe that we have an important role to play. We are supportive of a cross industry sector approach, underpinned by government strategy, guidance and assistance for consumers to help them to improve the efficiency of their home.

While the focus has been mainly on environmental aspects, we also supported customers to make a positive social impact through our initial Brighter Money Bundles campaign. This gave customers the ability to make a £50 donation to a charity of their choice and in doing so, raised a total of £426,500.

What's next: plans and challenges

Financed emissions and net zero

While we made progress this year in starting to analyse our financed emissions, there remains more work to do to refine the data and methodologies over coming years. We remain committed to working with PCAF and investing in new data capabilities to support a more sophisticated and comprehensive understanding of our financed emissions.

In line with our Net Zero Banking Alliance commitments, we will set formal 2030 and 2050 targets within the next 18 months, focusing first on the most GHG intensive sectors within our portfolio. This will enable us to refine our existing 2030 aspirations and interim targets to ensure consistency with the latest science.

(4) Preliminary calculations are as at 30 September 2020 baseline.

(5) Carbon Neutral Britain will use our funding to offset emissions through the United Nation's Certified Emissions Reduction units (CERs) and plant trees. CERs are the highest regulated standard and overseen by the United Nations, they align with the Environment Programme Finance Initiative, and are a suitable fit for Virgin Money as a signatory to the UN PRB.

(6) Tree planting is undertaken by charities or non-profits in the UK and abroad, ensuring the projects are sustainable, plant native species. Projects in developing countries drive additional social benefits by employing the local community to plant and maintain the woodland.

(7) Sustainable leaders are defined as businesses whose core activities are enabling consumers or other businesses to operate in a more economically and environmentally sustainable way.

(8) Improving home energy performance through lenders and improving the energy performance of privately rented homes in England and Wales.

Mortgage lending

Plans for FY22

We are planning to extend our Greener mortgages proposition to support even more customers. This will grow our partnership with Carbon Neutral Britain, while we also plan to work with other partners to start developing solutions to assist our customers to decarbonise their homes.

To complement the expansion of our Greener lending we will invest in educational content and tools to help customers understand their homes environmental impact and guide them on improvements they can make.

As well as the innovative lending solutions launched by Virgin Money, the ongoing success of decarbonising the UK housing stock will be dependent on a number of factors: a clear government strategy, cross-sector industry engagement and collaboration, consumer behaviour change and the further greening of the UK's energy supply.

Business lending

Plans for FY22

In FY22, we will use our Sustainable Business Coach to calculate our baseline portfolio ESG score, targeting all business customers borrowing more than £2.5m. By embedding this into these customers' annual renewal process we will increase customer engagement and are targeting an increase in the average customer score each year.

We will continue to evolve our Sustainable Business Coach, exploring enhancements to improve the customer experience and will focus on proposition developments specifically designed to support agriculture customers to reduce on-farm emissions.

Alongside this, we'll continue to embed our sustainability-linked loans proposition through further engagement with businesses. We have set a further target where 10% of all business finance provided will be to 'sustainable leaders' (as measured by the Sustainable Business Coach) by FY27 (5% by FY22).

We're also continuing our membership of the Future-Fit Development Council, and are the only current banking member of the group.

Initiatives such as our Future-Fit partnership, Sustainable Business Coach and sustainability-linked loans will accelerate economic and behavioural change. We recognise however that success also depends on the wider economy. The many participants involved need to work in tandem across supply chains to reduce emissions and repurpose activities and operations, where appropriate.

The customer perspective

Home owners

Customer behavioural research undertaken by our partner, The Foundation, tells us that consumers want to improve and decarbonise their home. In research conducted with our mortgage customers[(1)], 78% of people surveyed stated that tackling climate change is important to them, with 67% stating they are keen to live a greener life.

Virgin Money continues to look at ways to provide customers with guidance and clarity on how to decarbonise their homes.

Businesses

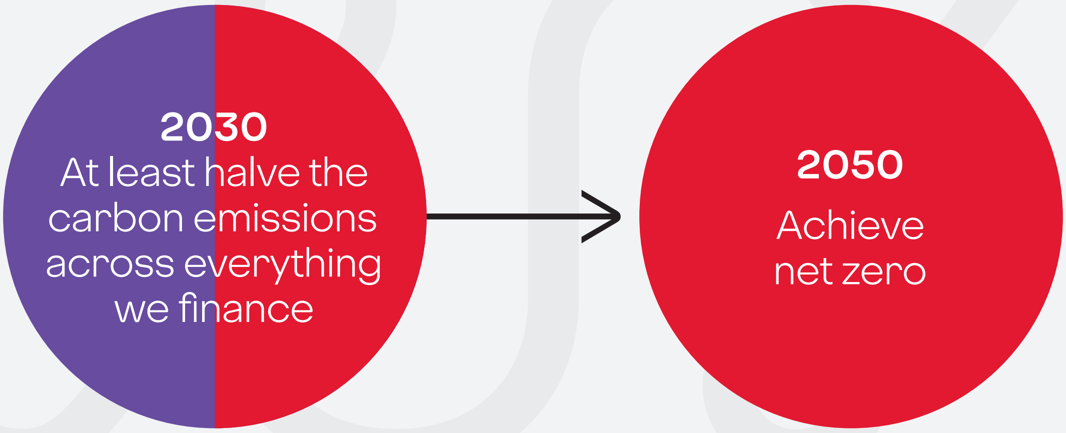
Research commissioned by Virgin Money indicates that 85% of small or medium-sized enterprises (SMEs) surveyed[(2)] believe sustainability is important to their business; however, only 45% of businesses currently have relevant targets in place.

This research underlines the importance of our focus on providing accessible tools, such as the Sustainable Business Coach and guidance to our business customers to support them in the transition to a low-carbon economy.

(1) May 2021, 1,011 respondents. Research performed by external consultancy, The Foundation – https://www.the-foundation.com/

(2) October 2020, 1,006 respondents. Research performed by Censuswide on behalf of Virgin Money.

Progress against aspirations and targets



Targets	FY20 actual	FY21 target	FY21 actual	Future targets
MORTGAGES				
Greener mortgages	n/a	n/a	**n/a**	50% increase every year in value of new greener mortgage lending Plant over 300,000 trees to offset 35,000 tonnes of CO_2 by end FY24
BUSINESS				
Sustainable leaders lending	2.8% of book	3.5% of book	**3.7% of book**	5% of all business lending by FY22 10% of all business lending by FY27
Portfolio ESG score	n/a	n/a	**n/a**	10% increase per annum(3) from FY22 baseline for lending >£2.5m
Energy and Environment team lending	£106m	n/a	**£167m**	£500m balance by FY25 (increased from previous £320m FY25 target)

(3) Denotes a 10% increase on the previous year's calculation. For example, a 10% increase on a 30% average baseline score would equate to a 33% target average score the following financial year.

3 Open doors

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

SDG alignment

1 NO POVERTY	End poverty in all its forms everywhere	5 GENDER EQUALITY	Achieve gender equality and empower all women and girls
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all	10 REDUCED INEQUALITIES	Reduce inequality within and among countries

Approach

We have a long, proud history of supporting communities, colleagues and customers and, led by our Purpose, we continued to make good progress in FY21. This came against a backdrop of increased stakeholder scrutiny and rising expectations, partly driven by the COVID-19 pandemic.

You can find more information about how we engage sustainably with our customers on pages 15–16 and colleagues on pages 17–18; some of the key highlights are below.

Key achievements in 2021

Customers

We have continued to embed our Purpose-led approach to financial inclusion, from innovating new ways of supporting vulnerable customers to growing our market-leading basic bank account – the M account. We were delighted that this account won the award for 'Social Inclusion in Financial Services' at The Card & Payments Awards in April.

As part of our partnership with Macmillan Cancer Support, we initiated two pilots with Macmillan to increase our empathetic support of people affected by cancer, and to raise the visibility of Macmillan's services. Almost 250 colleagues across our Stores and Contact Centres received specialist training. As part of this, we developed and rolled out two Support Toolkits for front-line teams, using specific insights from colleagues who have lived experience of cancer or domestic abuse.

We made good progress in developing an increasingly data-led approach to tackling the poverty premium[1], defining the scope of our ambition, exploring delivery routes and engaging with cross-sector collaborators. This included arranging an upcoming round table of finance, energy, and telecoms industry CEOs and leaders, to be chaired by the Economic Secretary to the Treasury. We also hosted and facilitated an innovation day with Edinburgh Futures Institute for students, academics, and Virgin Money colleagues.

We have established partnerships with Fair By Design and GOFCoE, supporting work on their national measure for poverty premiums. We see huge potential for this measure to catalyse collaboration and support the measurement of tangible progress across the UK, and are excited to see its progress over the next year.

Following the success of last year's digital conference on financial inclusion, FinInc21 was held in September, engaging over 300 colleagues, as well as partners and external guests, in live, digital sessions. We are also partnering with charity Turn2Us to host their benefits calculator on our website. This will help customers living on low incomes to understand all of the benefits that they could be entitled to.

Colleagues

Our long-term aspiration on diversity and inclusion is to achieve a level of representation across our top pay quartile that is wholly representative of the communities we operate in. Achieving this depends on our building a culture in which all colleagues can thrive, while also creating a diverse talent pipeline. These objectives will be supported by new interim targets on senior gender and ethnicity so that we have diverse decision makers and are providing role models for colleagues. The colleagues section on pages 17–18 shows the progress we have made this year. More information on our plans into next year, as well as our 2021 gender pay gap report can be found on our corporate website – https://www.virginmoneyukplc.com/corporate-sustainability/diversity-and-inclusion/.

Modern slavery

Virgin Money has a zero-tolerance approach to all forms of slavery, servitude, forced labour and human trafficking. We refreshed the approach we take to tackling modern slavery this year and mobilised a cross-functional working group to ensure that we're progressing towards our longer-term ambition of making sure modern slavery is considered at every significant decision point and that our people feel empowered to act on any concerns they may have.

You can read more on our progress and find our statement here: https://www.virginmoneyukplc.com/corporate-sustainability/modern-slavery-act/

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

Communities
COVID-19 has restricted our ability to fundraise for our charity partner, Macmillan this year. However, colleagues have continued to embrace the challenge and, by leveraging technology, have raised £374,000 via largely online activity.

Given the broader range of charitable platforms available, the Group took the decision to wind down Virgin Money Giving Limited (VMG) during the year. In FY21, VMG supported c.£95m in charitable fundraising and donations, bringing the total raised for charities since the platform's inception to £991m at September 2021, surpassing £1bn shortly into FY22. We are proud of how VMG has changed the market for good and supported so many good causes over the years.

During the period, Virgin Money donated £1.1m to the Virgin Money Foundation. As a result of this donation, the Foundation awarded over 140 grants, each grant funding work that creates positive change in a local community. 82 of these grants were awarded to organisations where Virgin Money colleagues volunteer, helping their volunteering efforts have an even greater impact.

Reflecting the Group's Purpose, the Foundation's main grant programmes were all focused on communities that are at the top of the Index of Multiple Deprivation and which seek to tackle the key issues these communities face. Over 90% of the Foundation's funds were awarded to groups working in neighbourhoods that feature in the top 20% of the index, with over 50% of its funds supporting communities in the top 5% of the Index.

We continue to support young people through our digital enterprise programme, Make £5 Grow. Supporting over 22,000 young people this year, we have provided the tools needed to create a mini business, enhancing enterprise, money management and life skills.

Our Emerging Stars programme, launched in 2020, aims to nurture the brightest up-and-coming stars in music and entertainment. We supported six artists this year, offering mentorship, bursaries and the unique opportunity to perform in our network of flagship stores and other music venues across the UK.

Key challenges and what's next

Customers
We will continue working with GOFCoE to shape their national measure of poverty premiums, and to develop effective ways of raising awareness of benefits entitlement, particularly for pension-aged customers.

The biggest challenge to addressing the poverty premium is that most premiums cannot be eliminated without cross-sector collaboration. Early signs are promising, but the systemic barriers are significant. These need to be addressed through positive support from public, private, and charitable sectors alike. We aim to lead by example, including this within our existing customer engagement strategy and regularly sharing tangible outputs from our activities to foster greater cross-sector collaboration.

Communities
We're delighted to be extending our partnership with Macmillan until 2023, which will allow us to support more people living with or affected by cancer. We'll aim to raise at least £500k over the upcoming two-year period, which will be used to fund Macmillan's vital support line services so they can continue to offer practical, financial and emotional support to people living with cancer. It will also help to fund and support Macmillan's cancer workforce. This will mean people with cancer continue to get the expert help they need from nurses, social workers, support workers and many more vital professionals.

Community efforts sit at the heart of our Purpose and we provide our colleagues with two paid days to volunteer for a cause close to their heart. Through our new future working model, we're introducing more flexibility in how our colleagues can use their days.

We are also committed to maintaining our annual donation to the Virgin Money Foundation and will provide £1.14m next year to support the Foundation's valuable work.

Progress against aspirations and targets

Actual 2020	Actual 2021	2021 target/expectation	Future targets	2030 aspiration
Partnered with Fair by Design	**Established data-driven approach** **Catalysed cross-sector collaboration** **Developed pilot method on energy-payment premiums**	Partner with GOFCoE to start work on establishing a national measure Develop pilot on energy-payment premiums	**2025 targets:** 1. Poverty premium quantified across current account customer base. 2. Engagement pilots delivered to boost incomes and reduce poverty premiums.	**No VM customer paying a poverty premium**
43% senior gender diversity	**42% senior gender diversity** **5% overall ethnic diversity**	40–60% senior gender diversity No target had been set for ethnicity	**2025 targets(2):** **Senior gender:** 45–55% **Overall:** Ethnicity – 10% LGBTQ+ – 4% Disability – 8%	**Sponsor diverse talent at every level and achieve a fully diverse top-quartile of the organisation:** **2030 targets (top-quartile)(2):** Gender: 45–55% Ethnicity – 14% LGBTQ+ – 5% Disability – 10%
£896m in fundraising to date through VMG	**£991m in fundraising to date through VMG**	Reach £1bn in fundraising in 2021	Raise a further £500k for Macmillan over FY22 and FY23	**n/a**

(2) These targets are set with reference to the Census and Office of National Statistics data, in order to ensure we are representative of the UK and therefore remain under constant review as census data changes.

4 Straight-up ESG

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

SDG alignment

Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Approach

We are focused on embedding ESG considerations in all the relevant areas and activities of the Group. We believe ESG, just like Purpose, is central to all colleagues' roles and responsibilities. Taking this approach will make us truly sustainable over the long term by empowering colleagues and enhancing our Purpose-led culture.

Key achievements in FY21

Governance

The Board plays an instrumental role in leading our strategy. During FY21 the Board conducted a deep dive into ESG each quarter, covering all four of our big goals. Particular attention was given to 'Build a brighter future' given the need to focus on climate risks and opportunities. The Board Risk Committee also undertook regular deep dive sessions on climate change scenario analysis and the necessary updates to the Group's Risk Management Framework (RMF).

Recognising the significance and urgency of environmental action, during the year we established a new Group Environment Committee. This is a sub-committee of the Leadership Team and is empowered to prioritise and direct resources, investment and activity across the Group to execute the actions we need to take in support of moving to a low-carbon economy.

Details on governance structures and Board engagement in ESG topics can be found in the Governance section on pages 77-87, and within the TCFD report on page 226.

Our ESG working group is attended by cross-functional senior leaders and met fortnightly throughout the year, bringing together diverse skill sets to drive the progress we have made this year. Leadership Team sponsorship of each of the ESG goals emphasises the importance of our agenda and has played a key role in building momentum.

Targets and Key Performance Indicators (KPIs)

ESG targets were included in each divisional balanced scorecard for FY21 and aggregated into an overall ESG scorecard for the Group. This was reviewed regularly by the Leadership Team and Board and covered a broad suite of measures aligned to the four ESG goals, including new measures on diversity and inclusion. Good progress has been made against our targets, with 93% of measures tracking as 'Green' at year end.

We included an ESG scorecard element (15% weighting) in our Long Term Incentive Plan (LTIP) last year. In keeping with our plans to achieve net zero operational emissions by 2030, this included a carbon emissions target. We have broadened the scope of the scorecard this year, and have adapted the existing senior leadership target to include ethnicity and gender.

Disclosure

Transparency on our progress on ESG is important for us and our stakeholders. We continue to make progress in building our ESG data and disclosure capabilities. This year, we created a new ESG Resource hub on our website – https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub, a one-stop shop and resource centre with easy to access information on our strategy, policies and statements. We intend to develop and build this further over time.

We continue to work with the ESG rating agencies to support their analysis and use their feedback to enhance our own disclosures and have seen improvements in several of our ratings this year. More information on our ESG scores can be found within the ESG Index on page 318. You can also find our first ever TCFD reporting on page 218 and latest UN PRB report on page 311.

Embedding ESG in strategic and financial planning

This year, we ensured ESG is firmly embedded in the strategic and financial planning schedule. This ensures that every new business proposal submitted for investment must set out whether it is aligned to our ESG strategy early in its life cycle. Our second-line Risk function has been working closely with colleagues across the Group to ensure that the climate-related enhancements to the RMF (including credit policy and appetite) underpin the strategic and financial plan.

Training

Through Board and Board Risk Committee deep dive sessions, supported by external experts, Directors have been building their understanding of the financial risks and opportunities from climate change throughout the year.

We launched Group-wide ESG training to colleagues in Q4 this year, in response to colleagues' appetite to learn more about our ESG strategy and how this translates to their role. We also created Modern Slavery training for all colleagues as we recognise the role our people can play in the prevention of these crimes and also in protecting vulnerable customers.

Targeted training and additional guidance on climate risks and opportunities was also provided to colleagues in business lending roles. This will help our colleagues to better support customers make a smooth transition to a low-carbon economy, and is aligned with our own ambitions to reduce financed emissions.

Key challenges and what's next

We are focused on continuing to embed ESG across all areas of the business, building capacity and capabilities, and improving how we measure, incentivise and disclose our progress on ESG.

Governance

We will continue to update and engage with the Board and other committees as the ESG agenda, data capabilities and our analysis of financial risks and opportunities from climate change evolve. The new Environment Committee will help to accelerate progress and prioritisation, particularly in relation to our climate change response. Into FY22 this will build on the momentum developed this year through the ESG Working Group and Leadership Team sponsorship.

Disclosures

We remain committed to developing our disclosures in line with TCFD recommendations, building on our first TCFD report this year. Through this, our UN PRB reporting and our new ESG Resource hub, which includes disclosure of our key policies, we aim to improve access to and transparency of ESG disclosures for our stakeholders.

Targets and KPIs

After embedding ESG considerations within our annual strategic and financial planning process, a more comprehensive suite of KPIs has been developed for FY22, aligned to our ESG aspirations and interim targets.

In FY22, relevant Leadership Team members have been set specific objectives in relation to delivery of ESG priorities, particularly those relating to our climate change response.

As the work to progress our understanding of financed emissions and develop long-term reduction road maps gathers pace in FY22, we anticipate further expanding the ESG LTIP scorecard to incorporate these elements from next year, aligned to our 2030 aspiration.

Embedding ESG in strategic and financial planning

FY22 will see continued embedding of ESG across the business, building on the momentum generated in FY21. In 2022, we will also continue to refine our approach to climate change scenario analysis, taking into account what we have learned in our initial development work during FY21 – more detail can be found in our TCFD report on page 218.

Progress against aspirations and targets

Actual 2020	Actual 2021	2021 target/expectation	Future targets	2030 aspiration
Introduced ESG scorecard into LTIP	**ESG scorecard for LTIP: carbon emissions target included to align to achieving net zero by 2030. Senior leadership diversity broadened to include ethnicity and gender measures.**	Met	LTIP incentives appropriately aligned to expanded ESG scorecard by FY22 (anticipate expanding to incorporate financed emissions)	**Variable remuneration linked to ESG progress**

Optimising mortgages for value

Our strategy is to maintain our market share by delivering straightforward propositions that support customers through digital acquisition and servicing.

Story of the year

2021 has been a notable year for the mortgage market, reflecting the impacts of the pandemic. The market has seen strong demand supported by Stamp Duty Land Tax relief and there has been evidence of a behavioural shift in demand with a 'race for space' as buyers' property requirements reflect the trend towards homeworking. There has also been an acceleration of the digitising of mortgage customer journeys as lenders adjust operating models for the new environment.

Market volumes have accordingly been robust with £314bn of market gross lending during our FY21 (FY20: £240bn) and market balance growth of 5% (FY20: 3%). There were major spikes in activity around the removal of Stamp Duty relief, initially in March and then again in June after the deadline was extended.

As we moved into the second half of the year, we saw a significant increase in competitive pressures with customer rates reducing across the market. Large high street lenders with surplus liquidity within their ring-fenced banks continued to deploy this into the mortgage market, seeking to grow balances and take market share.

Given the uncertain pandemic-related outlook in the early part of the year and the increase in competition seen in H2, the Group has continued with its strategy to optimise for long-term value in mortgages.

Our gross lending for the year was £10.1bn (FY20: £7.2bn) and balances remained broadly stable at £58.1bn (FY20: £58.3bn). We continued to selectively target key market segments that offer higher risk adjusted returns such as Buy To Let (BTL) and Shared Ownership. We re-entered the 95% loan to value (LTV) segment, underpinned by the government's Mortgage Guarantee Scheme. We continued to focus on existing customers, delivering a Group record retention performance, with a 75% retention rate in FY21 (FY20: 71%).

Given the competitive pressures, the yield on the book compressed, but management actions, maintaining price discipline and our nimble approach to targeting higher value segments ensured that mortgages were able to support the improved NIM the Group reported this year.

As part of our optimisation strategy, we have also continued to improve the efficiency of the mortgage business. Our service levels to customers and brokers remained strong, as reflected in intermediaries rating our service at 4.2 stars out of 5. We continue to invest in key relationships and in 2021 our new application programming interfaces have been rolled out to c.6k mortgage brokers, integrating their systems with ours and offering them significant time efficiencies. This has been well received by the broker community.

There are opportunities to improve further and drive greater efficiency. During 2021, we announced a partnership with Capita to upgrade our mortgage platform, digitising the customer and broker journey to drive an improved, more efficient experience.

We have also seen a good response to our Mortgage Home Buying Coach app, which supports customers with their home-buying journey, offering tips, support and rewards. We have had c.40k downloads to date and see good signs of the potential to generate significant additional lending from this customer engagement over time.

KPIs

Market share

2021	3.7%
2020	3.9%
2019	4.2%

Share of balance sheet

2021	80.7%
2020	80.5%
2019	82.3%

Mortgage Smile score

2021	52%
2020	48%

40k

Mortgage Home Buying Coach app downloads

Finally, we have also launched a range of greener mortgages for customers purchasing energy efficient, new-build homes. Read more in the panel opposite.

Asset quality remains strong with 3 month+ arrears around half the industry average. Payment holiday maturities were managed without any significant levels of customer difficulty and we continue to support our customers where they need it.

What's coming next

While we may see some dampening of demand following the phasing out of the Stamp Duty relief and furlough scheme, we anticipate that the positive trajectory of the housing market should be sustained as economic confidence continues to grow and employment levels remain robust. The greater trend towards homeworking is expected to see customers investing in their homes and drive additional lending needs.

The imbalance of demand and supply in UK housing is expected to persist, supporting house prices. We remain supportive of buyers with smaller deposits and will continue to look for further ways to assist first time buyers.

Given the continued surplus of deposits and strategic intentions of larger UK lenders to grow their mortgage books, we expect competition and margin pressure to remain a feature of the mortgage market. The anticipated return to a rising rate environment may alleviate some of the pressures on mortgage spreads in the wider market over time.

As such, our strategy to optimise for value remains appropriate. We will continue to look to grow and participate more actively in segments of the market offering better risk-adjusted returns as we seek to maintain our existing share of the market. We will pursue proposition development to enable that, while also continuing to invest in technology to expand our digital straight-through processing capability as we optimise for efficiency and margin. We expect the partnership with Capita to deliver our new platform and further improvements to the customer experience by the end of FY22.

ESG focus: launching greener mortgages

During 2021, we launched our new greener mortgages, rewarding customers for purchasing energy-efficient new build homes.

Our greener mortgages give customers access to a range of new build mortgage products that are priced lower than our equivalent core products. To qualify customers must be purchasing a new build residential home with a certified or predicted energy rating of A or B.

As part of the proposition, we've partnered with Carbon Neutral Britain and for every greener mortgage that completes, we will fund environmental projects, such as the development of wind, solar and hydro renewable energy. The funding will offset the equivalent of the average UK home's carbon emissions for an entire year. Together, we're also aiming to plant 100,000 trees from the sale of our greener mortgages.

We plan to develop the greener mortgages proposition further, with additional features and benefits to be launched during 2022.

Innovation and growth in Unsecured

Our strategy is to drive above-market growth through innovative digital propositions with integrated rewards that support a deeper customer relationship.

Story of the year

The market for unsecured credit has been muted during the pandemic, limited by lockdowns, and customers have focused on paying down debt. The overall market for unsecured lending reduced 4% across our FY21. Despite this, providers have continued to innovate, with the growth of BNPL products and the development of new payment solutions a particular feature.

We have continued with our strategy to grow in Unsecured lending, delivering credit card growth of 4% across FY21, against an overall cards market that contracted by 6%. This performance was partly due to the weighting of our portfolio to Balance Transfer cards (c.two-thirds of our cards book), meaning our balances performed resiliently when consumer spending levels reduced. We have remained active market participants in the prime segment of the cards market, albeit with tightened criteria in the early phases of the pandemic. Our Personal Loans also grew 3% during the year, as we expanded lending through our JV with Salary Finance.

Customer spending momentum returned in the second half of the year and the last quarter recorded the highest retail spend months of the year, with portfolio spend volumes recovering to pre-pandemic levels. We have also seen an improvement in spending on our Virgin Atlantic cards following the re-opening of transatlantic travel.

A key proposition development during the year has been the launch of Virgin Money Back cashback, which customers can sign up to in our credit card mobile app. Customers can access cashback of up to 35% across a range of retailers, and despite limited marketing we have had c.230k sign-ups to date. With over 2m credit card accounts there is further room to grow with this feature.

All of our products are branded Virgin Money and sold digitally, and credit card customers increasingly service their accounts through digital channels. We have nearly 1.5m customers that are now registered for the card mobile app and are benefiting from new digital features, which is reflected in the app's 4.7 (out of 5) rating in the Apple App Store.

In order to compete with instalment-based BNPL finance, we have also developed the ability for credit card customers to benefit from instalment repayment capabilities, which will be fully underwritten within our prudent affordability standards. This will be ready for launch in early FY22.

We have also expanded our long-running partnership with Global Payments to bring together all of our credit cards and debit cards onto their single platform. This will give us the platform to build new digital payments propositions in future.

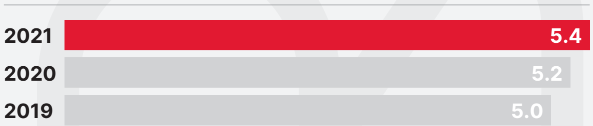
During the year, as the economic outlook has improved, we have gradually unwound some of the credit tightening prudently put in place in the early stages of the pandemic. This has helped to support growth, but not at the expense of asset quality in our high quality portfolio. Credit card 30day+ arrears remain at historic low levels at 1.1% vs the industry average of 1.6% and our Personal loan book continues to perform well with 90+DPD of 0.6% (FY20: 0.5%). The continued high quality of our portfolio enabled us to release a significant amount of the provisions taken in the early stages of the pandemic.

KPIs

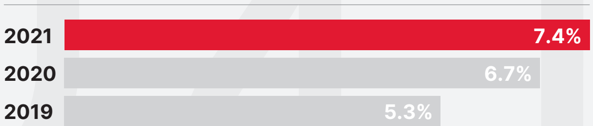
230k
credit card cashback sign-ups since launch

100%
of credit cards sold digitally

Personal lending balances (£bn)



Credit card market share

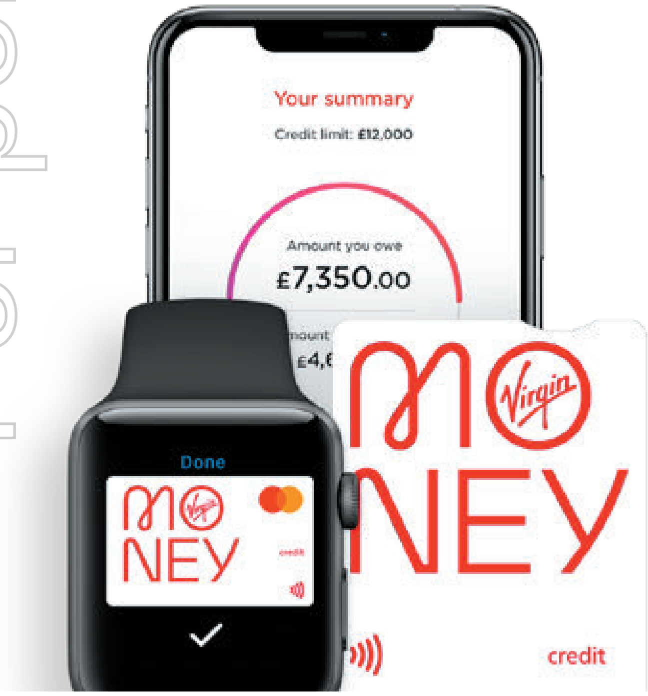


What's coming next

We continue to target growth in Unsecured lending towards 10% of the Group's loan portfolio (2021: 8%). With our existing product suite, including Cashback and Virgin Atlantic offerings, we are well placed to benefit from future growth in demand for unsecured credit. We are developing propositions to take a greater share of existing marketplaces, while also adapting to customer demand for new and innovative payment and unsecured credit solutions.

As we expand our addressable market we have major opportunities to attract new customers. We have historically not participated in certain segments such as credit building and offerings for younger consumers and are working with Mastercard to develop unique propositions for these future prime customers. Our instalment product will also appeal to this segment and will go beyond the limited propositions currently on offer in the market. We also see opportunity to further grow our existing partnership with Salary Finance.

Finally, the expansion of our long-running partnership with Global Payments offers significant opportunities for innovation. While the full proposition developments are likely to be launched beyond the next financial year, we are starting work on a digital wallet proposition. This will be a compelling customer proposition in the UK, offering a fully branded, seamless and secure payment mechanism which will integrate with Virgin Money's broader suite of customer products and services. The new digital wallet will seek to fully embed Virgin Red, Virgin Group's rewards club, allowing customers to both earn and spend Virgin Red's Points through the wallet. It will also offer full BNPL functionality, as well as other Virgin Money products and services. The first release of the digital wallet is anticipated to be available to customers in the second half of 2022.



ESG focus: Supporting sustainability and underserved customers

As part of our Sustainability commitments, we are extending credit card expiry dates from three to five years, reducing up to 1m plastic cards from issue over the next ten years and are looking to encourage the remaining small percentage of our customers who still receive paper statements to make the switch to digital.

We are also looking at propositions that support our customers and open up new avenues to finance for underserved segments.

'Gen Z' is a younger demographic with growing credit requirements as they come of age financially. Our research suggests this is a digitally native cohort that grew up with access to the internet and portable digital technology and are likely to have a greater focus on social factors such as the environment and equality. Our assessment of the market for credit suggests that these potential customers face limited choices, unfair pricing and outdated offerings. Our strategy is to disrupt the market with a pioneering product offering instalment credit with cashback, carbon footprint tracking and charitable donations with the option to plant trees. This will be complemented with the ability to view and boost their credit score. This will be rolled out during 2022.

In addition, we continue to invest in our Salary Finance JV, working with a growing number of employers to offer affordable credit and advances on salary to their staff. This helps people become financially healthier and happier, by providing access to loans at competitive rates via salary deduction. The proposition occupies a 'socially responsible' space and targets employers who are interested in the financial well-being of their employees, many of whom are key workers. The positive customer response can be seen in the nearly 3,000 overwhelmingly positive (94% Excellent) Trustpilot reviews for Salary Finance.

Building a digital Business bank

Following the launch of our national Business bank, our strategy targets above-market growth with differentiated products delivering best-in-class digital-led customer service.

Story of the year

Over the course of the year, the key focus for businesses has been managing through the pandemic. Businesses have made use of the various government support schemes as they work through the economic implications of COVID-19. As the economy has recovered and lockdown restrictions have eased, activity levels are beginning to show signs of a return to normal, although the after-effects of the pandemic may still impact business lending volumes in the near term.

We have made significant strategic progress during the period including the launch of our rebranded, national Business bank. We have developed innovative new propositions ready to take advantage of the future economic recovery, and we have a strong pipeline of further developments to support our customers' growth ambitions as we move in to FY22 and beyond.

The key feature of the market for business lending has been the various government lending schemes. Our participation in these schemes saw balances reach a total of £1.4bn to customers before reducing to £1.3bn by the end of this year. This lending had the effect of dampening demand for 'business as usual' lending, while many customers held these loans as cash on deposit with us to provide insurance against future cash flow strains.

While there has been some demand for new lending outside of government schemes, this has been modest, and has been lower than the repayment of existing facilities. This means the non-government segment of the book has reduced by 8% over the year to £7.2bn. Our relationship managers have kept in touch with customers throughout to offer support, and are now talking to customers about their future needs and how we can support them with additional facilities as we return to a more normalised environment.

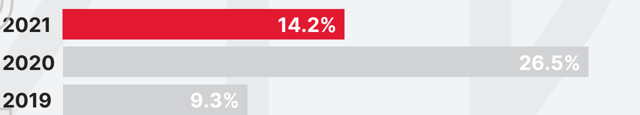
In addition, during the second half of the year much of the lending advanced via the government's Bounceback Loan scheme (BBLS) reached its one-year anniversary, meaning the interest-free period for most customers has expired. We have been contacting customers to discuss their options; while a small proportion have repaid their loans in full, the vast majority have begun repayments, with some choosing to extend their repayment term as part of the government's Pay as You Grow scheme. There have been a very small number of customers who have defaulted, and incidences of fraud remain very low. As the natural repayment period has begun, these balances have begun to run-off and we expect them to continue to amortise over the coming years.

Asset quality in all segments of the book remained strong during the year. We have seen very few significant specific provisions, our watch list remains in line with pre-pandemic levels and this, combined with the improved economic outlook, has underpinned the release of some of the additional provisions taken during COVID-19. 90+ Days Past Due (DPD) levels are 0.6% (FY20: 0.3%).

Business deposit balances have benefited from government lending being placed on deposit, and activity to improve our propositions. Our refreshed, rebranded BCA was launched during the year, and has been awarded a Moneyfacts 5* rating, and offers cashback on debit card transactions. Business deposits were £15.4bn, up 9% on FY21.

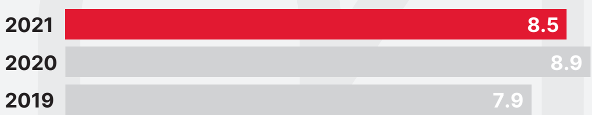
KPIs

Relationship deposits annual growth



Businesses using digital as primary channel

Business lending balances (£bn)



16k

businesses switched through the incentivised switching scheme

During the year we also received notification that with nearly 16k firms having switched their BCA to Virgin Money through the Banking Competition Remedies (BCR) Incentivised Switching Scheme (a 23% share of all switchers through the scheme), that the Group had been awarded an additional £8.9m which will be used to encourage further account switching activity.

The Group has continued to progress the development of our business Wellness Tracker and the wider Working Capital Health proposition M-Track, with the support of the £35m of BCR Capability and Innovation fund investment received in 2020, which we have matched. As part of this development we've also continued to expand our Fintech partnership model. We've signed 8 new Fintech partnerships and are targeting further partnerships by the end of 2022. Leveraging their additional capabilities will be a key element of the M-Track proposition. These new developments will also support our efforts to drive up digital adoption in the Business bank, where there is more to do.

Finally, we have made significant progress on our sustainability agenda in Business. See the panel opposite for more details.

What's coming next

We will continue to invest in our digital services and propositions in support of the Group's strategy to accelerate our digital progress, and to grow Business lending above the market. The BCR award received in 2020 continues to enable the delivery of a suite of capabilities that support an improved digital customer experience. This includes material improvements to the BCA onboarding journey for customers, as well as the provision of new capabilities and tools to enable SMEs to improve their financial health.

During 2022, we will also launch a new, improved digital BCA complementing M-Track, and roll this out across the business network. Combined with the development of our eco-system of Fintech partnerships, this will include access to a powerful, customisable dashboard, providing businesses with new, data-driven insights into business performance, supported by an innovative cash flow forecasting tool.

Additionally, 2022 will see the introduction of our solutions marketplace, enabling businesses to digitally access a range of financial and non-financial solutions, offered through Virgin Money and a carefully curated range of partners.

We will also deploy the additional BCR marketing funds to support a significant campaign to encourage businesses to switch their BCA to Virgin Money and take advantage of our refreshed 5* rated BCA and the additional features on offer. This will help us achieve our ambitions to grow the business bank, attract more customers and achieve our BCR market share commitments.

While we do expect business lending demand to remain muted in the short-term, we are actively seeking to support businesses with their growth ambitions and are targeting above market growth in Business lending in the period to FY24. We expect growth in the business lending book to accelerate over time as the economy recovers and once businesses have fully digested the additional support on offer from government schemes.

ESG focus: Supporting business sustainability

During 2021 we launched a free Sustainable Business Coach app designed to help businesses be more sustainable by measuring, tracking and giving guidance on their ESG credentials. Through partnering with Future-Fit Foundation, a non-profit organisation whose mission is to help the transition to a society that is environmentally, socially and economically fair, the Coach helps UK businesses manage their sustainability goals. In addition, we are also offering sustainability-linked loans to businesses who meet the eligibility criteria generated by the outputs from the Coach.

The Coach is available from the Apple and Android app stores and is an easy first step to help any business of any size to get started, and track and demonstrate their progress as it has been designed to be updated over time. It uses an intuitive algorithm to understand and identify the high-priority goals a business should consider and provides a tailored score and guidance to measure and improve the sustainability performance and general resilience of an organisation.

Once the assessment is completed, if eligible, businesses can apply for a sustainability-linked loan, which reduces the cost of finance for companies whose core activities enable consumers and other businesses to operate more sustainably. Virgin Money is the first bank in Europe to offer such loans using a rigorous approach, developed in conjunction with Future-Fit, to assess the high-priority goals of a business. For customers borrowing at least £250,000, with a sufficiently strong ESG assessment, the lending has no arrangement fee (subject to conditions).

Smart Metering Systems are one of the first businesses to have a sustainability-linked loan agreed. They install, own, operate and maintain metering assets on behalf of UK energy companies. This loan will allow Smart Metering Systems to fund the installation of another 2.75m meters and invest in carbon reduction assets, including grid-scale battery storage technology.

Gavin Urwin, Chief Financial Officer, at Smart Metering Systems, said: "We're committed to being a fully net zero company by 2030, which is an ambitious target, and the revised debt package will allow us to fund our growth plans. We also want to work with organisations who are doing their part in being more sustainable and Virgin Money's sustainability-linked loans are a testament of such commitment."

Growing relationship deposits through loyalty

Strong growth in new digital current account sales with good value, innovative offers driving increased relationship deposits.

Story of the year
The market for retail deposits has remained very buoyant throughout the year given lower levels of customer spending under lockdown restrictions. This is reflected across the market, with UK Household deposits showing significant growth. Market household deposit balances of £1.8tn are 8% higher than they were a year ago.

While there is potential for some normalisation of spending in the coming quarters, the recent increase in customers' propensity to save has been a helpful tailwind in the successful delivery of our strategy to optimise our deposit book. Over the course of FY21, and indeed in the years prior, the Group has achieved a significant shift in the mix of our deposit book which has reduced the overall cost of deposits, underpinning the improvement in the Group's NIM.

During FY21, we have benefited from our investment in and development of improved digital propositions for customers. Our Brighter Money Bundles campaign provided customers with innovative upfront incentives and ongoing loyalty rewards alongside the fully rebranded digital Virgin Money PCA. These rewards included non-financial offers from other Virgin companies such as cases of Virgin Wine or Virgin Experience Days.

The very positive reaction to our Brighter Money Bundles has been reflected in PCA sales 95% higher compared to 2020, at c.135k new sales. Our share of switchers was also greater than our share of stock and well over 80% of new sales have been through digital channels.

As well as initial incentives, our PCA also seeks to reward enduring primary relationships, offering 2.02% interest on the first £1,000 of balances and a competitive linked saver account. The average balance of the new customers we have attracted through the refreshed current account offering is higher and the new customers have strong advocacy levels. The Virgin brand has helped us attract more affluent new customers, while our digital offering has delivered strong growth nationally, positioning us well to take further market share as we move into FY22.

As a result of customers' increased propensity to save, and supported by new PCA sales, overall Group relationship deposit balances (current accounts and linked savings) have grown significantly over the year, up 19% to £30.6bn. Relationship deposits are now 46% of total customer deposits, up from 33% at FY18.

KPIs

Personal relationship deposits annual growth

2021	23%
2020	16%
2019	5.5%

Virgin Money customer Smile score

2021	53%
2020	56%

PCA digital adoption

2021	62%
2020	56%
2019	51%

95%
YoY growth in PCA sales in FY21

Within that, Personal relationship deposits have grown by 23% this year. The growth in these lower cost balances has given us the opportunity to reduce the Group's reliance on more expensive, price-led term deposit funding in the secondary savings and business market. These balances have reduced 29% over the year to c.£15bn, with the average cost also reducing 35bps over FY21.

Overall, this has led to a reduction in the cost of customer deposits over the year from 90bps in FY20 to 53bps in FY21, with the year end exit rate cost further below that.

What's coming next

The future trajectory of the deposits market will depend on the pace of the economic recovery and its impact on consumer spending. We remain cautious around the additional balances built up during lockdown but initial signs are that these are proving to be stickier than initially anticipated.

During the latter part of the year we have seen high street banks improve their incentive offerings in the PCA market, making competition for new current accounts more intense. In response, we will continue to evolve our proposition, offering revamped, innovative new Brighter Money Bundles, while we are also due to begin offering cashback rewards on debit card spending through the mobile app, which we continue to develop. In addition to our wider loyalty and rewards programmes, we expect these initiatives to attract further new customers and deepen existing customer relationships.

We continue to see opportunities to optimise the deposit book further, grow relationship deposits, and reduce the overall cost of funds, although we expect this to be at a slower pace than we have been able to deliver in 2021. Term deposit repricing should continue to be a benefit to NIM as these reprice from the current average level of c.120bps to a level which is potentially lower over the coming quarters, depending on market conditions.

Customer focus: Rewarding loyalty

A key component of the Virgin Money strategy is to build long-term customer loyalty through a loyalty proposition that leverages the unique Virgin Money brand, and provides modern money experiences and market defining rewards for our customers.

FY21 saw the launch of an innovative 'Brighter Money Bundles' PCA opening incentive which connected new and existing customers with the wider Virgin Group, offering a free case of wine when opening a new PCA. Customers were also given £50 to donate to a charity of their choice, raising over £400k for good causes.

The Brighter Money Bundles concept resonated with customers as an alternative to generic market cash incentives on offer from peers and has supported new PCA sales levels. The Brighter Money Bundles continue to evolve and offer customers new and exciting offers, with customers recently offered a unique choice of incentives between Virgin Experience days or a case of Virgin Wines (both worth £150).

Early results indicate that more valuable customer relationships are being built through the Virgin Money loyalty offering, increasing the level of relationship deposit balances and generating greater digital activity.

We are also partnering with Virgin Red and have piloted an initial offer for Virgin Red users of 15,000 Virgin Red's points for switching to a Virgin Money PCA. Red users and customers of the wider Virgin Group have the ability to 'earn and burn' Virgin points to be spent within the Virgin Group and beyond.

In FY22 and beyond we will develop our loyalty offering at pace. For our PCA customers we will make additional rewards available following the successful launch of credit card cashback rewards this year. The new offering will be richer and deeper as customers will earn rewards for the use of their credit and debit cards at merchants, and can then use these rewards to pay towards their card balance, receive money into their PCA or receive retail vouchers. This will all happen seamlessly via the mobile app which will not require customers to 'opt in' to receive rewards.

Our partnership with Virgin Red will also develop further, as we look to bring the best of Virgin to our customers and offer customers the potential to earn rewards across the 150+ partners participating in Virgin Red.

Remaining on the front foot

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

Our approach to risk

Risk exists in everything we do, from day-to-day operational activities to strategic change initiatives; without risk we will never achieve our strategic goals but when taking risks, we must ensure we do so in an appropriate way.

The Group manages risk using a single RMF. The RMF helps the Group manage risk by:

- supporting decision making, planning and prioritisation through providing a greater understanding of business activity and volatility;
- providing a consistent approach to risk management activities including clear roles and responsibilities, insightful reporting and appropriate oversight;
- supporting delivery of all strategies including sustainability and growth;
- delivering a risk culture which is underpinned by Our Purpose and Values; and
- understanding the Group's risk performance through metrics and lessons learned including considering the future risk performance through stress testing and scenario analysis with ongoing monitoring.

The RMF applies to all areas of the Group and is the responsibility of the Board. It is approved formally on an annual basis and is subject to ongoing review to ensure that it remains fit for purpose.

Our Purpose and Values play a big part in our risk culture by setting out what we want to do and how we want to do it.

Personal accountability is at the heart of this and is enabled through the risk management accountability model and formal delegation framework, which supports us in making risk-based decisions.

Emerging risks

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

Emerging risks are allocated a status based on their expected impact (from low to very high) and time to fully crystallise (from >12 months to 3+ years), in line with the definitions outlined in the RMF, and are subject to regular review across senior governance forums. Further detail on the status of emerging risk events can be found on page 45.

Amendments have been made to the emerging risk classifications reported in the Group's 2020 Annual Report and Accounts, with technology and cyber risk renamed and repositioned as resilience risk, and critical infrastructure repositioned as third-party risk. New ways of working and changing skill requirements is a new emerging risk, recognising the changes to workforce dynamics brought about by COVID-19.

Key 2021 developments

Risk's operating model has continued to evolve during the year, to ensure it is appropriately positioned to support the Group's ambitions to be the UK's best digital bank.

Continued investment in our skills base throughout the year has enhanced capacity and capability to provide constructive challenge, to support the Group in achieving its strategic ambitions. As a Tier 1 bank, this investment is vital and ensures we can continue to provide robust oversight over our increased requirements.

Focus has been retained on supporting our customers through COVID-19, with provision of interest free overdrafts and capital repayment holidays, alongside participation in government-backed loan schemes and targeted support for our vulnerable customers. The risk profile of the Group remains cautiously positioned, recognising that, although the vaccination programme continues to suppress hospitalisations and optimism around the economic recovery remains, uncertainties exist.

Risk has helped to establish a comprehensive control framework to support the Group's participation in the SST for the first time earlier in the year. Oversight of the capital plan, stress testing, prudential change and model risk continue to be areas of focus.

Strategic risk oversight has been further developed in the year, continuing to enhance our understanding of the risk implications of the Group's strategic plans and progressing detailed plans to identify and mitigate risks to the Group's strategic objectives.

Risk is supporting the Group in evolving its operational resilience framework to meet new regulations, with the first phase due March 2022, as well as enhancing the third-party RMF, to understand risks associated with our suppliers.

Risk continue to support the Group's ESG strategy by adopting a comprehensive approach to embedding climate-related financial risks into our RMF, developing scenario analysis and producing our inaugural set of climate-related financial disclosures.

External emerging risks

1 Political and economic risk

There continues to be significant uncertainty linked to the UK and Global economic outlook, with key macroeconomic variables, such as GDP, unemployment, interest rates and the HPI, remaining subject to potential change depending on a complex mix of outcomes.

Significant government intervention and support throughout the pandemic has led to higher levels of corporate and government indebtedness and uncertainty remains over how this will unwind. Political risks remain, in particular linked to the potential for a Scottish independence referendum.

Mitigating actions
The Group continues to monitor economic and political developments in light of the ongoing uncertainty, considering potential consequences for its customers, products, operating model and strategy. The Group actively monitors its credit portfolios and undertakes robust internal analysis to identify sectors that may come under stress as a result of an economic slowdown in the UK. Internal and regulatory stress testing is undertaken to demonstrate the Group's financial resilience under a range of severe but plausible economic scenarios.

Links to: Credit risk, Financial risk, Strategic and enterprise risk

2 Regulatory change

The Group remains subject to high levels of oversight and a complex programme of regulatory change from a number of different bodies. The regulatory landscape continues to evolve, with the requirement to respond to ongoing prudential and conduct driven initiatives, as well as reviews, investigations and redress projects, the outcomes of which are all difficult to predict. There is uncertainty surrounding changes to the UK–EU legal and regulatory framework post-Brexit.

Mitigating actions
The Group continues to monitor emerging regulatory initiatives to identify potential impacts on its business model and to ensure it is well placed to respond with effective regulatory change management. The Group continues to work with regulators to ensure it meets all regulatory obligations, with identified implications of upcoming regulatory activity incorporated into the strategic planning cycle.

Links to: Regulatory and compliance risk, Financial risk, Strategic and enterprise risk

3 Climate risk

While climate risk is treated as a cross-cutting risk within the Group's RMF, it is also treated as an emerging risk given it is a new and evolving area, and to acknowledge the uncertainty around the exact nature and impact of climate change on the Group's strategy, performance and operating model. Climate-related risks arising from physical risks and the transition to a low-carbon economy may pose significant and complex horizon risks.

Mitigating actions
The Group continues to work to understand potential risks and impacts, exploring different climate pathways, to determine how they can be appropriately monitored and managed.

Work continues to build our capability and enhance our policies and processes to ensure these risks are identified, measured, monitored and managed. The Group's sustainability aspirations and commitments will also play a pivotal role in managing transition risk while supporting our customers to play their part.

Further detail on the Group's approach to managing financial risks from climate change is included on page 216 of the Risk report and within the Group's inaugural TCFD report included on page 218.

Links to: Financial risk, Credit risk, Strategic and enterprise risk, Operational risk

4 Third-party risk

The Group's digitisation strategy is leading to more significant dependencies on services provided by third parties, which are required to maintain day-to-day operations without interruption. As our digitisation strategy progresses, it will be important to assess the levels of reliance which will be placed on these suppliers. This is an emerging risk which is separate from existing supplier relationships in place, as managed through the Group's third-party RMF.

Mitigating actions
Impact assessments for important business services are carried out to evaluate operational resilience and to identify and mitigate third-party dependency risks. Stress testing and self-assessments are carried out to identify any vulnerabilities in operational resilience.

Links to: Operational risk

Internal emerging risks

5 Data stewardship

The Group's digitisation strategy, coupled with the changing regulatory requirements and advancements in technology, such as the increasing use of Cloud solutions or Big Data for analysis purposes, means there is a growing importance attached to the effective and ethical use, governance and protection of data. Failure to effectively mitigate data management risks could result in unethical decisions, regulatory breaches, poor customer outcomes, mistrust and loss of value to the Group.

Mitigating actions

The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data. This framework also encompasses data ethics. The Group continues to invest in data management capabilities alongside the introduction of new technologies and services. New and existing data management regulations are continuously assessed with proactive action taken to ensure compliance.

Links to: Technology risk, Regulatory and compliance risk

6 Resilience risk

The rapid pace of technological change, coupled with increasing digital demands from customers for the access and use of our products and services, means there is an increasing demand on systems' resilience and our people. Safeguarding resilience is of critical importance, as failure could result in colleagues or customers being unable to provide or receive fundamental banking services.

The resilience of systems security, payment and overall technology solutions are subject to a range of threats. Fast-moving global cyber-risk challenges, including those driven by large nation states, continue to pose risks to the security and resilience of company and government systems.

Mitigating actions

The Group undertakes extensive scenario planning to assess potential dependencies in end-to-end systems processing. Potential impacts from new technologies, and from the changing ways in which customers use the Group's services, are continuously risk assessed, with action pre-emptively taken to safeguard the end-to-end resilience of important business services.

The Group continues to invest in the security and resilience of its infrastructure in order to improve services and minimise the risk of disruption to customers. The Group has resilient continuity frameworks in place to support activities in an open banking, digitally-reliant market.

Links to: Technology risk, People risk

7 New ways of working and changing skill requirements

COVID-19 has introduced new ways of working which are affecting colleague support, culture, and retention. Remote working may break the link between workforce location and job location, which could impact skills availability but also allow the Group to recruit more widely.

Changing labour market dynamics, including higher levels of job vacancies, are creating a resource shortage for certain positions, leading to wage premiums and increasing costs/inflation pressures for businesses and customers. Inflationary pressures and resource scarcity in the economy could adversely impact customer finances, which could in turn affect asset quality.

Mitigating actions

The Group's A Life More Virgin colleague proposition aims to address these people risks, through its attractive, progressive initiatives and its ability to offer colleagues increased flexibility and choice.

A number of well-being measures are being taken and are tracked, to ensure our colleagues remain supported and able to work safely.

The Group continuously assesses people-related risks as part of the RMF and its people strategy.

Inflationary pressures in the economy and resource availability in the marketplace are closely monitored, with impacts on our customer base assessed and mitigated as required.

Links to: People risk, Credit risk

Emerging risk events

The top risk events that arise from each emerging risk are outlined in the diagram below.

Emerging events affecting the risk profile – subject to ongoing assessment and change

External emerging risks:

1. Political and economic risk
2. Regulatory change
3. Climate risk
4. Third-party risk

Internal emerging risks:

5. Data stewardship
6. Resilience risk
7. New ways of working and changing skill requirements

Principal risks and uncertainties

The Group's principal risks are those which could result in events or circumstances that might threaten the Group's business model, future performance, solvency, liquidity and reputation. The principal risk categories remain the same as those outlined in the Annual Report and Accounts 2020.

An overview of the Group's principal risks and mitigating actions is set out overleaf, while further information on all of the Group's principal risks can be found on pages 153 to 215 of the Risk report.

Operational resilience and climate risk are treated as cross-cutting risks in the Group's RMF, manifesting through the established principal risk framework.

Operational resilience

Operational resilience underpins the Group's ten principal risks. It is defined as the ability of the Group to protect and sustain its most critical functions and underlying assets, while adapting to expected or unexpected operational stress or disruption, and having the capacity to recover from issues as and when they arise. Further information can be found on page 216.

Climate risk

The Group is exposed to physical and transition risks arising from climate change. Further information can be found within the Risk report on page 216 and the TCFD report on page 218.

Remaining on the front foot continued

Principal risk and description	Alignment to strategic priorities	Mitigating actions
Credit risk The risk of loss of principal or interest stemming from a borrower's failure to meet contractual obligations to the Group in accordance with their agreed terms. Credit risk manifests at both a portfolio and transactional level.		> The Group applies detailed lending policies and standards which outline the approach to lending, underwriting, concentration limits and product terms. > Credit risk is managed through risk appetite and risk limits reflected in approved credit frameworks and policies. > The Group carries out ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios.
Financial risk Financial risk includes capital risk, funding risk, liquidity risk, market risk and pension risk, all of which have the ability to impact the financial performance of the Group, if managed improperly.		> Funding and liquidity risk is managed in accordance with Board-approved standards, including the annual Internal Liquidity Adequacy Assessment Process (ILAAP), strategic funding plans and recovery planning. > The Group completes an annual Internal Capital Adequacy Assessment Process (ICAAP) which formally assesses the impact of severe, yet plausible, stress events to ensure that the appropriate level and type of capital underpins the strength of the balance sheet in both normal and stressed conditions. The Group is now also a participant in the Bank of England's (BoE) SST.
Model risk The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.		> The Group has a model risk policy framework in place to manage and mitigate model risk, which encompasses the end-to-end model life cycle. > The model risk policy standard defines roles and responsibilities in terms of model risk management and is subject to oversight by the Model Governance Committee. Examples of how the Board is kept informed on model risk include the Risk Appetite Statement (RAS), reports from the Chief Risk Officer and model monitoring reports.
Regulatory and compliance risk The risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to information requests (IRs), not meeting regulatory deadlines or obstructing the regulator.		> Clearly defined regulatory and compliance policy statements and standards are in place, supporting both regulatory and customer expectations. > There is ongoing reporting and development of Regulatory and compliance risk appetite measures to the Executive Risk Committee and the Board.
Conduct risk The risk of undertaking business in a way that is contrary to the interests of customers, resulting in inappropriate customer outcomes or detriment, regulatory censure, redress costs and/or reputational damage.		> The Group has an overarching conduct risk framework, with clearly defined policy statements and standards. > There is ongoing reporting and development of conduct risk appetite measures to the Executive Risk Committee and the Board.

Key – Group strategic priorities

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

	Future focus
> Portfolio monitoring techniques cover such areas as product, industry, geographical concentrations and delinquency trends. > Stress test scenarios are prepared regularly to assess the adequacy of the Group's impairment provisions and the impact on RWA and capital.	> The Group remains focused on continued and timely support for customers and horizon scanning in relation to expected events and outcomes given the ever-changing external environment. > Group Credit Risk will put in place all necessary measures to ensure readiness for any potential economic downturn and consequent customer support.
> Board-approved risk appetite measures ensure funding and liquidity levels are monitored and managed in accordance with internal and regulatory requirements and in support of the Group's strategy. > Market risks (interest rate and foreign exchange risks) are monitored and managed in line with established policies and allocation of capital. Pension Risk is overseen by the Asset and Liability Committee (ALCO) and is considered in detail as part of the ICAAP and ongoing reports are provided to the Boards' Risk Committee. > Regular tracking of prudential regulations maintains a focus on the evolving landscape with oversight from ALCO.	> The Group's focus is to manage the balance sheet through the uncertain economic environment as the UK economy recovers from COVID-19, as well as managing the residual disruption created by the UK's exit from the EU. This is combined with an ongoing landscape of regulatory change. > The economic environment creates uncertainty with interest rates, which presents potential for both adverse operational impacts and for continued pressure on margins. There will be ongoing focus on how to mitigate these effects. > The Prudential Regulation Authority's (PRA) timeline for implementing Basel 3.1 has been extended and a consultation paper is now due in 2022. This will be a particular area of focus for us to understand potential impacts on capital requirements across, for example, operational and credit risks.
> A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis.	> Model changes will be required relating to the application of new regulatory requirements for mortgages, definitions of default and for financial risks from climate change. The continued investment in Risk's operations during 2021 have included a focus on models. > The impact on models from the unwinding of government support measures during COVID-19 is being closely monitored. Expert judgement will continue to be used to supplement model outcomes in line with thorough governance processes.
> There is ongoing proactive and coordinated engagement with key regulators. > Formal monitoring of compliance is managed through focused oversight and regular reporting to the Executive Risk Committee and Board Risk Committee.	> The Group will continue to respond to regulatory change and associated requirements for systems and processes across the banking industry as a whole. It will seek to comply with all regulations as they evolve, and as customer expectations continue to develop. > The Group will continue its implementations of major regulatory changes, including transition from London Interbank Offered Rate (LIBOR) and Payment Services Directive 2 (PSD2).
> The Group continually assesses evolving conduct regulations, customer expectations, and product and proposition development to ensure it continues to put the customer first. > A risk-based assurance framework is in place which monitors compliance with regulation and assesses customer outcomes.	> The Group remains focused on seeking to ensure that customers remain supported and that current and future products and services meet conduct standards and regulators' expectations. > Development will continue in the Group's capabilities to support customers impacted by COVID-19 and vulnerable customer groups more generally, and in response to FCA guidance and its development of a new Consumer Duty.

Remaining on the front foot continued

Principal risk and description	Alignment to strategic priorities	Mitigating actions
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.		> The Group has an established operational risk framework to identify, manage and mitigate operational risks. > A change management framework is in place to govern the execution and safe delivery of business change. > Internal and external loss events are categorised using Basel II categories for consistent assessment, monitoring and reporting of risks and events, including themes and remediation action required to prevent reoccurrence.
Technology risk The risk of loss resulting from inadequate or failed information technology processes. Technology risk includes cyber security, IT resilience, information security, data risk and payment risk.		> The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data. > The payment risk framework outlines key scheme rules, regulations and compliance requirements to ensure that payment risk is managed within appetite. > The Board-approved security strategy focuses on the management of cyber risk, exposure and manipulation of confidential data and identity and access management.
Financial crime and fraud risk The risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud and bribery and corruption.		> The Group has an established financial crime and fraud risk framework, with clearly defined policy statements and standards to protect our customers and the Group. > There is ongoing reporting and development of financial crime and fraud risk appetite measures to the Executive Risk Committee and the Board. > The Group continues to monitor existing, new and emerging risks and threats as a result of new laws and regulations, industry trends and economic and environment factors.
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.		> Strategic and enterprise risk is addressed through the Board-approved five-year Strategic and Financial Plan. > The Group considers strategic and enterprise risk as part of ongoing risk reporting and the management of identified strategic risks is allocated to members of the Group's Leadership Team by the CEO.
People risk The risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and behave in an ethical way.		> Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. The Group's cultural framework has a clearly defined Purpose, with Values and Behaviours that form the foundation of the performance management framework.

Key – Group strategic priorities

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

	Future focus
> The Group undertakes regular, forward-looking scenario analysis to gain insight into the stresses the business could be subject to in the event of operational risk events materialising. > A framework is in place to ensure risks from individual changes are managed effectively, in line with the Group's risk appetite, with appropriate second-line oversight.	> Continued focus on management of resilience risks arising from the increasing change portfolio. > Enhanced supplier management to safeguard the provision, enablement and delivery of critical processes through third parties.
> These risks are managed through a number of controls that align to the industry recognised National Institute of Standards and Technology Framework. > IT resilience is addressed by a programme of continuous monitoring over the currency of technology estate and disaster recovery. Furthermore, critical end-to-end business recovery and contingency plans are maintained and tested.	> Ongoing investment in existing platforms across both heritage technology estates will be a key area of focus, in order to maintain resilience until duplication of systems and data centres is removed. > The ability to deliver new and enhanced digital services using agile development and cloud technologies will come into focus as we strive to bring innovation and disruption to the banking sector.
> The Group operates a framework of risk-based systems and controls to minimise the extent to which its products and services can be used to commit or be subject to financial crime. Regular investments are made into the maintenance of these systems and ensure compliance. > Regular oversight of financial crime controls is undertaken to ensure they remain effective and in line with Board-approved risk appetite.	> The Group will continue to develop its capabilities to mitigate financial crime in an external environment where digitisation is increasing quickly and threats continue to evolve. > Supporting our digitisation strategy, investment will continue in the Group's anti-money laundering systems platforms and fraud prevention (including Confirmation of Payee) capabilities to protect our customers.
> The Group continues to develop and embed its sustainability agenda in managing environmental, climate, social and governance related risks. > Regular oversight activity with work streams focused on supporting the Group's digital-led strategy, placing customers' interest at the centre of all aspects of change.	> The Strategic and Financial Plan retains a focus on optimising the Group's efficiency, with emphasis on supporting the change governance framework, to deliver positive outcomes for our customers. > The Group will continue to manage risks associated with COVID-19 and stands ready to execute further customer support arrangements if required. > The continued enhancement of our strategic risk framework is a priority for the Group.
> The quality and continuity of the Group's leadership is reviewed and assessed through succession planning and talent management activity.	> Focus will remain on potential health, safety and well-being impacts of working environments implemented in response to COVID-19. > Embedding the Group's Purpose continues to be a priority as it leads to better customer service, greater colleague engagement, higher standards of conduct and enhanced business performance. > The Group's Remuneration Committee continues to explore remuneration design to balance incentivisation and motivation with appropriate risk management.

Financial Results

Significant improvement in statutory and underlying earnings

2021 has been an important chapter in Virgin Money's story, returning to statutory profit driven by strong momentum in underlying performance.

CFO review contents

Analysis of:

Basis of preparation note

Statutory basis: The statutory results are set out at the end of this section on page 61.

Underlying basis: The results are adjusted to remove certain items that do not promote an understanding of historical or future trends of earnings or cash flows, which enables a more meaningful comparison of the Group's underlying performance. A reconciliation from the underlying results to the statutory basis is shown on page 62 and rationale for the adjustments is shown on page 324.

> I'm pleased to report a significant strengthening in the operating performance of the business with a return to statutory profit in FY21 and good financial momentum as we accelerate delivery of our Digital First strategy.

Clifford Abrahams
Chief Financial Officer

Review of the year

The Group has continued to make good progress delivering its strategy and benefited from an improving economic backdrop. Virgin Money has delivered strong financial results with improved performance and momentum on most key metrics. The expansion of Group NIM, a significant reduction in the level of ECL provisions and robust CET1 accretion, all leave the Group well placed to accelerate its digital strategy and deliver profitable growth.

Underlying profit was significantly stronger at £801m (2020: £124m) and the Group returned to statutory profit before tax in 2021 delivering £417m (2020: £168m loss). The improvement in underlying profitability was driven by a recovery in income, lower costs and improved impairment performance. NIM improved to 1.62% (2020: 1.56%) with positive momentum through the year as NIM increased in the fourth quarter to 1.70%. Non-interest income was impacted by lower activity levels and declined 16% to £160m, but did see improving momentum in the second half as pandemic restrictions eased. Taken together, total income improved 2% compared to a year ago. Underlying operating costs were 2% lower compared to FY20 reflecting ongoing cost reduction offset by headwinds including higher variable remuneration, but these positive jaws drove a 7% improvement in underlying pre-provision profit to £670m (2020: £625m).

Financial highlights

Statutory profit after tax	Underlying profit before tax	Statutory RoTE
£474m	£801m	10.2%
2020: £(141)m	2020: £124m	2020: (6.2)%

NIM	Underlying CIR	Cost of risk
1.62%	57%	(18)bps
2020: 1.56%	2020: 59%	2020: 68bps

CET1 ratio	Loan growth	Relationship deposit growth
14.9%	(0.6)%	+19.2%
2020: 13.4%	2020: (0.7)%	2020: +20.3%

Impairments were significantly improved compared to last year as the Group recognised a £131m impairment credit (2020: £501m charge) given the improving economic outlook and continuing robust asset quality. We remain vigilant as Government support is removed and have maintained coverage levels of 70bps (2020: 103bps), well above pre-pandemic levels.

The support from improved underlying pre-provision profit and the impairment credit enabled underlying RoTE to improve to 17.8% (2020: 0.6%), while statutory RoTE was 10.2% (2020: (6.2)%) after exceptionals including accelerated restructuring charges and the finalisation of Payment Protection Insurance (PPI) remediation.

The Group managed balances prudently through the year, given the uncertain environment and overall lending finished 1% lower at £72.0bn. Unsecured balances performed strongly, particularly in the second half, with balances growing 4% in the year against a market that contracted, as the resilience of our book and our strong digital propositions allowed us to continue to take market share. Deposit balances reduced 1% to £66.9bn and we continued to focus on improving the mix of our deposit base and reducing our cost of funds. Over the course of FY21, there was a 29% reduction in more expensive term deposits and a 19% increase in lower-cost relationship deposits, reducing our average cost of deposits from 90bps to 53bps. This helped to underpin the Group's improving momentum on NIM.

Capital has further strengthened in the period, with the transitional CET1 ratio improving c.150bps over the year to 14.9% and with significant tangible net asset value (TNAV) accretion over the year, to 290p (2020: 244p).

Given the significant improvement in financial performance and robust capital position, the Board has declared a 1p dividend, our first dividend since 2019, and it is pleasing to be in a position to resume capital returns. We will await the outcome of the Solvency Stress Test and clarity on the broader impairment backdrop before giving longer term guidance on our capital framework and dividend policy.

The strong financial performance in 2021 gives us confidence as we progress the next phase of our strategic development and accelerate delivery of our Digital First strategy.

Significant improvement in financial performance continued

Underlying income

Summary for the year ended 30 September	2021 £m	2020 £m	Change
Underlying net interest income	**1,412**	1,351	5%
Underlying non-interest income	**160**	191	(16)%
Total underlying operating income	**1,572**	1,542	2%
NIM	**1.62%**	1.56%	6bps
Average interest-earning assets	**86,947**	86,826	–%

NII and NIM

Overall, net interest income (NII) increased by £61m in FY21, driven mainly by an expansion of the Group's NIM as it continued to deliver liability repricing and optimisation, reducing the overall cost of funds.

Asset yields declined 25bps compared to FY20 with lower mortgage interest income the primary contributor, reflecting ongoing competition in the mortgage market. The Group remained selective in terms of its participation over the course of the year, with lower average balances also driving a reduction in NII. In Business, interest income reduced by £15m compared to FY20 despite a growth in average balances, as yields reduced given the book had a higher mix of lower-yielding government-backed lending. In Unsecured, average balances were broadly stable relative to FY20, while yields contracted, mainly driven by the credit card book, which was impacted by mix changes as customers paid down higher-yielding unsecured balances. Elsewhere, the average yield on the Group's liquid assets fell 32bps reflecting the lower rate environment across the full financial year.

Liability rates decreased at a faster rate than asset yields, decreasing 35bps relative to FY20, with the reduction driven by lower term deposit and wholesale funding costs, and a higher proportion of lower-cost current accounts, as we continued our strategy of optimising the deposit mix in order to reduce the overall cost of funds. Current account balances grew during the year with stronger sales of new PCAs, given the success of the Brighter Money Bundles campaigns, and an increase in average balances owing to customers saving more during lockdown. Term deposits fell as a proportion of the book and were also 35bps cheaper, while savings account costs more than halved in the year. Both reflected the impact of the lower rate environment and repricing activity. Wholesale funding costs also reduced in the year, driven by a reduction in average balances following the TFS repayments and lower secured funding.

During FY21, the Group reinitiated its structural hedging programme, following the BoE's confirmation that negative interest rates were explicitly within its policy toolkit. The Group hedged £26bn of balances in the second half of FY21, and after year-end has further expanded this to c£32bn during Q1 22. The structural hedging programme contributed c£180m of gross interest income in FY21 and the Group anticipates the gross interest contribution from the structural hedge will be materially higher in FY22.

Non-interest income

Non-interest income declined by £31m (16%) relative to FY20, to £160m, reflecting weaker market conditions. The key drivers of the reduction include a £10m impact from fair value movements (excluding one-off gains), and £19m lower income in Unsecured, driven by lower customer transaction levels through COVID-19 restrictions and the impact of the High Cost of Credit Review. Business and Mortgage fee income was more resilient and broadly stable relative to FY20. Despite the non-repeat of gilt sales from FY20 which generated £16m, the Group recognised a £16m one-off gain in the final quarter of FY21 related to equity valuation gains in the debt restructuring unit.

Average balance sheet	2021 Average balance £m	2021 Interest income/(expense) £m	2021 Average yield/(rate) %	2020 Average balance £m	2020 Interest income/(expense) £m	2020 Average yield/(rate) %
Interest earning assets						
Mortgages	**58,426**	**1,332**	**2.28**	59,464	1,446	2.43
Personal lending	**5,407**	**383**	**7.09**	5,366	423	7.88
Business lending[1]	**8,801**	**298**	**3.38**	8,296	313	3.77
Liquid assets	**12,827**	**26**	**0.20**	11,968	62	0.52
Due from other banks	**1,482**	**–**	**(0.02)**	1,727	5	0.30
Swap income/other	**–**	**(87)**	**n/a**	–	(78)	n/a
Other interest earning assets	**4**	**–**	**n/a**	5	–	n/a
Total average interest earning assets	**86,947**	**1,952**	**2.25**	86,826	2,171	2.50
Total average non-interest earning assets	**3,590**			3,696		
Total average assets	**90,537**			90,522		
Interest bearing liabilities						
Current accounts	**14,516**	**(14)**	**(0.09)**	12,301	(13)	(0.10)
Savings accounts	**30,242**	**(123)**	**(0.41)**	27,430	(227)	(0.83)
Term deposits	**18,259**	**(223)**	**(1.22)**	22,175	(348)	(1.57)
Wholesale funding	**13,591**	**(176)**	**(1.30)**	15,972	(228)	(1.42)
Other interest bearing liabilities	**164**	**(4)**	**n/a**	180	(5)	n/a
Total average interest bearing liabilities	**76,772**	**(540)**	**(0.70)**	78,058	(821)	(1.05)
Total average non-interest bearing liabilities	**8,414**			7,633		
Total average liabilities	**85,186**			85,691		
Total average equity	**5,351**			4,831		
Total average liabilities and average equity	**90,537**			90,522		
Net interest income		**1,412**	**1.62**		1,350	1.56

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

Underlying costs

For the year ended 30 September	2021 £m	2020[1] £m	Change
Staff costs	**348**	375	(7)%
Property and infrastructure	**43**	48	(10)%
Technology and communications	**113**	113	–%
Corporate and professional services	**101**	101	–%
Depreciation, amortisation and impairment	**155**	142	9%
Other expenses	**142**	138	3%
Total underlying operating and administrative expenses	**902**	917	(2)%
Underlying cost: income ratio (CIR)	**57%**	59%	(2)%pts

(1) Operating and administrative expenses have been recategorised during the year. The prior year comparatives have been amended to conform with the current year's presentation. Refer to note 2.4 for further detail.

Underlying operating expenses reduced 2% relative to FY21 to £902m with the underlying cost: income ratio reducing 2%pts to 57%. The reduction was driven by the continued delivery of savings from the transformation programme however this was partially offset in the second half of the year by a normalisation of variable remuneration reflecting the Group's strong performance. This led to final FY21 costs slightly above our guidance.

Much of the underlying cost reductions in the year came from lower staff costs, which have been reduced by 7%, as the Group continued to reduce headcount and remove duplication. Property and infrastructure also reduced as we realised third-party spend savings and operational cost reductions from the integration programme. Depreciation and amortisation increased primarily as a result of continued investment into our customers digital experience, including regulatory payment services.

Significant improvement in financial performance continued

Impairments

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

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

As at 30 September 2020	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	131	58.6	23	16	13.9%	0.9%
Personal:	301	5.6	591	423	14.7%	1.2%
of which credit cards	*222*	*4.5*	*537*	*355*	*11.6%*	*1.2%*
of which personal loans and overdrafts	*79*	*1.1*	*824*	*721*	*28.0%*	*1.4%*
Business	303	8.7	387(1)	212	44.2%	3.2%
Total	735	72.9	103	68	17.7%	1.2%
of which stage 2	*465*	*12.8*	*366*			
of which stage 3	*134*	*0.9*	*1,573*			

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

During the year, the Group has seen robust credit quality across its portfolios, with very few significant specific provisions, as borrowers have continued to benefit from Government support and the improving economic conditions. The strong performance of the portfolio and improved economic outlook drove an ECL credit in the income statement of £131m for FY21 (2020: £501m charge) equivalent to a cost of risk credit of 18bps. Overall balance sheet provisions remain robust at £504m (2020: £735m) with aggregate coverage level now 70bps (2020: 103bps).

The Q4 refresh of the macroeconomic scenarios used for IFRS 9 modelling, provided by Oxford Economics, saw a continued improvement in the economic outlook. Overall, the Group remains cautiously positioned but now incorporates a 15% weighting to the upside scenario, 50% to the base scenario and 35% to the downside. The weighted economic scenarios used at Q4 include a recovery in GDP in 2022 of 5.5%, unemployment that is assumed to peak at 5.4% in the final quarter of the 2021 calendar year and a 6.0%/3.2% HPI contraction in 2022/2023 followed by a recovery in the outer years.

To supplement the models, the Group has also applied expert credit risk judgement through post model adjustments (PMA). These are designed to account for factors that the models cannot incorporate, where the sensitivity is not as would be expected under what has been an unprecedented economic stress scenario. The overall size of the PMAs at FY21 was £207m (2020: £186m). While there is optimism in the economic recovery, uncertainties exist and these PMAs are deemed to be balanced and appropriate for our portfolio at the current time.

Credit quality has remained robust, resulting in limited stage migration, with loans classified as stage 2 reducing from 18% of the portfolio at FY20 to 14% at FY21. In line with the overall reduction in provisions outlined above, coverage levels have reduced across all portfolios but remain appropriate for the underlying level of risk.

In Mortgages, the coverage ratio of 15bps (2020: 23bps) is deemed appropriate for the conservative loan book and remains substantially ahead of pre-pandemic levels. Our Unsecured lending book coverage ratio of 380bps (2020: 591bps) includes 379bps of coverage for our high-quality credit card portfolio and 386bps of coverage for our smaller personal loans and overdrafts book. Arrears levels remain modest across the portfolio, with c98% in each of the personal loans and cards portfolios in either stage 1 or stage 2 not past due.

In Business, the coverage ratio of 306bps (2020: 387bps) reflects an 81bps decrease in the year. There has been little evidence of deterioration in asset quality to date with the level of specific provisions continuing to be low. Total balances in either stage 1 or stage 2 not past due represents c97% of the portfolio.

Exceptional items and statutory profit/(loss)

	2021 £m	2020 £m
Underlying profit on ordinary activities before tax	**801**	124
Exceptional items		
– Integration and transformation costs	**(146)**	(139)
– Acquisition accounting unwinds	**(88)**	(113)
– Legacy conduct costs	**(76)**	(26)
– Other items	**(74)**	(14)
Statutory profit/(loss) on ordinary activities before tax	**417**	(168)
Tax credit	**57**	27
Statutory profit/(loss) for the year	**474**	(141)
Underlying RoTE	**17.8%**	0.6%
Statutory RoTE	**10.2%**	(6.2)%
TNAV per share	**289.8p**	244.2p

Overview
The Group made a statutory profit before tax of £417m after deducting £384m of exceptional costs (2020: £292m).

TNAV per share increased 45.6p in FY21 to 289.8p. The key drivers of the increase were +29.5p of retained earnings, +8.2p of lower goodwill and intangibles given increased amortisation and write-offs, along with a further +7.9p of positive reserve movements together with other small items.

Integration and transformation costs
Integration and transformation charges totalled £146m in the year driven by charges related to the integration programme and the acceleration of the digital strategy. This includes c.£25m related to the closure of 31 stores and c.£20m related to changes to the operating model and property footprint. The Group now expects a further c.£275m of restructuring costs to implement the digital strategy, with around half expected to be incurred in FY22.

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 (3 to 5 years). £88m was reflected in FY21 and the Group expects a further c.£50m of total acquisition accounting unwind charges over the next three years, weighted towards FY22.

Legacy conduct
Charges of £76m were incurred in FY21 and included £59m in relation to the finalisation of the Group's PPI programme. The Group has now dealt with all complaints received including the settlement of claims received from the Official Receiver. The Group has now closed down the operation with the remaining provision sufficient to cover all outstanding liabilities.

Other items
A £68m charge was recognised in the year following a reassessment of the Group's capitalisation practices against the backdrop of the new Digital First strategy and the move to an agile project delivery. Other relevant elements include a further £6m of transition costs principally for the build of a new platform for administration and servicing in the Virgin Money Unit Trust Managers Limited (UTM) JV.

Taxation
On a statutory basis, there was a £57m tax credit reflecting a deferred tax credit for additional historical losses recognised in the year and the impact of the substantive enactment of the corporation tax rate change from 19% to 25%, effective from 1 April 2023, on the valuation of historical losses. We expect the effective tax rate to remain relatively low with further loss recognition, before increasing towards more normalised levels in the low 20%s by FY24.

Significant improvement in financial performance continued

Balance sheet

As at 30 September	2021	2020	Change
Mortgages	**58,104**	58,290	(0.3)%
Personal	**5,415**	5,219	3.8%
Business[(1)]	**8,477**	8,948	(5.3)%
Total customer lending	**71,996**	72,457	(0.6)%
Relationship deposits[(2)]	**30,596**	25,675	19.2%
Non-linked savings	**21,285**	20,729	2.7%
Term deposits	**14,989**	21,107	(29.0)%
Total customer deposits	**66,870**	67,511	(0.9)%
Wholesale funding	**13,596**	14,227	(4.4)%
of which TFS	***1,244***	*4,108*	*(69.7)%*
of which TFSME	***4,650***	*1,300*	*257.7%*
Loan to deposit ratio (LDR)	**108%**	107%	1%pts
Liquidity coverage ratio (LCR)	**151%**	140%	11%pts
Net stable funding ratio (NSFR)	**134%**	131%	3%pts

(1) Of which, £1,318m government lending (2020: £1,163m).
(2) Current account and linked savings balances.

Customer lending and deposits
At an aggregate level, Group lending reduced by 0.6% to £72.0bn as the Group carefully managed volumes through the pandemic. The reduction was primarily due to a contraction in the Mortgage and Business books, offset by growth in Unsecured lending balances. Total customer deposits reduced by 1% to £66.9bn reflecting actions to improve the mix of deposits in a supportive environment, with growth in PCA and Relationship deposit balances, while term deposits were reduced.

Mortgage balances were broadly stable at £58.1bn as the Group maintained pricing discipline, prioritising margin over volume growth in an uncertain and increasingly competitive environment. Despite periods of buoyant customer demand, partly due to temporary factors such as the Stamp Duty Land Tax holiday, balances contracted overall during the second half of the year as strong market competition resulted in reduced customer rates which, alongside higher swap rates, eroded spreads. The Group continued to be selective, choosing to balance volumes and pricing carefully in line with the longer-term strategy.

Business lending reduced by 5.3%, with weaker demand due to government-guaranteed lending scheme usage (mainly BBLS/CBILS). The Group has £1.3bn outstanding to businesses through these schemes which have now closed to new lending, and have begun to reduce as businesses start to make repayments. We anticipate that demand will pick up in line with the broader economic recovery during FY22.

Unsecured balances grew by 3.8% in the year to £5.4bn. During the first half of the year, balances reduced with lower customer demand as the market contracted during lockdowns, although our credit card balances performed more resiliently given the high proportion of balance transfer cards within our portfolio. As restrictions were gradually eased and in line with the recovery in consumer spending, overall Unsecured balances grew above market in the second half of the year. The Group is well placed to participate in the consumer led recovery with the improvements made to the proposition, including Credit card cashback, which has attracted c.230k customer registrations, and with an instalment lending proposition to address the BNPL market launching early in FY22.

The 1% reduction in customer deposit balances reflected the Group's strategy to improve the deposit mix and optimise our funding costs. Term deposits reduced 29%, which also saw their cost to the Group reduce significantly. At the same time, we leveraged the successful launch of innovative new PCA propositions such as Brighter Money Bundles to attract c.135k new PCA customers during the year, underpinning the strong growth in relationship deposits which increased by 19% to £30.6bn.

Wholesale funding and liquidity
The Group maintains a strong funding and liquidity position and has no reliance on short-term wholesale funding. The Group's LDR increased 1% point in the year to 108%, principally as a result of the continued optimisation of overall funding balances. At the same time, the Group's LCR of 151% (2020: 140%) continues to comfortably exceed both regulatory requirements and our more prudent internal risk appetite metrics, ensuring a substantial buffer in the event of any sudden outflows and significant potential to support any increase in lending as the economy recovers.

The Group has also sought to optimise its TFS and Term Funding Scheme with additional incentives for SMEs (TFSME) drawings this year, using the longer-dated TFSME scheme while repaying TFS drawings. Overall, wholesale funding has reduced to £13.6bn (2020: £14.2bn) as lower overall lending volumes has meant that maturing secured funding has not needed to be replaced. As the Group looks to grow in the coming years, it will continue to access wholesale funding markets to support our funding requirements and to ensure the diversification of funding sources.

Capital

As at 30 September	2021	2020	Change
CET1 ratio (IFRS 9 transitional)	**14.9%**	13.4%	1.5%pts
CET1 ratio (IFRS 9 fully loaded)	**14.4%**	12.2%	2.2%pts
Total capital ratio	**22.0%**	20.2%	1.8%pts
MREL ratio	**31.9%**	28.4%	3.5%pts
UK leverage ratio	**5.2%**	4.9%	0.3%pts
RWAs (£m)	**24,232**	24,399	(0.7)%
of which Mortgages (£m)	***10,010***	*9,484*	*5.5%*
of which Personal (£m)	***4,311***	*4,151*	*3.9%*
of which Business (£m)	***6,040***	*6,716*	*(10.1)%*

Overview

During 2021, the Group has strengthened its capital position with a higher CET1 ratio (IFRS 9 transitional basis) of 14.9% (FY20: 13.4%), or 14.4% excluding software intangible assets, and a total capital ratio of 22.0%. The significant impairment provisions recognised at the start of the pandemic in FY20 had largely been offset from a capital perspective by IFRS 9 transitional relief and excess expected loss deductions on a transitional basis. As a result, the reduction in COVID-19 related impairment provisions during FY21 resulted in limited incremental capital benefit on an IFRS 9 transitional basis, although resulted in a greater improvement on an IFRS 9 fully loaded basis.

Capital requirements

As at 30 September 2021, the Group's Pillar 2A requirement had a CET1 element of 2.2%. Overall, the Group's Capital Requirements Directive IV (CRD IV) minimum CET1 capital requirement (or maximum distributable amount threshold) reduced by 0.3% in the year to 9.2%. Since the end of the 2021 financial year, the Group's CRD IV minimum CET1 capital requirement reduced further to 8.7%.

CET1 capital

The Group's transitional CET1 ratio increased by 151bps over the year. Total underlying capital generation of 212bps was driven by 216bps of underlying profit and 19bps benefit from lower RWAs, offset by 23bps of AT1 distributions. Exceptional items consumed 108bps while there was 6bps of accrual for expected dividends and 53bps of benefit from the treatment of software intangible assets. To date RWA pro-cyclicality has remained low, although the risk still remains, with the timing of any increase uncertain. The move to IRB for the credit card portfolio and the adoption of hybrid mortgage models are no longer expected in FY22.

RWAs

Overall, RWAs reduced by 1% during FY21 to £24.2bn. In Mortgages, RWAs increased by £0.5bn despite broadly stable balances as probability of default (PD) recalibrations and other movements more than offset stronger HPI. In Business, RWAs reduced by £0.7bn through a combination of lower customer balances (c£0.5bn) and model updates (c£0.2bn). In Unsecured, RWAs increased by £0.2bn in line with the increase in customer lending during the financial year. Non-credit RWAs were £2.7bn as at FY21 (FY20: £2.9bn).

Robust capital position in the face of economic uncertainty

While on-balance sheet impairment provisions have reduced to £504m (2020: £735m) reflecting the improved economic environment and robust credit performance, the Group maintains a strong level of coverage to manage the impact of any potential economic scarring, and subsequent increase in credit losses. In addition, the Group also retained a significant CET1 management buffer of £1.4bn in excess of its CRD IV regulatory requirement as at FY21, providing further potential loss-absorbing capacity.

Dividend resumed

Given the strong capital generation in the year and improving financial momentum of the Group, the Board has proposed a small ordinary dividend of 1p for FY21. We expect to provide an updated capital framework and dividend policy following the results of the SST.

MREL

The Group's Minimum Requirements for Own Funds and Eligible Liabilities (MREL) ratio increased from 28.4% to 31.9% during the year, comfortably exceeding its expected 2022 end-state MREL requirement. Given the surplus to end state requirements and with no maturities in FY22, the Group is not planning any MREL issuance in FY22.

CET1 capital movements[1]	2021
Opening CET1 ratio	**13.4%**
Capital generated (bps)	**216**
RWA growth (bps)	**19**
AT1 distributions (bps)	**(23)**
Underlying capital generated (bps)	**212**
Integration and transformation costs (bps)	**(44)**
Acquisition accounting unwind (bps)	**(24)**
Conduct (bps)	**(29)**
Foreseeable ordinary dividends (bps)	**(6)**
Other (bps)	**(11)**
Impact of intangible asset relief (bps)	**53**
Net capital generated (bps)	**151**
Closing CET1 ratio	**14.9%**
Closing CET1 ratio excluding intangible asset relief	**14.4%**

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

Significant improvement in financial performance continued

Guidance reflects the acceleration of our digital strategy

FY22 outlook

NIM
c.170bps

Underlying costs
Broadly stable

Cost of risk
Expect to rise towards through the cycle range

Restructuring costs
c.£275m across FY22-FY24, with around half in FY22

Dividend
SST outcome and impairment outlook key inputs to capital framework and dividend policy

Medium-term outlook

RoTE
Statutory double-digit RoTE in FY24

Growth
Above-market growth in Business and Unsecured; maintain Mortgage share

Income
Mix-driven NIM expansion; other operating income to rise as proportion of income

Gross savings
Gross cost savings of c.£175m by FY24; c.50% to be reinvested, including offsetting inflation

Underlying costs
Underlying cost: income ratio to be <50%

FY22 outlook

In FY22, we anticipate a full year NIM of c.170bps reflecting a further benefit from lower cost of funding, the increased size of the structural hedge and benefit from a change in lending mix as the Group grows in higher yielding segments, offset by competitive pricing pressures, particularly in Mortgages.

Underlying non-interest income remains linked to activity levels and is expected to improve during FY22 in line with the full removal of lockdown restrictions and the broader economic rebound. We expect costs to be broadly stable in FY22 as gross savings from previous cost reduction actions are offset by higher investment and inflation.

In order to deliver the digitisation of the bank, we expect c.£275m of restructuring charges by FY24 reflecting the Digital First programme, associated severance and property closure costs. This investment will be front loaded with around half taken in FY22.

Medium-term outlook

In the medium-term the Group's digital acceleration will support the delivery of valuable and differentiated propositions to drive profitable future growth in our target segments. The Group will continue to target diversification on both sides of the balance sheet delivering above-market growth in Unsecured and Business lending, whilst maintaining our mortgage market share out to FY24. We continue to target strong growth in new PCA and BCA customer numbers, driving down the overall cost of funds.

As we deliver this mix shift, NIM is expected to continue to expand throughout the plan period whilst the new propositions being launched will also drive stronger other income growth out to FY24.

Our strategy to digitise the bank is targeted to deliver around £175m of gross cost savings over the next three years, of which we plan to re-invest around half back into the business, inclusive of inflation, to support growth. These savings will be driven by reductions in headcount, third party spend and property and savings from digitisation. By FY24 the Group expects to achieve an underlying cost: income ratio of <50%. The Group expects its effective tax rate to increase towards low 20%s by FY24.

Overall the Group has a clear path to deliver double digit returns by FY24 and is well placed to deliver strong, profitable growth through the acceleration of our digital strategy.

We will provide further updates on the Group's long-term capital framework and dividend policy at H1 22, with a Capital Markets Day on our strategic opportunities and proposition developments during H2 22.

Clifford Abrahams
Chief Financial Officer
23 November 2021

Summary income statement – statutory basis

For the year ended 30 September	2021 £m	2020 £m	Change %
Net interest income	**1,357**	1,283	6
Non-interest income	**132**	160	(18)
Total operating income	**1,489**	1,443	3
Operating and administrative expenses	**(1,203)**	(1,104)	9
Operating profit before impairment losses	**286**	339	(16)
Impairment credit/(losses) on credit exposures	**131**	(507)	n/a
Statutory profit/(loss) on ordinary activities before tax	**417**	(168)	n/a
Tax credit	**57**	27	111
Statutory profit/(loss) after tax	**474**	(141)	n/a

The Group has recognised a statutory profit before tax of £417m (2020: loss before tax of £168m). The increase in statutory profit is driven by higher income and an improved impairment performance, supported by the strengthening economic backdrop. The Group continues to expect that the difference between underlying and statutory profit will reduce over time as we deliver our strategy and the exceptional charges reduce.

Key Performance Indicators(1)

	2021	2020	Change
Profitability			
Statutory RoTE	**10.2%**	(6.2)%	16.4%pts
Statutory CIR	**81%**	76%	5%pts
Statutory return on assets	**0.52%**	(0.16)%	0.68%pts
Statutory basic earnings/(loss) per share	**27.3p**	(15.3)p	42.6p

(1) For a definition of each of the KPIs, refer to 'Measuring financial performance – glossary' on pages 322 to 323. The KPIs include statutory, regulatory and alternative performance measures.

Significant improvement in financial performance continued

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 prepared on an underlying basis as presented to the CEO, Executive Leadership Team and Board and exclude 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 324.

2021 income statement	Statutory results £m	Integration and transformation costs £m	Acquisition accounting unwinds £m	Legacy conduct £m	Other £m	Underlying basis £m
Net interest income	1,357	–	55	–	–	1,412
Non-interest income	132	–	23	–	5	160
Total operating income	1,489	–	78	–	5	1,572
Total operating and administrative expenses before impairment losses	(1,203)	146	10	76	69	(902)
Operating profit before impairment losses	286	146	88	76	74	670
Impairment credit on credit exposures	131	–	–	–	–	131
Profit on ordinary activities before tax	417	146	88	76	74	801
Financial performance measures						
RoTE	10.2%	2.9%	1.7%	1.5%	1.5%	17.8%
CIR	80.8%	(8.9)%	(5.4)%	(4.6)%	(4.5)%	57.4%
Return on assets	0.52%	0.12%	0.07%	0.06%	0.06%	0.83%
Basic EPS	27.3p	7.8p	4.7p	4.1p	4.0p	47.9p

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

Governance


9:41
MONEY
Introducing Virgin Red
Have you heard about Virgin Red yet? It's Virgin's brand new rewards club, that revolves around you.
Join Virgin Red
Virgin Money Cashback
Open up a world of offers within the app, and earn cashback with a tap.
Get started

Chairman's governance review

The following pages provide details of our Board and Executive Leadership Team and explain how the governance framework of Virgin Money UK operates. The report also highlights the key areas of focus for the Board and its principal committees during the period to 30 September 2021.

> The Board recognised the need to evolve our strategy to deliver long-term sustainable benefits for shareholders underpinned by the highest standards of corporate governance.

David Bennett
Chairman

Dear shareholder,
I am pleased to present this Governance report for 2021. The report sets out details of our Board composition and operations in 2021, describes how we have complied with the provisions of the UK Corporate Governance Code 2018 (Code) during the year and includes reports from the Chairs of each Board committee.

The Board's main objective throughout 2021 has been to oversee and challenge the plans to accelerate momentum in our strategic delivery and digital transformation building on the lessons learned from the COVID-19 pandemic. The Board's participation in a series of Strategy Sessions is described on page 83. The Board recognised the need to evolve our strategy to deliver long-term sustainable benefits for shareholders and wider stakeholders. Underpinning this is a strong focus on ensuring the Group applies the highest standards of corporate governance and strong Purpose-driven decision making ensuring different stakeholder needs are considered. Details of how the Board took into account stakeholder interests in its discussions and decision making are set out on pages 87 to 93.

The Board has also continued to fulfil its broader responsibilities to oversee Virgin Money's culture, governance, financial and internal control and risk management. An overview of the range of matters that the Board considered this year is provided on pages 80 to 81.

Succession planning
Succession planning, for both Board and executive and senior management roles, is a key component of good governance and continued to be a key area of focus. During the year, the Board approved the appointments of Clifford Abrahams, as Executive Director and Chief Financial Officer, and Elena Novokreshchenova as a Non-Executive Director and member of all Board committees. The Governance and Nomination Committee and Board also supported the appointment of Syreeta Brown as Group Chief People and Communications Officer who joined the Group on 22 November 2021. Further information about the appointment processes and succession planning is set out on pages 97 to 99. The Board and I are grateful for Enda Johnson's contribution while he was interim Chief Financial Officer during the year.

Tim Wade was confirmed as Senior Independent Non-Executive Director from 10 March 2021 having held that role on an interim basis since 6 May 2020.

Diversity and inclusion
The Board strongly believes that being an inclusive employer with a workforce that reflects the diversity of our customer base is fundamental to Virgin Money's long-term sustainable success. This begins with the Board's focus on ensuring diversity among its own membership. The Board reviewed progress against its own Diversity and Inclusion Policy targets and I am pleased to report that we have met our stated targets of at least 33% female representation on the Board and one Director from an ethnic minority background this year. Maintaining and evolving the diversity profile of the Board will be a continued area of focus. The Board has also kept closely engaged on progress in improving diversity and inclusion across the colleague population which is described on page 98 and, through our workforce engagement programme, has heard directly from colleagues on how they are impacted by diversity and inclusion issues. You can read more about our workforce engagement programme on page 84 and how colleague feedback has informed Board discussions and decision making on page 89.

Progressing our ESG strategy and goals
This year, the Board increased the time spent focusing on ESG matters and undertook a programme of quarterly deep dives and training which is described on page 82. The Board is particularly aware of how the Group's activities affect the environment and the impact of climate change and provides rigorous challenge to management on progress against our ESG strategy, goals and targets. ESG, and in particular climate-related risks, is fully embedded in our governance framework, as illustrated on page 77, and has been an area of focus for Board committees this year as described in their respective reports.

Board effectiveness
In my Chairman's governance review last year, I reported that having listened to investor feedback and updating for current practice, the Governance and Nomination Committee led a review of the balance of the Board resulting in a reduction in its size. Changes were also made to appoint all independent Non-Executive Directors as members of all principal Board committees ensuring that all Board members are fully engaged on the specialist areas of focus and deeper insights at committee level and that Board meetings are freed to focus on the most material matters. The results of the internally facilitated Board evaluation undertaken this year (which is described on pages 100 to 101) concluded that the performance of the Board is effective and has improved over the past 12 months, most notably in relation to Board composition and dynamics demonstrating that the action taken last year was, and continues to be, beneficial to the Board's effectiveness. The Board adopts a continuous improvement approach to its effectiveness and will continue to adapt and evolve its operations as necessary in the year ahead.

UK Corporate Governance Code
During FY21, the Code applied to the Company. Our statement of compliance with the Code is on page 68.

Finally, I would like to thank all Board colleagues for their strong contribution to the Board during 2021.

David Bennett
Chairman
23 November 2021

Our Board in 2021

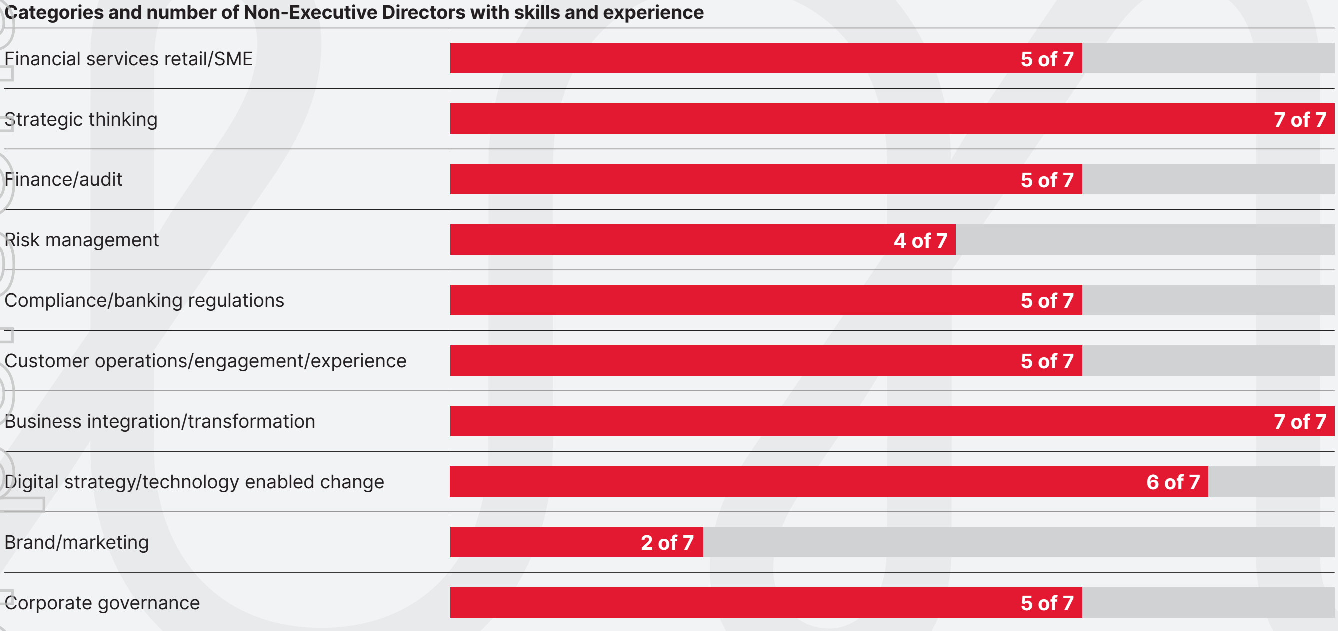
Board and Committee composition and attendance[1]

Board member	Board meetings	Governance and Nomination Committee	Audit Committee	Risk Committee	Remuneration Committee	Independent
David Bennett (Chairman)	10/10	5/5	–	–	7/7	(on appointment)
Executive Directors						
Clifford Abrahams[2]	6/6	–	–	–	–	No
David Duffy	10/10	–	–	–	–	No
Non-Executive Directors						
Paul Coby	10/10	5/5	6/6	7/7	7/7	Yes
Geeta Gopalan	10/10	5/5	6/6	7/7	7/7	Yes
Elena Novokreshchenova[3]	6/6	2/2[3]	1/1[4]	4/4[3]	1/1[4]	Yes
Darren Pope	10/10	5/5	6/6	6/7[5]	7/7	Yes
Amy Stirling	10/10	5/5	–	–	–	No
Tim Wade	10/10	5/5	6/6	6/7[5]	7/7	Yes

Board skills

Skills and experience[6]

Categories and number of Non-Executive Directors with skills and experience



(1) Data is based on scheduled meetings from 1 October 2020 to 30 September 2021 only. Additional ad hoc meetings of the Board and Board Committees also took place during the year.

(2) Clifford Abrahams was appointed an Executive Director on 8 March 2021.

(3) Elena Novokreshchenova was appointed a Non-Executive Director and a member of the Governance and Nomination Committee and of the Risk Committee on 22 March 2021.

(4) Elena Novokreshchenova was appointed a member of the Audit Committee and of the Remuneration Committee on 1 August 2021.

(5) Unable to attend the meeting due to a prior unavoidable commitment.

(6) Skills and experience of Non-Executive Directors: only direct or practical career experience is reported – the majority of Non-Executive Directors have indirect experience, for example gained from other Board positions, across all categories; during 2022 the Board will review its skills matrix to consider environmental and climate change skills and experience.

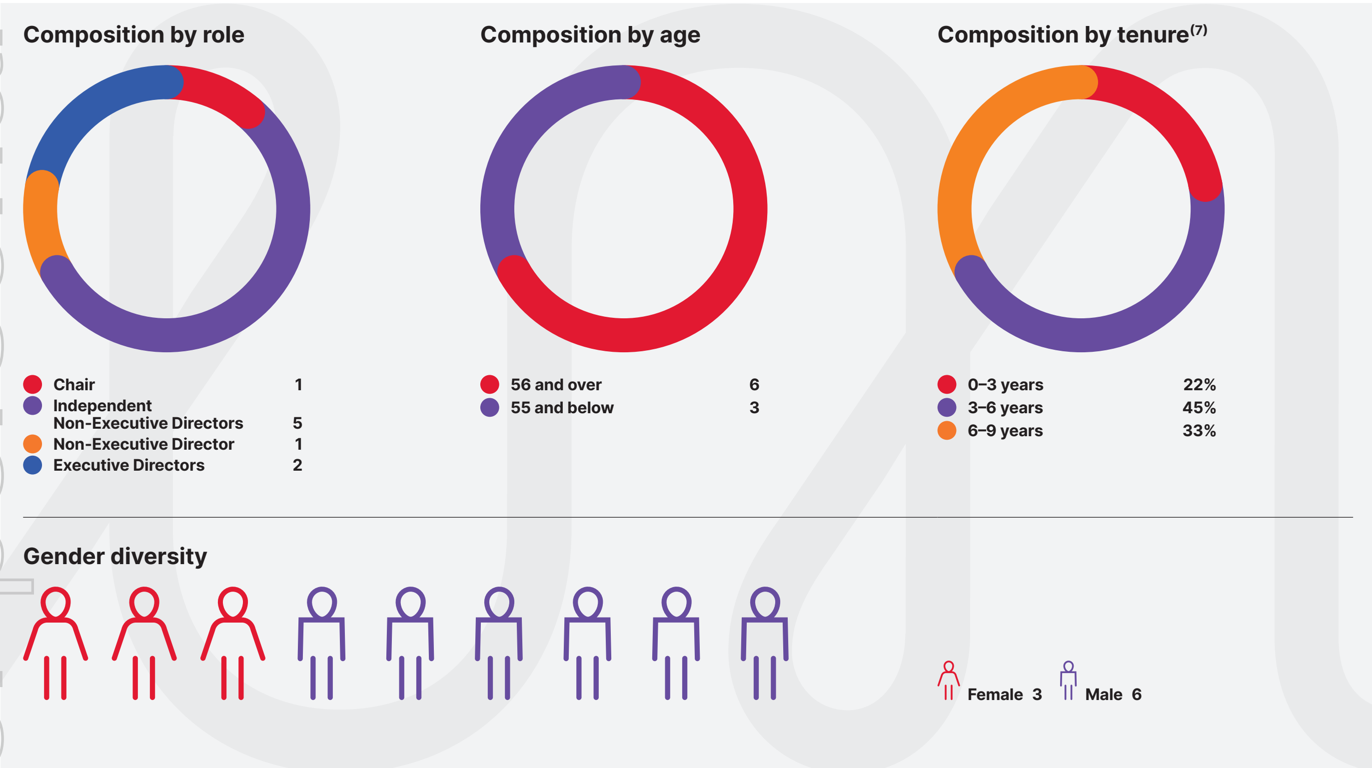
Board diversity as at 30 September 2021

Hampton Alexander Review and Parker Review

In 2021, we achieved the target set by the Hampton Alexander Review, as set out in our Board Diversity and Inclusion Policy, to have a minimum of 33% women's representation on the Board (as at 30 September 2021 – 33.3%) and also achieved our target to meet the recommendation of the Parker Review to have at least one Director of colour by 2024 (as at 30 September 2021 – one Director). The Board remains committed to ensuring its membership reflects diversity in the broadest sense.

Director tenure

As at the date of this report, all Directors have a tenure not exceeding nine years[7]. Each Director's date of joining the Group is included in their biography on pages 69 to 73.



(7) In the case of Geeta Gopalan, Darren Pope and Amy Stirling tenure is calculated relative to the date they each joined the Board of Virgin Money Holdings (UK) PLC. Virgin Money UK PLC (formerly CYBG PLC) acquired Virgin Money Holdings (UK) PLC on 15 October 2018.

The UK Corporate Governance Code 2018

Our compliance with the Code

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

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

Our Board of Directors

Chairman

David Bennett
Chairman

GOV REM

Joined the Group
October 2015 and became Chairman in May 2020.

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

David is an experienced Chairman and Non-Executive Director. He brings extensive experience of retail banking, strategy, risk management, corporate activity and organisation, operational and structural change gained from his long career in financial services. He has the governance expertise and external insight required to lead an effective Board which is critical to the long-term success of the Group. Prior to becoming Chairman in 2020, David had been Deputy Chairman since 2015 and therefore has the experience of the Group and track record needed to support the Board and executive in delivering the medium and longer-term strategy. His extensive business career includes time as Group Finance Director of Alliance & Leicester plc for six years before becoming its Group Chief Executive. Following the acquisition of Alliance & Leicester plc by Banco Santander he was Executive Director on the Board of Abbey National plc. He was formerly Chairman of Homeserve Membership Limited and Together Financial Services Limited, was a Non-Executive Director on the Board of Bank of Ireland (UK) PLC and has significant Non-Executive Director experience in listed environments which has included easyJet plc and CMC Markets PLC.

External appointments
Chairman of Ashmore Group plc, Non-Executive Director of PayPal (Europe) S.a.r.l et Cie, S.C.A and Non-Executive Board member of The Department for Work & Pensions.

Executive Directors

David Duffy
Executive Director and Chief Executive Officer

Joined the Group
June 2015.

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

David has over three decades of extensive experience in banking and financial services in both the UK and internationally. He brings deep industry understanding to the Board as well as strong executive leadership which is critical to his role as CEO. His drive, energy and commitment to customers as well as his proven ability to build and lead strong management teams and transform businesses brings significant value to all of Virgin Money's stakeholders. Prior to joining the Group, David was CEO at Allied Irish Banks plc and previously of Standard Bank International where he had responsibility for operations in the UK, Europe, Latin America and Asia. He was also previously Head of Global Wholesale Banking Network with ING Group and President and Chief Executive of the ING wholesale franchises in the United States and Latin America. David is a past president of the Banking and Payments Federation of Ireland and a past Director of the European Banking Federation.

External appointments
Senior Independent Director of UK Finance Limited, the industry body representing leading firms providing finance, banking, markets and payments-related services in or from the UK, member of the Confederation of British Industry (CBI) President's Committee, an advisory body providing advice to the President and CBI executive on all issues of national importance, HM Treasury Fintech Envoy for England and a Board member of The Northern Powerhouse Partnership.

Committee members

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

Executive Directors

Clifford Abrahams
Executive Director and Chief Financial Officer

Joined the Group
March 2021.

Skills, experience and contribution
- Extensive international executive experience at leading financial services businesses.
- Deep experience as Chief Financial Officer.
- Significant strategic and financial experience, including on integration and digital transformation.

Clifford brings extensive executive experience across international financial services to the Board. His broad knowledge gained as a CFO of publicly-listed financial services companies is of great value to the Board. Clifford's proven track record of delivery of commercial results, risk management and business change and development including digital propositions is crucial to supporting Virgin Money in the delivery of its strategy. Prior to joining Virgin Money, Clifford was Group CFO at ABN AMRO Bank having joined in that role in 2017. Previous roles include Group CFO at the Dutch insurer Delta Lloyd Group, ten years at Aviva in several senior financial roles including CFO of Aviva Investors, CFO of UK & Ireland Life Insurance and CFO of UK & Ireland General Insurance. In the early part of his career Clifford spent 12 years at Morgan Stanley in the Financial Institutions Group most latterly as Managing Director.

External appointments
None.

Non-Executive Directors

Tim Wade
Senior Independent Non-Executive Director

AUDIT GOV REM RISK

Joined the Group
September 2016.

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

Tim's background as an experienced CFO, his breadth of financial services experience and the industry knowledge he has gained from over 20 years at both executive and Non-Executive Director level is excellent grounding for his role as Chair of the Audit Committee. His extensive accounting, financial services audit, prudential oversight and corporate governance knowledge, including considerable experience as an audit committee chair, strengthen the Board. His previous Non-Executive Director roles include Macquarie Bank International Limited, Friends Life Group Limited, Monitise plc and The Access Bank UK Limited. He was a Managing Director at AMP Group, responsible for both its Bank and the Virgin Direct (now Virgin Money) JV. Earlier in his career he was Group CFO at Colonial Limited in Melbourne, Australia where he oversaw the company's IPO and was involved in its acquisition by Commonwealth Bank.

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

Paul Coby
Independent
Non-Executive Director

AUDIT GOV REM RISK

Joined the Group
June 2016.

Skills, experience and contribution
> Extensive information technology, e-commerce and digital transformation experience.
> Deep experience as a Chief Information Officer.
> Strong board governance and risk management experience across diverse industries.
> Significant experience in IT strategy development and implementation.

Paul's extensive experience as a Chief Information Officer (CIO) gained over 20 years at Johnson Matthey, John Lewis and BA is highly relevant to the Group's digital strategy. His experience in leading digital transformation, delivering technology-enabled change, cyber defence and IT operational excellence enable him to bring invaluable specialist insight to the Board. Paul is currently CIO at Johnson Matthey, a FTSE 100 global leader in sustainable technologies. Johnson Matthey applies its scientific expertise to enable cleaner air, improved health and the more efficient use of the world's natural resources, underpinned by digital technology with a diverse team across multiple countries. Prior to joining Johnson Matthey, he was the first John Lewis partnership CIO responsible for creating a unified IT function and an integrated cyber security programme. He spent ten years as BA's CIO and was accountable for the design, development and operation of BA's IT and eCommerce strategy. The Board also benefits from Paul's strong board governance experience, his previous roles having included Chairman of Société Internationale de Télécommunications Aéronautiques (SITA), Non-Executive Director at Pets at Home Group plc and at P&O Ferries Limited, Chairman of the eSkills UK CIO Board which created Computer Clubs for Girls, and Chairman of the oneworld CIO Group.

External appointments
Chief Information Officer of Johnson Matthey PLC.

Geeta Gopalan
Independent
Non-Executive Director

RISK AUDIT GOV REM

Joined the Group
October 2018.

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

Geeta's extensive financial services, retail banking and payments industry experience gained over more than 25 years strengthen the Board. Her understanding of the digital economy and interest in emerging technologies including the use of data and analytics in financial services enhance Board discussions with respect to the Group's digital strategy in particular. Her extensive experience in the retail banking and payments industries mean she has a strong focus on customer conduct and fairness considerations and in delivering customer-focused outcomes. Her broad risk and governance experience is highly relevant to her role as Chair of the Risk Committee. Geeta was formerly Executive Chair of Monitise Europe, a Non-Executive Director at VocaLink and Vice Chair of the Big Lottery Fund England, one of the largest funders of the third sector in England. Among the many roles in her career, Geeta was Director of Payment Services with HBOS plc and previously Managing Director, UK Retail Bank and Business Development Head EME at Citigroup. She is a chartered accountant.

External appointments
Senior Independent Director and Chair of the Audit Committee of Funding Circle Holdings Plc, Non-Executive Director and Chair of the Remuneration Committee of Ultra Electronic Holdings Plc, Non-Executive Director and Chair of the Risk Committee at Wizink Bank S.A. and Trustee of the Old Vic Theatre Trust 2000.

Non-Executive Directors

Elena Novokreshchenova
Independent
Non-Executive Director

AUDIT GOV REM RISK

Joined the Group
March 2021.

Skills, experience and contribution
- Extensive experience in leading disruptive technology organisations across a range of sectors and growth stages.
- Proven track record in formulating and executing on digital strategy and transformation.
- Deep understanding of delivering value within innovative customer-centric businesses.
- Significant strategic and risk management experience.

Elena's extensive understanding of customer-centric digital first organisations and the technology ecosystem gained over a 20-year international career, brings a wealth of experience to the Board. Elena's most recent role was Executive Vice President of International at Remitly, a leading disruptor in the app first digital remittance space, appointed to internationalise, scale and drive company growth as a leading digital money transfer provider. Prior to this, Elena held senior technology product and general management positions at Expedia Inc. She also brings an invaluable strategic perspective from her time spent in the management consulting role at Strategy& (part of PricewaterhouseCoopers LLP) as well as a strong financial acumen from her risk and debt finance roles at Barclays PLC.

Elena is a strong advocate for diversity and inclusion in the technology sector and is a member of the 'Women in Payments Group' and the Worshipful Company of International Bankers. She is a regular speaker at technology summits and forums.

External appointments
None.

Darren Pope
Independent
Non-Executive Director

REM AUDIT GOV RISK

Joined the Group
October 2018.

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

Darren brings considerable and highly relevant experience in retail banking and financial services from a career spanning more than 30 years during which he held senior and board level positions as a CFO and finance director. His in-depth understanding of financial and risk matters and experience of managing relations with investors and regulators provides an excellent foundation for his role as Chair of the Remuneration Committee. Darren has strong experience of board governance including as a senior independent director and as chair of audit committees. His previous appointments include CFO of TSB Bank plc, where he took the lead role in the divestment of the TSB business from Lloyds Bank plc and its subsequent Initial Public Offering (IPO) and takeover. Prior to that he held several executive and senior retail banking and finance roles at Lloyds Banking Group plc.

External appointments
Senior Independent Director and Chair of the Audit Committee of Equiniti Group plc, Senior Independent Director and Chair of the Audit Committee at Network International Holdings plc and Non-Executive Chairman at Silicon Valley Bank UK Ltd.

Group Company Secretary

Amy Stirling
Non-Executive Director

GOV

Joined the Group
October 2018.

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

Amy's extensive strategic and financial leadership experience gained over a number of years, and recent and relevant financial experience as a CFO, strengthen the Board and enables her to provide key input on the development of the Group's strategy. She also brings invaluable brand and consumer perspectives and insights from her role as CFO at the Virgin Group which spans a broad range of industries and core consumer sectors including; travel and leisure; telecommunications and media; music and entertainment; health and wellness; and financial services. Amy has considerable experience of boards at both executive and non-executive level. Her previous appointments include Non-Executive Director and Chair of the Audit & Risk Committee at the UK Cabinet Office, Non-Executive Director and Chair of the Audit Committee at Pets at Home Group plc, CFO of The Princes Trust and CFO at TalkTalk Telecom Group Plc.

External appointments
Chief Financial Officer of the Virgin Group and Non-Executive Director of RIT Capital Partners plc where she chairs the Audit and Risk Committee and is a member of the Valuation Committee. Trustee of Virgin Unite, the entrepreneurial charitable foundation of the Virgin Group focused on social and environmental issues.

Lorna McMillan
Group Company Secretary

Joined the Group
September 1994.

Skills, experience and contribution
> Extensive board, governance and general management experience.
> Significant banking and risk management experience.
> Extensive financial services experience gained over more than 25 years.

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

Our Executive Leadership Team

David Duffy
Chief Executive Officer

Clifford Abrahams
Chief Financial Officer

Syreeta Brown[1]
Group Chief People and Communications Officer

Hugh Chater
Chief Commercial Officer

Fraser Ingram
Chief Digital and Innovation Officer

(1) Joined the Group on 22 November 2021.

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

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

Fergus Murphy
Chief Customer Experience Officer

Helen Page
Chief Brand Officer

James Peirson
General Counsel and Purpose Officer

Mark Thundercliffe
Chief Risk Officer

How our Board operates

Our Board and governance framework

The aim of our governance framework, which encompasses the Board, Board committees and the executive committees (described on page 149) is to facilitate the delivery of Virgin Money's strategy through informed Purpose-driven decision making creating long-term sustainable value for our shareholders and wider stakeholders. Our Board governance framework is illustrated in the diagram below.

The Board is responsible for setting the strategic direction and risk appetite of the Group and for establishing Virgin Money's Purpose and Values, promoting its culture and the success of the Company. The Board is the principal decision-making body for matters of Group-wide strategic, financial, risk, regulatory or reputational significance. It oversees the delivery of the strategy, ensures the Group manages risk effectively, monitors financial and operational performance, oversees performance against our ESG ambition and big goals and ensures that effective succession planning arrangements, remuneration policies and governance arrangements are in place. The main topics of Board discussion and decision making during the year, and the link between these topics and our strategic priorities, are set out on pages 80 to 81.

At the date of this report, the Board comprises the Chairman, two Executive Directors, five independent Non-Executive Directors and one Non-Executive Director appointed by Virgin Enterprises Limited. The names of the Directors together with their biographies, including their skills, experience and contribution to the Board are on pages 69 to 73.

The Board discharges some of its responsibilities directly and others through its committees which make decisions and recommendations to the Board on matters delegated to them including on risk appetite, financial reporting, ESG, remuneration and governance matters. This enables the Board to focus on a more strategic, forward-looking agenda. The principal committees of the Board and the core responsibilities of each committee are described in the 'Board governance framework' diagram below and you can read more about the work of each committee during the year in their individual reports beginning on page 95. The charter for each principal Board committee is available on our website (www.virginmoneyukplc.com).

Board governance framework

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

Governance and Nomination Committee

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

Read more on pages 95 to 101.

Audit Committee

- Assesses the integrity of the Group's financial reporting and disclosures (and non-financial disclosures)
- Oversees the effectiveness of the Group's internal controls
- Reviews the activities and performance of Internal Audit and the external auditor
- Reviews and monitors the Group's whistleblowing procedure

Read more on pages 102 to 108.

Risk Committee

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

Read more on pages 109 to 114.

Remuneration Committee

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

Read more on pages 116 to 141.

From time to time the Board may also establish special purpose committees to assist it in overseeing specific areas and usually such committees operate only for a defined period. The Transformation and Integration Committee, established in 2020 to provide specific focus on the integration of the heritage Clydesdale Bank and Virgin Money businesses, was dissolved in January 2021 having achieved its specific objectives. The ongoing oversight of the investment portfolio and strategic programmes elements of the committee's responsibilities were incorporated into the Board's agenda from January and a new Board report introduced.

Each Board committee has a membership comprising Non-Executive Directors only and has an experienced Chair. The Board agenda includes time at the outset of the meeting for each committee Chair to report on the main points of discussion at a committee meeting and on any recommendations for the Board's own decision making.

Execution of the Group's strategy and day-to-day management of Virgin Money is delegated to the Chief Executive Officer who has established a Leadership Team, and other executive committees, to help him discharge his responsibilities, with the Board retaining ultimate responsibility for providing oversight and holding management to account through constructive challenge, advice and support.

ESG embedded in our governance framework

In addition to the broader Strategic Plan, as part of its role in ensuring the long-term sustainable success of Virgin Money, the Board is responsible for overseeing delivery of the Group's ESG strategy described on pages 22 to 33, including climate-related risks and opportunities, and delegates some oversight and decision making to the principal Board committees as described in their charters available on our website (www.virginmoneyukplc.com). In helping it discharge its responsibilities, the Board held four ESG focused deep dive sessions this year which are described in the Board activities section of this report on page 82. The Board provides rigorous challenge to management on progress against our ESG big goals and targets and ensures that the Group maintains an effective risk management and internal control system, including over climate-related risks and opportunities. Board members possess a variety of skills and experience relating to ESG topics which are highlighted in the Directors' biographies on pages 69 to73.

The diagram below outlines the key ESG responsibilities of Board committees and further information on each committee's ESG activities during the year is included in their individual reports beginning on page 95.

Board ESG responsibilities

Virgin Money UK PLC Board

Responsible for the long-term sustainable success of Virgin Money

Governance and Nomination Committee

- Keeps the Board's composition, skills and experience under review to ensure sufficient diversity on the Board
- Recommends the Board Diversity and Inclusion Policy to the Board, monitors implementation of the Policy and progress towards achieving the targets set for gender and ethnicity on the Board
- Tracks progress on targets for gender diversity across senior roles and the broader workforce
- Ensures diversity and inclusion is given sufficient prominence in succession planning and talent management

Audit Committee

- Oversees the Group's financial statements and non-financial disclosures, including climate-related financial disclosures
- Considers, and recommends to the Board, whether the Annual Report & Accounts is fair, balanced and understandable and provides the information necessary to shareholders to assess the Group's performance, business model and strategy including in relation to ESG matters
- In conjunction with the Risk Committee, approves the statement on risk management and internal controls, including climate risk, for inclusion in the Annual Report & Accounts

Risk Committee

- Advises the Board on the principal, current and emerging risks facing the Group including receiving reports on the risk profile associated with climate change; oversees the approach to climate risk disclosures; and oversees the activity to embed the identification, assessment and management of climate change into the risk management process
- Recommends to the Board the Group's RAS which includes climate risk
- In conjunction with the Audit Committee, approves the statement on risk management and internal controls, including climate risk, for inclusion in the Annual Report & Accounts
- Approves Policy Statements aligned to principal risks. Supporting Policy Standards govern ESG related topics including Sustainability and Responsible Lending

Remuneration Committee

- Ensures the Group's approach to remuneration rewards the delivery of the Group's strategy, with performance metrics aligned to Group KPIs and strategic priorities
- Approves the annual Gender Pay report
- Ensures long-term incentives are appropriately aligned to short and medium-term ESG targets
- Reviews progress on the Group's diversity targets and considers how the Group's remuneration policies and practices deliver fair outcomes for colleagues

Board and committee operations

Board meetings are an important means by which the Directors discharge their duties including under section 172(1) of the Companies Act 2006 and Board meetings also provide a forum for Directors to debate and constructively challenge management on aspects of strategic delivery, performance or investment proposals.

The Board held ten scheduled meetings during the year and attendance is set out on page 66. In addition to scheduled meetings, the Board holds ad hoc meetings when matters of a time-critical nature need escalating to the Board for information or decision. During the year, the Chairman also held a number of meetings with Non-Executive Directors without the Executive Directors present and the Senior Independent Director met with Non-Executive Directors without the Chairman present to undertake the annual review of the Chairman's performance.

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

Each Board meeting follows a tailored agenda agreed in advance by the Chairman, Chief Executive Officer and Group Company Secretary. The Board agenda setting and meeting process is set out below. The Board recognises the need to prioritise it's time to focus on the most material strategic and business critical items, while ensuring the continual monitoring and oversight of key issues. Various matters are reserved for the Board's consideration and decision making and make up a key part of the agenda and time is also allowed for standing updates including the reports from the Chief Executive Officer and Chief Financial Officer. The list of matters reserved for the Board is set out in the Board Charter available on our website at www.virginmoneyukplc.com.

The Chairman ensures Board meetings are structured to facilitate open discussion, debate and challenge with relevant members of the management team attending to participate in the discussion and to respond to any questions arising. This approach also ensures that the relevant member of the management team hears first-hand about the Board's areas of focus and points of challenge and can quickly take forward any follow-up actions. The Chief Risk Officer attends part of the meeting, particularly when there are matters for the Board to approve, to ensure that the Board is provided with Risk's independent input and opinions.

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

During Board days, time is also allowed for deep dives and round-table discussions and briefings, for example into areas of strategic importance or on emerging issues of relevance to the Board. Deep dives and round tables provide the opportunity for Directors to gain deeper insight and build their knowledge by hearing from subject matter experts, asking questions and debating the impacts for the Group in an informal way.

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

The management of all Board committees is on the same basis as the Board. Details of committee membership and attendance at meetings are set out on page 66 and you can read about committee activities during the year in each committee report beginning on page 95.

Board agenda setting and meeting process

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

Governance through the COVID-19 pandemic

We reported last year on the several additional meetings of the Board held to consider and approve matters impacting the Group that were linked to the COVID-19 pandemic (as detailed in the 'Board activities during the year' section on pages 57 to 58 of our 2020 Annual Report & Accounts). The Board continued to have direct oversight of and receive updates on the Group's response to the pandemic throughout 2021, covering a range of customer, colleague and community matters. Additionally, the Board considered the medium-term implications and opportunities as the economic outlook improves and COVID-19 restrictions are eased. In this context, the Board spent time with management providing input to the 'Life More Virgin' approach to working aimed at enabling a more flexible approach to work, building on the lessons learned from the COVID-19 period.

Due to the UK Government imposed COVID-19 restrictions that remained in place throughout most of the year, the Board and its committees continued to hold meetings digitally rather than meeting face to face. The Board days and agenda were structured to make meetings as effective and constructive as possible despite them being held remotely. It was these restrictions that impacted our ability to follow our usual Annual General Meeting (AGM) format this year and therefore the Board made the decision, to protect the health and well-being of our shareholders, colleagues and other stakeholders, to hold our 2021 AGM as a closed meeting in order to comply with UK Government guidance in place at the time which regrettably meant shareholders and CDI holders could not attend in person. The Board understands that the AGM is an important event in the corporate calendar and will keep the benefits of shareholder engagement at the AGM at the forefront of its planning for the 2022 AGM.

Information and support

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

Training, development and induction

The Chairman leads the training and development of the Board and of individual Directors and regularly reviews and agrees with each Director their individual and collective training and development needs taking into account the output from the annual Board evaluation and the evaluation of each Director's own performance. Additionally, Directors take part in collective training as required, for example in relation to their responsibilities as Directors or to address new regulatory or legislative requirements. During the year, this included internally facilitated training in relation to the BoE's Resolvability Assessment Framework and externally facilitated training on Board considerations and Director responsibilities on ESG topics particularly climate risk. The Group Company Secretary maintains a training and development log for each Director.

For Directors joining the Board, the Chairman ensures that on appointment each Director receives a full, formal and tailored induction which reflects a Director's skills, experience and Board role. Directors who take on new roles (or change roles) during the year participate in an induction programme tailored to their new or changed role. Both Clifford Abrahams and Elena Novokreshchenova, who joined the Board this year undertook a comprehensive, tailored induction programme and we've provided an overview of the key activities in Elena's programme on page 86 of this Governance report.

Time commitments

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

The time commitments of Directors are considered by the Board on appointment and are reviewed annually. External appointments must be agreed with the Chairman and disclosed to the Board before appointment, with an indication of the time involved. During the year, the Governance and Nomination Committee kept under review the number of external directorships held by each Director taking into account the risks of 'overboarding' and considered the limits on the number of directorships imposed by relevant regulations in addition to the guidelines of shareholder bodies in relation to the maximum number of board roles. Following this year's review, the Board is satisfied that there are no Directors whose time commitment causes a concern and that all Directors have been able to devote sufficient time to the Company. No Director took on a significant external appointment, as defined by the Board, during the year.

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

Managing conflicts of interest

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

Board activities

Below are details of the main topics of Board discussion and decision making during the year. The link between these topics and our strategic priorities is also highlighted. On pages 87 and 93 we have provided more detailed examples of where the Board considered stakeholders in key business decisions throughout the year.

Key – Group strategic priorities

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

Strategy

Approved the Strategic and Financial Plan incorporating the ESG Strategy and People Strategy

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

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

Kept informed of the Group's readiness for Brexit, potential implementation of a negative bank rate and other regulatory or legislative change

Received regular updates on progress on the ESG Strategy and targets

Financial and business performance

Received updates on strategic delivery from the Chief Executive Officer and on operational performance and delivery from business heads including the outlook emerging from COVID-19

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

Approved the Annual Report & Accounts, the Interim Financial Report and Trading Updates

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

Structure and capital

Approved the Funding Principles and Funding Plan

Approved the Capital Plan and received updates on the capital outlook; reviewed capital stress test outputs

Approved the refreshed ICAAP and ILAAP

Approved the Group Recovery Plan and Restructuring Plan, Resolvability Self-Assessment and related matters

Approved re-instating the five-year rolling structural hedge benchmark

Risk and control

Approved the Group RAS, amendments to RAS throughout the year and monitored performance against risk appetite

Received reports from the PRA and FCA following routine annual reviews and approved actions and responses

Reviewed reports from the Chief Risk Officer on the Group risk profile covering all principal and emerging risks

Received updates regarding effectiveness of whistleblowing disclosure activity

Approved the Operational Resilience Strategy incorporating the Cyber Security Strategy

Approved the renewal of the Group's insurance arrangements

Approved the annual Group Tax Strategy

Customers and our stakeholders

Provided input to the refreshed Customer Experience Strategy and received regular reports on matters impacting customer experience or generating complaints and the action being taken to improve customer experience and service

Kept updated on progress of rebrand activity and brand awareness, the launch of new products, propositions and partnerships

Discussed and challenged on plans to accelerate digital transformation and related initiatives including the store strategy with a particular focus on customer impacts

Received reports on how personal and business customers were being supported through the COVID-19 pandemic including payment holidays, government loan schemes and support for vulnerable customers

Supported the Group's participation in the Business Banking Resolution Service

Discussed the stakeholder impacts of closing VMG

Approved the annual statement on Modern Slavery

Approved material contracts with third parties

Received updates following investor meetings and on shareholder feedback

Colleagues and culture

Provided input and challenge to the Life More Virgin colleague proposition; supported the colleague Code of Conduct 'Do the Red Thing'

Heard feedback on colleague viewpoints from Directors attending colleague engagement sessions, including how colleagues are thinking about work post the COVID-19 epidemic and kept under review the effectiveness of the workforce engagement programme

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

Overviewed the depth and quality of succession and talent management plans including progress on building a diverse and inclusive workforce at both Board and Executive Leadership Team level

Conducted a review of the Board Diversity and Inclusion Policy and performance to targets

Received updates on health, safety and well-being among colleagues

Corporate governance

Approved Board and Board committee appointments; kept the Board succession plan under review

Reviewed and approved the Delegated Authority Framework

Monitored progress on actions from the Board effectiveness review; completed the annual review of Board committee charters and committee effectiveness

Carried out an annual review of corporate governance policies

Undertook a review of fees paid to Non-Executive Directors

Approved the arrangements for the AGM including the Notice of Meeting

Board activities continued

Board deep dive spotlights

ESG

Regular Board engagement in relation to the Group's ESG activities and progress is an important element of ensuring a continued focus on how we are delivering our ESG strategy over the short, medium and longer term. The Board acknowledged that good momentum had been built on ESG across the Group in FY21 and through its discussions, the Board provided valuable input to the ESG strategy for FY22 and beyond.

'Deep dive' sessions were held with the Board on a quarterly basis during the year, allowing the Board to be updated on progress towards our four ESG Big Goals (more information on these can be found on pages 22 to 33) and to provide input and guidance on the opportunities and challenges which are linked to our ESG strategy. During the 2021 sessions, the Board discussed in detail specific matters such as enhanced ESG reporting and disclosure, the importance of ESG data to facilitating advancement across our Big Goals from the identification of risks and opportunities to tracking performance, and specific product-related ESG initiatives such as greener Mortgages and sustainable loans. One deep dive also focused on the priorities for FY22 particularly in relation to climate change and the Group's commitments to the Net-Zero Banking Alliance.

Directors also undertook externally facilitated training focusing on climate change and considerations for the banking sector. The training included briefing material for Directors to enhance the discussion on the Boards' role and responsibilities around climate change and climate-related risks.

Our Purpose

Following the launch of our new organisational Purpose – 'Making you happier about money' – in 2019, the Board has continued to monitor the progress being made in embedding Purpose across Virgin Money which has included Non-Executive Directors attending Purpose Council meetings and receiving updates on our inaugural 'PurposeFest' in 2020. This year, in September, the Board took part in a deep dive session focusing on Purpose and heard from the General Counsel and Purpose Officer on the progress in embedding Purpose, the challenges and opportunities for the future, external perspectives and the work under way to elevate our Purpose ambition even further. Our embedding of Purpose is evolving to focus on three building blocks encompassing colleagues, customers and communities. This is underpinned by a stronger focus on telling our Purpose story and using Purpose as a guide in decision making which is a key area of focus for the Board. Themes and insights from Purpose Squad hits were shared showing how culturally 'Making you happier about money' is being authentically integrated into everything we do and the way we do it and the tangible actions being taken by business areas in support. The Board heard about new initiatives including how we will track our Purpose health and Virgin Money's participation in the Purpose Coalition, a new campaign focused on driving responsible business behaviours to promote the levelling up of the UK economy.

Governance in action

The Board's engagement in the strategic planning process

Annually the Board holds a series of Strategy Sessions with members of the Executive Leadership Team to review our strategy considering the economic outlook, the operating environment and the need to deliver value for our stakeholders. Our strategy outlined at the Capital Markets Day in 2019 set out our ambition to become a Purpose-led digitally focused bank. The lessons learned from the COVID-19 pandemic reaffirmed that our strategy is the right one to deliver value for investors over time and highlighted the need to accelerate our digital ambitions to not only deliver a better experience for our customers and colleagues, but also to support a reduction in costs over time.

The Board's Strategy Sessions this year therefore focused on how to accelerate momentum in our strategic delivery and digital transformation, further reduce costs and achieve sustainable future growth based on deeper and more valuable customer relationships.

The programme of Strategy Sessions is outlined below. Each session was designed to cover specific topics and the Board was provided with briefing materials in advance ensuring that the time Board members spent together was discussion focused with plenty of time for points of challenge, debate and questions. The close engagement between the Board and management throughout the process ensured the continual evolution of the Strategic and Financial Plan building on feedback from each session.

Session topic	Summary
June Strategic scene setting	Context for the strategic planning process including overview of the macroeconomic environment and external insights on changes to the operating environment since Capital Markets Day in 2019 and the Group's strategic positioning; review of progress made on the transformation programme; key strategic issues for consideration.
July Our Digital Bank	Definition of Digital Bank plans; how our emerging digital principles inform strategic choices on products, capabilities, processes and service offerings; future optimal portfolio mix.
September Draft Plans	Draft Plans presented along with the customer strategy and target FY24 end state. Also considered the risks inherent in the strategy and mitigating factors.
October Updated Strategic and Financial Plans	Updates to the Strategic and Financial Plans are presented for feedback including the risk assessment and proposed KPIs.
November Final Strategic and Financial Plans	The final Strategic and Financial Plans outcomes aligned to risk appetite are presented for approval.

Purpose at the heart of everything we do

As a Group we have continued to keep our Purpose – Making you happier about money – at the heart of everything we do. The Board is committed, through our governance framework, to driving Purpose-led decision making and to delivering accountability to our stakeholders. This year, accountability for Purpose was strengthened by extending the remit of the General Counsel role to include Purpose and James Peirson now has responsibility for challenging and directing everything we do through a Purpose lens and ensuring Purpose shapes all aspects of our strategy. During the year, the Board took part in a deep dive session on Purpose to discuss the progress made in embedding our Purpose and the action being taken to elevate how we think about Making you happier about money, keeping it front and centre in all we do and integrating it across every initiative and the decisions we make impacting our customers, colleagues and our communities. That's why this year we introduced a new format for Board reporting which requires every matter that's brought to the Board for approval to clearly draw out the Purpose connection and in Board meetings the Chairman actively encourages Board members to constructively challenge management on why a recommendation is Purpose-driven. You can read about some examples of the Board's Purpose-driven decision making in our s.172 report beginning on page 87.

More broadly, the Board provides oversight and direction in relation to our Virgin Values-driven culture which aims to empower colleagues to do the right thing for our customers. The Board believes that a positive culture and consistent 'tone from above' is critical to Virgin Money's success. During 2021, the Board continued to regularly assess and monitor our cultural progress ensuring we respond to the evolving needs of our customers, colleagues and the communities we serve. The Board employs different means to understand the progress we're making which includes discussion and analysis of the annual MyVoice colleague engagement survey results and periodic 'pulse checks'; reviewing workforce policies and practices which this year included a refresh of the colleague Code of Conduct which the Board endorsed in addition to the wider 'Life More Virgin' colleague proposition described on page 89; reviewing the output of Culture Assessments undertaken by Internal Audit; and using the Culture Dashboard presented by the Chief People Officer to gain insights across a variety of cultural indicators including strengths and opportunities.

Governance in action continued

Our Workforce Engagement Programme, which was refreshed in 2020, has continued to be an important means for the Board to understand the views of colleagues and is another way the Board monitors the health of the Company's culture. Time is allowed at the start of each Board meeting for Directors to report on key messages from engagement sessions they have attended ensuring that colleague perspectives and feedback are factored into Board discussions and decision making. At Virgin Money the definition of workforce includes permanent, fixed term and zero hours colleagues along with contractors and agency workers.

The Board reviewed Virgin Money's method of workforce engagement during 2021 and concluded that leveraging existing channels of colleague engagement had been an effective mechanism for providing a rich and varied insight into the views and experiences of colleagues across the workforce with feedback from both Directors and colleagues participating in the programme being extremely positive. The innovative use of digital channels continued to be a key enabler to the success of the programme ensuring that Board members, management and colleagues remained connected despite the restrictions on face-to-face meetings which were in place throughout the year. The Board has therefore decided to continue with this approach for workforce engagement rather than adopting one of the methods prescribed in the Code and will continue to both evolve and enhance the approach and keep its effectiveness under review. An overview of the elements of the Workforce Engagement Programme is provided below and examples of where the Board has considered workforce feedback in its discussion and decision making are included in our s.172 report beginning on page 87.

Overview of the elements of the Workforce Engagement Programme

Purpose Council and Inclusion Networks

Our Purpose Council, chaired by the General Counsel and Purpose Officer, oversees and manages the factors that are critical to being a Purpose-led company. Every Non-Executive Director is invited to attend at least one Purpose Council meeting annually to understand progress in embedding Purpose, areas of focus and how Purpose is driving culture. Our Inclusion Networks, which are described on our website at https://www.virginmoneyukplc.com/corporate-sustainability/diversity-and-inclusion, provide important visibility and support for workplace issues covering gender, age, disability ethnicity and sexual orientation. Directors are invited to attend meetings of our inclusion Networks to hear about how colleagues are impacted by diversity and inclusion issues and on the progress being made in building a truly inclusive culture across Virgin Money.

Board Jams and Let's Talk and Type Sessions

We use large-scale online 'Jams' to engage with colleagues on important topics which during the year have included colleague well-being during the COVID-19 period; looking ahead to life after the pandemic including how the future of work will change; and a session covering a range of topics including how well our Purpose is driving our customer-focused activity and improving customer experience, our digital bank ambitions, our ESG strategy and diversity and inclusion, the outputs from which helped inform the 'Life More Virgin' colleague proposition. These Jams and Let's Talk and Type sessions provide an opportunity for real-time, fluid and two-way discussion giving Board members the opportunity to explore topics and gain honest input from colleagues across different sections of the workforce. In addition, the Chair of the Remuneration Committee met with smaller groups of colleagues to discuss pay and benefit issues and further details on these discussions are included on page 89.

Leadership Conversations

Hosted by a senior member of the Human Resources team these sessions bring together two Board members with a small group of colleagues on a quarterly basis to facilitate a discussion on the leadership challenges and opportunities across the Group. They also provide an opportunity for Non-Executive Directors to get to know colleagues identified as successors for senior roles and those in the talent pipeline. Colleague feedback helps to shape our People strategy and policies including the training and development for People Leaders.

Q&A with our new Non-Executive Director, Elena Novokreshchenova

Strengthening the Board with skills and insights to support our digital future

Q: What attracted you to join the Virgin Money Board?

A: It is a real honour and a great responsibility to be part of the Virgin Money Board. Coming from a customer-centric digital background I saw this as a unique opportunity to support Virgin Money develop its digital agenda further at a pivotal moment when the customer's behaviour is going through a period of rapid change. I believe Virgin Money is exceptionally positioned to benefit, on the one hand, from all the strengths of a major bank with an excellent leadership team and relevant customer-focused products and on the other hand great capabilities to further scale its digital proposition in a fast and agile way. This combination supported by the 'Virgin' brand gives us an opportunity to build a truly unique customer-focused digitally enabled bank which is exciting to be part of. From a personal perspective, I was particularly drawn to a company with a strong Purpose-driven culture and keen to be part of such an experienced Board.

Q: You have a unique mix of banking, technology and customer-centric leadership experience. How is your experience benefiting the Board as we accelerate our digital agenda and continue to transform Virgin Money into a leading digital bank?

A: These days the customer 'holds the bank in their hands' in the form of digital banking mobile apps. I see a key part of my role being to bring the evolving customer digital agenda to the Board table and to engage the Board, and challenge the overall organisational thinking, on the best customer experience and digital technology solutions that help the customer make the right financial decisions building on the experience I have gained within a fast moving Fintech scale-up environment along with my broader financial services experience.

Q: As we move out of the COVID-19 pandemic and look ahead what's your perspective on how our Purpose – Making you happier about money – will shape how we respond to the changing needs of our customers, colleagues and communities? Where have you seen Purpose-driven decision making at its best since you joined us?

A: Purpose is embedded in every consideration and decision the Board makes and helps amplify our ESG agenda. The past year has been transformational for the business, our colleagues and our customers on many levels. I have seen a number of purposeful customer, colleague and community initiatives delivered since I joined the Board. For example, the launch of our green Mortgage in June 2021 has been well received by the market and colleagues and we participate in several fundraising initiatives to support our charity partner Macmillan. The roll-out of our 'Life More Virgin' flexible working initiative to colleagues is another great demonstration of how Purpose has helped shape the Board's decision making and really shows that we value the work our colleagues do for us.

Q: At Virgin Money inclusion is integral to who we are and we focus on going beyond gender diversity to build a truly inclusive workplace where every colleague feels included, engaged and supported. In your view why does diversity and inclusion matter and what's your perspective on the progress we're making at Virgin Money?

A: Diversity and inclusion are fundamental to the success of Virgin Money. Having lived across many geographies and worked in diverse cultural environments, I have personally experienced the importance of it. We have an ultimate duty to represent the diverse group of customers we serve and to do that we need to ensure that our workforce is equally diverse and the environment they work in is inclusive. It's great to see that Virgin Money has signed up to the Women in Finance Charter to increase female representation at all levels and the Race at Work Charter to improve the experience of ethnic minority colleagues in the workplace. Being a senior woman in the financial technology space, I often found myself to be the only woman in the boardroom. I was extremely pleased and reassured by our Chairman's avid approach in establishing a truly gender, culturally and competency diverse Board composition (a third of us are female) – that is another representation of the Virgin Money diversity and inclusion commitment.

Q: Can you share a personal goal for the coming year as a Non-Executive Director on the Board?

A: My aim is to have made a valued contribution to the development of the overall Group strategy and to have played a role in helping the Board develop the digital agenda even further to improve customer experience. I'm also keen to ensure the Board maintains its focus on ESG factors and climate change given the importance to us as a business and for society. I joined the Board during lockdown and now that restrictions have eased, I'm looking forward to having the opportunity to visit some of our stores and customer service areas to meet colleagues and see, and hear, first-hand what makes Virgin Money different.

Governance in action continued

Induction

All Directors who join the Board receive a comprehensive induction tailored to a Director's individual requirements which the Group Company Secretary plans in consultation with the Chairman. The aim of the induction is to provide a new Director with an understanding of how the Group operates and its strategic priorities, opportunities and challenges; introduce the new Director to members of the executive and senior management team and other key stakeholders; and to provide an overview of the governance framework in which the Board operates. Any new or serving Director joining a Board committee is also provided with an induction tailored to that committee. Additionally, a Director taking on a senior management function role as prescribed under the Senior Manager's Regime, undertakes a full and formally documented handover of responsibilities with the outgoing role holder.

Both Clifford Abrahams and Elena Novokreshchenova, who joined the Board in March 2021, undertook an induction. The key elements of Elena's induction are described below. Due to the continuation of COVID-19 restrictions, the induction was conducted virtually and therefore did not include site visits to Virgin Money stores and customer service areas which would typically be included in the induction programme. Site visits will take place as part of the broader Board programme when reinstated following the easing of COVID-19 restrictions. The Group Company Secretary met periodically with Elena throughout the induction period to check on progress and on the need for additional meetings or support.

Orientation pack	> Information about Board operations and administration including meeting dates and logistics > Key Company policies including in relation to share dealing > Training on the use of the Board portal to access Board and committee papers > Access to the Board Library of useful reference documents > Directors' duties and conflicts of interest
Reading material	> Board and Board committee papers and minutes from the previous 12 months > Key Company governance documentation including Board and committee charters and the Delegated Authorities Framework > Core prudential documents including the latest Strategic and Financials Plans, the Capital and Funding Plans and the RAS > Key items of regulatory correspondence and reports following routine reviews
Meetings with fellow Directors and executives	> One-to-one meeting with the Chair of each principal Board committee > Meeting with Amy Stirling to gain Virgin Group insights > Introductory meetings with the external auditor and the Director Internal Audit > Briefings on the Group's Strategic and Financial Plans including the ESG Strategy > Deep dive sessions with members of the Executive Leadership Team focusing on matters within their areas of responsibility including customer, colleague, shareholder and other stakeholder priorities and insights > Additionally, to help understand the issues that matter to colleagues, Elena has participated in the Workforce Engagement Programme described on page 84
Chairman and mentor support	> Recognising her Virgin Money appointment was Elena's first independent Non-Executive Director role, Geeta Gopalan (an experienced independent Non-Executive Director and Chair of the Risk Committee) acted as mentor to provide additional support during Elena's first few months > Regular one-to-one meetings took place with the Chairman throughout the induction period to check progress

Stakeholder engagement and Board decision making

Considering our stakeholders in business decisions is not only the right thing to do, but is fundamental to delivering on our Company Purpose and ambition and our ability to drive value creation over the longer term. The Board is fully committed to engaging, consulting and responding to the needs of all stakeholders which is a fundamental part of our culture and strategy for long-term sustainable success. It is important that our Board understands the areas of interest or concern for our key stakeholders when it makes decisions. Our Executive members of the Board, the Chief Executive Officer and Chief Financial Officer, along with other members of the Executive Leadership Team, ensure the Board is kept abreast of material stakeholder feedback, interactions and sentiment through regular and specific business updates. Any proposals put to the Board must set out the stakeholders (internally and externally) that have been engaged in the matter and the feedback that has been provided. This year, due to the restrictions in place to comply with the government's measures in relation to COVID-19, the Board's interactions with our stakeholders have been carried out virtually.

More detailed information on the ways in which our Board engages with stakeholders, and examples of key Board decisions which required the Board to have consideration of the impacts on our stakeholders, are provided on pages 87 to 93.

s.172 compliance

The Companies Act 2006 sets out the general duties which directors owe to a company and the Companies (Miscellaneous Reporting) Regulations 2018 also requires companies to explain how directors have discharged their duty to promote the success of the Company, while having regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 (s.172 factors). As in previous years, the Directors continued to exercise all their duties in the year to 30 September 2021, while having regard to the s.172 factors and other factors as they reviewed and considered proposals from senior management and governed the Company on behalf of its shareholders through the Board. The information included in the table on the right provides a signpost to where more detail can be found of some of the key areas where the Board considered s.172 factors in its discussions during the year.

s.172 factor	Report section	Page
Consequence of any decision in the long term	Strategy	12-20
	Strong foundations for a sustainable future	22-23
Interests of employees	Workforce engagement	84
	Colleagues	89
Fostering business relationships with suppliers, customers and others	Stakeholder engagement	88-93
Impact of operations on the community and the environment	Strong foundations for a sustainable future	22-23
	TCFD report	218-234
Maintaining a reputation for high standard of business conduct	Governance – How our Board operates	76-79
	Straight up ESG	32-33
Acting fairly between members of the Company	Directors' report	142-143

Customers

What do our customers mean to us?

Continuing to support customers through the COVID-19 pandemic has been a key factor in the Board's decision making throughout the past 12 months. It has recognised that some customers, both personal and business, have faced never before seen challenges during the pandemic and it has sought to take as many steps as possible to provide support through initiatives such as payment holidays and the government's COVID-19-related business loan scheme. A lack of available data and trends to draw upon in relation to customer behaviours during a pandemic of the scale of COVID-19 made Board decision making more difficult but our methods of obtaining customer feedback ensured that the Board kept focused on the key areas that matter most to our customers.

We obtain feedback from our customers through a variety of methods including our active customer panel (comprising 7,500 personal and business customers); our ongoing Customer Experience Success Measurement programme (where we partner with InMoment) and Brand Tracking (where we partner with Ipsos); independent market research to support new product or brand development; benchmark studies; and customer research undertaken by our in-house Insight team. Our Customer Experience Success Measurement programme helps us continually engage, listen and take action on customer feedback. Over 120,000 customers take the time each year to provide their feedback about how they feel overall about Virgin Money, or following a key interaction (like opening a new account, using our digital apps, telephoning our contact centres or how we have responded to a complaint). This feedback is available in real-time to colleagues who can then take the appropriate action to improve customer experiences.

The Chairman attended a virtual customer engagement event during the year alongside a government representative. This provided an opportunity for open dialogue on the impacts of the pandemic on businesses and their plans for growth, views on government and bank support during the COVID-19 crisis and what additional support business customers want from their bank and policymakers as the economy rebuilds, which was shared with the Board and taken into consideration when shaping Virgin Money's own plans.

Improvements to the digital offerings for our customers is a significant area of focus for the Board and during the year it considered, and approved, a high value business case in relation to the development and delivery of enhanced customer, intermediary and colleague journeys in relation to our mortgage offerings on a single, modern digital platform under the Virgin Money brand.

The Board receives a monthly customer experience performance update highlighting what's gone well, areas of focus and customer frustrations, and improvement activities that are under way. These updates also include verbatim comments from customers so that the Board is provided with unfiltered customer sentiments that can assist Directors with their decision making.

The Board also held a round-table session in February where it approved a new customer experience dashboard to monitor progress of key customer experience performance indicators against quarterly FY21 targets and longer-term targets to FY23. Similarly, key matters and metrics in the Customer Complaints area are provided quarterly to the Board which allows the Board to oversee the number of complaints received, the main areas of customer dissatisfaction and the remedial action planned to manage these complaints.

Board decision spotlight – 'Digital wallet proposition'

Enhancing our digital offerings to our customers is a key area of priority for the Board. During the year, as part of the development of our Digital First strategy, the Board considered and approved a proposal for Virgin Money to launch a digital wallet with its strategic partner Global Payments. The digital wallet will sit at the heart of Virgin Money's payments, loyalty and unsecured credit offering to customers. In considering the proposal the Board had regard to the needs of, and benefits for, a range of the Group's stakeholders including the compelling customer proposition which will see customers gain access to a seamless and secure payment mechanism integrated with our suite of customer products and services. The Board heard how the Group will collaborate with Global Payments to develop the digital wallet and with Virgin Red – the Virgin Group's rewards club – to allow customers the opportunity to earn and utilise Virgin Red's points.

The Board discussed the proposal at meetings and strategy sessions during the year, providing challenge and insight on aspects of the proposition, including the timings for key elements to be completed, costs to achieve completion, management of the strategic partner alliance, and the communication of the digital wallet to both our customers and investors. These discussions culminated with the Board approving the development of the digital wallet as part of the Group's Strategic and Financial Plan for FY22-FY24.

The Board also monitors progress in respect of the Group's rebrand programme (due to complete in FY22) which has now moved to the final phase of activity, which will see all new and existing customers managed under the Virgin Money brand. Providing brand harmonisation for our customers is an important milestone in our journey and feedback shows that the rebrand has been well received by customers.

This year also saw the Board consider, and support, proposals for changes to be made to Leadership Team roles to ensure that the Group's operating model could adapt to the changing external landscape and focus on providing the products and propositions that are important to our customers. One of these changes was the introduction of a new Chief Customer Experience Officer role responsible for our key customer touchpoints across our store network and operations and the critical work to digitise and improve our customer journeys. The Board supported the intention to simplify and digitise our customer journeys as well as creating ways of working that deliver digital products and propositions in a more agile, innovative and coordinated way across all our distribution channels. To support this our executive management governance model has been strengthened with the formation of a new Customer Experience Committee and Enterprise Conduct Committee.

Colleagues

Engagement with colleagues is regarded by the Board as key to the Group delivering on its strategy and ambitions and in ensuring that the Group's Purpose is embedded through the organisation. The Governance and Nomination Committee, together with the Board, reviewed the effectiveness of the Group's approach to workforce engagement introduced in FY20 as the variety and breadth of the Board's engagement with the workforce provides a rich source of insight into colleague sentiment and informs Board decision making. Detail on the outcome of this review can be found on page 84.

During the year, consideration was given as to how to keep colleagues connected and engaged as many were required to adopt a remote working model as a result of COVID-19. We used the colleague intranet site, VMx, to introduce new 'Hubs' where up-to-date information and guidance in relation to the impacts on working arrangements due to COVID-19 could be easily found. Our 'Purpose' hub also allows colleagues quick access to information, such as stories from colleagues from different departments across the Group, to support them in living the Group's Purpose as they carry out their role. Colleagues are also communicated with directly through a weekly update from the CEO and members of the Leadership Team with spotlights around the Group's full year and half year results announcements.

Executive Directors and members of the Executive Leadership Team host interactive 'Let's Talk and Type' sessions (which Non-Executive Directors are also invited to attend) where colleagues get the opportunity to participate in a virtual, informal session where they can ask questions and provide views to management on topics that are important to them.

As a result of the ongoing restrictions on physical gatherings, the Board considered how it could leverage digital ways of communication to enhance connectivity with colleagues as part of its Workforce Engagement Programme during FY21. In December, an inaugural Board 'Jam' was held. This is a live and interactive virtual session where colleagues were able to respond via a chat channel to questions posed by members of the Board. During the year, the Board held three further Board Jams with colleagues participating from a broad cross-section of our workforce including contractors and representatives from each of our inclusion networks. The Jams have covered subjects that are particularly relevant to colleagues, including well-being and diversity and inclusion and we have used the insight we gained from these sessions to help design our 'A Life More Virgin' working model. Board Jams have become a fundamental aspect of Board and workforce interaction, and we continually look to enhance them, for example, by finding ways to ensure the format is as inclusive as possible including for colleagues who have various accessibility needs.

Directors also take part in colleague events with a more specialist focus. For example, Non-Executive Directors Geeta Gopalan and David Bennett participated in a Race at Work Charter Panel session in July and the Remuneration Committee Chair, Darren Pope, held small focus groups with colleagues from a broad cross-section of the workforce including a dedicated session with Unite to discuss pay and benefit issues including an overview of the Group's remuneration framework and how its application aligns for Executive Directors and all other colleagues. The feedback from these sessions has informed the Remuneration Committee's decision making on aspects of year end and future remuneration.

The Board gained further understanding of the views of colleagues through surveys which colleagues across the Group were asked to complete. This included the annual 'My Voice' survey and ad hoc 'Pulse' surveys, with a summary of the results and main survey themes presented to the Board for its consideration.

A summary of Board engagement events is presented at each Board meeting, with participating Non-Executive Directors providing an update to their Board colleagues on what they heard.

Twice a year the Board receives an update on our culture. The culture dashboard contains percentage scores taken from our Colleague Pulse and Engagement surveys and enables the Board to review trends to help understand areas where additional focus may be needed and also, where available, how the Group is performing compared to external benchmarks.

Board decision spotlight – 'A Life More Virgin'

Throughout the year, the Board engaged with management on the development of our 'A Life More Virgin' colleague proposition, Virgin Money's response to the future world of work. At both meetings and round-table sessions the Board heard about and provided feedback on the Group's proposed colleague proposition.

The proposition seeks to provide colleagues with more flexibility, including the introduction of five dedicated well-being days each year, which allow them to balance work with their well-being, family and local community commitments. In addition, adopting a location-agnostic approach to career progression enabled by enhanced remote working, supports retention of talent, the recruitment of a diverse resource pool, and will continue to inspire colleagues to deliver on our Purpose. At the same time, the proposition harmonises a number of terms and conditions between heritage organisations – including the introduction of equal, flexible family leave for all colleagues.

The Board also reviewed and provided feedback on the approach and results of the 'test and learn' experiments conducted, where - recognising every colleague need is different - colleagues were engaged with to ensure the proposed improvements to flexibility reflected their diverse needs. The Board also provided feedback on the evolution of the Group's property and store footprint to support colleagues and customers in a changing environment, as well as the investment in our digital-first 'A Life More Virgin' operating model, including the introduction of 4,000 new laptops and upgrade of our operating systems to improve efficiency and ways of working.

As part of the proposals, the Board supported the delivery of a new colleague Code of Conduct, designed to empower colleagues to perform effectively under the Group's Purpose. The continued focus on diversity and inclusion was welcomed, while supporting colleagues to give back to the communities they live in and serve.

Investors

The Group has around 145,000 shareholders with more than 80% of these holding CHESS Depositary Interests (CDI) registered on the Australian Securities Exchange (ASX). The Board therefore places great emphasis on considering and balancing the different outlooks and priorities of the Group's shareholders in different geographies when developing and implementing its strategic priorities. This requires continuous engagement with both institutional and retail shareholders.

During the year, the Group held ongoing dialogue with investors to gather feedback, particularly around specific events such as the interim and full year results announcements, quarterly trading updates and progress being made with regards to the Group's strategic aims and objectives. Around 60 of these meetings were attended by either the CEO or CFO with the questions posted and topics of interest raised recorded and used to inform the Group's decision making. In 2021, these meetings took place virtually with investors across Australia, the UK, Europe and the USA and included the majority of the Group's top investors along with potential new investors. This year the Group also enhanced its ongoing engagement with debt investors through such channels as providing a fixed income presentation and a Q&A session.

Clifford Abrahams, who joined the Board in March 2021 as CFO, engaged with key investors and sell-side analysts as part of his induction to hear their thoughts and views on the Group. The Remuneration Committee Chair, Darren Pope, also held meetings with investors during the year to consult with them on the targets which formed part of the Group's Long-Term Investment Plan proposals.

To ensure the Board is kept up to date on market views and sentiment, it hears from the CEO each month on the performance of the Group's share price and market trends. This includes a focus on peer activity, share register analysis and credit market sentiment among other areas. On an ongoing basis the Group's Investor Relations team summarises and provides to the Board the outputs of key analyst research and following each trading update to the market, it provides a comprehensive summary of 'on the day' market reaction. To ensure that the Board has the most up to date industry views which it will consider when making decisions with investors in mind, twice yearly it is provided with a presentation from the corporate broking and Investor Relations team on key market themes and developments.

Our AGM is usually an opportunity for shareholders to get to hear from and engage directly with the Board. Due to the restrictions and risks that arose as a result of the pandemic, the 2021 AGM did not allow for our usual engagement to take place in person, and instead, shareholders were invited to submit their questions to the Board in advance of the meeting. The questions, and answers provided on behalf of the Board, were made available on the Group's website. The Board is aware of the importance of the AGM in shareholder engagement and will consider the best options available for safe shareholder engagement for the 2022 AGM.

Investors have a keen interest in the future strategy of the Group and a series of strategy sessions were held during the year to review our strategy considering the economic outlook, the operating environment and the need to deliver value for our stakeholders. Further detail on the Board's engagement in the strategic planning process can be found on page 83.

Board decision spotlight – 'ECL provisions'

As a result of the volatile economic climate linked to the pandemic, the Group was required to carefully, and continuously, review and consider the processes in place to manage ECLs as well as the adequacy of the level of ECL provisioning. The Board provided challenge to the assumptions that underpin the recommended level of ECL provision (to be recognised in accordance with IFRS 9), and provided guidance on whether the coverage was appropriate. The Board heard updates from management and from the Chair of the Audit Committee on the evolving position within the modelled scenarios and PMAs that supported the process. The Board approved the conservative approach adopted for the Group's quarterly and annual ECL provision updates, ensuring shareholders were provided with a relevant and transparent view of how this matter could impact the Group's financial position.

Society

Our ambition at Virgin Money is to drive positive environmental impact through everything we do. We formed our ESG strategy following a review of customer insight research and engagement with various stakeholders including colleagues and suppliers and our ESG goals and aspirations were developed, and approved by the Board, in line with our Group strategic objectives. Alignment of the ESG strategy to the overall Group strategy, as well as setting clear accountabilities for ESG, linked to reward, provides the foundation to firmly and deeply embed ESG in everything we do. Through the COVID-19 crisis, the Board has focused on the need for Virgin Money to operate responsibly in supporting customers, and the wider economy, to deal with the unexpected and unprecedented health and financial issues that have arisen as a result of the pandemic. Our commitment to the environment has also seen during 2021 the launch of our greener mortgages product, designed to reward customers who buy greener, new-build homes with lower rates of interest and we are the first bank in Europe to offer sustainability-linked loans in commercial banking for all UK companies. These loans reduce the cost of finance for those businesses whose core activities proactively help the economy transition to a more sustainable model.

The Board is responsible for approving and overseeing our ESG strategy. Quarterly ESG Board deep dive sessions were held during the year to consider progress made against our four ESG goals (more details of which can be found on pages 22 to 33) and greater focus has been given to our 'Build a brighter future' goal this year given the increased focus generally on climate change. Each of our four ESG goals is sponsored by a Leadership Team member who acts as a 'Champion' and is accountable for the delivery of agreed Group-wide targets and associated initiatives within the goal.

A new Environment Committee, a sub-committee of the Executive Leadership Team, was formed in 2021 to ensure that key environmental matters can be considered and approved, supported by focused reporting and discussions. Further information on the role of the Committee can be found in the Risk report on page 147.

Our more detailed engagement to understand the opportunities and differences that Virgin Money can make in wider society comes in various forms. We engage our colleagues in the Group's role in our society through various initiatives such as quarterly pulse surveys which contain ESG-focused questions, virtual Board 'Jam' sessions, focused sessions on sustainability, initiatives to support our Charity of the Year, Macmillan Cancer Support, and education on financial inclusion. The Group also hosts an annual financial inclusion event for its colleagues called 'FinInc' and 400 colleagues engaged with 24 speakers across five sessions as part of our evolution to making Virgin Money a more inclusive bank.

Externally, we engage with rating agencies who track the progress we are making in respect of ESG disclosures and score us based on information that is available in the public domain and with various industry bodies to assist us in assessing and disclosing the GHG emissions linked to our financing.

We recognise the importance of contributing to our communities through volunteering and our Community Team is active in engaging colleagues in promoting opportunities through which they can utilise the two days a year we give them to volunteer to the causes they care about. During the year, we also launched a new support service pilot in partnership with Macmillan Cancer Support called Virgin Money Macmillan guides where around 50 colleagues were given the opportunity to be trained by Macmillan to help provide the best possible support to people affected by cancer.

Significant time is spent engaging with our communities through the grassroots work carried out by the Virgin Money Foundation including assisting community groups with grant applications, providing free training and masterclasses on finance, HR and marketing matters and offering bespoke skilled volunteering provided by Virgin Money colleagues.

Board decision spotlight – 'Closure of VMG'

Following the support of over 20,000 charities and £900m of online funds raised through 1m fundraisers, the Group made the difficult decision to unwind its not-for-profit charity fundraising website, VMG, during this year. The Board considered the proud history of supporting the sponsorship of the London Marathon since 2009, at a time when the online fundraising market was dominated by a very small number of providers, with high costs for charities and donors. Through a strategic review, the Board considered the wide variety and choice of online giving platforms now available to fundraisers at a much lower fee, and the commercial difficulties of operating the entity at a loss. The Board concluded it was in Virgin Money's best interests to wind down the platform given the significant investment required for the service to remain competitive and the end of the Group's sponsorship of the London Marathon. Virgin Money will support charities to find alternative platforms where needed.

Government and regulators

The Board and Leadership Team maintain strong, open and transparent relationships with our regulators. Liaison with our regulators and government authorities is an ongoing priority at all levels of the organisation, allowing the Board to ensure the Group's strategic aims align with the requirements of these important stakeholders and our customers.

The Board, Leadership Team and senior management have a programme of regular meetings with the PRA and FCA as part of their Continuous Assessment and Proactive Engagement Meetings to discuss the regulatory agenda and the Group's response to key regulatory priorities. The key messages and areas of focus following these meetings are shared with all Directors to ensure they are fully aware and informed of regulatory standpoints.

Extensive and ongoing engagement continued throughout the year with the government and regulators in response to the COVID-19 crisis. This has ensured that our response could best support our customers at the same time as aligning with government priorities for supporting the stability of the wider economy. Examples of this are the provision of support to our customers under the government backed loan schemes and a new range of 95% LTV mortgages offered via the government's Mortgage Guarantee Scheme, which the Board continued to review. Other key regulatory areas of interest have included ensuring robust prudential standards, fair treatment of customers, the UK's exit from the EU, in addition to climate change and the Group's ongoing financial and operational resilience. The FCA also published guidance on its expectations of firms on the fair treatment of vulnerable customers and this has led to increased efforts to identify and understand vulnerability within our customer base and embed inclusive design within our new and existing products.

Representatives from the PRA and FCA attended Board meetings throughout the year to present the findings from key regulatory reviews and to update the Board on regulatory focus areas for the coming year. Through the Board and the Board Risk Committee, a standing programme of updates on the key regulatory areas of interest is delivered with the Board Risk Committee particularly focused on the regulatory agenda, an overview of regulatory interaction and actions arising from regulatory reviews.

The Board closely monitors the status of the Groups regulatory relationship and proactively engages across all aspects of the regulatory agenda, also extending to attendance at regulatory round tables with the Group's peers where key issues such as operational readiness for negative interest rates are discussed. This assists the Board in keeping abreast of forthcoming, and potential areas of regulatory change which is important given the increased level of new regulation.

In October 2020, the PRA and FCA issued a joint letter relating to firms preparedness for the UK's exit from the European Union ('Brexit') stressing the importance that firms were ready for a range of scenarios at the end of the Brexit transition period on 31 December 2020 to minimise any possible disruption to customers. The Board heard of the Group's operational readiness to address several issues highlighted by the PRA and FCA's letter including consideration of how continuity of service would be addressed for the Group's EU-based retail banking customers following the end of the Brexit transition period.

Board decision spotlight – 'Implementing Negative Interest Rates'

A key consideration for the Board during the year was the approach for implementing negative interest rates introduced as a monetary policy tool from August 2021. Earlier in 2021, the PRA asked that UK financial institutions put in place a series of tactical solutions such as workarounds on core systems and customer communications should a negative base interest rate be announced. The Board noted the importance of ensuring that the Group could manage the implementation of the relevant solutions and that the Group was required to attest to the PRA by the end of July 2021 that systems and processes could cope if the Monetary Policy Committee made a fiscal decision to turn the base interest rate negative. At its meeting in July, the Board considered the level of impacted lending exposures within Virgin Money that would be impacted day 1 of such a change, such as base rate tracker mortgages, the underlying systems on which these products sit and the downstream processes that would be impacted. Examples of which are customer communications, the project management resource being deployed to deliver the required work to consider the end-to-end approach across all Virgin Money products, the tactical enhancements to manual and systems processes required to deliver the change, and controls to support those enhancements, and the risks, gaps and testing associated in being able to deliver the required approach. The outcome of the discussion was that the Board received assurances that the Group is able to support negative interest rates across all products and that it could support the required attestation sought by the PRA.

The Group is an active member of UK Finance Tax Committee, which engages in a range of meetings with Her Majesty's Treasury and HMRC officials, most recently on a discussion regarding the Banking Surcharge as it impacts Challenger Banks. The Group also contributes to UK Finance's annual Total Tax Contribution survey which is used as the basis for Policy discussions with relevant officials on the structure of Banking Taxation in the UK.

Partners and suppliers

The Group's partners and suppliers are vital for us in delivering on our promises and meeting the expectations of our customers. Our partners are those who we join forces with to deliver on our ambitions, such as abrdn who we have partnered with to provide asset management services through UTM. We have also partnered with third-party Fintech companies such as 9Spokes who helped develop our Business banking proposition by enhancing technology to provide business customers with a comprehensive view of their business via a bespoke and customisable online dashboard, and Trade Ledger, a global technology provider, to deliver a quicker, and more user-friendly experience for business customers applying for lending.

We also partnered with Virgin Experience Days Limited for a further 'Brighter Money Bundle' offering both new and existing PCA customers a gift card or discount for Virgin Experience Days.

The Board was consulted on various supplier and partner proposals during the year. One of these was the expansion of Virgin Money's partnership with Global Payments Inc, a leading provider of payment technology and software solutions. The Board considered the proposal to launch a new connected payment offering which would bring all Virgin Money's credit and debit cards onto a single platform and to achieve an early exit from the existing merchant services contract. The new connected payment offering developed by the partnership with Global Payments Inc allows Virgin Money to access end-to-end life cycle data and glean better insights about buying patterns and trends which will allow it to launch new products and services that meet the needs of its customers.

Recognising that our suppliers have an important role to play in the delivery of the Group's operations, our relationship managers across the business have continued to engage with our suppliers on service, innovation, compliance and growth. Following on from the launch of the 'Voice of the Supplier', which is now part of our supplier framework, we have used this as a formal opportunity for suppliers to provide feedback on several dimensions about their relationship with the Group outside of the informal day-to-day conversations that take place. Our supplier relationship management tool also allows more granular level detail to be known and understood on our key suppliers including their resilience position, which has been particularly important given the impacts of the COVID-19 pandemic on some businesses.

The Board has a zero tolerance attitude with respect to modern slavery in the Group's supply chain and during the year it approved the revised Corporate Statement on Modern Slavery, hearing also of the steps the Group is taking to educate colleagues and raise awareness of modern slavery related offences. The topic is now included in an all-colleague compliance learning module.

In line with the Group's Delegated Authorities Framework, the Board is responsible for approving the most significant supplier contracts and there were various significant contracts that required Board consideration during the year, an example of which is above.

Board decision spotlight – 'Significant contract approval'

The Board is regularly asked to consider and approve investment that enables the delivery of capabilities through our key partners and suppliers. An example of this during FY21 was the request for a significant investment to deliver enhanced customer, intermediary and colleague mortgage journeys on a single modern digital platform. The Board heard how a single preferred supplier had been selected after an extensive selection process and considered the delivery plan risks and milestones, ultimately approving the investment. This supplier relationship has already seen the successful launch of the Group's Home Buying Coach app which supports first time buyers through the journey of buying their first home and work has commenced to deliver the new digital mortgage platform.

Board roles

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

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

The Board has an established framework of delegated financial, commercial and operational authorities, which define the scope and powers of the Chief Executive Officer and of the Executive Leadership. The Board itself considers various matters deemed material to the Group including ESG matters and all Directors are required to consider the impact of the long-term consequences of any decisions on colleagues, suppliers and customers, the community and the environment as part of their duties to the Group.

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

Role	Responsibility
Chairman	> David Bennett leads the Board in organising its business and agenda to ensure it is effective, is constructive as a whole, forward looking, and primarily focused on strategy, performance and key value creation matters. He guides the Board to establish the culture, values and ethics of the Company and promotes the highest standards of corporate governance while ensuring openness and debate are welcomed. He is responsible for the overall effectiveness of the Board including ensuring the Board receives accurate, clear and timely information. As the Chairman, he also ensures that Board induction, evaluation and development are a priority and effective communication with the Company's shareholders is promoted.
Senior Independent Non-Executive Director	> Tim Wade provides a sounding board for the Chairman and serves as a trusted intermediary within the Board, ensuring that all Directors' views are communicated to the Chairman. He is available to shareholders if matters cannot be resolved through the usual channels of communication with the Chairman or other Directors and provides an outlet for major shareholders to share any issues they may have. As part of this role, he also meets with the Non-Executive Directors without the Chairman at least annually and leads on the ongoing monitoring and annual evaluation of the Chairman's performance.
Chief Executive Officer (Executive Director)	> David Duffy leads the Executive Leadership Team in the day-to-day management of the Group, ensuring its effective running. He is responsible for designing, coordinating and proposing to the Board all activities to implement the Group strategy and objectives. He represents the Group to external and internal stakeholders, ensuring effective engagement processes are in place and sets an example to all colleagues and communicates the expectations of the Board in relation to the Company's Purpose culture, values and behaviours to ensure they are thoroughly embedded.
Non-Executive Directors	> The Non-Executive Directors bring an external perspective, knowledge, experience and insight to the Board and apply sound judgement, objectivity and challenge the activities of the Board as necessary. They develop and set the Group's strategy and monitor its implementation while supporting and constructively challenging Executive Directors and satisfy themselves on the integrity of financial information and systems of risk management, taking account of the views and concerns of stakeholders. They also have a principal role in appointing and, where necessary, removing Executive Directors, overseeing the robustness of appropriate succession plans and approve appropriate levels of remuneration for Executive Directors, through the Remuneration Committee.
Group Company Secretary	> Lorna McMillan ensures the Board receives high-quality information in a timely manner; supports the Chairman to ensure Board effectiveness and provides advice to the Board, in particular in respect of corporate governance developments. She manages Director induction and professional development and ensures compliance with the Group Corporate Governance Framework. She also facilitates communications with shareholders, as appropriate, and ensures due regard is paid to their interests.

Governance and Nomination Committee report

The Committee remains focused on the effectiveness of succession planning, talent development and driving diversity and inclusion at both Board and senior management level.

David Bennett
Chair, Governance and Nomination Committee

Members

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

Dear shareholder,
As Chairman of the Board and Chair of the Governance and Nomination Committee (Committee) I'm pleased to present this report on the Committee's activity for the year to 30 September 2021.

The Committee remains focused on the effectiveness of succession planning, talent development and driving diversity and inclusion at both Board and senior management level. Set out on page 98 is a summary of the principal topics of Committee discussion and decision making during the year.

The Committee welcomed Elena Novokreshchenova as a member on 22 March 2021.

Succession planning
Strong succession planning for both the Board and executive and senior management roles has continued to be a key area of focus for the Committee during the year taking into account current and future business needs as we progress the transformation of Virgin Money into a leading digital bank while also ensuring the appropriate balance of knowledge, skills, experience and diversity is maintained.

As mentioned in my Chairman's governance review on page 64, Clifford Abrahams and Elena Novokreshchenova joined the Board on 8 March and 22 March 2021 respectively and their appointments were overseen by the Committee. In addition to joining the Committee, Elena also joined the Risk Committee on 22 March 2021 and more recently the Audit Committee and the Remuneration Committee from 1 August 2021. Further details of the Board appointment process are set out on page 97. Both Clifford and Elena undertook a comprehensive, tailored induction programme on joining the Group and we've provided an overview of the key activities in Elena's programme in the Governance report on page 86.

Governance and Nomination Committee report continued

We also confirmed the permanent appointment of Tim Wade as Senior Independent Non-Executive Director from 10 March 2021, Tim having held that role on an interim basis since 6 May 2020 when I became Board Chairman.

The Committee and Board have also continued to keep under review the succession arrangements for executive and senior management roles, in addition to the strength of the talent pipeline, and in doing so have considered the skills and capabilities required as we accelerate our digital ambitions. The Chief Executive Officer engaged the Committee on plans to reconfigure the Leadership Team aligned to our digital transformation agenda including the creation of the new Chief Digital and Innovation Officer, Chief Customer Experience Officer and Chief Commercial Officer roles which we updated on in the Interim Financial Report in May. The Committee and Board supported the appointment of Syreeta Brown as Group Chief People and Communications Officer who joined the Group on 22 November 2021.

You can read more about the Committee's approach to Board succession planning on page 99.

Diversity and inclusion

We firmly believe that successful organisations need a diverse and inclusive workforce at every level. As at 30 September 2021 we met both our Board gender and ethnic diversity targets and had 33% female representation on the Board and one Director of colour. Improving diversity and inclusion across the Group and being recognised as a truly inclusive and diverse employer remain key priorities. During the year, the Committee, alongside the Board, continued to track and challenge our progress in these areas including how our culture creates an inclusive environment and progress against our workforce gender and ethnicity targets. You can read more about the Board Diversity and Inclusion Policy on page 99 and on the progress against our broader diversity and inclusion strategy, including our Women in Finance Charter and Race at Work Charter commitments, on page 18.

Annual Board evaluation

This year an internal Board evaluation was undertaken overseen by the Committee. The internal evaluation process and the key findings from the review are set out on pages 100 and 101. The evaluation concluded that the performance of the Board, its principal committees, the Chairman and each of the Directors continues to be effective.

As part of the Board evaluation exercise, the Committee undertook its annual review of its own effectiveness following the process described in the 'Committee effectiveness' section of this report. The assessment concluded that the Committee is effective and carried out its responsibilities in all material respects. There was one action to ensure that going forward the Committee's calendar includes periodic updates on corporate governance developments and best practice which was completed.

UK Corporate Governance Code

We have included our statement of compliance with the Code on page 68.

Looking ahead

The Committee will remain focused on ensuring that the Board continues to comprise the optimal balance of skills, experience and diversity of background and opinion necessary to support delivery of the Group's strategy and to provide informed and constructive challenge to management. It will also continue to keep under review the succession plans for executive and senior management roles and will monitor progress on our diversity and inclusion strategy.

David Bennett
Chair, Governance and Nomination Committee

Committee role and responsibilities

The Committee's role is to keep the Board's governance, composition, skills, experience, knowledge, independence and succession arrangements under review and to make recommendations to the Board to ensure the Company's arrangements are consistent with the highest corporate governance standards.

The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year. The Committee's detailed responsibilities are set out in its charter, which is regularly reviewed, and available on the Group's website (www.virginmoneyukplc.com).

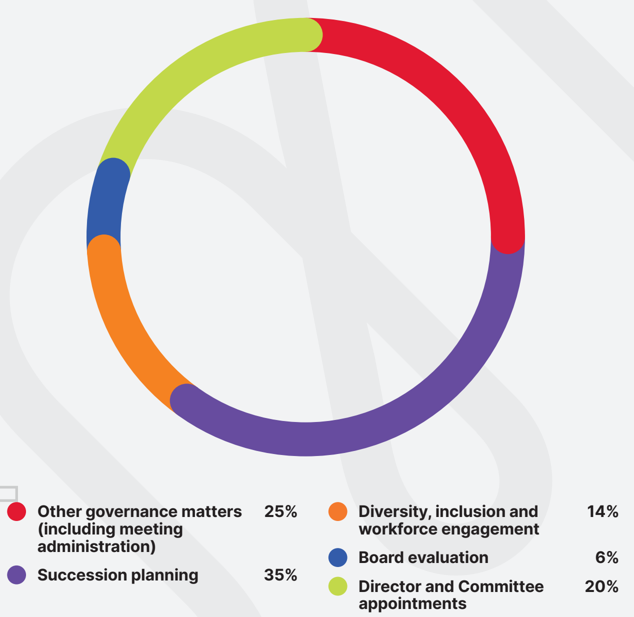
Committee composition

Each Non-Executive Director is a Committee member. The skills and experience of Committee members are described in their biographies on pages 69 to 73. The Chief Executive Officer, Chief People Officer and Group Company Secretary regularly attend Committee meetings.

Committee meetings

During the year, the Committee held five scheduled meetings and two additional meetings to consider succession planning matters. Details of meeting attendance are set out on page 66.

How the Committee spent its time



Board appointment process

Executive Director and Chief Financial Officer

During the year, the Committee oversaw an extensive search process for a permanent CFO culminating in Clifford Abrahams appointment as CFO and Executive Director on 8 March 2021.

The Committee, in consultation with the CEO and Chief People Officer, prepared a specification and set the criteria for the appointment having regard to a range of factors and taking into account stakeholder expectations about the skills and experience required for the role which included the requirement for extensive, proven publicly quoted company experience as a CFO and financial leader and a candidate with a strong and strategic understanding of the financial services sector, UK specific banking conditions and the UK regulatory regime. Clifford Abrahams was identified as the preferred candidate on the basis of his deep experience and financial services knowledge combined with his leadership qualities. These skills and experience were considered critical to help Virgin Money navigate through an uncertain economic environment and ultimately to help the Group deliver on its strategy.

The steps in the search and selection process are outlined below. The Committee was kept regularly updated throughout.

Step 1
- Russell Reynolds Associates (RRA)[(1)] was appointed to assist with the search process based on the role criteria.
- RRA conducted a search of UK and international banking institutions of appropriate scale and complexity.

Step 2
- The Committee reviewed an initial list of potential external candidates, prioritised based on core CFO credentials and broader attributes.
- A shortlist was agreed.

Step 3
- Shortlist candidates were interviewed first by the Board Chairman, Chief Executive Officer and Chief People Officer.
- Top candidates then met with the first panel of Non-Executive Directors being Darren Pope, Amy Stirling and Tim Wade. As CFOs by profession their role was to test both technical and PLC level CFO capability.
- Following feedback from the first panel meetings, two candidates met with Non-Executive Directors Paul Coby and Geeta Gopalan who focused more heavily on leadership capability and cultural fit.

Step 4
- Following feedback from the shortlist interviews at Step 3, a preferred candidate was selected based on the fit with the role requirements.

Step 5
- The Committee reviewed the final interview feedback. After further consideration Committee members unanimously recommended to the Board the appointment of Clifford Abrahams.

Step 6
- The Board approved Clifford's appointment upon completion of final checks and the regulatory approval required.

(1) Aside from assisting with some executive recruitment work, RRA has no other connection to the Company or individual Directors.

Non-Executive Director

As mentioned in last year's Governance and Nomination Committee report, the Board skills assessment was refreshed with areas to further strengthen the Board identified. During the year, the Committee progressed this work and initiated a search process for an independent Non-Executive Director with extensive experience in technology and customer-centric leadership aligned to the Group's ambition to deliver the best, full-service digital banking experience in the market.

Ridgeway Partners Limited(2) was appointed to assist with the search process based on the role criteria agreed by the Committee. For this appointment, in addition to the skills, experience and personal characteristics required for the role, the Committee placed great emphasis on gender diversity on the Board and focused its search on female candidates.

The steps in the search and selection process were broadly the same as for the CFO appointment with an initial list of prospective candidates reviewed by the Committee from which a shortlist was agreed. Shortlist candidates met first with the Chairman and then with the Chief People Officer.

From these meetings, the Chairman agreed the top candidates being the strongest relative to the Board's requirements. Next, Non-Executive Directors met with the top candidates in pairs focusing their interviews on different aspects of the role profile. The Chief Executive Officer also met with top candidates. The Committee discussed the feedback from all interviews and agreed Elena Novokreshchenova as the preferred candidate recommending her appointment to the Board which was subsequently approved. The Board agreed with the Committee's view that Elena's 20 years of digital leadership both in the UK and internationally with particular strengths in contemporary and innovative digital businesses, digital strategy, and legacy business transformation would complement the current strong financial services experience of the existing Directors. In approving her appointment the Board also assessed whether Elena would be considered an independent Non-Executive Director having regard to the circumstances set out in the Code and the Company's policy that at least half of the Board should be independent Non-Executive Directors. The Board concluded that there were no circumstances that are likely to impair, or could appear to impair, her independence.

Activities during the year

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

Key area of focus	Key discussions, decisions and recommendations
Board and Board Committee composition and changes	> Reviewed the structure, size and composition of the Board and Board Committees including the balance of skills, knowledge, experience and diversity and made recommendations to the Board > Led the search and selection for a new Non-Executive Director and recommended to the Board the appointment of Elena Novokreshchenova > Recommended to the Board the appointment of Tim Wade as permanent Senior Independent Non-Executive Director > Reviewed Director tenure, including the term of committee appointments, to inform future succession planning activity
Board and executive succession planning	> Oversaw the process to select a permanent CFO and recommended the appointment of Clifford Abrahams to the Board > Reviewed and recommended to the Board the updated succession plan for key Board roles on a contingency and medium-term basis following changes to Board composition > Received updates on proposed changes to Executive Leadership Team roles and supported the appointment of Syreeta Brown as Group Chief People and Communications Officer > Kept under review the quality and diversity of the succession plan for executive and senior management roles
Annual Board and Committee evaluation	> Monitored completion of actions following the last externally facilitated Board evaluation in FY20 > Oversaw the internally conducted FY21 performance evaluation covering the Board, committees, the Chairman and individual directors and monitored progress of the resulting actions agreed by the Board > Set the criteria for the FY22 performance evaluation also to be conducted internally and agreed the high-level proposed approach and timetable for the next externally facilitated review to take place in FY23 > Conducted a review of the Committee's effectiveness relative to its charter
Diversity, inclusion and workforce engagement	> Monitored the implementation of the Board Diversity and Inclusion Policy and progress against the targets set for Board gender and ethnic diversity > Received updates on inclusion and diversity progress across the broader colleague population and on our inclusion strategy commitments > Kept the effectiveness and continued evolution of the Group's Workforce Engagement Programme under review
Governance	> Assessed Directors' independence having regard to tenure on the Board, reviewed time commitments, external directorships and identified candidates to be recommended for re-election > Conducted a review of the conflicts of interest register > Received updates on key developments in corporate governance > Recommended the Governance report to the Board and approved the Committee's own report for inclusion in the Annual Report & Accounts > Reviewed the Committee's charter

(2) Aside from assisting with some executive recruitment work, Ridgeway Partners Limited has no other connection to the Company or individual Directors.

Independence and re-election

It is the Company's policy that at least half of the Board should be independent Non-Executive Directors, excluding the Chairman who should be independent on appointment. The Committee monitors Director independence and assesses independence annually having regard to the circumstances set out in the Code which are likely to impair, or could appear to impair, independence. As part of this process the Committee keeps under review the length of tenure of each Director, which can affect independence. Following the most recent review of independence, the Board accepted the Committee's conclusion that all Non-Executive Directors, other than Amy Stirling, are independent in character and judgement and each provides a strong, non-executive presence on the Board. Amy Stirling is not considered by the Committee to be independent as her appointment as a Non-Executive Director is in accordance with the right of Virgin Enterprises Limited (Virgin) to nominate a director under the terms of a brand licence agreement between the Company and Virgin. The Board Chairman was considered independent on appointment as Chairman in May 2020.

All Directors in office at the end of 2020 were subject to an individual effectiveness review which was conducted in the first calendar quarter of 2021 as described on page 101. In recommending the Directors for election and re-election at the 2022 AGM, the Committee has had regard to the Director independence and effectiveness reviews and also considered the ability of each Non-Executive Director to meet the time commitment required to perform their role effectively. The Board agrees that each Director to be proposed for election or re-election at the 2022 AGM continues to be effective and makes a positive contribution to Virgin Money's long-term sustainable success. In accordance with the Code, and on the unanimous recommendation of the Board, all of the current Directors of the Company will be submitting themselves for election or re-election at the 2022 AGM. Further information in support of each Director's election or re-election, as appropriate, will be set out in the AGM Notice of Meeting.

Board succession planning

Effective succession planning and development of a diverse succession pipeline are key aspects of good corporate governance. Following the action taken last year to reduce the size of the Board along with changes to chairmanship and membership of the Board committees, the Board's Succession Plan was reviewed and updated. Consideration was given to a range of factors including the current and future needs of the business, the tenure of serving directors and our commitments on Board diversity and inclusion. The Governance and Nomination Committee supports the Chairman in keeping the composition of the Board and its committees under review and in leading the appointment process for nominations to the Board ensuring a continued focus on the overall diversity on the Board and future succession.

The Succession Plan is informed by a regular assessment of the collective skills and experience on the Board and the refreshing of the Board skills matrix which is used by the Chairman to track the Board's existing skill set and to identify gaps against the skills required on the Board in the future aligned to the strategic direction of the Company and emerging trends. The skills matrix is referenced when addressing new appointments to the Board in addition to giving due weight to the broader personal attributes required and the benefits of diversity in its broadest sense. The description of the appointment process for Elena Novokreshchenova set out on page 98 illustrates how the skills assessment and consideration of diversity among the Board informed the search and selection process for this appointment.

In addition to longer-term succession planning linked to the Company's strategic direction and looking ahead to the skills required on the Board in the future, the Board's Succession Plan also addresses contingency planning (for any unforeseen departures or absences) and medium-term planning (for the orderly refreshing of the Board and its committees). The Committee will commence the activity for succession appointments in line with the Succession Plan at the appropriate time.

Board Diversity and Inclusion Policy

At Virgin Money we're striving to build a workforce which reflects the diversity of our customers and an inclusive culture where every colleague and customer feels they belong. The Board firmly believes that being an inclusive employer is fundamental to Virgin Money's long-term sustainable success and is committed to supporting the delivery of our inclusion strategy. This begins with the Board's focus on ensuring that its own membership reflects diversity in the broadest sense. The Board Diversity and Inclusion Policy (Policy), which has been adopted by the Board and is available on our website at www.virginmoneyukplc.com/corporate-sustainability/inclusion, sets out the Board's approach to diversity and inclusion in the composition of the Board and covers at a high level the approach to diversity and inclusion across the broader workforce.

The Policy confirms that Board appointments are made on the basis of individual competence and merit taking into account the skills, experience, independence and knowledge required, measured against the objective criteria set by the Governance and Nomination Committee for a particular appointment and that additionally, in recruiting Board members, careful consideration is also given to the broader diversity benefits each candidate can bring to overall Board composition. This includes considering a combination of demographics, skills, experience, race, age, gender, educational and professional background and other relevant personal attributes to ensure the Board benefits from a range of perspectives which supports good decision making and avoids the risk of 'group think'.

Governance and Nomination Committee report continued

Last year, the Board considered and approved updated targets set out in the Policy relating to gender and ethnic diversity. The implementation of the Policy and progress towards achieving the targets is reviewed at least annually. The Board has set a target to have a minimum of 33% women's representation on the Board as recommended by the Hampton-Alexander Review and, in line with the recommendations of the Parker Review Committee, to have at least one Director from an ethnic minority background by 2024 or as soon as possible after that date. As at 30 September 2021, female representation on the Board was 33.3% (based on three female Directors and six male Directors) and the Board comprises one Director from an ethnic minority background. In addition, the independence and tenure of the Directors on our Board, as illustrated in the charts on page 67, achieves an appropriate balance in the context of Code requirements.

The Board remains committed to driving progress in the diversity of its membership in the widest sense and will aim to continue to meet the Hampton-Alexander and Parker Review Committee targets factoring this into succession planning and future Board appointments.

Review of the Board's effectiveness

How the Board is evaluated

The annual evaluation provides an opportunity to identify ways of improving the efficiency of the Board by maximising strengths and highlighting areas for development. The Board follows the evaluation cycle recommended in the Code and has an externally facilitated review at least every three years. In addition to a review of the Board's own effectiveness, there is a review of the effectiveness of the principal Board committees and of Directors individually. The Senior Independent Non-Executive Director leads the review of the Chairman's performance involving all Non-Executive Directors and taking into account the views of Executive Directors. The Chairman, with the support of the Governance and Nomination Committee leads the Board in acting on the results of the evaluation and by putting in place an action plan to improve Board effectiveness.

2021 Board evaluation

Following the external evaluation facilitated by Oliver Ziehn from Lintstock Limited in 2020, the 2021 evaluation was conducted internally and the majority of the work was completed during November 2020. The Governance and Nomination Committee agreed the evaluation process and the exercise was coordinated by the Group Company Secretary.

The 2021 evaluation sought the views of Directors on the same range of topics as those considered the previous year to track trends in performance including Board composition and dynamics; governance and information; strategy; risk management and internal control; succession planning and human resources management; and priorities for change.

The stages of the Board evaluation

Stage 1 Survey	Directors completed an online survey asking them to rate the Board's effectiveness on each topic using a scale ranging from ineffective to highly effective with the option to include additional commentary and viewpoints.
Stage 2 Results collated	The Group Company Secretary collated the results of the questionnaire and prepared a report drawing out trends compared to the 2020 review, key themes from Directors' viewpoints and recommendations on focus areas for improving Board effectiveness. The report was initially discussed between the Group Company Secretary and the Chairman then circulated to all Directors.
Stage 3 Board discussion and action plan agreed	The Board met to discuss the questionnaire results and key themes from which actions to improve Board effectiveness were agreed.

Board evaluation highlights

The evaluation concluded that the performance of the Board is effective and had improved over the past 12 months indicating that the actions taken to improve the effectiveness of the Board following the 2020 review, all of which were completed and overseen by the Governance and Nomination Committee and reported to the Board, had been successful. In particular, the questionnaire responses relating to Board composition and dynamics had improved significantly demonstrating that the action taken in 2020 to reduce the size of the Board and to appoint all independent Non-Executive Directors as members of each principal Board committee had strengthened Board composition and dynamics. The evaluation also concluded positively in relation to many aspects of the Board's operations with the quality and suitability of the Board meeting schedule and of the information provided to the Board being areas where effectiveness ratings were notably improved.

Key findings from the 2021 evaluation and actions taken

Area evaluated	Key findings	Actions taken
Governance and information	> Improve the Board's understanding of the perceptions of investors through external insights > Continue to improve the Board information providing customer insights	> Programme of Board engagement with Virgin Money's financial brokers established to supplement the Investor Relations and shareholder updates already in the Board calendar > New monthly customer experience report introduced > Customer experience strategy discussed with the Board and approved
Succession planning	> Continue the work commenced in 2020 to refresh the executive and top-level succession plan and to improve structured coverage of succession and talent development topics at Board level	> The Governance and Nomination Committee was actively engaged on Executive Leadership Team operating model changes and recruitment during the year with the objective of creating a leaner organisation with clearer accountability. The new structure champions talent management and creates a larger and more diverse pool of future succession candidates for executive and senior roles required in a leading digital bank > Regular succession planning and talent management updates continue to be factored into the annual Board calendar > Introduction of a 'Quarterly Leadership Conversation' with senior colleagues to allow the Board to better get to know and appraise potential succession candidates
Priorities for change	> Be clear on the Board focus areas for 2021 and alignment with management's priorities	> Board discussion held in January 2021 to agree 2021 focus areas and priorities > Board agenda tailored to ensure sufficient time on priority items > Programme of deep dives, briefings and dinner discussions agreed to provide deeper insight and opportunities for Board members and executives to engage on shaping strategic priorities; topics covered in FY21 included quarterly deep dives on ESG; technology partnerships; digital bank; wealth management strategic opportunities; and the colleague proposition post-COVID-19.

The Board adopts a continuous improvement approach to its effectiveness and since the 2021 evaluation was undertaken has remained focused on ways to improve performance. For example, enhancements have been made to Board reporting to ensure that all papers for approval or input have a clear alignment to strategy, that risk implications are drawn out and that the narrative clearly shows how recommendations are Purpose-driven for any matter impacting colleagues, customers or our communities. As another example, to further strengthen Risk input to Board decision making, the Chief Risk Officer is invited to attend more of the Board meeting so that he can provide direct input from a risk perspective on recommendations for Board decision making.

Committee effectiveness

A review of the effectiveness of the Audit, Governance and Nomination, Remuneration and Risk committees was also carried out internally coordinated by the relevant committee secretary. This year, the committee evaluations took the form of an assessment of each committee's activity relative to its objective and responsibilities described in its charter. The output of the assessment was considered by each committee in a meeting, with actions to improve committee effectiveness agreed where appropriate, and then reported to the Board. You can read about the committee evaluations in the individual committee reports elsewhere in this Governance report. The evaluation concluded that each principal Board committee continues to be effective having met their charter responsibilities in all material respects.

Chairman and individual Directors

Tim Wade, in his capacity as Senior Independent Non-Executive Director, led a review of the Chairman's performance involving all Non-Executive Directors in a round-table discussion. He also asked for the feedback of Executive Directors. Tim Wade then discussed the feedback with the Chairman in a one:one meeting. The Chairman met individually with each Director in office at the end of 2020 to discuss their personal performance and development and to establish whether each continues to contribute effectively to Virgin Money's long-term sustainable success. The individual Director discussions were in part informed by the views of each Director's Board peers which the Chairman sought in advance. All Directors have demonstrated commitment to their roles and have contributed effectively.

Audit Committee report

The Audit Committee provides oversight and challenge of key financial reporting matters and the internal control environment to ensure that the Group is managed in a controlled manner.

Tim Wade
Chair, Audit Committee

Members

Tim Wade (Chair)
Paul Coby
Geeta Gopalan
Elena Novokreshchenova
Darren Pope

Dear shareholder,

I am pleased to present the Audit Committee (Committee) report which outlines the key matters addressed by the Committee during the year ended 30 September 2021.

The ongoing challenges to the Group particularly in relation to estimating the level of ECLs and remote auditing, both internal and external, as a result of COVID-19, were a key focus for the Committee. The Committee was content that appropriate rigour and consideration were being given to these matters given their significance to the Group's control environment. The Committee welcomed Elena Novokreshchenova as a member from 1 August 2021 and her experience of digital first and disruptive technology organisations will complement the Committee's existing skill set and allow it to better challenge the controls and frameworks in place within the Group as it executes its digital-led strategy. This was also the first year the Committee had worked with the Group's new Chief Financial Officer, Clifford Abrahams, and it welcomed his fresh insight and approach to the management of financial reporting matters and beyond.

Committee focus during 2021

In 2021, the Committee has remained focused on its primary responsibilities, particularly reviewing the integrity and quality of the Group's published financial information, including the quarterly, interim and full year results announcements, the Annual Report and Accounts and the Pillar 3 Report.

To enable the Committee to carry out its review it received detailed reports on the critical accounting estimates and judgements applied by management in its preparation of the financial statements, a view from management on the effectiveness of the internal controls over financial reporting and insight from both the Group Director Internal Audit (GDIA) and the external auditor, Ernst & Young LLP (EY).

ECL provisioning
A continued key area of discussion for the Committee at its meetings during the year was the calculation of ECL provisioning outcomes in line with the IFRS 9 financial reporting requirements during an uncertain economic environment due to the COVID-19 pandemic. The Committee heard how the extensive government support measures had presented challenges in modelling likely credit loss impacts under IFRS 9 and it considered carefully the key economic scenarios that were being applied, and management's judgements which were overlaid, to the modelled outputs. Although decisions remain highly subjective, the Committee was satisfied with the rigour applied by management and received confirmation that Internal Audit and the external auditor had also undertaken work to provide comfort in respect of the proposed provisioning levels.

Internal and external audit
Oversight of the performance and independence of the Internal Audit function is a key responsibility of the Committee and it was pleased to see that the newly implemented quarterly planning process was working well and providing flexibility during this challenging period. The Committee takes a close and continuing interest in the planning of the Internal Audit programme which is well designed and coordinated.

For external audit, the Committee observed a successful transition with regards to the role of the Group's Senior Statutory Auditor and enjoyed working with Andy Bates in his first year in the role. The Committee heard from Mr Bates in private sessions as well as the insight and updates he provided to the Committee during its meetings via regular external audit update reports throughout the year. The Committee sought assurance that rigorous audit procedures continue to be applied, notwithstanding the ongoing challenge of remote working.

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

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

Proposed audit and corporate governance reform
The implications for the Committee which may result from the UK Government Department of Business, Energy & Industrial Strategy consultation 'Restoring trust in audit and corporate governance' are firmly on the Committee's radar. During the year, the Committee reviewed and discussed the key proposals for reform and began to consider the implications for the Committee, and the Group, should the proposals be implemented as planned.

Committee performance evaluation
As part of the Board evaluation exercise, the Committee undertook its annual review of its own effectiveness following the process described in the Governance and Nomination Committee report with the results discussed by the Committee and reported to the Board. The assessment concluded that the Committee is effective having carried out its responsibilities in all material respects. A specific action was taken, and completed during the second half of 2021, for the Committee Chair to oversee the appointment of the external assessor who would carry out the next independent external assessment of the Internal Audit function.

Looking ahead
As well as ensuring attention continues to be given to the Committee's key responsibilities, the Committee will continue to pay close attention to the ongoing and long-term impacts of the pandemic on the Group's reporting. Finally, climate-related disclosures and likely audit and corporate governance reform are expected to be areas the Committee will be required to pay further attention to in the coming year.

Tim Wade
Chair, Audit Committee

Committee role and responsibilities

The Committee's role is to assist the Board by providing oversight in relation to the Group's financial and regulatory reporting and the risk management systems and internal controls in place to support the successful management of the business. It works closely with the Risk Committee on risk controls. As part of the Committee's responsibilities in relation to the financial statements, it plays a vital role in the governance around the Group's ECL allowance. The Committee receives quarterly updates on the Group's ECL position and provides challenge to ensure there is adequate support for the final ECL allowance. Through their external roles, Committee members have experience in ensuring that ESG matters are a key area of focus including overviewing climate-related financial disclosures and ensuring the information in the Annual Report and Accounts relating to ESG is fair, balanced and understandable. Paul Coby has particular experience of this given his role at Johnson Matthey, a global leader in sustainable technologies with a strategy mirroring society's need to decarbonise, create a more circular economy and meet net zero in carbon emissions.

The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year. The Committee's detailed responsibilities are set out in its charter, which is regularly reviewed, and available on the Group's website (www.virginmoneyukplc.com).

Committee composition

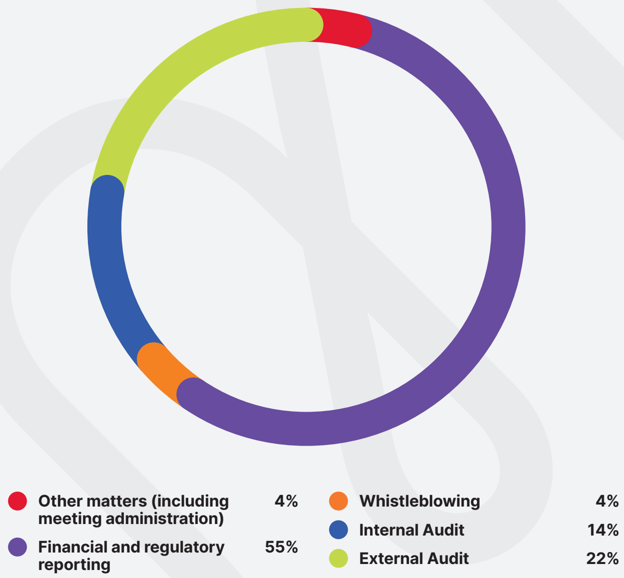
The Committee comprises five independent Non-Executive Directors who collectively have considerable experience of the financial services and banking industries. Details of the Committee members' skills and experience can be found in their biographies on pages 69 to 73. Tim Wade, Chair, an experienced Chief Financial Officer and a chartered accountant, is deemed to have recent and relevant financial experience for the purposes of the Code. In addition to the Committee members, regular attendees include the Board Chairman, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel and Purpose Officer, Group Financial Controller, GDIA and the external auditor.

The Committee recognises the common interest in issues relevant to both the Committee and the Risk Committee and joint meetings of the Committees took place during the year where matters including the FY22 Risk Management Assurance Plan and the FY22 Internal Audit Plan were discussed and approved.

Committee meetings

During the year, the Committee held six scheduled meetings and two scheduled joint Audit and Risk Committee meetings. Details of meeting attendance are set out on page 66.

How the Committee spent its time



Activities during the year

Significant financial reporting judgements

The areas of judgement considered, key conclusions reached, and actions taken by the Committee during the year, which ensure that appropriate rigour has been applied to the 2021 Annual Report & Accounts, are detailed below. This included the consideration of management's review of the critical accounting estimates and judgements, with the conclusion that they had been applied appropriately and the disclosures presented were sufficient. The only change to the Group's critical accounting estimates and judgements in the year relates to PPI redress provisions. During the year, the Group finalised all complaints received up to the time bar of August 2019 and has closed its PPI operation. Consequently, the Committee agreed with management's conclusions regarding the removal of PPI from the list of critical accounting estimates and judgements.

Key area of review and challenge		Key discussions, decisions and recommendations
Accounting, tax and financial reporting	The appropriateness of the Company's financial statements, including the content of the Interim Financial Report, Annual Report & Accounts, related results announcements, quarterly results announcements and supporting analyst presentations.	**The Committee:** > reviewed the process for the production of the reports under the remit of the Chief Financial Officer and the level of involvement of cross-functional subject matter experts, including monitoring the procedures in place to ensure that all contributors attested to the completeness, accuracy and appropriateness of the disclosures provided; and > considered carefully if reporting was suitably 'fair, balanced and understandable'.
Accounting policies and practices	The critical accounting policies, disclosure obligations and changes in accounting requirements. The Group's use and explanation of APMs. Further detail on APMs can be found in the 'measuring financial performance – glossary' section of the Annual Report & Accounts commencing on page 322.	**The Committee:** > reviewed with both management and the external auditor, the critical accounting estimates and judgements, and significant accounting policies and disclosures for the Group's interim and annual financial statements during the year; > received regular updates from the Group Accounting Policy Team and external auditor on key changes and developments in financial reporting requirements; > reviewed the approach to APM adjustments and received regular updates on the determination and presentation of APMs. These demonstrated how the Group's financial performance on a statutory basis reconciled to the underlying view as presented by management. The Committee agreed with management's conclusions on the items to be adjusted in presenting an underlying position; and > continued to emphasise the pre-eminence of statutory reporting.
Impairment losses on loans and advances	The Group's loans and advances held at amortised cost are subject to impairment losses which are measured on an ECL basis. The process of calculating the collectively assessed element of the ECL balance for both the 12-month ECL allowance (Stage 1) and the lifetime ECL allowance (Stages 2 and 3) requires the use of significant estimates and judgements over issues such as the estimation of the PD, macroeconomic indicators, scenarios and weightings in arriving at a probability weighted forward-looking ECL allowance, and the use of PMAs where appropriate. The Group's ECL allowance continues to reflect the impact of COVID-19 and how this has affected our customers in 2021. Further information on and disclosures relating to the Group's ECL impairment allowance are set out in the credit risk section of the Risk report starting on page 154 and in note 3.2.	**The Committee:** > reviewed regular reports from management in relation to the level of ECL impairment provisioning, with the key focus being on the assumptions used within the collectively assessed element of the provision. This included the measures taken by management in assessing the expected impact of COVID-19 on the Group's customers and how this adequately translated into the ECL allowance; > reviewed and challenged the inputs (including the scenario selection and associated weighting changes in the year) and resulting output of the base models, with a particular focus on probabilities of default, and the estimate of future recoveries; > reviewed and concurred with management response to the PRA 'Dear CFO' letter in April 2021 on the Group's compliance with the Taskforce on Disclosures about ECLs (DECL); > provided continuous review and challenge of the level of PMAs included within the ECL impairment allowance and the rationale for their inclusion and the completeness of the population; > assessed outputs against peer and wider industry benchmarks; and > agreed that the judgements and assumptions used were necessary and appropriate at 30 September 2021.

Key area of review and challenge		Key discussions, decisions and recommendations
EIR	The Group offers a range of mortgage and credit card products, interest income on which is recognised using the effective interest rate (EIR) method. This provides a level yield over the anticipated behavioural life of the product. In addition, certain fees and costs that are directly attributable and integral to the generation of a financial instrument are deferred and released to the income statement over the expected life of the relevant product. Further information on and disclosures relating to the Group's use of EIR accounting are set out in note 2.2.	**The Committee:** > received regular updates from management on the operation of the EIR models and how these impacted the Group's results; > reviewed and challenged the inputs, methodologies and assumptions applied to these models, in particular those around customer prepayment profiles and behaviours; and > was satisfied that the inputs, methodologies and assumptions used by management in operating EIR accounting for the Group at 30 September 2021 are appropriate and supportable in an uncertain economic environment.
Deferred tax assets	The largest elements of the Group's deferred tax asset are historic losses and capital allowances. In assessing the recoverability of the deferred tax asset on the balance sheet, management has exercised judgement over the forecast future profitability of the Group and the number of years over which to take account of future profits, i.e. the period over which profits can be reliably estimated. Further information on and disclosures relating to the Group's deferred tax asset position as at 30 September 2021 are set out in note 3.9.	**The Committee:** > reviewed the recoverability of deferred tax assets throughout the year; > considered the judgements made by management over the forecast future profitability of the Group and the time horizon over which the use of tax losses was foreseeable in light of the continuing and progressively tightening restrictions on their use; and > agreed that the recognition of a deferred tax asset balance of £377m at 30 September 2021 was appropriate.
Retirement benefit obligations	The actuarial valuation of the Group's defined benefit scheme liabilities involves making several financial and demographic assumptions including the discount rate; future inflation rates; and future mortality rates. Further information on and disclosures relating to the Group's retirement benefit obligations at 30 September 2021 are set out in note 3.10.	**The Committee:** > reviewed the discount and inflation rate assumptions proposed by management at 30 September 2021 against a benchmark range provided by the external adviser and concurred with these key assumptions; and > agreed that the discount and inflation rates used in the calculation of the retirement benefit obligations at 30 September 2021 were appropriate.

Other significant issues

Going concern

The Committee reviewed and challenged the going concern assessment undertaken by management including assessments of the Group's capital, liquidity and funding position and consideration of the principal risks and uncertainties set out on pages 42 to 49. The Committee concluded that the Company and Group have adequate resources to continue in operational existence for a period of at least 12 months from the date of approval of the financial statements and confirmed to the Board that it was appropriate for the Group's financial statements to be prepared on a going concern basis.

Long-term viability

The Committee reviewed and challenged the viability assessment (including the three-year time horizon selected) undertaken by management in the 2021 Annual Report and Accounts.

The Committee considered the process to support the Viability Statement in conjunction with an assessment of principal risks and strategy/business model disclosures, taking into account the assessment by the Risk Committee of stress testing results and risk appetite and impacts due to COVID-19. The Committee recommended the draft Viability Statement (as set out on page 143 to 145) to the Board for approval.

Assessment of fair, balanced and understandable reporting

The Committee considered, at the request of the Board, the comprehensive review process which supports the Board and Committee in reaching its conclusion as to whether the 2021 Annual Report & Accounts is fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy.

The production of the 2021 Annual Report & Accounts was managed by the Chief Financial Officer, with overall governance and coordination provided by a cross-functional team of senior management led by the Financial Controller. A robust review process of inputs into the 2021 Annual Report & Accounts by contributors from across the business was conducted to ensure disclosures were balanced, accurate and verified, and further comprehensive reviews were conducted by senior management. The Committee then formally reviewed the draft 2021 Annual Report & Accounts in advance of final review and sign-off by the Board.

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

Is the report fair?

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

Is the report balanced?

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

Is the report understandable?

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

After careful review and consideration of all relevant information, including principal risks and ongoing risk reporting, the Committee was satisfied that, taken as a whole, the 2021 Annual Report & Accounts is fair, balanced and understandable and has affirmed that view to the Board.

Internal Audit

In respect of its responsibility to monitor the role and effectiveness of the Internal Audit function (including the role of the GDIA) and the Internal Audit programme, the Committee:

- approved and monitored the audit plan, including any material changes, and progress towards its delivery;
- conducted regular interactions with the GDIA including private sessions with the Committee and Committee Chair and specific audit planning workshops;
- considered regular reports from Internal Audit on activities undertaken and a six-monthly assessment of the overall control environment;
- provided detailed in and out-of-meeting challenge in relation to major findings, and the responses to these from management;
- conducted an annual assessment of the independence and performance of the GDIA who continued to report directly to the Chair of the Committee, with a secondary reporting line to the Chief Executive Officer for administrative purposes;
- considered the results of the annual survey to assess the performance of Internal Audit;
- reviewed the adequacy of Internal Audit's resources and skills, including the financial budget and capability to draw on external specialists when appropriate; and
- approved revisions to the Internal Audit Charter (available at www.virginmoneyukplc.com), which sets out the role and responsibilities of the function.

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

External auditor

The Committee oversees the effectiveness of the external auditor EY and during the year it approved the annual external audit plan, received updates on the progress of the audit, including the responses to challenges caused by COVID-19, reviewed the external auditor engagement letter and agreed the auditor's remuneration (the Committee was authorised by shareholders at the 2021 AGM to agree the remuneration of the external auditor). Andy Bates fulfilled the role of Senior Statutory Auditor for the first time this year and will hold this position for no more than four years by which time EY will have fulfilled the maximum 20 year duration allowed for external audit appointment under the Statutory Auditors and Third Country Auditors Regulations 2016. All other audit partners and audit senior management are required to rotate at least every seven years.

During the year, the Committee also:

- reviewed the findings of the external audit including key judgements and the level of challenge provided by the external auditor;
- reviewed management's responses to control findings, non-compliance and any other findings identified by the external auditor;
- received a series of presentations on specific areas of EY's audit such as the Group's IFRS 9 multiple economic scenarios approach and IT applications;
- considered the wider external audit market generally, assessing relevant industry specific information and events including the Written Auditor Reporting (WAR) feedback issued by the PRA to firms in October 2020 on the 2019/20 reporting cycle; and
- reviewed FRC Quality Audit reports.

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

External auditor independence and remuneration

Both the Board and the external auditor have safeguards in place to protect the independence and objectivity of the external auditor which are detailed in the External Auditor Independence Policy Standard (Policy). This Policy is reviewed at least annually and was refreshed during 2021. The Policy details the nature of the services that the external auditor may not undertake and specifies that non-audit services may not be pre-approved and are subject to prior approval from the Committee or a delegate. In certain cases, the external auditor may be selected over another service provider due to their detailed knowledge and understanding of the Group's operations. Any allowable non-audit service with a value above £100,000 requires approval from the Chair of the Committee. The Policy also specifies that the overall fee for non-audit services be continually monitored and should not exceed 70% of the average audit fee over the prior three-year period. The total amount paid to the external auditor in 2021 was £4,959k (2020: £3,980k). The Committee challenged the external auditor on whether this fee level was sufficient to facilitate an effective audit and received satisfaction on this point. Non-audit services of £585k (2020: £651k) performed by the auditor during the year included providing accounting opinions and comfort letters in respect of the issues of Global Medium Term Note debt instruments; profit attestations; and a Client Assets Sourcebook audit. Payments by the Group for both audit and non-audit services provided in 2021 and 2020 are further detailed in note 2.4 to the financial statements. The Policy also regulates the appointment of former audit colleagues to senior finance positions in the Group.

Statutory Audit Services Compliance

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

EY has been the external auditor for Clydesdale Bank PLC and other Group entities since January 2005, and will have fulfilled the maximum 20 year duration allowed for external audit appointment under the Statutory Auditors and Third Country Auditors Regulations 2016 in respect of the financial year ending 30 September 2024. The Committee has considered options for the timing of a tender process and will confirm its plans by the end of 2021.

Risk management and internal control systems

Detailed information in respect of the internal controls and risk management systems for the Group's financial reporting process are provided within the Risk report on pages 147 to 216. Specific matters that the Committee considered during the year included:

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

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

Regulatory compliance

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

Whistleblowing

It is important every colleague across Virgin Money feels confident enough to speak up, safe in the knowledge that they'll be protected from any reprisal for raising concerns and that their concerns are taken seriously. The Group operates a Whistleblowing Programme, which provides a safe, secure and easy way to raise any concerns through a number of confidential channels, including an independent external whistleblowing hotline. A dedicated team is in place to receive reports and ensure a thorough independent and confidential investigation is undertaken. Upon receipt of a report the team will assess the concerns and appoint an appropriate investigation manager to undertake the investigation, and ensure any necessary remedial action is taken.

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

Risk Committee report

Members

- **Geeta Gopalan (Chair)**
- **Paul Coby**
- **Elena Novokreshchenova**
- **Darren Pope**
- **Tim Wade**

As the effects of the pandemic continued to flow through the economy, the Committee focused on the resulting economic and financial risks while ensuring fair outcomes for our customers.

Geeta Gopalan
Chair, Risk Committee

Dear shareholder,
I am pleased to present the Board's Risk Committee report for the financial year ended 30 September 2021. This report provides an overview of the Group's robust approach to risk management and how the Committee has provided oversight and advice to the Board in relation to principal and emerging risk exposures, including how these are managed and mitigated, all the while supporting the business strategy.

The Committee continued its focus on maintaining a positive risk culture across the Group, underpinned by our Purpose and Values. It is part of who we are and well embedded in the inputs and decisions we make in the Committee.

I would like to extend my continued thanks to all colleagues who have worked tirelessly during an extremely challenging year, ensuring safe and fair outcomes for our customers, while prudently steering the Group with a thoughtful consideration of stakeholders' interests.

Economic and operational risks resulting from the pandemic were a focus for the Committee, with increased oversight of credit risk, model risk, operational resilience, financial resilience and potential conduct risk.

Among the salient matters considered during the year were:

Framework and policies
Over the past year, we have made further enhancements to the RMF and risk reporting, appetite and policy setting. Recognising the effects and response to the pandemic, but also the evolution of market conditions, data, customer behaviours as well as risk capacity.

Risk Committee report continued

The Group's three lines of defence model ensures a clear delineation of responsibilities between those with direct responsibility for the management over and control of the day-to-day operations, risk oversight and independent assurance activities. The Committee was presented with detailed papers to monitor risk appetite developments and continued to provide guidance and challenge.

Stress testing
This year, for the first time, the Group participated in the BoE's 2021 SST. The Committee provided challenge and oversight of the stress testing exercise. The Group operates a stress testing programme in order to understand the internal and external influences on the principal risks, assist the Board in its strategic planning process and manage the capital and liquidity resources in line with risk appetite and regulatory expectations.

Climate risk
As the Group continued the activity of embedding climate risk into the RMF, the Committee received regular updates and has overseen the work to understand how to define, monitor, manage and report the impact of climate change on the Group's strategy, business and sustainability aspirations. The Committee also endorsed the enhancements to the Annual Report & Accounts and the new TCFD disclosures for FY21 reporting and reviewed organisational changes to strengthen the risk functions' climate risk capability to support the wider ESG agenda.

Principal and emerging risks
The key matters across the principal and emerging risks considered by the Committee are highlighted in the tables below on pages 111 to 114. Further details on the wider risk profile and RMF can be found in the Risk overview within the Strategic report on pages 42 to 49 and the Risk report on pages 147 to 216.

Committee performance evaluation
The Committee undertook its annual review of its effectiveness as part of the Board evaluation exercise, following the process described in the Governance and Nomination Committee report. The assessment concluded that the Committee is effective, having carried out its responsibilities. The results were discussed by the Committee and reported to the Board.

Looking ahead
Over the next 12 months, the Committee will continue to focus its attention on the continued risks associated with the COVID-19 pandemic as they emerge, in particular model risks and their management. The acceleration of the Group's digital strategy along with changing customer behaviours will entail enhanced oversight of operational resilience and change management as well as the embedding of the operational resilience framework in line with new regulatory requirements. The Committee will also continue its enhanced oversight of climate change risks, in particular the Group's assessment and response to transition and physical risks.

Geeta Gopalan
Chair, Risk Committee

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

The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board, all of which have been accepted during the year. The Committee's detailed responsibilities are set out in its charter, which is regularly reviewed, and made available on the Group's website (www.virginmoneyukplc.com).

Committee composition
The Committee comprises five independent Non-Executive Directors including the Chair of the Audit Committee. The skills and experience of Committee members are described in their biographies on pages 69 to 73. The Board Chairman, Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel and Purpose Officer and Director Internal Audit regularly attend Committee meetings. This ensures all three lines of defence are fully represented.

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

Private sessions were held with the Chief Risk Officer at each meeting to provide additional opportunity for open dialogue and feedback.

While the Committee is required to meet a minimum of four times per year, it also recognises the common interest in issues relevant to both the Committee and the Audit Committee, including the assurance activities which span all three lines of defence. Joint meetings of the Committees took place during the year where matters including the FY22 Risk Management Assurance Plan and the FY22 Internal Audit Plan were discussed and approved.

Committee meetings

During a particularly challenging year, the Committee held seven scheduled meetings, two scheduled joint Audit and Risk Committee meetings to consider and approve the Group's Annual Report & Accounts risk disclosures, and four additional meetings to consider prudential regulatory related matters. Details of meeting attendance are set out on page 66.

How the Committee spent its time

Key matters considered by the Committee during the year

Key matter considered		Key discussions, decisions and recommendations
Risk Appetite Statement and stress testing	Reviewing and endorsing the Group's risk appetite.	**The Committee:** > reviewed and endorsed the FY22 risk appetite for Board approval, the prevailing economic market conditions and the anticipated risk profile to ensure appropriate risk tolerances are in place; and > reviewed and endorsed Board approval of changes to the FY21 RAS as a result of the weakening impact of COVID-19 on the Group's principal risk categories including credit risk and the introduction of a brand consideration metric.
Technology	Reviewing the high-level risks associated with multiple systems and how these are being mitigated.	**The Committee:** > reviewed risk assessment analysis of the top technology risks, the impact of these risks from a more complex infrastructure post-acquisition and the ongoing change execution and risk acceptance position. > the Committee also considered technology and infrastructure investment plans associated risk mitigation.
Risk management	Overseeing the risk profile and risk management of the Group within the Board approved RAS.	**The Committee:** > reviewed regular Chief Risk Officer reports of performance against each principal risk and risk appetite measure, challenging the adequacy of management actions in respect of actual or potential breaches of red and amber RAS metrics; > approved the annual Risk Management Assurance and first line Operational Assurance Plans and received regular updates on the adequacy and effectiveness of the application of the risk control framework; > carried out an assessment of the Viability Statement in the 2021 Annual Report & Accounts and advised the Board and Audit Committee to that effect; > received updates on the Risk function's transformation journey, covering key activities in relation to strategy and organisational design and approved the Risk function's charter; and > in conjunction with the Audit Committee, reviewed and approved the Group's control environment.

Risk Committee report continued

Key matter considered		Key discussions, decisions and recommendations
Operational resilience	Overseeing the resilience of the Group's critical processes.	**The Committee:** > reviewed deep dive analysis and regular quarterly updates on operational resilience, including details of risk events, root cause analysis and disaster recovery arrangements.
Model risk	Providing oversight and reviewing the management of model risk.	**The Committee:** > discussed model management including a quarterly review of model performance and effectiveness and the ongoing monitoring of model remediation plans and model risk resourcing to ensure the Risk function has the required skilled resources to deal with the increasing complexity of the models.

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

Principal risk		Key discussions, decisions and recommendations
Credit risk	The risk of loss of principal or interest stemming from a borrower's failure to meet contractual obligations to the Group in accordance with their agreed terms. Credit risk manifests at both a portfolio and transactional level.	**The Committee:** > regularly reviewed the performance of the loan portfolio including the potential longer-term impacts of the pandemic on the risk profile. This included revisions to appetite and risk limits within the credit policy. Further considerations included geographical concentrations, and delinquency trends; > reviewed deep dive analysis on the Group's unsecured lending portfolios including asset quality, emerging risks and actions taken in response to the pandemic. Oversight of the rectification and remediation of non-compliant customer outcomes was also provided; > reviewed deep dive analysis on the Group's business and mortgage credit portfolios including portfolio resilience, asset quality, provisions and credit loss expectations. Climate risk and the outlook for FY22 was also considered; and > approved the refreshed Credit Risk Policy. **Emerging risk:** > political and economic risk; > climate risk; and > new ways of working and changing skill requirements.
Financial risk	Financial risk includes capital risk, funding risk, liquidity risk, market risk and pension risk, all of which have the ability to impact the financial performance of the Group, if managed improperly.	**The Committee:** > closely monitored the Group's funding and capital positions giving due consideration to any additional risks arising from increased market uncertainty; > received regular reports from the Group Treasurer which provided updates on the Group's exposure to pension risk and discussed strategic options to further reduce pension risk; > discussed and noted regular updates on the development of climate risk scenario modelling capability in order to comply with the PRA's expectations by the end of 2021; > considered updates on the Group's LIBOR Cessation and Transition Plan, including the strategy for discontinuing LIBOR, key risks and the customer journey for the transition of Business loan contracts;
	Reviewing and endorsing the ICAAP, ILAAP, SST results and Resolution Assessment Framework Self-Assessment results for Board approval.	> annual review and recommendation of the ICAAP, ILAAP and Recovery Plan to the Board; > reviewed and endorsed the self-assessment results of the Resolvability Assessment Framework; > reviewed and endorsed the results of the 2021 SST; and > approved the refreshed Group Financial Risk Policy and Ring-fencing Policy. **Emerging risk:** > political and economic risk; > regulatory change; and > climate risk.
Model risk	This potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.	**The Committee:** > closely monitored model performance including the ongoing impact of COVID-19 and model development; > considered the findings from the Model Risk Management review including remediation and resource plans; and > approved the refreshed Group Model Risk Management Policy.

Principal risk		Key discussions, decisions and recommendations
Regulatory and compliance risk	The risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to information requests, not meeting regulatory deadlines or obstructing the regulator.	**The Committee:** > received and noted updates on matters relating to GDPR compliance and assurance activity; > received an update on the Group's response to the FCA's Dear CEO letter relating to their supervision strategy for the retail banking portfolio, including analysis of the FCA's four priority areas and assurance coverage and a summary of actions; > reviewed potential harms arising from the Group's Business Plan and Investment Plan and endorsed the development of a framework to identify, mitigate, monitor within which potential customer harms will be managed; > regularly reviewed status updates on upcoming regulatory deliverables and actions; > in conjunction with the Audit Committee, reviewed and approved the FY22 first and second line Risk Assurance Plans; and > approved the refreshed Group Regulatory and Compliance Risk Policy. **Emerging risk:** > regulatory change; and > data stewardship.
Conduct risk	The risk of undertaking business in a way that is contrary to the interests of customers, resulting in inappropriate customer outcomes or detriment, regulatory censure, redress costs and/or reputational damage.	**The Committee:** > regularly reviewed and challenged comprehensive conduct risk MI providing greater insight into the risks throughout the customer journey across all major product areas including 29 customer outcomes, conduct risk RAS measures and complaints performance; > considered the results of a detailed assessment of the adequacy of steps taken to manage the conduct and regulatory risks relating to the customer support provided in response to the pandemic, and received updates on the resulting divisional actions; > reviewed the results from the first potential customer harms assessments, including enhancements to the implementation Decision Framework to identify potential customer harms, and a thematic and forward-looking view of the most material risks; > monitored the continued progress to remediate key legacy conduct issues throughout the year; > considered any risk adjustments to be taken into account by the Remuneration Committee when making remuneration decisions; and > approved the refreshed Group Conduct Risk Policy.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.	**The Committee:** > considered the regular updates from the Chief Risk Officer on operational risks; > challenged and approved the operational risk scenarios and their resulting output for inclusion in the ICAAP to support the operational risk capital calculation; and > approved the refreshed Group Operational Risk Policy. **Emerging risk:** > climate risk; and > third-party risk.
Technology risk	The risk of loss resulting from inadequate or failed information technology processes. Technology risk includes cyber security, IT resilience, information security, data risk and payment risk.	**The Committee:** > reviewed regular IT service updates including updates on service performance (trends and volumes), digital demands on core systems, change management risk and demand and capacity management risk; > reviewed regular cyber and information security updates including updates on material cyber risks, cyber threat intelligence and the cyber security strategy and framework. Updates on third-party access, Cloud standards and controls and training and awareness activities were also considered; > considered deep dive analysis on technology and operational resilience risks, including ageing and complex infrastructure, cyber, cloud adoption and data management. Digital transformation, data management and resource and capability were also considered; and > Approved the refreshed Group Technology and Security Risk Policy and Business Resilience Policy. **Emerging risk:** > data stewardship; and > resilience risk.

Principal risk		Key discussions, decisions and recommendations
Financial crime and fraud risk	This is the risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud and bribery and corruption.	**The Committee:** > oversaw the effectiveness of the Financial Crime Framework which provided insight on the monitoring, management and mitigation of financial crime; > reviewed and discussed the opinions within the FY21 Money Laundering Reporting Officer's Report on the effectiveness of the Group's Anti Money Laundering, Counter Terrorist Financing and Sanctions framework; and > approved the refreshed Group Financial Crime Risk, Anti Money Laundering & Counter Terrorist Financing, Anti Bribery and Corruption policies.
Strategic and enterprise risk	The risk of significant loss of earnings or damage arising from decisions 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.	**The Committee:** > reviewed updates on the risk implications from project prioritisation including risks associated with activity that was de-scoped or re-phased; > considered the regular updates from the Chief Risk Officer on strategic and enterprise risks; > discussed and noted regular updates on the impacts from climate change including the financial risks from the climate change plan covering governance, risk management, scenario analysis, disclosure and opportunities, in order to comply with the PRA's expectations by the end of 2021; and > approved the refreshed Strategic and Enterprise Risk Policy. **Emerging risk:** > political and economic risk; > regulatory change; and > climate risk.
People risk	The risk of not having sufficiently skilled and motivated colleagues who are clear on their responsibilities and accountabilities and who behave in an ethical way.	**The Committee:** > reviewed deep dive analysis on the Group's current and emerging people risks including, the ongoing colleague communications and measures in place in the workplace to safeguard colleagues as a result of the COVID-19 pandemic, the delivery of significant restructuring, and talent and capability retention; and > approved the refreshed People Risk Policy. **Emerging risk:** > new ways of working and changing skill requirements; and > resilience risk.

Underpinning all of the principal risks is the following:

Cross-cutting risk		Key discussions, decisions and recommendations
Operational resilience	The ability of the Group to protect and sustain its most critical functions and underlying assets, while adapting to expected or unexpected operational stress or disruption, and having the capacity to recover from issues as and when they arise.	**The Committee:** > reviewed deep dive analysis on the operational resilience framework, including MI on the four key pillars: people, premises, suppliers and technology; > considered the risks associated with an ageing and complex infrastructure and the Group's approach to disaster recovery (including technology); and > discussed the planned enhancements to resilience and future proofing of the digital platform which will be delivered via the iB Service Protection Programme.
Climate risk	The physical, transition and reputation risks arising from climate change.	**The Committee:** > discussed and noted regular updates on the impacts from climate change including the financial risks from the climate change plan covering governance, risk management, scenario analysis and disclosure and opportunities. This activity reflects the PRA's expectations by the end of 2021 and will support the ability to establish, monitor and disclose more quantitative approaches to metrics and targets in line with the requirements of the TCFD; > considered the key choices for climate change scenario analysis, the outputs of which will enhance the Group's understanding and quantification of how climate change risks may impact the Group's lending and potential actions required to ensure the future resilience of the business model; > endorsed the proposed changes to the Risk report within the Annual Report & Accounts and the new TCFD report in order to enhance the Group's climate-related risk disclosures for FY21 reporting; and > reviewed organisational changes in the Risk function including the creation of a climate risk team who will coordinate the Risk function's activity across the wider ESG agenda.

Further information on the Group's principal risks, emerging risks, approach to risk appetite, risk culture and the RMF, can be found in the Risk report beginning on page 147.

Internal control

Board responsibility

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

The Board confirms that throughout the year ended 30 September 2021 and up to the date of approval of this Annual Report & Accounts, there have been rigorous processes in place to identify, evaluate and manage the principal risks faced by the Group, including those that would threaten its business model, future performance, solvency or liquidity, the likelihood of a risk occurring and the costs of control in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC.

In order to assist in the identification and management of the principal risks, the Board has an established RMF which is integrated into the Group's overall framework for risk governance, and has developed a system of regular reports from management. The Board has authorised the Risk Committee to oversee the Group's compliance with the Board's approved RAS, RMF and risk culture. Further details can be found in the Risk report on pages 147 to 216.

Reviews by the Board

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

Control effectiveness

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

Overall assessment

The RMF, Risk Appetite Framework (RAF), RAS and Policy Management Framework have continued to be monitored to ensure they remain in line with the external environment and aligned to the Group's strategy and Purpose. This year, the RMF review focused on ensuring that the principal risks and underlying level 2 risk categories remain appropriate, taking into account views from both internal and external stakeholders and also comparison with peers. Following discussion, it was considered that the principal risks should remain with some changes to the underlying level 2 risk categories. These changes further align the risk reporting, appetite and RMF allowing a single view of risk management across the Group. There has been some streamlining of the Group's policy framework predominately amalgamating similar themed policies which makes the policy framework easier for users to navigate, in line with the Group's Purpose. The control environment remains stable with the 2020 Control Effectiveness Statement providing assurance that ineffective controls are escalated appropriately and have adequate action plans in place.

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

Statement by the Chair of the Remuneration Committee

> The Committee's end of year decision making has taken account of stakeholder experience and, for the annual bonus, placed particular emphasis on the Group's cost performance for the year. The formulaic bonus scorecard outcomes for both Executive Directors have been subject to downward discretion with awards reduced from 67% to 12% of maximum opportunity.

Darren Pope
Chair, Remuneration Committee

Members

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

Directors' remuneration report contents

Dear shareholder,
On behalf of the Board, and as Chair of the Remuneration Committee, I am pleased to present the Directors' Remuneration report for the year ended 30 September 2021. The report sets out how the Committee addressed its responsibilities during the year and explains the rationale for its decision making.

2021 AGM and engagement with shareholders
The 2020 remuneration report received overwhelming support at the 2021 AGM, with 98.65% of votes received in favour. This outcome provided further evidence that shareholders remain satisfied with the Group's remuneration structure and its implementation.

During the year we have maintained ongoing engagement with investors, with a number of meetings held with the Group's largest shareholders relating to LTIP targets and the overall approach to remuneration. Given the strong levels of shareholder support for the existing approach, the implementation of the Group remuneration framework will follow a similar approach for the year ahead. To ensure incentive structures remain aligned to strategic priorities, we are however making a number of amendments to the measures that will apply to 2022 Short-Term Incentive Plan (STIP) and 2021 LTIP awards. These are described in more detail below and are designed to better align measures with the Group's strategy.

Board changes in 2021
Clifford Abrahams joined the Group as Chief Financial Officer on 8 March 2021. Clifford's salary on appointment was £600,000 per annum. His overall terms are in accordance with the Group's approved remuneration policy including his pension arrangements which are aligned with the rate provided to the majority of colleagues. Clifford's joining arrangements did not include any buy-out award.

During the year, Elena Novokreshchenova joined the Board as a Non-Executive Director and I was pleased to welcome her as a member of the Committee from 1 August 2021.

Executive Director STIP (annual bonus) 2021 outcomes
As reflected elsewhere in the Annual Report and Accounts, COVID-19 has continued to have a significant impact on the Group's operations during the year. There are, however, grounds for optimism as we emerge from the pandemic including the Group's return to profitability. The annual bonus pool is determined based on performance against Group scorecard targets set at the outset of the financial year. The overall scorecard outcome for the year was above target, with particularly strong performance recorded against RoTE and relationship deposit growth targets and an above plan underlying profit before tax (PBT) of £801m. However, the Group's customer experience and colleague engagement targets were not met this year.

The Group's CIR target was exceeded, however, throughout 2021 the Committee has placed particular emphasis on the management of Operating Costs. With this in mind, I can confirm that the target established for 2021 was not achieved, and accordingly the Committee has re-assessed the formulaic scorecard outcome through the lens of affordability.

While noting the Group scorecard outcome, the Committee took into consideration a range of factors including stakeholders' experiences over the year (see page 134) in determining Executive Director bonus awards. The Group's cost performance was a key factor in the Committee's decision to reduce the formulaic scorecard outcome of 67% of maximum opportunity to 12% for the CEO and CFO.

However, the Committee notes Executive Directors have demonstrated strong leadership during the year, and the CFO has made a very significant and positive impact to the finance function, and the Group more broadly, since he joined in March. Further details on their respective achievements in the year are provided on page 133.

2018 LTIP
Following the end of the three-year performance period applicable to the 2018 LTIP award, the Committee assessed outcomes against the financial and non-financial performance targets. The Group recorded a strong performance against several of the financial measures, particularly in relationship deposit growth and RoTE; however, the three-year targets set for CIR and Operating Costs were not delivered on. On non-financial measures, the target for digital adoption was encouragingly exceeded and the Committee assessed on-target performance against the risk scorecard. A target outcome was recorded on senior leadership diversity, while customer experience and colleague engagement ambitions were not met.

In assessing the 2018 LTIP outcome, the Committee recognised the impact of impairment provisions released in the year on RoTE but judged that no adjustment was necessary given the overall performance across a balanced set of measures. This approach is consistent with the one adopted last year for the 2017 LTIP that was adversely affected by the impairment provision being increased and where no upward discretion was applied. The Committee therefore approved the overall outcome for the 2018 LTIP as 60% of maximum. Shares under this award remain subject to ongoing deferral, and will be released in tranches from December 2021 to December 2025.

Colleague remuneration
Given the Group's cost performance in 2021, the Committee reduced the formulaic outcome of the overall bonus pool for the year. In reaching this decision, the Committee balanced cost performance with the importance of recognising colleagues' efforts over a challenging period as well as the Group's cautiously optimistic outlook as the economy emerges from the pandemic. Having closely monitored risk events throughout the year, the Committee was satisfied that no Group-wide risk adjustment was necessary for 2021.

The pool will be distributed such that more junior colleagues receive relatively better outcomes (see table on page 125). The majority of colleagues, who participate in the Team Bonus structure, will receive a bonus award for the year of 72% of their target opportunity.

In addition to bonus awards for 2021, the Remuneration Committee has also supported an annual pay review budget of 4.5%, which will be distributed across all colleagues, although no increase is proposed for Executive Directors.

The overall impact of variable pay decisions for 2021 on the CEO pay ratio is an annual increase to 77:1 from 42:1 in 2020, when no annual bonus payment was made to the CEO, and the LTIP outcome for the year was 32%. This compares to STIP and LTIP out-turns in 2021 of 12% and 60%.

Forward-looking incentive targets
During the course of the year, the Committee has considered how to appropriately align forward-looking incentive schemes with the Group's evolving strategic priorities. The Committee considers LTIP and STIP measures holistically, to ensure each plan is effective in driving performance against the Group's objectives. A number of changes have been made to the performance measures applicable to the 2021 LTIP and 2022 STIP.

To reflect the Group's growth ambitions, both STIP and LTIP measures will include targets based on increasing the number of PCAs and BCAs at the same time as delivering lending asset growth across Unsecured and Business portfolios.

Recognising the importance of disciplined delivery, the STIP will include an underlying cost target for 2022. The Group's longer-term focus on growth and returns is reflected by the inclusion of CIR in the 2021 LTIP.

The customer metrics applicable to both LTIP and STIP have been revised, to ensure these incentivise improved experience across all journeys, rather than focusing solely on PCA customers. The Group's internal Smile Score is used to monitor, manage, and improve the quality of customer experience across a range of customer journeys daily. This metric is well-suited to drive enhanced customer experience in the short term and will therefore form part of the Group Scorecard for 2022 STIP (for more detail on Smile Score see page 16).

While Smile Score supports the incremental improvements to customer experiences, Retail NPS focuses on the overall relationship that customers have with Virgin Money, demonstrated by their likelihood to recommend to others.

Retail NPS is widely recognised as a key customer experience measure. Performance against this metric develops over time and is therefore included in the 2021 LTIP as a relative measure thereby reflecting performance against a peer group of key competitors across both personal and business consumers provided by independent market research agencies.

The Group's focus on digitising its operations is reflected in 2022 STIP targets for increasing both the percentage of sales made through digital channels and proportion of customers who are digitally active, monitored by how regularly they interact through digital channels.

The 2021 LTIP once again includes an ESG scorecard reflecting the Group's aspiration to drive positive social and environmental impact. In line with the 2020 LTIP, the ESG scorecard carries a 15% weighting and comprises measures focused on colleague engagement, colleague diversity and a reduction in operational carbon emissions. Each element of the ESG scorecard has clearly defined and disclosed targets which align with the Group's progress towards 2030 ambitions (set out in the Strategic report). For 2021, the scope of the diversity target has been broadened to include ethnicity as well as gender. The carbon emissions target represents continued momentum towards net-zero operational emissions by 2030. During 2022, the Group will look to develop a more comprehensive understanding of financed emissions and develop long-term reduction road maps. We therefore anticipate a further expansion of the ESG LTIP scorecard to incorporate these elements from next year, in alignment with the Group's 2030 aspiration. In the absence of financed emissions targets in this year's ESG LTIP Scorecard, an additional, qualitative measure is included based on the Group's overall progress towards its 2030 net-zero goal.

A summary of 2022 STIP and 2021 LTIP performance measures is provided on page 122 with a full disclosure of 2021 LTIP measures, weightings and targets provided on page 136.

2021 LTIP awards will be made to Executive Directors, and other senior leaders, in December 2021. The performance conditions will be assessed over the period from 1 October 2021 to 30 September 2024, with awards released from December 2024 to December 2028 and subject to post-release holding requirements.

UK Corporate Governance Code (the Code)
The Committee aims to adhere to standards of best practice for reporting, disclosure and transparency and to oversee fair and consistent outcomes across all stakeholders. During the year, we have sought to enhance the dialogue between colleagues and the Committee by running a series of remuneration specific focus groups with c.60 colleagues. These sessions focused in particular on how the Group's remuneration framework is aligned for both executive directors and all colleagues and how the Committee oversees fair outcomes.

As reflected in last year's report, we are committed to aligning the CEO's pension arrangement with the rate applied to the majority of the workforce when the new remuneration policy takes effect from 1 October 2022.

The Committee is cognisant that the Code expects the development of a formal post-employment shareholding requirement. We retain the view that the Group's existing remuneration structure, together with the regulatory regime applicable to UK retail banks, ensures that Executive Directors are already subject to adequate post-employment shareholding requirements and that the Group's approach complies with the spirit of the Code provision. The basis for this view is further outlined on page 141.

Looking ahead – new policy for 2023
2022 represents the third and final year of the existing policy's operation. In the coming months we will assess what changes are necessary to ensure the structure supports the Group's strategic ambitions and remains aligned with evolving standards of best practice. Any amendments will include, for example, the alignment of Executive Director pension arrangements referred to above. As we develop the new policy, we will consider the ways in which we can further incorporate the Group's ESG ambitions into our remuneration framework. We will engage with shareholders to ensure their views are taken into consideration, as the new policy evolves, ahead of a binding vote at the 2023 AGM.

Committee performance evaluation
The 2021 evaluation of the Committee's effectiveness was an internal evaluation of the Committee's activity relative to its prescribed objectives and responsibilities. The output of the assessment was considered by the Committee and it was agreed that the Committee had met all of its responsibilities and was effective overall. Actions to improve Committee effectiveness were agreed and completed during the year including the remuneration focus groups referred to above which have informed Committee discussion and decision making. The Committee adopts a continuous improvement approach to its effectiveness and makes changes to its operation throughout the year when needed.

The 2021 Directors' remuneration report will be subject to an advisory vote at the 2022 AGM. I am pleased to recommend the report, and this statement, to you ahead of the AGM.

On behalf of the Board

Darren Pope
Chair, Remuneration Committee
23 November 2021

Committee role and responsibilities

The Committee assists the Board in overseeing remuneration arrangements, particularly those of the senior management and employees covered by the Remuneration Code.

The Committee is responsible for:

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

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

Committee composition

The Committee comprises five independent Non-Executive Directors and the Board Chairman who was considered independent on appointment as Board Chairman. Details of the Committee members' skills and experience can be found in their biographies on pages 69 to 73.

Other attendees at Committee meetings during the year included: the Chief Executive Officer, the Chief Financial Officer, the Chief People Officer, the Head of Reward and Employee Relations, and the Group Company Secretary, except when issues relating to their own remuneration were being discussed. The Virgin Group Non-Executive Director and the Committee's independent remuneration adviser, PricewaterhouseCoopers LLP (PwC), also regularly attend Committee meetings as appropriate depending on the Committee's business.

Committee meetings

The Committee held seven scheduled meetings and three additional meetings. Details of meeting attendance are set out on page 66.

How the Committee spent its time

Activities during the year

The significant matters addressed by the Committee during the financial year ended 30 September 2021 are described below:

Key area of focus	Key discussions, decisions and recommendations
All-colleague remuneration	> Considered ongoing impact of COVID-19 on all remuneration elements. > Approved a flat-rate recognition award of £500 for colleagues below the Group's most senior management level for the 2020 financial year. > Determined no annual salary increases for 2021. > Considered 2020 gender and ethnicity pay gaps and the CEO pay ratio. > Reviewed progress on Group's diversity targets and considered how the Group's remuneration policies and practices deliver fair outcomes for colleagues across all protected characteristics. > Reviewed and approved the Group Scorecard performance measures and targets for the 2021 Annual Bonus.
Executive Director and senior management remuneration	> Determined that no bonus award would be made to Executive Director and senior management for the 2020 financial year given the impact of COVID-19 on the Group's overall financial performance. > Determined no annual salary increases for individual Executive Director and senior management for 2021. > Approved the performance outcome of the 2017 LTIP award granted in November 2017. > Reviewed and approved the Group Scorecard performance measures and targets for the 2021 Annual Bonus. > Approved the LTIP awards granted in December 2020. > Considered and approved the 2020 LTIP awards performance measures and targets. This included the introduction of a new ESG scorecard. > Approved remuneration terms for new CFO in line with approved policy. > Considered and noted Executive Director personal objectives for 2021. > Considered external market insight when undertaking annual review of the Board Chairman's fee. > Approved Material Risk Taker (MRT) termination and commencement awards.
Governance, risk and other matters	> Considered and approved the implementation of the Directors' Remuneration Policy for 2021. > Approved the 2020 Directors' remuneration report. > Reviewed and approved changes and confirmed MRT population throughout the year. > Considered all regulatory requirements. > Considered appropriate risk reporting, including corporate risks and conduct risks and approved any corporate or individual risk adjustments to variable pay. > Considered and reviewed the 2021 planned activities. > Reviewed the Committee's charter.

Following the end of the 2021 financial year, Committee meetings have taken place at which final 2021 variable remuneration outcomes for all colleagues, including the Chief Executive Officer and Chief Financial Officer, other senior management and MRTs, have been determined. The Committee also determined the performance outcome for the 2018 LTIP award following completion of the three-year performance period on 30 September 2021.

Advisers to the Committee

PwC were first appointed as independent advisers to the Remuneration Committee in 2015 and have been advisers since this date. PwC were re-appointed as independent advisers following a tender process in 2021. During the 2021 financial year, PwC advised the Committee on all aspects of the Directors' Remuneration Policy. PwC also provide professional services in the ordinary course of business including assurance, advisory, tax and legal advice. There are processes in place to ensure no conflict of interest exists in the provisions of these services. PwC is a member of the Remuneration Consultants Group, whose voluntary code of conduct is designed to ensure objective and independent advice is given to remuneration committees. Fees of £139,000 excluding VAT (2020: £182,000) were paid based on the time spent on advice provided to the Remuneration Committee in respect of Directors' remuneration for the financial year.

Voting from AGM	Votes for		Votes against		Withheld
	Number of shares	% of votes	Number of shares	% of votes	Number of shares
Directors' Remuneration Policy (2020 AGM)	998,049,041	99.50	5,037,177	0.50	11,636,931
Directors' Remuneration Report (2021 AGM)	1,043,034,150	98.65	14,318,869	1.35	6,607,590

Remuneration at a glance

How do incentive performance measures align to our strategy?

Our strategic priorities

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

2022 Annual bonus – performance measures and weightings[1]

Underlying PBT **15%**	Smile Score **8%**	Underlying RoTE **25%**	Customer growth measures **15%**
Total underlying costs **20%**	Colleague engagement **8%**		
	Digital sales & activity **9%**		

2021 LTIP – performance measures and weightings

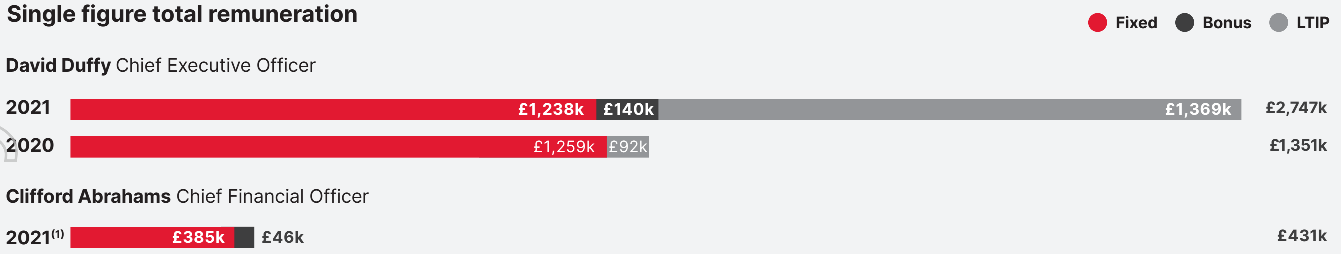
Underlying CIR **15%**	Retail NPS **10%**	Statutory RoTE **25%**	Customer growth measures **15%**
	ESG scorecard **15%**	Risk scorecard **20%**	

(1) The percentages represent the weighting attributable to each performance measure included in the Group Scorecard. Performance against the Group Scorecard accounts for 80% of Executive Director bonus opportunity with a further 20% weighting attributable to personal performance.

Performance measures for the Annual Bonus and LTIP are carefully chosen to align to the Group's strategic priorities. The measures reflect the Group's ambitions to grow the business, to deliver robust and disciplined financial performance, to provide heartfelt service to customers and delight colleagues. The inclusion of an ESG scorecard within our LTIP measures ensures that Executive Director remuneration is aligned with the Group's aspiration to drive positive social and environmental impact through everything we do.

How does executive remuneration align to performance?

Single figure total remuneration



(1) Clifford Abrahams joined the Group in 2021 and therefore did not receive any income from the Group in 2020.

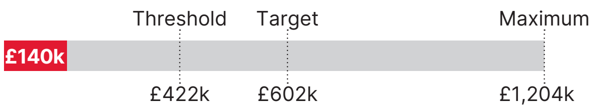
2021 Annual bonus

2021 Annual bonus performance

Category	Measure	Weighting	Performance achievement versus targets: Threshold	Target	Maximum	CEO outcome as % of maximum opportunity	CFO outcome as % of maximum opportunity
Super straightforward efficiency	Underlying PBT	12%	£259m	£299m	£339m	12%	12%
				Actual: £801m			
	Underlying CIR	8%	59.4%	58.4%	57.4%	8%	8%
				Actual: 57.4%			
	Total underlying costs	8%	£870m	£865m	£860m	0%	0%
				Actual: £902m (Threshold not met)			
Delighted customers and colleagues	Personal NPS	8%	23	26	29	0%	0%
				Actual: 20 (Threshold not met)			
	Colleague engagement	12%	76%	79%	80%	0%	0%
				Actual: 68% (Threshold not met)			
Discipline and sustainability	Underlying RoTE	16%	5.4%	6.0%	6.6%	16%	16%
				Actual: 17.8%			
Pioneering growth	Relationship deposit growth	16%	-2.6%	-0.6%	2.6%	16%	16%
				Actual: 19.2%			
Personal objectives		20%	Summary of personal performance on page 133.			15%	15%
Scorecard outcome						**67%**	**67%**
Adjustment						**(55%)**	**(55%)**
Final outcome						**12%**	**12%**

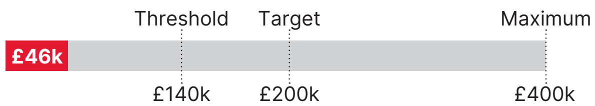
As set out in the Chair's statement, the Committee re-assessed the formulaic scorecard outcome from an affordability perspective. In line with the approach for the distribution of the bonus pool, this year the approved annual bonus outcome for both the CEO and CFO was 12% of maximum (23% of target). The Committee undertook an assessment of each Executive Directors' personal performance in the year (see summary on page 133). To note, the CFO's bonus award (below) was calculated based on the salary he received in the year from the date he joined the Group.

David Duffy
£140k*



*50% delivered in shares.

Clifford Abrahams
£46k*



2018 LTIP

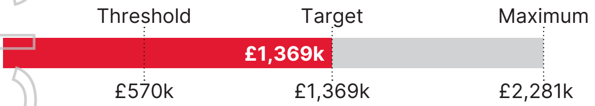
2018 LTIP bonus performance (1 October 2018 – 30 September 2021)

Category	Measure	Weighting	Performance achievement versus targets: Threshold	Target	Maximum	Outcome as % maximum opportunity
Super straightforward efficiency	CIR	10.0%	52%	50%	49.5%	0%
			Actual: 57.4% (Threshold not met)			
	Operating cost outcome	10.0%	£840m	£825m	£815m	0%
			Actual: £902m (Threshold not met)			
Delighted customers and colleagues	Colleague engagement	2.5%	70%	72%	74%	0%
			Actual: 68% (Threshold not met)			
	Senior colleague diversity	2.5%	40%	42%	44%	1.5%
			Actual: 42%			
	CMA ranking	8.33%	Top 8	Top 5	Top 3	0%
			Actual: 15 (Threshold not met)			
	Digital adoption	8.33%	54%	56%	58%	8.33%
			Actual: 62.1%			
Discipline and sustainability	Underlying RoTE	30.0%	9.5%	10.5%	10.75%	30%
			Actual: 17.8%			
	Risk scorecard	20.0%	Actual: Target outcome			12%
Pioneering growth	Relationship deposit growth	8.33%	5%		10%	8.33%
			Actual: 19.2%			
Final outcome		100%				**60%**

Following the end of the three-year performance period, an assessment of performance against the Risk scorecard was carried out. This included specific focus on customer complaints, operational risk losses and bad and doubtful debt as well as feedback received from the Chair of the Board Risk Committee. The Committee determined that target performance had been delivered against this measure.

David Duffy

£1,369k*



*Delivered in shares and deferred up to 2026.

The average share price between 1 July 2021 and 30 September 2021 of £199.7p has been used to calculate the value of the 2018 LTIP award following assessment of performance at the end of the three-year period. The possible threshold, target and maximum outcomes are also provided as a comparison. Share price movement has increased the valuation of the award by £68,545 compared to the corresponding value at the time of grant.

Clifford Abrahams did not join the Group until March 2021 and therefore did not receive a 2018 LTIP Award.

How does executive remuneration align with the wider workforce?

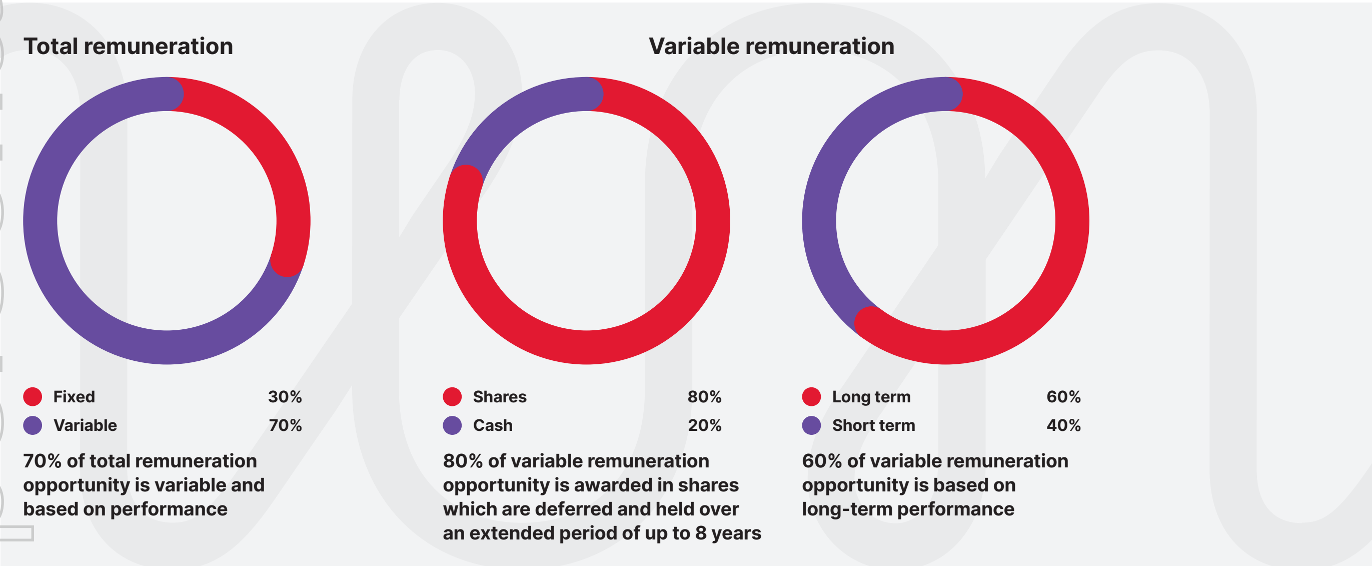
	Executive Director	All colleagues
Salary	No pay increase for 2022.	Annual pay budget of 4.5%.
Bonus	Annual bonus award of 12% of maximum (23% of target). 50% delivered in shares.	Annual bonus award made to all eligible colleagues. The majority of colleagues, who participate in the Team Bonus, to receive bonus award of 72% of target.
LTIP	2018 LTIP vested at 60%. 2021 LTIP to be granted in December 2021.	Some senior managers are eligible to participate in the LTIP. The LTIP performance measures, weightings and targets are the same as that applied for Executive Directors, however level of award varies by role.

When making remuneration decisions for the Executive Directors, the Committee considers pay, policies and practices elsewhere in the Group.

An abridged version of the Executive Director Remuneration Policy is provided from pages 126 to 131 and the CEO pay ratio and details of year-on-year movement in pay, benefits and bonus is on pages 138 and 139. An overview of how the Group's remuneration framework applies to colleagues and Executive Directors is provided on page 128.

How does executive remuneration align to long-term shareholder value?

As a Committee, we want to incentivise Executive Directors to take a long-term, sustainable view of the performance of the Group:



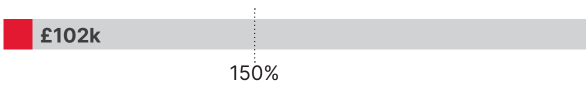
Executive Director Shareholdings

David Duffy

The chart below shows that as at 30 September 2021, David Duffy had met his minimum shareholding requirement of 200% of salary, demonstrating strong alignment with shareholders. In addition, David has a substantial amount of equity which can potentially be earned in the future through in-flight LTIP awards, further increasing exposure to the share price performance of the Group. A full breakdown of David's share interests is provided on page 140.

Clifford Abrahams

Clifford Abrahams joined the Group in March 2021 and purchased 50,000 shares during the year. Clifford has not yet been granted any LTIP awards or any other share awards. Under the Directors Remuneration Policy, Executive Director's must retain 60% of net shares from Group share awards until the shareholding requirement is met.



Value of shares held at 30 September 2021 | Shareholding requirement

Directors' Remuneration Policy – abridged

In this section, we provide a summary of the key elements of the approved remuneration policy, which was formally approved by shareholders at the AGM on 29 January 2020.

2022 represents the third and final year of the existing policy's operation. A new policy will be put forward to shareholders next year, ahead of a binding vote at the 2023 AGM.

The table below summarises the key elements of the remuneration framework for Executive Directors, including how this was implemented in 2021 and how we intend to implement it in 2022. The full policy can be found on pages 106 to 116 of the 2019 Directors' remuneration report, included in the 2019 Annual Report and Accounts, available at www.virginmoneyukplc.com

Element and purpose		Operation
Salary	Recruit, reward, retain and recognise role responsibilities	Base salaries are paid monthly and reviewed annually with any increases normally aligned in percentage terms with increases awarded to other colleagues.
Pension	Recruit, reward, retain and contribute towards funding for retirement	Executive Directors are entitled to participate in the Group defined contribution pension scheme or may receive a cash allowance in lieu of an employer pension contribution. The maximum contribution or cash allowance is 20% of salary. Newly-appointed Executive Director contributions will be aligned with the pension benefits available to the majority of colleagues (currently 13%).
Benefits	To provide competitive benefits	A range of benefits are provided to Executive Directors including private medical insurance, health assessments, life assurance, car allowance/car and 30 days' holiday. A cap of £250,000 applies to the current Chief Executive Officer's standard benefits including pension.
Bonus	To reward Group and personal performance in line with strategic objectives	Annual bonuses are discretionary and are based on Group and individual performance measures within the year. The measures, their weighting and targets are set annually with awards determined by the Committee at the end of the financial year. The annual bonus may be delivered in shares and/or cash. The equity-based element of the award will be made under the Deferred Equity Plan (DEP). Regulatory holding periods may be applied as necessary upon the vesting of upfront awards and at the end of the required deferral period for deferred awards. Taken together with the LTIP and any relevant awards under the all-employee Share Incentive Plan (SIP), the total variable remuneration opportunity in respect of a financial year is limited by the 2:1 ratio of variable pay to fixed pay, subject to the LTIP opportunity being at least half of the total variable pay opportunity. The Committee can, at its discretion, apply malus and/or clawback to all or part of any bonus award (see page 130).
LTIP	Delivery of the Group's strategy and growth in shareholder value	Awards are subject to performance conditions aligned with the Group's long-term strategic goals. Performance conditions are normally tested over a period of three financial years. Upon the vesting of shares at the end of the required deferral period, a regulatory holding period may be applied as necessary. The weighting of metrics will be determined before grant with no more than 25% of the maximum vesting for threshold performance. The Committee has discretion, in exceptional circumstances, to amend targets, measures or weightings if a corporate event takes place (for example a major transaction, including a change of control, or capital raising) that in the opinion of the Committee causes the targets, measures or weightings to be no longer appropriate or such adjustment to be reasonable. Taken together with the annual bonus opportunity and any relevant awards under the all-employee SIP, the total variable remuneration in respect of a financial year is limited by the 2:1 ratio of variable pay to fixed pay (excluding recruitment awards), subject to the LTIP opportunity being at least half of the total variable pay opportunity. The Committee can, at its discretion, apply malus and/or clawback to all or part of any LTIP award (see page 130).
Shareholding guidelines		Executive Directors are expected to build up a specified holding of Group shares equivalent to a percentage of salary. Chief Executive Officer: 200% of salary. Chief Financial Officer: 150% of salary. 60% of net shares received from share awards must be retained until this requirement is met. Post-employment: Under the remuneration policy, a significant proportion of variable pay is delivered in shares over a seven-year time frame with vested shares subject to a further holding period.

Directors' Remuneration Policy and principles

The remuneration principles support the Group's culture and its long-term business strategy. Executive Director remuneration is linked to individual performance, business results, shareholder experience, fair customer outcomes and prudent risk management. Remuneration arrangements are fully compliant with, and will be operated in line with, all remuneration regulatory requirements.

The remuneration policy is intended to:

- provide competitive, transparent and fair rewards and benefits;
- reward achievement of short and long-term individual performance and business strategy;
- align the interests of Executive Directors and shareholders;
- deliver outcomes over short and long-term horizons with appropriate performance and risk adjustments;
- support the RMF which is set by reference to the risk appetite of the Group; and
- ensure the Group is able to attract, recognise, motivate and retain Executive Directors as the Group grows.

Implementation in 2021	Implementation in 2022
David Duffy £1,020,000 p.a.; **Clifford Abrahams** £600,000 p.a.	**David Duffy** £1,020,000 p.a.; **Clifford Abrahams** £600,000 p.a.
David Duffy 18% of salary; **Clifford Abrahams** 13% of salary	**David Duffy** 18% of salary, CEO pension to be reduced to 13% of salary from 1 October 2022; **Clifford Abrahams** 13% of salary
Including car allowance, private medical insurance and other taxable benefits	No change
Maximum opportunity (% of salary): **David Duffy** 118%; **Clifford Abrahams** 117% Executive Directors awarded bonuses of: **David Duffy** £140,000; **Clifford Abrahams** £46,000 **Performance outcomes for 2021 can be found on page 123**	Maximum opportunity (% of salary): **David Duffy** 118%; **Clifford Abrahams** 117% **Performance measures and weightings are provided on page 122.** Targets are considered commercially sensitive and will be disclosed on a retrospective basis following the end of the performance period in the 2022 Annual Report and Accounts.
2021 LTIP award to be granted in December 2021: **David Duffy** Award of 177% of salary; **Clifford Abrahams** Award of 176% of salary **Details of 2021 LTIP awards are provided on page 136**	Maximum opportunity in 2022: **David Duffy** 177% of salary; **Clifford Abrahams** 176% of salary No change to maximum LTIP opportunities or the performance conditions
David Duffy 200% of salary, Requirement met; **Clifford Abrahams** 150% of salary, Requirement not yet met **Details of Director shareholdings can be found on page 141**	No change in shareholding requirement

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Approach to all-colleague Remuneration

The Group's approach to all-colleague remuneration is intended to provide competitive, transparent and fair rewards that attract, retain and motivate colleagues to deliver ambitious, customer-focused outcomes. The alignment between the framework for Executive Directors and all-colleague remuneration is illustrated below. The Committee's end of year decision making relating to annual pay increases and variable pay awards is made based on a holistic approach with particular focus paid to the consistency of outcomes across the Group (see table on page 125).

All colleagues		Executive Directors
> Salaries set in line with roles and responsibilities and reviewed each year with annual increases approved by Remuneration Committee > All colleagues paid at, or above, the Living wage > Private Medical Insurance provided with option to purchase other flexible benefits	← Salary and benefits →	> Reviewed each year with any increases normally aligned in percentage terms with annual increases awarded to other colleagues > Private medical insurance and car allowance provided with option to purchase other flexible benefits
> Contributions up to 13%	← Pension →	> CEO receives contribution of 18% of salary in cash, reducing to 13% of salary by 1 October 2022 > CFO: 13% of salary in cash
> All colleagues are eligible for a bonus > Targets aligned to the Group's strategic goals > Some senior colleagues also receive a percentage of bonus based on individual performance measures	← Bonus →	> Maximum: CEO 118% of salary; CFO: 117% > Majority of bonus (80%) is based on the same Group targets that apply to all colleagues > Similar to other senior colleagues, 20% of the bonus award is based on individual performance measures
> The SIP provides for the purchase of shares, in line with HMRC participation level rules, on a monthly basis from gross pay and is also the vehicle used to allow for awards of free or matching shares	← Share incentive plan →	> The Executive Directors are invited to participate in all-colleague share plans on the same basis as other Group colleagues
> Leadership team and some senior colleagues participate in the LTIP > Three-year performance period > Targets aligned with the Group's long-term strategic goals > Deferred and held over a period of up to eight years > LTIP opportunities vary by role	← Long-term incentive scheme →	> The LTIP performance measures, weightings and targets are the same as that applied for other senior colleagues who participate in the LTIP > Awards are deferred and held over a period of up to eight years > Maximum LTIP opportunities are currently: CEO: 177% of salary; CFO: 176% of salary
> Shareholding requirements are in place for the Leadership Team	← Shareholding guidelines →	> Expected to build up a holding of Group shares of: – CEO: 200% of salary – CFO: 150% of salary

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

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

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

Stakeholder engagement

In September 2021, the Chair held a series of focus groups with colleagues from a broad cross-section of the organisation including Unite. Matters discussed included the alignment of Executive Director and all-colleague remuneration, and the Group's pay gap and pay ratio reporting. This format of engagement with the workforce will continue during the year ahead to ensure the Committee remains aware of the key remuneration issues for colleagues. The Chair sought engagement with the Group's largest shareholders ahead of determining the performance measures and targets for the 2020 LTIP.

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

Principle	Approach
Simplicity, clarity and proportionality	The remuneration policy is designed to retain simplicity while complying with all relevant regulatory requirements and meeting shareholder expectations. Remuneration elements include fixed pay (base salary, pension and benefits) and variable pay (annual bonus and LTIP). Targets for annual bonus and LTIP awards are aligned to the Group's strategic priorities. This provides clarity to shareholders and other stakeholders on the relationship between the successful delivery of the Group's strategy and remuneration paid. The Committee's overriding discretion ensures that remuneration outcomes are aligned with Group performance. As reflected in the Chair's statement on page 116, the Committee considers overall pay and conditions for colleagues across the Group as a whole when determining Executive Director outcomes.
Risk and alignment to culture	The remuneration policy supports the Group's RMF and delivers outcomes over short and long-term horizons with appropriate performance and risk adjustments. Risk and conduct considerations are taken into account as part of the decision-making process for variable pay awards. Ahead of the release of deferred share awards a risk adjustment process is applied with a review undertaken by the Remuneration Risk Adjustment and Board Risk Committees prior to final approval by the Remuneration Committee. Annual and long-term incentives are designed to drive behaviours consistent with the Group's Purpose, Values and Strategy. Performance metrics include non-financial metrics linked to the Group's Purpose and Values, such as measures to improve customer experience, diversity and colleague engagement. The Group's performance philosophy that success will be achieved through alignment with strategic goals and working together is underpinned by a team-based annual bonus. To support this approach to performance management, the annual bonus for colleagues is aligned with the performance of the business. When the Group performs well, colleagues will share in this success and therefore everyone is rewarded for the contribution they make to the Group's success. This aligns Executive Directors and the wider workforce, encouraging colleagues to work collaboratively as one team and therefore reduces behavioural risks. While this approach is adopted for the majority of colleagues across the Group, incentive outcomes for colleagues employed in Control Functions are based on an assessment of functional objectives rather than the performance of the Group.
Predictability	The remuneration policy (included in the 2019 Directors' remuneration report and a summary included on pages 126 and 131) describes the Purpose, operation and maximum potential of each remuneration element and illustrates a range of potential outcomes for Executive Directors. Details of the use of discretion and malus and clawback provisions are also explained on page 130.

Directors' Remuneration Policy – abridged continued

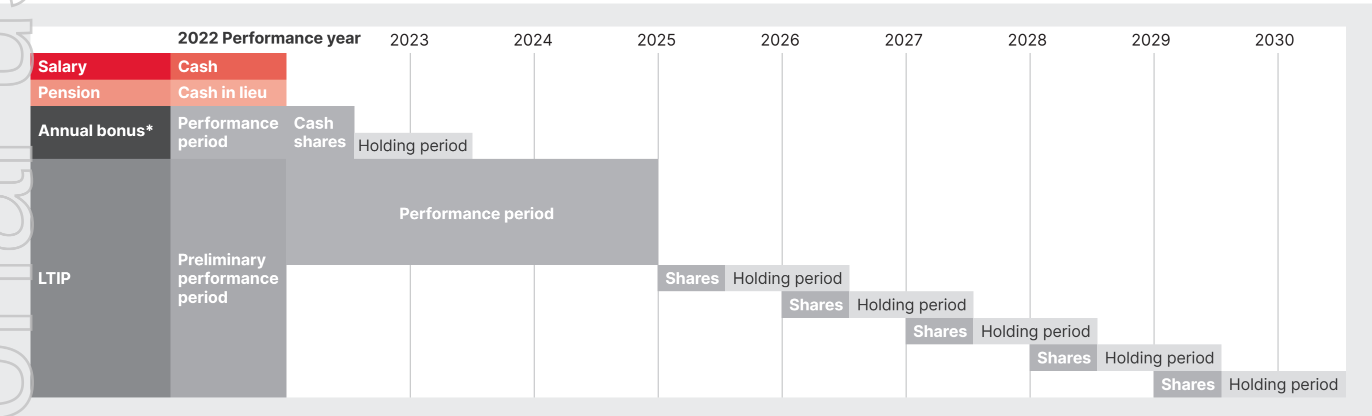
Risk adjustments, malus and clawback

Bonus and LTIP awards may be reduced before they are released (malus) or may be subject to clawback where the Committee determines that an adjustment should apply. Clawback may be applied up to seven years from the award date, or ten years where an investigation has commenced.

Circumstances in which malus and/or clawback may be applied include, but are not limited to, where:

- there is material misstatement of the Group's financial results;
- there is reasonable evidence of individual misbehaviour or material error;
- the Group suffers a material downturn in financial performance;
- the Group suffers a material failure of risk management;
- a determination by the Committee that the circumstances on which it has based any discretion in respect to good leaver treatment were misrepresented at the time or have subsequently changed so that it would have exercised its discretion differently;
- individual conduct has, in the reasonable opinion of the Committee, caused serious harm to the reputation of and/or significant financial loss to the Group or the relevant business unit;
- an error is made in the calculation of the extent of vesting of an award that resulted in an overpayment to the individual; and
- any other matter which, in the reasonable opinion of the Committee, is required to be taken into account to comply with prevailing legal and/or regulatory requirements, which, for the avoidance of doubt, includes any regulations or guidance published by a relevant regulator from time to time.

Illustration of delivery time frame for 2022 remuneration



* Annual bonus awards are normally delivered in a combination of cash and shares and are subject to deferral, in line with regulatory requirements, taking into account total variable pay awarded for the year including LTIP. Any share releases are subject to a post-vest holding period in line with regulatory requirements and market practice.

Remuneration policy – Non-Executive Directors

Non-Executive Directors receive fees set at a rate that reflects the value to the Group and expected time commitment given the added regulatory complexity within the financial services sector. The following table sets out the fees payable for the year ending 30 September 2022, in line with the rates that were approved by the Board in September 2021 and that are reviewed annually. The Non-Executive Directors are reimbursed for expenses they incur in performing their duties. Any tax arising on such reimbursed expenses is borne by the Group.

	Implementation in 2021	Implementation in 2022
Chairman(1)	£375,000	£375,000
Non-Executive Director	£75,000	£75,000
Senior Independent Director	£30,000	£30,000
Chair Audit Committee	£35,000	£35,000
Chair Risk Committee	£35,000	£35,000
Chair Remuneration Committee	£35,000	£35,000
Member Audit Committee	£15,000	£15,000
Member Risk Committee	£15,000	£15,000
Member Remuneration Committee	£15,000	£15,000
Chair Governance and Nomination Committee	£35,000	£35,000
Member Governance and Nomination Committee	£15,000	£15,000

(1) Paid as a combined fee for the role as Chairman and Chair of the Governance and Nomination Committee.

Service contracts and provisions

	Provision	Details
Election	All Executive Directors are subject to annual re-election.	
Notice periods within Executive Directors' service contracts	12-months' notice from Company. 12-months' notice from Executive Directors.	Executive Directors may be required to work during the notice period, unless determined otherwise.
Confidentiality	Six-month post-termination restrictive covenants.	Executive Directors are subject to a confidentiality undertaking without limitation in time, as well as to six-month post-termination restrictive covenants covering non-competition; non-solicitation of and non-dealing with clients; non-interference with suppliers or contractors; and non-solicitation of colleagues.
Outside appointments	Executive Directors may accept outside appointments in other listed companies and retain any fees received.	The Board Chairman is required to approve appointments in advance. Agreement from the Board must be sought before Executive Directors accept any additional non-executive roles outside of the Group. Procedures are in place to ensure that regulatory limits on the number of directorships held are complied with. Details of the directorships held can be found in the biographies section of the Corporate governance report.

The notice periods and dates of service contracts for Executive Directors are shown below:

Executive Directors	Notice period	Date of service contract
David Duffy	12 months	25 November 2015
Clifford Abrahams	12 months	8 March 2021

The dates of current Non-Executive Directors' letters of appointment are shown below:

Non-Executive Directors	
David Bennett	23 November 2015
Paul Coby	19 May 2016
Geeta Gopalan	24 July 2018
Elena Novokreshchenova	22 March 2021
Darren Pope	26 July 2018
Amy Stirling	30 July 2018
Tim Wade	8 September 2016

Annual report on remuneration

In this section we provide greater detail on how the remuneration policy was implemented in 2021.

Outcomes for 2021

Executive Directors – single total figure of remuneration (audited)

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of the financial year to 30 September 2021 (and prior year comparison where relevant). The subsequent sections detail additional information for each element of remuneration.

	David Duffy		Clifford Abrahams(1)
£000s	2021	2020	2021
Salary	**1,020**	1,020	**342**
Benefits and allowances	**34**	55	**4**
Pension and pension allowance	**184**	184	**39**
Total fixed remuneration	**1,238**	1,259	**385**
Annual bonus	**140**	–	**46**
LTIP(2)(3)	**1,369**	139	**–**
Total variable remuneration	**1,509**	139	**46**
Total remuneration	**2,747**	1,398	**431**

(1) Clifford Abrahams was appointed to the Board on 8 March 2021. He received no income from the Group in 2020.

(2) The average share price between 1 July 2021 and 30 September 2021 of 199.7p has been used to indicate the value of the 2018 LTIP. The award was granted in 2018 based on a share price of 189.7p. Following application of the 60% performance outcome, 685,450 shares are due to be released in tranches up to December 2025. Share price movement has increased the gross valuation of the award by £68,545 compared with the corresponding value at the time of grant.

(3) The values for 2017 LTIP included as 2020 remuneration have been restated to reflect the share price on the date of vesting (135.8p on 18 December 2020).

Salary

As disclosed in last year's report, David Duffy did not receive a salary increase for 2021.

Clifford Abrahams was appointed to the Board on 8 March 2021. His salary on appointment was £600,000 per annum.

Benefits

Executive Directors receive private medical cover, health assessment and life assurance. During 2021, David Duffy received a car allowance of £30,000 (2020: £30,000) and other taxable benefits including security totalling £3,699 (2020: £25,228). Clifford Abrahams received a car allowance of £3,866 and other taxable benefits totalling £168.

Pension

David Duffy and Clifford Abrahams opted out of the Group's defined contribution pension plans and, in line with policy, received cash allowances in lieu of pension contributions.

Bonus

David Duffy was awarded an annual bonus of £140,000. Clifford Abrahams, who joined the Group during the year, was awarded an annual bonus of £46,000. Half of the awards are delivered in shares and subject to a 12 month regulatory hold period. Further details on performance against the Group scorecard is provided in the Remuneration at a glance section including details of discretion applied by the Committee (page 123). A summary of performance against personal objectives is set out on the following page.

Personal awards (20% weighting)
The Executive Directors' personal objectives focus on the delivery of the Group's strategic priorities and the successful management of risk. The CFO's personal performance summary covers the period from 8 March 2021.

David Duffy

Strategic priority	Achievements in the year
Super straightforward efficiency	> Delivery of NIM, CET1 and cost of risk in line with guidance > Maintained extensive and ongoing positive engagement with investors > On track to deliver key balance sheet optimisation initiatives
Delighted customers and colleagues	> Enhanced Group reputation externally as evidenced by improved Alva score > Enhanced customer experience with launch of new propositions including Brighter Money Bundles, greener mortgages and national digital Business bank > Continued delivery of customer service despite COVID-19 challenges
Discipline and sustainability	> Board approval of succession plans > Continued rigour, challenge and oversight over the handling of conduct issues, collections and complaints > Developed Board agreed ESG strategy and progress on-track against each of the four big goals
Pioneering growth	> Integration to a single brand: physical rebrand completed. 98% of front book and 94% of back book completed > Digitisation initiatives delivered with digital sales comprising 95% of total sales in Personal channels > Strong credit card performance versus market > Plans to develop a flexible workforce, drive cultural transformation and digitalise colleague experience approved by Board > Progressed strategic partnerships with Microsoft, Global Payments and Capita > Continued promotion of the Group through external roles with UK Finance Limited, CBI President's Committee, HM Treasury and Northern Powerhouse Partnership

Clifford Abrahams

Strategic priority	Achievements in the year
Super straightforward efficiency	> Led FY22 planning process including effective leadership strategies for growth, digitalisation and cost
Delighted customers and colleagues	> Developed positive and effective relationships with regulator
Discipline and sustainability	> Oversaw effective operational readiness plan for negative interest rate scenario > Successful implementation of revised Operating Model in Finance enhancing functional capability
Pioneering growth	> Built strong external relationships across UK Financial Services stakeholder network > Delivered strong financial performance, particularly across capital, asset quality and NIM

While recognising the Executive Directors' personal achievements during the year, the Committee also took note of the Group's overall cost performance as well as the decline in customer experience and colleague engagement scores. These factors have been fully reflected in adjustments made to Executive Directors' final bonus outcomes for 2021.

Alignment with stakeholders

In determining Executive Director variable pay awards for FY21 due consideration was given to overall stakeholder experience during the year. The Committee considers that final outcomes appropriately reflect overall stakeholder experience.

Customers
While customer experience scores declined during the year largely as a result of store closures and IT outages in the earlier part of the year, the Group has delivered for customers through a challenging period caused not only by the pandemic, but by change as the Group rebrands. Contact centres and stores remained available for customers throughout. Business banking teams quickly and efficiently made various government support schemes available to customers. At the same time, new PCA customers have been attracted through the Brighter Money Bundles campaign, a new Business Customer Account proposition has been launched, and 94% of retail customers have been converted to the new brand providing them with the opportunity to earn and utilise Virgin Red's points.

There were no incidents during the year that caused material detriment to customers.

Colleagues
The Committee's end of year decision making relating to variable pay is made based on a holistic approach with particular focus paid to the consistency of outcomes across the Group. As reflected in the table on page 125, as a percentage of target bonus opportunity for the year, Executive Director outcomes for 2021 are lower than that awarded to the majority of colleagues who participate in the Group Team bonus.

During the year, the Group has spent considerable time developing a market-leading colleague proposition that will support and drive inclusivity, flexibility and well-being. The proposition will be rolled-out to colleagues in 2022.

Regulator
The Group has continued to operate in a prudent manner and in line with its principal risk profile and appetite. Material risk events are subject to a robust risk adjustment process and, as a Tier 1 Bank, to regulatory oversight. The Group has not been subject to any regulatory fines or sanctions in the period.

Shareholders
Recognising a slight underperformance over time relative to FTSE 350 Banks, the share price has seen a recovery during the second half of the year, ending the financial year above its pre-pandemic value, with a trajectory aligned with the FTSE 250 and an improved position relative to FTSE 350 Banks. The Group remains on track to meet shareholder expectations of a 10% RoTE during the next LTIP performance period.

LTIP

(i) LTIP awards included in 2021 Single Figure Table
2018 LTIP award (granted December 2018)
David Duffy was granted awards over 1,142,421 shares to the value of 177% of salary on 20 December 2018 with performance conditions tested over the three financial years to 30 September 2021. Performance against the targets set at grant has resulted in a 60% outcome. A breakdown of performance outcome against each target is included in the Remuneration at a glance section on page 124. Share awards granted under this award will be released in tranches from December 2021 to December 2025 with no dividend equivalents payable. A 12-month regulatory hold period applies to half of the net shares received (post-taxation) on each release date. As Clifford Abrahams was not a participant in this award, the LTIP figure in the single figure is zero for him.

(ii) Prior year LTIP awards subject to ongoing performance conditions

2019 LTIP award (granted December 2019)

Performance measures are shown in the table below:

Underlying performance measures		Weighting	Threshold	Target	Maximum
Super straightforward efficiency	CIR[1]	10.0%	47%	45%	44.5%
	Operating cost outcome[1]	10.0%	£790m	£780m	£770m
	Restructuring costs	5.0%	£378m	£360m	£342m
Delighted customers and colleagues	Colleague engagement	5.0%	73%	76%	77%
	Senior colleague gender diversity	5.0%	41%	43%	45%
	CMA ranking	10.0%	Top 5	Top 3	Top 2
Discipline and sustainability	RoTE[2]	25.0%	11.0%	12.0%	12.25%
	Risk scorecard[3]	20.0%			
Pioneering growth	Relationship deposit growth	10.0%	5%		10%

(1) CIR and operating costs are on an underlying basis.

(2) RoTE is on a statutory basis.

(3) Performance will be assessed by the Committee based on several qualitative and quantitative inputs such as feedback from the Chair of the Board Risk Committee and achievement of the long-term objectives of the organisation. Specific focus will be on customer complaints, operational risk losses and cost of risk.

The award was granted on 9 December 2019 and will vest based on the performance over the period from 1 October 2019 to 30 September 2022. Subject to performance outcomes, the award will be released over three to seven years from the date of grant, with the net shares received (post-taxation) subject to further regulatory holding periods as required.

2020 LTIP award (granted December 2020)

Performance measures are shown in the table below:

Underlying performance measures		Weighting	Threshold	Target	Maximum
Super straightforward efficiency	CIR[1]	10%	53%	50%	47%
	Operating cost outcome[1]	10%	£810m	£780m	£750m
Delighted customers and colleagues	ESG Scorecard [2]	15%			
	CMA ranking	10%	Top 5	Top 3	Top 2
Discipline and sustainability	RoTE[3]	25%	6%	8%	10%
	Risk scorecard[4]	20%			
Pioneering growth	Relationship deposit growth	10%	4%	5.5%	7%

(1) CIR and operating costs are on an underlying basis.

(2) Performance will be assessed by the Committee based on several qualitative and quantitative measures such as operational carbon emissions and the Group's progression to net-zero operational carbon emissions by 2030, senior leadership diversity and colleague engagement.

(3) RoTE is on a statutory basis.

(4) Performance will be assessed by the Committee based on several qualitative and quantitative inputs such as feedback from the Chair of the Board Risk Committee and achievement of the long-term objectives of the organisation. Specific focus will be on customer complaints, operational risk losses, cost of risk and Credit Risk Policy compliance.

Annual report on remuneration continued

The award was granted on 9 December 2020 and will vest based on the performance over the period from 1 October 2020 to 30 September 2023.

Given the uncertain market conditions arising from the pandemic, the targets underpinning the financial performance measures for the 2020 LTIP had not been determined at the time the 2020 Directors' remuneration report was published. A full set of performance targets are therefore included for the first time in this year's report.

Subject to performance outcomes, the award will be released over three to seven years from the date of grant, with the net shares received (post-taxation) subject to further regulatory holding periods as required.

(iii) LTIP Awards to be granted in FY22

2021 LTIP award (to be granted December 2021)

The following award will be made to Executive Directors in December 2021.

2021 LTIP award	Percentage of salary[(1)]	Face value of award	Type of interest awarded	End of performance period	Percentage receivable for threshold performance	Percentage receivable for target performance
David Duffy	177%	£1,805,400	Conditional rights to VMUK PLC shares	30 Sep 2024	25%	60%
Clifford Abrahams	176%	£1,056,000	Conditional rights to VMUK PLC shares	30 Sep 2024	25%	60%

(1) The award will be based on a percentage of salary as at 30 September 2021. For the purposes of determining the 2:1 cap, a discount is applied in line with regulatory requirements.

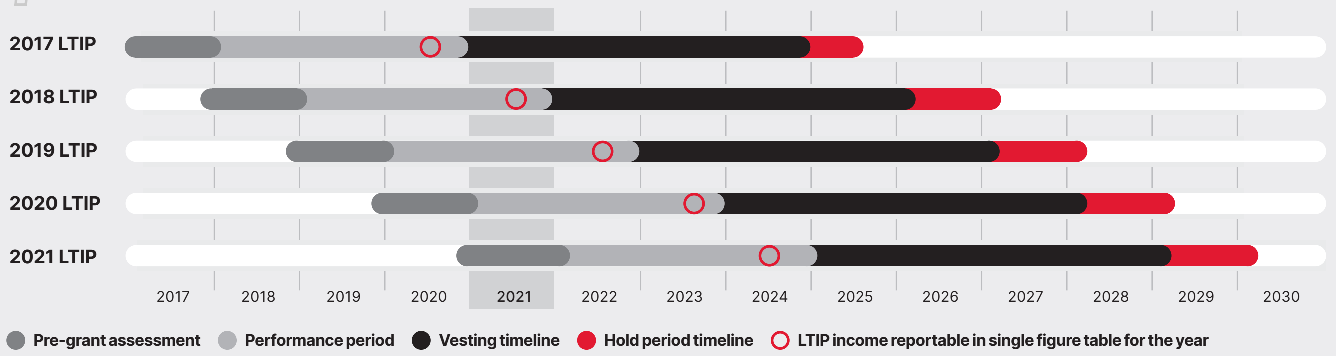
The performance period will be from 1 October 2021 to 30 September 2024 (2022 to 2024 financial years). Subject to performance outcomes, the awards will vest from December 2024 to December 2028 with 60% vesting for target performance and 25% vesting for threshold performance. At each vest date, the net number of shares received (post-taxation) will be subject to a regulatory hold period as required.

Underlying performance measures		Weighting	Threshold	Target	Maximum
Super straightforward efficiency	CIR[(1)]	15%	48%	46%	44%
Delighted customers and colleagues	ESG Scorecard[(2)]:				
	> Colleague engagement		76%	78%	80%
	> Senior colleague diversity				
	– Gender	15%		45-55%	
	– Ethnicity		13%	14%	15%
	> Group-wide ethnic diversity		7%	8%	9%
	> Operational Carbon Emission reduction		23%	25%	27%
	Retail NPS[(3)]	10%	1 rank higher	3+ ranks higher	4+ ranks higher
Discipline and sustainability	RoTE[(4)]	25%	9%	10%	11%
	Risk scorecard[(5)]	20%			
Pioneering growth	Growth in number of BCA and PCA customer accounts	15%	500k	600k	700k
	Customer Lending Asset Growth		8%	10%	12%

(1) CIR is on an underlying basis.
(2) In addition to the quantitative measures above, scorecard performance will be assessed by the Committee based on overall progress towards the Group's net-zero operational carbon emissions by 2030.
(3) Based on relative performance against a competitor comparison group of Barclays, HSBC, Lloyds, Metro, Monzo, Nationwide, NatWest, Revolut, Santander, Starling, Tide and TSB.
(4) RoTE is on a statutory basis.
(5) Performance will be assessed by the Committee based on several qualitative and quantitative inputs such as feedback from the Chair of the Board Risk Committee and achievement of the long-term objectives of the organisation. Specific focus will be on the Group's risk profile and risk appetite positioning over the period, alongside a detailed assessment of performance against customer complaints, operational risk losses, cost of risk targets.

The 2021 LTIP measures have been formulated to align with the delivery of the Group's strategy. The targets will ultimately drive the Group towards the market expectation of 10% statutory RoTE by 2024 without sacrificing balance sheet growth and PCA/BCA growth. It is intended to deliver this within an acceptable risk appetite coupled with stretching ESG targets that ensure continued carbon reductions and increasing diversity. Colleague sentiment returns to pre-pandemic levels and customer experience improves significantly against the peer group. The inclusion of statutory RoTE and CIR, rather than absolute costs, is also in line with market expectations.

LTIP deferral timeline



Payments to past Directors (audited)

No payments were made to any former Executive Directors during the year.

Executive Directors' payments for loss of office (audited)

No payments were made during the current or the previous year.

Non-Executive Directors' payments for loss of office (audited)

No payments were made during the current or previous year.

Non-Executive Directors' fees (audited)

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director for the year ended 30 September 2021.

	Total	
	2021 £000	2020[4] £000
David Bennett[1]	**390**	294
Paul Coby[1]	**135**	103
Geeta Gopalan[1]	**155**	130
Elena Novokreshchenova[1,2]	**61**	–
Darren Pope[1]	**155**	120
Amy Stirling[3]	**–**	–
Tim Wade[1]	**185**	159
Total	**1,081**	806

(1) Fees are paid to Board and Committee members in line with the Chairman and Non-Executive Directors' remuneration policy as set out on page 116 of the 2019 Annual Report and Accounts and in line with the fees approved by the Board in September 2020 as set out on page 130. Non-Executive Directors' and the Chairman may be reimbursed for expenses incurred in performing their duties but do not participate in any variable remuneration or benefits arrangements.

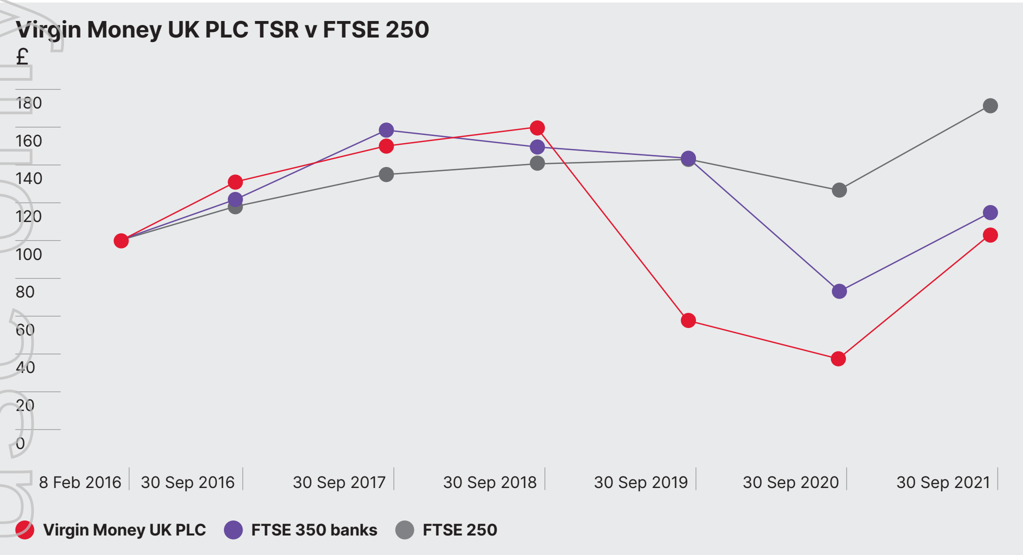
(2) Elena Novokreshchenova joined the Board on 22 March 2021. Her total income for the year includes £156 in benefits.

(3) Amy Stirling does not receive any fees.

(4) Total Non-Executive Director fees for 2020 shown in the table do not include £711k paid to Non-Executive Directors who stepped down from the Board during 2020.

Total shareholder return performance

The graph shows the value of £100 invested in the Group's shares since listing, compared with the total returns of the FTSE 250 Index. The graph shows the total shareholder return generated by both the movement in share value and the reinvestment over the same period of dividend income. The Committee considers the FTSE 250 as representative of the current market capitalisation of the Group. For further context and a sector comparison, the graph also reflects the FTSE 350 Banks Index over the same period.



Chief Executive Officer historic remuneration

The table below sets out the total remuneration delivered to the Chief Executive Officer since the Company's IPO:

Chief Executive Officer	2016	2017	2018	2019	2020	2021
Total single figure (£000)[1]	2,048	2,056	1,833	3,374	1,351	**2,747**
Annual short-term incentive payment level achieved (% of maximum opportunity)	80%	82%	62%	37%	0%	**12%**
Demerger award (% of maximum opportunity)	n/a	n/a	n/a	100%	n/a	**n/a**
Long-term incentive vesting level achieved (% of maximum opportunity)[2]	–	–	–	62%	32%	**60%**

(1) Values represent the figures reported in the single figure table for the relevant year.

(2) No LTIP awards vested during 2016, 2017 or 2018.

Pay ratio

The following table shows the ratio between the total pay of the CEO and the lower quartile, median and upper quartile pay of employees.

	Method[1]	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	A	132:1	97:1	60:1
2020	A	56:1	42:1	26:1
2021[2]	**A**	**106:1**	**77:1**	**47:1**

(1) Methodology option A has been used and was selected on the basis that it provided the most accurate means of identifying the median, lower and upper quartile colleagues. Total remuneration for the colleagues identified at the 25th percentile, median and 75th percentile was calculated for each financial year for all employees of the Group as at 30 September. Payroll data from 1 October to 30 September and variable remuneration outcomes approved in November following the financial year were used.

(2) The average share price between 1 July 2021 and 30 September 2021 of 199.7p has been used to indicate the value of shares vesting under the 2018 LTIP.

The pay at each quartile used to calculate the ratio is set out in the table below:

	25th percentile		Median		75th percentile	
	Total pay	Of which is salary	Total pay	Of which is salary	Total pay	Of which is salary
2020	£24,087	£22,230	£31,892	£27,546	£52,329	£45,745
2021	**£25,851**	**£21,217**	**£35,627**	**£30,270**	**£59,006**	**£49,720**

The median pay ratio has increased from 42:1 in 2020 to 77:1 in 2021. The year-on-year change is primarily driven by an increase in the total variable pay reportable in the CEO's single figure total for 2021. No annual bonus payment was made to the CEO in 2020, and the 2017 LTIP performance outcome, included in the 2020 single figure, was 32%. The value of the 2017 LTIP was further impacted by the value of the share price in the final quarter of the 2020 financial year, 71% below the share price at grant. In comparison, annual bonus and LTIP out-turns reportable in 2021 are 12% and 60% respectively, with the share price in the final quarter of the financial year 5% above the value at grant. Over time, a degree of volatility in the CEO pay ratio is expected since the CEO's single figure consists of a higher proportion of variable pay than colleagues, in line with shareholder expectations and the Group's remuneration framework. The ratio of CEO salary to that of the median employee in 2021 is 34:1 compared with 37:1 in 2020.

Change in Directors' remuneration compared with colleagues

The table below shows the percentage change in remuneration for Directors compared with the average percentage change in the remuneration of colleagues. The year-on-year movements in Non-Executive Director fees are attributable to a number of factors including the different Committee roles undertaken by each Non-Executive Director over the period.

	% change in remuneration between 2020 and 2021			% change in remuneration between 2019 and 2020		
	Salary/Fee	Benefits	Bonus	Salary/Fee	Benefits	Bonus
All colleagues(1)	**3%**	**9%**	**458%**	3%	12%	(67%)
David Duffy (CEO)(2)	**0%**	**(38%)**	**n/a**	0%	10%	(100%)
Clifford Abrahams (CFO)(3)	**n/a**	**n/a**	**n/a**	–	–	–
David Bennett	**33%**	**0%**	**n/a**	15%	0%	n/a
Paul Coby	**31%**	**0%**	**n/a**	(6%)	0%	n/a
Geeta Gopalan	**19%**	**0%**	**n/a**	(4%)	0%	n/a
Elena Novokreshchenova(3)	**n/a**	**n/a**	**n/a**	–	–	–
Darren Pope	**29%**	**0%**	**n/a**	(11%)	0%	n/a
Amy Stirling	**n/a**	**0%**	**n/a**	n/a	0%	n/a
Tim Wade	**16%**	**0%**	**n/a**	3%	0%	n/a

(1) The percentages for 'All colleagues' reflect the average percentage change in FTE salary, taxable benefits and allowances, and bonus for colleagues (excluding Directors) employed by Clydesdale Bank PLC at both 30 September 2020 and 30 September 2021. There are no employees of Virgin Money UK PLC.

(2) No bonus was awarded to the CEO in 2020.

(3) Appointed to the Board during 2021 therefore no year-on-year comparison provided.

Relative importance of spend on pay

The table below sets out the relative importance of spend on pay in the 2021 financial year:

Overall spend	Disbursements from profit in 2021 financial year £m	Disbursements from profit in 2020 financial year £m	% Change
Dividend(1)	**–**	–	–
Overall spend on pay including Executive Directors(2)	**426**	436	(2%)

(1) No dividend paid during the year ended 30 September 2021 (2020: £Nil).

(2) 2020 and 2021 numbers as per note 2.4 of the consolidated financial statements. The comparative number for 2020 has been revised to align with the presentation of staff costs for 2021.

Statement of Directors' shareholding and share interests (audited)

	Number of shares			
	Owned outright	Unvested (not subject to performance conditions)[1]	Unvested (subject to performance conditions)[2]	Total at year end
David Duffy				
Ordinary shares	**979,459**			
Breakdown of unvested shares:				
DEP Awards		**26,053**		
LTIP Awards		**779,444**	**2,899,315**	
				4,684,271
Clifford Abrahams				
Ordinary shares	**50,000**			
				50,000

(1) Conditional share awards granted under 2017 DEP, 2017 LTIP and 2018 LTIP. No ongoing performance conditions apply, but awards remain subject to deferral.

(2) Conditional share awards granted under 2019 LTIP and 2020 LTIP. Subject to ongoing performance and service conditions.

Breakdown of Executive Director share interests under each of the Group's share plans

Further details in respect of the unvested shares included in the Directors' interest table above are provided in the following tables. The details are in relation to the Executive Directors and no other Directors hold any awards under the Group share plans (2020: none). Clifford Abrahams joined the Group on 8 March 2021 and does not currently hold any unvested share awards.

DEP and LTIP awards	Start of year	Awarded during the year	Vested during the year	Lapsed during the year	Unvested at year end	Date of grant	Grant price (p)	Market value at date of grant £000	Notes
David Duffy									
2017 DEP	80,459	–	54,406	–	**26,053**	24 Nov 17	313.2	536	Vests from December 2020 to June 2022
2017 LTIP	102,166	–	8,172	–	**93,994**	24 Nov 17	313.2	1,000	Vests from December 2020 to June 2025
2018 LTIP	1,142,421	–	–	456,971	**685,450**	20 Dec 18	189.7	2,167	Vests from December 2021 to December 2025
2019 LTIP	1,266,947	–	–	–	**1,266,947**	09 Dec 19	174.5	2,211	Vests from December 2022 to December 2026
2020 LTIP	–	1,632,368	–	–	**1,632,368**	09 Dec 20	135.4	2,210	Vests from December 2023 to December 2027

LTIP

Conditional share awards were made to David Duffy under the LTIP in December 2020. Awards were granted based on 177% of salary (£1,805,400). The value was converted into the number of shares shown in the table above using the middle market share price on the day immediately preceding grant which was discounted to reflect the absence of dividend equivalents during the period from grant to vest in accordance with the Directors' Remuneration Policy. The face value at the date of grant included in the table reflects the middle market share price multiplied by the number of shares awarded. Performance conditions apply (as set out on page 135) with no more than 25% of the maximum vesting for threshold performance. Performance conditions are measured over a three-year performance period to 30 September 2023. Awards are subject to malus and clawback provisions. Subject to performance outcomes, awards will be released over three to seven years with resultant shares (post-taxation) subject to a regulatory hold period. Details of these awards are included in the table above alongside the LTIP awards made in respect of 2017, 2018 and 2019.

SIP

Neither Executive Director participates in the monthly purchase of shares through the SIP.

Save As You Earn (SAYE)

No offers under the SAYE plan have been made (2020: none).

Shares held at 30 September 2020 and at 30 September 2021 by Executive and Non-Executive Directors who held office during the year are shown below:

Directors	Ordinary shares beneficially owned at 30 September 2020 (or date of appointment if later)	Transactions during year	Number of shares	Notes	Ordinary shares beneficially owned at 30 September 2021 (or date of cessation if earlier)
David Duffy	906,592	27 November 2020	39,192	Purchase of shares	
		18 December 2020	2,191	Net number of shares from 2017 LTIP award	
		21 December 2020	14,644	Net number of shares from 2017 DEP award	
		18 June 2021	2,196	Net number of shares from 2017 LTIP award	
		21 June 2021	14,644	Net number of shares from 2017 DEP award	979,459
Clifford Abrahams[(1)]	–	14 May 2021	25,000	Purchase of shares	
		17 May 2021	25,000	Purchase of shares	50,000
David Bennett	16,386	27 November 2020	23,952	Purchase of shares	40,338
Paul Coby	–	27 November 2020	11,928	Purchase of shares	11,928
Geeta Gopalan	–	27 November 2020	7,932	Purchase of shares	7,932
Elena Novokreshchenova[(1)]	–				–
Darren Pope	–	27 November 2020	11,785	Purchase of shares	11,785
Amy Stirling	–				–
Tim Wade	50,000				50,000

(1) Clifford Abrahams and Elena Novokreshchenova joined the Board on 8 March 2021 and 22 March 2021 respectively.

There have been no other changes to the above interests between 30 September 2021 and the date of this report.

Shareholding requirement

Executive Directors are required to build up a holding of the Group's shares. This is set at 200% of base salary for the Chief Executive Officer and 150% of base salary for the Chief Financial Officer. Detailed below are the beneficial holdings of ordinary shares as at 30 September 2021 for each Executive Director, together with an indicative net value of unvested share awards that are not subject to ongoing performance conditions.

With regard to the requirement for Executive Directors to hold shares post-employment, the Committee believes that the Group's existing remuneration structure ensures that Executive Directors will remain aligned with shareholder experience following the end of their Group service. Shares delivered as part of an annual bonus award are subject to a 12-month regulatory hold period, which continues to apply following the end of Group service. Where an Executive Director ceases employment as a good leaver, any unvested LTIP awards remain subject to deferral and regulatory hold periods for up to eight years. Based on the current implementation of the approved remuneration policy, where an Executive Director ceases employment as a good leaver after five years in role, they will hold share interests that are not subject to ongoing performance conditions, but that remain subject to deferral and / or regulatory hold periods, of equivalent value to at least 150% of salary, assuming an on target performance outcome.

Director	Base salary	Requirement as % of base salary	Wholly owned shares[(1),(2)]	Net number of share awards not subject to performance conditions[(3)]	Value[(4)]	Shareholding requirement met?
David Duffy	£1,020,000	200%	979,459	426,913	£2,874,624	Yes
Clifford Abrahams[(5)]	£600,000	150%	50,000	–	£102,200	No

(1) Ordinary shares beneficially-owned and holdings of connected persons. This includes shares held via the Group SIP – David Duffy (661 shares).
(2) Includes CDIs which represent interests in ordinary shares beneficially-owned by David Duffy (4,080 shares).
(3) Includes projected net number of shares due under unvested awards over Group shares which are not subject to ongoing performance conditions. Assumes a deduction from unvested rights to reflect the tax and National Insurance due on the release of shares at a rate of 47%.
(4) Values are based on 30 September 2021 closing price of 204.4p.
(5) Clifford Abrahams was appointed to the Board on 8 March 2021.

Directors' report

Governance report

The Governance report, on pages 63 to 146 together with this report, satisfies the requirements of the Corporate Governance Statement for the purpose of the FCA's Disclosure and Transparency Rules (DTR).

Directors

The names and biographies of the current Directors of the Company are shown on pages 69 to 73 and include their relevant experience within the sector.

Particulars of Directors' emoluments and interests in shares in the Company are given on pages 132, 137 and 141 of the Directors' Remuneration report. No Director had a material interest in any significant contract to which any Group Company was a party during the year.

Annual General Meeting

The Company's 2022 AGM will be held on 17 February 2022. Full details of the arrangements for the AGM and details of the resolutions to be proposed, together with explanatory notes, will be set out in the Notice of AGM to be published on the Company's website (www.virginmoneyukplc.com).

Appointment and retirement of Directors

The appointment, retirement and/or replacement of Directors is governed by the Articles of Association of the Company (Articles), the Code and the Companies Act 2006. The Articles may be amended only by a special resolution of the shareholders in a general meeting. In line with the requirements of the Code, all Directors will submit themselves for election or re-election at the next AGM.

Board composition changes

Changes to the composition of the Board since 1 October 2020 up to the date of this report are shown in the table below.

Name	Role	Date of appointment	Date of resignation
Clifford Abrahams	Executive Director	8 March 2021	
Elena Novokreshchenova	Independent Non-Executive Director	22 March 2021	

Directors' indemnities and insurance

The Directors have each entered into individual deeds of access, insurance and indemnity with the Group which indemnify the Directors to the maximum extent permitted by law. Each such provision constitutes a 'third-party indemnity provision' and a 'qualifying indemnity provision' for the purposes of the Companies Act 2006. These provisions are in force for the benefit of the Directors at the date of this report, and during the financial year to which this report relates. Such deeds are available for inspection at the Company's registered office.

The Group has an insurance policy in place for the benefit of all trustees, colleagues, Directors, officers, members and partners of the Company while acting in the capacity of a trustee or administrator of employee benefit or pension plans. This policy indemnifies the Directors, trustees and administrators of the occupational pension schemes operated by the Group, against liability incurred by them in connection with the management and administration of the pension schemes. This insurance policy constitutes a 'pension scheme indemnity provision' and a 'qualifying indemnity provision' for the purposes of the Companies Act 2006. These provisions are in force for the benefit of the Directors of Trustee Companies at the date of this report, and during the financial year to which this report relates. Such policy is available for inspection at the Company's registered office.

In addition, the Group had appropriate Directors' and Officers' Liability Insurance cover in place throughout the financial year.

Profits and dividends

The Group profit before tax for the financial year ended 30 September 2021 amounted to £417m (2020: loss of £168m). The profit attributable to the ordinary shareholders for the year ended 30 September 2021 amounted to £395m (2020: loss of £220m). As at 30 September 2021, the distributable reserves of the Company were £792m (2020: £789m). The Directors recommended a final dividend in respect of the year ended 30 September 2021 of 1p per ordinary share in the Company to be paid on 11 March 2022. The payment of the final dividend is subject to approval of the shareholders at the 2022 AGM.

Share capital, control and Directors' powers

Shares in the Company are listed on both the London Stock Exchange (LSE) and the ASX (in the form of CDIs). The Company is required to comply with the disclosure requirements of the LSE and also of the ASX insofar as they relate to the Company's foreign exempt listing in Australia.

Details of the movements in allotted share capital during the year, and the rights and obligations attaching to the Company's shares, are shown in note 4.1.1 to the consolidated financial statements.

There are no restrictions on voting rights of securities in the Company. The Notice of AGM will specify the deadlines for determining attendance and voting entitlements at the AGM.

The Group operates an Employee Benefit Trust (EBT), which holds ordinary shares on trust for the benefit of employees and former employees of the Group, and their dependants, which is used in conjunction with the Group's employee share schemes. While ordinary shares are held in the EBT, the voting rights in respect of these ordinary shares are exercised by the trustees of the EBT.

Where participants in an employee SIP operated by the Company are the beneficial owners of shares but not the registered owners, the voting rights are normally exercised at the discretion of participants.

With the exception of restrictions on transferring ordinary shares under the Company's SIP there are no restrictions which exist on transferring or holding of securities in the Company under its Articles and there are no shares carrying special rights in respect of the control of the Company.

Subject to the Articles and provisions of relevant statutes, the Board may exercise all powers of the Company.

The Company can only amend its Articles of Association if its shareholders pass a special resolution to this effect.

Acquisition of own shares

At the AGM of the Company held on 25 February 2021 a resolution was passed that the Directors were authorised to purchase up to a maximum of 143,876,195 ordinary shares representing approximately 10% of the issued ordinary share capital. A renewal of authority will be sought at the next AGM. Further information will be set out in the Notice of AGM.

Political donations

The Group did not give any money for political purposes nor did it make any political donations to political parties or other political organisations, or to any independent election candidates, or incur any political expenditure during the year. At the AGM in 2021, shareholders gave authority under Part 14 of the Companies Act 2006 to make political donations and incur political expenditure up to a maximum of £100,000. This authorisation was sought for prudence as it is the Group's policy not to make any political donations to political parties or incur political expenditure within the ordinary meaning of those words. Given the wide definition of donations and expenditure within the Companies Act 2006, activities which form part of the regular operations of the Group such as communicating with government at local, national level and funding events to which politicians are invited, may be covered.

Financial risk management objectives and policies

Information about internal controls and financial risk management systems relating to financial reporting and Board review can be found on page 108 of the Governance report.

Information regarding financial risk management objectives and policies in relation to the use of financial instruments can be found in the Risk report on pages 147 to 216.

Post-balance sheet events

There were no post-balance sheet events.

Information included in the Strategic report

The following information that would otherwise be required to be disclosed in this report and which is incorporated into this report by reference can be found on the following pages of the Strategic report.

Subject	Page reference
Future developments	2-62
Engagement with colleagues, customers, suppliers and others	87-93
Equality of employment opportunities	17-18
Summary of Group results	51-62
Directors' biographies and Directors during the year	66, 69-73
Principal risks and uncertainties	42-49
Climate Change Emission Reporting	25

Substantial shareholdings

Information provided to the Company pursuant to the FCA's DTR is published on Regulatory Information Services and on the Company's website.

As at 23 November 2021, being the latest practicable date prior to the publication of this document, the following information has been received, in accordance with DTR 5, from holders of notifiable interests in the Company's issued share capital. The information provided below was correct at the date of notification; however, the date received may not have been within the current financial year. It should be noted that these holdings are likely to have changed since the Company was notified. However, notification of any change is not required until the next notifiable threshold is crossed.

	Total number of shares	% of voting rights	Direct/indirect interest
Virgin Group Holdings Limited	188,083,550	13.06	Direct
Firetrail Investments Pty Limited	78,964,452	5.48	Direct
Perpetual Limited and Subsidiaries	60,787,499	4.22	Direct
Blackrock, Inc[(1)]	n/a	Below 5%	Direct
Investors Mutual Limited	53,659,761	3.73	Indirect
Schroders PLC	44,572,459	3.10	Indirect

(1) Blackrock, Inc notified the Company on 7 May 2021 that their holding had decreased below the 5% notifiable threshold but did not state the new position.

Going concern

The Group's Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that the Group has the resources to continue in business for the foreseeable future.

The Group's use of the going concern basis for preparation of the accounts is discussed in note 1.4 of the Group's consolidated financial statements.

Viability statement

Time horizon

The Directors have an obligation in accordance with Provision 31 of the Code to confirm that they believe that both the Company and the Group will be able to continue in operation, and to meet their liabilities as they fall due. The Code requires the Directors to explain in the Annual Report and Accounts how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate.

The Directors have determined that a three-year period to 30 September 2024 is an appropriate period over which to perform the assessment. A three year period continues to present a reasonable degree of confidence over expected events and macroeconomic assumptions, while still providing an appropriate longer-term outlook. The Board monitors a longer-term strategic and financial plan which extends beyond the three-year period and the Group also undertakes internal and regulatory stress tests with a five-year horizon. This longer-term strategic and financial horizon provides less certainty of outcome but provides a robust and effective planning tool against which strategic decisions can be made.

In making this assessment the Directors have considered a wide range of information, the current state of the balance sheet, and principal and emerging risks which could impact the performance of the Group and the Group's strategic and financial plan, including detailed forecasts of capital, funding and liquidity.

Consideration of key risks

As described in the Governance report on page 115 and the Risk report on page 149, the Board actively monitors the Group's risk management and internal control systems. A review of the effectiveness of those systems has been performed incorporating all material controls, including financial, operational and compliance controls.

The Directors have performed a robust assessment of the principal risks facing the Group, including those that would threaten its business model and future performance, solvency or liquidity. The Group's principal risks and policies and processes for managing those risks are described in the Risk report and summarised on pages 42 to 49.

Of the Group's principal risks, those which could directly lead to the business not being able to continue in its current form if they were to occur (although a failure of the Group's other principal risks could lead to one of these events) are:

- operational failure (operational risk/technology risk); and
- a lack of liquidity and/or insufficient capital (financial risk).

The viability assessment also considers the key emerging risks, including that:

- there continues to be significant uncertainty linked to the UK economic outlook, with key macroeconomic variables remaining subject to potential volatile change depending on a complex mix of outcomes. Significant government intervention and support throughout the pandemic has led to higher levels of corporate and government indebtedness and uncertainty remains over how this will unwind. Geopolitical risks remain, in particular linked to the potential for a Scottish independence referendum; and
- the Group remains subject to high levels of oversight and a complex programme of regulatory change from several different bodies. The regulatory landscape continues to evolve, and there is uncertainty surrounding changes to the UK–EU legal and regulatory framework post-Brexit.

Climate-related risks arising from physical risks and the transition to a low-carbon economy continue to pose significant and complex horizon risks. The risk is seen as an emerging risk and the Group continues to work to understand the evolution of potential risks and impacts, considering different climate pathways, to determine how they can be monitored and managed.

Planning and stress testing activity

As detailed in the Strategic report, the overall Group strategy which underpins the Group's financial, capital and funding plans remains unchanged.

The Group's process for creating financial forecasts considers these strategic objectives, the risks required to meet those objectives and the risk appetite limits in place. The Group's planning process involves consideration of an expanded economic scenario reflecting the volatility of the ever-changing macroeconomic environment given impacts from the ongoing global COVID-19 pandemic and continuing uncertainty around Brexit. Detailed modelling is then completed for selected economic outcomes to form the projections for the financial plan and their associated impacts on the Group's capital ratios. Sensitivities are modelled around key risks and the Group's capital risk appetite gives measure to the impact of stress and downside scenarios in assessing the capacity to absorb capital shocks without threatening viability.

Economic uncertainties are central to all stress scenarios and in approaching scenario scoping an informed topical view is applied in defining forecast stressed economic parameters. Recent modelled stresses centre on continued pandemic effects and unwinds but also consider the inertia of Brexit-led risks and localised impacts. Regulatory change remains under review and indicative capital impacts of emerging rules are assessed as sensitivities and tracked where material. Specific focus has also been given to exploring climate-related risks and impacts for future expansion in stress tests.

Strategic corporate plans, including detailed financial, capital and funding plans, are presented at the Group ALCO and ultimately reviewed and adopted at Board. All relevant plans are subject to functional Risk review and Internal Audit assessment where appropriate.

The Board uses stress testing as a key risk management tool for gauging the strength of the Group's balance sheet, assessing the adequacy of its capital reserves and helping to better understand the resilience of strategic goals against adverse and unexpected outcomes. Stress testing is applied in multiple forms, some examples are discussed below.

Internal stress tests took place in April 2021 as part of ICAAP and considered the impacts of:

- continued localised COVID-19 outbreaks and longer lasting COVID-19 scarring effects;
- continuation of Brexit-led impacts, including supply chain effects; and
- the impact of negative interest rates.

The impacts are defined by reference to a matrix of economic indicators which include progressions for GDP, unemployment and relevant indices and rates. With a headline scenario agreed, data is expanded into much greater granularity including localised geographic or sectoral impacts. The scenarios could lead to a period of stress for the Group and result in effects including, but not limited to, a loss of income or increased impairments. The results of the stress tests show the full financial performance over a 5-year period with a prominent focus on CET1 capital ratio.

This year saw the Group's first participation in the BoE's formal SST. Formal feedback on SST21 is not expected until later in 2021 but the internal results have been applied to complement ICAAP-led scenarios and ongoing sensitivities in assessing the Group's resilience under stress. This assessment gives scope where relevant to the potential of implementing tactical management actions as counters to stress impacts.

SST parameters were further applied to a stress of the central Strategic Plan to allow management to determine whether the Strategic Plan would function appropriately in a stress environment.

Reverse Stress Testing is also a key component to the Group's wider stress testing framework. The key benefits include:

- helping the Group to understand key risks and scenarios that may put business strategies and continuance as a 'going concern' at risk; and
- providing management and regulators with qualitative information on the potential vulnerabilities faced by the business so that they can identify appropriate actions that should be taken to manage such risks.

The objective is to identify the scenarios that could threaten the viability of the business, and allow the business to build contingency plans to, where possible, prevent such events. reverse stress testing scenarios can be drawn from a broad pool of lead factors and the Group's focus has included extreme pan-portfolio impairment increases and RWA inflation shocks in the Group's Mortgage portfolio. Single-event operational risk scenarios have also been explored both in isolation and overlay.

The Group has a dedicated Recovery Planning team and a key element to the stress testing framework is the focus and link to recovery planning activity and the identification of potential management actions and scenarios which may be available to mitigate stress impacts across both capital and liquidity footings. The Group's Recovery Plan has an established matrix of internal and external Early Warning Indicators which are calibrated to flag potential stress triggers to allow a detailed evaluation of emerging capital or liquidity concerns. Ultimate assessment of recovery planning actions gives credit to both scale and timing factors in measuring potential effectiveness as a counter to discrete stress impacts.

Based on the current forecasts, while utilising the Group's stress testing framework, the results continue to support the Board's assessment of the Group's viability.

Assessment

The Group has a strong business model and robust financial position at 30 September 2021. Capital and liquidity metrics are forecast to remain above Board Risk Appetite and regulatory requirements. Internal stress testing indicates the Group can withstand severe economic and competitive stresses.

Based upon this assessment, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three years to 30 September 2024. There is no information contained within the outer years of the Group's financial forecasts which would cause the Directors to conclude that the Group would not remain viable in the longer term.

This assessment is further supported by the Directors' robust review and challenge of the outcomes of the 2020 ICAAP and ILAAP, which assess the Group's future projections of capital adequacy, liquidity and funding.

Additional information relevant to this assessment can be found in the following sections of the Annual Report and Accounts:

- a financial summary, including a review of the latest income statement and balance sheet is provided in the Financial results section pages 52 to 62;
- the Group's capital position is included in the Balance sheet and prudential regulation risks section of the Risk Report pages 184 to 206;
- the Group's liquidity position is described in the Balance sheet and prudential regulation risks section of the Risk Report pages 184 to 206;
- the Group's principal risks and policies and processes for managing those risks are described in the Risk Report and summarised on pages 42 to 49;
- the Group's business model and strategy are described in the Strategic report pages 2 to 20; and
- the Group's approach to stress testing and reverse stress testing are described in the Risk Report on page 152.

Research and development activities

The Group does not undertake formal research and development activities although it does invest in products and services in each of its business lines in the ordinary course of business.

Disclosure of information under Listing Rule 9.8.4R

Additional information required to be disclosed by Listing Rule 9.8.4R, where applicable to the Group, can be found in the following sections of this report:

Subject	Page reference
Publication of unaudited financial information	The disclosures within the Risk report (pages 147 to 216) are unaudited unless otherwise stated.
Allotment of equity securities	290
Significant contracts	307 to 308

Change of control

The Group is not party to any significant agreements that are subject to change of control provisions in the event of a takeover bid, other than the following:

- Clydesdale Bank PLC, a company within the Virgin Money UK PLC Group, is a shareholder, along with abrdn (formerly Aberdeen Asset Management PLC), in the JV UTM. Where either shareholder (Clydesdale Bank PLC or abrdn) in the JV has a change of control event, the JV will terminate unless such change of control has prior approval of the other shareholder; and
- a Trade Mark Licence Agreement with Virgin Enterprises Limited (Virgin) under which Virgin has granted a licence to Virgin Money UK PLC to use the 'Virgin' and 'Virgin Money' trademarks. Virgin has the right to terminate the agreement within 30 days of a change of control of Virgin Money UK PLC unless it is a Permitted Change of Control. A Permitted Change of Control is one arising from (a) an IPO on a recognised stock exchange or (b) any other sale of shares of Virgin Money UK PLC which has been pre-approved by Virgin in writing. Virgin can withhold consent only in the event that the third-party purchaser

is a direct competitor of Virgin or another Virgin licensee in the UK, or it is involved in any activity or possesses a reputation or financial standing which would be likely to materially damage the value or reputation of the Virgin brand.

Statement of Directors' responsibilities in respect of the Financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable UK law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period. Under the FCA's Disclosure Guidance and Transparency Rules, group financial statements are required to be prepared in accordance with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company financial position and financial performance;
- in respect of the Group financial statements, state whether IASs in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- in respect of the Company financial statements, state whether IASs in conformity with the requirements of the Companies Act 2006, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company and the Group will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report, Directors' report, Directors' remuneration report and Corporate governance statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IASs in conformity with the requirements of the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and undertakings included in the consolidation taken as a whole;
- the Annual Report and Accounts including the Strategic report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Independent auditor and audit information

The Directors who were members of the Board at the time of approving the Report of the Directors are listed on pages 69-73. Having made enquiries of fellow Directors and of the Group's auditor, each of these Directors confirms that:

- to the best of each Director's knowledge and belief, there is no information relevant to the preparation of their report of which the Group's auditor is unaware; and
- each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Group's auditor is aware of that information.

In accordance with section 485 of the Companies Act 2006, a resolution to reappoint Ernst & Young LLP, and to authorise the Audit Committee to agree their remuneration, will be proposed at the next AGM.

On behalf of the Board

Lorna McMillan
Group Company Secretary
23 November 2021

Virgin Money UK PLC. Registered No. 09595911

Risk Report

Contents

Supporting customers and colleagues through change

Effective risk management is critical to realising the Group's strategy of pioneering growth, with delighted customers and colleagues, while operating with super straightforward efficiency, discipline and sustainability. The safety and soundness of the Group is aligned to Our Purpose and is a fundamental requirement to enable our customers and stakeholders to be 'happier about money'.

Risk exists in everything we do, from day-to-day operational activities to strategic change initiatives; without risk we will never achieve our strategic goals but when taking risks, we must ensure we do so in an appropriate way.

Risk culture

Risk culture is focused on the Group's understanding of the risks it takes, which is key to enabling its strategy to disrupt the status quo.

Personal accountability is at the heart of this and is enabled through the risk management accountability model, as well as the formal delegation framework. Colleagues are recruited with the core skills, abilities and attitude required for their role. They are provided with training and development to maintain and develop the required levels of competence.

Culture is shaped by many aspects including: Purpose, Values and Behaviours that set a 'Tone from Above; the Group's and regulatory Codes of Conduct; operating principles; policy statements and standards; the risk management operating model; and an articulation of risk appetite that aligns to, and supports, strategic objectives.

The Group strives to instil a culture that enables colleagues to meet the requirements of relevant rules, regulations, laws and policies and to build constructive regulatory relationships.

The Group promotes an environment of effective challenge in which decision-making processes stimulate a range of views. Transparency and open dialogue are encouraged, to enable colleagues to raise concerns when they feel uncomfortable about actions, practices or behaviours.

The Group is customer-centric and values open and honest feedback from its customers. This feedback allows colleagues to rectify problems, learn from them and consistently create products and services that meet customer needs in alignment with Purpose. The Board and senior management are responsible for setting and overseeing the Group's risk culture through their actions, words and oversight activities, and for ensuring any identified areas of weakness are addressed.

The Board Risk Committee retained its focus on assessment of risk culture and Internal Audit provides an independent view of risk culture to the Board Audit Committee through a risk and control-related management awareness assessment assigned to the majority of audits.

Risk strategy

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

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

Risk appetite

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

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

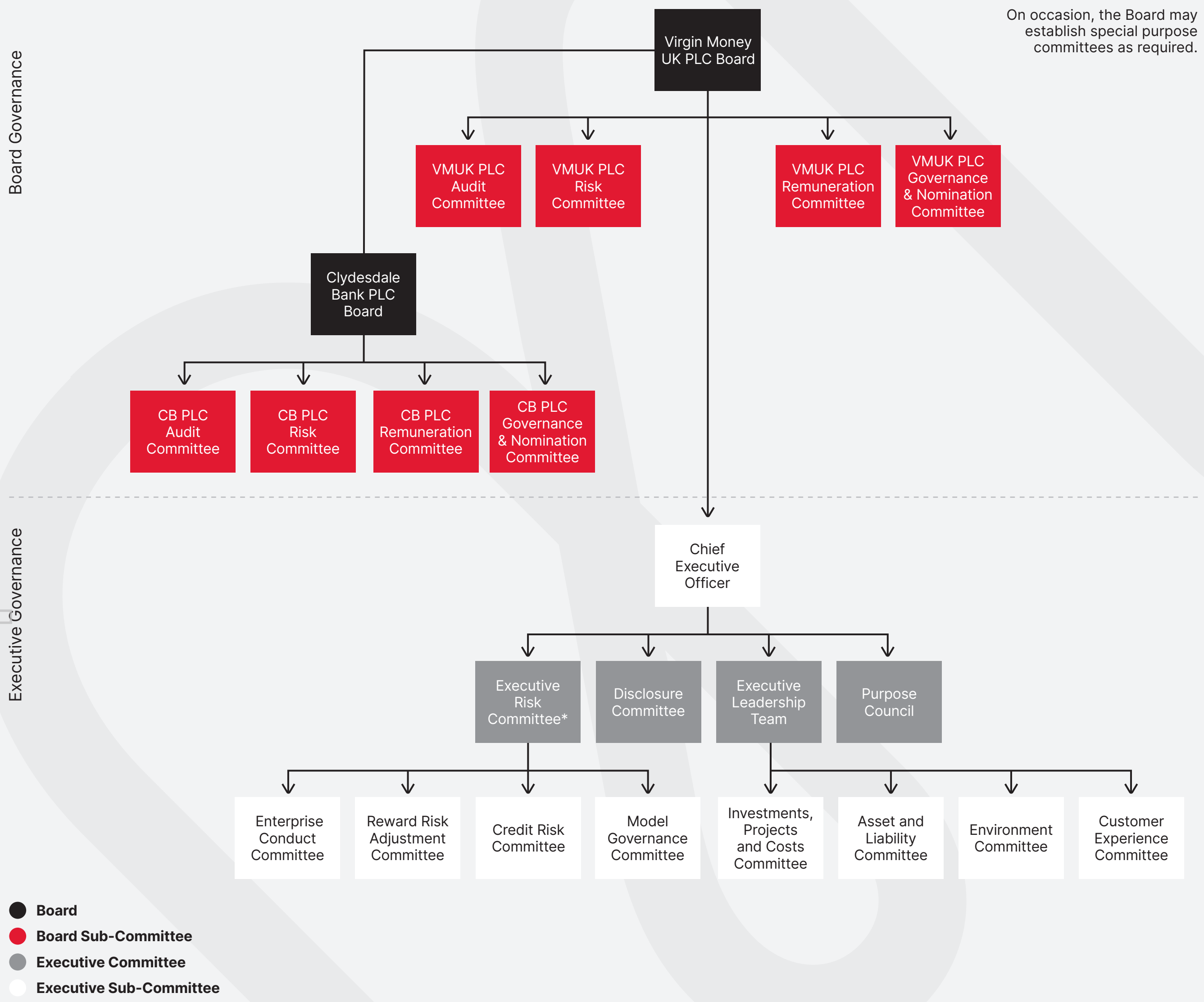
The RAS conveys the balance required between risk-taking and the commercial and reputational implications of doing so, promoting good customer outcomes and protecting the Group from excessive exposure. The RAS includes qualitative and quantitative limits which inform strategies, targets, policies, procedures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

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

Risk governance and oversight

The Group has a structured risk governance framework to support the Board of Directors' aim of achieving long-term and sustainable growth through the Group's Purpose of 'Making you happier about money'. This includes a number of committees with a specific risk management focus, although all committees consider risk matters in accordance with the Group's RMF. The Group's risk governance structure strengthens risk evaluation and management, while also positioning the Group to manage the changing regulatory environment in an efficient and effective manner. Oversight of the risk governance structure is facilitated by the Board.

Governance Committee framework



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

Supporting customers and colleagues through change continued

During the year, the Group considers the effectiveness of the Executive Committee governance framework in order to ensure it remains fit for purpose. The following Executive Committees have been established under the authority of the CEO:

Committees	Risk focus
Executive Leadership Team	The Executive Leadership Team supports the CEO in leading the Group to be a strong, customer-focused bank for its communities, by focusing on four strategic priorities: pioneering growth; delighting customers and colleagues; being straightforward and efficient; and being disciplined and acting in a sustainable manner.
Executive Risk Committee	The Executive Risk Committee supports the CEO in respect of risk and control accountabilities and serves to provide leadership focus on key risk issues, including: > endorsing the RAS for approval by the Board; > overseeing and challenging the enterprise-wide risk performance and control environment of the Group and business units, including the effective use of policy, frameworks and tools; > monitoring the status of regulatory relationships, the reputation of the Group in relation to its regulators and the changing state of the regulatory landscape, including the impacts for and readiness of the Group for future changes; > monitoring the strength of risk capability and capacity, including risk training and education plans to ensure an effective risk and control framework; and > reviewing and endorsing risk policies, frameworks and tools for use across the Group.
Disclosure Committee	The Disclosure Committee is responsible for ensuring the Group complies with its continuous disclosure obligations for exchanges on which it has equity and debt securities listed.
Purpose Council	The Purpose Council oversees and manages the factors that are critical to being a Purpose-led organisation. The Council maintains focus on agreed objectives, outcomes and benefits, and focuses on removing obstacles in the way of being a Purpose-led organisation.

The Executive Risk Committee is supported by the following committees:

Enterprise Conduct Risk Committee	The Enterprise Conduct Risk Committee is responsible for overseeing the management of conduct risk across the Group (including third parties) and taking an enterprise perspective of conduct performance. The Committee also supports the Group in ensuring the right outcomes for customers and will report any material conduct themes or issues for action to the Executive Risk Committee.
Reward Risk Adjustment Committee	The Reward Risk Adjustment Committee is responsible for considering and providing feedback to the Board Risk Committee and the Remuneration Committee in relation to risk events which may affect awards of variable pay and therefore ensuring that the Group complies with its regulatory requirements in respect of establishing and maintaining a robust risk adjustment process.
Credit Risk Committee	The Credit Risk Committee is responsible for ensuring that the credit RMF and associated policies remain effective. The Committee has oversight of the quality, composition and concentrations of the credit risk portfolio and recommends strategies to adjust the portfolio to react to changes in market conditions.
Model Governance Committee	The Model Governance Committee supports the Executive Risk Committee and consequently the Board in fulfilling its governance responsibilities for material models and rating systems. The Committee oversees the integration and ongoing use of models across the Group, specifically considering the fitness for purpose, usability and scalability of models.

The Executive Leadership Team is supported by the following committees:

Investments, Projects and Costs Committee	The Investments, Projects and Costs Committee is responsible for overseeing the management of controllable costs across the Group while supporting its growth ambitions, aligned to risk appetite.
Asset and Liability Committee	ALCO is responsible for monitoring the performance of the Group against the Board approved capital and funding plans. The Committee focuses on the Group's financial risks including capital, funding, liquidity and interest rate risk to ensure that the Group's activity complies with regulatory and corporate governance requirements and also delivers Group policy objectives. The impact of pension risk on capital is also assessed by ALCO.
Environment Committee	The primary role of the Environment Committee is to oversee the management of Environmental and Climate Change matters across the Group, directing resources, investment and activity. Environmental and Climate Change matters are a subset of the Group's ESG strategy.
Customer Experience Committee	The primary role of the Customer Experience Committee is to oversee the delivery of the Customer Experience Strategy and the overall holistic customer experience agenda.

Three lines of defence

Effective operation of a three lines of defence model is integral to the Group's approach to risk management and is based on the overriding principle that risk capability must be embedded within the first line of defence teams to be effective. This principle embodies the following concepts:

- risk management responsibilities are clearly understood and adhered to by all colleagues when carrying out their day-to-day activities;
- decisions are made with proactive consideration of the potential risk and impact on customers;
- business areas must self-identify and report management issues, which are captured centrally, showing good levels of risk awareness, management remediation, and promoting a strong risk culture; and
- regular control assessments are undertaken to confirm the effectiveness of the control environment, based on control monitoring and testing, in relation to both the current and emerging risk profile.

Control is exercised through a clearly defined delegation of authority framework, with communication and escalation channels throughout the Group.

Three lines of defence

3rd Line of Defence

Internal Audit provides independent assurance over the risk management, governance and internal control processes.

2nd Line of Defence

Risk Management designs and owns the Risk Management Strategy, RAS and the Risk and Policy Management Frameworks monitoring and facilitating the implementation of risk management practices across the Group.

1st Line of Defence

Business Units take ownership, responsibility and accountability for directly identifying, assessing and mitigating risks and issues.

Risk management framework

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

Risk policies and procedures

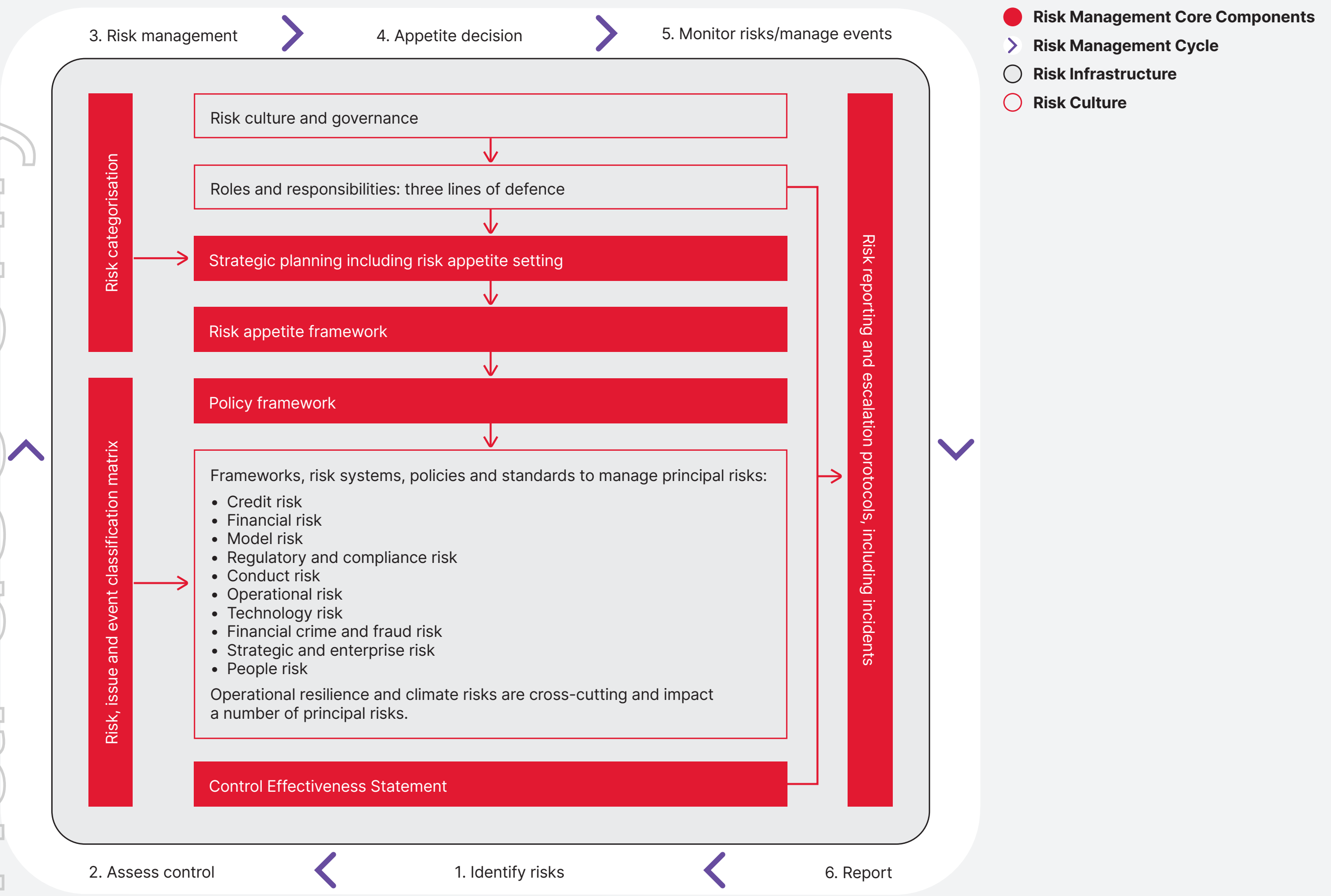
The policy framework is a key component of the Group's RMF, providing structure and governance for the consistent and effective management of policies. In developing the policy framework, the Group sets the tone that demonstrates the risk culture expected across the organisation. This aligns with the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

Policy statements and supporting policy standards define the key risk management principles and minimum control requirements which must be observed across the Group to manage material sources of risk within risk appetite.

Risk management and internal controls

The Board actively monitors the Group's risk management and internal control systems. A review of the effectiveness of those systems has been performed incorporating all material financial, operational and compliance controls, to highlight and address any material movement in the effectiveness of those controls since the last assessment. During the year, the assessment process was updated to use risk control self-assessment data extracted directly from the Group's Operational Risk Portal, to drive a more efficient, simple and data driven process.

Risk Management Framework



Stress testing

Stress testing is an important and widely recognised risk management tool, used to assess the vulnerability of financial institutions and identify risks under adverse economic scenarios. The Group uses stress testing in strategic, capital and liquidity planning, and to inform risk appetite, risk mitigation and contingency planning.

The Group undertakes stress testing using specific idiosyncratic scenarios and following the Basel Committee principles which utilise, where appropriate, scenarios provided by the BoE.

The Board and senior management are actively involved in the stress testing process, reviewing, challenging and approving all aspects of stress testing, from the consideration of scenarios to be tested, to the outcomes and mitigating actions. The involvement of the Board and senior management is considered essential for the effective operation of stress testing and the manner in which the results inform strategic planning and risk appetite. Reverse stress testing is also undertaken to assess the types of risk that would pose fundamental threats to the viability of the Group's business model.

The Group has participated in the BoE UK-wide SST for the first time during 2021. Results from the stress tests will be used by the Financial Policy Committee (FPC) to assess the stress testing severity required to threaten resilience and test the Group's ability to absorb losses and continue to lend.

Principal and emerging risk categories

In line with the UK Corporate Governance Code requirements, the Board has performed a robust assessment of the Group's principal and emerging risks, including those that could result in events or circumstances that might threaten the Group's business model, future performance, solvency or liquidity and reputation. In deciding on the classification of principal risks, the Board considered the potential impact and probability of the related events and circumstances and the timescale over which they may occur. In assessing emerging risks, the Board considered what procedures are in place to identify emerging risks and how they are being managed or mitigated.

COVID-19 impacts on principal risks

COVID-19 continues to impact all of the Group's principal risks. The range of governmental, regulatory and central bank support measures have created operational, conduct, enforceability and financial risks for the Group. These risks have a variety of implications which are being monitored and managed proactively in line with the Group's RMF.

The Group's principal and emerging risks are disclosed on pages 43 to 49 of the Strategic report.

Credit risk

Credit risk

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

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.

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.

Managing credit risk within our asset portfolios

Risk appetite

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

In the first full financial year since the onset of COVID-19, the Group remained focused on supporting customers and colleagues through this difficult period. The FY22 RAS continues to consider the impact of COVID-19, ensuring a controlled approach to portfolio management and new lending origination.

Climate risk is an increasingly important component of the broader RMF and we have recognised this through the inclusion of climate-related risk factors within the FY22 RAS. The framework has been updated to embed climate risk considerations across various aspects of customer lending and credit risk management practices. Further detail is provided in the TCFD report on pages 217 to 234.

Measurement

The Group uses a range of statistical models, supported by both internal and external data, to measure credit risk exposures. These models underpin the IRB capital calculation for the Mortgage and Business portfolios and account management activity for all portfolios. Further information on the measurement and calculation of ECL and the Group's approach to the impairment of financial assets can be found on page 157.

The Group's portfolios are subject to regular stress testing, which included participation in the PRA's SST for the first time this year. Stress test scenarios are regularly prepared to assess the adequacy of the Group's impairment provision and the impact on RWAs and capital. Management will consider how each stress scenario may impact different components of the credit portfolio. The primary method applied uses migration matrices, modelling the impact of PD rating migrations and changes in portfolio default rates to changes in macroeconomic factors to obtain a stressed position for the credit portfolios. Loss given default (LGD) is stressed based on a range of factors, including property price movements.

As highlighted on page 43 of the Strategic report, Political and economic risk is an emerging risk for the Group and includes the future impact of macroeconomic variables which are used in the calculation of the Group's modelled ECL output. Further detail on the Group's use of macroeconomic variables in the year can be found on pages 176 to 178.

Mitigation

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

The mitigation of credit risk within the Group is achieved through approval and monitoring of automated credit strategies, individual transactions and asset quality, analysis of the performance of the various credit portfolios, and independent oversight of credit portfolios across the Group. Portfolio monitoring techniques cover such areas as product, industry, geographic concentrations and delinquency trends.

There is regular analysis of the borrower's ability to meet their interest and capital repayment obligations with early support and mitigating steps taken where required. Credit risk mitigation is also supported, in part, by obtaining collateral and corporate and personal guarantees where appropriate.

The key mitigating measures are described below.

Credit assessment and mitigation

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

The Group uses a variety of lending criteria when assessing applications for Mortgage and Personal customers. The approval process uses credit scorecards, as well as manual underwriting, and involves a review of an applicant's previous credit history using information held by credit reference agencies.

Where required, the Group also assesses the affordability of the borrower under stressed scenarios including increased interest rates. In addition, the Group has in place quantitative thresholds, such as maximum limits on the level of borrowing to income and the ratio of borrowing to collateral. Some of these limits relate to internal approval levels and others are hard limits above which the Group will reject the application.

For residential mortgages, the Group's policy is to accept only standard applications with a LTV ratio of up to 95%. The Group has maximum percentage LTV limits which depend upon the loan size. Product types such as BTL and residential interest-only mortgages are controlled by transactional limits covering both LTV and value.

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

Specialist expertise

Credit quality is managed and monitored by skilled teams including, where required, specialists who provide dedicated support for vulnerable customers experiencing financial or other types of difficulties. Credit decisions utilise credit scoring techniques and/or manual underwriting, as appropriate. These tasks are performed by skilled and competent specialists acting within agreed delegated authority levels set in accordance with their experience and capabilities.

Credit strategy and policy

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

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

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

Portfolio oversight

The Group's credit portfolios, and the key benchmarks, behaviours and characteristics by which those portfolios are managed, are regularly reviewed. This entails the production and analysis of regular portfolio monitoring reports for review by senior management.

Controls over rating systems

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

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

Derivatives

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

Master netting agreements

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

Collateral

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

Residential mortgages

Residential property is the Group's main source of collateral on mortgage lending and means of mitigating loss in the event of the default risk inherent in its residential mortgage portfolios. All lending activities are supported by an appropriate form of valuation using either professional or indexed (subject to policy rules and confidence levels) valuations.

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

Commercial property

Commercial property is the Group's main source of collateral on business lending and means of mitigating loss in the event of default. For the majority of commercial loans, collateral comprises first legal charges over freehold or long leasehold property (including formal Companies House registration where appropriate). All commercial property collateral is subject to an independent, professional valuation when taken and thereafter subject to periodic review in accordance with policy requirements.

Non-property related collateral

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

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

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

Monitoring

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

- *Credit Risk Committee:* The Credit Risk Committee ensures that the credit RMF and associated policies remain effective. The Committee has oversight of the quality, composition and concentrations of the credit risk portfolio and considers strategies to adjust the portfolio to react to changes in market conditions including the response to COVID-19 and climate risk.
- *RAS measures:* Measures are reported and reviewed monthly to ensure they remain relevant and appropriately calibrated. Regular review ensures that the measures accurately reflect the Group's risk appetite, strategy and concerns relative to the wider macro environment. All measures are subject to extensive engagement with the Executive Leadership Team and the Board and are subject to endorsement from executive governance committees prior to Board approval. Regulatory engagement is also scheduled as appropriate.
- *Risk concentration:* Concentration of risk is managed by counterparty, product, geographical region and industry sector. In addition, single name exposure limits exist to control exposures to a single counterparty. Concentrations are also considered through the RAS process, focusing particularly on the external environment, outlook and comparison against market benchmarks.
- *Single large exposure excesses:* Excesses on exposures under the delegated commitment authority of the Transactional Credit Committee are reported to the committee where the amount of excess is > £250k (senior Business Credit Risk personnel have delegated authority to manage excesses < £250k). All excess reports include a proposed route to remediation. Exposures are also managed in accordance with the large exposure reporting requirements of the CRR.

Forbearance

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

In dealing with the exceptional challenges posed by COVID-19 and to ensure the appropriate delivery of customer support, a number of concessions were granted in response to the short-term financial consequences for customers in line with regulatory guidance, including for example payment holidays. These measures were not considered to be forbearance, as confirmed by the regulatory guidance, for the purposes of reporting forborne loans at 30 September 2020. The standard approach of classifying such concessions as forbearance has resumed in the current year.

Other measures to support customers

The Debt Respite Scheme came into force on 4 May 2021 and establishes a scheme which gives eligible individuals in England and Wales with problem debt, the right to legal protection from their creditors, including almost all enforcement action, during a period of 'breathing space'. The Breathing Space Regulations do not apply to mortgages, except for arrears which are uncapitalised at the date of the application under the Breathing Space Regulations. In Scotland, eligible individuals are afforded similar legal protection under the Bankruptcy (Scotland) Act 2016.

The Group implemented the changes required by these regulations in advance of the 4 May 2021 implementation date.

Measuring credit risk within our asset portfolios

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

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

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

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

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

The calculated model ECL is determined using the following classifications:

Classification	ECL calculation period	Description
Stage 1	12 months	A loan that is not credit-impaired on initial recognition and has not experienced a significant increase in credit risk (SICR) since initial recognition.
Stage 2	Lifetime	A loan that has experienced a SICR since initial recognition but is not yet deemed to be credit-impaired.
Stage 3	Lifetime	A loan that is credit-impaired.

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

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

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

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

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

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

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

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

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

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

Group credit risk exposures

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

The Group is also exposed to credit risk on its other banking and treasury-related activities. £7.9bn of cash is held with the BoE (2020: £7.2bn), and balances with other banks are all held with senior investment grade counterparties. No material ECL provisions are currently held for these exposures, with all other banking and treasury related financial assets being classed as Stage 1 financial assets under IFRS 9.

The table below shows the Group's maximum exposure to credit risk on its financial assets, contingent liabilities and credit-related commitments.

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

	2021			2020		
	Gross loans and advances to customers £m	Contingent liabilities and credit-related commitments £m	Total £m	Gross loans and advances to customers £m	Contingent liabilities and credit-related commitments £m	Total £m
Mortgages	**58,441**	**2,845**	**61,286**	58,652	3,088	61,740
Personal	**5,770**	**10,507**	**16,277**	5,550	9,674	15,224
Business	**8,340**	**3,769**	**12,109**	8,723	4,108	12,831
Total	**72,551**	**17,121**	**89,672**	72,925	16,870	89,795
Impairment provisions on credit exposures[1]	**(496)**	**(8)**	**(504)**	(735)	–	(735)
Fair value hedge adjustment	**(179)**	**–**	**(179)**	240	–	240
Maximum credit risk exposure on lending assets	**71,876**	**17,113**	**88,989**	72,430	16,870	89,300
Cash and balances with central banks			**9,711**			9,107
Financial instruments at FVOCI			**4,352**			5,080
Due from other banks			**800**			927
Other financial assets at fair value			**153**			203
Derivative financial assets			**140**			318
Maximum credit risk exposure on all financial assets[2]			**104,145**			104,935

(1) The impairment provision of £504m in the current year includes £8m for off-balance sheet exposures. A change to the accounting presentation was made in the year, with the on-balance sheet ECL continuing to be reflected in loans and advances to customers (note 3.1) and the off-balance sheet ECL now separately disclosed as part of the provision for liabilities and charges balance in note 3.14. The off-balance sheet provision, which relates to credit-related commitments, was £7m at 30 September 2020; the prior period comparatives have not been restated. All tables and ratios that follow are calculated using the combined on- and off-balance sheet ECL, which is consistent for all periods reported.

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

Group credit highlights

In addition to the balance sheet position on the previous page, key metrics of relevance for an understanding of the Group's credit risk position are as follows:

Group credit highlights (audited)	2021 £m	2020 £m
Impairment (credit)/charge on credit exposures		
Mortgage lending	**(44)**	95
Personal lending	**(32)**	223
Business lending	**(55)**	183
Total Group impairment (credit)/charge(1)	**(131)**	501
Key asset quality ratios		
Underlying impairment (credit)/charge(2) to average customer loans (cost of risk)	**(0.18%)**	0.68%
% Loans in Stage 2	**14.09%**	17.70%
% Loans in Stage 3	**1.32%**	1.19%
Total book coverage(3)	**0.70%**	1.03%
Stage 2 coverage(3)	**3.02%**	3.66%
Stage 3 coverage(3)	**9.59%**	15.73%

(1) See note 3.2 for further details.
(2) Inclusive of gains/losses on assets held at fair value and elements of fraud loss. In the prior year, this excluded the acquisition accounting impact on impairment losses of £6m.
(3) Excludes the guaranteed element of government-backed loan schemes.

The first full financial year post the onset of COVID-19 saw relative stability in the lending book, as the Group continued to focus efforts on supporting customers through this challenging period at a time when demand for new origination was more muted. As a result, total gross loans and advances to customers decreased by £0.3bn from £72.9bn to £72.6bn.

Despite the challenging environment, asset quality metrics have on the whole remained positive with no evidence of material deterioration to date. The proportion of Group lending not yet past due at the reporting date remains high at 98.2% (2020: 98.3%). This has been influenced by the extended period of customer support measures plus prudent actions taken by customers, combined with the Group's controlled risk appetite and continued focus on responsible lending decisions.

Steady improvement in wider economic conditions as the year progressed supported a reduction in the Group's impairment provision from £735m at 30 September 2020 to £504m as at 30 September 2021. This reduction was driven mainly by more favourable macroeconomic inputs to the IFRS 9 models which led to the modelled ECL provision falling by £252m in the year. While the post-pandemic outlook is undoubtedly more positive than previously indicated, the Group has nevertheless maintained PMAs of £207m (2020: £186m) to address the residual risk of further deterioration for certain customers as government support is fully withdrawn as currently planned over the coming year. Although broadly stable at a total level year-on-year, there has been a shift in composition of PMAs across the product portfolios, with a reduction in PMAs held for the Mortgage and Personal lending books, offset by the establishment of a targeted PMA for the business lending portfolio. Further detail on the nature of each PMA is provided in the respective product performance section on the following pages.

The reduction in provision in the year has given rise to an impairment credit in the income statement of £131m (2020: charge of £501m), and associated cost of risk for the year of (18)bps (2020: 68bps). The year-on-year reduction in total book coverage from 103bps to 70bps reflects improving economic conditions and underlying asset quality metrics together with a more targeted provisioning approach to more vulnerable business sectors.

The tables on the following pages provide information on the staging profile of the Group's customer lending portfolios which are key for understanding the asset quality of the portfolios. Refer to pages 164 to 173 for further commentary explaining movements and trends at a portfolio level.

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

2021	Mortgages		Personal – Cards		Personal – Loans and Overdrafts		Personal – Combined		Business[2]		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	**50,596**	**86.6%**	**4,100**	**88.1%**	**1,048**	**94.0%**	**5,148**	**89.2%**	**5,672**	**68.0%**	**61,416**	**84.7%**
Stage 2 – total	**7,192**	**12.3%**	**497**	**10.7%**	**56**	**5.0%**	**553**	**9.6%**	**2,433**	**29.2%**	**10,178**	**14.0%**
Stage 2: not past due	**6,918**	**11.9%**	**466**	**10.1%**	**46**	**4.2%**	**512**	**8.9%**	**2,390**	**28.7%**	**9,820**	**13.5%**
Stage 2: < 30 DPD	**128**	**0.2%**	**16**	**0.3%**	**5**	**0.4%**	**21**	**0.4%**	**25**	**0.3%**	**174**	**0.2%**
Stage 2: > 30 DPD	**146**	**0.2%**	**15**	**0.3%**	**5**	**0.4%**	**20**	**0.3%**	**18**	**0.2%**	**184**	**0.3%**
Stage 3[3]	**653**	**1.1%**	**58**	**1.2%**	**11**	**1.0%**	**69**	**1.2%**	**235**	**2.8%**	**957**	**1.3%**
	58,441	**100.0%**	**4,655**	**100.0%**	**1,115**	**100.0%**	**5,770**	**100.0%**	**8,340**	**100.0%**	**72,551**	**100.0%**
ECLs												
Stage 1	**4**	**4.6%**	**32**	**20.0%**	**9**	**26.5%**	**41**	**21.1%**	**66**	**29.6%**	**111**	**22.0%**
Stage 2 – total	**64**	**73.6%**	**99**	**61.9%**	**19**	**55.9%**	**118**	**60.9%**	**120**	**53.8%**	**302**	**59.9%**
Stage 2: not past due	**61**	**70.2%**	**82**	**51.3%**	**13**	**38.2%**	**95**	**49.0%**	**120**	**53.8%**	**276**	**54.8%**
Stage 2: < 30 DPD	**1**	**1.1%**	**8**	**5.0%**	**2**	**5.9%**	**10**	**5.2%**	**–**	**–**	**11**	**2.1%**
Stage 2: > 30 DPD	**2**	**2.3%**	**9**	**5.6%**	**4**	**11.8%**	**13**	**6.7%**	**–**	**–**	**15**	**3.0%**
Stage 3[3]	**19**	**21.8%**	**29**	**18.1%**	**6**	**17.6%**	**35**	**18.0%**	**37**	**16.6%**	**91**	**18.1%**
	87	**100.0%**	**160**	**100.0%**	**34**	**100.0%**	**194**	**100.0%**	**223**	**100.0%**	**504**	**100.0%**
Coverage												
Stage 1		**0.01%**		**0.85%**		**1.13%**		**0.91%**		**1.35%**		**0.18%**
Stage 2 – total		**0.88%**		**22.12%**		**42.01%**		**23.92%**		**5.43%**		**3.02%**
Stage 2: not past due		**0.87%**		**19.51%**		**33.66%**		**20.64%**		**5.48%**		**2.84%**
Stage 2: < 30 DPD		**0.85%**		**58.36%**		**52.88%**		**57.27%**		**1.51%**		**6.90%**
Stage 2: > 30 DPD		**1.36%**		**64.46%**		**99.65%**		**73.48%**		**2.85%**		**8.99%**
Stage 3[3]		**2.81%**		**54.13%**		**64.02%**		**55.65%**		**17.31%**		**9.59%**
		0.15%		**3.79%**		**3.86%**		**3.80%**		**3.06%**		**0.70%**

2020	Mortgages		Personal – Cards		Personal – Loans and Overdrafts		Personal – Combined		Business[2]		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	49,970	85.2%	3,893	87.2%	767	70.6%	4,660	84.0%	4,589	52.6%	59,219	81.2%
Stage 2 – total	8,166	13.9%	519	11.6%	304	28.0%	823	14.8%	3,855	44.2%	12,844	17.6%
Stage 2: not past due	7,826	13.3%	500	11.2%	292	26.9%	792	14.3%	3,825	43.9%	12,443	17.1%
Stage 2: < 30 DPD	150	0.3%	12	0.2%	6	0.5%	18	0.3%	20	0.2%	188	0.2%
Stage 2: > 30 DPD	190	0.3%	7	0.2%	6	0.6%	13	0.2%	10	0.1%	213	0.3%
Stage 3[3]	516	0.9%	52	1.2%	15	1.4%	67	1.2%	279	3.2%	862	1.2%
	58,652	100.0%	4,464	100.0%	1,086	100.0%	5,550	100.0%	8,723	100.0%	72,925	100.0%
ECLs												
Stage 1	14	10.7%	48	21.6%	22	27.8%	70	23.3%	52	17.1%	136	18.5%
Stage 2 – total	95	72.5%	147	66.2%	47	59.5%	194	64.4%	176	58.1%	465	63.3%
Stage 2: not past due	79	60.3%	133	59.9%	42	53.2%	175	58.1%	175	57.8%	429	58.4%
Stage 2: < 30 DPD	5	3.8%	8	3.6%	2	2.5%	10	3.3%	1	0.3%	16	2.2%
Stage 2: > 30 DPD	11	8.4%	6	2.7%	3	3.8%	9	3.0%	–	–	20	2.7%
Stage 3[3]	22	16.8%	27	12.2%	10	12.7%	37	12.3%	75	24.8%	134	18.2%
	131	100.0%	222	100.0%	79	100.0%	301	100.0%	303	100.0%	735	100.0%
Coverage												
Stage 1		0.03%		1.34%		3.22%		1.64%		1.40%		0.24%
Stage 2 – total		1.17%		30.40%		17.64%		25.81%		4.59%		3.66%
Stage 2: not past due		1.01%		28.76%		16.07%		23.85%		4.60%		3.48%
Stage 2: < 30 DPD		3.43%		70.04%		45.76%		165.97%		2.49%		8.99%
Stage 2: > 30 DPD		5.98%		76.86%		74.28%		75.83%		5.12%		9.73%
Stage 3[3]		4.31%		57.48%		79.43%		62.05%		26.74%		15.73%
		0.23%		5.37%		8.24%		5.91%		3.87%		1.03%

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

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

(3) Stage 3 includes POCI for gross loans and advances of £67m for Mortgages and £2m for Personal (2020: £86m and £4m respectively); and ECL of £Nil for Mortgages and £2m for Personal (2020: £Nil and (£2m) respectively).

Stage 2 balances

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

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

			Personal									
	Mortgages		Cards		Loans and Overdrafts		Combined		Business[2]		Total	
2020	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	7,085	87%	342	66%	293	96%	635	77%	2,883	75%	10,603	82%
Forbearance	174	2%	14	3%	3	1%	17	2%	353	9%	544	4%
AFD or Watch List[1]	13	–	–	–	–	–	–	–	586	15%	599	5%
> 30 DPD	190	2%	7	1%	6	2%	13	2%	10	–	213	2%
Other[2]	704	9%	156	30%	2	1%	158	19%	23	1%	885	7%
	8,166	100%	519	100%	304	100%	823	100%	3,855	100%	12,844	100%
ECLs												
PD deterioration	65	68%	86	59%	42	89%	128	66%	103	58%	296	64%
Forbearance	3	3%	5	3%	2	5%	7	4%	31	18%	41	9%
AFD or Watch List[1]	–	–	–	–	–	–	–	–	37	21%	37	8%
> 30 DPD	11	12%	6	4%	3	6%	9	5%	–	–	20	4%
Other[2]	16	17%	50	34%	–	–	50	25%	5	3%	71	15%
	95	100%	147	100%	47	100%	194	100%	176	100%	465	100%

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

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

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

		Gross carrying value[1]							
		Stage 1		Stage 2		Stage 3[2]		Total	
2021		£m	%	£m	%	£m	%	£m	%
Mortgages	**PD range**								
Strong	0 – 0.74	**46,984**	**93%**	**4,555**	**63%**	**–**	**–**	**51,539**	**88%**
Good	0.75 – 2.49	**3,313**	**6%**	**1,888**	**27%**	**–**	**–**	**5,201**	**9%**
Satisfactory	2.50 – 99.99	**299**	**1%**	**749**	**10%**	**–**	**–**	**1,048**	**2%**
Default	100	**–**	**–**	**–**	**–**	**653**	**100%**	**653**	**1%**
Total		**50,596**	**100%**	**7,192**	**100%**	**653**	**100%**	**58,441**	**100%**
Personal									
Strong	0 – 2.49	**4,730**	**92%**	**85**	**15%**	**–**	**–**	**4,815**	**83%**
Good	2.50 – 9.99	**411**	**8%**	**325**	**59%**	**–**	**–**	**736**	**13%**
Satisfactory	10.00 – 99.99	**7**	**–**	**143**	**26%**	**–**	**–**	**150**	**3%**
Default	100	**–**	**–**	**–**	**–**	**69**	**100%**	**69**	**1%**
Total		**5,148**	**100%**	**553**	**100%**	**69**	**100%**	**5,770**	**100%**
Business									
Strong	0 – 0.74	**3,298**	**58%**	**505**	**21%**	**–**	**–**	**3,803**	**46%**
Good	0.75 – 9.99	**2,374**	**42%**	**1,823**	**75%**	**–**	**–**	**4,197**	**50%**
Satisfactory	10.00 – 99.99	**–**	**–**	**105**	**4%**	**–**	**–**	**105**	**1%**
Default	100	**–**	**–**	**–**	**–**	**235**	**100%**	**235**	**3%**
Total		**5,672**	**100%**	**2,433**	**100%**	**235**	**100%**	**8,340**	**100%**

		Gross carrying value[1]							
		Stage 1		Stage 2		Stage 3[2]		Total	
2020		£m	%	£m	%	£m	%	£m	%
Mortgages	**PD range**								
Strong	0 – 0.74	44,038	88%	3,785	46%	–	–	47,823	81%
Good	0.75 – 2.49	5,246	11%	2,879	35%	–	–	8,125	14%
Satisfactory	2.50 – 99.99	686	1%	1,502	19%	–	–	2,188	4%
Default	100	–	–	–	–	516	100%	516	1%
Total		49,970	100%	8,166	100%	516	100%	58,652	100%
Personal									
Strong	0 – 2.49	4,144	89%	183	22%	–	–	4,327	78%
Good	2.50 – 9.99	500	11%	478	58%	–	–	978	18%
Satisfactory	10.00 – 99.99	16	–	162	20%	–	–	178	3%
Default	100	–	–	–	–	67	100%	67	1%
Total		4,660	100%	823	100%	67	100%	5,550	100%
Business									
Strong	0 – 0.74	791	17%	152	4%	–	–	943	11%
Good	0.75 – 9.99	3,674	80%	2,733	71%	–	–	6,407	73%
Satisfactory	10.00 – 99.99	124	3%	970	25%	–	–	1,094	13%
Default	100	–	–	–	–	279	100%	279	3%
Total		4,589	100%	3,855	100%	279	100%	8,723	100%

(1) The information presented in the table excludes the impact of PD neutralisation and Sector stress PMAs on the business portfolio. Refer to narrative disclosures on pages 171 and 172 for more information on the PMAs.
(2) Stage 3 includes POCI of £67m for Mortgages and £2m for Personal (2020: £86m and £4m respectively).

In terms of credit quality, 97% (2020: 95%) of the loan commitments and financial guarantee contracts were classed as either 'Good' or 'Strong' under the Group's internal PD rating scale.

Movement in gross lending balances and impairment loss allowance (audited)

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

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

2020	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[1] Gross loans £m	Stage 3[1] ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2019	67,925	79	4,514	168	807	115	73,246	362
Transfers from Stage 1 to Stage 2	(14,972)	(81)	9,513	436	–	–	(5,459)	355
Transfers from Stage 2 to Stage 1	5,032	37	(2,813)	(190)	–	–	2,219	(153)
Transfers to Stage 3	(102)	(1)	(328)	(84)	384	129	(46)	44
Transfers from Stage 3	44	–	76	9	(93)	(18)	27	(9)
Changes to model methodology	24	(8)	(24)	(6)	–	–	–	(14)
New assets originated or purchased[2]	18,380	96	1,349	90	150	15	19,879	201
Repayments and other movements[3]	(3,454)	67	2,304	150	40	(49)	(1,110)	168
Repaid or derecognised[3]	(13,658)	(53)	(1,747)	(108)	(267)	(63)	(15,672)	(224)
Write-offs	–	–	–	–	(159)	(159)	(159)	(159)
Cash recoveries	–	–	–	–	–	25	–	25
Individually assessed impairment charge	–	–	–	–	–	139	–	139
Closing balance at 30 September 2020	59,219	136	12,844	465	862	134	72,925	735

(1) Stage 3 includes POCI for gross loans and advances of £67m for Mortgages and £2m for Personal (2020: £86m and £4m respectively), and ECL of £Nil for Mortgages and (£2m) for Personal (2020: £nil 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.

In addition to the above on-balance sheet position, the Group also has £17,121m of loan commitments and financial guarantee contracts (2020: £16,870m) of which £16,001m (93.5%) are held under Stage 1, £1,090m in Stage 2 and £30m in Stage 3 (2020: £15,155m (89.8%) held under Stage 1, £1,666m in Stage 2 and £49m in Stage 3). ECLs of £8m (2020: £7m) are included in the table above, of which £2m (2020: £1m) is held under Stage 1 and £6m (2020: £6m) under Stage 2.

Stage migrations in the year drove a net increase in ECL of £115m, lower than the prior year net increase of £237m, reflecting year-on-year improvement in the staging profile consistent with other asset quality metrics. A higher level of customer repayment activity occurred in the current year as customers sought to deleverage as much as possible. Low levels of default were evident across the portfolio.

The contractual amount outstanding on loans and advances that were written off during the reporting period or still subject to enforcement activity was £2.6m (2020: £4.1m).

The Group has not purchased any lending assets in the year (2020: 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

2021	Gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %	Average LTV %
Residential – capital repayment	35,192	19	21	40	35,152	0.10	57.2%
Residential – interest only	8,341	6	2	8	8,333	0.10	47.2%
BTL	14,908	8	31	39	14,869	0.24	54.8%
Total Mortgage portfolio	**58,441**	**33**	**54**	**87**	**58,354**	**0.15**	**55.3%**

2020	Gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %	Average LTV %
Residential – capital repayment	36,125	36	51	87	36,038	0.22	59.4%
Residential – interest only	7,940	9	13	22	7,918	0.27	49.4%
BTL	14,587	11	11	22	14,565	0.12	56.0%
Total Mortgage portfolio	58,652	56	75	131	58,521	0.23	57.3%

The Mortgage portfolio has shown continued strength and resilience, with gross lending relatively stable year-on-year at £58bn. Of this, 98.4% of the portfolio was not past due at the reporting date (2020: 98.5%), a continuation of historic trends which reflect the quality of the portfolio which has been built with robust underwriting standards and affordability checks. The relative stability in the book and low LTV mix of the portfolio mirrors conditions in the UK housing market, which recovered well following the easing of government restrictions.

The initial deterioration in the economic environment resulted in the migration of balances from Stage 1 to Stage 2 'not past due' in the prior year; this trend reversed in the current year with a decrease of 1.4% from Stage 2 'not past due' to Stage 1. There was only modest migration to the other categories of Stage 2 or Stage 3.

Typical of our book, the average LTV remained low at 55.3% (2020: 57.3%). While there was a £0.2bn increase in the value of mortgages in forbearance, this has also remained at a relatively low overall level of 1.43% (2020: 1.08%) of the total mortgage book. This has been driven primarily by an increase in mortgages converting to interest only terms for a short-term period, where the Group has sought to engage with and support customers through periods of temporary financial difficulty resulting from COVID-19. Further detail on LTV bandings and forbearance measures is provided on the following pages.

The improving economic outlook has driven more favourable macroeconomic assumptions leading to a reduction in the modelled ECL provision from £56m to £33m at 30 September 2021. Notwithstanding the more encouraging signs of economic recovery on the horizon, certain PMA's have been maintained to address areas of potential vulnerability within the data inputs to the credit models. The most significant of these relate to payment holidays across the Mortgage portfolio of £22m (2020: £43m), and a specific PMA for the BTL book of £28m (2020: £6m).

Government support for customers through payment holidays was vital for a short period in preventing those customers from falling into delinquency as a direct result of COVID-19. The granting of payment holidays does however suppress the level of delinquency that would otherwise have been expected, as such a PMA of £43m was established in the prior year to address this; the PMA has subsequently reduced in the current year reflecting the successful exit from payment holiday arrangements for the majority of impacted customers, with a £22m PMA maintained to address the likelihood of certain customers experiencing financial distress.

The BTL book has seen a slight increase in the year and by its nature is more exposed to customers experiencing rental voids as their tenants are often younger and working in sectors impacted by COVID-19. The increase in the associated PMA from £6m to £28m reflects a more cautious approach on this component of the book and has driven up BTL book coverage from a modest 12bps at 30 September 2020 to a more conservative 24bps at 30 September 2021.

Together with other lower value PMAs of £4m (2020: £26m), this brings the total ECL provision at 30 September 2021 to £87m (2020: £131m). The reduction in provision in the year has given rise to an impairment credit in the income statement of £44m (2020: charge of £95m).

Overall, coverage levels remain substantially ahead of the pre-pandemic level of 7bps, with the reduction in the year from 23bps to 15bps reflecting more favourable macroeconomic assumptions and a re-balancing of PMAs in the context of a high-quality low-LTV portfolio where customers, to date, have proven to be resilient with the vast majority continuing to meet their repayment obligations.

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 (audited)

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

2020	Stage 1			Stage 2			Stage 3[2]			Total		
LTV[1]	Loans £m	%	ECL £m	Loans £m	%	ECL £m	Loans £m	%	ECL[3] £m	Loans £m	%	ECL[3] £m
Less than 50%	18,495	37%	2	2,705	33%	6	214	41%	2	21,414	37%	10
50% to 75%	23,215	46%	5	3,754	46%	40	192	37%	3	27,161	46%	48
76% to 80%	2,896	6%	1	641	8%	12	33	7%	1	3,570	6%	14
81% to 85%	2,336	5%	2	437	6%	12	21	4%	1	2,794	5%	15
86% to 90%	2,131	4%	2	428	5%	15	19	4%	1	2,578	4%	18
91% to 95%	798	2%	1	170	2%	8	9	2%	1	977	2%	10
96% to 100%	56	–	–	21	–	1	6	1%	1	83	–	2
Greater than 100%	43	–	1	10	–	1	22	4%	12	75	–	14
	49,970	100%	14	8,166	100%	95	516	100%	22	58,652	100%	131

(1) LTV of the Mortgage portfolio is defined as Mortgage portfolio weighted by balance. The portfolio is indexed using the MIAC Acadametrics indices at a given date.
(2) Stage 3 includes £67m (2020: £86m) of POCI gross loans and advances.
(3) The comparative has been restated in line with the current year presentation.

The Mortgage portfolio remains very well secured with 86.8% of mortgages, by loan value, having an indexed LTV less than 75% (2020: 82.8%), and an average portfolio LTV of 55.3% (2020: 57.3%). The proportion of mortgages with an LTV greater than 90% has also reduced in the year from 1.9% to 0.3%, evidencing the extent to which property prices have shown resilience during the past year with strong demand and support, for example in the form of the Stamp Duty holiday which was extended through to 30 June 2021.

Forbearance (audited)

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

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

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
2021	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Formal arrangements	**1,115**	**133**	**0.23**	**4.9**	**3.66**
Temporary arrangements	**675**	**100**	**0.17**	**6.8**	**6.81**
Payment arrangement	**1,865**	**176**	**0.30**	**2.3**	**1.30**
Payment holiday[1]	**1,436**	**123**	**0.21**	**0.5**	**0.41**
Interest only conversion	**1,390**	**273**	**0.47**	**1.3**	**0.47**
Term extension	**127**	**12**	**0.02**	**0.1**	**0.57**
Other	**19**	**2**	**0.01**	**–**	**0.68**
Legal	**116**	**11**	**0.02**	**0.3**	**3.09**
Total mortgage forbearance	**6,743**	**830**	**1.43**	**16.2**	**1.95**
2020					
Formal arrangements	1,194	145	0.25	7.2	4.94
Temporary arrangements	792	100	0.17	5.2	5.21
Payment arrangement	1,475	141	0.24	2.8	1.96
Payment holiday[1]	1,454	157	0.26	2.3	1.45
Interest only conversion	379	64	0.11	0.4	0.58
Term extension	163	13	0.02	0.1	0.89
Other	28	3	0.01	–	1.13
Legal	136	13	0.02	1.0	7.87
Total mortgage forbearance	5,621	636	1.08	19.0	2.98

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

As at 30 September 2021, forbearance totalled £830m (6,743 customers), an increase from the 30 September 2020 position of £636m (5,621 customers). This represents 1.43% of total mortgage balances (2020: 1.08%) with the year-on-year increase primarily driven by temporary interest only conversion. This concession has been offered to support those customers who, in reaching the end of their payment deferral term, continued to experience short-term financial difficulty or who opted to make a partial payment rather than full payment deferral.

When all other avenues of resolution, including forbearance, have been explored, the Group will take steps to repossess and sell underlying collateral. In the year to 30 September 2021, there were 33 repossessions of which 13 were voluntary (2020: 57 including 21 voluntary). The key driver of the reduction was the possession moratorium, part of the government's measures to support borrowers throughout COVID-19.

IFRS 9 staging (audited)

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 year are presented in the tables below.

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

2020	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[(1)] Gross loans £m	Stage 3[(1)] ECL £m	Total gross loans £m	Total provisions £m
Opening balance at 1 October 2019	58,120	6	1,805	9	466	25	60,391	40
Transfers from Stage 1 to Stage 2	(10,390)	(10)	4,976	75	–	–	(5,414)	65
Transfers from Stage 2 to Stage 1	3,525	3	(1,260)	(17)	–	–	2,265	(14)
Transfers to Stage 3	(63)	–	(69)	(6)	86	13	(46)	7
Transfers from Stage 3	38	–	24	3	(34)	(6)	28	(3)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased	6,981	1	16	–	3	–	7,000	1
Repayments and other movements	(2,018)	15	2,784	32	32	(6)	798	41
Repaid or derecognised	(6,223)	(1)	(110)	(1)	(34)	(4)	(6,367)	(6)
Write-offs	–	–	–	–	(3)	(3)	(3)	(3)
Cash recoveries	–	–	–	–	–	–	–	–
Individually assessed impairment charge	–	–	–	–	–	3	–	3
Closing balance at 30 September 2020	49,970	14	8,166	95	516	22	58,652	131

(1) Stage 3 includes POCI for gross loans and advances of £67m and ECL of £nil (2020: £86m and £nil respectively).

The application of more positive economic forecasts has increased the level of mortgage lending classed as Stage 1 to 86.6% (2020: 85.2%), with a corresponding decrease of assets in Stage 2 from 13.9% to 12.3%. Of the Stage 2 category, 11.9% is not yet past due at the balance sheet date (2020: 13.3% not yet past due), but falls into Stage 2 classification due predominantly to PD deterioration. The proportion of mortgages classified as Stage 3 remains modest at 1.1% (2020: 0.9%).

These conditions have also contributed to an increase in assets classes as 'Strong' from 81% at 30 September 2020 to 88% at 30 September 2021, with over 97% (2020: 95%) of the Mortgage portfolio now classed as 'Good' or 'Strong'.

The high proportion of mortgages not yet past due at the balance sheet date of 98.4% (2020: 98.5%) along with the improvement in internal PD ratings and high quality of collateral underpinning the book are key factors supporting the lower level of provision coverage required for this portfolio.

Personal credit performance

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

Breakdown of Personal credit portfolio

2021	Gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %
Credit cards	**4,655**	**142**	**18**	**160**	**4,495**	**3.79**
Personal loans	**1,082**	**14**	**17**	**31**	**1,051**	**3.57**
Overdrafts	**33**	**3**	**–**	**3**	**30**	**11.14**
Total Personal lending portfolio	**5,770**	**159**	**35**	**194**	**5,576**	**3.80**

2020	Gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage %
Credit cards	4,464	165	57	222	4,242	5.37
Personal loans	1,047	20	52	72	975	7.81
Overdrafts	39	5	2	7	32	20.09
Total Personal lending portfolio	5,550	190	111	301	5,249	5.91

As with the Mortgage portfolio, overall lending in the Unsecured portfolio remained relatively stable year-on-year following a period of stagnation in the consumer market as a result of COVID-19. However, there was a 4% increase in credit cards year-on-year as consumer spending activity returned to more normal levels with the easing of government restrictions.

The quality of the Unsecured portfolio remains high, with 98.1% in each of the personal loans and credit cards portfolios in Stage 1 or Stage 2 not past due (2020: 98.2%), and a modest amount of 1.2% of each portfolio in Stage 3 (2020: 1.4%). The level and type of government support measures, furlough and temporary payment holidays influenced the low level of forbearance measures granted to customers, which was 0.75% of the portfolio at 30 September 2021 (2020: 0.67%).

Underpinning the asset quality of the Personal loan portfolio is the fact that c.50% has been written under the tighter credit conditions introduced at the start of COVID-19. As a result of these sound credit practices 83% of the portfolio (2020: 78%) is rated in the highest PD category of 'Strong', with a minimal amount of lending classed as being in default. This has been borne out with a movement of c.6% of balances from Stage 2 to Stage 1 year-on-year.

A refresh of macroeconomic assumptions to reflect the improving economic outlook has driven a reduction in the modelled ECL provision from £190m at 30 September 2020 to £159m at 30 September 2021. This has been accompanied by a reduction of £76m in the PMA from £111m to £35m reflecting greater confidence in economic assumptions and the ability to hold more targeted PMAs to address specific risk factors. The most significant component of PMA held in respect of the Unsecured portfolio at 30 September 2021 is payment holidays of £13m (2020: £23m). The remainder of the PMA covers factors such as model alignment for upcoming definition of default changes, debt sale and PD neutralisation, with the latter established to effectively counteract the modelled PDs which are lower than they were at the outset of COVID-19, a position which is considered to be temporary; this element of PMA will unwind as PDs return to a more normalised level.

As a result, the total ECL provision at 30 September 2021 is £194m (2020: £301m), with the reduction in provision in the year giving rise to an impairment credit in the income statement of £32m (2020: charge of £223m).

Across the whole Unsecured portfolio, the reduction in coverage to 380bps (2020: 591bps) reflects the high quality, including the typically higher affluence credit card customer base where the lending position has focused on mature, higher earners who are homeowners and have shown greater resilience through COVID-19. Coverage is now broadly back to pre-COVID-19 levels, with improved book quality largely offsetting the potential for asset quality deterioration in a downturn.

Forbearance (audited)

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

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
2021	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Credit cards arrangements	**7,718**	**32**	**0.73%**	**15.0**	**47.39%**
Loans arrangements	**1,174**	**6**	**0.78%**	**3.3**	**49.61%**
Overdraft arrangements	**280**	**1**	**2.55%**	**0.4**	**51.89%**
Total Personal forbearance(1)	**9,172**	**39**	**0.75%**	**18.7**	**47.86%**
2020					
Credit cards arrangements	6,309	27	0.63%	12.5	47.23%
Loans arrangements	1,385	7	0.82%	3.2	42.42%
Overdraft arrangements	398	1	2.48%	0.3	26.39%
Total Personal forbearance(1)	8,092	35	0.67%	16.0	45.63%

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

As at 30 September 2021, credit cards forbearance totalled £32m (7,718 customers), an increase from the 30 September 2020 position of £27m (6,309 customers). This represents 0.73% of total credit cards balances (2020: 0.63%). The increase in credit cards forbearance is the result of payment arrangements being extended to customers who have come to the end of their payment holiday term and require additional short-term support, which has triggered a move into forbearance this year. The level of impairment coverage on forborne loans is broadly flat at 47.4% from 47.2% at 30 September 2020 reflecting a more prudent approach to ECL. Limited forbearance is exercised in relation to Personal loans and overdrafts, with a modest reduction to £7m (0.85%) of the loans and overdrafts portfolio from £8m (0.88%) at 30 September 2020.

IFRS 9 staging (audited)

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

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

	Stage 1		Stage 2		Stage 3[1]			
2020	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 2019	4,787	53	424	87	69	35	5,280	175
Transfers from Stage 1 to Stage 2	(1,326)	(47)	1,356	270	–	–	30	223
Transfers from Stage 2 to Stage 1	723	29	(768)	(151)	–	–	(45)	(122)
Transfers to Stage 3	(23)	(1)	(110)	(65)	135	96	2	30
Transfers from Stage 3	2	–	3	2	(6)	(5)	(1)	(3)
Changes to model methodology	24	(8)	(24)	(6)	–	–	–	(14)
New assets originated or purchased	1,621	26	5	1	1	–	1,627	27
Repayments and other movements	(925)	23	(45)	62	36	(52)	(934)	33
Repaid or derecognised	(223)	(5)	(18)	(6)	(40)	(36)	(281)	(47)
Write-offs	–	–	–	–	(128)	(128)	(128)	(128)
Cash recoveries	–	–	–	–	–	23	–	23
Individually assessed impairment charge	–	–	–	–	–	104	–	104
Closing balance at 30 September 2020	4,660	70	823	194	67	37	5,550	301

(1) Stage 3 includes POCI for gross loans and advances of £2m (2020: £4m); and ECL of (£2m) (2020: (£2m)).

The balance of Personal lending in Stage 2 reduced by 5.2% to 9.6% (2020: 14.8%), driven by technical changes to the SICR criteria for credit cards and to a model change for Personal loans. This resulted in a corresponding increase in Stage 1 from 84.0% to 89.2% while Stage 3 Personal lending remains modest and stable at 1.2% (2020: 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

2021	Gross lending £m	Government[1] £m	Total gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage[2] %
Agriculture	**1,361**	**80**	**1,441**	**7**	**5**	**12**	**1,429**	**0.89**
Business services	**943**	**337**	**1,280**	**21**	**27**	**48**	**1,232**	**4.82**
Commercial Real Estate	**667**	**13**	**680**	**4**	**3**	**7**	**673**	**1.00**
Government, health and education	**1,031**	**73**	**1,104**	**7**	**10**	**17**	**1,087**	**1.62**
Hospitality	**563**	**105**	**668**	**6**	**7**	**13**	**655**	**2.29**
Manufacturing	**556**	**144**	**700**	**22**	**21**	**43**	**657**	**6.93**
Resources	**95**	**8**	**103**	**3**	**4**	**7**	**96**	**6.85**
Retail and wholesale trade	**623**	**248**	**871**	**14**	**14**	**28**	**843**	**4.13**
Transport and storage	**300**	**80**	**380**	**4**	**4**	**8**	**372**	**2.50**
Other	**883**	**230**	**1,113**	**17**	**23**	**40**	**1,073**	**4.42**
Total	**7,022**	**1,318**	**8,340**	**105**	**118**	**223**	**8,117**	**3.06**

2020	Gross lending £m	Government[1] £m	Total gross lending £m	Modelled ECL £m	PMA £m	Total ECL £m	Net lending £m	Coverage[2] %
Agriculture	1,456	70	1,526	27	–	27	1,499	2.00
Business services	1,056	280	1,336	50	–	50	1,286	4.44
Commercial Real Estate	801	12	813	38	–	38	775	4.78
Government, health and education	1,082	65	1,147	30	–	30	1,117	2.75
Hospitality	575	97	672	17	–	17	655	2.78
Manufacturing	637	132	769	44	–	44	725	6.35
Resources	94	9	103	6	–	6	97	6.00
Retail and wholesale trade	714	232	946	40	–	40	906	5.48
Transport and storage	314	62	376	21	–	21	355	6.21
Other	831	204	1,035	30	–	30	1,005	3.35
Total	7,560	1,163	8,723	303	–	303	8,420	3.87

(1) Government includes all lending provided to business customers under UK Government schemes including Bounce back loan scheme (BBLS), Coronavirus business interruption loan scheme (CBILS), Coronavirus large business interruption loan scheme (CLBILS) and Recovery loan scheme (RLS). When onboarding, some new borrowers for BBLS loans were coded as business services; a portion of these may be reclassified over time.

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

The Group preserved concentrations across its Business portfolio throughout COVID-19 with a bias towards sectors less vulnerable to cyclical economic impacts, such as agriculture and government, health and education, which together represented 31% of the portfolio at 30 September 2021 (2020: 31%). Legacy lending to hospitality, the most exposed sector throughout COVID-19, remained stable year-on-year at only 8% of the portfolio and remains a sector where the Group's appetite to lend is limited. The focus of the past 12 months was on supporting customers through their COVID-19 journey, ensuring customers likely to experience difficulty were identified and engaged early. Muted demand for new origination resulted in a decrease in gross lending of £0.3bn year-on-year. These actions, along with the spread of the book and government support, ensured the portfolio was sufficiently resilient to withstand the short-term shocks from COVID-19.

The Group continued to lend under the UK Government-backed loan schemes, which were launched in 2020 in order to support customers through COVID-19. The initial schemes (BBLS, CBILS and CLBILS) were replaced in April 2021 by the RLS, which is set to remain open for applications until 30 June 2022.

Lending under the government schemes increased from £1.1bn to £1.4bn in the first half of the year, and subsequently started to reduce in the second half as initial loans were repaid, ending at £1.3bn at 30 September 2021. Aligned to sectors most impacted by COVID-19, the majority of these loans (55% year-on-year) were extended to customers in the business services, manufacturing and retail sectors, which accounted for £0.7bn at 30 September 2021 (2020: £0.6bn).

Asset quality has remained stable; customers have sought to address the challenges they have faced which, combined with government and Group support, has resulted in a portfolio outcome better than had been expected. The combination of customer outcomes and improving economic forecasts results in a significant increase in Stage 1 loans from 52.6% to 68.0% year-on-year, with a corresponding reduction in Stage 2 loans. Total balances in Stage 1 and Stage 2 not past due is c.£8.1bn representing 96.7% of the portfolio (2020: £8.4bn representing 96.5% of the portfolio). Of the Stage 2 loans, 96% were rated 'Strong' or 'Good' (2020: 84%). Stage 3 loans decreased marginally. Government interventions, including the loan schemes, meant that there was a reduced requirement for granting of forbearance; low levels were maintained with only 5.82% of the total portfolio being forborne at 30 September 2021 (2020: 5.92%).

As with the Group's other lending portfolios, the improving economic outlook has driven more favourable macro assumptions leading to a significant reduction in the modelled ECL provision from £303m at 30 September 2020 to £105m at 30 September 2021. The Group has recognised targeted PMAs for PD neutralisation (£34m) and sector stress (£80m), with a further £4m for other minor factors. This reduction in total provision has driven an impairment credit in the income statement of £55m (2020: charge of £183m).

As with Personal lending, a PD neutralisation PMA of £34m has been established and will unwind as PDs return to a more normalised level. The sector stress PMA of £80m has been established to recognise the inherent risk of certain sectors more susceptible to volatility as they emerge from the pandemic, where the Group expects some level of difficulty to emerge as government and other support measures unwind. For the sector stress PMA, a targeted PD stress has been applied to selected sectors and sub-sectors to replicate the level of challenge the Group expects could happen as trading cycles recommence and activities normalise without downgrading the risk grades of the underlying customers.

Overall, portfolio coverage remains prudent at 306bps (2020: 387bps), reflecting the high quality of the book and little evidence of deterioration in asset quality to date. A cautious position has been maintained through a more targeted approach to PMAs, with coverage over those sectors most susceptible to a downturn when government and other support measures are ultimately withdrawn, remaining elevated.

Forbearance (audited)

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.

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

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
2021	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Term extension	**188**	**196**	**2.27%**	**10.2**	**5.19%**
Payment holiday(1)	**86**	**130**	**1.51%**	**17.6**	**13.48%**
Reduction in contracted interest rate	**1**	**1**	**0.01%**	**–**	**0.02%**
Alternative forms of payment	**1**	**13**	**0.15%**	**5.6**	**43.14%**
Debt forgiveness	**2**	**4**	**0.04%**	**–**	**0.67%**
Refinancing	**10**	**3**	**0.04%**	**0.2**	**7.21%**
Covenant breach/reset/waiver	**44**	**155**	**1.80%**	**8.2**	**5.27%**
Total Business forbearance	**332**	**502**	**5.82%**	**41.8**	**8.31%**
2020					
Term extension	199	211	2.31%	27.5	13.05%
Payment holiday(1)	92	115	1.26%	23.1	20.08%
Reduction in contracted interest rate	2	1	0.01%	0.1	6.75%
Alternative forms of payment	1	–	–	–	64.36%
Debt forgiveness	2	4	0.05%	0.2	4.66%
Refinancing	15	6	0.07%	1.8	29.37%
Covenant breach/reset/waiver	57	202	2.22%	24.4	12.10%
Total Business forbearance	368	539	5.92%	77.1	14.30%

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

Business portfolio forbearance has reduced from £539m (368 customers) at 30 September 2020 to £502m (332 customers) at 30 September 2021. Forbearance remains an important metric, reflecting the volume and value of concessions granted to customers on a non-commercial basis. Moves in forbearance reflect the proportion of business customers requiring support on non-standard terms and evidencing financial difficulty. As a percentage of the Business portfolio, forborne balances have reduced to 5.82% (2020: 5.92%) with impairment coverage, in line with actions taken on ECLs, also reducing to 8.31% (2020: 14.30%). The majority of forbearance arrangements relate to term extensions allowing customers a longer term to repay their obligations in full than initially contracted.

Customers within the forbearance portfolio have received £31m of COVID-19 related support loans: £6m CLBIL, £18m CBIL, £5m BBL and £2m RLS.

The table includes a portfolio of financial assets at fair value. The gross value of fair value loans subject to forbearance as at 30 September 2021 is £5.3m (2020: £7m), representing 0.06% of the total business portfolio (2020: 0.08%). The credit risk adjustment on these amounts totalled £0.1m (2020: £0.7m). Coverage is 2.32% (2020: 9.77%).

IFRS 9 staging (audited)
The Group closely monitors the staging profile of its Business lending portfolio over time which can be indicative of general trends in book health. Movements in the staging profile of the portfolio in the current and prior year are presented in the tables below.

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

	Stage 1		Stage 2		Stage 3			
2020	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 2019	5,018	20	2,285	72	272	55	7,575	147
Transfers from Stage 1 to Stage 2	(3,256)	(24)	3,181	91	–	–	(75)	67
Transfers from Stage 2 to Stage 1	784	5	(785)	(22)	–	–	(1)	(17)
Transfers to Stage 3	(16)	–	(149)	(13)	163	20	(2)	7
Transfers from Stage 3	4	–	49	4	(53)	(7)	–	(3)
Changes to model methodology	–	–	–	–	–	–	–	–
New assets originated or purchased	9,778	69	1,328	89	146	15	11,252	173
Repayments and other movements	(511)	29	(435)	56	(28)	9	(974)	94
Repaid or derecognised	(7,212)	(47)	(1,619)	(101)	(193)	(23)	(9,024)	(171)
Write-offs	–	–	–	–	(28)	(28)	(28)	(28)
Cash recoveries	–	–	–	–	–	2	–	2
Individually assessed impairment charge	–	–	–	–	–	32	–	32
Closing balance at 30 September 2020	4,589	52	3,855	176	279	75	8,723	303

The application of more positive economic forecasts has increased the level of Business lending classed as Stage 1 to 68.0% (2020: 52.6%), with a corresponding decrease of 15% in Stage 2 to 29.2% (2020: 44.2%). The proportion of the portfolio in Stage 2 does remain heightened, reflective of the Group's prudent approach. As at 30 September 2021, 59% of balances in Stage 2 are associated with a deterioration in PD (2020: 75%). Business loans in Stage 3 remain modest with a slight reduction in the year to 2.8% (2020: 3.2%).

The PDs for Business lending combine both internal ratings information and forward-looking economic forecasts. The positive economic forecasts, which included a modest GDP rise in 2021 and a stronger recovery, are the material drivers of the PD and stage migrations in the year to 30 September 2021. The improvements in PD and staging have not been driven to any material extent by the lack of observed impairment through either internal downgrades or the emergence of arrears or defaults. Model changes within the Business portfolio have driven a retiming of expected default risk, with higher short-term default rates but lower cumulative default expectations. This has led to an increase in the proportion of assets classed as 'Strong' to 46% (2020: 11%), with assets classed as 'Good' correspondingly decreasing to 50% (2020: 73%). 96% of the business portfolio is categorised as 'Strong' or 'Good' (2020: 84%).

Other credit risks

Non-property related collateral (audited)

The following table shows the total non-property collateral held at 30 September 2021 in terms of cash, guarantees (guarantees are predominantly in relation to the government-backed COVID-19 loans) and netting. The exposure amount shown below is the total gross exposure (net of credit provisions) for arrangements which have some form of associated collateral held against it and is not the total exposure for each asset class, as this is disclosed elsewhere in this section.

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

2020	Cash £m	Guarantee £m	Netting £m	Debt securities £m	Other physical collateral £m	Receivables £m	Total £m	Exposure £m
Financial assets at amortised cost								
Loans and advances to customers								
Business	9	1,098	230	–	487	648	2,472	2,772
Cash and balances with central banks	5,409	–	–	–	–	–	5,409	7,421
Due from other banks	–	–	–	295	–	–	295	360
Total	5,418	1,098	230	295	487	648	8,176	10,553
Of which: Stage 3								
Loans and advances to customers								
Business	–	5	–	–	13	18	36	41

The increase in cash collateral held and corresponding exposure is due to movements within the liquid asset portfolio and similar transactions outstanding at 30 September 2021 (including TFS drawings), reflected within central governments or central banks. The debt securities collateral held continues to be in relation to a repo where UK Gilts were placed as security.

Lending backed by government guarantees in response to COVID-19 can be seen within the Guarantee column.

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

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

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

Offsetting of financial assets and liabilities (audited)

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

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

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

				Net amounts not offset on balance sheet		
2021	Gross amounts £m	Gross amounts offset on balance sheet £m	Net amounts presented on balance sheet[1] £m	Subject to master netting agreements £m	Cash collateral pledged/ received £m	Net amount £m
Assets						
Derivative financial instruments[2]	**413**	**(273)**	**140**	**(76)**	**(1)**	**63**
Liabilities						
Derivative financial instruments[2]	**678**	**(469)**	**209**	**(76)**	**(50)**	**83**
2020						
Assets						
Derivative financial instruments[2]	423	(105)	318	(127)	(12)	179
Liabilities						
Derivative financial instruments[2]	1,063	(813)	250	(127)	(83)	40

(1) Cash collateral amounts are limited to the net balance sheet exposure in order to exclude any over collateralisation. In addition to cash collateral, the Group has pledged securities collateral in respect of derivative transactions subject to master netting agreements of £274m (2020: £522m), which is not presented separately as collateral on the balance sheet.

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

Macroeconomic assumptions, scenarios, and weightings

The Group's ECL allowance as at 30 September 2021 was £504m (2020: £735m).

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. The Group has identified the following key macroeconomic drivers as the most significant inputs for IFRS 9 modelling purposes: UK GDP growth, inflation, house prices, base rates, and unemployment rates. The external data provided is assessed and reviewed on a quarterly basis to ensure appropriateness and relevance to the ECL calculation, with more frequent updates provided as and when the circumstances require them. Further adjustments supplement the modelled output when it is considered that not all the risks identified in a product segment have been accurately reflected within the models or for other situations where it is not possible to provide a modelled outcome.

As the UK economy continues to recover from the impact of COVID-19, the outlook is more optimistic than it was at this point in 2020 as businesses open up again and the public begins to transition back to spending patterns and behaviours as observed pre-pandemic. 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 ALCO for formal approval. The three scenarios selected, together with the weightings applied, have been updated to reflect the current economic environment and are:

Scenarios (audited)	2021 (%)	2020 (%)
Upside	**15**	5
Base	**50**	50
Downside	**35**	45

The Group continued to select three scenarios and apply a 50% weighting to the base scenario. There is a 10% shift in the weightings from the Downside scenario towards the Upside scenario in the period reflecting a more optimistic view of the Upside scenario over the short term as a result of the updated macroeconomic assumptions.

Upside (15%)[1]

- GDP declined by 6.1% in the first quarter of 2021 (Q1 2021 v Q1 2020) before rising steeply in Q2 2021 and settling to pre-crisis levels by Q3 2021, with overall year-on-year growth in 2021 forecast at 8.1% and rising slightly to 8.8% in 2022 before reverting to more modest increases over the remainder of the forecast horizon period.
- Inflation rises steeply to 4.1% by Q2 2022 from a low base of 0.6% at Q1 2021 and reverts to pre-COVID-19 levels from Q1 2024 for the remaining forecast period.
- BoE base rate rises are anticipated in the latter half of 2021 and expected to continue throughout 2022 and 2023 and reach 1.1% in Q1 2023. These rises continue gradually over the remaining forecast horizon reaching 1.8% in Q4 2025.
- HPI stagnates with little movement between Q3 2021 and Q3 2022 but then increases in each quarter until the end of the forecast period. Overall, HPI sees Q4 v Q4 growth of 8.2% in 2021 declining to 0.8% in 2022 before rising sharply again to 5.2% in 2023 which is maintained through 2024.
- Unemployment peaks in Q4 2020, at 5.2%, and is forecast to recover to 3.8% by the end of 2022. From then, there is no significant movement over the following years, reaching 3.9% in Q1 2023 and remaining there until Q1 2024 before steadily and modestly declining over the remainder of the forecast horizon period and hitting 3.6% in Q3 2025.

Base (50%)

- GDP contracted by 6.1% in the first quarter of 2021 (Q1 2021 v Q1 2020) before recovering sharply in Q2 2021 and settling at higher than average for the remainder of 2021, with overall year-on-year growth in 2021 forecast at 7.3%, and modestly retracting to 6.7% in 2022. GDP settles over the remaining forecast period to pre-COVID-19 levels.
- Inflation rises steeply to 3.4% by Q4 2021 from a low base of 0.6% at Q1 2021 and reverts to pre-COVID-19 levels from Q2 2023 for the remaining forecast period.
- BoE base rates remain flat at 0.1% for the majority of the forecast period and start to rise slowly from 2024 reaching 0.7% by Q4 2025.
- HPI sees a steady decline between Q3 2021 to Q3 2023 but then rebounds slowly in each quarter after this until the end of the forecast period to finish higher than it was in 2020. Overall, HPI sees Q4 v Q4 year-on-year growth of just 5.0% in 2021 which regresses to (1.6%) in 2022 and reverts to positive growth in each of the remaining forecast years.
- Unemployment peaks at over 4.9% in two quarters in 2021 before beginning to fall steadily over the remaining forecast period. By the end of 2025 the rate is sitting at 3.8% which is at a similar level to those seen pre-COVID-19.

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

Downside (35%)

- GDP drops sharply from 22.2% (Q2 2021 v Q2 2020) to just 2.6% by the end of 2021 (Q4 2021 v Q4 2020) and remains sluggish over the remaining forecast period. The overall year-on-year growth of 4.4% in 2021 drops to 2.4% by 2022 and falls further to just 1.0% by 2024 recovering to 2.5% in 2025.
- Inflation hits 2.0% in two quarters in 2021, decreasing to just 0.1% by Q4 2022 and then steadily rising each quarter to a high of 2.4% in Q3 2024 before regressing back to below pre-COVID-19 levels by the end of 2025.
- The BoE base rate is cut to -0.5% by the end of Q2 2022 and remains there for the next few years finishing at -0.3% at Q4 2025.
- HPI falls steadily and deeply from Q2 2021 to Q3 2024 but then experiences modest increases in each quarter until the end of the forecast period but finishes well below the levels experienced in 2020. Overall, HPI sees a Q4 v Q4 decline of (2.9%) in 2021 worsening to (15.2%) in 2022 and remaining negative until 2025.
- Unemployment peaks at 6.9% in Q3 2023 and remains at over 6.0% for the remainder of the forecast period. Overall, unemployment averages at 5.6% in 2021 rising to 6.8% for both 2023 and 2024 before falling modestly to 6.4% in 2025.

Base case – 2021 v 2020 (audited)

The following table shows how the Group's base case assumptions have changed from those used at 30 September 2020:

Year	Assumption	2020 %	2021 %	2022 %	2023 %	2024 %	2025 %
30 September 2021	Base rate		0.1	0.1	0.1	0.3	0.5
	Unemployment		4.8	4.6	4.3	4.0	3.9
	GDP		7.3	6.7	2.1	1.5	1.5
	Inflation		2.1	2.7	1.9	1.8	1.8
	HPI		5.0	(1.6)	0.6	2.7	3.9
30 September 2020	Base rate	0.2	0.1	0.1	0.2	0.3	
	Unemployment	6.1	7.8	6.3	6.3	6.0	
	GDP	(14.0)	7.9	4.6	2.1	1.8	
	Inflation	(0.6)	(0.2)	2.0	2.3	1.2	
	HPI	(7.3)	(8.5)	1.5	1.9	4.1	

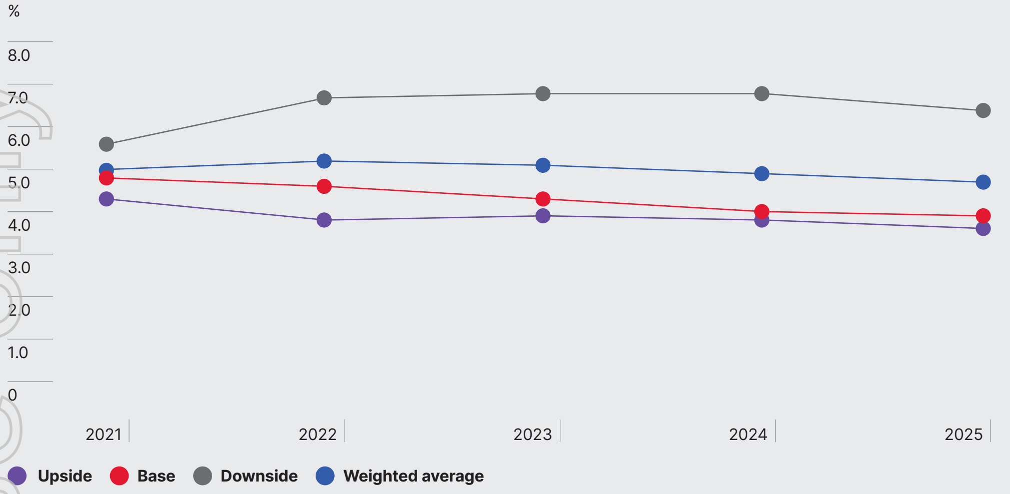
The base case macroeconomic estimates and assumptions used at 30 September 2020 reflected the forward-looking view which was particularly uncertain as a result of COVID-19 and the stage the UK economy was in at that time. The impact of the further lockdown measures introduced in Q4 2020 together with the successful vaccine roll-out programme has resulted in much more positive base case assumptions for the current year and the forecast period with significant reductions in unemployment levels and improved GDP over the short term.

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

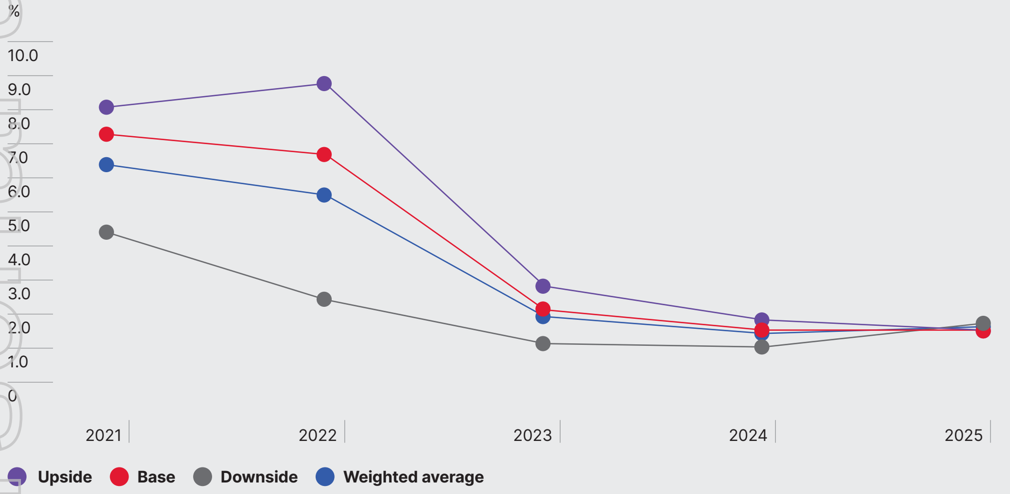
2021	Unemployment %	GDP %	HPI %
Upside	**3.9**	**4.6**	**4.6**
Base	**4.3**	**3.8**	**2.1**
Downside	**6.5**	**2.1**	**(5.8)**
2020			
Upside	4.4	1.3	1.7
Base	6.5	0.5	(1.6)
Downside	7.4	(0.4)	(6.2)

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

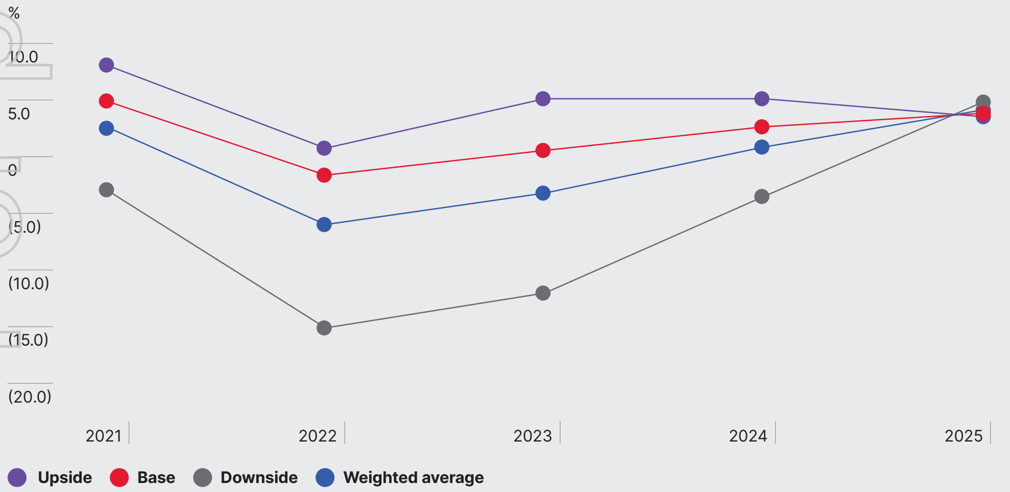
Unemployment (simple average):



GDP (year-on-year movement):



HPI (Q4 v Q4 movement):



The full range of the key macroeconomic assumptions is included in the table on page 182.

The use of estimates, judgements and sensitivity analysis

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

The use of estimates

Asset lifetimes

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

Economic scenarios

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

2021 (audited)	Probability Weighted[1] £m	Upside £m	Base £m	Downside £m
Mortgages	**24**	**16**	**19**	**37**
Personal of which:	**159**	**155**	**155**	**167**
Cards	**142**	**139**	**139**	**147**
Personal loans and overdrafts	**17**	**16**	**16**	**20**
Business	**83**	**47**	**61**	**127**
Total	**266**	**218**	**235**	**331**

(1) In addition to the probability weighted modelled provision shown in the table, the Group holds £207m relative to PMAs (2020: £186m) and £31m of individually assessed provision (2020: £53m).

2020 (audited)	Probability Weighted £m	Upside £m	Base £m	Downside £m
Mortgages	46	7	28	76
Personal of which	190	162	183	204
Cards	165	139	158	179
Personal loans and overdrafts	25	23	25	25
Business	260	156	214	324
Total	496	325	425	604

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

Certain asset classes are less sensitive to specific macroeconomic factors, showing lower relative levels of sensitivity. To ensure appropriate levels of ECL, the relative lack of sensitivity is compensated for through the application of PMAs, further detail of which can be found on page 181.

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
- *Personal:* Unemployment
- *Business:* Unemployment, HPI, GDP and interest rates

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. All changes have been implemented as immediate effects seen within the first year of the base case scenario, persisting throughout the scenario.

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

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

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

(Audited)	2021 £m
Mortgages +1%	**1**
Personal +1%	**4**
Business +1%	**6**
Mortgages -1%	**(1)**
Personal -1%	**(4)**
Business -1%	**(4)**

Altering the basis of how the changes are reflected would produce different results, with a sharper rise or decline in unemployment having a much more material ECL impact.

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

The use of judgement

SICR

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

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

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

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

The table below illustrates this across the Group's portfolios:

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

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

(Audited)	30 Sept 2021 £m	30 Sept 2020 £m
A 10% movement in the mortgage portfolio from Stage 1 to Stage 2[1]	**+6**	+16
A 10% movement in the credit card portfolio from Stage 1 to Stage 2[1]	**+69**	+76
A 10% movement in the business portfolio from Stage 1 to Stage 2[1]	**+13**	+16
A PD stress which increases PDs upwards by 20% for all portfolios	**+94**	+151

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

Definition of default

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

PMAs

At 30 September 2021, £207m of PMAs (2020: £186m) are included within the balance sheet ECL provision of £504m (2020: £735m).

These are management judgements which impact the ECL provision by increasing the collectively assessed modelled output where not all of the known risks identified in a particular product segment have been accurately reflected within the models and are described in more detail below:

Mortgages: the potential future impact of the wind-down in payment holidays continues to remain a significant unknown and customer behaviours continue to be monitored and assessed for indications of deterioration. The Group monitored the level of ECL held on BTL mortgages in the year due to uncertainty around how landlords will react to this and how the portfolio will perform post the withdrawal of UK Government support measures in terms of both their own position and that of their tenants.

Personal: as with Mortgages, the future performance of customers who previously had payment holidays remains a significant factor along with the potential impact on the sale or future recovery value of Unsecured written-off debt, which has fluctuated in the current environment. In addition to these, further adjustments were made to estimate the impact of the alignment of the definition of default on credit cards which is in the process of changing and to re-base origination PDs. The reduced reliance on PMAs is primarily a result of the improvements in the macroeconomic outlook from September 2020.

Business: the introduction of the PMA for the Business portfolio is a consequence of the improvements in the macroeconomic assumptions used at 30 September 2021 compared to the previous year, with the Group adopting a cautious approach as the UK begins to emerge from the pandemic. The government measures put in place for businesses throughout COVID-19 have resulted in a significant decrease in corporate insolvency levels compared to long-term UK trends, with concerns on how businesses will adapt once the economy fully reopens. The Group considers that certain sectors within its Business portfolio require additional ECL to more adequately reflect the strains observed and expected in those sectors that are not fully captured in the modelled output. This also includes a modest adjustment to address technical model corrections.

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

(Audited)	Mortgages	Personal	Business	Total
2021	**£54m**	**£35m**	**£118m**	**£207m**
% of total ECL	**62%**	**18%**	**53%**	**41%**
Coverage – total	**0.15%**	**3.80%**	**3.06%**	**0.70%**
Coverage – total ex PMAs	**0.06%**	**3.11%**	**1.44%**	**0.41%**
2020	£75m	£111m	–	£186m
% of total ECL	57%	37%	–	25%
Coverage – total	0.23%	5.91%	3.91%	1.03%
Coverage – total ex PMAs	0.10%	3.73%	3.91%	0.77%

PMAs are primarily directed towards Stages 1 and 2 and are discussed in more detail in the divisional commentary on pages 164 to 173.

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

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

Macroeconomic assumptions (audited)

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

2021

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

2020

Scenario	VMUK weighting	Economic measure[2]	2020 %	2021 %	2022 %	2023 %	2024 %
Upside	5%	Base rate	0.2	0.1	0.1	0.2	0.4
		Unemployment	5.5	5.1	3.9	3.7	3.6
		GDP	(10.8)	10.2	3.5	1.9	1.8
		Inflation	0.7	1.2	1.7	1.8	1.7
		HPI	(4.2)	(1.8)	6.7	4.0	3.8
Base	50%	Base rate	0.2	0.1	0.1	0.2	0.3
		Unemployment	6.1	7.8	6.3	6.3	6.0
		GDP	(14.0)	7.9	4.6	2.1	1.8
		Inflation	(0.6)	(0.2)	2.0	2.3	1.2
		HPI	(7.3)	(8.5)	1.5	1.9	4.1
Downside	45%	Base rate	0.2	(0.5)	(0.5)	(0.3)	(0.3)
		Unemployment	6.7	10.0	7.2	6.8	6.5
		GDP	(16.9)	5.0	5.7	2.0	1.9
		Inflation	(0.2)	(1.4)	1.0	2.4	0.8
		HPI	(11.2)	(15.6)	(6.7)	(2.2)	4.8
Weighted average		Base rate	0.2	(0.2)	(0.2)	(0.1)	0.0
		Unemployment	6.3	8.6	6.6	6.4	6.1
		GDP	(15.1)	6.7	5.1	2.1	1.9
		Inflation	(0.4)	(0.7)	1.5	2.3	1.1
		HPI	(8.9)	(11.4)	(1.9)	0.2	4.4

(1) Economic assumptions are on a calendar year basis unless otherwise stated.
(2) The percentages shown for base rate, unemployment and inflation are averages. GDP is the year-on-year movement, with HPI the Q4 v Q4 movement.

Financial risk

Financial risk
Strong foundations supporting resilience and growth.

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

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

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

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

The Group's participation in wholesale markets, along with its use of financial instruments, is to fund its banking activities and manage the liquidity and market risks arising from these activities. The Group establishes an appetite for these risks based on an overriding principle that the Group will not engage in proprietary risk taking.

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

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

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

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

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

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

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

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

COVID-19 regulatory capital developments
Following the BoE's announcements in 2020 regarding supervisory and prudential policy measures to address the challenges of COVID-19, the requirements relating to comply with updates to definition of default, mortgage Hybrid PD and LGD were extended and the Group no longer expects the adoption of hybrid mortgage models in FY22.

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

IRB approach to UK mortgage risk weights
In July 2021, the PRA issued a policy statement in response to the consultation setting out proposals to introduce certain floors in respect of the IRB approach to UK mortgage risk weights. In response to the feedback the PRA received, including useful quantitative data that enabled the PRA to better gauge the distribution of risk weights across mortgage exposures, the PRA made two changes to the draft policy: it will not introduce the proposed 7% minimum risk weight expectation on individual UK mortgage exposures; and mortgage exposures classified as in default will be excluded from the 10% minimum risk weight expectation.

Instead, the PRA will consider the calibration of the incoming PD and LGD parameter floors for mortgages as part of the PRA's Basel 3.1 implementation.

UK implementation of Basel Standards
In July 2021, the PRA published Policy Statement 17/21 which provided feedback to Consultation Paper 5/21 with the same title: 'Implementation of Basel standards' with the publication of Policy Statement 22/21 in October containing final rules. The policy statements cover a range of areas including: definition of capital; market risk; collective investment undertakings; counterparty credit risk; operational risk; large exposures; LCR; NSFR; reporting; and disclosure. These standards will be effective in the UK from 1 January 2022.

Policy Statement 22/21 confirms the PRA's treatment to fully deduct software assets from CET1 capital, applicable from 1 January 2022. This is a reversal of the preferential treatment permitted under the CRR Quick Fix which came into force from December 2020 whereby the CET1 deduction was replaced with a simple approach based on a prudential amortisation of software assets calibrated over a maximum period of three years. The PRA's view is that intangible assets are not sufficiently loss absorbent on a going concern basis to warrant recognition as CET1 capital.

Basel 3.1
The Basel Committee published its final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches to credit and operational risks and the introduction of a new RWA output floor. The reforms are due to be subject to a transition period from 2023 to 2028. There are a number of areas within Basel 3.1 subject to national discretion and choice. The PRA is due to release a Consultation Paper on UK implementation in the second half of 2022 with the final reforms now not expected to be introduced until after March 2023. Uncertainties therefore remain for a number of topics that will be subject to revisions under Basel 3.1. In response the Group has undertaken an assessment across a range of scenarios for potential outcomes to assist with planning.

Solvency Stress Test
The Group participated in the BoE UK-wide SST for the first time during 2021 and is due to receive the outcome in December 2021. Results from the stress tests, which are due to be published by the BoE by the end of 2021, will be used by the FPC to assess the stress severity required to threaten resilience and test the Group's ability to absorb losses and continue to lend.

UK Leverage Ratio Framework
In June 2021 the FPC and PRA published consultations (Consultation Paper 14/21) on their proposed changes to the UK leverage ratio framework, with feedback and final policy published in October (Policy Statement 21/21). The changes, effective from 1 January 2022, will simplify the framework with the Group being subject to the UK leverage ratio only rather than the two leverage ratio definitions that currently exist. The Group exceeds the 3.25% leverage ratio requirements.

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

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

Capital optimisation remains a key strategic priority, ensuring the Group manages the quantity and quality of resources efficiently while meeting internal targets, stress testing requirements and maintaining regulatory compliance. Work is progressing to ensure that the approach to models and IRB portfolios supports the overall strategy and delivers robust outcomes for the management of risks.

Monitoring

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

Capital resources

The Group's capital resources position as at 30 September 2021 is summarised below:

Regulatory capital(1)	30 Sept 2021 £m	30 Sept 2020 £m
Statutory total equity	**5,473**	4,932
CET1 capital: regulatory adjustments(2)		
Other equity instruments	**(915)**	(915)
Defined benefit pension fund assets	**(551)**	(470)
Prudent valuation adjustment	**(5)**	(6)
Intangible assets	**(208)**	(477)
Goodwill	**(11)**	(11)
Deferred tax asset relying on future profitability(3)	**(258)**	(151)
Cash flow hedge reserve	**(10)**	80
AT1 coupon accrual	**(19)**	(21)
Foreseeable dividend on ordinary shares	**(14)**	–
IFRS 9 transitional adjustments	**134**	310
Total regulatory adjustments to CET1	**(1,857)**	(1,661)
Total CET1 capital	**3,616**	3,271
AT1 capital		
AT1 capital instruments	**697**	915
Total AT1 capital	**697**	915
Total Tier 1 capital	**4,313**	4,186
Tier 2 capital		
Subordinated debt	**1,019**	749
Total Tier 2 capital	**1,019**	749
Total regulatory capital	**5,332**	4,935

(1) This table shows the capital position on a CRD IV 'fully loaded' basis and transitional IFRS 9 basis.
(2) A number of regulatory adjustments to CET1 capital are required under CRD IV regulatory capital rules.
(3) Includes deferred tax on losses in relation to UTM which is proportionately consolidated under prudential rules.

Regulatory capital flow of funds[1]	CRD IV 2021 £m	CRD IV 2020 £m
CET1 capital[2]		
CET1 capital at 1 October	**3,271**	3,204
Share capital and share premium	**2**	1
Retained earnings and other reserves (including special purpose entities)	**449**	(37)
Prudent valuation adjustment	**1**	(1)
Amendment to software asset deduction rules[3]	**151**	–
Intangible assets	**118**	24
Deferred tax asset relying on future profitability	**(107)**	(5)
Defined benefit pension fund assets	**(81)**	(213)
AT1 foreseeable distribution	**2**	–
Foreseeable dividend on ordinary shares	**(14)**	–
Excess expected losses	**–**	88
IFRS 9 transitional relief	**(176)**	210
Total CET1 capital at 30 September	**3,616**	3,271
AT1 capital		
AT1 capital at 1 October	**915**	915
Less other equity instruments not qualifying as AT1	**(218)**	–
Total AT1 capital at 30 September	**697**	915
Total Tier 1 capital at 30 September	**4,313**	4,186
Tier 2 capital		
Tier 2 capital at 1 October	**749**	721
Capital instruments issued: subordinated debt	**298**	472
Capital instruments purchased: subordinated debt	**(30)**	(444)
Amortisation of issue costs	**2**	–
Tier 2 capital at 30 September	**1,019**	749
Total capital	**5,332**	4,935

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

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

(3) Regulatory capital is calculated in line with current rules which incorporate the amendments introduced by the CRR Quick Fix in December 2020, which apply the CET1 software asset deduction on a prudential amortisation basis over a period of three years. The PRA confirmed in the year that this relief will be removed with effect from 1 January 2022.

The Group's CET1 capital increased by £345m during the year, primarily due to increases in retained earnings and other reserves of £449m (driven mainly by statutory profit after tax of £474m), a reduction in intangible assets of £118m and the beneficial effect of the CRR Quick Fix amendments in relation to software assets of £151m. These increases were partially offset by an increase of £107m in the deferred tax recognised on tax losses carried forward, an increase in the defined benefit fund pension asset of £81m, and the reduction in IFRS 9 provisions recognised in the year reduced the transitional relief available by £176m.

The Group issued £300m Tier 2 Capital Notes (£298m net of costs of £2m) in May 2021, which after the redemption of £30m of Notes issued in 2016, increased Tier 2 capital by £270m.

Subsequently in September 2021, the Group announced that £230m of AT1 securities would be redeemed in full on 10 November 2021. £218m, being the book value of these securities, has therefore been excluded from the AT1 capital as at 30 September 2021.

Risk Weighted Assets

Minimum capital requirements	2021 Exposure £m	2021 RWA £m	2021 Minimum capital requirements £m	2020 Exposure £m	2020 RWA £m	2020 Minimum capital requirements £m
Retail mortgages	**61,146**	**10,010**	**801**	61,548	9,484	759
Business lending	**11,670**	**6,040**	**483**	12,304	6,716	537
Other retail lending	**16,201**	**4,311**	**345**	15,160	4,151	332
Other lending	**15,467**	**326**	**26**	15,716	343	29
Other[1]	**765**	**856**	**69**	746	794	63
Total credit risk RWA	**105,249**	**21,543**	**1,724**	105,474	21,488	1,720
Credit valuation adjustment		**103**	**8**		175	14
Operational risk		**2,481**	**198**		2,557	205
Counterparty credit risk		**105**	**8**		179	14
Total RWA	**105,249**	**24,232**	**1,938**	105,474	24,399	1,953

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

RWA movements	12 months to 30 September 2021 IRB RWA £m	STD RWA £m	Other RWA £m	Total £m	Minimum capital requirements £m	12 months to 30 September 2020 IRB RWA £m	STD RWA £m	Other RWA[2] £m	Total £m	Minimum capital requirements £m
Opening RWA	**15,846**	**5,642**	**2,911**	**24,399**	**1,953**	15,104	5,953	2,989	24,046	1,924
Asset size	**(553)**	**152**	**–**	**(401)**	**(32)**	(48)	187	–	139	11
Asset quality	**(644)**	**16**	**–**	**(628)**	**(50)**	464	(65)	–	399	33
Model updates[1]	**1,086**	**–**	**–**	**1,086**	**87**	149	–	–	149	12
Methodology and policy	**(36)**	**151**	**–**	**115**	**9**	(287)	(48)	–	(335)	(27)
IRB accreditation	**–**	**–**	**–**	**–**	**–**	457	(473)	–	(16)	(1)
Other[2]	**–**	**(117)**	**(222)**	**(339)**	**(29)**	7	88	(78)	17	1
Closing RWA	**15,699**	**5,844**	**2,689**	**24,232**	**1,938**	15,846	5,642	2,911	24,399	1,953

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

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

RWA reduced c.£0.2bn (1%) to £24.2bn primarily due to the impact of business effective maturity methodology changes in the period and as lending volumes remained stable.

In the table above, methodology and policy movement is largely driven by the inclusion of a £151m RWA uplift in relation to the CRR Quick Fix amendments in respect of intangible assets, which became effective from December 2020 reporting.

In addition, the migration of the heritage Virgin Money HPI from Markit to MIAC Acadametrics, which now aligns the source of the indexation across both heritages, resulted in a £161m RWA uplift in February 2021. Offsetting this was the move to using Effective Maturity within the FIRB calculations, which resulted in a £197m reduction in RWA (previously only residual maturity had been used). This was implemented in November 2020 following PRA approval.

Model updates includes a £344m uplift in RWA specific to COVID-19 related PMAs and a net £742m uplift specific to PD recalibrations.

IFRS 9 transitional arrangements

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

	30 September 2021	
Available capital (amounts)	IFRS 9 Transitional basis £m	IFRS 9 Fully loaded basis £m
CET1 capital	**3,616**	**3,482**
Tier 1 capital	**4,313**	**4,179**
Total capital	**5,332**	**5,235**
RWA (amounts)		
Total RWA	**24,232**	**24,156**
Capital ratios		
CET1 (as a percentage of RWA)	**14.9%**	**14.4%**
Tier 1 (as a percentage of RWA)	**17.8%**	**17.3%**
Total capital (as a percentage of RWA)	**22.0%**	**21.7%**
Leverage ratio		
Leverage ratio total exposure measure	**84,306**	**84,172**
CRD IV leverage ratio	**5.1%**	**5.0%**
UK leverage ratio	**5.2%**	**5.0%**

Transitional arrangements in CRR mean the regulatory capital impact of ECL is being phased in over time. Following the CRR Quick Fix amendments package, which applied from 27 June 2020, relevant provisions raised from 1 January 2020 through to 2024 have a CET1 add-back percentage of 100% in 2021, reducing to 75% in 2022, 50% in 2023 and 25% in 2024.

At 30 September 2021, £134m of IFRS 9 transitional adjustments (2020: £310m) have been applied to the Group's capital position in accordance with CRR: £10m of static and £124m of dynamic adjustments (2020: £12m static and £298m 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 and supplemented through additional regulation under the PRA Rulebook. The table below summarises the amount of capital in relation to RWA the Group is currently required to hold, excluding any PRA buffer.

	30 September 2021	
Minimum requirements	CET1	Total capital
Pillar 1[(1)]	**4.5%**	**8.0%**
Pillar 2A	**2.2%**	**3.9%**
Total capital requirement	**6.7%**	**11.9%**
Capital conservation buffer	**2.5%**	**2.5%**
UK countercyclical capital buffer	**0.0%**	**0.0%**
Total (excluding PRA buffer)[(2)]	**9.2%**	**14.4%**

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

(2) The Group may be subject to a PRA buffer as set by the PRA but is not permitted to disclose the level of any buffer. A PRA buffer can consist of two components:
- a risk management and governance buffer that is set as a scalar of the Pillar 1 and Pillar 2A requirements; and
- a buffer relating to the results of the BoE stress tests.

The Group continues to maintain a significant buffer of 5.7% (equivalent to £1,384m) over its CRD IV minimum CET1 requirement of 9.2%.

The Group's total capital Pillar 2A requirement has reduced from 4.4% at September 2020 to 3.9% at September 2021 following revisions made by the PRA during the year. Subsequent to the year end, in October 2021, further revisions were made to the Group's Pillar 2A requirement, reducing the total requirement further to 3.1%, with the CET1 requirement similarly reducing from 2.2% to 1.7%.

The regulatory capital buffer framework is intended to ensure firms maintain a sufficient amount of capital above their regulatory minimum in order to withstand periods of stress. The UK has implemented the provisions on capital buffers outlined in the CRD to create combined capital buffers including a Capital Conservation Buffer, a Countercyclical Capital Buffer (CCyB), a Global Systemically Important Institution (G-SII) Buffer, and a Systemic Risk Buffer (SRB) for ring-fenced banks. The Group's capital planning process considers the impact of all relevant capital buffers.

The UK CCyB is dependent upon the BoE's view of credit conditions in the economy and will be set between 1% and 2% in a standard risk environment. On 11 March 2020, as part of a package of measures to support the economy from the impact of COVID-19, the FPC announced a reduction in the UK CCyB to 0% with immediate effect. During July 2021, the FPC provided guidance to maintain the 0% rate until at least December 2021. As any increases to CCyB will have a twelve month implementation period, any subsequent increase would not take effect until the end of 2022 at the earliest.

Currently, the Group does not meet the criteria for designation as a systemically important institution, or the threshold for systemic risk: therefore the Group is not subject to either a G-SII buffer or SRB.

MREL
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:

MREL position	2021 £m	2020 £m
Total capital resources[1]	**5,332**	4,935
Eligible senior unsecured securities issued by Virgin Money UK PLC[2]	**2,408**	2,002
Total MREL resources	**7,740**	6,937
Risk-weighted assets	**24,232**	24,399
MREL Ratio	**31.9%**	28.4%

(1) This table shows the capital position on a CRD IV 'fully loaded' basis and transitional IFRS 9 basis.
(2) Excludes instruments with less than one year to maturity.

In January 2021, the BoE published industry interim and end-state MREL that will apply to the Group.

In 2021, the Group is subject to a binding interim MREL requirement of 18% of RWA, or 20.5% of RWA when including its combined buffer requirements. From 1 January 2022, the Group expects to have to meet an end-state MREL requirement of 22.1% of RWA, or 24.6% of RWA when including its combined buffer requirements.

Following further issuance over the period, the Group's IFRS 9 transitional MREL ratio improved to 31.9% as at 30 September 2021 (2020: 28.4%). This represents prudent headroom of 7.3% or c.£1.8bn over the Group's expected 1 January 2022 MREL Requirement.

Dividend

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 30 September 2021, the Company had accumulated distributable reserves of £792m (2020: £789m).

As disclosed on page 20 of the Strategic report, the Board has recommended a final dividend for the financial year ended 30 September 2021 of 1p per share.

Leverage

Leverage ratio	2021 £m	2020 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	**3,616**	3,271
AT1 capital	**697**	915
Total Tier 1 capital	**4,313**	4,186
Exposures for the leverage ratio		
Total assets	**89,100**	90,259
Adjustment for off-balance sheet items	**2,884**	2,892
Adjustment for derivative financial instruments	**91**	81
Adjustment for securities financing transactions	**2,235**	2,072
Adjustment for qualifying central bank claims	**(9,094)**	(8,088)
Other adjustments	**(910)**	(726)
Leverage ratio exposure	**84,306**	86,490
CRD IV leverage ratio(1)	**5.1%**	4.8%
UK leverage ratio (1) (2)	**5.2%**	4.9%
Average UK leverage ratio exposure(3)	**83,213**	85,713
Average UK leverage ratio(3)	**4.7%**	4.6%

(1) IFRS 9 transitional capital arrangements have been applied to the leverage ratio calculation.
(2) The Group's leverage ratio on a modified basis, excluding qualifying central bank claims and loans under the UK BBLS from the exposure measure.
(3) The fully loaded average leverage exposure measure is based on the daily average of on-balance sheet items and three month-end average of off-balance sheet items. The average leverage ratio is based on the average of the month-end Tier 1 capital position.

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

The leverage ratio is monitored against a Board-approved RAS, 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 a CRD IV fully loaded and IFRS 9 transitional basis; and
- exposures: total on- and off-balance sheet exposures (subject to credit conversion factors) as defined in the delegated act amending CRR article 429 (Calculation of the Leverage Ratio), which includes deductions applied to Tier 1 capital.

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

The Group's CRD IV leverage ratio of 5.1% (2020: 4.8%) exceeds the Basel Committee's proposed minimum of 3% and the Group's UK leverage ratio of 5.2% (2020: 4.9%) exceeds the UK minimum ratio of 3.25%.

Following the FPC announcement on 11 March 2020, the Group's CCyB rate reduced to 0% which also moved the leverage ratio buffer to 0%.

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.

Exposures

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

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

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

Measurement

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

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

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

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

Monitoring

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

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

Mitigation

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

As a participant in the BoE SMF, the Group had access to funding via the TFS. Following its launch in April 2020, the Group has also been able to access additional funding from TFSME, which was established to provide cost-effective funds to banks to support additional lending to the real economy and incentivise lending to SMEs during a period of economic disruption caused by COVID-19. Throughout 2021, the Group repaid a significant proportion of outstanding TFS amounts and has a strategy in place to repay the full amount comfortably in advance of the maturity date, funded by a combination of customer deposits, public market issuance and TFSME drawings.

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

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

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

Sources of funding (audited)

The table below provides an overview of the Group's sources of funding as at 30 September 2021:

	2021 £m	2020 £m
Total assets	**89,100**	90,259
Less: other liabilities[1]	**(3,060)**	(3,390)
Funding requirement	**86,040**	86,869
Funded by:		
Customer deposits	**66,971**	67,710
Debt securities in issue	**7,678**	8,758
Due to other banks	**5,918**	5,469
of which:		
Secured loans	**5,896**	5,397
Transaction balances with other banks	**–**	15
Deposits with other banks	**22**	57
Equity	**5,473**	4,932
Total funding	**86,040**	86,869

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

The Group's funding objective is to prudently manage the sources and tenor of funds in order to provide a sound base from which to support sustainable lending growth. At 30 September 2021, the Group had a funding requirement of £86,040m (2020: £86,869m) with the majority being used to support loans and advances to customers.

Customer deposits

The majority of the Group's funding requirement was met by customer deposits of £66,971m (2020: £67,710m). Customer deposits are comprised of interest bearing deposits, term deposits and non-interest bearing demand deposits from a range of sources including Personal and Business customers. The managed decrease in customer deposits of £739m in the year is consistent with the reduced funding requirement.

Equity

Equity of £5,473m (2020: £4,932m) was also used to meet the Group's funding requirement. Equity comprises ordinary share capital, retained earnings, other equity investments and a number of other reserves. For full details on equity refer to note 4.1 within the consolidated financial statements.

Liquid assets

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

The LCR increased from 140% to 151% during the year and remains comfortably above regulatory and internal risk appetite.

Liquidity coverage ratio (audited)	2021 £m	2020 £m
Eligible liquidity buffer	**10,996**	10,675
Net stress outflows	**7,289**	7,609
Surplus	**3,707**	3,066
Liquidity coverage ratio	**151%**	140%

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

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

The key risk driver assumptions applied to the scenarios are:

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

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

As at 30 September 2021, the Group held eligible liquid assets well in excess of 100% of net stress outflows and Pillar 2 liquidity requirements, as defined through internal risk appetite.

Liquid asset portfolio(1) (audited)	2021 £m	2020 £m	Change %	Average 2021 £m	Average 2020 £m
Level 1					
Cash and balances with central banks	**7,060**	6,255	12.9	**7,232**	6,430
UK Government treasury bills and gilts	**771**	1,232	(37.4)	**779**	1,301
Other debt securities	**3,239**	3,262	(0.7)	**3,296**	3,186
Total level 1	**11,070**	10,749	3.0	**11,307**	10,917
Level 2(2)	**23**	29	(20.7)	**24**	33
Total LCR eligible assets	**11,093**	10,778	2.9	**11,331**	10,950

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

Cash and balances with central banks of £9,711m, as per note 3.4, includes: £2,333m of assets that are encumbered to support the issuance of Scottish bank notes (excluding notes not in circulation) and to support payments systems; £257m of mandatory central bank deposits; and £58m excluded from LCR to cover operating expenses.

Financial assets at FVOCI of £4,352m, as per note 3.7, include: £586m of encumbered UK government treasury bills and gilts, £312m of which is encumbered to support Operational Continuity in Resolution.

The introduction of a binding NSFR is due to be implemented in the UK on 1 January 2022. Based on current interpretations of European regulatory requirements and guidance, the ratio as at 30 September 2021 is 134% (2020: 131%).

Encumbered assets

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

Encumbered assets by asset category (audited)

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

					Other assets					
	Assets encumbered with non-central bank counterparties					Assets not positioned at the central bank				
30 September 2020	Covered Bonds £m	Securi-tisations £m	Other £m	Total £m	Positioned at the central bank (including encumbered) £m	Readily available for encumbrance £m	Other assets capable of being encumbered £m	Cannot be encumbered £m	Total £m	Total £m
Loans and advances to customers	2,551	7,253	–	9,804	15,604	26,736	17,406	3,070	62,816	72,620
Cash and balances with central banks	–	–	–	–	2,994	6,113	–	–	9,107	9,107
Due from other banks	337	424	93	854	–	–	73	–	73	927
Derivatives financial instruments	–	–	–	–	–	–	–	318	318	318
Financial instruments at FVOCI	–	–	826	826	–	4,254	–	–	4,254	5,080
Other assets	–	–	910	910	–	–	301	996	1,297	2,207
Total assets	2,888	7,677	1,829	12,394	18,598	37,103	17,780	4,384	77,865	90,259

The Group's total non-central bank asset encumbrance decreased by £3,186m to £9,208m as at 30 September 2021. This was primarily due to a reduction in residential mortgage-backed securities (RMBS) funding. Current levels of encumbrance include the impact of use of TFS and TFSME schemes which are subject to a repayment profile to manage refinancing risk.

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

30 September 2021	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity[(1)] £m	Total £m
Assets							
Financial assets at amortised cost							
Loans and advances to customers	766	1,966	1,051	6,654	56,812	4,627	71,876
Cash and balances with central banks	8,337	–	–	–	–	1,374	9,711
Due from other banks	800	–	–	–	–	–	800
Financial assets at FVTPL							
Loans and advances to customers	–	3	12	44	74	–	133
Derivative financial instruments	1	8	21	102	8	–	140
Other financial assets	–	–	–	–	–	20	20
Financial assets at FVOCI	–	35	448	2,176	1,693	–	4,352
Other assets	–	14	192	2	1	1,859	2,068
Total assets	9,904	2,026	1,724	8,978	58,588	7,880	89,100
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	49,477	4,079	9,327	4,088	–	–	66,971
Debt securities in issue	–	145	1,141	6,392	–	–	7,678
Due to other banks	18	2	1,248	4,650	–	–	5,918
Financial liabilities at FVTPL							
Derivative financial instruments	1	5	38	94	71	–	209
Other liabilities	2,104	52	87	65	70	473	2,851
Total liabilities	51,600	4,283	11,841	15,289	141	473	83,627
Off-balance sheet items							
Financial guarantees	–	20	21	15	45	–	101
Other credit commitments	17,020	–	–	–	–	–	17,020
Total off-balance sheet items	17,020	20	21	15	45	–	17,121

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

30 September 2020 – Restated	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity[1] £m	Total £m
Assets							
Financial assets at amortised cost							
Loans and advances to customers[2]	785	1,794	1,037	7,054	57,333	4,427	72,430
Cash and balances with central banks	7,547	–	–	–	–	1,560	9,107
Due from other banks	814	113	–	–	–	–	927
Financial assets at FVTPL							
Loans and advances to customers	–	7	17	61	105	–	190
Derivative financial instruments	1	9	114	80	114	–	318
Other financial assets	–	–	–	–	–	13	13
Financial assets at FVOCI	–	732	251	2,318	1,779	–	5,080
Other assets	–	32	327	2	1	1,832	2,194
Total assets	9,147	2,687	1,746	9,515	59,332	7,832	90,259
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	44,676	4,677	11,080	7,277	–	–	67,710
Debt securities in issue	–	385	1,261	5,407	1,705	–	8,758
Due to other banks	68	–	1,493	3,908	–	–	5,469
Financial liabilities at FVTPL							
Derivative financial instruments	1	4	33	76	136	–	250
Other liabilities	2,319	81	89	76	79	496	3,140
Total liabilities	47,064	5,147	13,956	16,744	1,920	496	85,327
Off-balance sheet items							
Financial guarantees	–	18	15	16	46	–	95
Other credit commitments	16,775	–	–	–	–	–	16,775
Total off-balance sheet items	16,775	18	15	16	46	–	16,870

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

(2) The contractual maturity profile for Loans and advances to customers in the prior year incorrectly included £4,873m of balances within the 'less than 5 years' category which had a maturity of over 5 years at that date. These have been reclassified in the current year to the relevant ageing categories, which has resulted in a reduction in amounts due at 30 September 2020 of the following: 3 months or less – £264m; 3 to 12 months – £783m; 1 to 5 years – £3,826m.

Cash flows payable under financial liabilities by contractual maturity (audited)

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

30 September 2020	Call £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	No specified maturity £m	Total £m
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	44,676	4,720	11,211	7,423	–	–	68,030
Debt securities in issue	–	423	1,380	5,919	1,693	–	9,415
Due to other banks	68	1	1,507	3,907	–	–	5,483
Financial liabilities at FVTPL							
Trading derivative financial instruments	–	32	39	27	24	–	122
Hedging derivative liabilities							
Contractual amounts payable	–	5	25	159	48	–	237
Contractual amounts receivable	–	–	–	(79)	–	–	(79)
All other liabilities	2,319	81	89	76	79	496	3,140
Total liabilities	47,063	5,262	14,251	17,432	1,844	496	86,348

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

Analysis of debt securities in issue by residual maturity

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

	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Total 2021 £m	Total 2020 £m
Covered bonds	**10**	**–**	**1,842**	**–**	**1,852**	1,928
Securitisation	**108**	**1,141**	**1,140**	**–**	**2,389**	4,005
Medium-term notes	**13**	**–**	**2,409**	**–**	**2,422**	2,068
Subordinated debt	**14**	**–**	**1,001**	**–**	**1,015**	757
Total debt securities in issue	**145**	**1,141**	**6,392**	**–**	**7,678**	8,758
Of which issued by Virgin Money UK PLC	**27**	**–**	**3,410**	**–**	**3,437**	2,825

External credit ratings

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

	Outlook as at	As at	
Material risk for the Group	30 Sept 2021[1]	30 Sept 2021	30 Sept 2020
Virgin Money UK PLC			
Moody's	**Stable**	**Baa2**	Baa3
Fitch	**Stable**	**BBB+**	BBB+
Standard & Poor's	**Stable**	**BBB-**	BBB-
Clydesdale Bank PLC			
Moody's[2]	**Stable**	**Baa1**	Baa1
Fitch	**Stable**	**A-**	A-
Standard & Poor's	**Stable**	**A-**	BBB+

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

In January 2021, Standard & Poor's affirmed Virgin Money UK PLC's ratings and upgraded the long-term rating of Clydesdale Bank PLC by one notch to A-. The upgrade reflects the Group's improved additional loss-absorbing capacity following Virgin Money UK PLC's MREL issuance, which provides additional protection for Clydesdale Bank's senior creditors in resolution and now exceeds Standard & Poor's threshold for an additional notch of benefit.

In June 2021, Standard & Poor's revised the outlook on Virgin Money UK PLC's and Clydesdale Bank PLC's long-term ratings to 'Stable' from 'Negative', reflecting their stabilising view of the UK economy coupled with the Group's improving asset quality outlook, conservative risk appetite and robust provisioning.

In July 2021, Fitch affirmed the long-term ratings of Virgin Money UK PLC and Clydesdale Bank PLC and revised their outlook to 'Stable' from 'Negative'. This followed the revision in Fitch's outlook on the UK's AA- long-term rating to 'Stable', reflecting their improved expectations for the UK's economic recovery and subsequent reduction in downside risk to the Group's asset quality, capitalisation and strategic execution.

In July 2021, Moody's upgraded Virgin Money UK PLC's long-term rating to Baa2 from Baa3 following revisions to their Advanced Loss Given Failure framework. At the same time Moody's reaffirmed the 'Stable' outlook on all of Clydesdale Bank PLC's and Virgin Money UK PLC's ratings.

As at 23 November 2021, there have been no other changes to the Group's long-term credit ratings or outlooks since the report date.

Market risk

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

Exposures

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

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

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

Outlook
Although current higher term rates suggest that the probability of a negative official Bank rate appears to have reduced, the BoE continues to require financial institutions to be operationally ready to implement such a policy step in a way that does not adversely affect the safety and soundness of firms. The PRA continues to assess the operational readiness of firms in the event of negative rates being deployed as a monetary policy tool to support the economy, and has confirmed the Group's readiness, following the documentation of an executable and tested solution.

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

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

- basis point sensitivity analysis is performed daily and compares the potential impact of a one basis point (0.01%) change on the present value of all future cash flows;
- NII sensitivity assesses changes to earnings over a 12-month time horizon as a result of interest rate movements and changes to customer behaviour;
- VaR is measured on a statistical basis using a 99% confidence level based on daily rate movements over a two-year history set with a one-day holding period;
- economic value of equity is measured in line with EBA guidance with all eight of the proposed EBA rate shocks assessed on a quarterly basis, including customer optionality stresses. Reporting is performed both including and excluding equity;
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing);
- investment term for capital is modelled with a benchmark term agreed by ALCO;
- investment term for core non-interest bearing assets and liabilities is modelled on a behavioural basis with a benchmark term agreed by ALCO;
- assumptions covering the behavioural life of products and customer behaviour for optionality are reviewed and approved by ALCO; and
- credit spread risk in the banking book (CSRBB) is assessed through VaR applied to the Group's liquid asset buffer portfolio. CSRBB is measured at a 99% confidence level based on daily spread movements over a 10-year history set with a three-month holding period.

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

Mitigation
Market risks are overseen by ALCO with delegation for day-to-day management given to Treasury. Treasury uses a number of techniques and products to manage market risks including interest rate swaps, cash flow netting and foreign exchange. Basis risk may be managed through a combination of wholesale market basis risk management products, pricing strategies and product innovation.

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

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

Cash flow hedges – the Group hedges a portion of the variability in future cash flows attributable to interest rate and foreign currency risk. The interest and foreign currency risks arise from variable interest rate assets and liabilities which are hedged using cross currency and interest rate swaps, and material non-GBP denominated assets which are hedged using foreign exchange forward contracts. There were no transactions for which cash flow hedge accounting had to be discontinued in the year as a result of the highly probable cash flows no longer being expected to occur. However, for cash flow hedges that were previously designated in respect of LIBOR linked hedged items, the Group had to apply available reliefs such that the Group can now view the variable cash flows as being SONIA linked rather than LIBOR (as LIBOR is being replaced, the original expectations of LIBOR cash flows are no longer expected to occur). The fair value of derivatives is disclosed within note 3.6 to the Group's consolidated financial statements.

Monitoring

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

	Duration risk		Credit spread[(1)]	
Value at Risk (audited)	2021 £m	2020 £m	2021 £m	2020 £m
As at 30 September	**2**	2	**45**	49
Average value during the year	**2**	2	**48**	36
Minimum value during the year	**1**	1	**45**	23
Maximum value during the year	**3**	2	**52**	49

(1) The history set for credit spread VAR was increased from two years to 10 years from 1 March 2020 under internal methodology. The average figures for 2020 include 5 months over a two year history and seven months over a 10 year history.

Net interest income (audited)

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 represents the primary NII sensitivity assessed internally, though a range of scenarios are assessed on a monthly basis.

12 months NII sensitivity	30 Sept 2021 £m	30 Sept 2020 £m
+ 25 basis point parallel shift	**30**	**76**
- 25 basis point parallel shift	**(23)**	**(67)**

The significant reduction in reported sensitivity year on year reflects the impact of reinstating the structural hedge during the year.

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.

Financial risk continued

Market risk linkage to the balance sheet (audited)
The following table shows the Group's principal market risks, linked to the balance sheet assets and liabilities.

	2021 £m	2020 £m	Interest rate duration	Optionality	Basis	Credit spread	Foreign exchange
Assets							
Financial assets at amortised cost							
Loans and advances to customers	**71,876**	72,430	•	•	•		•
Cash and balances with central banks	**9,711**	9,107	•		•		
Due from other banks	**800**	927	•		•		•
Financial assets at FVTPL							
Loans and advances to customers	**133**	190	•	•	•		•
Derivative financial instruments	**140**	318	•		•		•
Other financial assets	**20**	13	•				•
Financial instruments at FVOCI	**4,352**	5,080	•		•	•	•
Other assets	**2,068**	2,194	•				•
Total assets	**89,100**	90,259					
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	**66,971**	67,710	•	•	•		•
Debt securities in issue	**7,678**	8,758	•		•		•
Due to other banks	**5,918**	5,469	•		•		•
Financial liabilities at FVTPL							
Derivative financial instruments	**209**	250	•		•		•
Other liabilities	**2,851**	3,140	•				•
Total liabilities	**83,627**	85,327					

Repricing periods of assets and liabilities by asset/liability category

The following table shows the repricing periods of the Group's assets and liabilities as assessed by the Group. This repricing takes account of behavioural assumptions where material and the Group's policy to hedge capital in accordance with a benchmark term agreed by ALCO. During 2021, the Group reinstated structural hedging. The structural hedging programme lengthened the tenor applied to equity and to deposits that are subject to behavioural assumptions. Further information can be found on page 54.

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

30 September 2020	Overnight £m	3 months or less £m	3 to 12 months £m	1 to 5 years £m	Over 5 years £m	Non-interest bearing £m	Total £m
Assets							
Financial assets at amortised cost							
Loans and advances to customers	3,130	14,310	15,101	38,802	1,087	–	72,430
Cash and balances with central banks	7,697	–	–	–	–	1,410	9,107
Due from other banks	167	760	–	–	–	–	927
Financial assets at FVTPL							
Loans and advances to customers	–	119	10	29	32	–	190
Derivative financial assets	–	–	–	–	–	318	318
Financial assets at FVOCI	1,017	1,506	150	1,131	1,276	–	5,080
Other assets	–	–	–	–	–	2,207	2,207
Total assets	12,011	16,695	15,261	39,962	2,395	3,935	90,259
Liabilities							
Financial liabilities at amortised cost							
Customer deposits	27,503	22,837	10,201	7,167	2	–	67,710
Debt securities in issue	2,245	2,126	30	2,237	2,120	–	8,758
Due to other banks	5,469	–	–	–	–	–	5,469
Financial liabilities at FVTPL							
Derivative financial instruments	–	–	–	–	–	250	250
Other liabilities	–	950	–	–	–	2,190	3,140
Equity	4,932	–	–	–	–	–	4,932
Total liabilities and equity	40,149	25,913	10,231	9,404	2,122	2,440	90,259
Notional value of derivatives managing interest rate sensitivity	32,965	6,185	(8,416)	(30,392)	(342)	–	–
Total interest rate gap	4,827	(3,033)	(3,386)	166	(69)	1,495	–
Cumulative interest rate gap	4,827	1,794	(1,592)	(1,426)	(1,495)	–	–

LIBOR Replacement

The Group has a LIBOR transition programme to manage the impact of the BoE's plan to discontinue the use of LIBOR as a reference rate after 2021. Work to decommission LIBOR has involved ceasing the issuance of new LIBOR lending, developing and delivering alternative reference rate products, and implementing a back-book migration strategy based on consensual customer agreement and transition before the end of 2021. A similar approach is being taken with new and existing derivatives.

As at 30 September 2021, all market-facing derivative flows are executed against the SONIA. The strategy to proactively transition the back-book of transactions is underway with the focus on Business lending customer transactions. The Group is considering options for the transition of the "Tough legacy" cohort (existing LIBOR-referencing contracts that parties are unable to convert to a non-LIBOR rate before the end of 2021) and the associated operational plan. This is, however, subject to the outcome that is pending from the FCA consultation that is due by the end of 2021.

The Group has early adopted the Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) issued in August 2020. This introduced amendments to IFRS, addressing some of the financial reporting issues arising from changes to contractual cash flows or hedging relationships which result from interest rate benchmark reform. The Group has adopted the Phase 2 amendments from 1 October 2020. See note 1.4 for further details.

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

Amounts yet to be transitioned (audited)

30 September 2021	Non derivative financial assets – carrying value(1)(2)	Non derivative financial liabilities – carrying value(5)	Derivatives – nominal amount(1)(3)
GBP LIBOR	2,037	–	4,754
Other(4)	157	–	–
Cross currency swaps			
GBP LIBOR to USD LIBOR			95
Total	2,194	–	4,849

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

(2) Gross carrying amount excluding allowances for ECLs.

(3) The IBOR exposures for derivative nominal amounts include loan commitments.

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

(5) In addition to the financial liabilities included in the table, at 30 September 2021 £742m issued Covered Bonds were fixed rate with an option to convert to GBP LIBOR if not redeemed on the scheduled maturity date in June 2026. The option to convert was transitioned to SONIA on 22 October 2021. Also at 30 September 2021, Gosforth 2018-1 notes in issue of £788m were still based on LIBOR, but following a successful consent solicitation earlier in the year, the notes will convert to SONIA effective from 25 February 2022.

The Group maintains engagement with the BoE's Working Group on Sterling Risk Free Reference Rates and other industry forums. The programme ensures that the risks of being unable to offer products with suitable reference rates will be mitigated and that full consideration is given to the other risks, including legal, conduct, financial and operational risks, that may arise. While no material changes to the Group's risk management strategy are expected, the programme will continuously monitor progress and amend the approach accordingly.

Pension risk

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

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

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

Risk appetite

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

Assets

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

This results in an appropriate mix of return seeking assets as well as liability matching assets to better match future pension obligations. The split of Scheme assets is shown within note 3.10 to the Group's consolidated financial statements. The fair value of the assets was £4.6bn as at 30 September 2021 (2020: £4.7bn).

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

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

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

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

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

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

Several other activities have been implemented by the Group and Trustee with the specific aim of reducing risk in the Scheme, including increasing the levels of inflation, interest rate hedging and several member benefit reforms, culminating in closure to future accrual for most members. Following a review of the use of equity options that give protection from severe falls in equity values, it was agreed in 2021 that this protection would be allowed to unwind. This is the result of a review that considered the falling proportion of the Scheme's assets that are held in equities, the continued direction to reduce the allocation of equities within the Scheme and the protection given by the overall funding position of the Scheme. The current equity options will mature in the period to September 2022. The Bank retains the ability to reinstate the use of equity options should it be considered prudent to do so.

In addition, the Group has signed a contingent security arrangement to provide the Trustee with protection to partially mitigate the risk of adverse changes impacting the Scheme's assets or liabilities. This arrangement also provided security for the Group's obligations under a Recovery Plan, however all payments subject to that Plan have now been made. Further information is shown within note 3.10 to the Group's consolidated financial statements.

The Bank and the Trustee continue to explore other cost-effective options to further reduce risk within the Scheme.

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

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

Model risk

Well managed and optimised model risk lifecycle to generate positive outcomes for stakeholders.

Strong performing and robust model environment well-positioned to deliver sustainable returns and optimise Group RWA.

The Group definition of a model is a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. This model definition also considers broader aspects within the model environment, which may represent distinct and separable entities or be intrinsically linked to model structures.

The use of models invariably presents model risk, which is defined as the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. The model risk management policy standard seeks to manage and mitigate model risk which encompasses the end-to-end model life cycle covering data (quality and lineage), model development, independent model validation, model governance, model implementation, model usage, model monitoring, model maintenance and model decommissioning.

Model risk increases with greater model complexity, higher uncertainty around inputs and assumptions, broader use, and larger potential impact. If left unmitigated, model risk can lead to poor decision making, misreporting or a failure to identify risks, which can result in financial and reputational losses, as well as having a detrimental impact on customers.

Risk appetite

In delivering its strategic objectives, the Group accepts that a level of loss may arise from model error. The Board establishes the extent of its willingness, or otherwise, to accept results from using models and key controls are in place to ensure model errors remain within acceptable limits.

The Group's appetite for model risk is defined and articulated in the Group RAS. RAS metrics focus on model effectiveness and whether the model validation processes and procedures are managed within the timelines required by the model risk management policy, and on the outcomes of validations on the Group's most material models. Model risk appetite is reported regularly to both Board Risk Committee and the Model Governance Committee (MGC). The escalation of material model issues from MGC can be made to Executive and Board Risk Committees if appropriate.

Exposures

To enable senior management to gauge and manage model risk, each model is classified according to materiality.

The Group assesses model materiality using criteria of coverage, impact and complexity to define the level of risks associated with the model's use, purpose and strategic importance. A model's assessed materiality level determines its approval path through governance and the degree, frequency and depth of review and validation expected.

The Group model inventory contains a comprehensive set of information on all models and associated exposures which are implemented for use, to be implemented, under development, recently retired or decommissioned, as well as listing challenger models. Any model which has a separate use or requires separate validation and approval is classified as a separate model. The Group model inventory covers a wide range of models from across the Group and, therefore, there is interaction between model risk and a number of the Group's principal risk categories, for example credit risk.

Measurement

The Board delegates authority to MGC to ensure that model risk is being managed through the model risk management policy standard. Model risk is measured through regular model monitoring to Board Risk Committee and MGC and the level of risk is assessed through RAS.

The Group Chief Risk Officer has been identified as the appropriate Significant Influence Function role in line with the requirements set out. As such the Chief Risk Officer performs periodic review and annual attestation against regulatory expectations, to ensure that the Group remains compliant with all relevant requirements on an ongoing basis.

Mitigation

The Group has a model risk policy framework in place to manage and mitigate model risk, which encompasses the end-to-end model life cycle. The model risk management policy standard defines model risk management roles and responsibilities. Specifically, it sets out that the model owner has the responsibility of attesting to the compliance of the model risk management policy standard requirements on an annual basis, including that the model is implemented correctly, or advising of exemptions.

The Model Risk Oversight function conducts model validations prior to model implementation, when a new model is developed or changed, and on a periodic basis.

The function assists with identifying model deficiency and raises mitigating actions. If significant model deficiencies and/or errors are identified during the validation process, the relevant model approval authority will consider whether the use of models should either be prohibited or permitted possibly under strict controls and mitigants. This may include measures such as the use of expert panels to adjust model outputs or identify appropriate PMAs or overlays.

Monitoring

Model monitoring functions perform periodic monitoring of model performance to ensure parameter estimates and model constructs remain fit for purpose and use when sufficient new observations are available and to ensure model assumptions remain valid. The frequency of model monitoring is commensurate with the nature and materiality of the models and risks, with due consideration given to model complexity.

MGC is the primary model approval authority and body responsible for overseeing the framework used to manage model risk. The frequency and level of model monitoring required is detailed within Group model monitoring frameworks.

Regulatory and compliance risk

Implementing regulatory change and ensuring compliance.

The Group is focused on ensuring that it continues to comply with regulatory requirements and to deliver the changes required to meet evolving standards.

Regulatory and compliance risk is the risk of failing to understand and comply with relevant laws and regulatory requirements; not keeping regulators informed of relevant issues; not responding effectively to information requests nor meeting regulatory deadlines; or obstructing the regulator.

Privacy and data protection risks, which may result from non-compliance with data privacy, legal and regulatory obligations, have been transferred to regulatory and compliance risk, from technology risk, as part of this year's RMF refresh.

Risk appetite
The Group has no appetite for actions which result in breaches of regulation or for inaction to address systemic process and control failures leading to material non-compliance. Notwithstanding the complexity and volume of the regulatory agenda, the Group ensures that all mandatory requirements are prioritised for implementation within the required timescales with due consideration for mitigation of potential customer harm. The Group has an open dialogue with colleagues and regulators, escalating all issues they would reasonably expect to be made aware of.

Exposures
The Group remains exposed to regulatory and compliance risk as a result of significant ongoing and new regulatory change. This is expected to continue to increase as the country emerges from the pandemic.

Measurement
Regulatory and compliance risks are measured against a defined set of Board-approved risk appetite metrics relating to regulatory breaches, and past due regulatory implementations and actions. Thresholds are set and form part of the Board-approved RAS.

Mitigation
The following controls and procedures help to mitigate regulatory and compliance risk:

- a clearly defined regulatory and compliance policy statement (with supporting policy standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of risk appetite measures for regulatory and compliance risk to the Executive Risk Committee, the Board Risk Committee and the Board;
- maintenance of proactive and coordinated engagement with the Group's key regulators;
- continual assessment of evolving regulatory requirements, including regulatory business plans and thematic reviews;
- consideration of regulatory requirements in the context of product and proposition development and associated appropriate governance;
- oversight of key regulatory implementations including LIBOR transition and PSD2;
- oversight of regulatory and compliance risks and issues in relevant governance bodies;
- ongoing review and tracking of known regulatory and compliance issues and remediation actions being taken; and
- a risk-based assurance framework, designed to monitor compliance with regulation and assess customer outcomes.

Monitoring
Regulatory and compliance risk is considered by all three lines of defence as part of their oversight and assurance activities. A risk assurance plan, approved by the Board Risk Committee on an annual basis, independently assesses areas of the control framework underpinning compliance with laws and regulations.

Conduct risk

Delivering good customer outcomes through the transition to digital.

The Group continues to protect and support customers, with a clear focus on customer outcomes.

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

Risk appetite
The Group is committed to acting in the interests of its customers and has no appetite for conduct risk.

Exposures
The Group remains exposed to conduct risk in the course of its provision of services and products to customers, including those risks arising as the Group and its customers transition to digital channels, and with the significant changes in customer journeys and behaviours brought into focus during the pandemic.

The Group continues to remediate a small number of legacy conduct issues.

Measurement
Conduct risks are measured against a defined set of Board-approved risk appetite metrics, which are focused on the main areas of regulatory attention such as complaints, vulnerable customers, quality of advice and treatment of customers in financial difficulty. The metrics align to the way in which we manage our business units and product suites. Thresholds are set and form part of the Board-approved RAS.

Mitigation
The following controls and procedures help to mitigate conduct risk:

- clearly defined Conduct Risk Policy Statement (with supporting policy standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of conduct risk appetite measures to the Executive Risk Committee, the Board Risk Committee and the Board;
- consideration of conduct risk in the context of product and proposition development and associated appropriate governance;
- regular management review of end-to-end conduct reporting, centred on core product areas and aligned to relevant businesses;
- oversight of conduct risks and issues through relevant governance fora;
- analysis of customer experience data, complaint handling quality and volumes and root causes of complaints discussed in the relevant governance bodies, with actions agreed and tracked by senior stakeholders;
- continuing development and nurture of a customer-centric culture aligned to the Group's Purpose;
- ongoing review and tracking of known conduct issues and remediation actions being taken; and
- a risk-based assurance framework, designed to monitor compliance with regulation and assess customer outcomes.

Monitoring
All three lines of defence consider conduct risk as part of their oversight and assurance activities. A risk assurance plan, approved by the Board Risk Committee on an annual basis, independently assesses the control framework underpinning the Group's conduct risk management to ensure customers are treated fairly and products are designed and sold to meet their needs. The Group also works to ensure that customer expectations are met and complaints are dealt with effectively and fairly.

Operational risk

Proactive operational risk management with enhanced risk frameworks.

There is a continued focus on providing a simplified framework, which can be used to help manage operational risk across the Group, while providing insightful oversight and supporting the change agenda

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is a core component of the RMF and is embedded in day-to-day business activities focused on enabling operational efficiencies. Requirements and responsibilities are set out in the operational risk policy statement and supporting operational risk policy standard that seeks to identify, assess, mitigate, monitor, and report the operational risks, events and issues that could impact the achievement of business objectives or impact core business processes.

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

Risk appetite

The Group is prepared to tolerate a level of operational risk exposure within agreed thresholds and limits. A level of resilience risk from internal and external events is tolerated, however, immediate steps are taken to minimise customer disruption through recovery within defined timelines.

Exposures

Operational risks arise from day-to-day business activities, which may result in direct or indirect losses and could adversely impact the Group's financial performance, levels of customer care or reputation. The Group strives to deliver operational efficiency in the implementation of its objectives and accepts that a level of loss may arise from operational failure. Implementing key controls and monitoring ensures that operational risks are managed, and losses remain within acceptable limits.

The Group's exposure to operational risk is impacted through the need to engage with innovative, dynamic third parties; deliver new products and services; and make effective use of reliable data in a changing external environment to deliver on the Group's strategic objectives. Alongside ongoing risk and control monitoring, operational risk oversight is focused on the following key areas:

Change risk

The risks associated with a failure to execute and deliver change that could result in an inability to meet our strategic objectives, including failing to meet our customer, regulator, colleague, or shareholder expectations, at a Group and local management level.

How this risk is managed – The Group uses a single integrated change governance framework which covers all levels of change management to ensure appropriate oversight and decision making across the change portfolio. As part of this, a centralised view of change is maintained to ensure that the risks of individual changes are managed effectively and that change is prioritised to minimise the overall risks to the organisation in line with risk appetite.

Third party risk

The risks associated with ensuring the Group's outsourced and offshoring arrangements are controlled effectively, including the risk of failure to service existing and new customers; the potential cessation of specific activities; the risk of personally identifiable information or Group sensitive data being exposed or exploited; and the risk of financial, reputational and regulatory censure if the third party enters into any illegal or unethical activities.

How this risk is managed – The Group is enhancing its third-party RMF and oversight approach, in order that ongoing performance management and assurance is undertaken, to ensure that supplier relationships and the procurement of service providers are controlled effectively.

Measurement

Material operational risk events are identified, reviewed and escalated in line with criteria set out in the RMF. Root cause analysis is undertaken and action plans are implemented.

Losses may result from both internal and external events, and are categorised using risk categories aligned to Basel II. The Basel II categories are used to ensure that data can be reported externally and compared with other industry data. Due to the nature of risk events, losses and recoveries can take time to crystallise and therefore may be restated for prior or subsequent financial years.

Operational risk losses

The majority of losses are recorded under two Basel categories: 'External fraud' and 'Execution, delivery and process management'. The volume of external fraud losses accounted for over 86% of the total. This category's higher volume of low-value events is in line with the industry and relates mainly to card and online fraud. 'Execution, delivery and process management' volumes are as expected and reflect the daily volume of transactions and customer interactions.

The table below outlines the operational risk losses by Basel category.

Operational risk losses by Basel category[1]	% of total volume 2021	% of total volume 2020	% of total losses 2021	% of total losses 2020
Business disruption and system failures[2]	**1.6%**	0.8%	**3.7%**	45.7%
Clients, products and business practices	**1.4%**	5.3%	**0.9%**	2.5%
Damage to physical assets[3]	**1.4%**	0.3%	**1.7%**	0.2%
Employee practices and workplace safety	**–**	–	**–**	–
Execution, delivery and process management	**9.4%**	7.3%	**24.8%**	12.1%
External fraud	**86.2%**	86.3%	**68.9%**	39.5%
Internal fraud	**–**	–	**–**	–

(1) Losses greater than or equal to £5,000, excluding unexpected losses (e.g. PPI).
(2) Figures may not match those presented in 2020, as historical loss amounts can change due to recoveries made.
(3) Losses directly attributable to COVID-19, previously classified as 'Damage to physical assets', have now been reclassified as 'Business disruption and system failures, in line with guidance issued by the EBA (21 December 2020).

Mitigation
In delivering its strategic objectives, the Group strives for operational efficiency and accepts that a level of loss may arise from operational failure. Implementing key controls and monitoring, with appropriate escalation and governance, ensures that operational risks are managed, and losses remain within acceptable limits. We operate robust controls over all significant operational risks and ensure these are sufficient to prevent material disruption of our service to customers and/or our business.

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

Stress testing
The Group develops and maintains a suite of operational risk scenarios using internal and external data. These scenarios provide insights into the stresses the business could be subject to given extreme circumstances. Scenarios cover all material operational risks including execution of change, failures in core processes or contagion risk from a third party. Scenarios are owned by senior management custodians with review and challenge provided by the Risk function, Executive Risk Committee and Board Risk Committee, as part of the ICAAP process. Management actions are agreed and monitored and linked with business resilience and continuity testing where appropriate.

Technology risk

Enabling integrated and timely responses for the continuous protection of business critical technologies.

The Group continues to enhance and invest in its control environment, recognising the changing cyber landscape and increased focus on digital capabilities.

Technology risk is defined as the risk of loss resulting from inadequate or failed information technology processes through strategy, design, build or run components for internal or externally provisioned services.

Risk appetite

Technology risks are measured against a set of defined RAS metrics and reported to Executive and Board Committees. The Group aims to provide a superior level of support and continuity of services to customers and stakeholders on a consistent and uninterrupted basis. However, the Group accepts that this is not always possible and tolerates a level of technology risk associated with internal or external events but will take immediate steps to recover within agreed tolerances and minimise customer disruption.

Exposures

The Group's exposure to technology risk is materially impacted by the need to enhance digital capabilities, simplify our technology estate and mitigate evolving cyber and information security threats. Technology risk is comprised of the following risk categories:

Cyber and information security risk

The risks arising from inadequate internal and external information and cyber security, where failures impact the confidentiality, integrity and availability of electronic data.

How this risk is managed – Our Head of Information Security & Resilience (ISR) is responsible for ensuring robust cyber and information security policies and controls are in place and operating effectively. The Group continues to enhance and invest in the control environment, recognising the significant escalation of external threats, regulatory penalty and resilience need, heavily influenced by COVID-19.

Physical and personal security risk

The risk to the safety and protection of colleagues, customers and physical assets arising from unauthorised access to buildings, theft, robbery, intimidation, blackmail, sabotage, terrorism and other physical security risks.

How this risk is managed – Physical and personal security standards are managed by the Group's ISR team. Controls are in place to protect physical assets, as well as the security of colleagues and customers.

IT resilience risk

IT resilience is the Group's ability to adapt to disruptions while maintaining continuous operations on critical processes, safeguarding technology and all associated assets in the face of adverse events, chronic disruptions or incremental changes. The Group recognises the significant regulatory focus on resilience as the market becomes more reliant on digital banking, increased remote working, and the use of third-party and cloud solutions.

How this risk is managed – The Group is well placed to respond to new regulations and standards and develops technology with resilience inbuilt as a principle. A programme of continuous monitoring and maintenance of the currency of the technology estates, alongside disaster recovery testing, helps to minimise the likelihood of system failure. In preparation for an outage, the Group maintains and tests critical end-to-end business recovery and contingency plans.

Payment creation, execution and settlement risk

The risk that transactions are not conducted in line with the instructions and parameters of a customer's payment, trading, clearing, settlement scheme or business requirements. This could lead to delays, inaccuracies, duplicates, failures or rejections as well as system-based restrictions and errors. The payments industry is planning for significant changes to infrastructure and processing protocols over the next 12-24 months, due to the implementation of ISO20022, Real-Time Gross Settlement Renewal and New Payments Architecture.

How this risk is managed – The payment risk framework outlines key scheme rules, regulations and compliance requirements alongside the risk-based approach to assurance oversight, control testing and change management to ensure payment risk is managed within appetite, and impact to customers is minimised. All three lines of defence are actively involved in changes being made.

Data management

Data underpins decision making at all levels of the organisation. Poor-quality data can lead to loss, customer disruption, non-compliance with General Data Protection Regulation (GDPR) and unnecessary rework.

How this risk is managed – The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data, aligned with GDPR requirements.

Measurement

The Group has a number of key risk indicators that cover the risk areas outlined above. In addition, Board-approved RAS metrics are monitored and reported monthly, with breaches escalated to the Board. All technology risks are assessed using the RMF are and monitored and challenged by Risk in line with functional and corporate governance.

Mitigation

Through organisational design and management focus, considerable investment has been put into the risk categories by the Group. Technology risk policies, frameworks, thematic assurance reviews and oversight routines ensure that technology risk is identified, measured, monitored and reported on by the first line of defence and overseen by the second and third lines of defence.

Monitoring

Business units are responsible for the day-to-day management of technology risk, with oversight from the Risk function, and independent assurance activities undertaken by Internal Audit. The Group conducts a series of planned independent assurances, deep dives, change assurance activities and continuous monitoring activities.

Financial crime and fraud risk

Investing in our financial crime and fraud prevention capabilities.

The Group continues to invest in its systems and controls to prevent, detect and report financial crime.

Financial crime and fraud risk is the risk that the Group's products and services will be used to facilitate financial crime and fraud against the Group, its customers or third parties.

Risk appetite

Financial crime and fraud risk is measured and reported against a defined suite of metrics within the Group RAS. In particular:

Anti-money laundering and counter terrorist financing

The Group applies a risk-based approach model which sets out the types of customer it has no risk appetite to onboard, as well as customers with whom the Group is prohibited from entering into or maintaining a relationship with.

Sanctions and embargoes

The Group has no appetite for non-compliance with the legal and regulatory obligations relating to sanctions and embargoes.

Bribery and corruption

The Group does not tolerate the direct or indirect offer, payment, solicitation or acceptance of bribes in any form.

External fraud

The Group accepts that an element of fraud loss is a cost of doing business. Fraud risk appetite is set annually by the Board, practically applied using the fraud policy standard and expressed in financial terms via the annual fraud loss plan. The application of the fraud RMF balances genuine customer impacts alongside the operational overhead of applying fraud controls to achieve fraud loss within budget and risk appetite.

Internal fraud

The Group has no appetite for internal fraud.

The Group continues to review the external environment for any changes within the industry as well as regulatory or legislative direction, taking action as appropriate.

Exposures

Financial crime and fraud risks are inherent in doing business in the financial services industry and may arise from failure to:

- meet legal and regulatory requirements; and
- maintain effective systems and controls to prevent the risk that the Group might be used for further financial crime.

Measurement

All financial crime standards are reflected in the Group policy standards and financial crime prevention manual, the content of which is provided by financial crime and fraud risk and updated as appropriate. Financial crime and fraud-related risk appetite metrics are monitored and reported to the Board on a monthly basis.

Mitigation

The Group has the following controls and procedures to support mitigation:

- a clearly defined financial crime and fraud risk policy statement (with supporting policy standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of risk appetite measures for financial crime and fraud risk to the Executive Risk Committee and the Board;
- key performance metrics relative to critical financial crime systems are kept under review and presented through governance to ensure ongoing effectiveness;
- consideration of financial crime and fraud risk in the context of product and proposition development and associated appropriate governance;
- investment to maintain compliance and progress with key implementations such as push payment fraud and confirmation of payee;
- ongoing assessment of evolving regulatory policy requirements and ensuring the Group responds accordingly, including the 5th Anti-Money Laundering Directive; and
- regular oversight and review of systems, controls and higher risk activities and customers takes place as part of a formal oversight plan.

Monitoring

The financial crime and fraud risk team is responsible for overseeing the effectiveness of the financial crime control framework, financial crime strategy, governance, standard setting, oversight, training and reporting to the competent authorities, Executive Risk Committee and the Board.

Screening for politically exposed persons and customer transaction monitoring is carried out by Financial Crime Operations. Sanctions screening for payments is carried out by the payments team in the first line. The effectiveness and performance of these systems are discussed through internal governance and independently tested on a periodic basis.

Strategic and enterprise risk

Supporting the Group's strategy while keeping our customers and colleagues safe.

Strategy is delivered within a well-defined risk appetite and RMF with continual monitoring in place.

Strategic and enterprise risk is the risk of significant loss of earnings, or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments. Strategic risk can arise if the Group designs or implements an inappropriate strategic plan, designs an appropriate plan but fails to implement it or implements the strategic plan as intended, however fails to take account of a change in external circumstances.

Strategic risk also includes the inability to respond effectively to cultural, structural and regulatory change and the failure to establish and execute a compelling digital strategy or increase organisational capability in support of this. It considers the risk of being an inefficient, high-cost, uninspiring or uncompetitive provider of products and services, or failing to respond to climate change risks in our direct and indirect operations.

Enterprise risk includes managing and implementing effective governance and reporting and maintaining external relations to promote the brand and support the Group's ability to successfully achieve strategic goals.

Risk appetite

The risk position for strategic and enterprise risk, referenced in the Group's RAS, takes account of the fact that the Group will need to take an acceptable level of risk to successfully grow the business and will need to implement transformational changes to the operating model and supporting frameworks to achieve this. There is, however, a requirement to pursue these goals in a controlled and prudent manner given the potential downside in financial, reputational, conduct and broader risk implications.

Driven by COVID-19 recovery and a rebound in economic activity, the RAS has been repositioned, with an overarching focus on expansion, underpinned by a strong control environment, striking a balance between supporting our strategy while keeping the Group compliant and customers safe.

Exposures

The combined impacts from Brexit and COVID-19 continue to create an uncertain outlook for the UK, resulting in a complex risk landscape. The Group has considered this uncertainty and potential challenges as part of the FY22 risk assessment and planning process.

In addition, the Group operates in an increasingly competitive environment, with the pace of change and complexity posing risks to strategic initiatives. Shareholder expectations, customer behaviours and colleague sentiment continue to evolve, increasing the importance of being able to respond appropriately.

The Group is also exposed to execution risk as a result of ongoing transformation activity.

Measurement

The Group's RAS represents a 'risk envelope' against which chosen strategies and financial plans are assessed and within which chosen strategies must operate. The RAS, and associated RAF, is a key means of controlling strategic risk. The RAF comprises an extensive system of measures, thresholds and other controls, which together ensure that the Group operates within the Board's approved appetite for strategic risk.

Mitigation

The Group undertakes thorough and regular monitoring of emerging and crystallised strategic risks, including developments in the external geo-political environment, to ensure it is best placed to proactively respond to changes as and when required. Robust contingency plans are in place to ensure the impact of any changes on strategic initiatives is captured.

The Group continues to develop and embed its sustainability agenda in response to shareholder and societal sentiment. This includes increased due diligence activity in relation to the lending decisions being undertaken, and social interaction to promote inclusion and diversity in the communities in which the Group operates.

The Risk function undertakes regular risk oversight activity, placing customers' interests at the centre of all aspects of change. The strategic planning process for the FY21 investment slate was overseen by the Risk function to ensure a balanced portfolio within the funding available.

Monitoring

A range of financial and non-financial metrics, including RoTE, lending growth, customer acquisition, NIM, and others, are KPIs used to monitor performance relative to strategic objectives. They are continually monitored against the Strategic and Financial Plan by the Board and Executive Leadership Team, who react to deviations from targets and modify strategy accordingly.

A formal assessment of the Group's Strategic and Financial Plan, reviewing the Group's current and potential strategic risks, and the impact of strategic decisions and objectives on the Group's risk profile, was undertaken during the year. The findings were reported to the Chair of the Board Risk Committee and the Board, and this process will be carried out annually.

People risk

Supporting our colleagues to build a successful, customer-centric business.

Continued embedding of the people framework ensures people risk is maintained within risk appetite during this period of significant change.

People risk is defined as the risk of not having sufficiently skilled and motivated colleagues who are clear on their responsibilities and accountabilities and who behave in an ethical way. This could lead to inappropriate decision making that is detrimental to customers, colleagues or shareholders and could ultimately lead to regulatory sanction.

The Group's drive to foster a diverse culture which engages and encourages colleagues to deliver customer-focused outcomes with a clear set of supporting Values and Behaviours is an important step in mitigating people risk.

Risk appetite
COVID-19 presented a range of people risks and a changing external environment which impacts health, safety and well-being. These include safety in the workplace, resource gaps, employee relations and working from home for extended periods. The Group's priority in dealing with these exceptional challenges is to ensure the safety of and provision of support for colleagues, including adherence with the government's physical and health measures.

The Group does not accept a material increase in risk as a result of colleagues not conducting themselves in the manner expected, nor does the Group act in a manner that may affect the health and well-being of colleagues. The Group does not take intentional action that may adversely impact on its ambition to build an inclusive culture and continues to embed activities that support the required cultural change.

Exposures
People risk, such as attrition and capability and capacity, is inherent in the day-to-day operation of the business and is controlled through Purpose, Values, Behaviours and policies, and embedded through our people practices.

Measurement
The Group has a range of RAS metrics in place which help to measure and report people risk.

The Group's operational controls are designed to mitigate the risks associated throughout each element of the colleague life cycle. Group-wide systems provide tools and online guidance to all colleagues to support them in discharging their accountabilities.

Mitigation
People risk is mitigated in three core ways:

- *Managing people risk across the Group:* The changing internal and external environment raises challenges relative to the Group's ability to manage people risk, as part of the overall business strategy. The transformation of the banking industry is changing the demand for skills, particularly in relation to technology, information security, serving customers digitally and responding to market developments. The Group's operating controls are effective in managing these risks and there is a focus on the Group's ability to plan and predict resource needs during this period of cost challenges and increased use of technology. The Group's strategy has implications for colleagues and creates an increased level of people risk during periods of uncertainty. Therefore, material structural changes will follow organisational design principles, the Senior Manager and Certification Framework and have appropriate governance.
- *Managing the people management framework:* Controls are deployed effectively by people leaders and senior management in the day-to-day management of people risk. People risk indicators are constantly reviewed to determine if any systemic issues exist and to agree appropriate remediation. These include health and well-being, succession and conduct.
- *The role of the HR function:* HR partners support the Executive Leadership Team and provide broader support to colleagues regarding all matters impacting the colleague life cycle, which runs from recruitment to leaving the Group. The Group has a three-tier model incorporating: ourPeople (web-based); HR Services, supported by specialist teams like reward, organisational development, payroll, case management; and full business partnering.

Monitoring
People risks are monitored and reported through Executive and Board Committees. Internal Audit will carry out independent deep dives in specific areas of the business, to complement existing reporting and measure alignment between actual and intended culture.

Stress testing
The people risks associated with a stressed scenario are automatically captured and analysed through the Group's suite of operational risk scenarios. These scenarios consider both the colleagues needed to maintain services to customers, as well as the key subject matter experts needed to keep critical functions operating while under duress.

Climate risk
Proactively managed and pre-emptively mitigated.

Climate risk is classified as a cross-cutting risk type that manifests through the Group's principal risks, primarily financial risk, strategic and enterprise risk, credit risk and operational risk.

Further detail on how the Group manages climate risk is included in our TCFD report overleaf.

Operational resilience
Protecting and sustaining our critical functions and underlying assets.

Operational resilience risk underpins all the principal risks associated with the resilience of the Group. Operational resilience is defined as the ability of the Group to protect and sustain its most critical functions and underlying assets, while adapting to expected or unexpected occurrences of operational stress or disruption, and having the capacity to recover from issues as and when they arise.

The Group assesses its operational resilience risk under four key pillars: people, technology, third parties and premises, ensuring that the Group aims to provide a superior level of support and services to customers and stakeholders on a consistent and uninterrupted basis.

It is accepted that, on occasion, this will not be possible and in such times, the Group aims to recover critical services within tight timelines to minimise customer disruption. New regulatory requirements on defining Impact Tolerances for critical services will maintain and strengthen focus on recovery objectives. This may have an inadvertent impact on the Group's overall risk profile including an increase in other principal risk profiles.

Risk appetite
The Group tolerates a low level of operational resilience risk for the failure of any critical end-to-end process and will take immediate steps to ensure the Group remains resilient. The Group acknowledges that it is impossible to eliminate all interruptions to critical end-to-end processes and has identified risk appetite measures designed to indicate where there may be an underlying problem that requires resolution to maintain the Group's resilience.

Operational resilience risk is included in the Group's RAS and is managed in accordance with the minimum control requirements, as set out in the relevant underlying policy standards: business resilience and recovery; crisis and incident management; operational risk; third party and critical outsourcing; and IT resilience.

Exposures
The need for strong operational resilience is inherent in the provision of services to customers. As customer expectations and use of services evolves, the Group will need to maintain focus on the provision of a superior level of support and continuity of services to Customers and Stakeholders. The management of the technology estate will present additional resilience risk until such time as duplication is removed and critical processes are relying on a single infrastructure.

COVID-19 highlights the ongoing exposure to external risks and threats that can be unpredictable in nature and widespread in impact. The Group's response to COVID-19 ensured that critical services could continue in the safest manner possible for both customers and colleagues. The threat landscape is growing in complexity and volatility and will continue to present risk to the Group's resilience.

Measurement
An operational resilience framework is in place, owned by the Group Chief Digital and Innovation Office, which identifies Tier 1 and Tier 2 critical end-to-end business processes across the four key pillars outlined earlier.

Mitigation
Operational resilience is demonstrated in the mitigation of risks that impact our people, technology, third parties and premises and covered above. By identifying, mapping and reviewing critical end-to-end Tier 1 and Tier 2 processes across the Group, focus can be given to those processes and the controls in place, including the management of the technology on which they rely, to minimise disruption. A programme of work is in place to remove duplication where it exists in the technology estate, as part of the overall Digital Strategy.

Monitoring
Operational resilience is monitored and reported regularly through Executive and Board Committees. Its underlying components are also monitored through the relevant principal risk reporting, including operational, technology and people risks.

Task Force on Climate-related Financial Disclosures report

TCFD report

Welcome to our inaugural TCFD report. There's never been a more important time to tackle climate change and at Virgin Money, we're proud to present the hard work we've been doing to support a transition to a more sustainable future.

"We are committed to supporting the transition to a low-carbon economy and will continue to work with all of our stakeholders on the journey to a net-zero future."

Clifford Abrahams
Chief Financial Officer

Core elements of TCFD

1

Strategy

The actual and potential impacts of climate-related risks and opportunities on the Group's businesses, strategy, and financial planning

Find out more on pages 222–225

2

Governance

The Group's governance around climate-related risks and opportunities

Find out more on pages 226–228

3

Risk management

The processes used by the Group to identify, assess, and manage climate-related risks

Find out more on pages 229–230

4

Metrics and targets

The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Find out more on pages 231–234

Introduction

Our Purpose-led strategy

Our Purpose is 'Making you happier about money' and climate is a key area of focus within our Purpose-led ESG strategy. Managing our business in a sustainable, climate-friendly way that's good for the environment supports our long-term growth and resilience.

As a bank, we have a key role in the fight against climate change. Our inaugural TCFD report details the work we have been doing as we strive towards a more sustainable future.

See page 21 of the Strategic report for more detail on our wider ESG strategy.

Our ambition

To disrupt the status quo by driving positive environmental impacts in everything we do.

Our big goals

1. Put our (carbon) foot down
2. Build a brighter future
3. Open doors
4. Straight up ESG

Our climate aspirations for 2030

- Net zero: Operational and supplier emissions
- -50%: At least halve our financed emissions

Our climate commitment for 2050

- Net zero: All direct and indirect emissions

Our stakeholders

The combination of our Purpose-led strategy, our ambition and our big goals ensures we deliver for all of our stakeholders

- **Customers**
  Delivering greener propositions and supporting ambitions – Making you happier about money
- **Colleagues**
  Prioritising well-being, flexibility and development, and fostering a climate-focused culture to help colleagues live our Values
- **Society**
  Making sure we're doing our part to tackle climate change, support local communities and protect the environment
- **Investors**
  Aspiring to be a greener business providing sustainable returns
- **Partners and suppliers**
  Ensuring our supply chains reflect our environmental ambitions
- **Government and regulators**
  Supporting policies and initiatives for transitioning to a sustainable future

We have integrated elements of our climate-related disclosure throughout the Group's 2021 Annual Report and Accounts. An index of ESG-related documents is also available on pages 318 to 321.

Nearer-term climate targets

50% *2021: 18%*
Reduction in location-based Scope 1 & 2 emissions by 2025*

80% *2021: 13%*
Reduction in market-based Scope 1 emissions by 2022*

£500m *2021: £167m*
Energy & Environment lending balance by 2025

10% *2021: 3.7%*
Of all business lending to sustainable leaders by 2027

50% *2021: N/A*
Increase in new greener mortgage lending every year**

* From 30 September 2020 baseline.
** Baseline target was set in FY21.

Our progress

This is our first year of climate-related disclosure, in line with the TCFD recommendations. We believe that good disclosure breeds good practice, and support the TCFD's aims of market transparency and stability. Comprehensive and comparable disclosures help our stakeholders to understand the progress we are making in managing our climate-related opportunities and risks. We're committed to reporting the impact of climate change on our business in a transparent manner, and taking responsibility for the actions required to make positive changes to reduce our impact on the environment.

We have made good progress during 2021 to update our governance and RMFs to consider climate change in everything we do, analysing climate risks and opportunities and developing new customer propositions and scenario analysis capability. We've been working hard to overcome some of the challenges, especially around data, tools and metrics. There remains work to do to meet our commitments and support customers to meet their individual responsibilities and aspirations. This new section of our annual report provides an update on our progress and areas of future focus.

TCFD recommendation	FY21 achievements	Future focus
Strategy		
Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	> Preliminary view of climate-related risks and opportunities identified and used to inform our ESG strategy including aspirations and net-zero commitment > Partnerships with Carbon Neutral Britain and Future-Fit Foundation, to promote awareness of customer GHG emissions and commit to planting 100,000 trees > Scenario analysis capability in development and initial exercise in progress > Signed up to PCAF and used their methodology to conduct preliminary estimates of financed carbon emissions for key sectors	> Further develop propositions to support the decarbonisation of customers' homes and businesses > Continue to refine approach to customer engagement on climate-related risks and opportunities > Further embedding climate considerations into our supply chain and procurement processes > Completion of initial scenario analysis exercise, with integration of outputs into the strategic and financial planning process > Establishing detailed climate strategy including science-based targets and decarbonisation pathway actions
Governance		
Describe the Board's oversight of climate-related risks and opportunities Describe management's role in assessing and managing climate-related risks and opportunities	> Quarterly Board-level deep dives into ESG-related topics and financial risks arising from climate change > Consideration of climate-related risks embedded into Executive and Board Risk Committee charters > Leadership Team sponsorship of ESG goals > ESG training delivered to all colleagues and Board members	> Overseeing target setting and tracking progress against the Group's climate-related goals and aspirations > LTIP scorecards to evolve once financed emissions baselines are established across the portfolio

TCFD recommendation	FY21 achievements	Future focus
Risk management		
Describe the organisation's processes for identifying and assessing climate-related risks Describe the organisation's processes for managing climate-related risks Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	> Climate-related data at a portfolio level obtained and analysed to better understand physical and transition risk exposure > ESG policy framework for business lending has been enhanced to consider transition risks > Climate risk training provided to business lending teams > Business lending credit assessment processes enhanced > Inclusion of initial climate-related risk appetite	> Design and development of end-state credit decisioning framework > Improvement of data and analysis on the Group's portfolios and evolution of risk appetite > Continued focus on supporting customers adapting to transition risks > Continue to develop and enhance climate-related disclosures
Metrics and targets		
Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 GHG emissions, and the related risks Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	> Partnered with PCAF to account for our Scope 3 emissions > Initial estimates calculated for the mortgage portfolios and agriculture component of the business portfolio > Reduction in our total location and market-based emissions > Operational targets met for reducing energy and water consumption	> Setting of science-based targets in line with Net-Zero Banking Alliance commitments > Development of key risk indicators to support portfolio monitoring > Continue to improve data availability and accuracy to refine and expand financed emissions estimates of our most material portfolios > Targets for financed emissions are to be set once further analysis has been conducted and calculation of baseline financed emissions developed

1 Strategy

The actual and potential impacts of climate-related risks and opportunities on the Group's business, strategy, and financial planning.

Our strategy

Climate change represents one of the most urgent challenges to global society. Our collective response requires innovative approaches to mitigate the far-reaching environmental, economic and social impacts that will extend across all sections of society and stakeholder groups. These range from changes in mean temperatures, increasing frequency of extreme weather events and changes to our global economic systems.

As one of the UK's largest banks we have an important role to play in facilitating the UK's transition to a low-carbon economy, leveraging the opportunities and managing the risks the Group is exposed to from climate change. We are committed to working with our stakeholders to realise the ambitions of the Paris Climate Agreement and support society's low-carbon transition.

We are committed to supporting the sustainability initiatives and plans agreed at COP26 to help the world reach net-zero.

In line with our own Net-Zero Banking Alliance commitments, we are working on formulating our net-zero strategy, including setting 2030 targets and the decarbonisation pathways to achieve them, which we will be disclosing within 18 months.

More broadly, our approach to climate change is anchored against the four big goals of our ESG strategy that have been identified as material to our business, and where we believe Virgin Money can have the greatest impact to the environment and society. Together with our ESG strategy, our RMF supports the Group's approach on climate change issues.

Our approach to climate change currently comprises three key pillars:

Key pillar	Actions	Delivered through ESG Goals:	Related risk
Reduce the impact that the business has on the environment	Pulling levers in our direct control such as decreasing our operational footprint and embedding climate into key decision-making frameworks	1, 4	Primarily mitigating transition risk
Support customers in their transition to a low-carbon economy	Providing customers with the support and finance they need to transition	2	Mitigating transition risk
Identify and manage the impact of climate change on the business	Embedding of climate considerations in the Group's RMF	4	Managing transition and physical risk and enabling ESG goals through good governance

Description of time horizons

Climate-related risks and opportunities are described in the sections overleaf. The Group considers the impacts of climate change across different time horizons, as shown in the table opposite. These time horizons take into account the long-term nature of climate risks but also link to our broader business strategy and financial planning cycles. Our consideration of time horizons will evolve as we assess the risks and opportunities and develop targets to meet our net-zero strategy.

Time Horizons	Description
Short term (0-1 years)	The time horizon for annual financial planning
Medium term (1-5 years)	The time horizon for strategic and financial planning cycles and interim climate-related targets
Long term (>5 years)	Timeframe longer than the Group's financial planning cycle; this timeframe is considered through the use of scenario analysis and is the time horizon over which the most material financial risks from climate change are likely to crystallise

Key risks and opportunities

Key climate-related risks

Medium-term risks to the business primarily result from transition risks, with physical risks representing a longer-term risk (primarily from mortgage and agriculture portfolios) with the most material risks expected to crystallise over the long term.

- Changes in extreme variability in weather patterns may lead to increased incidence and severity of physical risks which, in addition to the disruption felt by customers, can lead to a decrease in the valuations of property taken as collateral to mitigate credit risk. In addition, tightening minimum energy efficiency standards for domestic buildings may lead to transition risks which could impact the value of mortgaged properties or the ability of borrowers to service debt.
- The Group may also be exposed to physical and transition risks through its Business lending portfolio due to changes in policy, consumer preferences or technology.
- The operational risks to which the Group is exposed arise from physical damage to key office or data centre locations and physical and transition risks via key suppliers, which could result in business disruption or increased costs.
- Group transition risks are associated with the Group's own transition of operations to a low-carbon economy, which may lead to increased costs.
- There is a strategic risk that emissions associated with our Mortgage, Business lending and wider operations do not reduce as required to align with an orderly transition to a low-carbon economy.

Key climate-related opportunities

The key opportunities identified to date relate to our lending portfolios, particularly within Mortgages and Business lending. As detailed below, we have already acted on some of these opportunities whilst others are still being explored.

- Actions already taken on identified climate-related opportunities:
  - Greener mortgages to provide financing for energy-efficient residential properties.
  - Continued membership of Future-Fit's Development Council.
  - Engaging businesses to improve their ESG credentials and transition to a low-carbon economy via our Sustainable Business Coach.
  - Providing sustainability-linked loans to businesses whose core activities enable others to operate in a more economical and environmentally sustainable way.
  - Growing lending to the renewable energy sector through our Energy and Environment team (£167m).
  - Reducing our operational footprint from procurement of green energy and more energy efficient properties.

- Additional climate-related opportunities to be explored:
  - Green mortgage products to support customers to retrofit their homes.
  - Green mortgage products to incentivise green purchases
  - Partnerships to engage and incentivise customers and colleagues to reduce their environmental impact.
  - Green/sustainable bonds to fund green lending products.
  - Reduced carbon footprint from increased customer and colleague digitisation.
  - Embed the Sustainable Business Coach into lending processes for larger borrowing customers to capture ESG portfolio score.
  - Supporting and financing the agriculture sector's investment in emission reducing initiatives.

Looking ahead, the Group intends to develop an ESG funding programme across both unsecured and secured platforms which will be underpinned by a broader array of customer products and supporting data which will allow for more informed disclosure and investor transparency.

Processes used to determine material risks and opportunities

Material risks and opportunities were identified through a combination of processes that included portfolio assessment, stakeholder surveys and consideration of key trends.

Business composition and portfolio risk assessment

- Mortgages: The Group's largest portfolio. As at 30 September 2021, the Mortgage portfolio represented 81% of the Group's customer lending.
- Business: As at 30 September 2021, the business portfolio represented 12% of the Group's customer lending with the most material relevant sector being Agriculture at 2.0% of Group customer lending.
- Preliminary estimations of financed emissions for our Agriculture and Mortgages book have been conducted. As a signatory to PCAF, work is ongoing using the PCAF methodology to calculate financed emissions by loan for the Mortgage portfolio (leveraging energy performance certificate (EPC) data collected) and select sectors within the Business portfolio.

Insight from customers, colleagues and suppliers on the most material ESG issues for our stakeholders;

- Quantitative and qualitative insight was gathered from customers, colleagues and suppliers during 2020 and 2021. This took the form of customer insights research surveys, CDP supplier surveys and workshops with colleagues across the Group.
- Coordination by the Group of an online survey with Agriculture customers in FY21. 32% of customers had undertaken a carbon audit on their farm, whilst 18% intended to during the 12 months which followed. The survey reached approximately 300 responders and covered the impact of COVID-19, Brexit and technology, as well as sustainability on agricultural businesses.
- Research undertaken by the Group (1,006 respondents) indicates that 85% of SMEs surveyed believe sustainability is important to their business, although only 45% of businesses currently have relevant targets in place.

Consideration of key climate trends in the UK that are driving both opportunities and risks

- Increasing regulation and policy action.
- Evolving climate reporting and disclosure requirements.
- Continued green energy transition from fossil fuels to low-carbon energy.
- Land use change and the evolving role of agriculture.
- Commercialisation and adoption of low-carbon technologies.
- Consumer sentiment shifts.
- Innovations in sustainable finance.
- More proactive investor policies and systematic assessment of climate risks.

We continue to review and assess the risks and opportunities that could have a material impact on the environment and business.

Climate change impact on our business, strategy and financial planning

Products

Mortgages

- In May 2021, we launched our first ever greener mortgage. Initially targeting residential new build homes, we have subsequently extended its availability to our shared ownership customers. The proposition rewards our customers for purchasing an energy efficient new-build home (EPC rating of A or B).
- Our unique approach to greener lending saw us partner with Carbon Neutral Britain to build customer awareness of the GHG emissions generated from their home, and to offset 5 tonnes of CO^2, the equivalent to the average emissions generated from a UK home in a year. Within our partnership we have also committed to initially plant 100,000 trees.
- We plan to extend our greener proposition which will also allow our partnership with Carbon Neutral Britain to grow, through our commitment to fund environmental projects with every greener mortgage application that completes.
- Working with new partners, we also intend to start developing solutions to assist our existing customers to decarbonise their home.
- To complement the expansion of our greener lending, we will expand our investment in educational content and tools to widen customer understanding of the environmental impact of their home and guide them on the improvements they can make. One way we have implemented this is through creating content for customers within the Brighter Money section of our website, which provides advice on reducing your carbon footprint, as well as links to our greener mortgages.
- As a large mortgage lender we believe that we have an important role to play in a cross industry sector approach. By providing consumers with knowledge and guidance on the measures they can take to improve the efficiency of their home, timely lending solutions to facilitate improvements and measuring our financed emissions, we can play a pivotal role.

Business

- In October 2020, we partnered with Future-Fit Foundation, a not-for-profit organisation who have an established Business Benchmark enabling organisations to understand their high-priority sustainability goals (the baseline for company operations in the future) and positive impacts (the activities a business undertakes to help others live a more positive/less negative life).
- In March 2021, the Group launched sustainability-linked loans for its Business customers, specifically targeting businesses whose core activities enable others to operate in a more efficient and environmentally sustainable way.
- This is the first time this product has been offered using a science-based scoring system created in conjunction with the Future-Fit Foundation, accessible to businesses of any size. This science-based scoring system is adapted from their Business Benchmark and turned into a learning and assessment tool for businesses of all sizes. This was digitised into the 'Sustainable Business Coach' app, available from October 2021 for any business to access.
- This will support our commitment of 5% of business lending balances to businesses meet the threshold set out in the Coach by FY22 and 10% of business lending balances by FY27, by providing arrangement fee-free funding for eligible businesses borrowing over £250k. Our FY21 progress is 3.7% derived from £312m of lending.
- Lending to renewable energy businesses has increased, with our Energy and Environment team portfolio growing to £167m (2020: £106m). This is measured against our ambitiously revised target from £320m to £500m by FY25.
- The Group will develop propositions specifically designed to support agriculture customers reduce farm emissions and take demonstrable steps to embed the Sustainable Business Coach and sustainability-linked loans across our network of relationship managers, customers and professional advisers.

Supply chain

The Group's procurement team continues to explore how climate-related information collected from our supply chain can be improved. Enhancing climate-related data from the supply chain will help the Group understand potential third-party risks and is also an important aspect of helping the Group to achieve its wider sustainability aspiration of net-zero operational and supplier carbon emissions by 2030.

Last year, the Group set a goal for greater than 75% of our top 100 suppliers to complete the CDP Supplier Survey in 2021, which helps establish supplier and indirect emissions, as well as gaining a better understanding of the environmental impacts and issues in our supply chain. The Group reached that target in August 2021 and is currently reviewing responses to identify actions which will be taken through review of end-to-end supplier on-boarding processes, procurement processes and the Group's third-party RMF.

Operations

We started the year in a strong position with the Group and its suppliers continuing to deliver zero waste to landfill. We will strive to further reduce waste and recycle everything we possibly can.

100% of the gas and electricity in our UK stores and offices is now generated from green sources, where we're responsible for the supply. As we have reached 100% Group-contracted green energy, the market-based footprint will only see small reductions from our low FY21 Scope 1 and 2 market-based emissions. We will maintain these low levels of market-based emissions through continued sourcing of green electricity and biogas and will continue to look to reduce market-based emissions to the absolute minimum.

Our Property strategy sets out a clear path to continue to reduce our overall location-based energy consumption by 50% in FY25 from where we started in FY20. A challenge brought about by the COVID-19 working model is the need to use more energy to heat buildings where we have lower occupancy. As we embed new ways of working, we are committed to rightsizing our property footprint in Glasgow and Newcastle-Upon-Tyne, as well as continuing to deliver energy efficiency and carbon reduction initiatives. We also recognise the reliance on the UK energy grid becoming greener to continue reducing location-based emissions.

Financial planning

Consideration of ESG is also embedded in the financial planning process. Every business case requesting investment spend must set out whether it is aligned to the ESG strategy early in the business case lifecycle. As the Group develops its interim and long-term targets to reach net zero no later than 2050 in line with its Net-Zero Banking Alliance commitments, the ESG strategy will evolve accordingly.

Virgin Money Unit Trust Managers Limited
UTM, as an investment manager of £3.7bn of funds under management, is preparing to make significant climate-related risk and opportunity disclosures in 2022. Plans will consider the transition to low-carbon, sustainable funds across our range of products, with our current Climate Change Fund as the first to be updated to a low-carbon transition theme.

Pensions
The Trustee believes that ESG factors can have a material impact on asset returns and looks to manage the related risks and opportunities relating to climate change. The Trustee sets the Scheme's investment strategy based on its long-term objectives and its assessment of risk, appointing investment managers to implement that strategy. The managers, who are signatories of the UN Principles for Responsible Investment and members of Institutional Investors Group on Climate Change, are responsible for day-to-day decision-making, including taking account of ESG factors. The Trustee reviews the managers' policies and performance over time to ensure that all actions undertaken by the Trustee, as well as on their behalf, are aligned with their beliefs.

Over the last year, the Trustee has increased the time and resources committed to this area, reviewing the Scheme's exposure to risk over time and most recently focusing on climate-related risks. As well as receiving training on this area, the Trustee commissioned scenario modelling to understand how various climate outcomes may impact the Scheme's assets, liabilities and the likelihood of achieving the Trustee's long-term objectives. Additionally, the Scheme's investment advisers performed a review of their investment managers' approach to Sustainable Investments, through the Sustainable Investment reporting. The reporting is an accumulation of research and knowledge which produces ratings on the managers for the Trustee to review and take action where appropriate. The Trustee also received estimates of the Scheme's exposures based on a range of carbon metrics to consider the appropriateness of these metrics for the Trustee's future decision-making.

Whilst the work undertaken thus far has identified the potential risks to asset valuations from climate risks, the Trustee also invests in a number of climate-focused investment funds which are likely to be less impacted, or may even benefit from, the transition to a less carbon intensive world. For example the Scheme has investments in a solar wind fund investment managed by Greencoat Capital and a wind farm fund managed by Alpha Real Capital. In 2021 the Scheme invested in a new fund the "BlackRock Global Renewable Power Fund" which invests in global climate infrastructure, primarily in renewable power, and aims to generate a positive environmental impact alongside financial returns.

Memberships
The Group is a signatory to the following sustainability initiatives and standards:

The Group is the only banking member of the Development Council for Future-Fit Foundation, a not-for-profit organisation that provides businesses, investors and policy makers with the tools and guidance required to help transition to a society that is environmentally, socially and economically fair. We have extended our membership for another year, so the Group can continue to provide the insights of a bank and major provider of financial services to the UK SME market.

Since January 2020, the Group has been a signatory to the UN's Principles for Responsible Banking. This mandates signatories to undertake three steps, which we have continued to develop through the course of 2021:

1. Analyse current impact on people and the planet;
2. Set targets to improve impact and implement; and
3. Publicly report on progress.

Additionally, the Group signed up to the industry-led, UN-convened Net-Zero Banking Alliance (NZBA), part of the UN's wider Race to Zero campaign. The NZBA brings banks from around the world together to align their lending and investment portfolios with net-zero emissions by 2050. It's a strong example of how the financial services industry can be a positive force in tackling the climate crisis.

NZBA forms part of the wider Glasgow Financial Alliance for Net Zero, which brings together leading net-zero initiatives from across the financial system to accelerate the transition to net-zero emissions by 2050 at the latest. All members will set science-aligned interim and long-term goals to reach net zero no later than 2050 in line with the criteria of the UN Race to Zero campaign. Member-determined short-term targets and action plans will supplement these goals.

In FY21, the Group became a member of the PCAF to work with other UK banks to develop and implement a harmonised approach to assess and disclose the GHG emissions associated with our loans. The harmonised accounting approach provides financial institutions with the starting point required to set science-based targets and align their portfolios with the Paris Climate Agreement. PCAF is an industry-led global partnership of financial institutions working together to develop and facilitate transparency and accountability of the financial industry to the Paris Climate Agreement. It provides financial institutions with the starting point required to set science-based targets and align their portfolio with the Paris Climate Agreement.

CDP is a global not-for-profit organisation that runs the world's environmental disclosure system. Founded in 2000, CDP pioneered using capital markets and corporate procurement to motivate companies to disclose their environmental impacts, and to reduce GHG emissions, safeguard water resources and protect forests. CDP helps companies, cities, states and regions to identify and respond to environmental risks and opportunities through its world-leading disclosure system.

The Group is a CDP supply chain member and engages with our top 45 suppliers in order to measure our indirect emissions. Additionally, the Group itself has improved its own CDP score year-on-year, most recently achieving a B grade for its disclosure on climate change in 2020.

2 Governance

Our governance around climate-related risks and opportunities.

VMUK ESG-related Governance*

* representative of ESG-related governance

Board
The Board is responsible for the long-term success of the Group and the delivery of sustainable value to its shareholders and wider stakeholders. The Board discharges some of its responsibilities directly and others through its committees. The Board's role and the governance framework is described further in the 'Our Board and governance framework' section of the Governance report on page 76.

As part of its role in ensuring the long-term sustainable success of Virgin Money, the Board is responsible for overseeing delivery of the Group's ESG strategy described on pages 21 to 33 including climate-related risks and opportunities and delegates some oversight and decision making to its Committees as set out in the 'ESG embedded in our governance framework' section on page 77 of the Governance report. As described in the Governance report there has been regular Board engagement and deep dives on ESG topics throughout FY21. See page 82 for further information on the ESG deep dive sessions.

Risk Committee
The Board has delegated responsibility to the Risk Committee to oversee the management of risk across the Group, taking a forward-looking perspective, anticipating changes in business conditions and promoting risk awareness culture within the Group.

The Risk Committee approved the inclusion of climate risk in the Group's RMF as both a cross-cutting risk and an emerging risk, recognising both the elements that manifest through existing principal risks, and its unknown and unpredictable elements. The Risk Committee recommended and approved climate risk appetite measures and discussed financial risks from climate change on a regular basis, with three specific updates presented during the year. The updates focused on scenario analysis and stress testing. The Chief Risk Officer presents a report to each Risk Committee meeting which covers the second line oversight that has been taken in relation to climate-related risks.

Audit Committee
The Board has delegated responsibility to the Audit Committee to oversee the management of financial and regulatory reporting and the internal financial controls in place across the Group. The Committee is responsible for the disclosures made within the Annual Report and Accounts, including consideration and approval of ESG disclosures.

Further information regarding the matters considered by each of the Board committees, including the Remuneration Committee and the Governance and Nomination Committee are included in the individual Board Committee reports within the Governance report on pages 95 to 114.

Further information about the Group's governance framework is available in the Governance report on pages 64 to 146.

Addressing our climate strategy

The Board has been engaged in the development of the Group's sustainability strategy and receives regular updates on the execution of this strategy from the members of the Executive Leadership Team. In November 2020, the Group announced its refreshed sustainability strategy. Elements of this strategy, which are directly linked to the management and mitigation of climate-related financial risks, include: our 'Put our (carbon) foot down' goal and 2030 aspiration for net-zero operational and supplier carbon emissions; and our 'Build a brighter future' goal and aspiration to halve carbon emissions across everything Virgin Money finances by 2030. To support these goals, the Group has become a member of the PCAF. During the year, the sustainability team provided an update on the results from a strategic review of progress to date and the outlook for the remainder of FY21. The plan was repositioned in light of rapidly emerging changes in the external environment, with a suite of interventions agreed to drive forward the ESG operating model, refresh goal sponsorship at Leadership Team level and ensure the Group remained best positioned to respond to developments.

Addressing climate risk management

Matters presented to the Board and Board committees for decision must contain reference to the way in which each matter supports the Group's ESG principles and goals, including those relating to climate risk. The corporate governance framework is continuously reviewed to ensure it includes sufficient focus on ESG topics including climate risks and opportunities. A recent review of the Risk Committee charter resulted in its responsibilities in relation to climate-related risks being updated. The Committee is now formally required to oversee the activity being undertaken to embed the identification, assessment and management of climate change risk into the risk management process; oversee the approach to climate risk disclosures including risk management, operational risk and lending risk disclosures; and regularly consider reports regarding the risk profile associated with climate change. The Committee can escalate any climate-related risk matter to the Board.

The Board has regular oversight of financial and non-financial risks from climate change through reports on ESG topics as well as regular risk updates. In addition, the Board reviews the Group's ESG strategy, which includes climate-related risks and opportunities, as part of the annual strategic and financial planning process to ensure the Group's approach to ESG matters, relevant to the Group, evolves with emerging developments vis-à-vis ESG in the financial services sector.

Training

The Board undertook a quarterly deep dive on ESG topics during FY21, covering an overview of the Group's refreshed sustainability and ESG strategy and updates on progress made on the Group's ESG goals. This has provided insight and key information that has helped educate the Board on the Group's climate change ambitions and the key factors that need to be considered to enable the Group to achieve its desired outcomes. The ESG deep dives were hosted by senior colleagues from the Corporate Communications and Sustainability team and Leadership Team members where relevant. External support and insight will also continue to be valuable as the Group's ESG capabilities enhance and mature.

In addition to the ESG focused deep dive sessions, Directors also undertook externally facilitated training in the year, which focused on climate change and relevant considerations for the banking sector. Topics discussed during these sessions included how climate change is impacting the financial services sector and how the industry is responding; the responsibilities for boards around sustainability and regulatory requirements; and market opportunities and the short and longer-term focus for Virgin Money.

Furthermore, the Board, along with all VMUK colleagues, received targeted training on ESG factors by way of a mandatory ESG e-learning module which highlighted the impact of climate change on financial services and how climate change is considered as an integral part of the Group's ESG strategy.

Management

The Chief Risk Officer has Senior Manager Function responsibility under the Senior Managers and Certification Regime for the Group's approach to managing financial risks from climate change, which includes:

- embedding the consideration of financial risks from climate change in governance arrangements;
- incorporating the financial risks from climate change into risk management practices;
- using long-term scenario analysis to inform strategy setting, risk identification and assessment; and
- developing approaches to disclosure of the financial risks from climate change in line with the TCFD framework.

Other executive responsibilities

The CEO has ultimate responsibility for climate-related issues affecting the Group and its customers and overall accountability to the Board and shareholders to ensure that sustainable and responsible (ESG) practices are embedded into our business operations, including those associated with environmental or climate areas.

The accountability for the Group's ESG strategy sits with the CEO and is devolved to relevant Executive Leadership Team members, both through the sponsorship of ESG strategic goals as well as the incorporation of ESG elements into relevant 'day-to-day' responsibilities.

Environment Committee

During the year, a new Environment Committee was established. It uses emerging data and evidence to prioritise and direct resources, investment and activity across the Group (within overall plan parameters) to set in motion the most important actions required to develop and execute the roadmaps to a low-carbon economy. It also maintains oversight of environment-related investment and ensures effective, synergistic use of funding across business units.

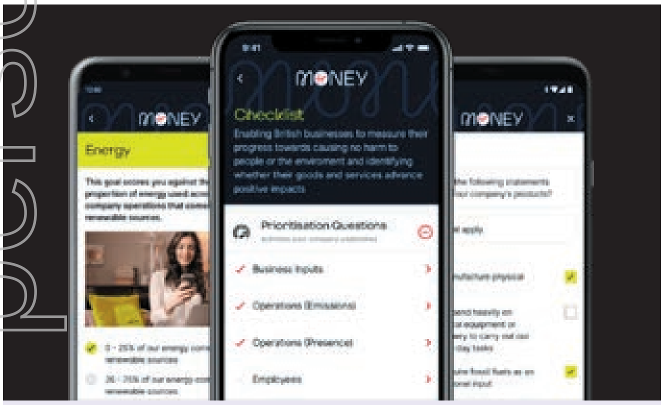
The Committee is chaired by the Chief Financial Officer and members include the Chief Risk Officer, Chief Commercial Officer, Chief Digital and Innovation Officer and relevant subject matter experts, all with specific responsibilities for climate-related matters.

Credit Risk Committee
The Credit Risk Committee has specific responsibility for oversight of climate-related aspects of credit risk including recommending strategies to adjust the credit risk portfolio to react to change in the prevailing market or physical environmental conditions. During the year, the Committee received regular updates on the credit risk aspects of climate change, including climate risk specific analysis relating to lending portfolios. Climate change was also considered within the Committee's review of the Group's Sensitive Sectors policy summary as part of the ESG framework.

Asset and Liability Committee
ALCO focuses on the Group's financial risks including capital, funding, liquidity and interest rate risk to ensure that the Group's activity complies with regulatory and corporate governance requirements and also delivers Group policy objectives. As appropriate this includes the impact of climate change on aspects under its remit. For example, ALCO reviews the outputs of climate scenario analysis.

Model Governance Committee
Models related to climate change are subject to the Group's Model Risk Policy with oversight from the Model Governance Committee and its delegated sub-committees (Credit Models Technical Forum and Finance Models Technical Forum).

Executive Risk Committee
The Executive Risk Committee has responsibility for overseeing the Group's exposures and approach to managing the financial risks from climate change. During the year, the Committee received updates on the progress against plan through the Chief Risk Officer's Report and special reports as appropriate.



Case study: Sustainable Business Coach

Following our partnership with Future-Fit, we launched the Sustainable Business Coach app. This is a new benchmarking tool open to any business looking to understand how it can contribute to a more sustainable future, while increasing its own resilience to future shocks. By using the established Future-Fit Business Benchmark, the coach walks users through a series of questions and uses a straightforward scoring mechanism to help businesses get a sense of their environmental and social impacts, providing tailored guidance for improvement. This is available for everyone on Apple and Google app stores, not just Virgin Money customers.

Investments, Projects & Costs Committee
The Investments, Projects & Costs Committee is responsible for overseeing the management of costs across the Group while supporting its growth ambitions, aligned to risk appetite. As part of its focus on climate change, all new business cases are required to address how the project impacts on and supports our ESG ambitions.

ESG Working Group
During FY21, an ESG working group supported delivery of our ESG strategy. The group met twice monthly and was attended by cross-functional senior leaders. The purpose of the working group included:

- evolving and refining the Group's ESG strategy and associated targets to keep pace with the market and the Group's overall ambitions and strategy;
- overseeing that ESG delivery across the business meets the strategic objectives and associated targets; and
- escalating any risks or issues with that delivery to the ESG Executive Sponsors, Environment Committee, Leadership Team and Board.

Climate Change Credit Risk Working Group
The Group also established a Climate Change Credit Risk Working Group to support the FY21 work plan to embed climate risk into the RMF, and support the Group's wider ESG goals and ambitions. This Group focused on driving delivery of credit risk-related activities during FY21 and planning for future activities.

Remuneration
The performance measures for awards made to senior management under the 2020 LTIP included an ESG scorecard. The ESG scorecard carries 15% weighting with performance to be assessed over the three-year performance period (1 October 2020 to 30 September 2023). The environmental aspect of the ESG scorecard is based on quantitative measures applied to operational carbon emissions and our progression to net-zero operational carbon emissions by 2030. The ESG scorecard will also be included in the performance measures for the 2021 LTIP awards.

Further information is available in the Directors Remuneration Report on pages 116 to 141.

3 Risk management

How we identify, assess and manage climate-related risks within our Group RMF and supporting processes.

Risk Management Framework

The Group manages risk using a single RMF, which supports decision-making, delivers a risk culture underpinned by our Purpose and Values and ensures a consistent approach to risk management activities across the organisation. Risks are managed through a continuous risk management lifecycle which identifies, assesses, measures, monitors and reports risk. The RMF is supported by the Group Policy Management framework which provides structure and governance for the consistent, effective management of all policies. Policy Statements and supporting Policy Standards define the key risk management principles and minimum control requirements to help manage key risk exposures within risk appetite.

Within the RMF, climate risk is classified as a cross-cutting risk type that manifests through the Group's principal risks, primarily strategic and enterprise risk, credit risk and operational risk. The Group's approach is to embed consideration of climate risk within the relevant Policy Statements and Standards, in line with the RMF. For example, climate risk RAS measures have now been included in our oversight of credit risk.

The Group is exposed to physical and transition risks arising from climate change:

Physical risks	Transition risks
Arising from climate and weather-related events, such as heatwaves, droughts, floods, storms, sea level rise, coastal erosion and subsidence. They can potentially result in large financial losses in respect of the Group's own properties as well as impairing asset values and the creditworthiness of Business and Personal borrowers.	Arising from the process of adjustment towards a low-carbon economy and could lead to changes in appetite, strategy, policy, technology and sentiment. These changes could prompt a reassessment of the value of a large range of assets and create increased credit exposures for banks and other lenders as the costs and opportunities arising as a result of climate change become apparent. Reputation risks arise from a failure to meet changing and more demanding societal, investor or regulatory expectations.

Scenario analysis

During FY21, the Group has developed scenario analysis capability to enhance our ability to identify climate-related risks and opportunities and assess the resilience of our business model. The initial analysis included the Group's lending portfolio and assessed the potential loan impairments with a particular focus on Mortgages and Business lending. The scenarios used were those published by the BoE as part of its Climate Biennial Exploratory Scenario:

- Early Policy Action: the transition to a net-zero emissions economy starts in 2021 so carbon taxes and other policies intensify relatively gradually over the scenario horizon. Global carbon dioxide emissions (and all GHG emissions in the UK) drop to net zero around 2050.
- Late Policy Action: the transition is delayed until 2031, at which point there is a sudden increase in the intensity of climate policy. In the UK, GHG emissions are successfully reduced to net zero around 2050, but the transition required to achieve that is more abrupt and therefore disorderly.
- No additional policy action: this scenario primarily explores physical risks from climate change. In this scenario, no new climate policies are introduced beyond those already implemented prior to 2021.

These scenarios were selected as they allow us to explore the key transition and physical risks that the Group may be exposed to across the above time horizons.

As part of this work, a vulnerability assessment to identify climate risks was undertaken through workshops with sector specialists, risk management, internal audit and with support from third-party consultants.

The mortgage book was assessed at loan level, with physical risks modelled at minimum of postcode district, with more granular analysis where heightened risk was identified and EPC ratings obtained as a proxy for transition risk. Where no EPC rating was available, a rating was inferred based on the property location.

For business lending, a portfolio approach was taken given current data limitations for SME customers, however we have also been developing our approach and modelling for counterparty level analysis for key business sectors e.g. Agriculture. This will be expanded upon in the future alongside work to improve counterparty data availability.

The exercise is being used to provide us with insights into potential vulnerabilities and opportunities across the Group's lending portfolio and outputs and learnings will be considered through the strategic and financial planning cycles.

The Group monitors emerging regulatory initiatives to identify any potential impact on its business model and ensure it is well placed to respond with effective change management. For example, the publication of the PRA's 'Climate Adaptation Report – Climate-related financial risk management and the role of capital requirements'. Emerging regulation will be analysed as scenario analysis work advances.

Managing climate-related risks

Risk appetite
During the year, risk appetite has been expanded to include qualitative statements and quantitative metrics in relation to climate risk. The metrics focus on transition risk relating to SME lending and deposit balances, focusing on expanding our low to medium transition risk book. Metrics will be further enhanced as data and capability evolves and will leverage scenario analysis outputs.

Credit risk – Mortgage lending
During the year, the Group implemented a new Climate Change Group Secured Lending Policy to outline how the Group considers climate-related risk within its retail business activities. The policy will continue to evolve in response to the external environment, increasing regulation, investor and other stakeholder interest. The Policy focuses on:

- Climate Risk – Regulatory background;
- Alignment with Group Sustainability Strategy;
- Transition risk factors: EPC property ratings, greener mortgages, Home Buying Coach app;
- Physical risk factors: Flood risk, subsidence etc; and
- Future Direction.

EPC Property Ratings – BTL Mortgages
In accordance with the Minimum Energy Efficiency Standards Regulations, all BTL properties must have a minimum EPC rating of E. The Group only accepts applications for BTL properties that comply with the minimum EPC rating.

Physical risks
The Group has controls in place to mitigate against flood risk, subsidence, heave and landslip in its residential mortgage portfolio. Where it is identified that a property has previously been affected by flooding or is situated on a flood plain, new or increased lending is only provided where certain conditions are met. Similarly, where subsidence, heave or landslip is identified, new or increased lending is only provided where certain conditions are met.

Controls are also in place around other environmental-related property issues, for example in relation to protected wildlife, Japanese knotweed, fracking, sewage and drainage, high voltage electrical supply apparatus, shale/contaminated fill, radon gas and contaminated land. Additional environmental reports may be required in such circumstances.

All physical valuations must be completed by registered valuers to utilise their local knowledge and expertise, including the assessment of physical risks and climate-related information (e.g. documenting whether the home is subject to a "green deal" or has solar panels installed).

Where an automated or Desktop valuation is completed, the Group relies on the acting solicitor/conveyancer to carry out environmental reports and advise of any risks.

Where free legal service is used, limited title checks are completed due to the lower risk these proposals represent to the Group (i.e. re-mortgages, transfer of equities etc).

Portfolio monitoring
During FY21, we engaged a third-party provider and started to receive regular property data for our Mortgage portfolio to enhance our portfolio risk identification and monitoring processes. This includes fluvial, pluvial and tidal flooding, coastal erosion, subsidence, expected future insurability and EPC rating. Work is underway to plan how climate risks will be incorporated into credit decisioning in the future.

Credit risk – Business lending
The Group has an established process to consistently apply ESG criteria to all lending decisions. This includes sectors that are outside the Group's risk appetite or where reference to a higher lending authority is required before a credit decision can be made.

For corporate transactions, climate risk mitigation and wider ESG impacts are embedded into our due diligence and credit assessment processes. Where material risks are identified, proposals are subject to a greater degree of review and scrutiny. Our Sensitive Sector policy outlines the prohibited and restricted areas where the Group has either no or limited appetite to lend.

A summary of the Group's Sensitive Sector policy is available from our ESG Hub at: www.virginmoneyukplc.com.

During FY21, further enhancements were made to credit assessment processes, which require additional documentation of climate-related matters for lending to certain sectors and at material exposure thresholds. To support these updates, training and supporting material on climate risks were provided to colleagues in first and second line roles.

The policy framework has been enhanced to reflect the need for more forward-thinking relating to transition risks. The Group recognises the need to enhance capability for assessing and modelling the impact of physical risks over the long-term horizon over which increased risks may arise.

A large proportion of our business lending customers are privately owned and/or SME's. Very few lending customers therefore report against voluntary disclosure initiatives such as CDP, TCFD or Sustainability Accounting Standards Board. Such businesses are key to the UK economy and therefore the Group's focus will be on how it can support customers with adaptation and mitigation.

A top-down assessment of sectors (and sub-sectors) which may have a higher likelihood of being impacted by transition risks has been performed. The main purpose of the analysis was to build on our previous analysis and support the Group's development of scenario analysis. This work helped us identify transition risks most material for the Group portfolio and also informed ongoing enhancements to credit policy. The output of this work was used to inform the evolution of Risk Appetite measures established to monitor the business lending portfolio exposure to transition risk, based on sectoral transition risk assessments.

Operational risk
Operational Risk Policy Standards have been updated to incorporate climate change risk. The Group is in the process of identifying additional actions to incorporate climate risk within its assessment of operational resilience for critical services, Third Parties policies and change management risk assessments. Physical risk data under the Biennial Exploratory Scenarios have been obtained in relation to key data centres and office locations to support our assessment of future risk.

Future focus
Whilst the Group already has some controls in place to mitigate against climate risk in its retail business activities, we understand the changing dynamic in this area and acknowledge that there is further work to be done. We intend to expand our policy, procedures and strategies in the short to medium term when appropriate data and regulatory direction is provided.

4 Metrics and targets

The measures we use to assess and manage our climate-related risks and opportunities.

Key achievements

The Group has made progress on the pathway to net-zero operational and supplier emissions by 2030, with significant reductions in the activities that have a negative impact on the environment.

Energy consumption (KWHm)

Water consumption (m³ volume)

Paper used (tonnes)

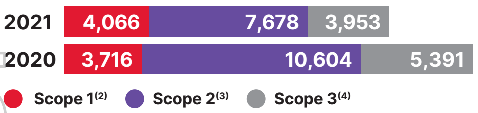
Waste generated* (tonnes) – *Zero sent to landfill*

* Year-on-year increase due to 2020 being lower than usual, with COVID-19 lockdown restrictions prompting an increase in colleagues working from home and a reduction in customers attending stores. In 2021, waste generated increased due to the closure and clear out of Granite House and the removal of redundant furniture in Gosforth.

Our operational GHG emissions[1]

We have seen improvements across our overall location-based emissions, with work ongoing to align the year-on-year reporting of market-based emissions.

Location-based emissions (tCO_2e)



Further detail on the Group's GHG emissions, reported in accordance with the GHG Protocol, and other key metrics is available in the ESG Report on pages 24 and 25.

Operational emissions

The Group has a number of targets set against its property, colleague and supplier emissions, with some metrics still under development due to the additional work required to enhance data capabilities and set baselines in these areas.

Metric	FY21 target	Future targets
Energy consumption	-5% (met)	2022: -10% to 49,515 2025: -50% to 29,939
Water consumption	-2% (met)	2022: -10% to 77,208m³ 2025: -50% to 45,004m³
Location-based Scope 1[2] emissions	-5% (not met)	2022: -10% to 3,659t 2025: -50% to 1,858t
Location-based Scope 2[3] emissions	-5% (met)	2022: -10% to 6,910t 2025: -50% to 5,302t
Scope 3 emissions[4]	-5% (met)	Under development
Total Scope 1, 2 (location-based) and 3 emissions	-5% (met)	Under development
Market-based Scope 1 emissions	n/a	2022: -80% to 649t
Market-based Scope 2 emissions	n/a	Under development
Total Scope 1, 2 (market-based) and 3 emissions	n/a	Under development

All FY21 targets were met, with the exception of location-based Scope 1 emissions. This is due to additional heating required to maintain temperatures in our stores and offices where the majority of staff were working from home.

Financed emissions

We continue to focus on enhancing our climate-related metrics and targets. During the year, we have developed an initial estimated financed emissions baseline for the agriculture component of our Business lending book and also for our Mortgage portfolio. We will continue to develop climate-related data across the portfolios, to enable more in-depth analysis and reporting, which will support our efforts to achieve our aspiration to halve financed emissions and realise a net-zero operational footprint by 2030, as well as support our progress towards achieving net zero by 2050 or sooner.

The Group is still in the early stages of its journey and working hard to develop the data and technology required to accurately assess and manage our carbon-related assets and exposures. While progress has been made, we will continue to work to enhance our climate-related reporting.

(1) The reporting period for GHG emissions in the Group ran from 1 July 2020 to 30 June 2021.

(2) Generated from the gas and oil used in all buildings where the Group operates; emissions generated from Group-owned and leased vehicles used for business travel; and fugitive emissions arising from the use of air conditioning and chiller/refrigeration plant to service the Group's property portfolio.

(3) Generated from the use of electricity in all buildings from which the Group operates.

(4) Relates to business travel undertaken by all colleagues (rail, private vehicles, hired vehicles, contracted taxi services, air travel), waste, water and paper.

Scope 3 financed emissions represent our share of GHG emissions, expressed as carbon dioxide equivalent (CO_2e), that we facilitate though our loans to various sectors and asset classes.

The Group recognises that measuring financed emissions is fundamental to analyse scenarios, set targets, inform actions and disclose progress. As such, the Group signed up to PCAF in November 2020 and has been working on deploying the PCAF methodology to calculate our financed emissions.

PCAF is a global partnership of financial institutions that work together to develop and implement a harmonised approach to assess and disclose the GHG emissions associated with their loans and investments. This partnership led to the creation of the Global GHG Accounting and Reporting Standard for the Financial Industry (the Standard).

Per the PCAF Standard, financed emissions are calculated, in general, using the following formula:

- Attribution factor for business loans = the outstanding lending to a customer divided by the total debt + equity of that customer.
- Attribution factor for residential property = the outstanding lending to a customer divided by the property value at origination.
- The emissions are Scope 1 and 2 emissions (including Scope 3 for Oil and Gas and mining) as reported by the customer, or as calculated using physical activity-based emissions (e.g. using primary energy consumption data) or as estimated using average emission factors by sub-sector and other suitable proxies.

How financed emissions are calculated

$$\sum_i \text{Attribution factor}_i \left(\frac{\text{Outstanding amount}_i}{\text{Total equity + debt}_i} \right) \times \text{Emissions}_i = \text{Financed emissions}$$

(with i = borrower or investee)

Given the limited availability and consistency of climate-related data, the Group has made a number of assumptions in order to calculate its emissions. The key limitations are EPC data for the mortgage book and a lack of reported emissions data in the business book, exacerbated by the largely SME nature of our portfolio.

The external data and methodologies used are subject to ongoing adjustment and modifications. In addition, the calculations are highly sensitive to the quality of the underlying data, the assumptions made and the approaches taken. As a result, we expect future emissions calculations to change following improvements in data quality and refinements to methodologies and assumptions.

It is also expected that the Group's data quality scores will improve over time as we collect more customer-level reported emissions data and enhance internal data and modelling capabilities. The Group's financed emissions disclosures will be developed further over the coming year as work continues on more detailed calculations of the Mortgage portfolio and on additional sectors and asset classes within our business portfolio.

In line with our Net-Zero Banking Alliance commitments, we will set formal 2030 targets within the next 18 months, focusing first on the most GHG intensive sectors within our portfolio. This will enable us to refine our existing 2030 aspirations and interim targets to ensure consistency with the latest science.

The Group agrees with PCAF's position that limitations should not deter financial institutions from starting their GHG accounting journeys, so the Group has elected to disclose the preliminary, portfolio-level estimates of our mortgage book as well as the preliminary calculations of our agriculture portfolio as at 30 September 2020 baseline[1], which have been used internally to help identify carbon-intensive hotspots and inform focus areas. These portfolios were initially selected based on total lending balances and were reconfirmed through use of the UN PRB Impact Assessment tool.

Mortgages

Accounting for 81% of the Group's customer lending as at 30 September 2020, the Mortgage portfolio has been identified as an area of material climate-related risk and opportunity for the Group, and hence a priority for calculating emissions baselines and developing green propositions, as detailed in the Strategy section of this report.

We have consulted the PCAF Standard whilst engaging in the collection of the requisite internal and external data to be able to conduct the financed emissions calculations by loan.

We are disclosing the preliminary estimated financed emissions in our Mortgage portfolio, as calculated at the portfolio level.

The approach undertaken aligns to the general PCAF methodology within the limitations of the data available, by taking the portfolio average LTV, multiplied by the estimated building emissions at a portfolio level.

(1) Baseline position for 2030 aspirations and subsequent net zero commitments.

Approach:

- Known split by EPC band, by property type, for approximately 68%[1] of the portfolio was assumed to be representative and applied across the whole portfolio[2].
- Average energy consumption figures for gas and electricity by EPC band by property type from 2017 government consumption tables[3] were then combined with 2020 electricity and gas emission factors for the UK grid[4] to estimate average CO_2 emissions per home by EPC band.
- Average CO_2 emissions per property type by EPC band were multiplied by the implied number of homes in each category.
- Total emissions per property type by EPC band were then multiplied by the portfolio average LTV as at 30 September 2020 to arrive at an estimated financed emissions figure per property type by EPC band.
- The lowest data quality score of 5.0 has been applied to the above approach for the Mortgage portfolio. Per PCAF Standard, score 5 should be applied where emissions are calculated using estimated building energy consumption by building type and average emission factors specific to the respective energy source.

Mortgages portfolio: Scope 3 emissions	2020
Total lending (£bn)	58.3
Assessed lending (£bn)	58.3
Assessed lending (% total customer lending)	81%
Total customer carbon dioxide equivalent emissions (tCO_2e) – Scope 1 and 2[5]	1,243,032
Virgin Money attributed financed emissions (tCO_2e)	712,257
Economic emissions intensity (tCO_2e/£m lent)	12.2
PCAF data quality score[6]	5.0

Limitations of the above approach include broad assumptions such as the known EPC split by property type being representative of the whole portfolio and the government consumption data for England and Wales being broadly representative of homes in Scotland.

Over the course of the next year the Group will continue to develop, complete and disclose the financed emissions calculations by loan to improve the accuracy of our disclosures.

Customer Lending

Transition risks

The table below shows a summary of EPC ratings on the mortgage book, the EPC rating being a proxy for transition risk. 69% of mortgaged properties were matched to an EPC rating:

EPC Rating	% of properties
A	0%
B	11%
C	26%
D	43%
E	16%
F	3%
G	1%

The Group may also be exposed to future transition risks through its Mortgage and Business lending portfolios. The Group's lending where there is potential for heightened transition risk in our Business lending portfolio is shown below:

	2021		2020	
Lending	£m	% lending	£m	% lending
Energy – coal mining	**–**	**0.0%**	–	0.0%
Oil and gas	**84**	**0.1%**	83	0.1%
Of which: Oil and gas field services	**80**	**0.1%**	79	0.1%
Utilities – electric and gas	**219**	**0.3%**	162	0.2%
Of which: Renewables	**207**	**0.3%**	150	0.2%
Agriculture, Forestry and Fishing	**1,490**	**2.1%**	1,567	2.2%
Construction and Commercial Real Estate	**816**	**1.1%**	874	1.2%
Transportation (Automotive, Aviation, Shipping, Rail, motor vehicle retailing and servicing)	**752**	**1.0%**	763	1.1%
Concrete, Chemicals and Steel Manufacture	**62**	**0.1%**	109	0.1%

(1) The Group has EPC bandings for 69% of mortgaged properties, but 68% is used in this calculation due a small number of properties where we do not have the property type data (e.g. detached, end-terraced etc.) required by the PCAF methodology.

(2) Split of mortgage records by EPC band by property type (including Scotland) as at June 2021 applied to total number of mortgage records as at September 2020.

(3) National Energy Efficiency Data-Framework summary consumption statistics published December 2017: Mean and median gas and electricity consumption by EPC by property type for England and Wales as at 2015.

(4) 2020 UK Government GHG Conversion Factors for Company Reporting: kg CO_2e/kWh for electricity generation and gas.

(5) The CO_2e emissions account for EPC covered gas and electricity emissions only. Emissions data from other heating sources (e.g. oil) was not readily available and indirect emissions from other energy uses (e.g. domestic appliances) have not been included as they are not considered to be associated with the Group's mortgage lending.

(6) Data quality scoring aligns with PCAFs Global GHG Accounting and Reporting Standard, with 1 representing high data quality and 5 representing low data quality.

Agriculture

Accounting for c. 2% of the Group's customer lending as at 30 September 2020, the agriculture portfolio has also been identified as a priority for calculating emissions baselines given the combination of our relative exposure to the sector and its high emissions intensity.

Calculations cover 73% of the agriculture book by value after excluding CBILS/BBLS/CLBILS and loans below £250k from the assessment due to a lack of data availability.

Whilst agriculture does not yet have a distinct approved methodology within the PCAF Standard, the PCAF methodology for business loans has been followed where possible. We have not considered GHG emissions removals in our calculations, the methodology for which was still under development within the PCAF working group at the time of calculation.

Approach:

- Calculation of total customer carbon dioxide equivalent emissions:
  - Where available from reported figures or carbon audits conducted, customers' actual CO_2e emissions figures have been used.
  - Where reported emissions were unavailable, they were estimated using economic activity-based emission factors from EXIOBASE[1] by £m of customer revenue based on the industry classification code assigned to the loan[2].
  - Economic emission factors were then multiplied by customer revenue to arrive at an estimated carbon dioxide equivalent figure.
- Calculation of attribution factor:
  - PCAF stated attribution factor for private companies (outstanding loan amount divided by total debt plus equity) was applied to all loans given the relatively low number of public companies in the portfolio and the belief that the approach for private companies is both more stable and conservative[3].
  - Where the attribution factor cannot be calculated due to a lack of data, a sub-sector average, calculated using those loans where the data is available, has been used.

The above approach results in a weighted average data quality score across the assessed agriculture portfolio of 4.6. Using the PCAF Standard, score 4.5[4] applied to loans where spot balance, revenue and Debt & Equity are known, and sector emission factors applied to revenue. Score 5 applied to those loans where the sub-sector average attribution factor has been applied.

Agriculture portfolio: Scope 3 emissions	2020
Total lending[5] (£bn)	1.57
Assessed lending (£bn)	1.14
Assessed lending (% total customer lending)	1.6%
Total customer carbon dioxide equivalent emissions (tCO_2e) – Scope 1 and 2[6]	5,232,054
Virgin Money attributed financed emissions (tCO_2e)	573,946
Economic emissions intensity (tCO_2e/£m lent)	502
PCAF data quality score[7]	4.6

In addition to the lack of reported customer emissions, key limitations of the above approach include the use of sector-level emissions factors and the requirement to translate between industry classification codes.

The analysis also highlighted substantial variance in emissions intensities between agriculture sub-sectors (e.g. arable farming vs dairy cattle farming), meaning the composition of the portfolio will have a significant impact on the overall intensity figure for the portfolio.

Over the course of the next year, to the Group will continue to refine our preliminary calculations for the agriculture book with reported customer emissions and continue to develop its financed emissions methodology for the remaining sectors in the Business portfolio to be disclosed in due course.

(1) Emission factors expressed in tCO_2e/million of revenue per sector exported from the Environmentally-Extended Input Output database EXIOBASE – accessed via the PCAF emissions factor database.

(2) Industry classification codes used by Virgin Money have been mapped to ISIC rev. 4 codes for the purpose of assigning emission factors. Where a Virgin Money code maps to multiple ISIC rev. 4 codes, the highest emission factor across those codes has been applied. Where an emission factor is not available, a sub-sector average has been used.

(3) Per PCAF, attribution factor for private companies should be outstanding loan amount / (total debt + equity). If total debt and/or equity is N/A then Total Assets can be used.

(4) A score between 4 and 5 has been applied to reflect the lower accuracy resulting from the need to translate industry classification codes.

(5) Excludes credit card balances (<0.1% of Agriculture portfolio balances).

(6) PCAF Standard requires the inclusion of customers' Scope 1 and 2 emissions with Scope 3 only being required for energy and mining sectors in 2021.

(7) Data quality scoring aligns with PCAFs Global GHG Accounting and Reporting Standard, with 1 representing high data quality and 5 representing low data quality.

Financial Statements

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Opinion

In our opinion:

- Virgin Money UK PLC's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 September 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No.1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Virgin Money UK PLC which comprise:

Group	Parent company
Consolidated income statement for the year then ended	
Consolidated statement of comprehensive income for the year then ended	
Consolidated balance sheet as at 30 September 2021	Company balance sheet as at 30 September 2021
Consolidated statement of changes in equity for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Company statement of cashflow for the year then ended
Related notes 1 to 5.5 to the financial statements, including a summary of significant accounting policies	Related notes 6.1 to 6.6 to the financial statements including a summary of significant accounting policies
Information identified as "audited" within the Directors' remuneration report	
Information identified as "audited" within the Risk report	

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards to the Group financial statements, International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union and as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Strategic report
Financial results
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TCFD
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Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained management's going concern assessment for the Group, including forecasts for the going concern period covering 12 months from the date of signing this audit opinion.
- We evaluated the Group's forecasts, and challenged the trading volume and yield assumptions, as well as considerations regarding how management initiatives and investments could reduce the Group's cost base.
- We used economics specialists in assessing the macroeconomic assumptions in the forecast through benchmarking to institutional, Her Majesty's Treasury, and BoE consensuses.
- Management has modelled adverse scenarios in order to incorporate unexpected changes to forecast liquidity and capital positions of the Group. We reviewed these scenarios, including a consideration of the Group's operational resilience, to identify whether they indicated significant issues that might impact the Group's ability to continue as a going concern or impact its viability in the window of assessment.
- We evaluated the results of management's stress testing, including reverse stress testing, to assess the economic assumptions in light of the impact of the COVID-19 pandemic, and their impact on the Group's solvency and liquidity. We also considered the impact of COVID-19 in regard to operational resilience, third-party and other non-financial risks.
- We compared previous periods' budgeted financial information with actual results, in order to form a view on the reliability of management's forecasting process.
- We considered whether there were other events subsequent to the balance sheet date which could have a bearing on the going concern conclusion.
- We reviewed regulatory correspondence and committee and board meeting minutes to identify events or conditions that may impact the Group's ability to continue as a going concern.
- We reviewed the Group's going concern disclosures included in the Annual Report in order to assess whether the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue, through to 23 November 2022.

In relation to the Group and parent company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	> We performed an audit of the complete financial information of the Group and parent company. > All audit work performed for the purposes of the Group audit was undertaken by the primary team.
Key audit matters	> Impairment of loans. > Revenue recognition – EIR method accounting.
Materiality	> Overall Group materiality was £37m which represented 0.67% of equity.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
Impairment of loans **Consolidated income statement credit – £131m (2020: £507m charge)** **Consolidated balance sheet impairment of loans – £504m (2020: £735m)** *Please refer to page 105 (Audit Committee report), page 158 (Credit risk report) and pages 262 to 263 (Impairment provisions on credit exposures note).* At 30 September 2021 the Group reported total gross loans of £72,551m (2020: £72,925m) and £504m of ECLs. There is uncertainty in estimating ECLs, and management is required to make highly subjective judgements which have a material impact on the financial statements. This calculation is ordinarily complex, however in the current economic environment there is heightened uncertainty and complexity as a result of the ongoing pandemic. Key matters that could result in material misstatement in respect of the measurement of ECLs include the: > Allocation of assets to stage 1, 2, or 3 using criteria in accordance with the accounting standard; > Accounting interpretations and modelling assumptions used to build the models that calculate the ECLs; > Completeness and accuracy of data used to calculate the ECLs; > Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios, particularly those influenced by the COVID-19 pandemic; > Completeness and valuation of PMAs as well as any COVID-19 specific adjustments; > Measurements of individually assessed provisions, including the assessment of multiple scenarios and the impact of COVID-19 on collateral valuations and estimated workout strategies; and > Accuracy and adequacy of the financial statement disclosures.	We developed a detailed understanding of the Group's accounting policies to ensure they remained compliant with the requirements of IFRS 9. We assessed the appropriateness of the Group's staging criteria including the application of qualitative watch list backstops and their logical application through the modelled environment. We reperformed staging on all portfolios that we determined to be of a higher risk. This was done by independently replicating the staging models and re-running the results in our own environment. We assessed the assumptions and performed testing over inputs and formulae used in a risk-based sample of ECL models with involvement of our internal credit modelling specialists. This included assessing the appropriateness of model design and the calculations used, and recalculating PD, LGD and EaD for a risk-based sample of portfolios. We performed testing over completeness and accuracy of data used in the ECL models and calculation by reconciling, and performing sample tests of key data fields, to source systems and contracts. To test credit monitoring, we independently recalculated risk ratings for a sample of performing and non-performing Business loans and compared to the Group's determinations. We assessed the economic scenario base case and alternative economic scenarios adopted by management utilising economics specialists. We challenged the probability weightings ascribed to the scenarios and compared them to other scenarios from a variety of external sources. With the assistance of economics specialists, we assessed whether forecast macroeconomic variables, such as GDP, unemployment, interest rates, HPI, CPI and average earnings were appropriate loan loss provision drivers, and that the forecast variables were reasonable. (Continued overleaf)	We communicated that we were satisfied that ECL provisions were reasonable and in compliance with the requirements of IFRS 9. We communicated to the Audit Committee that our independent testing of models and underlying modelling assumptions resulted in only minor differences that were considered to be immaterial in the aggregate. We also communicated that our challenge of the forecast economic inputs (such as GDP, unemployment, interest rates, HPI, CPI and average earnings) and the base, downside and upside scenarios adopted by management concluded to be reasonable, including after our independent stress testing was applied. Our testing of PMAs confirmed they had been accurately recorded, and we were satisfied that their use was complete and appropriate. Our assessment of the overall provision balance through peer benchmarking and analysis of key indicators, such as the ratio of provisions to loan balances, indicated the provisions recorded as at year end were cautious but reasonable given the continued uncertainty in the overall economic environment. We communicated that we are satisfied with the accuracy and adequacy of the disclosures made.

Independent auditor's report to the members of Virgin Money UK PLC continued

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
	(Continued from previous page) We performed testing over material PMAs including those which were applied as a result of impact of the ongoing pandemic. With our credit modelling specialists, we assessed the completeness of these adjustments and their appropriateness by considering the data, judgements and methodology for these adjustments. With the support of our valuation specialists, we recalculated ECL provisions for a sample of individually assessed loans including comparing to alternative scenarios and challenging probability weightings assigned. We also assessed a sample of individual loans classified as performing loans within higher risk sectors, such as hotels, commercial real estate and manufacturing where no specific provision was held to determine whether their stage classification was correct. Our procedures included a series of 'stand-back' analyses, including industry benchmarking, internal consistency checks and analytical review. We assessed the adequacy and appropriateness of disclosures made within the financial statements, including those in respect of impact of COVID-19.	

Risk	Our response to the risk	Key observations communicated to the Board's Audit Committee
Revenue recognition – EIR method The Group records income on financial instruments under the EIR method. Please refer to note 2.2 on pages 255 and 256. As set out on page 256, the most material adjustments to interest income under EIR accounting are made in respect of the Group's Mortgage and credit card portfolios. Following the Group's acquisition of Virgin Money Holdings (UK) PLC on 15 October 2018, fair value adjustments are also recorded on acquired portfolios and amortised through interest income over the projected behavioural lives of the financial instruments. As a result, the unwinding of the fair value adjustment recorded on acquisition is connected to the EIR calculation and its key assumptions. This adds additional complexity to the calculation of amounts recognised in the income statement under EIR accounting. The EIR method spreads the income statement recognition of income and expense cash flows that are, in substance, integral to the overall yield of the financial instrument over its modelled life. For both secured and unsecured lending the Group utilises models to calculate EIR adjustments based on forecast future cashflows. EIR adjustments are sensitive to judgements about the expected behavioural lives and future yields of the product portfolios to which they relate. The complexity of calculations, the degree of management judgement in respect of forecast future cashflows (particularly in the context of uncertain future economic and customer impact of on-going COVID-19 pandemic) and the sensitivity of the amounts recognised in the financial statements to key assumptions are material to the financial statements.	We assessed the Group's EIR accounting policy and the estimation methodology adopted by the Group during the year for compliance with the accounting standards. We gained an understanding of the key processes, controls, assumptions and judgements used within the Group's EIR models. We also assessed the inclusion or exclusion of key streams of income and expenditure within the Group's EIR models. We compared the Directors' forecasts of customer behaviours and balance attrition rates to recent experience and historical trends within the associated lending portfolios. With respect to the amortisation of the fair value adjustments relating to the acquired portfolios, we assessed the key assumptions adopted by management for consistency and appropriateness against the assumptions used in the Group's EIR models. We performed an independent assessment by developing a reasonable range of forecast future cashflows outcomes using the Group's historical experience, our understanding of the industry, and our professional judgement. We assessed management's modelled EIR outcomes against this range. We performed data integrity testing on the key sources of information used within the EIR calculations. We engaged modelling specialists to review management's means of data extraction, and also to assist with reperformance of model calculations where required. We assessed the accuracy of the financial statement disclosures made regarding key estimates within the EIR models, and their sensitivity to reasonable alternative assumptions.	We communicated that we were satisfied that in the aggregate EIR adjustments made to income were in compliance with the requirements of IFRS 9. We communicated to the Audit Committee that the models, assumptions and calculations informing the EIR calculations, and the EIR adjustments recorded as at 30 September 2021 were reasonable in the aggregate. We communicated our observations on management's key assumptions. We noted the potential downside risk present in EIR adjustments owing to possibilities in changes future customer behaviour. We considered the modelling adjustments recorded by management in respect of these risks to be within a reasonable range of outcomes. We also noted that the unwind of the fair value adjustments recorded by management were reasonable in comparison to the customer behaviour assumptions used within the Group's EIR models.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group and the Parent company to be £37m (2020: £26m), which was 0.67% (2020: 0.50%) of the total equity. We believe that equity provides us with an appropriate measure given the short-term income volatility expected and the unusual circumstances in respect of the on-going COVID-19 pandemic.

We have increased the proportion of total equity used as the basis to determine our materiality, and consequently the materiality used, compared to the prior year given there was greater uncertainty over macro-economic factors such as Brexit and the COVID-19 pandemic during the prior period.

Performance materiality
The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2020: 75%) of our planning materiality, namely £27.5m (2020: £19.5m). We set performance materiality at this percentage due to our previous experience as auditors of the Group, from which we concluded that there is a lower expectation of material financial statement inaccuracies due to the effective control environment and only minor audit differences resulting from our prior and current year work. Our approach is consistent with the prior year.

Reporting threshold
An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.8m (2020: £1.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information
The other information comprises the information included in the annual report set out on pages 1 to 234 including the Strategic report set out on page 1 to 50, the Financial results set out on pages 51 to 62, Governance set out on pages 63 to 146, the Risk report set out on pages 147 to 216, the TCFD section on pages 217 to 234 and Additional information set out on pages 309 to 336. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Corporate Governance Statement
The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out on page 143;
- Directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on pages 143 to 144;
- Directors' statement on fair, balanced and understandable set out on page 146;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 144;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 144 to 145; and
- The section describing the work of the Audit Committee set out on pages 102 to 108.

Responsibilities of directors
As explained more fully in the Directors' responsibilities statement set out on page 146, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report to the members of Virgin Money UK PLC continued

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant were the regulations, licence conditions and supervisory requirements of the PRA and the FCA.
- We understood how the Group is complying with these regulatory frameworks by making enquiries of management, internal audit and those responsible for legal and compliance matters.
- We also reviewed correspondence between the Group and UK regulatory bodies; reviewed minutes of the Board and Executive Risk Committee; and gained an understanding of the Group's approach to governance, demonstrated by the Board's approval of the Group's governance framework and the Board's review of the Group's RMF and internal control processes.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved inquiries of legal counsel, executive management, internal audit, and focused testing, as referred to in the Key Audit Matters section above. We utilised forensic accounting specialists in the design of certain key procedures.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Group has established to address risks identified by the entity, or that otherwise seek to prevent, deter or detect fraud. We also considered performance and incentive plan targets and their potential to influence management to manage earnings or influence the perceptions of investors and stakeholders.
- The Group operates in the banking industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

A further description of our responsibilities for the audit of the financial statements is located on the FRCs website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address
- We were appointed as Virgin Money UK PLC's external auditor and signed an engagement letter on 14 January 2016, prior to Virgin Money UK PLC (formerly CYBG PLC) becoming the holding company of the Group on its demerger and IPO in February 2016. The period of total uninterrupted engagement as auditors of Virgin Money UK PLC including previous renewals and reappointments, is six years covering the years ending 30 September 2016 to 30 September 2021.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company, and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Bates
for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
23 November 2021

Consolidated income statement

For the year ended 30 September	Note	2021 £m	2020 £m
Interest income		**1,906**	2,129
Other similar interest		**4**	8
Interest expense and similar charges		**(553)**	(854)
Net interest income	2.2	**1,357**	1,283
Gains less losses on financial instruments at fair value		**(5)**	(11)
Other operating income		**137**	171
Non-interest income	2.3	**132**	160
Total operating income		**1,489**	1,443
Operating and administrative expenses before impairment losses	2.4	**(1,203)**	(1,104)
Operating profit before impairment losses		**286**	339
Impairment credit/(losses) on credit exposures	3.2	**131**	(507)
Profit/(loss) on ordinary activities before tax		**417**	(168)
Tax credit	2.5	**57**	27
Profit/(loss) for the year		**474**	(141)
Attributable to:			
Ordinary shareholders		**395**	(220)
Other equity holders		**79**	79
Profit/(loss) for the year		**474**	(141)
Basic earnings/(loss) per share (pence)	2.6	**27.3**	(15.3)
Diluted earnings/(loss) per share (pence)	2.6	**27.3**	(15.3)

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

The notes on pages 251 to 297 form an integral part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 30 September	Note	2021 £m	2020 £m
Profit/(loss) for the year		**474**	(141)
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
Gains/(losses) during the year		**99**	(133)
Transfers to the income statement		**24**	60
Taxation thereon – deferred tax (charge)/credit		**(33)**	20
Taxation thereon – current tax charge		**–**	(1)
	4.1.5	**90**	(54)
Change in FVOCI reserve			
Gains during the year		**33**	15
Transfers to the income statement		**–**	(16)
Taxation thereon – deferred tax (charge)/credit		**(11)**	1
		22	–
Total items that may be reclassified to the income statement		**112**	(54)
Items that will not be reclassified to the income statement			
Change in defined benefit pension plan	3.10	**54**	292
Taxation thereon – deferred tax charge		**(46)**	(117)
Taxation thereon – current tax credit		**21**	9
		29	184
Total items that will not be reclassified to the income statement		**29**	184
Other comprehensive income, net of tax		**141**	130
Total comprehensive income/(losses) for the year, net of tax		**615**	(11)
Attributable to:			
Ordinary shareholders		**536**	(90)
Other equity holders		**79**	79
Total comprehensive income/(losses) for the year, net of tax		**615**	(11)

The notes on pages 251 to 297 form an integral part of these financial statements.

Consolidated balance sheet

As at 30 September	Note	2021 £m	2020 £m
Assets			
Financial assets at amortised cost			
Loans and advances to customers	3.1	**71,876**	72,430
Cash and balances with central banks	3.4	**9,711**	9,107
Due from other banks		**800**	927
Financial assets at FVTPL			
Loans and advances to customers	3.5	**133**	190
Derivative financial instruments	3.6	**140**	318
Other financial assets	3.5	**20**	13
Financial assets at FVOCI	3.7	**4,352**	5,080
Property, plant and equipment		**250**	288
Intangible assets and goodwill	3.8	**373**	491
Current tax assets		**13**	27
Deferred tax assets	3.9	**377**	326
Defined benefit pension assets	3.10	**847**	723
Other assets		**208**	339
Total assets		**89,100**	90,259
Liabilities			
Financial liabilities at amortised cost			
Customer deposits	3.11	**66,971**	67,710
Debt securities in issue	3.12	**7,678**	8,758
Due to other banks	3.13	**5,918**	5,469
Financial liabilities at FVTPL			
Derivative financial instruments	3.6	**209**	250
Deferred tax liabilities	3.9	**296**	274
Provisions for liabilities and charges	3.14	**104**	172
Other liabilities	3.15	**2,451**	2,694
Total liabilities		**83,627**	85,327
Equity			
Share capital and share premium	4.1	**149**	147
Other equity instruments	4.1	**915**	915
Capital reorganisation reserve	4.1	**(839)**	(839)
Merger reserve	4.1	**2,128**	2,128
Other reserves	4.1	**71**	(43)
Retained earnings		**3,049**	2,624
Total equity		**5,473**	4,932
Total liabilities and equity		**89,100**	90,259

The notes on pages 251 to 297 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 23 November 2021 and were signed on its behalf by:

David Duffy
Chief Executive Officer

Clifford Abrahams
Chief Financial Officer

Virgin Money UK PLC, Registered number: 09595911

Consolidated statement of changes in equity

					Other reserves							
	Share capital and share premium £m	Capital reorg' reserve £m	Merger reserve £m	Other equity instru-ments £m	Own shares held £m	Deferred shares reserve £m	Equity based comp' reserve £m	Asset reval' reserve £m	FVOCI reserve £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
Note	4.1.1	4.1.3	4.1.4	4.1.2	4.1.5	4.1.5	4.1.5		4.1.5	4.1.5		
As at 1 October 2019	146	(839)	2,128	915	(1)	19	6	1	11	(26)	2,662	5,022
Loss for the year	–	–	–	–	–	–	–	–	–	–	(141)	(141)
Other comprehensive (losses)/income, net of tax	–	–	–	–	–	–	–	–	–	(54)	184	130
Total comprehensive (losses)/income for the year	–	–	–	–	–	–	–	–	–	(54)	43	(11)
AT1 distribution paid	–	–	–	–	–	–	–	–	–	–	(79)	(79)
Ordinary shares issued	1	–	–	–	–	–	–	–	–	–	–	1
Transfer from equity based compensation reserve	–	–	–	–	–	–	(6)	–	–	–	6	–
Equity based compensation expensed	–	–	–	–	–	–	10	–	–	–	–	10
Release of asset revaluation reserve	–	–	–	–	–	–	–	(1)	–	–	–	(1)
Settlement of Virgin Money Holdings (UK) PLC share awards	–	–	–	–	1	(3)	–	–	–	–	1	(1)
FSMA Part VII transfer from Virgin Money PLC	–	–	–	–	–	–	–	–	–	–	(9)	(9)
As at 30 September 2020	147	(839)	2,128	915	–	16	10	–	11	(80)	2,624	4,932
Profit for the year	–	–	–	–	–	–	–	–	–	–	474	474
Other comprehensive income, net of tax	–	–	–	–	–	–	–	–	22	90	29	141
Total comprehensive income for the year	–	–	–	–	–	–	–	–	22	90	503	615
AT1 distribution paid	–	–	–	–	–	–	–	–	–	–	(79)	(79)
Ordinary shares issued	2	–	–	–	–	–	–	–	–	–	–	2
Transfer from equity based compensation reserve	–	–	–	–	–	–	(1)	–	–	–	1	–
Equity based compensation expensed	–	–	–	–	–	–	5	–	–	–	–	5
Settlement of Virgin Money Holdings (UK) PLC share awards	–	–	–	–	–	(2)	–	–	–	–	–	(2)
As at 30 September 2021	**149**	**(839)**	**2,128**	**915**	**–**	**14**	**14**	**–**	**33**	**10**	**3,049**	**5,473**

The notes on pages 251 to 297 form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 30 September	Note	2021 £m	2020 £m
Operating activities			
Profit/(loss) on ordinary activities before tax		**417**	(168)
Adjustments for:			
Non-cash or non-operating items included in profit/(loss) before tax	5.2	**(1,225)**	(606)
Changes in operating assets	5.2	**832**	(75)
Changes in operating liabilities	5.2	**(1,026)**	1,877
Payments for short-term and low value leases		**(1)**	(2)
Interest received		**2,088**	2,152
Interest paid		**(461)**	(684)
Tax paid		**(27)**	(12)
Net cash provided by operating activities		**597**	2,482
Cash flows from investing activities			
Interest received		**19**	35
Proceeds from maturity of financial assets at FVOCI		**1,079**	1,568
Proceeds from sale of financial assets at FVOCI		**–**	587
Purchase of financial assets at FVOCI		**(521)**	(2,838)
Purchase of shares issued by UTM		**(12)**	(2)
Proceeds from sale of property, plant and equipment		**6**	5
Purchase of property, plant and equipment		**(26)**	(14)
Purchase and development of intangible assets	3.8	**(80)**	(78)
Net cash provided by/(used in) investing activities		**465**	(737)
Cash flows from financing activities			
Interest paid		**(161)**	(195)
Repayment of principal portions of lease liabilities	3.17	**(28)**	(30)
Redemption and principal repayment on RMBS and covered bonds	3.12	**(1,543)**	(1,492)
Redemption and principal repayment on medium-term notes/subordinated debt	3.12	**(30)**	(745)
Issuance of RMBS and covered bonds	3.12	**–**	491
Issuance of medium-term notes/subordinated debt	3.12	**732**	922
Amounts drawn down under the TFSME		**3,350**	1,300
Amounts repaid under the TFS		**(2,864)**	(3,234)
AT1 distributions	4.1.2	**(79)**	(79)
Net cash used in financing activities		**(623)**	(3,062)
Net increase/(decrease) in cash and cash equivalents		**439**	(1,317)
Cash and cash equivalents at the beginning of the year		**9,814**	11,131
Cash and cash equivalents at the end of the year	5.2	**10,253**	9,814

Consolidated statement of cash flows continued

Movements in liabilities arising from financing activities

	Term funding schemes[(1)] £m	Debt securities in issue £m	Lease liabilities £m	Total £m
At 1 October 2019	7,308	9,591	205	17,104
Cash flows:				
Issuances	–	1,413	–	1,413
Drawdowns	1,300	–	–	1,300
Redemptions	–	(2,237)	–	(2,237)
Repayment	(3,234)	–	(30)	(3,264)
Non-cash flows:				
Fair value adjustments and associated unwind on acquired TFS and debt securities in issue	36	27	–	63
Additions to right-of-use asset in exchange for increased lease liabilities	–	–	2	2
Remeasurement	–	–	(6)	(6)
Movement in accrued interest	(13)	(7)	4	(16)
Unrealised foreign exchange movements	–	(23)	–	(23)
Unamortised costs	–	(6)	–	(6)
At 1 October 2020	5,397	8,758	175	14,330
Cash flows:				
Issuances	–	732	–	732
Drawdowns	3,350	–	–	3,350
Redemptions	–	(1,573)	–	(1,573)
Repayment	(2,864)	–	(28)	(2,892)
Non-cash flows:				
Fair value adjustments and associated unwind on acquired TFS and debt securities in issue	12	(124)	–	(112)
Additions to right-of-use asset in exchange for increased lease liabilities	–	–	4	4
Remeasurement	–	–	1	1
Movement in accrued interest	1	7	2	10
Unrealised foreign exchange movements	–	(128)	–	(128)
Unamortised costs	–	6	–	6
At 30 September 2021	**5,896**	**7,678**	**154**	**13,728**

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

The notes on pages 251 to 297 form an integral part of these financial statements.

Section 1: Basis of preparation

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

The Group has adopted the UK Finance Code for Financial Reporting Disclosure and has prepared the 2021 Annual Report and Accounts in compliance with the Code.

1.1 General information

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

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

1.2 Basis of accounting

The consolidated financial statements, which should be read in conjunction with the Strategic report and the Directors' report, have been prepared in accordance with IASs in conformity with the requirements of the Companies Act 2006 and in accordance with IFRSs adopted pursuant to regulation (EC) No 1606/2002 as it applies in the European Union[(1)].

As the Group has early adopted 'Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2', which have been endorsed by the EU and UK in January 2021 (note 1.10), the Group has applied international accounting standards which have been adopted for use within the UK.

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

1.3 Presentation of risk, offsetting and maturity disclosures

Certain disclosures required under IFRS 7 'Financial instruments: disclosures' and IAS 1 'Presentation of financial statements' have been included within the audited sections of the Risk report. Where information is marked as audited, it is incorporated into these financial statements by this cross reference and it is covered by the Independent auditor's report.

1.4 Going concern

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

In assessing the Group's going concern position as at 30 September 2021, the Directors have considered a number of factors, including the current balance sheet position, the Group's strategic and financial plan, taking account of possible changes in trading performance and funding retention, and stress testing and scenario analysis. The assessment concluded that the Group has sufficient capital and liquidity for at least the next 12 months. The Group's capital ratios and its total capital resources are comfortably in excess of PRA requirements and internal stress testing indicates the Group can withstand severe economic and competitive stresses.

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

The Directors' report provides further detail on the Group's going concern and viability assessment.

(1) As the Group's accounting year straddles 31 December 2020, the date the UK ceased to be subject to EU law, 2021 published financial reports are required to follow and refer to EU adopted IFRSs. From 1 October 2021, the Group will follow and refer only to UK adopted IASs, with the UK Endorsement Board being the body responsible for providing authorisation for the use of new International Accounting Standards Board (IASB) standards, amendments or interpretations in the UK from 1 January 2021. As at 30 September 2021, there were no material endorsement disparities between the UK and EU that would impact the Group.

1.5 Basis of consolidation

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

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

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

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

1.6 Foreign currency

Functional and presentation currency

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

Transactions and balances

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

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

1.7 Financial assets and liabilities

Recognition and derecognition

A financial asset or a financial liability is recognised on the balance sheet when the Group becomes party to the contractual provisions of the instrument. Purchases and sales of financial assets classified within FVTPL or FVOCI are recognised on trade date.

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

Classification and measurement

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

Financial assets

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

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

The accounting policies for financial assets at FVTPL and FVOCI are detailed in notes 3.5 and 3.7 respectively.

Financial liabilities

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

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

1.8 Property, plant and equipment

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

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

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

Residual values and useful lives of assets are reviewed at each reporting date. Depreciation is recognised within operating expenses in the income statement.

1.9 Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Actual results may differ from those on which management's estimates are based. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. Estimates which are based on future economic conditions, and sensitive to changes in those conditions, have been impacted by COVID-19. This estimation impact has primarily been in the measurement of ECLs, EIR and assessing the recoverability of deferred tax balances. Actual results may differ materially from these estimates.

The Group considers the most significant use of accounting estimates and judgements relate to the following areas:

> impairment provisions on credit exposures (note 3.2);
> EIR (note 2.2);
> deferred tax (note 3.9); and
> retirement benefit obligations (note 3.10).

The only change to the Group's critical accounting estimates and judgements compared to those stated in the Group's 2020 Annual Report and Accounts relates to PPI redress provisions. The Group has finalised all complaints received up to the time bar of August 2019 and is currently in the process of closing down PPI operations. Consequently, the level of management estimate and judgement required has significantly reduced to a level where this is no longer assessed as critical.

1.10 New accounting standards and interpretations

The Group has adopted a number of IASB pronouncements in the current financial year and except where otherwise stated, they did not have a material impact on the Group's consolidated financial statements:

> amendments to IFRS 3 'Business Combinations' issued October 2018 and effective for financial years beginning on or after 1 January 2020. This amendment revises the definition of a business and will assist in clarifying whether a transaction is an asset acquisition or a business combination;
> amendment to IAS 1 and IAS 8 'Definition of Material' issued in October 2018 and effective prospectively for financial years beginning on or after 1 January 2020. The amendments are intended to make the definition of material easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of obscuring material information with immaterial information has been included as part of the new definition; and
> amendment to IFRS 16 and COVID-19 related rent concessions issued in May 2020 and effective for financial years beginning on or after 1 June 2020. The amendment provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. The Group does not receive rent concessions.

Early adoption – Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
Following completion of the second part of the IASB's two-phased project, amendments were issued in August 2020 (adopted for use in both the UK and EU in January 2021) and effective for financial years beginning on or after 1 January 2021. The Group early adopted the amendments from 1 October 2020.

1.10 New accounting standards and interpretations continued

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

- changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and
- hedge accounting.

There was no impact on amounts reported for prior years as a result of early adoption. Further detail is provided in note 3.6.

New accounting standards and interpretations not yet adopted

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

1.11 Other changes in the year

Change in presentation – ECLs on off-balance sheet exposures

ECLs on off-balance sheet exposures of £8m are now presented as part of the provisions for liabilities and charges balance (note 3.14). In previous years, these had been presented as part of the impairment provision on credit exposures offset against loans and advances to customers (£7m as at 30 September 2020). The prior year comparative has not been restated for this change in presentation.

Section 2: Results for the year

2.1 Segment information

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

In March 2021, the business announced changes in the Executive Leadership Team. The Group will continue to operate under a three segments model: Mortgages, Personal and Business, which will now be reported through the Chief Commercial Officer. At this point in time, the business continues to be reported to the Group's Chief Operating Decision Maker as a single segment and decisions made on the performance of the Group on that basis. Segmental information will therefore continue to be presented on this single segment basis.

Summary income statement

	2021 £m	2020 £m
Net interest income	**1,357**	1,283
Non-interest income	**132**	160
Total operating income	**1,489**	1,443
Operating and administrative expenses	**(1,203)**	(1,104)
Impairment credit/(losses) on credit exposures	**131**	(507)
Segment profit/(loss) before tax	**417**	(168)
Average interest earning assets	**86,947**	86,826

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

2.2 Net interest income

Accounting policy

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

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

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

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

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

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

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

2.2 Net interest income continued

Critical accounting estimates and judgements

EIR

The EIR is determined at initial recognition based upon the Group's best estimate of the future cash flows of the financial instrument. In the event these estimates are revised at a later date, a present value adjustment to the carrying value of the EIR asset may be recognised in profit or loss. Such adjustments can introduce income statement volatility and consequently the EIR method introduces a source of estimation uncertainty. The Group considers that material risk of adjustments exists in relation to the application of EIR to the Group's Mortgage and credit card portfolios.

Mortgages

The main accounting judgement when assessing the cash flows within the Group's secured lending EIR model is the product life (including assumptions based on observed historic customer behaviour when in a standard variable rate period) and the early repayment charge income receivable. If customer repayments, redemptions or product transfers were to take place one month earlier, the loans and advances to customers balance would reduce by £11m with the adjustment recognised in net interest income.

Credit cards

The Group measures credit card EIR by modelling expected cash flows based on assumptions of future customer behaviour, which is supported by observed experience. Key behavioural assumptions include an estimation of utilisation of available credit, transaction and repayment activity and the retention of the customer balance after the end of a promotional period.

The Group continues to monitor the impact of COVID-19 on actual and expected cash flows. Following the easing of restrictions in the summer, retail spend has improved and the previously observed elevated levels of customer repayments have reduced. The Group therefore expects balance attrition in the post-promotional period to normalise at 1.5% per month. If, however, the actual level of customer balance attrition was to increase by 0.5% per month, the Group estimates it would result in a negative present value adjustment of approximately £14m, which would be recognised in the income statement.

The Group holds an appropriate level of model risk reserve across both asset classes to mitigate the risk of estimation uncertainty.

	2021 £m	2020 £m
Interest income		
Loans and advances to customers	**1,880**	2,062
Loans and advances to other banks	**8**	35
Financial assets at FVOCI	**18**	32
Total interest income	**1,906**	2,129
Other similar interest		
Financial assets at FVTPL	**9**	15
Derivatives economically hedging interest bearing assets	**(5)**	(7)
Total other similar interest	**4**	8
Less: interest expense and similar charges		
Customer deposits	**(361)**	(588)
Debt securities in issue	**(168)**	(193)
Due to other banks	**(20)**	(68)
Other interest expense	**(4)**	(5)
Total interest expense and similar charges	**(553)**	(854)
Net interest income	**1,357**	1,283

2.3 Non-interest income

Accounting policy

Gains less losses on financial instruments at fair value

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

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

Fees and commissions

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

	2021 £m	2020 £m
Gains less losses on financial instruments at fair value		
Held for trading derivatives	**6**	15
Financial assets at fair value[1]	**4**	2
Ineffectiveness arising from fair value hedges (note 3.6)	**(10)**	(17)
Amounts recycled to profit and loss from cash flow hedges[2] (note 3.6)	**(5)**	(5)
Ineffectiveness arising from cash flow hedges (note 3.6)	**–**	(6)
	(5)	(11)
Other operating income		
Net fee and commission income	**124**	142
Margin on foreign exchange derivative brokerage	**16**	17
Gain on sale of financial assets at FVOCI	**–**	16
Share of JV loss after tax	**(5)**	(7)
Other income	**2**	3
	137	171
Total non-interest income	**132**	160

(1) Included within financial assets at fair value is a credit risk gain on loans and advances at fair value of £1m (2020: £1m gain), and a fair value gain on equity investments of £15m (2020: £5m gain).
(2) In respect of terminated hedges.

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

	2021 £m	2020 £m
Current account and debit card fees	**90**	94
Credit cards	**38**	41
Insurance, protection and investments	**10**	16
Other fees[1]	**29**	31
Total fee and commission income	**167**	182
Total fee and commission expense	**(43)**	(40)
Net fee and commission income	**124**	142

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

2.4 Operating and administrative expenses before impairment losses

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

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

The Group's accounting policies on pension expenses and equity based compensation are included in notes 3.10 and 4.2 respectively.

	2021 £m	2020 £m
Staff costs	**426**	436
Property and infrastructure	**89**	72
Technology and communications	**121**	117
Corporate and professional services	**160**	136
Depreciation, amortisation and impairment	**191**	159
Other expenses	**216**	184
Total operating and administrative expenses	**1,203**	1,104

During the year, the Group identified indicators of impairment for a freehold office property asset. This was as a consequence of a review of the office footprint required as the Group realises its vision for A Life More Virgin as well as indicators of a reduction in market value. An impairment review was carried out which resulted in the carrying value being impaired to the recoverable amount of the asset (£20m) with a resulting impairment charge of £7m recognised in the category depreciation, amortisation and impairment above. The impairment was calculated based on fair value less cost of disposal using a market value approach, taking account of advice received from independent valuers and including adjustments to observable market inputs reflecting any specific characteristics of the land and buildings. The valuation is classified in Level 3 of the fair value hierarchy.

During the year, the Group has refined the methodology for categorising operating and administrative expenses before impairment losses to provide a more accurate reflection of what these costs represent. There has been no change to the total operating and administrative expenses in the prior year and comparatives have been amended to conform with the current year's presentation.

The change took the original other expenses figure of £559m and analysed this further with new line items created to better reflect the nature of the expenditure. The revised prior year other expenses is now £184m, with the £375m reallocated to: i) £352m re-classified into three new line items of property and infrastructure (£72m), technology and communications (£117m), and corporate and professional services (£163m), which has been further adjusted to £136m due to the capitalisation of project costs (£27m) which have been reclassified from staff costs and now more appropriately classified as corporate and professional services; ii) £10m of impairments to right-of-use assets re-classified to the depreciation, amortisation and impairment line item (previously £149m); and iii) £13m primarily related to redundancy costs that are now reclassified to staff costs.

Staff costs comprise the following items:

	2021 £m	2020 £m
Salaries and wages	**248**	251
Social security costs	**30**	33
Defined contribution pension expense	**49**	49
Defined benefit pension credit	**(8)**	–
Compensation costs	**319**	333
Equity based compensation[(1)]	**8**	10
Bonus awards	**22**	6
Performance costs	**30**	16
Redundancy and restructuring	**29**	15
Temporary staff costs	**13**	38
Other	**35**	34
Other staff costs	**77**	87
Total staff costs	**426**	436

(1) Includes National Insurance on equity based compensation.

The analysis of staff costs has therefore also been impacted by this change, with the prior year salaries, wages and non-cash benefits and social security costs of £252m increasing by £32m to £284m and now split between salaries and wages (£251m) and social security costs (£33m). Redundancy costs in the prior year of £15m is also now separately disclosed. In addition, other personnel costs in the prior year of £85m have also been further analysed to provide greater detail on the nature of the costs. These are now disclosed as £34m, with the difference of £51m primarily the result of the introduction of the new temporary staff costs line item of £38m.

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

	2021 Number	2020 Number
Managers[1]	**2,691**	2,911
Clerical staff	**4,724**	5,345
	7,415	8,256

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

The average monthly number of employees was 8,613 (2020: 9,275). All staff are contracted employees of the Group and its subsidiary undertakings. The average figures above do not include contractors.

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

	2021 £'000	2020 £'000
Fees payable to the Company's auditor for the audit of the Company's financial statements	**23**	20
Fees payable to the Company's auditor for the audit of the Company's subsidiaries[1]	**4,272**	3,218
Total audit fees	**4,295**	3,238
Audit related assurance services	**255**	322
Other assurance services	**330**	329
Total non-audit fees	**585**	651
Fees payable to the Company's auditor in respect of associated pension schemes	**79**	91
Total fees payable to the Company's auditor	**4,959**	3,980

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

Non-audit services of £0.6m (2020: £0.7m) performed by the auditor during the year included the review of the Interim Financial Report, PRA Written Auditor Reporting, comfort letters for the global medium-term note and covered bond programmes, and client money reviews.

No out of pocket expenses (2020: £0.1m) were borne by the Group during the year.

2.5 Taxation

Accounting policy
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it is related to items recognised directly in equity, in which case the tax is also recognised in equity (excluding AT1 distributions where the tax impact is recognised in the income statement). Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised, or the deferred tax liability is settled.

	2021 £m	2020 £m
Current tax		
Current year	**62**	10
Adjustment in respect of prior years	**–**	(6)
	62	4
Deferred tax (note 3.9)		
Current year	**(124)**	(38)
Adjustment in respect of prior years	**5**	7
	(119)	(31)
Tax credit for the year	**(57)**	(27)

2.5 Taxation continued

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

	2021 £m	2020 £m
Profit/(loss) on ordinary activities before tax	**417**	(168)
Tax expense/(credit) based on the standard rate of corporation tax in the UK of 19% (2020: 19%)	**79**	(32)
Effects of:		
Disallowable expenses	**13**	5
Bank levy	**1**	–
Conduct indemnity adjustment	**58**	(39)
Deferred tax assets (recognised)/derecognised	**(126)**	90
Impact of rate changes	**(92)**	(37)
AT1 distribution	**(15)**	(15)
Banking surcharge	**20**	–
Adjustments in respect of prior years	**5**	1
Tax credit for the year	**(57)**	(27)

Deferred tax assets recognised represents historic losses, previously derecognised, that are now brought onto the balance sheet in accordance with the Group's established methodology, reflecting their expected utilisation against future taxable profits. Further detail on deferred tax is provided in note 3.9.

The increase in the conduct indemnity adjustment, payable to the Group's former parent, results from a change in anticipated quantum, timing and value of the use of historic indemnified losses. This itself is consequent upon the forecast profits reflected in deferred tax asset recognition noted above. The current anticipated cumulative liability is £129m (inclusive of a rate change credit) (2020: £64m) and is shown within due to other banks on the Company balance sheet. The liability will crystallise when certain tax losses are used within the Group to reduce the corporation tax liability.

It was announced in the March 2021 Budget that the UK main rate of corporation will increase from 19% to 25% with effect from 1 April 2023. This legislative change has been enacted, resulting in the Group's UK deferred tax assets increasing by £59m with a tax credit in the income statement of £92m. For details of the impact of the announced, but not yet enacted, changes to the banking surcharge, refer to note 3.9.

2.6 Earnings per share

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

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

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

	2021 £m	2020 £m
Profit/(loss) attributable to ordinary equity holders for the purposes of basic and diluted EPS	**395**	(220)

	2021	2020
Weighted-average number of ordinary shares in issue (millions)		
– Basic	**1,442**	1,440
– Diluted	**1,443**	1,440
Basic earnings/(loss) per share (pence)	**27.3**	(15.3)
Diluted earnings/(loss) per share (pence)	**27.3**	(15.3)

Basic earnings/(loss) per share has been calculated after deducting 0.1m (2020: 0.3m) ordinary shares representing the weighted-average of the Group's holdings of its own shares. The calculation of the diluted EPS in the prior year excluded conditional awards of 1m ordinary shares made under equity based compensation schemes. These were considered anti-dilutive due to the Group reporting a loss in the year.

Section 3: Assets and liabilities

3.1 Loans and advances to customers

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

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

	2021 £m	2020 £m
Gross loans and advances to customers	**72,551**	72,925
Impairment provisions on credit exposures[1] (note 3.2)	**(496)**	(735)
Fair value hedge adjustment	**(179)**	240
	71,876	72,430

(1) ECLs on off-balance sheet exposures are now presented as part of the provisions for liabilities and charges balance (note 3.14). In previous years, these had been presented as part of the overall ECL allowance (2020: £7m). Prior years have not been restated for this change in presentation.

The Group has a portfolio of fair valued business loans of £133m (2020: £190m) which are classified separately as financial assets at FVTPL on the balance sheet (note 3.5). Combined with the above, this is equivalent to total loans and advances of £72,009m (2020: £72,620m).

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

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

Lease finance
The Group leases a variety of assets to third parties under finance lease arrangements, including vehicles and general plant and machinery. The cost of assets acquired by the Group during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £9m (2020: £61m) and £301m (2020: £346m) respectively.

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

Gross investment in finance lease and hire purchase receivables

	2021 £m	2020 £m
Less than 1 year	**257**	265
1-2 years	**156**	186
2-3 years	**99**	125
3-4 years	**50**	65
4-5 years	**26**	32
More than 5 years	**26**	33
	614	706
Unearned finance income	**(30)**	(36)
Net investment in finance lease and hire purchase receivables	**584**	670

Finance income recognised on the net investment in the lease was £19m (2020: £22m) and is included in interest income in the income statement (note 2.2).

3.2 Impairment provisions on credit exposures

Accounting policy

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

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

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

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

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

Regardless of the calculation basis, the Group generates an allowance at the individual financial instrument level. Management judgements in the form of PMAs are added to these where appropriate.

SICR assessment and staging

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

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

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

The Group has not made use of the low credit risk option under IFRS 9 for loans and advances at amortised cost.

Write-offs and recoveries

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

The Group's impairment policy for debt instruments at FVOCI is included in note 3.7. The impact of the ECL methodology on the Group's cash and balances with central banks and due from other banks balances is immaterial. The ECLs relating to loan commitments and financial guarantees can be found in note 3.14.

Critical accounting estimates and judgements

The use of an ECL methodology under IFRS 9 requires the Group to apply estimates and exercise judgement when calculating an impairment allowance for credit exposures.

Further detail on the scenarios, macroeconomic assumptions, the weightings used in the ECL calculation, and management's use of PMAs together with sensitivity analysis is detailed in the credit risk section of the Risk report on pages 176 to 182.

Movement in impairment provisions on credit exposures

	2021 £m	2020 £m
Opening balance	**735**	362
(Credit)/charge for the year[1]	**(132)**	507
Amounts written off	**(126)**	(159)
Recoveries of amounts written off in previous years	**26**	25
Transfer of off-balance sheet ECLs to provisions (note 3.14)	**(7)**	–
Closing balance	**496**	735

(1) The £131m credit for impairment losses on credit exposures for the current year shown in the income statement also includes a £1m charge in respect of off-balance sheet ECLs which are now disclosed within provisions (note 3.14).

The Group impairment provision is classified by stage allocation as follows:

	2021 £m	2020[2] £m
Stage 1	**109**	136
Stage 2	**297**	465
Stage 3[1]	**90**	134
	496	735

(1) Stage 3 includes £2m (2020: £2m) of POCI gross loans and advances.

(2) Includes £7m of off-balance sheet ECLs which are now presented within provisions for liabilities and charges (refer to note 3.14), of which £1m was held under Stage 1 and £6m under Stage 2.

3.3 Securitisation and covered bond programmes

Accounting policy

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

Securitisation

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

The externally held securitised notes in issue are included within debt securities in issue (note 3.12). There are a number of notes held internally by the Group which are used as collateral for repurchases and similar transactions or for credit enhancement purposes.

Covered bond

A subset of the Group's retail mortgage loan portfolio has been ring-fenced and assigned to bankruptcy remote limited liability partnerships, Clydesdale Covered Bonds No.2 LLP and Eagle Place Covered Bonds LLP, to provide a guarantee for the obligations payable on the covered bonds issued by the Group.

The covered bond partnerships are consolidated with the mortgage loans retained on the consolidated balance sheet and the covered bonds issued included within debt securities in issue (note 3.12). The covered bond holders have dual recourse: firstly, to the bond issuer on an unsecured basis; and secondly, to the appropriate LLP under the Covered Bond Guarantee secured against the mortgage loans.

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

Significant restrictions

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

3.3 Securitisation and covered bond programmes continued

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

	2021		2020	
	Loans and advances securitised £m	Notes in issue £m	Loans and advances securitised £m	Notes in issue £m
Securitisation programmes				
Lanark	**4,383**	**3,396**	5,686	4,757
Lannraig	**921**	**693**	860	765
Gosforth 2016-1	**–**	**–**	1,141	947
Gosforth 2017-1	**712**	**591**	910	709
Gosforth 2018-1	**1,107**	**887**	1,227	1,060
	7,123	**5,567**	9,824	8,238
Less held by the Group		**(3,181)**		(4,236)
		2,386		4,002
Covered bond programmes				
Clydesdale Bank PLC	**999**	**742**	905	781
Clydesdale Bank PLC (formerly Virgin Money PLC)	**3,960**	**1,100**	3,446	1,137
	4,959	**1,842**	4,351	1,918

The fair values of financial assets and associated liabilities relating to the securitisation programmes where the counterparty to the liabilities has recourse only to the financial assets were £7,171m and £2,406m respectively (2020: £9,807m and £3,988m).

There were no events during the year that resulted in any Group transferred financial assets being derecognised.

The Group has contractual and non-contractual arrangements which may require it to provide financial support as follows:

Securitisation programmes
The Group provides credit support to the structured entities via reserve funds, which are partly funded through subordinated debt arrangements and by holding junior notes. Exposures are shown in the table below:

	2021 £m	2020 £m
Beneficial interest held	**1,521**	1,795
Subordinated loans	**1**	46
Junior notes held	**1,206**	1,299
	2,728	3,140

Looking forward through future reporting years there are a number of date-based options on the notes issued by the structured entities which could be actioned by them as issuer. These could require the Group, as sponsor, to provide additional liquidity support.

Covered bond programmes
The nominal level of over-collateralisation was £541m (2020: £520m) in the Clydesdale Bank PLC programme and £2,827m (2020: £2,314m) in the Clydesdale Bank PLC (formerly Virgin Money PLC) programme. From time to time the obligations of the Group to provide over-collateralisation may increase due to the formal requirements of the programme.

Under all programmes, the Group has an obligation to repurchase mortgage exposures if certain mortgage loans no longer meet the programme criteria.

On 22 October 2021, following a successful consent solicitation process, the Series 2012-2 Covered Bonds transferred from the Clydesdale Bank PLC Global Covered Bond Programme to the Clydesdale Bank PLC (formerly Virgin Money PLC) Global Covered Bond Programme. There was no financial impact to the Group in relation to this transfer.

3.4 Cash and balances with central banks

Accounting policy
Cash and balances with central banks are measured at amortised cost, using the effective interest method, adjusted for ECLs, and are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership. These balances are generally of a short-term nature and repayable on demand or within a short timescale, generally three months.

	2021 £m	2020 £m
Cash assets	**1,374**	1,560
Balances with central banks (including EU payment systems)	**8,337**	7,547
	9,711	9,107
Less mandatory deposits with central banks[1]	**(258)**	(220)
Included in cash and cash equivalents (note 5.2)	**9,453**	8,887

(1) Mandatory deposits are not available for use in the Group's day-to-day business and are non-interest bearing.

3.5 Financial assets at fair value through profit or loss

Accounting policy
A financial asset is measured at FVTPL if it (i) does not fall into one of the business models for amortised cost (note 1.7) or FVOCI (note 3.7); (ii) is specifically designated as FVTPL on initial recognition in order to eliminate or significantly reduce a measurement mismatch; or (iii) is classified as held for trading.

A financial instrument is classified as held for trading if it is acquired principally for the purpose of selling in the near term, forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship.

Associated gains and losses are recognised in the income statement as they arise (note 2.3).

Loans and advances
Included in financial assets at FVTPL is a historical portfolio of loans. 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 £133m (2020: £190m) including accrued interest receivable of £Nil (2020: £1m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £2m (2020: £3m); the change for the current year is a decrease of £1m (2020: decrease of £1m).

Other financial assets
Other financial assets of £20m (2020: £13m) consist of £19m (2020: £12m) of unlisted securities and £1m (2020: £1m) of debt instruments.

Refer to note 3.16 for further information on the valuation methodology applied to financial assets held at FVTPL and their classification within the fair value hierarchy.

3.6 Derivative financial instruments

Accounting policy
The Group uses derivative financial instruments to manage exposure to interest rate and foreign currency risk. Interest rate risk arises primarily due to the mismatch, or duration, between repricing dates of interest-bearing assets and liabilities, or basis risk from assets and liabilities repricing to different reference rates. Currency risk arises when assets and liabilities are not denominated in the functional currency of the entity. Derivatives are recognised on the balance sheet at fair value on trade date and are measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The notional amount of a derivative contract is not recorded on the balance sheet but is disclosed as part of this note.

Netting
Derivative assets and liabilities are offset against collateral received and paid respectively, and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis. Amounts offset on the balance sheet represent the Group's centrally cleared derivative financial instruments and collateral paid to/from central clearing houses, which meet the criteria for offsetting under IAS 32.

Hedge accounting
The Group elects to apply hedge accounting for the majority of its risk management activity that uses derivatives. This results in greater alignment in the timing of recognition of gains and losses on hedged items and hedging instruments and therefore reduces income statement volatility. The Group does not have a trading book, however derivatives that do not meet the hedging criteria, or for which hedge accounting is not applied, are classified as held for trading.

The Group has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. The method of recognising the fair value gain or loss on a derivative depends on whether it is designated as a hedging instrument and the nature of the item being hedged. Certain derivatives are designated as either hedges of highly probable future cash flows attributable to a recognised asset or liability, or a highly probable forecast transaction (a cash flow hedge); or hedges of the fair value of recognised assets or liabilities or firm commitments (a fair value hedge).

Interest Rate Benchmark Reform – Phase 1
The Group early adopted the Amendments to IAS 39 and IFRS 7 on Interest Rate Benchmark Reform (the Phase 1 amendments) from 1 October 2019.

The Phase 1 amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the income statement. Furthermore, the amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

In summary, the reliefs provided by the Phase 1 amendments that have been applied by the Group in the current and prior year are:

- when considering the 'highly probable' requirement, the Group has assumed that the IBOR interest rates upon which the hedged items are based do not change as a result of IBOR reform;
- in assessing whether the hedge is expected to be highly effective on a prospective basis the Group has assumed that the IBOR interest rates upon which the cash flows of the hedged items and the hedging instruments that hedge them are based are not altered by IBOR reform;
- the Group will not discontinue hedge accounting during the period of IBOR uncertainty solely because the retrospective assessment of hedge effectiveness falls outside the 80-125% range;
- the Group has retained the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss; and
- the Group has assessed whether the hedged IBOR risk component is a separately identifiable risk only when it first designates a hedged item in a fair value hedge and not on an ongoing basis.

Interest Rate Benchmark Reform – Phase 2
As highlighted in note 1.10, the Group has early adopted the Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) from 1 October 2020.

The Phase 2 amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate.

In summary, the reliefs provided by the Phase 2 amendments that have been applied by the Group in the current year are:

> under a temporary exception, the Group has considered that changes to the hedge designation and hedge documentation due to the interest rate benchmark reform would not constitute the discontinuation of the hedge relationship nor the designation of a new hedging relationship;

> in respect of the retrospective hedge effectiveness assessment, the Group may elect, on a hedge-by-hedge basis, to reset the cumulative fair value changes to zero when the exception to the retrospective assessment ends (Phase 1 relief). Any hedge ineffectiveness will continue to be measured and recognised in full in profit or loss;

> the Group has deemed the amounts accumulated in the cash flow hedge reserve to be based on the alternative benchmark rate (on which the hedge future cash flows are determined) when there is a change in basis for determining the contractual cash flows;

> for hedges of groups of items (such as those forming part of a macro cash flow hedging strategy), the amendments provide relief for items within a designated group of items that are amended for changes directly required by the reform; and

> in respect of whether a risk component of a hedged item is separately identifiable, the amendments provide temporary relief to entities to meet this requirement when an alternative risk free rate (RFR) financial instrument is designated as a risk component. These amendments allow the Group upon designation of the hedge to assume that the separately identifiable requirement is met if the Group reasonably expects the RFR risk will become separately identifiable within the next 24 months. The Group applies this relief to each RFR on a rate-by-rate basis and starts when the Group first designates the RFR as a non-contractually specified risk component.

The amendments to IFRS 7 require certain disclosures to be made to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. Refer to pages 204 to 205 where these disclosures have been included.

There was no impact on amounts reported for prior years as a result of early adoption of the Phase 2 amendments.

Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. Specifically, the separate component of equity (note 4.1) is adjusted to the lesser of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the expected future cash flows on the hedged item from the inception of the hedge. Any remaining gain or loss on the hedging instrument is recognised in the income statement. The carrying value of the hedged item is not adjusted. Amounts accumulated in equity are transferred to the income statement in the year in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Fair value hedge
The carrying value of the hedged item on initial designation is adjusted for the fair value attributable to the hedged risk. Subsequently, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. This movement in the fair value of the hedged item is made as an adjustment to the carrying value of the hedged asset or liability.

Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement over the remaining life of the asset or liability.

Derivatives held for trading
Changes in value of held for trading derivatives are immediately recognised in the income statement (note 2.3).

3.6 Derivative financial instruments continued

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

	2021 £m	2020 £m
Fair value of derivative financial assets		
Designated as hedging instruments	**94**	198
Designated as held for trading	**46**	120
	140	318
Fair value of derivative financial liabilities		
Designated as hedging instruments	**143**	158
Designated as held for trading	**66**	92
	209	250

In respect of derivatives with other banks, cash collateral totalling £18m (2020: £53m) has been pledged and £76m has been received (2020: £93m). These amounts are included within due from and due to other banks respectively. Collateral placed with clearing houses, which did not meet offsetting criteria, totalled £82m (2020: £202m) and is included within other assets and other liabilities.

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

Total derivative contracts

	2021			2020		
	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)	**24,886**	**71**	**90**	29,645	74	215
Less: net settled interest rate swaps[1]	**(21,500)**	**(64)**	**(79)**	(19,187)	(13)	(171)
Interest rate swaps (net)[2]	**3,386**	**7**	**11**	10,458	61	44
Cross currency swaps[2]	**–**	**–**	**–**	420	28	–
	3,386	**7**	**11**	10,878	89	44
Fair value hedges						
Interest rate swaps (gross)	**30,707**	**295**	**447**	37,803	182	751
Less: net settled interest rate swaps[1]	**(25,260)**	**(209)**	**(390)**	(30,603)	(92)	(642)
Interest rate swaps (net)[2]	**5,447**	**86**	**57**	7,200	90	109
Cross currency swaps[2]	**1,880**	**1**	**75**	1,448	19	5
	7,327	**87**	**132**	8,648	109	114
Total derivatives designated as hedging instruments	**10,713**	**94**	**143**	19,526	198	158
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange[2]	**805**	**13**	**12**	1,003	15	15
Cross currency swaps[2]	**490**	**–**	**3**	1,263	56	7
Options[2]	**1**	**–**	**–**	1	–	–
	1,296	**13**	**15**	2,267	71	22
Interest rate related contracts						
Swaps[2]	**734**	**14**	**31**	704	28	47
Swaptions[2]	**10**	**–**	**1**	10	–	2
Options[2]	**495**	**1**	**2**	426	2	3
	1,239	**15**	**34**	1,140	30	52
Commodity related contracts	**97**	**17**	**17**	131	19	18
Equity related contracts	**1**	**1**	**–**	–	–	–
Total derivatives designated as held for trading	**2,633**	**46**	**66**	3,538	120	92

(1) Presented within other assets.
(2) Presented within derivative financial instruments.

Hedge accounting
The hedging strategy of the Group is divided into micro hedges, where the hedged item is a distinctly identifiable asset or liability, and portfolio hedges, where the hedged item is a homogenous portfolio of assets and liabilities.

In some hedge accounting relationships, the Group designates risk components of hedged items as follows:

- benchmark interest rate risk as a component of interest rate risk, such as the SONIA component;
- exchange rate risk for foreign currency financial assets and financial liabilities; and
- components of cash flows of hedged items, for example certain interest payments for part of the life of an instrument.

Other risks such as credit risk and liquidity risk are managed by the Group but are not included in the hedge accounting relationship. Changes in the designated risk component usually account for the largest portion of the overall change in fair value or cash flows of the hedged item.

Portfolio cash flow hedges
The Group applies macro cash flow hedge accounting to a portion of its floating rate financial assets and liabilities. The hedged cash flows are a group of forecast transactions that result in cash flow variability from resetting of interest rates, reinvestment of financial assets, or refinancing and rollovers of financial liabilities. This cash flow variability can arise on recognised assets or liabilities or highly probable forecast transactions. The hedged items are designated as the gross asset or liability positions allocated to time buckets based on projected repricing and interest profiles. The Group aims to maintain a position where the principal amount of the hedged items is greater than or equal to the notional amount of the corresponding interest rate swaps used as the hedging instruments. The hedge accounting relationship is reassessed on a monthly basis with the composition of hedging instruments and hedged items changing frequently in line with the underlying risk exposures. If necessary, the hedge relationships are de-designated and redesignated based on the effectiveness test results.

Micro cash flow hedges
Floating rate issuances that are denominated in currencies other than the functional currency of the Group are designated in cash flow hedges with cross currency swaps. There are no active micro cash flow hedges at the Group's balance sheet date.

Portfolio fair value hedges
The Group applies macro fair value hedging to its fixed rate mortgages. The Group determines hedged items by identifying portfolios of homogeneous loans or deposits based on their contractual maturity and other risk characteristics. Loans within the identified portfolios are allocated to repricing time buckets based on expected, rather than contractual, repricing dates. The hedging instruments are designated to those repricing time buckets. Hedge effectiveness is measured on a monthly basis, by comparing fair value movements of the designated proportion of the bucketed loans due to the hedged risk against the fair value movements of the derivatives.

The aggregated fair value changes in the hedged loans are recognised on the Group's balance sheet as an asset. At the end of every month, in order to minimise the ineffectiveness from early repayments and accommodate new exposures, the Group voluntarily de-designates the hedge relationships and redesignates them as new hedges. Fair value hedging of fixed rate deposits was discontinued in the prior year, and the hedge adjustment recognised on the Group's balance sheet is amortised to profit and loss over the life of the hedged item.

Micro fair value hedges
The Group uses this hedging strategy on GBP and foreign currency denominated fixed rate assets held at FVOCI and GBP and foreign currency denominated fixed rate debt issuances by the Group.

Hedge ineffectiveness
Hedge ineffectiveness can arise from:

- mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences;
- differences in timing of cash flows of hedged items and hedging instruments;
- changes in expected timings and amounts of forecast future cash flows; and
- derivatives used as hedging instruments having a non-zero fair value at the time of designation.

Additionally, for portfolio fair value hedges of the Group's fixed rate Mortgage portfolio, ineffectiveness also arises from the difference between forecast and actual repayments (e.g. prepayment risk and impact of short-term payment holidays granted to customers in response to COVID-19).

3.6 Derivative financial instruments continued

Interest Rate Benchmark Reform – Phase 1

The Group has a fair value hedge accounting relationship that is exposed to GBP LIBOR, which is subject to the interest rate benchmark reform.

At 30 September 2021, the notional amount of hedged item and hedging instrument to which these Phase 1 amendments apply was £700m relating to a fixed rate issuance.

At 30 September 2020, the notional amount of hedged items to which the Phase 1 amendments applied was £780m, of which £78m related to EURIBOR in fair value hedges and £611m in cash flow hedges. At 30 September 2020, the notional amount of hedging instruments to which the Phase 1 amendments applied was £778m in fair value hedges and £130m in cash flow hedges.

The Group has applied and will continue to apply the Phase 1 amendments to IAS 39 until the uncertainty arising from interest rate benchmark reform is no longer present. The Group has assumed that this uncertainty will not end until items that reference IBORs are amended to specify the alternative benchmark rate, the relevant spread adjustment and the date on which the interest rate benchmark will be replaced.

Interest Rate Benchmark Reform – Phase 2

As highlighted in note 1.4, the Group has early adopted and applied the Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) from 1 October 2020. During the year, the Group has applied the relief which permits the amount in the cash flow hedge reserve relating to a de-designated hedge to be deemed based on the alternative benchmark rate on which the future cash flows will be based. There was no impact on amounts reported for prior years as a result of early adoption of the Phase 2 amendments.

Summary of hedging instruments in designated hedge relationships

In the table below, the Group sets out the accumulated adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year:

	2021				2020			
	Notional contract amount £m	Carrying amount Assets £m	Carrying amount Liabilities £m	Change in fair value of hedging instrument in the year used for ineffectiveness measurement[2] £m	Notional contract amount £m	Carrying amount Assets £m	Carrying amount Liabilities £m	Change in fair value of hedging instrument in the year used for ineffectiveness measurement[2] £m
Cash flow hedges								
Interest rate risk								
Interest rate swaps[1]	**24,886**	**71**	**90**	**127**	29,645	74	215	(80)
Foreign exchange risk								
Cross currency swaps	**–**	**–**	**–**	**(28)**	420	28	–	(59)
Total derivatives designated as cash flow hedges	**24,886**	**71**	**90**	**99**	30,065	102	215	(139)
Fair value hedges								
Interest rate risk								
Interest rate swaps[1]	**30,707**	**295**	**447**	**500**	37,803	182	751	(40)
Foreign exchange and interest rate risk								
Cross currency swaps	**1,880**	**1**	**75**	**(12)**	1,448	19	5	–
Total derivatives designated as fair value hedges	**32,587**	**296**	**522**	**488**	39,251	201	756	(40)

(1) As shown in the total derivatives contracts table on page 268, for centrally cleared derivatives, where the IAS 32 'Financial Instruments: Presentation' netting criteria is met, the derivative balances are offset within other assets. For all other derivatives, the derivative balances are presented within derivative financial instruments.

(2) Changes in fair value of cash flow hedging instruments are recognised in other comprehensive income. Changes in fair value of fair value hedging instruments are recognised in the income statement in non-interest income.

Summary of hedged items in designated hedge relationships

In the table below, the Group sets out the accumulated adjustments arising from the corresponding continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

	2021			2020		
	Change in fair value of hedged item in the year used for ineffectiveness measurement	Cash flow hedge reserve		Change in fair value of hedged item in the year used for ineffectiveness measurement	Cash flow hedge reserve (excluding deferred tax)	
	£m	Continuing hedges £m	Discontinued hedges £m	£m	Continuing hedges £m	Discontinued hedges £m
Cash flow hedges						
Interest rate risk						
Gross floating rate assets and gross floating rate liabilities[(1)]	**(127)**	**2**	**13**	74	(123)	17
Foreign exchange risk						
Floating rate currency issuances[(2)]	**29**	**–**	**–**	59	(1)	–
Total	**(98)**	**2**	**13**	133	(124)	17

	2021				2020			
	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged item	Change in fair value of hedged items in the year used for ineffectiveness measurement	Carrying amount of hedged items		Accumulated amount of fair value adjustments on the hedged item	Change in fair value of hedged items in the year used for ineffectiveness measurement
	Assets £m	Liabilities £m	£m	£m	Assets £m	Liabilities £m	£m	£m
Fair value hedges								
Interest rate risk								
Fixed rate mortgages[(3)]	**24,265**	**–**	**(179)**	**(420)**	31,110	–	240	29
Fixed rate customer deposits[(4)]	**–**	**–**	**(5)**	**–**	–	–	(11)	1
Fixed rate FVOCI debt instruments[(5)]	**3,010**	**–**	**(115)**	**(197)**	3,001	–	74	16
Fixed rate issuances[(2)]	**–**	**(2,779)**	**39**	**107**	–	(2,576)	146	(23)
Foreign exchange and interest rate risk								
Fixed rate currency FVOCI debt instruments[(5)]	**78**	**–**	**–**	**(5)**	83	–	5	3
Fixed rate currency issuances[(2)]	**–**	**(1,730)**	**(13)**	**17**	–	(1,389)	4	(3)
Total	**27,353**	**(4,509)**	**(273)**	**(498)**	34,194	(3,965)	458	23

(1) Highly probable future cash flows arising from loans and advances to customers, due to customers and debt securities in issue.

(2) Hedged item is recorded in debt securities in issue.

(3) Hedged item and the cumulative fair value changes, are recorded in loans and advances to customers.

(4) Hedge relationship was discontinued in the prior year. The fair value adjustment taken will be amortised over the remaining life of the hedged items, and is recorded in customer deposits.

(5) Hedged item is recorded in financial assets at FVOCI.

3.6 Derivative financial instruments continued

	2021				2020			
	Hedge ineffectiveness recognised in income statement(1) £m	Effective portion recognised in other comprehensive income £m	Reclassified into income statement as: Net interest income £m	Reclassified into income statement as: Non-interest income £m	Hedge ineffectiveness recognised in income statement(1) £m	Effective portion recognised in other comprehensive income £m	Reclassified into income statement as: Net interest income £m	Reclassified into income statement as: Non-interest income £m
Cash flow hedges								
Interest rate risk								
Gross floating rate assets and gross floating rate liabilities	**–**	**127**	**10**	**(5)**	(6)	(74)	4	(5)
Foreign exchange risk								
Floating rate currency issuances	**–**	**(28)**	**–**	**–**	–	(59)	–	(59)
Total gains/(losses) on cash flow hedges	**–**	**99**	**10**	**(5)**	(6)	(133)	4	(64)

	Hedge ineffectiveness recognised in income 2021 £m	Hedge ineffectiveness recognised in income 2020 £m
Fair value hedges		
Interest rate risk		
Fixed rate mortgages	**(10)**	(22)
Fixed rate customer deposits	**–**	3
Fixed rate FVOCI debt instruments	**1**	–
Fixed rate issuances	**(1)**	2
Total losses on fair value hedges(1)	**(10)**	(17)

(1) Recognised in gains less losses on financial assets at fair value.

The table below discloses the impact derivatives held in micro cash flow hedges are expected to have on the timing and uncertainty of future cash flows. All notional principal amounts and carrying values are presented gross, prior to any netting permitted for balance sheet presentation as this reflects the derivative position used for risk management and the impact on future cash flows.

	3 months or less	3 to 12 months	1 to 5 years	Total
2021				
Cash flow hedges				
Foreign exchange risk				
Cross currency swap				
Notional principal (£m)	**–**	**–**	**–**	**–**
Average GBP/EUR rate	**–**	**–**	**–**	**n/a**
Average GBP/USD rate	**–**	**–**	**–**	**n/a**
2020				
Cash flow hedges				
Foreign exchange risk				
Cross currency swap				
Notional principal (£m)	185	235	–	420
Average GBP/EUR rate	1.4149	1.4149	–	n/a
Average GBP/USD rate	1.3023	1.2984	–	n/a

3.7 Financial assets at fair value through other comprehensive income

Accounting policy
A financial asset is measured at FVOCI when (i) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (ii) the contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amount outstanding unless the financial asset is designated at FVTPL on initial recognition. An option for equity investments that are not held for trading can be taken to classify them at FVOCI where an irrevocable election is made at initial recognition. This option is available for each separate investment. The Group has not exercised this option for any equity investments.

Interest income and impairment gains and losses on FVOCI assets are measured in the same manner as for assets measured at amortised cost and are recognised in the income statement, with all other gains or losses recognised in other comprehensive income as a separate component of equity in the year in which they arise. Gains and losses arising from changes in fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. For all FVOCI assets, the gain or loss is calculated with reference to the gross carrying amount.

Debt instruments at FVOCI are subject to the same impairment criteria as amortised cost financial assets (note 3.2), with the ECL element recognised directly in the income statement. As the financial asset is fair valued through other comprehensive income, the change in its value includes the ECL element, with the remaining fair value change recognised in other comprehensive income. Any reversal of the ECL is recorded in the income statement up to the value recognised previously.

The Group exercises the low credit risk option for debt instruments classified as FVOCI, recognising the high credit quality of the instruments, accordingly a 12-month ECL is calculated on the assets.

Financial assets at FVOCI consists of £4,352m of listed securities (2020: £5,080m).

Refer to note 3.16 for further information on the valuation methodology applied to financial instruments at FVOCI at 30 September 2021 and their classification within the fair value hierarchy.

3.8 Intangible assets and goodwill

Accounting policy
Capitalised software is stated at cost, less amortisation and any provision for impairment.

Identifiable and directly associated external and internal costs of acquiring and developing software are capitalised where the software is controlled by the Group, and where it is probable that future economic benefits that exceed its cost will flow from its use over more than one year. Costs associated with maintaining software are recognised as an expense as incurred. Capitalised software costs are amortised on a straight line basis over their expected useful lives, usually between three and ten years. Impairment losses are recognised in the income statement as incurred.

Goodwill arises on the acquisition of an entity and represents the excess of the fair value of the purchase consideration and direct costs of making the acquisition over the fair value of the Group's share of the net assets at the date of the acquisition. Goodwill is not subject to amortisation and is tested for impairment on an annual basis.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, which typically arises when the benefits associated with the software were substantially reduced from what had originally been anticipated or the asset has been superseded by a subsequent investment. In such situations, an impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal or its value-in-use.

Intangible assets which are fully amortised are reviewed annually to consider whether the assets remain in use.

	Capitalised software £m	Goodwill £m	Core deposit intangible £m	Total £m
Cost				
At 1 October 2019	950	11	6	967
Additions	78	–	–	78
At 30 September 2020	1,028	11	6	1,045
Additions	80	–	–	80
Write-off	(65)	–	–	(65)
At 30 September 2021	**1,043**	**11**	**6**	**1,060**
Accumulated amortisation				
At 1 October 2019	450	–	1	451
Charge for the year	102	–	1	103
At 30 September 2020	552	–	2	554
Charge for the year	123	–	1	124
Impairment	9	–	–	9
At 30 September 2021	**684**	**–**	**3**	**687**
Net book value				
At 30 September 2021	**359**	**11**	**3**	**373**
At 30 September 2020	476	11	4	491

£Nil (2020: £4m) of the £80m (2020: £78m) software additions do not form part of internally generated software projects.

A £68m charge (comprising write-offs of £65m and impairments of £3m) was recognised in the year following a reassessment of the Group's practices on the capitalisation of work-in-progress (WIP) balances against the backdrop of the new digital first strategy and the move to an agile project delivery.

3.9 Deferred tax

Accounting policy

Deferred tax assets and liabilities are recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. A deferred tax asset is recognised for unused tax losses and unused tax credits only if it is probable that future taxable amounts will arise against which those temporary differences and losses may be utilised.

Critical accounting estimates and judgements

The Group has deferred tax assets of £377m (2020: £326m), the principal components of which are tax losses and capital allowances.

The Group has assessed the recoverability of these deferred tax assets at 30 September 2021 and considers it probable that sufficient future taxable profits will be available against which the underlying deductible temporary differences can be utilised over the corporate planning horizon. Deferred tax assets are recognised to the extent that they are expected to be utilised over six years from the balance sheet date. If instead of six years the period was five years or seven years the recognised deferred tax asset would be £321m or £426m respectively. All tax assets arising will be used within the UK.

Movement in net deferred tax asset

	2021 £m	2020 £m
At 1 October	**52**	121
Recognised in the income statement (note 2.5)	**119**	31
Recognised directly in equity	**(90)**	(100)
At 30 September	**81**	52

The Group has recognised deferred tax in relation to the following items:

	2021 £m	2020 £m
Deferred tax assets		
Tax losses carried forward	**255**	151
Capital allowances	**124**	113
Cash flow hedge reserve	**(9)**	23
Acquisition accounting adjustments(1)	**(10)**	1
Transitional adjustment – IFRS 9	**15**	15
Employee equity based compensation	**9**	5
Unamortised issue costs	**–**	4
Pension spreading	**5**	9
Gains on financial instruments at FVOCI	**(15)**	–
Intangible assets	**(3)**	–
Other	**6**	5
	377	326
Deferred tax liabilities		
Defined benefit pension scheme surplus	**(296)**	(253)
Acquisition accounting adjustments(1)	**–**	(11)
Gains on financial instruments at FVOCI	**–**	(4)
Intangible assets	**–**	(3)
Other	**–**	(3)
	(296)	(274)
Net deferred tax asset	**81**	52

(1) Following the execution of Financial Services and Markets Act 2000 (FSMA) part VII, the deferred tax assets and liabilities in respect of acquisition accounting adjustments have been offset to provide a single number that will unwind in the same entity over coming years.

The deferred tax assets and liabilities detailed above arise primarily in Clydesdale Bank PLC 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. This is a presentational change only; the prior period column has not been restated. The deferred tax liability arising in relation to the defined benefit pension scheme surplus does not meet the accounting standard's criteria for offset, and so continues to be presented separately both on the face of the balance sheet and detailed in this note.

3.9 Deferred tax continued

The value of tax losses carried forward of £255m (2020: £151m) has increased due to the additional recognition in the current period of historic losses, previously derecognised, that are now brought onto the balance sheet in accordance with the Group's established methodology, reflecting their expected utilisation against future taxable profits and an increase in the rate at which deferred tax is recognised (see below). The recognition of historic losses has been partially offset by an increase in the conduct indemnity adjustment. In addition, the Group has an unrecognised deferred tax asset of £112m (2020: £217m) representing trading losses with a gross value of £449m valued at 25% (2020: £1,142m valued at 19%).

It was announced in the March 2021 Budget that the UK main rate of corporation tax will increase from 19% to 25% with effect from 1 April 2023. This legislative change has been enacted, resulting in the Group's UK deferred tax assets increasing by £59m with a tax credit in the income statement of £92m and a tax charge within equity of £33m.

On 27 October 2021 the government also announced that the banking surcharge will be reduced from a rate of 8% to 3%, and that it will be chargeable on banking profits above £100m (previously £25m). The changes will be effective from 1 April 2023 for current tax, aligning with the already enacted rise in the main rate of corporation tax, so that the combined rate of tax on banking profits in excess of £100m will be 28%. Once enacted, this reduction in the surcharge rate will drive a significant rate change charge and reduce the value of the balance sheet deferred tax asset. This is because relevant surcharge-saving losses will be valued at a lower tax rate. The quantum of the rate change will depend upon the Group's tax loss position at the effective date, but if the new rate were to be enacted by 30 September 2022, the impact on the Group's existing net deferred tax asset is estimated to be a reduction of circa £16m (being £29m in the principal subsidiary CB PLC offset by a reduction of £13m, in the amount that would be due under the indemnity to the Group's former parent).

3.10 Retirement benefit obligations

Accounting policy
The Group makes contributions to both defined benefit and defined contribution pension schemes which entitle employees to benefits on retirement or disability.

Defined contribution pension scheme
The Group recognises its obligation to make contributions to the scheme as an expense in the income statement as incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit pension scheme
A liability or asset is recognised on the balance sheet in respect of the defined benefit scheme and is measured as the difference between the present value of the defined benefit obligation less the fair value of the defined benefit scheme assets at the reporting date. The present value of the defined benefit obligation for the scheme is discounted by high-quality corporate bond rates that have maturity dates approximating to the terms of the defined benefit obligation. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the scheme. In assessing whether a surplus is recoverable, the Group considers its current right to obtain a refund or a reduction in future contributions and does not anticipate any future acts by other parties that could change the amount of the surplus that may ultimately be recovered.

Pension expense attributable to the Group's defined benefit scheme comprises current service cost, past service cost resulting from a scheme amendment or curtailment, net interest on the net defined benefit obligation/asset, gains or losses on settlement and administrative costs incurred. Where actuarial remeasurements arise, the Group recognises such amounts directly in equity through the statement of comprehensive income in the year in which they occur. Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions.

The Group's principal trading subsidiary, Clydesdale Bank PLC, is the sponsoring employer of the defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme ('the Scheme'). The following table summarises the present value of the defined benefit obligation and fair value of plan assets for the Scheme as at 30 September:

	2021 £m	2020 £m
Active members' defined benefit obligation	**(16)**	(23)
Deferred members' defined benefit obligation	**(1,973)**	(2,064)
Pensioner and dependant members' defined benefit obligations	**(1,800)**	(1,871)
Total defined benefit obligation	**(3,789)**	(3,958)
Fair value of Scheme assets	**4,636**	4,681
Net defined benefit pension asset	**847**	723

The Group's pension arrangements
The current version of the Scheme was established under trust on 30 September 2009 with the assets held in a Trustee administered fund. The Trustee is responsible for the operation and governance of the Scheme, including making decisions regarding the Scheme's funding and investment strategy.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, sets out the framework for funding defined benefit occupational pension plans in the UK.

The Group has implemented a number of reforms to the Scheme to manage the obligation. It closed the Scheme to new members in 2004 and since April 2006 has provided benefits accruing on a career average revalued earnings basis. On 1 August 2017, the Scheme was closed to future benefit accrual for the majority of current employees, with both affected and new employees' future pension benefits being provided through the Group's existing defined contribution scheme, 'My Retirement'. The income statement charge for this is separately disclosed in note 2.4.

The Group also provides post-retirement healthcare under a defined benefit scheme for some pensioners and their dependant relatives for which provision has been made on a basis consistent with the methodology applied to the defined benefit pension scheme. This is a closed scheme and the provision will be utilised over the life of the remaining scheme members. The obligation in respect of this scheme was £2m at 30 September 2021 (2020: £2m) and is included within other liabilities in note 3.15.

Scheme valuations
There are a number of means of measuring liabilities in the defined benefit schemes, with the ultimate aim of the Trustee being that the Scheme is 100% funded on an agreed self-sufficiency basis (which is where the Scheme is essentially self-funded and does not need to call on the Group for any additional funding). The two bases used by the Group to value its obligations are: (i) an IAS 19 accounting basis; and (ii) a Trustee's Technical Provision basis.

(i) IAS 19 accounting basis
The valuations of the Scheme assets and obligations are calculated on an accounting basis in accordance with the applicable accounting standard IAS 19 which provides the basis for the accounting framework and methodology for entries in the income statement, balance sheet and capital reporting. The principal purpose of this valuation is to allow comparison of pension obligations between companies. The obligation under an accounting valuation can be higher or lower than those under a Trustee's Technical Provision valuation.

The rate used to discount the obligation on an IAS 19 basis is a key driver of any potential volatility and is based on yields on AA rated high-quality corporate bonds, regardless of how the Trustee of the Scheme invests the assets. The accounting valuation under IAS 19 can therefore move adversely because of low rates and narrowing credit spreads which are not fully matched by the Scheme assets. Inflation is another key source of volatility and arises as a result of member benefits having an element of index linking, which causes the obligation to increase in line with rises in long-term inflation assumptions. In practice however, over the long term, the relationship between interest and inflation rates tends to be negatively correlated resulting in a degree of risk offset.

(ii) Trustee's Technical Provision basis
This valuation basis reflects how much money the Trustee considers is required now in order to provide for the promised benefits as they come up for payment in the future. The Trustee is responsible for ensuring that the calculation is conducted prudently on an actuarial basis, considering factors including the Scheme's investment strategy and the relative financial strength of the sponsoring employer.

A key aspect of this valuation is the investment strategy the Trustee proposes to follow as part of the policy for meeting the Scheme's obligations. Because there are no guarantees about investment returns over long periods, legislation requires the Trustee to consider carefully how much of their expected future investment returns it would be prudent for them to account for in advance.

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

Scheme assets are not subject to the same valuation differences as Scheme obligations and are consistently valued at current market value.

3.10 Retirement benefit obligations continued

IAS 19 position

The Scheme movements in the year are as follows:

	2021				2020			
	Present value of obligation £m	Fair value of plan assets £m	Total £m	Cumulative impact in other comprehensive income £m	Present value of obligation £m	Fair value of plan assets £m	Total £m	Cumulative impact in other comprehensive income £m
Balance sheet surplus at 1 October	**(3,958)**	**4,681**	**723**		(4,311)	4,707	396	
				(302)				(594)
Total expense								
Past service credit/(cost)	**3**	**–**	**3**		(1)	–	(1)	
Interest (expense)/income	**(61)**	**73**	**12**		(75)	82	7	
Administrative costs	**–**	**(6)**	**(6)**		–	(6)	(6)	
Total (expense)/income recognised in the consolidated income statement	**(58)**	**67**	**9**		(76)	76	–	
Remeasurements								
Return on Scheme assets greater than discount rate	**–**	**(19)**	**(19)**	**(19)**	–	61	61	61
Actuarial:								
(Loss)/gain – experience adjustments	**(15)**	**–**	**(15)**	**(15)**	140	–	140	140
Gain – demographic assumptions	**2**	**–**	**2**	**2**	116	–	116	116
Gain/(loss) – financial assumptions	**86**	**–**	**86**	**86**	(25)	–	(25)	(25)
Remeasurement gains/(losses) recognised in other comprehensive income	**73**	**(19)**	**54**	**54**	231	61	292	292
Contributions and payments								
Employer contributions	**–**	**61**	**61**		–	35	35	
Benefit payments	**99**	**(99)**	**–**		105	(105)	–	
Transfer payments	**55**	**(55)**	**–**		93	(93)	–	
	154	**(93)**	**61**		198	(163)	35	
Balance sheet surplus at 30 September	**(3,789)**	**4,636**	**847**		(3,958)	4,681	723	
				(248)				(302)

On 20 November 2020, a judgement was announced following on from an earlier judgement requiring schemes to equalise pension benefits for men and women. This new judgement determined that schemes would also be required to revisit and, where necessary, top up historic cash equivalent transfer values that were calculated on an unequalised basis, in the event that an affected member makes a successful claim. This ruling applies to benefits accrued between 17 May 1990 and 5 April 1997, and gave rise to a past service cost of £1.7m recognised this year.

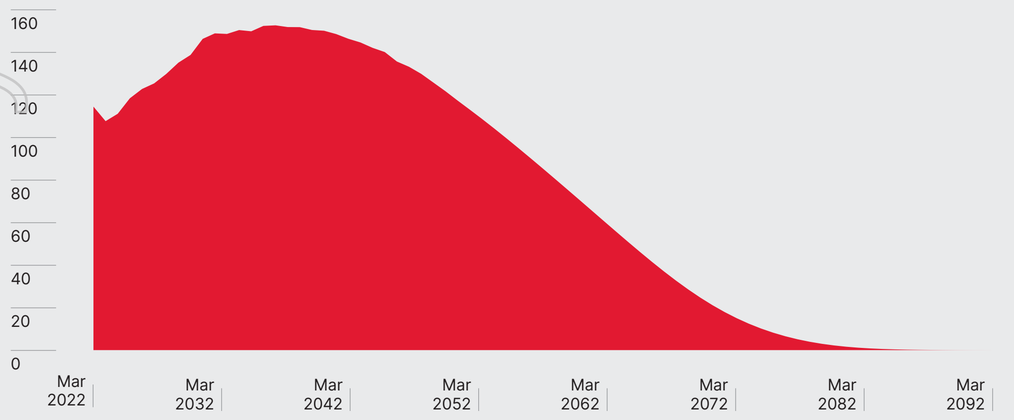
In July 2021, the Trustee communicated a Pension Increase Exchange (PIE) exercise to members. A PIE gives members the option to exchange future increases on their pensions for a one-off uplift to their current pension. The exercise is being undertaken in two phases and is due to complete in calendar year 2022. A past service credit of £5m has been recognised in the year to 30 September 2021 in line with member acceptance of the PIE offer by the balance sheet date; the balance of the credit will be recognised next year as the exercise concludes.

The expected contributions and benefit payments for the year ending 30 September 2022 are £7m (2021: £39m) and £115m (2021: £108m) respectively.

The Group and Trustee have entered into a contingent security arrangement (the ‘Security Arrangement’) (note 5.3).

Maturity of Scheme liabilities
The estimated maturity period of Scheme obligations on an IAS 19 accounting basis is as follows:

Annual Pension Scheme liability cash flows (£m)



The discounted mean term of the defined benefit obligation at 30 September 2021 is 18.5 years (2020: 19 years).

Scheme assets
In order to meet the obligations of the Scheme, the Trustee invests in a diverse portfolio of assets, with the level and volatility of asset returns being a key factor in the overall investment strategy. The investment portfolio is subject also to a range of risks typical of the types of assets held, such as: equity risk; credit risk on bonds; currency risk; interest rate and inflation risk; and exposure to the property market. The Trustee's investment strategy (including physical assets and derivatives) seeks to reduce the Scheme's exposure to these risks. In managing interest rate and inflation risks, the investment strategy seeks to hold portfolios of matching assets (including derivatives) that enable the Scheme's assets to better match movements in the value of liabilities due to changes in interest rates and inflation.

As at 30 September 2021, the interest rate and inflation rate hedge ratios were both around 95% (2020: 97% and 84%) of the obligation when measured on a self-sufficiency basis. This strategy reflects the Scheme's obligation profile and the Trustee's and the Group's attitude to risk. The Trustee monitors the investment objectives and asset allocation policy on a regular basis.

The Trustee's investment strategy involves two main categories of investments:

- matching assets – a range of investments that provide a match to changes in obligation values; and
- return seeking assets – a range of investments designed to provide specific, planned and consistent returns.

3.10 Retirement benefit obligations continued

The major categories of plan assets for the Scheme, stated at fair value, are as follows:

	2021				2020			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Bonds								
Fixed government	**894**	**–**	**894**		930	–	930	
Index-linked government	**1,815**	**–**	**1,815**		2,001	–	2,001	
Global sovereign	**117**	**4**	**121**		115	1	116	
Corporate and other	**1,011**	**47**	**1,058**		879	48	927	
	3,837	**51**	**3,888**	**84%**	3,925	49	3,974	85%
Equities[1]								
Global equities	**–**	**150**	**150**		–	368	368	
Emerging market equities	**–**	**16**	**16**		–	43	43	
UK equities	**–**	**8**	**8**		–	114	114	
	–	**174**	**174**	**4%**	–	525	525	11%
Other								
Secured income alternatives	**–**	**197**	**197**		–	165	165	
Derivatives[2]	**–**	**6**	**6**		–	78	78	
Repurchase agreements	**–**	**(719)**	**(719)**		–	(1,025)	(1,025)	
Property	**–**	**122**	**122**		–	122	122	
Alternative credit	**–**	**597**	**597**		–	563	563	
Infrastructure	**–**	**161**	**161**		–	127	127	
Cash	**–**	**209**	**209**		–	146	146	
Equity options	**1**	**–**	**1**		6	–	6	
	1	**573**	**574**	**12%**	6	176	182	4%
Total Scheme assets	**3,838**	**798**	**4,636**	**100%**	3,931	750	4,681	100%

(1) Equity investments are classified as unquoted reflecting the nature of the funds in which the Scheme invests directly. The underlying investments within those funds are, however, mostly quoted.

(2) Derivative financial instruments are used to modify the profile of the assets of the Scheme to better match the Scheme liabilities. Derivative holdings may lead to increased or decreased exposures to the physical asset categories disclosed above.

At 30 September 2021, the Scheme had employer-related investments within the meaning of Section 40 (2) of the Pensions Act 1995 totalling £2m (2020: £2m).

Actuarial assumptions

The following assumptions were used in arriving at the IAS 19 defined benefit obligation:

	2021 % p.a.	2020 % p.a.
Financial assumptions		
Discount rate	**2.08**	1.58
Inflation (RPI)	**3.40**	2.93
Inflation (CPI)	**2.77**	2.03
Career average revalued earnings revaluations:		
Pre 31 March 2012 benefits (RPI)	**3.40**	2.93
Post 31 March 2012 benefits (CPI capped at 5% per annum)	**2.73**	2.03
Pension increases (capped at 2.5% per annum)	**2.16**	2.01
Pension increases (capped at 5% per annum)	**3.23**	2.85
Rate of increase for pensions in deferment	**2.73**	2.03

Demographic assumptions

	2021 Years	2020 Years
Post-retirement mortality:		
Current pensioners at 60 – male	**27.2**	27.2
Current pensioners at 60 – female	**29.4**	29.3
Future pensioners at 60 – male	**28.3**	28.2
Future pensioners at 60 – female	**30.5**	30.4

Critical accounting estimates and judgements
The value of the Group's defined benefit pension scheme requires management to make several assumptions. The key areas of estimation uncertainty are:

- *discount rate applied:* this is set with reference to market yields at the end of the reporting year on high-quality corporate bonds in the currency and with a term consistent with the Scheme's obligations. The average duration of the Scheme's obligations is approximately 20 years. The market for bonds with a similar duration is illiquid and, as a result, significant management judgement is required to determine an appropriate yield curve on which to base the discount rate;
- *inflation assumptions:* this is set with reference to market expectations of the RPI measure of inflation for a term consistent with the Scheme's obligations, based on data published by the BoE. Other measures of inflation (such as CPI, or inflation measures subject to an annual cap) are derived from this assumption; and
- *mortality assumptions:* the cost of the benefits payable by the Scheme will also depend upon the life expectancy of the members. The assumptions for mortality rates are based on standard mortality tables (as adjusted to reflect the characteristics of Scheme members) which allow for future improvements in life expectancies.

The table below sets out the sensitivity and impact on the balance sheet surplus position of the Scheme, the defined benefit obligation and pension cost to changes in the key actuarial assumptions:

Assumption change		Balance sheet surplus £m	Obligation £m	Pension cost £m
Discount rate	+ 0.25%	(61)	(166)	(6)
	− 0.25%	62	178	5
Inflation	+ 0.25%	34	104	2
	− 0.25%	(31)	(104)	(2)
Life expectancy	+1 year	(150)	150	3
	−1 year	147	(147)	(3)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, changes in some of the assumptions may be correlated.

3.11 Customer deposits

	2021 £m	2020 £m
Interest bearing demand deposits	**46,839**	41,866
Term deposits	**15,097**	21,107
Non-interest bearing demand deposits	**4,936**	4,549
	66,872	67,522
Accrued interest payable	**99**	188
	66,971	67,710

3.12 Debt securities in issue

Accounting policy
Debt securities comprise short and long-term debt issued by the Group including commercial paper, medium-term notes, covered bonds and RMBS notes.

Debt securities are initially recognised at fair value, being the issue proceeds, net of transaction costs incurred. These instruments are subsequently measured at amortised cost using the effective interest method resulting in premiums, discounts and associated issue costs being recognised in the income statement over the life of the instrument.

The breakdown of debt securities in issue is shown below:

	Medium-term notes £m	Subordinated debt £m	Securitisation £m	Covered bonds £m	Total £m
2021					
Amortised cost	**2,399**	**1,019**	**2,382**	**1,812**	**7,612**
Fair value hedge adjustments	**10**	**(18)**	**4**	**30**	**26**
Total debt securities	**2,409**	**1,001**	**2,386**	**1,842**	**7,638**
Accrued interest payable	**13**	**14**	**3**	**10**	**40**
	2,422	**1,015**	**2,389**	**1,852**	**7,678**
2020					
Amortised cost	1,991	750	3,992	1,842	8,575
Fair value hedge adjustments	64	–	10	76	150
Total debt securities	2,055	750	4,002	1,918	8,725
Accrued interest payable	13	7	3	10	33
	2,068	757	4,005	1,928	8,758

Key movements in the year are shown in the table below[(1)]. Full details of all notes in issue can be found at https://www.virginmoneyukplc.com/investor-relations/debt-investors/. There were no issuances or redemptions of covered bonds during the year.

	Issuances		Redemptions	
	Denomination	£m	Denomination	£m
Medium-term notes	EUR	432	GBP	–
Subordinated debt	GBP	300	GBP	30
Securitisation	USD, GBP	–	USD, EUR, GBP	1,543
		732		1,573

(1) Other movements relate to foreign exchange, amortisation of issuance costs and the unwinding of acquisition accounting adjustments.

The following tables provide a breakdown of the medium-term notes and subordinated debt by instrument as at 30 September:

Medium-term notes (excluding accrued interest)

	2021 £m	2020 £m
VM UK 3.125% fixed-to-floating rate callable senior notes due 2025	**299**	298
VM UK 4% fixed rate reset callable senior notes due 2026	**509**	529
VM UK 3.375% fixed rate reset callable senior notes due 2025	**359**	369
VM UK 4% fixed rate reset callable senior notes due 2027	**390**	406
VM UK 2.875% fixed rate reset callable senior notes due 2025	**424**	453
VM UK 0.375% fixed rate reset callable senior notes due 2024	**428**	–
	2,409	2,055

Subordinated debt (excluding accrued interest)

	2021 £m	2020 £m
VM UK 5% fixed rate reset callable subordinated notes due 2026	**–**	31
VM UK 7.875% fixed rate reset callable subordinated notes due 2028	**248**	247
VM UK 5.175% fixed rate reset callable subordinated notes due 2030	**458**	472
VM UK 2.625% fixed rate reset callable subordinated notes due 2031	**295**	–
	1,001	750

Details of securitisation and covered bond issuances are included in note 3.3.

3.13 Due to other banks

Accounting policy

Repurchase agreements

Securities sold subject to sale and repurchase agreements ('repo') are retained in their respective balance sheet categories. The associated liabilities are included in amounts due to other banks based upon the counterparties to the transactions.

The difference between the sale and repurchase price of repos is treated as interest and accrued over the life of the agreements using the effective interest method. No transactions have been recorded in respect of repos in the current or prior year, however this is activity that the Group does undertake as and when required.

	2021 £m	2020 £m
Secured loans	**5,896**	5,397
Transaction balances with other banks	**–**	15
Deposits from other banks	**22**	57
	5,918	5,469

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

3.14 Provisions for liabilities and charges

Accounting policy

Provisions for liabilities and charges are recognised when a legal or constructive obligation exists as a result of past events, it is probable that an outflow of economic benefits will be necessary to settle the obligation, and the obligation can be reliably estimated. Provisions for liabilities and charges are not discounted to the present value of their expected net future cash flows except where the time value of money is considered material.

	2021 £m	2020 £m
PPI redress provision		
Opening balance	**107**	379
Charge to the income statement	**59**	–
Utilised	**(165)**	(272)
Closing balance	**1**	107
Customer redress and other provisions		
Opening balance	**31**	33
Charge to the income statement	**21**	28
Utilised	**(24)**	(30)
Closing balance	**28**	31
Property closure and redundancy provision		
Opening balance	**34**	44
Charge to the income statement	**68**	19
Utilised	**(35)**	(29)
Closing balance	**67**	34
Off-balance sheet ECL provision(1)		
Opening balance	**–**	–
Transfer of ECL provision from loans and advances	**7**	–
Charge to the income statement	**1**	–
Closing balance	**8**	–
Total provisions for liabilities and charges	**104**	172

(1) During the year, the Group changed its presentation of off-balance sheet ECLs. The off-balance sheet provision, which relates to credit-related commitments, is now presented as part of the provision for liabilities and charges instead of as part of the impairment provision offset against loans and advances (note 3.2). Prior year comparatives have not been restated.

3.14 Provisions for liabilities and charges continued

PPI redress provision

The Group has now dealt with complaints received in the period up to the time bar in August 2019, including the settlement of claims received from the Official Receiver. The total provision raised in respect of PPI is £3,114m (2020: £3,055m), with £1m of this remaining (2020: £107m).

Customer redress and other provisions

Other provisions include amounts in respect of a number of non-PPI customer redress matters, legal proceedings, claims arising in the ordinary course of the Group's business and other matters. 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 closure and redundancy provision

Property closure and redundancy provision includes costs for stores and office closures and staff redundancy costs. During the year, provisions of £68m were raised with £33m related to stores and office closures and £35m related to staff redundancy costs.

3.15 Other liabilities

Accounting policy

Deferred grants

Deferred grants are recognised when there is reasonable assurance that the grant will be received and that any conditions attached to the grant will be complied with. Where the grant relates to costs, it is released to the income statement on a systematic basis in line with the incurring of the related costs. Where the grant relates to the cost of an asset, it is released and recognised directly against the cost of the asset when incurred.

	2021 £m	2020 £m
Notes in circulation	**2,104**	2,319
Accruals and deferred income	**76**	94
Deferred grant	**20**	35
Other	**251**	246
	2,451	2,694

During the year, the Group received £9m (2020: £35m) from the Capability and Innovation Fund (as part of the RBS alternative remedies package). This is being utilised under the terms of the grant application. As part of the grant the Group is subject to delivering a number of public commitments. These commitments can be found on BCR's (the awarding body) website. As at 30 September 2021 the Group is currently on track with the delivery of these commitments.

The movement in the deferred grant is shown below:

	2021 £m	2020 £m
Opening balance	**35**	–
Grants received	**9**	35
Utilised against income statement spend in the year	**(24)**	–
Closing balance	**20**	35

3.16 Fair value of financial instruments

Accounting policy
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

When available, the Group measures the fair value of a financial instrument using quoted prices in an active market for that instrument. Where no such active market exists for the particular asset or liability, the Group uses a valuation technique to arrive at the fair value, including the use of transaction prices obtained in recent arm's length transactions where possible, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. In doing so, fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity-specific inputs.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, which represents the fair value of the consideration paid or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits or losses on the transaction date.

In certain limited circumstances, the Group applies the fair value measurement option to financial assets including loans and advances where the inherent market risks (principally interest rate and option risk) are individually hedged using appropriate interest rate derivatives. The loan is designated as being carried at FVTPL to offset the movements in the fair value of the derivative within the income statement and therefore avoid an accounting mismatch. When a loan is held at fair value, a statistical-based calculation is used to estimate credit losses attributable to adverse movements in credit risk on the assets held. This adjustment to the credit quality of the asset is then applied to the carrying amount of the loan to arrive at fair value and recognised in the income statement.

Analysis of the fair value disclosures uses a hierarchy that reflects the significance of inputs used in measuring fair value. The level in the fair value hierarchy within which a fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy is as follows:

> Level 1 fair value measurements – quoted prices (unadjusted) in active markets for an identical financial asset or liability;

> Level 2 fair value measurements – inputs other than quoted prices within Level 1 that are observable for the financial asset or liability, either directly (as prices) or indirectly (derived from prices); and

> Level 3 fair value measurements – inputs for the financial asset or liability that are not based on observable market data (unobservable inputs).

For the purpose of reporting movements between levels of the fair value hierarchy, transfers are recognised at the beginning of the reporting year in which they occur.

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

The tables show a comparison of the carrying amounts of financial assets and liabilities measured at amortised cost, as reported on the balance sheet, and their fair values where these are not approximately equal.

There are various limitations inherent in this fair value disclosure, particularly where prices are derived from unobservable inputs due to some financial instruments not being traded in an active market. The methodologies and assumptions used in the fair value estimates are therefore described in the notes to the tables. The difference between carrying value and fair value is relevant in a trading environment but is not relevant to assets such as loans and advances.

	2021		2020	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to customers[(1)]	**71,876**	**72,229**	72,430	71,788
Financial liabilities				
Customer deposits[(2)]	**66,971**	**67,012**	67,710	67,809
Debt securities in issue[(3)]	**7,678**	**8,050**	8,758	8,836

(1) Loans and advances to customers are categorised as Level 3 in the fair value hierarchy with the exception of £1,057m (2020: £1,060m) 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 £3,704m of listed debt (2020: £2,846m) which is categorised as Level 1.

3.16 Fair value of financial instruments continued

The Group's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

(a) *Loans and advances to customers* – The fair values of loans and advances are determined by firstly segregating them into portfolios which have similar characteristics. Contractual cash flows are then adjusted for ECLs and expectations of customer behaviour based on observed historic data. The cash flows are then discounted using current market rates for instruments of similar terms and maturity to arrive at an estimate of their fair value;

(b) *Customer deposits* – The fair value of deposits is determined using a replacement cost method which assumes alternative funding is raised in the most advantageous market. The contractual cash flows have been discounted using a funding curve with credit spreads reflecting the tenor of each deposit; and

(c) *Debt securities in issue* – The fair value is taken directly from quoted market prices where available or determined from a discounted cash flow model using current market rates for instruments of similar terms and maturity.

(b) Fair value of financial instruments recognised on the balance sheet at fair value

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, using the fair value hierarchy described above:

	Fair value measurement as at 30 September 2021				Fair value measurement as at 30 September 2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Financial assets at FVOCI	**4,352**	**–**	**–**	**4,352**	5,080	–	–	5,080
Loans and advances at FVTPL	**–**	**133**	**–**	**133**	–	190	–	190
Other financial assets at FVTPL	**–**	**14**	**6**	**20**	–	8	5	13
Derivative financial assets	**–**	**139**	**1**	**140**	–	318	–	318
Total financial assets at fair value	**4,352**	**286**	**7**	**4,645**	5,080	516	5	5,601
Financial liabilities								
Derivative financial liabilities	**–**	**209**	**–**	**209**	–	250	–	250
Total financial liabilities at fair value	**–**	**209**	**–**	**209**	–	250	–	250

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

The Group's valuations for financial instruments that are measured subsequent to initial recognition at fair value are based on the following methodologies and assumptions:

(a) *FVOCI* – The fair values of listed investments are based on quoted closing market prices.

(b) *Loans and advances to customers (Level 2)* – The fair value is derived from data or valuation techniques based upon observable market data and non-observable inputs as appropriate to the nature and type of the underlying instrument.

(c) *Other financial assets at FVTPL (Level 2)* – Represents £14m of an unlisted equity investment that is valued based on an offer of purchase by an independent third party. The sale is expected to conclude in Q1 FY22, subject to regulatory approval.

(d) *Other Financial assets at FVTPL (Level 3)* – Primarily represents £4m of Visa Inc. Series B preferred stock received as partial consideration for the sale of the Group's share in Visa Europe. The preferred stock is convertible into Visa Inc. common stock or its equivalent at a future date, subject to potential reduction for certain litigation losses that may be incurred by Visa Europe. The fair value of the preference shares has been calculated by taking the year end New York Stock Exchange share price for Visa Inc. and discounting for illiquidity and clawback related to contingent litigation. For other unlisted equity investments, the Group's share of the net asset value or the transaction price respectively is considered the best representation of the exit price and is the Group's best estimate of fair value.

(e) *Derivative financial assets and liabilities (Level 2)* – The fair values of derivatives, including foreign exchange contracts, interest rate swaps, interest rate and currency option contracts, and currency swaps, are obtained from discounted cash flow models or option pricing models as appropriate.

Level 3 movement analysis:

	2021 Financial assets at FVTPL £m	2021 Derivative financial assets £m	2020 Financial assets at FVTPL £m	2020 Derivative financial assets £m
Balance at the beginning of the year	**5**	**–**	14	–
Fair value gains recognised[1]				
In profit or loss – unrealised	**1**	**1**	1	–
In profit or loss – realised	**–**	**–**	5	–
Sales	**–**	**–**	(10)	–
Settlements	**–**	**–**	(5)	–
Balance at the end of the year	**6**	**1**	5	–

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

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions
The Group has limited exposure to Level 3 fair value measurements. If all risks inherent in the valuations were to crystallise in their entirety, total assets would reduce by £7m which would be recognised directly in profit or loss.

3.17 Lessee accounting

Accounting policy

The Group as lessee

The Group leases offices, stores and other premises, and sub-leases certain premises which are no longer occupied by the Group. The Group applies a single lessee accounting model to all lease arrangements it enters into from the date on which the leased asset is available for use, with the exception of low value leases and short-term leases (less than 12 months) in respect of which the associated lease payments are expensed in the income statement on a straight line basis over the lease term.

Under the single lessee accounting model, the Group recognises a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, comprising the initial amount of the lease liability plus any initial direct costs incurred and any lease payments made at or before the lease commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term, subject to review for impairment. The lease liability is initially measured at the present value of the lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot readily be determined (as is the case in the majority of the leasing activities of the Group), the incremental borrowing rate. The liability is remeasured when there is a change in future lease payments arising from a change in an index or a rate or a change in the Group's assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset or is recorded in the income statement if the carrying amount of the right-of-use asset has been reduced to zero.

Termination options are included in several leases across the Group with a small number of leases having extension options. These terms are used to maximise operational flexibility in terms of managing contracts. In determining judgements on the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Periods covered by termination options are only included in the lease term if it is reasonably certain that the lease will not be terminated. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs that is within the control of the Group.

The Group as sub-lessor

Sub-leases are classified as finance leases if substantially all the risks and rewards incidental to ownership of the underlying asset are transferred, otherwise they are classified as operating leases. Finance sub-leases are recognised in other assets representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Interest income is recognised reflecting a constant periodic rate of return. Operating sub-lease income is recognised in the income statement on a straight line basis over the lease term.

a) Amounts recognised in the income statement

The income statement includes the following amounts related to leases:

	2021 £m	2020 £m
Interest expense and similar charges		
Interest expense	**(3)**	(3)
Other operating income		
Amounts receivable under leases where the Group is a lessor	**1**	1
Operating and administrative expenses		
Depreciation and impairment of right-of-use assets	**(28)**	(30)
Expense relating to short-term leases	**(1)**	(3)
Expense relating to leases of low-value assets that are not short-term leases	**(1)**	(2)
Amounts recognised in the income statement	**(32)**	(37)

Total leasing cash outflow in the year was £29m (2020: £30m).

b) Amounts recognised on the balance sheet

Right-of-use assets

	2021 £m	2020 £m
As at 1 October	**161**	194
Additions	**4**	3
Remeasurements	**1**	(6)
Disposals	**(2)**	–
Depreciation and impairment	**(29)**	(30)
As at 30 September	**135**	161

All right-of-use assets relate to leases of land and buildings and are presented within property, plant and equipment on the balance sheet.

On 30 September 2021 the Group announced plans for the closure of 30 stores leased by the Group and to relocate four stores to more prime locations within their existing towns. Following the announcement, the associated right-of-use assets were assessed for impairment. Where it is expected the Group can sub-lease the property, the recoverable amount was determined based on expected sub-lease income. Where the Group does not expect to be able to generate any cash inflows beyond the closure date the value-in-use was determined to be £Nil. An impairment charge of £5m has been recognised within operating and administrative expenses. In addition to the impairment charge relating to the right-of-use assets, a provision has been recognised for other costs associated with the closures (note 3.14).

In the prior period the Group announced plans for the closure of 35 properties leased by the Group. The right-of-use assets were assessed following the above methodology resulting in an impairment charge of £6m.

The Group also reviewed its existing surplus estate population for impairment. It was concluded that 22 properties (2020: 27) should be impaired following this assessment resulting in an impairment charge of £1m (2020: £0.5m).

Sub-leases

Future undiscounted minimum payments receivable in respect of sub-leased assets at 30 September were as follows:

	2021 £m	2020 £m
Operating leases	**1**	4
Finance leases	**5**	5
	6	9

Lease liabilities

	2021 £m	2020 £m
Lease liabilities[1]	**154**	175

(1) Lease liabilities are presented within other liabilities on the balance sheet.

Future undiscounted minimum payments under lease liabilities at 30 September are as follows:

Amounts falling due	2021 £m	2020 £m
Within 1 year	**26**	27
Between 1 and 5 years	**73**	84
Over 5 years	**78**	88
	177	199

c) Lease commitments not recognised on the balance sheet

In addition to the lease liabilities recognised on the balance sheet, the Group also has lease commitments relating to leases which have not yet commenced at the balance sheet date. Future undiscounted minimum payments on leases which are yet to commence were as follows:

Amounts falling due	2021 £m	2020 £m
Within 1 year	**–**	–
Between 1 and 5 years	**21**	18
Over 5 years	**104**	112
	125	130

Section 4: Capital

4.1 Equity

Accounting policy

Equity

The financial instruments issued by the Company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

(a) they impose no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability.

Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders. Interim dividends are deducted from equity when they are no longer at the discretion of the Company.

Proposed final dividends for the year are disclosed as an event after the balance sheet date.

4.1.1 Share capital and share premium

	2021 £m	2020 £m
Share capital	**144**	144
Share premium	**5**	3
Share capital and share premium	**149**	147

	2021 Number of shares	2020 Number of shares	2021 £m	2020 £m
Ordinary shares of £0.10 each – allotted, called up and fully paid				
Opening ordinary share capital	**1,438,574,687**	1,434,485,689	**144**	143
Issued under employee share schemes	**1,418,744**	4,088,998	**–**	1
Closing ordinary share capital	**1,439,993,431**	1,438,574,687	**144**	144

The holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders of the Company. All shares in issue at 30 September 2021 rank equally with regard to the Company's residual assets.

The Directors have recommended a final dividend in respect of the year ended 30 September 2021 of 1.0p per ordinary share in the Company to be paid on 11 March 2022. The payment of the final dividend is subject to approval of the shareholders at the 2022 AGM. These financial statements do not reflect the recommended dividend. No dividend was declared or paid in respect of the year ended 30 September 2020.

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

A description of the other equity categories included within the consolidated statement of changes in equity, and significant movements during the year, is provided below:

4.1.2 Other equity instruments

Other equity instruments consist of the following Perpetual Contingent Convertible Notes:

- Perpetual securities (fixed 8% up to the first reset date) issued on 8 February 2016 with a nominal value of £450m and optional redemption on 8 December 2022;
- Perpetual securities (fixed 8.75% up to the first reset date) issued on 10 November 2016 with a nominal value of £230m and optional redemption on 10 November 2021; and
- Perpetual securities (fixed 9.25% up to the first reset date) issued on 13 March 2019 with a nominal value of £250m and optional redemption on 8 June 2024.

On 13 September 2021, notice was given that the perpetual securities with a nominal value of £230m will be redeemed in full on 10 November 2021.

The issues are treated as equity instruments in accordance with IAS 32 'Financial Instruments: Presentation' with the proceeds included in equity, net of transaction costs of £15m (2020: £15m). AT1 distributions of £79m were paid in the year (2020: £79m).

4.1.3 Capital reorganisation reserve

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

4.1.4 Merger reserve

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

4.1.5 Other reserves

Own shares held

Virgin Money Holdings (UK) PLC established an EBT in 2011 in connection with the operation of its share plans. On the date of acquisition by the Company, the shares held in the EBT were converted to the Company's shares at a ratio of 1.2125 Company shares for each Virgin Money Holdings (UK) PLC share. The investment in own shares as at 30 September 2021 is £0.2m (2020: £0.5m). The market value of the shares held in the EBT at 30 September 2021 was £0.2m (2020: £0.1m).

Deferred shares reserve

The deferred shares reserve comprises shares to be issued in the future relating to employee share plans in regard to the settlement of outstanding Virgin Money Holdings (UK) PLC share awards, which will be settled through the issuance of the Company's shares at a future date in line with the vesting profile of the underlying plans.

Equity based compensation reserve

The Group's equity based compensation reserve records the value of equity settled share based payment benefits provided to the Group's employees as part of their remuneration that has been charged through the income statement and adjusted for deferred tax.

FVOCI reserve

The FVOCI reserve records the unrealised gains and losses arising from changes in the fair value of financial assets at FVOCI. The movements in this reserve are detailed in the consolidated statement of comprehensive income.

Cash flow hedge reserve

The cash flow hedge reserve represents the effective portion of cumulative post-tax gains and losses on derivatives designated as cash flow hedging instruments that will be recycled to the income statement when the hedged items affect profit or loss.

	2021 £m	2020 £m
At 1 October	**(80)**	(26)
Amounts recognised in other comprehensive income:		
Cash flow hedge – interest rate risk		
Effective portion of changes in fair value of interest rate swaps	**127**	(74)
Amounts transferred to the income statement	**(5)**	1
Taxation	**(33)**	19
Cash flow hedge – foreign exchange risk		
Effective portion of changes in fair value of cross currency swaps	**(28)**	(59)
Amounts transferred to the income statement	**29**	59
At 30 September	**10**	(80)

4.2 Equity based compensation

Accounting policy
The Group operates a number of equity settled share based compensation plans in respect of services received from certain of its employees. The fair value of the services received is recognised as an expense. The total amount to be expensed is measured by reference to the fair value of the Company's shares, performance options or performance rights granted, including, where relevant, any market performance conditions and any non-vesting conditions. The impacts of any service and non-market performance vesting conditions are not included in the fair value and instead are included in estimating the number of awards or options that are expected to vest.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. A corresponding credit is recognised in the equity based compensation reserve, adjusted for deferred tax. In some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between the start of the service period and the grant date.

At the end of each reporting year, the Group revises its estimates of the number of shares, performance options and performance rights that are expected to vest based on the non-market and service vesting conditions. The impact of the revision to original estimates, if any, is recognised in the income statement, with a corresponding adjustment to the equity based compensation reserve.

The equity settled share based payment charge for the year is £5m (2020: £10m).

Virgin Money UK PLC awards
The Group issues awards to employees under the following share plans:

Plan	Eligible employees	Nature of award	Vesting conditions[1]	Grant dates[2]
DEP[3]	Selected employees	Conditional rights to shares	Continuing employment or leaving in certain limited circumstances	2016, 2017, 2018 and 2019
LTIP	Selected senior employees	Conditional rights to shares	Continuing employment or leaving in certain limited circumstances and achievement of delivery of the Group's strategic goals and growth in shareholder value	2017, 2018 and 2019
SIP	All employees	Non-conditional share award	Continuing employment	2016, 2017 and 2018

(1) All awards are subject to vesting conditions and therefore may or may not vest.
(2) The year in which grants have been made under the relevant plan.
(3) Grants made under the DEP are made the year following the financial year to which they relate.

Further detail on each plan is provided below:

DEP
Under the plan, employees are awarded conditional rights to Virgin Money UK PLC shares. The shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. Awards include:

- the upfront and deferred elements of bonus awards where required to comply with the PRA Remuneration Code or the Group's deferral policy; and
- buyout of equity from previous employment.

LTIP
Under the plan, employees are awarded conditional rights to Virgin Money UK PLC shares. The shares are subject to forfeiture conditions including forfeiture as a result of resignation, termination by the Group or failure to meet compliance requirements. The performance conditions of the plan must be met over a three-year period. The measures reflect a balanced approach between financial and non-financial performance and are aligned to the Group's strategic goals. Measures, relative weightings and the quantum for assessing performance are outlined in the Directors' remuneration report.

SIP
At the date of the awards, eligible employees are awarded Group shares which are held in the SIP Trust. Awards are not subject to performance conditions and participants are the beneficial owners of the shares granted to them, but not the registered owners. Voting rights over the shares are normally exercised by the registered owner at the direction of the participants. For the 2015 and 2017 awards, leavers (with the exception of gross misconduct) retain their awards but they must withdraw their shares from the SIP Trust.

Awards/rights made during the year

Plan	Number outstanding at 1 October 2020	Number awarded	Number forfeited	Number released	Number outstanding at 30 September 2021	Average fair value of awards at grant pence
DEP						
2016 Commencement	5,710	–	–	(3,090)	2,620	266.03
2017 Bonus	223,364	–	–	(173,455)	49,909	313.20
2018 Bonus	170,649	–	–	–	170,649	192.35
2019 Bonus	91,928	–	–	(6,384)	85,544	174.50
2019 Commencement	31,638	–	–	(11,795)	19,843	174.50
2020 Commencement	–	29,540	–	(9,970)	19,570	135.40
LTIP						
2017 LTIP	2,043,402	–	(1,467,372)	(195,106)	380,924	313.20
2018 LTIP	5,646,210	–	(890,558)	(3,916)	4,751,736	190.47
2019 LTIP	8,937,017	–	(1,256,381)	–	7,680,636	174.50
2020 LTIP	–	10,914,593	(535,074)	–	10,379,519	135.40
SIP						
2015 Demerger	928,029	–	–	(298,860)	629,169	194.67
2017 Free Share	770,037	–	–	(205,919)	564,118	313.20
2019 Free Share	1,980,792	–	(101,844)	(194,094)	1,684,854	202.53

Determination of grant date fair values

The grant date fair value of the awards has been taken as the market value of the Company's ordinary shares at the grant date. Where awards are subject to non-market performance conditions, an estimate is made of the number of awards expected to vest in order to determine the overall share based payment charge to be recognised over the vesting period. Awards were granted under the LTIP and DEP on 9 December 2020, based on the middle market share price on the day immediately preceding the grant (135.4p).

The Group has not issued awards under any plan with market performance conditions.

Section 5: Other notes

5.1 Contingent liabilities and commitments

Accounting policy

Financial guarantees

The Group provides guarantees in the normal course of business on behalf of its customers. Guarantees written are conditional commitments issued by the Group to guarantee the performance of a customer to a third party and are primarily issued to support direct financial obligations such as commercial bills or other debt instruments issued by a counterparty. The rating of the Group as a guarantee provider enhances the marketability of the paper issued by the counterparty in these circumstances.

The ECL requirements as described in note 3.2 apply to loan commitments and financial guarantee contracts.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the balance sheet but are disclosed unless they are remote.

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

Financial guarantees

	2021 £m	2020 £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**20**	18
Due between 3 months and 1 year	**21**	15
Due between 1 year and 3 years	**13**	14
Due between 3 years and 5 years	**2**	2
Due after 5 years	**45**	46
	101	95
Other credit commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**17,020**	16,775

Capital commitments

The Group has committed to providing additional funding of up to £5.5m over an eight-month period from June 2021 to enable the JV UTM to support the business transformation and to meet its regulatory capital and liquidity requirements, of which £4m was the remaining commitment as at 30 September 2021. This will be paid by 6 January 2022. Further detail on UTM can be found in the JVs and associates section of note 5.3.

The Group had future capital expenditure which had been contracted for, but not provided for, at 30 September 2021 of £0.2m (2020: £0.4m).

Other contingent liabilities

Conduct risk related matters

Although substantially reduced with the close-down of the PPI operation, there continues to be uncertainty and thus judgement is required in determining the quantum of conduct risk related liabilities, with note 3.14 reflecting the Group's current position in relation to a number of these matters where a provision can be reliably estimated. Until all matters are closed 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 Notes to the statement of cash flows

	2021 £m	2020 £m
Adjustments included in the profit/(loss) before tax		
Interest receivable	**(1,910)**	(2,137)
Interest payable	**553**	854
Depreciation, amortisation and impairment (note 2.4)	**191**	159
Derivative financial instruments fair value movements	**5**	11
Impairment (credit)/losses on credit exposures (note 3.2)	**(131)**	507
Equity based compensation (note 4.2)	**5**	10
Gain on disposal of FVOCI assets (note 2.3)	**–**	(16)
Other non-cash movements	**62**	6
	(1,225)	(606)
Changes in operating assets		
Net decrease/(increase) in:		
Balances with supervisory central banks	**(38)**	(38)
Derivative financial instruments	**269**	(96)
Financial assets at FVTPL	**30**	65
Loans and advances to customers	**491**	134
Defined benefit pension assets	**(61)**	(35)
Other assets	**141**	(105)
	832	(75)
Changes in operating liabilities		
Net (decrease)/increase in:		
Due to other banks	**(50)**	(1,531)
Derivative financial instruments	**(41)**	(23)
Financial liabilities at FVTPL	**–**	(4)
Customer deposits	**(644)**	3,728
Provisions for liabilities and charges	**(72)**	(294)
Other liabilities	**(219)**	1
	(1,026)	1,877

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition. This includes cash and liquid assets and amounts due to other banks (to the extent less than 90 days).

	2021 £m	2020 £m
Cash and balances with central banks (less mandatory deposits)	**9,453**	8,887
Due from other banks (less than three months)	**800**	927
	10,253	9,814

5.3 Related party transactions

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

Yorkshire and Clydesdale Bank Pension Scheme ('the Scheme')
The Group provides banking services to the Scheme, with customer deposits of £40m (2020: £17m). Pension contributions of £61m were made to the Scheme in the year (2020: £35m).

The Group and the Trustee to the Scheme (note 3.10) have entered into a contingent Security Arrangement which provides additional support to the Scheme by underpinning recovery plan contributions and some additional investment risk. The security is in the form of a pre-agreed maximum level of assets that are set aside for the benefit of the Pension Scheme in certain trigger events. These assets are held by Red Grey Square Funding LLP, an insolvency remote consolidated structured entity.

Joint ventures and associates
The Group holds investments in JVs of £10m (2020: £3m). The total share of loss for the year was £5m (2020: £7m). In addition, the Group had the following transactions with JV entities during the period:

> Salary Finance Loans Limited ('Salary Finance') – the Group provides Salary Finance with a revolving credit facility funding line, of which the current gross lending balance was £223m (2020: £119m) and the undrawn facility was £37m (2020: £81m). The facility is held under Stage 1 for credit risk purposes. Board approval is in place for this facility up until March 2023 with £400m being the approved limit; and
> UTM – the Group provides banking services to UTM which has resulted in amounts due of £3m (2020: £3m). Additionally, the Group received £7m of recharge income in the year (2020: £7m) from UTM in accordance with a Service Level Agreement in respect of resourcing, infrastructure and marketing.

During the year, the Group provided £12.4m of additional funding to UTM with a further commitment of £4m as at 30 September 2021; this amount will be paid in two instalments with the final payment due 6 January 2022.

Other related party transactions with Virgin Group
The Group has related party transactions with other Virgin Group companies.

> Licence fees due to Virgin Enterprises Limited for the use of the Virgin Money brand trademark resulted in an amount payable of £4m (2020: £4m), with expenses incurred in the year of £14m (2020: £13m).
> The Group also incurs credit card commissions and air mile charges with Virgin Atlantic Airways Limited (VAA) in respect of an agreement between the two parties. Amounts payable to VAA totalled £2m (2020: £1m) and expenses of £12m were incurred in the year (2020: £12m).

Charities
The Group provides banking services to The Virgin Money Foundation which has resulted in customer deposits of £1m (2020: £Nil). The Group made donations of £1m in the year (2020: £1m) to the Foundation to enable it to pursue its charitable objectives. The Group has also provided a number of support services to the Foundation on a pro bono basis, including use of facilities and employee time. The estimated gift in kind for support services provided during the year was £0.4m (2020: £0.4m).

Compensation of key management personnel (KMP)
KMP comprises Directors of the Company and members of the Executive Leadership Team.

	2021 £m	2020 £m
Salaries and short-term benefits	**9**	10
Termination benefits	**–**	1
Equity based compensation(1)	**3**	4
	12	15

(1) The expense recognised in the year is in accordance with IFRS 2 'Equity based compensations', including associated employers' NIC.

The following information regarding Directors' remuneration is presented in accordance with the Companies Act 2006.

	2021 £m	2020 £m
Aggregate remuneration(1)	**3**	4

(1) Aggregate remuneration includes amounts paid for the 2021 year and amounts paid under the LTIPs in 2021 relating to the 2017 LTIP award released in 2021. LTIP figures in the single figure table for Executive Directors' 2021 remuneration in the Remuneration report relate to the 2018 LTIP award in respect of the 2019–2021 LTIP performance period cycle.

None of the Directors were members of the Group's defined contribution or defined benefit pension schemes during 2021 (2020: none).

None of the Directors hold share options and none were exercised during the year (2020: none).

Transactions with KMP

KMP, their close family members, and any entities controlled or significantly influenced by the KMP have undertaken the following transactions with the Group in the normal course of business. The transactions were made on the same terms and conditions as applicable to other Group employees, or on normal commercial terms:

	2021 £m	2020 £m
Loans and advances	**3**	4
Deposits	**2**	2

No provisions have been recognised in respect of loans provided to the KMP (2020: £Nil). There were no debts written off or forgiven during the year to 30 September 2021 (2020: £Nil). Included in the above are six (2020: eight) loans totalling £0.3m (2020: £1m) made to Directors. In addition to the above, there are guarantees of £Nil (2020: £Nil) made to Directors and their related parties.

5.4 Pillar 3 disclosures

Basel III Capital Requirements Directive IV

Pillar 3 disclosure requirements are set out in Part Eight of the CRR. The consolidated disclosures of the Group, for the 2021 financial year, will be issued concurrently with the Annual Report and Accounts and can be found at www.virginmoneyukplc.com/investor-relations/results-and-reporting/financial-results/.

5.5 Post balance sheet events

There have been no significant events between 30 September 2021 and the date of approval of the Annual Report and Accounts which would require a change to or additional disclosure in the financial statements.

Company balance sheet

As at 30 September	Note	2021 £m	2020 £m
Assets			
Investments in controlled entities	6.2	**4,111**	4,048
Due from related entities	6.6	**3,468**	2,773
Financial assets at FVTPL		**5**	12
Current tax assets		**3**	5
Total assets		**7,587**	6,838
Liabilities			
Debt securities in issue	6.3	**3,429**	2,743
Due to other banks		**129**	64
Due to related entities	6.6	**8**	15
Other liabilities		**5**	7
Total liabilities		**3,571**	2,829
Equity			
Share capital and share premium	4.1	**149**	147
Other equity instruments	6.5	**919**	919
Merger reserve	6.5	**2,128**	2,128
Other reserves	6.5	**28**	26
Retained earnings	6.5	**792**	789
Total equity		**4,016**	4,009
Total liabilities and equity		**7,587**	6,838

The Company made a profit of £80m (2020: loss of £155m) during the year.

The notes on pages 302 to 308 form an integral part of these financial statements.

Company statement of changes in equity

	Note	Share capital and share premium £m	Other equity instruments £m	Merger reserve £m	Other reserves: Deferred shares reserve £m	Other reserves: Equity based compensation reserve £m	Other reserves: Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 1 October 2019		146	919	2,128	19	6	(1)	1,015	4,232
Loss for the year		–	–	–	–	–	–	(155)	(155)
Other comprehensive income, net of tax		–	–	–	–	–	1	–	1
Total comprehensive income/(losses) for the year		–	–	–	–	–	1	(155)	(154)
AT1 distribution paid		–	–	–	–	–	–	(79)	(79)
Ordinary shares issued		1	–	–	–	–	–	–	1
Transfer from equity based compensation reserve		–	–	–	–	(6)	–	6	–
Equity based compensation expensed		–	–	–	–	10	–	–	10
Settlement of Virgin Money Holdings (UK) PLC share awards		–	–	–	(3)	–	–	2	(1)
As at 30 September 2020	6.5	147	919	2,128	16	10	–	789	4,009
Profit for the year		–	–	–	–	–	–	81	81
AT1 distribution paid		–	–	–	–	–	–	(79)	(79)
Ordinary shares issued		2	–	–	–	–	–	–	2
Transfer from equity based compensation reserve		–	–	–	–	(1)	–	1	–
Equity based compensation expensed		–	–	–	–	5	–	–	5
Settlement of Virgin Money Holdings (UK) PLC share awards		–	–	–	(2)	–	–	–	(2)
As at 30 September 2021	6.5	**149**	**919**	**2,128**	**14**	**14**	**–**	**792**	**4,016**

The notes on pages 302 to 308 form an integral part of these financial statements.

Company statement of cash flows

For the year ended 30 September	2021 £m	2020 £m
Operating activities		
Profit/(loss) on ordinary activities before tax	**76**	(159)
Adjustments for:		
Changes in operating assets		
Financial assets at FVTPL	**9**	–
Interest receivable	**(122)**	(107)
Interest payable	**126**	112
Costs recharged from subsidiary	**(3)**	235
Fair value movements on other financial assets designated at FVTPL	**(1)**	(5)
Net increase in amounts due to related entities	**9**	8
Tax received – Group relief	**5**	3
Net cash provided by operating activities	**99**	87
Cash flows from financing activities		
Interest received	**111**	102
Interest paid	**(110)**	(101)
Issuance of medium-term notes/subordinated debt	**728**	927
Net increase in amounts due from related entities	**(697)**	(480)
Redemption of medium-term notes/subordinated debt	**(31)**	(447)
AT1 distributions	**(79)**	(79)
Net cash used in financing activities	**(78)**	(78)
Net increase in cash and cash equivalents	**21**	9
Cash and cash equivalents at the beginning of the year	**(2)**	(11)
Cash and cash equivalents at the end of the year	**19**	(2)

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than three months' maturity from the date of acquisition.

	2021 £m	2020 £m
Due to related parties (note 6.6)	**19**	(2)

Movements in liabilities arising from financing activities:	Debt securities in issue £m	Total £m
At 1 October 2019	2,257	2,257
Cash flows:		
Issuances	927	927
Redemptions	(447)	(447)
Non cash flows:		
Movement in accrued interest	2	2
Other movements	4	4
At 1 October 2020	2,743	2,743
Cash flows:		
Issuances	**728**	**728**
Redemptions	**(31)**	**(31)**
Non cash flows:		
Movement in accrued interest	**7**	**7**
Unamortised costs	**4**	**4**
Other movements	**(23)**	**(23)**
At 30 September 2021	**3,428**	**3,428**

The notes on pages 302 to 308 form an integral part of these financial statements.

Section 6: Notes to the Company financial statements

6.1 Company basis of preparation

The Company is incorporated in the UK and registered in England and Wales.

The Company financial statements of Virgin Money UK PLC, the parent company (the Company), which should be read in conjunction with the Group Directors' report, have been prepared on a going concern basis in accordance with IASs in conformity with the requirements of the Companies Act 2006[1].

No individual income statement or statement of comprehensive income is presented for the Company, as permitted by Section 408 of the Companies Act 2006.

Basis of measurement

The financial information has been prepared under the historical cost convention. The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

The accounting policies of the Company are the same as those of the Group which are set out in the notes to the consolidated financial statements except that the Company has no policy in respect of consolidation. These accounting policies have been applied consistently to all years presented in these financial statements.

6.2 Company investments in controlled entities

Accounting policy

The Company's investments in controlled entities are valued at cost or valuation less any provision for impairment. Such investments are reviewed annually for potential evidence of impairment, or more frequently when there are indications that impairment may have occurred. Losses relating to impairment in the value of shares in controlled entities are recognised in the income statement.

	2021 £m	2020 £m
At 30 September	**4,111**	4,048

The increase in the year is in respect of the Company's investment in Clydesdale Bank PLC and relates to the Group's historic Conduct Indemnity arrangement with National Australia Bank (NAB). Claims under the Conduct Indemnity Deed have been made by the Company in prior years, while the provisions in respect of the qualifying conduct costs and associated losses were raised and incurred by Clydesdale Bank PLC. Under this arrangement, the Company has historically recovered the cost of relevant conduct provisions raised by Clydesdale Bank PLC from NAB (minus a loss share borne by Clydesdale Bank PLC of 9.7%). Where reimbursement income has been received from NAB, an amount equal to the tax relief on the qualifying conduct costs (less the loss share of 9.7%) becomes repayable to NAB upon utilisation of that tax relief in a filed tax computation and saving an amount of tax. For the Company, the substance of the indemnity agreement is that of variable consideration in relation to its investment in Clydesdale Bank PLC. A liability for the repayment of these amounts is recognised, with a corresponding purchase price increase to the investment in Clydesdale Bank PLC.

(1) As the Company's accounting year straddles 31 December 2020, the date the UK ceased to be subject to EU law, the 2021 published financial reports are required to follow EU adopted IFRSs. From 1 October 2021, the Company will follow and refer only to UK adopted IASs, with the UK Endorsement Board being the body responsible for providing authorisation for the use of new IASB standards, amendments or interpretations in the UK from 1 January 2021. As at 30 September 2021, there were no material endorsement disparities between the UK and EU that would impact the Company.

The table below represents the wholly-owned subsidiary undertakings of the Group and Company as at 30 September 2021:

Wholly-owned subsidiary undertakings	Nature of business	Class of share held	Proportion held	Country of incorporation	Registered office	Financial year end
Direct holdings						
Clydesdale Bank PLC	Banking	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
CYB Investments Limited	Lending company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money Retirement Savings Plan Trustee Limited	Dormant	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
YCBPS Property Nominee Company Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Yorkshire and Clydesdale Bank Pension Trustee Limited	Dormant	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
Indirect holdings						
CGF No 9 Limited	Leasing	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
Clydesdale Bank Asset Finance Limited	Leasing	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
CYB Intermediaries Limited	Insurance intermediary	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
St Vincent (Equities) Limited	Investment company	Ordinary	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
Virgin Money Giving Limited	Charitable donations	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 March
Virgin Money Holdings (UK) PLC	Intermediate holding company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money Management Services Limited	Service company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	31 March
Virgin Money Personal Financial Service Limited	Insurance intermediary	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Virgin Money Limited	Non-trading company	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Yorkshire Bank Home Loans Limited	Mortgage finance	Ordinary	100%	England	20 Merrion Way, Leeds, Yorkshire, LS2 8NZ	30 September
C.B. Nominees Limited	Dormant	Limited by guarantee	100%	Scotland	30 St Vincent Place, Glasgow, G1 2HL	30 September
CYB SSP Trustee Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Northern Rock Limited	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Yorkshire Bank PLC	Dormant	Ordinary	100%	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September

6.2 Company investments in controlled entities continued

Impairment of investment in Clydesdale Bank PLC

An impairment test on the carrying value of the Company's investment in Clydesdale Bank PLC has been undertaken. The recoverable amount as determined by a value-in-use (VIU) calculation was higher than the carrying value and therefore no impairment charge has been recognised for the current year (2020: £237m charge).

Key assumptions used in value-in-use calculation

The VIU calculation uses discounted cash flow projections based on the Board approved five-year Strategic and Financial Plan. Cash flows beyond the forecast period have been extrapolated with a terminal growth rate applied.

The following assumptions are used in the VIU calculation:

- Discount rate: 14.7%;
- Annual growth rate (years 6-10): 2%; and
- Projected terminal growth rate: 2%.

The five-year forecast projections encompass a range of economic indications such as GDP growth, unemployment statistics as well as a range of other business assumptions specific to the Group such as asset volumes, product volumes and margins which are commercially sensitive.

Discount rate

The discount rate applied reflects the current market assessment of the risk specific to the Group. The discount rate was calculated by reference to a series of internal indicators combined with certain identifiable and available sector specific information.

Growth rate

The growth rate is based on management's expectation of the long-term average growth prospects for UK GDP after taking into account the broader historic UK economic outlook and trends.

Sensitivity to changes in assumptions

Changes in the discount rate or projected terminal growth rate will impact the Company's assessment of the value-in-use of Clydesdale Bank PLC. If adjusted independently of all other variables, a 10 basis point increase in the discount rate would decrease the headroom by £38m and a 10 basis point decrease in the projected terminal growth rate would decrease the headroom by £14m.

Interest in Charitable Foundations

The Group has an interest in The Virgin Money Foundation, a charitable foundation registered in England as a company limited by guarantee. Clydesdale Bank PLC acts as a guarantor for £1 and is also a donor.

The Company also has an interest in a number of structured entities:

Other controlled entities as at 30 September 2021	Nature of business	Country of Incorporation	Registered office	Financial year end
Clydesdale Covered Bonds No. 2 LLP	Acquisition of mortgage loans	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Eagle Place Covered Bonds LLP	Acquisition of mortgage loans	England	Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL	30 September
Gosforth Funding 2015-1 PLC (in liquidation)	Issuer of securitised notes	England	1 St. Peters Square, Manchester, M2 3AE	31 December
Gosforth Funding 2016-1 PLC (in liquidation)	Issuer of securitised notes	England	15 Canada Square, London, E14 5GL	30 September
Gosforth Funding 2016-2 PLC (in liquidation)	Issuer of securitised notes	England	1 St. Peters Square, Manchester, M2 3AE	31 December
Gosforth Funding 2017-1 PLC	Issuer of securitised notes	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Gosforth Funding 2018-1 PLC	Issuer of securitised notes	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Gosforth Holdings 2015-1 Limited (in liquidation)	Holding company	England	1 St. Peters Square, Manchester, M2 3AE	31 December
Gosforth Holdings 2016-1 Limited (in liquidation)	Holding company	England	15 Canada Square, London, E14 5GL	30 September
Gosforth Holdings 2016-2 Limited (in liquidation)	Holding company	England	1 St. Peters Square, Manchester, M2 3AE	31 December
Gosforth Holdings 2017-1 Limited	Holding company	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Gosforth Holdings 2018-1 Limited	Holding company	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Gosforth Mortgages Trustee 2015-1 Limited (in liquidation)	Trust	England	1 St. Peters Square, Manchester, M2 3AE	31 December
Gosforth Mortgages Trustee 2016-1 Limited (in liquidation)	Trust	England	15 Canada Square, London, E14 5GL	30 September
Gosforth Mortgages Trustee 2016-2 Limited (in liquidation)	Trust	England	1 St. Peters Square, Manchester, M2 3AE	31 December
Gosforth Mortgages Trustee 2017-1 Limited	Trust	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Gosforth Mortgages Trustee 2018-1 Limited	Trust	England	Eighth Floor, 100 Bishopsgate, London, EC2V 4AG	30 September
Lanark Funding Limited	Funding company	England	Third Floor, Suite 2, 11-12 St. James's Square, London, SW1Y 4LB	30 September
Lanark Holdings Limited	Holding company	England	Third Floor, Suite 2, 11-12 St. James's Square, London, SW1Y 4LB	30 September
Lanark Master Issuer PLC	Issuer of securitised notes	England	Third Floor, Suite 2, 11-12 St. James's Square, London, SW1Y 4LB	30 September
Lanark Trustees Limited	Mortgages trustee	England	Third Floor, Suite 2, 11-12 St. James's Square, London, SW1Y 4LB	30 September
Lannraig Funding Limited	Funding company	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Holdings Limited	Holding company	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Master Issuer PLC	Issuer of securitised notes	England	1 Bartholomew Lane, London, EC2N 2AX	30 September
Lannraig Trustees Limited	Mortgages trustee	Jersey	44 Esplanade, St Helier, Jersey, JE4 9WG, Channel Islands	30 September
Red Grey Square Funding LLP	Security provider	England	1 Bartholomew Lane, London, EC2N 2AX	30 September

Details of the Group's interests in consolidated structured entities associated with securitisation and covered bond arrangements are set out in note 3.3.

6.2 Company investments in controlled entities continued

The Group also has a participating interest in the following undertakings as either an associate (A) or a joint venture (JV):

Name of undertaking	Status	% of share class held by immediate parent company (or by the Group where this varies)	Registered office address (UK unless stated otherwise)	Financial year end
Eagle Place Covered Bonds Finance Limited	A	20%	1 Bartholomew Lane, London, EC2N 2AX	31 December
Salary Finance Loans Limited	JV	50%	Scale Space, 58 Wood Lane, London, W12 7RZ	31 December
Virgin Money Unit Trust Managers Limited[1]	JV	50% (plus one share)	Jubilee House, Gosforth, Newcastle Upon Tyne, NE3 4PL	31 December

(1) Virgin Money Unit Trust Managers Limited owns 100% of the share capital of Virgin Money Nominees Limited, a dormant company registered at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL and 100% of the share capital of Virgin Money Trustee Limited, a dormant company registered at Jubilee House, Gosforth, Newcastle upon Tyne, NE3 4PL.

Investments in JVs are recognised in the consolidated financial statements within other assets. Further details on the JV arrangements are provided in note 5.3.

6.3 Company debt securities in issue

	2021 £m	2020 £m
Subordinated debt	**1,033**	756
Medium-term notes	**2,396**	1,987
	3,429	2,743

Information on subordinated debt and medium-term notes is provided in note 3.12 to the consolidated financial statements.

The fair value hedge adjustment included in note 3.12 is not applicable at Company level.

6.4 Company fair value of financial instruments

Fair value of financial instruments carried at amortised cost

The tables below show a comparison of the carrying amounts of financial assets and liabilities measured at amortised cost as reported on the balance sheet and their fair values where these are not approximately equal.

There are various limitations inherent in this fair value disclosure particularly where prices may not represent the underlying value due to dislocation in the market. Not all of the Company's financial instruments can be exchanged in an active trading market.

	2021					2020				
			Fair value measurement using:					Fair value measurement using:		
	Carrying value £m	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m	Carrying value £m	Fair value £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial assets										
Due from related entities	**3,468**	**3,783**	**–**	**3,783**	**–**	2,773	2,951	–	2,951	–
Financial liabilities										
Debt securities in issue	**3,429**	**3,704**	**3,704**	**–**	**–**	2,743	2,846	2,846	–	–

Notes

The Company's fair values disclosed for financial instruments at amortised cost are based on the following methodologies and assumptions:

Amounts due from related entities – The fair value of subordinated debt and medium-term notes due from related entities is derived from quoted market prices of the debt security in issue after accounting for differences in credit spread. All other amounts due from related entities are redeemable at call and therefore carrying value approximates fair value.

Debt securities in issue – The fair value of subordinated debt is taken directly from quoted market prices.

The Company also holds £1m of debt investments measured at fair value. These investments are categorised as Level 3, as the valuations incorporate significant unobservable inputs. Valuation is based on the transaction price which the Company believes is the best representation of an exit price. The significant unobservable input is the recoverable amount which could range from 0 to 100%.

6.5 Company reserves

6.5.1 Other equity instruments and reserves

Information on other equity instruments and other reserves is provided in note 4.1 to the Group's consolidated financial statements.

Included within retained earnings is the profit for the year ended 30 September 2021 of £81m (2020: loss of £155m).

6.5.2 Available distributable items

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 30 September 2021, the Company had accumulated distributable reserves of £792m (2020: £789m).

6.6 Company related party transactions

During the year there have been transactions between the Company, controlled entities of the Company, and other related parties. The Company receives and provides a range of services from/to its principal subsidiary undertaking, Clydesdale Bank PLC, including loans and deposits.

Amounts due from controlled entities of the Company

	2021 £m	2020 £m
Bank accounts held with controlled entity of the Company	**19**	–
Medium-term notes	**2,412**	2,007
Subordinated debt	**1,032**	757
Other receivables	**5**	9
Total amounts due from related entities	**3,468**	2,773
Interest income on the above amount was as follows:		
Interest income from related parties	**123**	107

Medium-term notes comprise dated, unsecured loans issued by Clydesdale Bank PLC. These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer, other than creditors whose claims rank junior to the claims of the holders of the medium-term note liabilities, including those of subordinated debt holders.

Subordinated debt comprises dated, unsecured loan capital issued by Clydesdale Bank PLC. These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer, other than creditors whose claims rank junior to the claims of the holders of subordinated liabilities.

The following transactions took place in the year in relation to these holdings:

- on 8 February 2021, the Company repaid £30m of 5% fixed rate reset callable subordinated debt with a final maturity date of 9 February 2026 at its call date to Clydesdale Bank PLC;
- on 19 May 2021, the Company purchased £300m of 2.625% fixed rate reset callable subordinated debt with a final maturity of 19 August 2031 from Clydesdale Bank PLC; and
- on 27 May 2021, the Company purchased €500m of 0.375% fixed rate reset callable medium-term notes with a final maturity of 27 May 2024 from Clydesdale Bank PLC.

Amounts due to controlled entities of the Company

	2021 £m	2020 £m
Bank account held with controlled entity of the Company	**–**	2
Other payables	**8**	13
Total amounts due to related entities	**8**	15

6.6 Company related party transactions continued

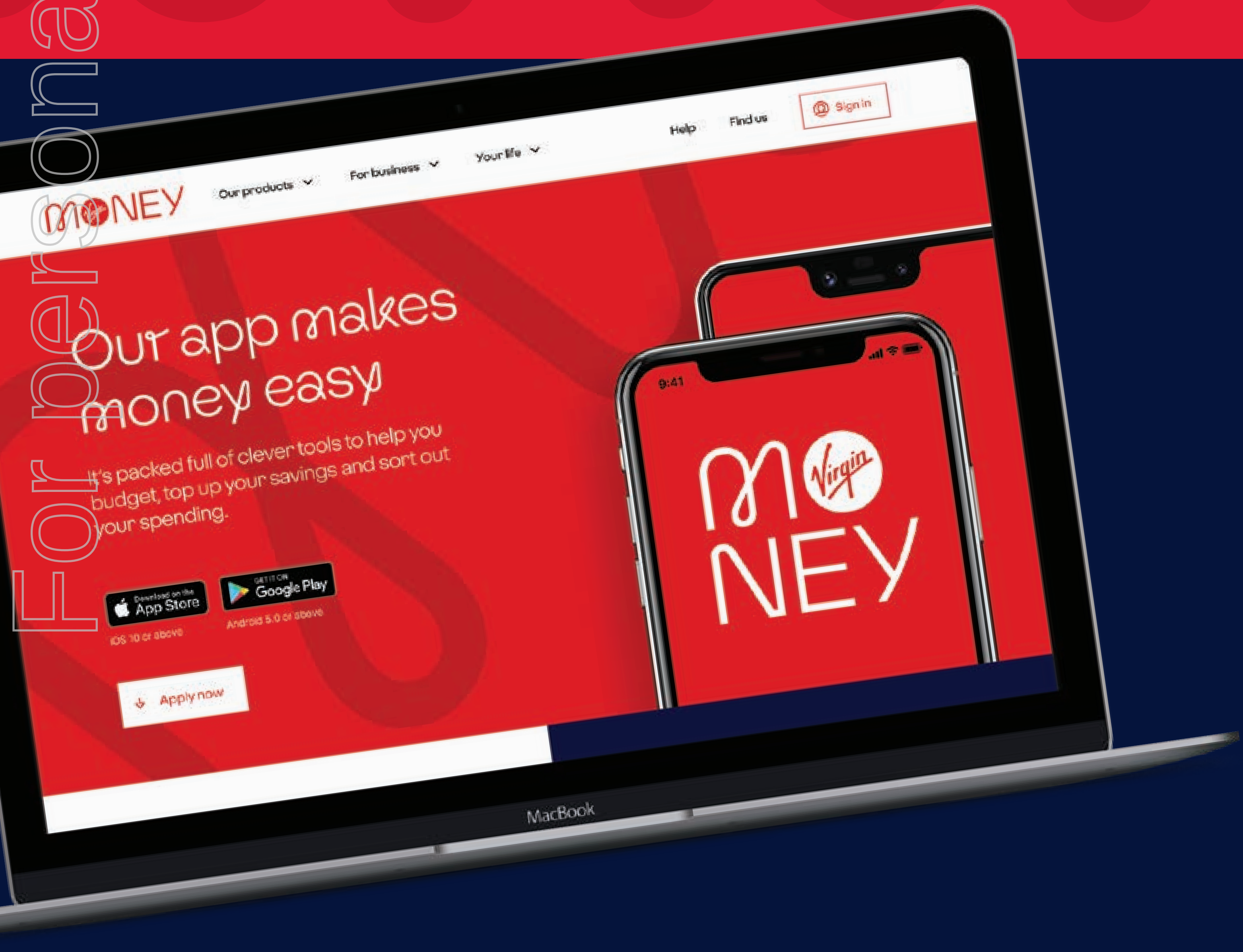
Other transactions with related entities

	2021 £m	2020 £m
Non-interest income received	**17**	15
Dividends received	**20**	20
AT1 distributions received	**59**	59
	96	94

Other related party transactions

As detailed in note 4.2 to the consolidated financial statements, the Group provides share based compensation to employees through a number of schemes, all in relation to shares in the Company. The cost of providing these benefits is recharged to the employing company, Clydesdale Bank PLC. Recharges are calculated based on the fair value of awards expensed in the year in accordance with IFRS 2: 'Share based payments'. The key management personnel of the Company are the key management personnel of the Group, with relevant disclosures given in note 5.3 to the consolidated financial statements. The Company has no employees (2020: Nil).

Additional Information



Contents

Principles for Responsible Banking report

The Principles of Responsible Banking were launched by the United Nations in 2019 with the aim of accelerating the banking industry's contribution to the SDGs. This is our second self-assessment report which outlines our progress in implementing the principles across VMUK.

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
Principle 1: Alignment **We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the SDGs, the Paris Climate Agreement and relevant national and regional frameworks.**		
1.1 *Describe* (high-level) your bank's business model, including the main customer segments served, types of products and services provided, the main sectors and types of activities, and where relevant the technologies financed across the main geographies in which your bank has operations or provides products and services.	Virgin Money is the UK's 6th largest bank serving c6.5m retail and small and medium-sized Business banking customers in the UK through an innovative digital platform and a national network of stores, contact centres and relationship managers. Our Purpose is Making you happier about money with an ambition to disrupt the status quo of the Personal and business banking markets.	
	More information on the business structure can be found on page 2, 'who we are and what we do' with further detail from page 36 within the divisional review.	Page 2 and 36
	Our sector credit exposures are detailed in our Pillar 3 disclosures pages 21 to 61. Page 171 of the Risk report provides a breakdown of our business credit lending portfolio.	www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/. Pages 21 to 61
1.2 *Describe* how your bank has aligned and/or is planning to align its strategy to be consistent with and contribute to society's goals, as expressed in the SDGs, the Paris Climate Agreement, and relevant national and regional frameworks.	ESG continues to be incorporated within our governance and decision making and is embedded within our annual planning processes, as outlined in page 32 of the Strategic report.	Page 32
	Our ESG Strategy focuses on Four Big Goals, details of which can be found on pages 22 to 33 and within the Corporate Sustainability section of our corporate website.	Pages 22 to 33
	Through a mapping assessment of our strategy against the United Nations SDGs, we identified where we believe we can have the most sustained positive impact, as outlined within the detail of our Four Big Goals.	Page 23
	We have set 2030 aspirations and continue to refine our medium-term targets in line with the Paris Agreement on Climate Change. We are deploying the PCAF methodology to understand, model and calculate our financed emissions and have now signed up to the Net Zero Banking Alliance. We will set formal 2030 targets within the next 18 months.	Pages 24 to 33
	We have utilised the scenarios published by the BoE as part of its Climate Biennial Exploratory Scenario to identify climate-related risks and opportunities and assess the resilience of our business model in line with the Paris Agreement.	Page 229
	We have produced our first TCFD submission which incorporates our approach to tracking trends across business and society.	Pages 218 to 234

Principles for Responsible Banking report continued

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
Principle 2: Impact and Target Setting **We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.**		
2.1 Impact Analysis: *Show* that your bank has identified the areas in which it has its most significant (potential) positive and negative impact through an impact analysis that fulfills the following elements: a) **Scope:** The bank's core business areas, products/ services across the main geographies that the bank operates in have been as described under 1.1. have been considered in the scope of the analysis. b) **Scale of Exposure:** In identifying its areas of most significant impact the bank has considered where its core business/its major activities lie in terms of industries, technologies and geographies. c) **Context and Relevance:** Your bank has taken into account the most relevant challenges and priorities related to sustainable development in the countries/ regions in which it operates. d) **Scale and intensity/salience of impact:** In identifying its areas of most significant impact, the bank has considered the scale and intensity/salience of the (potential) social, economic and environmental impacts resulting from the bank's activities and provision of products and services. (your bank should have engaged with relevant stakeholders to help inform your analysis under elements c) and d)) *Show* that building on this analysis, the bank has > Identified and disclosed its areas of most significant (potential) positive and negative impact > Identified strategic business opportunities in relation to the increase of positive impacts/ reduction of negative impacts	In 2019, we undertook a materiality assessment which informed our ESG strategy. This work was refreshed in 2020 and augmented with qualitative and quantitative insight from our key stakeholders throughout 2021 to ensure we retain focus on the issues of greatest importance and where we can have greatest impact. We engage, consult and respond to the needs of our stakeholders as outlined in the stakeholder engagement and Board decision making section on pages 87 to 93. Our TCFD report outlines the processes used to determine material risks and opportunities, including our RMF, detail on significant short- to medium-term ESG trends in the UK, and our progress on scenario analysis in response to the PRA Supervisory Statement 3/19. Work undertaken using the UN PRB Impact Assessment reconfirms that our greatest lending concentration is to the Agriculture sector and our Mortgages portfolio and, through our ESG Strategy, we continue to drive greater insight into emissions within these two priority areas while delivering customer interventions which support positive action. Our existing ESG strategy and commitments within Goal 2 (Build a brighter future) and Goal 3 (Open doors) describe how we are addressing challenges in these areas through our response to climate change and environmental issues, and our investment in supporting society and inclusive economies. In addition to this, VMUK apply a robust credit decisioning process for new business which is underpinned by our Sensitive Sector policy. We have also integrated ESG considerations within our business investment process, ensuring that all operational, system and product change considers social and environmental impact.	Page 87 Page 218 Pages 26 to 31 www.virginmoneyukplc.com/corporate-sustainability/esg-hub Pages 32 to 33

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Impact Analysis.
Virgin Money continues to make progress in assessing our significant positive and negative impacts and we are focused on ensuring this assessment covers all our core business activities as a financial institution. We will continue to work with UNEPFI, our peers and other organisations to enhance the tools and methodologies available to better understand and mitigate our impacts on society and the environment.

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
2.2 Target Setting *Show* that the bank has set and published a minimum of two **S**pecific, **M**easurable (can be qualitative or quantitative), **A**chievable, **R**elevant and **T**ime-bound (SMART) targets, which address at least two of the identified "areas of most significant impact", resulting from the bank's activities and provision of products and services.	Our Strategic report sets out our ESG strategy under Four Big Goals which reflect VMUK's 'areas of most significant impact' We have set two headline aspirations which are aligned to the 2015 Paris Agreement and SDGs 7, 8, 9, 12 and 13: > at least halving our carbon emissions across everything we finance by 2030; and > net zero operational and supplier emissions by 2030.	Pages 22 to 33
Show that these targets are linked to and drive alignment with and greater contribution to appropriate SDGs, the goals of the Paris Agreement, and other relevant international, national or regional frameworks. The bank should have identified a baseline (assessed against a particular year) and have set targets against this baseline.	Throughout 2021 we have been deepening our understanding of customer data from our mortgage and Business banking books using the PCAF tools and methodologies and have set near-term targets to measure progress. Our increased understanding of data and methodologies has given us the confidence to sign up to the Net-Zero Banking Alliance and commit to aligning our lending portfolios with pathways to net-zero emissions by 2050 or sooner. Additional information on our complete set of interim targets can be found in pages 22 to 33 of the Strategic report.	Pages 22 to 33
Show that the bank has analysed and acknowledged significant (potential) negative impacts of the set targets on other dimensions of the SDG/climate change/society's goals and that it has set out relevant actions to mitigate those as far as feasible to maximize the net positive impact of the set targets.	Through the impact assessment we've identified the negative impacts associated with our business activity (see 2.1) and have described how our existing ESG strategy and commitments within Goal 2 (Build a brighter future) and Goal 3 (Open doors) addresses challenges in these areas through our response to climate change and environmental issues, and our investment in supporting society and inclusive economies.	

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Target Setting.
Virgin Money has set more than the minimum of two SMART targets relevant to our business and our impact areas. We recognise the need to set further targets and better understand our current baseline in certain areas, particularly for our Mortgage book which comprises 81% of our customer lending. This work is underway across each of our Four Big Goals and we will continue to review our targets.

Principles for Responsible Banking report continued

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
2.3 Plans for Target Implementation and Monitoring *Show* that your bank has defined actions and milestones to meet the set targets. *Show* that your bank has put in place the means to measure and monitor progress against the set targets. Definitions of KPIs, any changes in these definitions, and any rebasing of baselines should be transparent.	The short- to medium-term targets and defined actions that support the meeting of the targets and aspirations have been laid out on pages 22 to 33. ESG targets, aligned to the Four Big Goal aspirations, are tracked via our Group and functional scorecards which are reviewed monthly and discussed at the Leadership Team and Board. We established an ESG scorecard (15% weighting) in our LTIP last year. In keeping with our plans to achieving net zero operational emissions by 2030, we included a carbon emissions target. More information on our ESG governance framework is provided within pages 32 to 33 of the Strategic report.	Pages 22 to 33 Pages 32 to 33
Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Plans for Target Implementation and Monitoring. Virgin Money has set stretching 2030 aspirations with a set of supportive interim targets. We have implemented dedicated ESG governance, assigned accountabilities and included ESG in our scorecards and LTIP to monitor performance and drive progress against these targets. We recognise there is more to do to build a comprehensive suite of externally-disclosed interim targets and milestones, through the work underway described in section 2.2. We remain committed to disclosing these and reporting progress at least annually as a core element of our 'Straight up ESG' goal.		
2.4 Progress on Implementing Targets **For each target separately:** *Show* that your bank has implemented the actions it had previously defined to meet the set target. **Or** *explain* why actions could not be implemented/needed to be changed and how your bank is adapting its plan to meet its set target. *Report* on your bank's progress over the last 12 months (up to 18 months in your first reporting after becoming a signatory) towards achieving each of the set targets and the impact your progress resulted in. (where feasible and appropriate, banks should include quantitative disclosures)	We've made strong progress towards greater transparency of our Scope 3 emissions (across financed activities and supply chains) which we will refine and build into our Goal 1 roadmap. The CDP Supplier Survey on Climate Change provides us with valuable data on our suppliers' current emissions and reduction plans which we will analyse and refine during FY22. Our progress towards achievement of ESG 2021 targets and the resultant impact is covered in pages 22 to 23 of the Strategic report. Current headline targets are: > 10% reduction in location-based emissions (Scope 1 and 2) in FY22 and 50% reduction by FY25; > 10% of our business loan book comprised of sustainable leaders by FY27 (5% by FY22); and > Planned growth in Renewable lending to £500m by FY25 (c.£167m as at FY21).	Pages 24 to 27 Pages 22 to 23
Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing Targets Virgin Money is working across the business to deliver the interim targets set out in the FY20 Annual Report and Accounts and to develop clear roadmaps to our 2030 aspirations. Progress is included within this Annual Report and Accounts alongside the definition of a broader suite of interim targets.		

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
Principle 3: Clients and Customers		
We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.		
3.1 *Provide an overview* of the policies and practices your bank has in place and/or is planning to put in place to promote responsible relationships with its customers. This should include high-level information on any programmes and actions implemented (and/or planned), their scale and, where possible, the results thereof.	This UNEP FI Principle is core to our Big Goals 2 and 3, which aim to: > Goal 2: Deliver products and services that help our customers make a positive impact on society and the environment; and > Goal 3: Work with customers, colleagues and communities to encourage sustainable practices and economic activity that creates shared prosperity.	
	Pages 22 to 33 outline the products and tools we've developed to support our customers in understanding their own transition to a low carbon economy.	Pages 22 to 33
	Our Values and Behaviours and Code of Conduct set clear expectations of our people and are underpinned by a suite of ESG Policies which drive responsible customer interactions. These are outlined on page 318 and are available on our ESG Resource Hub on our corporate website.	www.virginmoneyukplc.com/corporate-sustainability/esg-hub and page 318
3.2 *Describe* how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities. This should include information on actions planned/implemented, products and services developed, and, where possible, the impacts achieved.	We're passionate about empowering and educating our customers, whilst offering products and services that help them lead more sustainable lives. Pages 26 to 29 of the Strategic report and pages 34 to 35 and 38 to 39 within the Mortgages and Business sections respectively provide more information on the development of sustainability-linked products and the launch of our green mortgages.	Pages 26 to 29, 34 to 35 and 38 to 39
	We have continued to embed our Purpose-led approach to financial inclusion, from innovating new ways of supporting vulnerable customers, growing our market-leading basic bank account – the M account, and industry collaboration and insight around Poverty Premium covered in more detail in Goal 3 Open doors pages 30 and 31.	Pages 30 to 31
Principle 4: Stakeholders		
We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.		
4.1 *Describe* which stakeholders (or groups/types of stakeholders) your bank has consulted, engaged, collaborated or partnered with for the purpose of implementing these Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders and what issues were addressed/ results achieved.	As outlined in section 2.1 above and page 22 we have engaged key internal and external stakeholders in the development of our approach and commitments, seeking feedback through customer insight research, colleague feedback, supplier surveys and industry collaborations.	Page 22
	We have partnered with industry experts to help us understand our impacts on, and opportunity to influence, hugely important topics for our customers and the wider banking sector, for example: decarbonisation of the housing stock; developing a national measure for Poverty Premium; calculating our financed emissions; and the introduction of tools which enable businesses to reduce their emissions.	
	Pages 22 to 31 outline the good progress we've made in many areas but we recognise there will be more work in FY22 and beyond as mentioned on page 22 of the Strategic report, page 223 within the TCFD report and throughout the updates on each of our Goals.	Pages 22 to 31 and 223

Principles for Responsible Banking report continued

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
Principle 5: Governance & Culture		
We will implement our commitment to these Principles through effective governance and a culture of responsible banking		
5.1 *Describe* the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support effective implementation of the Principles.	The CEO has overall accountability to the Board and shareholders to ensure that sustainable and responsible practices (ESG) are embedded into our business operations, including those associated with the environment/climate.	Pages 32 to 33
	In addition to the governance referenced in section 2.3 above and policies referenced in section 3.1 which support implementation of the Principles and management of our impacts, ESG strategy governance is also described within pages 32 to 33, page 77 of Governance, page 149 of the Risk report and pages 226 to 228 of the TCFD report.	Pages 77, 149 and 226 to 228
5.2 *Describe* the initiatives and measures your bank has implemented or is planning to implement to foster a culture of responsible banking among its employees. This should include a high-level overview of capacity building, inclusion in remuneration structures and performance management and leadership communication, amongst others.	Our Purpose (Making you happier about money) is our north star and our forward-looking Values and Behaviours guide colleagues across the business to deliver our strategy.	www.virginmoneyukplc.com/corporate-sustainability/values/
	We are focused on developing a diverse talent pool, creating great leaders who role-model our Purpose and Values and motivate, encourage and support colleagues to be a high-performing team. Pages 15 to 18 Delighted customers and colleagues and Goal 3 Open doors on pages 30 to 31 provide more detail on the framework and activities underway to engage colleagues and foster a strong culture of responsible banking, including LTIPs linked to ESG targets.	Pages 15 to 18 and 30 to 31
	We have a 2030 aspiration to link variable remuneration to ESG progress which is outlined on page 33.	Page 33
	All colleagues are required to undertake training on a range of ESG topics and are encouraged to participate in community and environmental volunteering as described in more detail on pages 30 to 32.	Pages 30 to 32
5.3 **Governance Structure for Implementation of the Principles** *Show* that your bank has a governance structure in place for the implementation of the PRB, including: a) target-setting and actions to achieve targets set b) remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected.	The governance structure for ESG, which incorporates the implementation of the Principles, is covered in sections 2.3, 3.1 and 5.1 above, page 32 within Goal 4 Straight up ESG and page 226 of the TCFD report.	Pages 32 and 226
	Remedial action in the event of targets not being achieved comes from the assignment of accountabilities and the inclusion of ESG targets in scorecards and LTIP as documented on page 33.	Page 33

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Governance Structure for Implementation of the Principles.
Virgin Money has implemented the critical foundational elements for effective governance and a culture of responsible banking and now continues to work through additional governance structure, policies and procedures that will further strengthen our commitment to the Principles.

Reporting and Self-Assessment Requirements	High-level summary of bank's response (limited assurance required for responses to highlighted items)	Reference(s)/Link(s) to bank's full response/ relevant information
Principle 6: Transparency & Accountability **We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.**		
6.1 Progress on Implementing the Principles for Responsible Banking	We have made meaningful progress over the past 12 months in implementing the Principles for Responsible Banking.	
Show that your bank has progressed on implementing the six Principles over the last 12 months (up to 18 months in your first reporting after becoming a signatory) in addition to the setting and implementation of targets in minimum two areas (see 2.1–2.4).	As demonstrated with the chart on page 23, we have aligned our ESG and Group strategy, ensuring our commitments, approach and targets contribute to society's most pressing needs, where we can have greatest impact and contribute to the United Nations SDGs. As stated in section 1.1, as a result of detailed mapping, we've identified the United Nations SDGs we believe we can have the most sustained positive impact upon.	Page 23
Show that your bank has considered existing and emerging international/regional good practices relevant for the implementation of the six Principles for Responsible Banking. Based on this, it has defined priorities and ambitions to align with good practice.	Our roadmap to net zero by 2030 will be developed throughout FY22, and we remain committed in our support of the Paris Climate Agreement. Our understanding of the data and methodologies has also given us the confidence to sign up to the Net-Zero Banking Alliance and commit to aligning our lending portfolios with pathways to net-zero emissions by 2050 or sooner.	
Show that your bank has implemented/is working on implementing changes in existing practices to reflect and be in line with existing and emerging international/regional good practices and has made progress on its implementation of these Principles.	Alongside the embedding of the Principles of Responsible Banking across the Group, we are supporting customers to understand their ESG risks and opportunities, have developed strong, positive relationships with key industry leaders, and consulted our colleagues and customers in the pursuit of our ambitions.	Page 38
	We have produced our first TCFD report. We are signatories of PCAF UK and are adopting the PCAF methodologies to calculate our financed emissions, as well as continuing to actively engage in the working groups.	Pages 26 to 29 and 217 to 234
	Throughout our disclosures in this self-assessment, we have laid out the various pieces of work completed to date on implementing the Principles, including our work on impact assessment, customer propositions, policies and governance which are further implementing the Principles for Responsible Banking.	
	We have consulted and collaborated with a variety of partners including IBE (review of ESG policies and disclosures), Corporate Citizenship (supporting Materiality Assessment), corporate brokers, PwC (impact assessment), and conducted peer to peer analysis.	
	We engaged a third party to conduct a UN PRB gap analysis to support the continued advancement of our disclosures and we intend to assure within with the timelines required for a UN PRB signatory.	

Please provide your bank's conclusion/statement if it has fulfilled the requirements regarding Progress on Implementing the Principles for Responsible Banking

This is our second self-assessment in response to our adoption of the Principles for Responsible Banking and evidences that we have made positive progress against all principles. We will continue to collaborate with UNEPFI, stakeholders, industry bodies and peers to investigate and implement best practices supporting further implementation of the Principles.

Annex: Definitions

a. **Impact:** An impact is commonly understood as being a change in outcome for a stakeholder. In the context of these Principles this means (aligned with GRI definition) the effect a bank has on people/the society, the economy and the environment and with that on sustainable development. Impacts may be positive or negative, direct or indirect, actual or potential, intended or unintended, short-term or long-term.

b. **Significant Impact:** Impact that in terms of scale and/or intensity/salience results in a particularly strong/relevant change in outcome for a stakeholder. In the context of these Principles, the concept of significant impact is used to ensure banks focus where their actions/business (can) matter most for people, economy and environment and to provide a reasonable and practical threshold for what issues need to be considered/included, similar to the concept of "materiality".

ESG index

Information on our ESG strategy, additional materials and policies included in the Index below can be found on the ESG Resource Hub https://www.virginmoneyukplc.com/corporate-sustainability/esg-hub.

General disclosures

An overview of the Group's purpose, strategy, business model and operations can be found on pages 8 to 20.

ESG is embedded in the Group's purpose, strategy and business model, as set out on pages 22 to 33.

The Group is a member, signatory or a partner of the following:

- UN PRB signed November 2019. See the report on page 311;
- PCAF;
- Future-fit Development Council;
- CDP (formerly the Carbon Disclosure Project) survey on Climate Change extended to our supply chain through CDP Supplier Survey;
- Net-Zero Banking Alliance;
- Partnership with Carbon Neutral Britain;
- Fair by Design for Mortgages and Poverty Premium;
- Women in Finance Charter;
- Race at Work Charter; and
- Disability Confident Employer Status.

Our latest ESG rating agency scores:

	2021	2020	Scale
MSCI	**A**	BBB	AAA to CCC, AAA as a best possible score
Sustainalytics	**25.7**	27.5	0-100, 0 as a best possible score
CDP	**B**	C	A+ to F, with A+ as a best score
S&P Global CSA	**54**	52	0-100, 100 as a best possible score
V.E.	**49**	42	0-100, 100 as a best possible score

Business ethics

We pride ourselves on being an ethical business. We have a Group wide colleague code of conduct which is supported by the following policies and statements;

- Whistleblowing;
- Tax transparency;
- Modern slavery;
- Supplier code of conduct; and
- Conflicts of interest.

In addition, we have developed our response to modern slavery and financial crime, rolling out training and increasing the profile of these issues with the Board and Leadership Team. More detail on this can be found on our corporate website and on page 30.

Colleagues complete four mandatory training modules each year that include content specifically related to ESG.

Details of legal disputes and conduct related matters are detailed in note 5.1.

Data security, privacy and protection

We are conscious of how we operate online, and you can read more about this in our Fraud and cyber-enabled crime policy.

Our technology risk section on page 212 outlines the risks we face as a UK bank and what we do to mitigate these risks. Business units are responsible for the management of technology risk, with oversight from the risk management function and independent assurance activities undertaken by Internal Audit.

To make sure we are all up to date, all our colleagues complete data protection, data privacy and data management training at least once a year, with extra training for people who handle customer data more frequently. You can read more about this in the Data privacy policy.

Our regulatory and compliance risk team is responsible for managing privacy and data protection risks, which may result from non-compliance with data privacy, legal and regulatory obligations. Read more on page 208.

Governance

Our Governance structure is detailed in the Governance report on pages 63 to 146. This report complies with the requirements of the Corporate Governance Code 2018 and the Companies Act 2006.

The Group considers the Board to be key in its overall implementation of our ESG strategy and effectiveness is demonstrated as follows:

> An experienced and well-governed Board, supported by Board Committees. The responsibility of each Board Committee is clearly defined in the Board and Board Committee charters and attendance at Board and Board Committee meetings is disclosed on page 66.
> ‘How our Board operates’ is set out on pages 76 to 79 and details the structure of the Board and frequency of meetings along with the management of conflicts of interest, time commitments and the training and development of Board members.
> The Board understands the benefits of diversity and has a Board diversity and inclusion policy.
> Details of the skills of each Board member and the training and development opportunities they are offered to support them to discharge their responsibilities is outlined on page 66.
> ESG is governed by the Board, reflecting its importance to the Group. How this is executed by the Board and supported by management is set out on pages 32, 77 and 226. During the year, the Board supported the formation of the Environment Committee, to ensure key environmental matters are considered and approved, supported by focused reporting and discussions.
> Charts providing a summary of Board diversity and the composition of the Board by age, role and tenure are detailed on page 67.
> The Board’s established Committees support the delivery of ESG objectives, as set out on page 77.
> How the Board considers stakeholders in its decision-making process is shown within the s.172 report on pages 87 to 93.
> The Audit Committee oversees external assurance which is sought by the Group. The policy in relation to the statutory auditor is set out in the Audit Committee report on pages 102 to 108 and the Audit Committee charter.
> The Directors’ report on pages 142 to 146 sets out shareholders rights (including voting rights).
> Information regarding political donations (of which there were none) can be found in the Directors’ report on page 143 and our approach is set out in our Political involvement, communications and donations policy.

ESG index continued

Financial inclusion and capability building	We have continued to embed our purpose-led approach to financial inclusion. There is more information about how we are progressing this through our M account, Macmillan Cancer Support partnership and other initiatives on page 30. We have also established an Open door policy which sets out how we deal with financial and social inclusion. We are committed to ensuring that all new product terms and conditions have Fairer Finance accreditation. This ensures that, by an objective standard, we are delivering clarity of language, design and content. One in seven adults in the UK have a reading age below 11 years. We want to know that our customers understand what they are buying, so we have stripped back lots of the small print, we include examples to explain trickier concepts and ensure that the layout and spacing is a help, rather than a hindrance. We are sensitive about the way we deal with customers in times of financial difficulty. Read more about our approach to forbearance and collections on page 156 and in our Collections and recoveries policy.
Environment	Tackling our impact on the environment is a top priority for the Group. We are at the start of the journey, and you can read about the steps we are taking to progress accurate measurement of our carbon impact (which we see as the first step), our governance framework and our plans on page 24 and in the TCFD report on pages 218 to 234. Our approach to reducing GHG emissions is outlined in our Environmental policy. Performance against carbon reduction targets has been independently assured by KPMG LLP and further detail can be found on page 25. ESG, and specifically climate risk, has been considered as part of our risk management strategy. The Group's RMF has been refreshed for FY22, with climate risk retained as a cross-cutting risk which manifests throughout the principal risk framework. Climate risk has also been classified as an emerging risk to capture the unknown elements which are yet to crystallise. Read more about climate risk as an emerging risk and cross-cutting risk in the risk overview on pages 42 to 50. Refer to pages 24 to 25 for more details on our own operational footprint, including our Scope 1 and 2 emissions, and the steps we are taking to reduce these emission on our journey to net zero. We have taken the first steps in launching green products. You can read more about our offering and how it is helping customers and the environment on pages 26 to 29. Our top 100 suppliers took part in the CDP supplier survey on climate change, refer to page 25. We are conscious of the impact of our commercial lending book, and have a Sensitive sectors policy in place which will help the Group maintain a low exposure to sensitive sectors. We have reported against the TCFD reporting framework on pages 218 to 234 across the four thematic areas: governance, strategy, risk management, and metrics and targets. Our inaugural TCFD report conveys the progress made in assessing climate-related risks and opportunities, whilst also recognising the Group's ambition to continue to increase the extent of our disclosures on environmental measures. In line with this ambition we have taken the first steps in reporting financed emissions in accordance with the PCAF Standard. The financed emissions associated with our mortgage book can be found on page 232 and our agricultural portfolio on page 233. The Group decided to prioritise the mortgage and agricultural portfolios based on a risk assessment of the full lending book.

Risk and conduct

Risk management is a central part of our business – see the risk overview on pages 42 to 50 and the Risk report on pages 147 to 216. The RMF sets out our risk appetite and our approach to managing the principal risks of the Group. Refer to page 152 for more information.

Our regulatory and compliance risk function monitors how we conduct business and deals with reporting of breaches see page 208. We share the number of reportable customer complaints received every six months in line with FCA regulations here – www.fca.org.uk/data/complaints-data/. The Financial Ombudsman Service also publishes data on complaint referrals to it by individual firms here – www.financial-ombudsman.org.uk/data-insight/half-yearly-complaints-data.

Our conduct risk function monitors the treatment of customers, checking whether our processes support fair customer outcomes and monitoring complaints. See page 209 for more information.

We develop products in accordance with our Product development and monitoring policy standard. This standard sets the tone for the design and ongoing monitoring of products which are attractive to and inclusive of our target customer base, offer fair value to customers, and are supported by a sustainable business model and supporting business practices. We provide product-specific training to customer-facing colleagues and follow this up with regular oversight for every colleague. Diversity and inclusion, and specifically vulnerable customers are considered at every step in the product development process. We do not incentivise sales and we train our colleagues to support our customers with the products that best meet their needs.

The following policies are in place for the Group:

- Anti-money laundering and counter-terrorist financing;
- Sanctions and embargoes;
- Statement of financial crime policies and principles; and
- Anti-bribery and corruption.

Delighted colleagues, diversity and inclusion

We are committed to being a fair, equitable and inclusive employer, and set out the progress we've made on pages 17 to 18. The following summarises how we treat our colleagues:

- We have a mature recruitment process which includes: early careers (such as internships and apprenticeships); internal mobility approaches; redeployment support; and career sponsorship programmes.
- We have put processes in place to make our recruitment process as inclusive as possible.
- We are committed to helping all colleagues grow and develop, through digital and collaborative learning and to support them with their well-being.
- We recognise the importance of the colleague voice and recognise Unite the Union for collective bargaining and consultation.
- The Directors' remuneration report sets out a comparison of how all-colleague and Executive Director remuneration align as well as providing details on the ratio of CEO pay to that of the median colleague. All colleagues are paid at or above the real Living Wage.
- See our 'Key colleague metrics' on page 17 for colleague data points like survey participation rates, engagement scores, employee turnover, employee absence rates and the percentage of employees with Group share interests.
- The Group is committed to a diverse and inclusive workplace, and share our actions and vision on page 30 and on our corporate website. There has been an increase in the voluntary disclosure of personal information by colleagues, and the Group is looking to continue this trend, as it allows management to further support colleagues and we can track progress and hold ourselves to account. A breakdown of our gender and ethnicity diversity can be found on page 18.
- We are a Disability Confident Employer.

The approach set out above is supported by a suite of policies, including:

- Health and safety;
- Code of conduct;
- Diversity and inclusion; and
- Fit and proper.

Financial performance measures

As highlighted in the Strategic report, the Financial results section and the Risk report, the Group utilises a range of performance measures[(1)] to assess the Group's performance. These can be grouped under the following headings:

- profitability;
- asset quality; and
- capital optimisation.

The performance measures used are a combination of statutory, regulatory and APMs, with the type of performance measure used dependent on the component elements and source of what is being measured.

Statutory performance measures (S)
These are used when the basis of the calculation is derived from a measure that is required under generally accepted accounting principles (GAAP). An example of this would be references to EPS.

Regulatory performance measures (R)
These are used when the basis of the calculation is required and specified by the Group's regulators. Examples of this would be the leverage ratio and the Tier 1 ratio.

Alternative performance measures (A)
These are used when the basis of the calculation is derived from a non-GAAP measure – also referred to as APMs. Examples of this would be the statutory cost to income ratio and the statutory RoTE.

Where a performance measure refers to an 'underlying' metric, the detail on how this measure is arrived at, along with management's reasoning for excluding the item, from the Group's current underlying performance rationale, can be found on page 324, directly following this section. Descriptions of the performance measures used, including the basis of calculation where appropriate, are set out below:

Profitability:

Term	Type	Definition
net interest margin **(NIM)**	A	Underlying NII as a percentage of average interest earning assets for a given year. Underlying NII of £1,412m (2020: £1,351m) is divided by average interest earning assets for a given year of £86,947m (2020: £86,826m) (which is adjusted to exclude short-term repos used for liquidity management purposes). As a result of the exclusions noted above, average interest earning assets used as the denominator have been reduced by £16m (2020: £16m).
statutory return on tangible equity **(RoTE)**	A	Statutory profit after tax attributable to ordinary equity holders of £395m (2020: loss of £220m) as a percentage of average tangible equity of £3,875m (2020: £3,554m) (average total equity less intangible assets and AT1) for a given year.
statutory cost:ratio **(CIR)**	A	Statutory operating and administrative expenses as a percentage of statutory total operating income for a given year.
statutory return on assets	A	Statutory profit after tax as a percentage of average total assets for a given year.
statutory basic earnings per share **(EPS)**	S	Statutory profit after tax attributable to ordinary equity shareholders of £395m (2020: loss of £220m), divided by the weighted average number of ordinary shares in issue for a given year of 1,442m shares (2020: 1,440m) (which includes deferred shares and excludes own shares held or contingently returnable shares).
underlying RoTE	A	Underlying profit after tax attributable to ordinary equity holders of £691m, (2020: £20m), as a percentage of average tangible equity of £3,875m (2020: £3,554m) (average total equity less intangible assets and AT1) for a given year.
underlying CIR	A	Underlying operating and administrative expenses as a percentage of underlying total operating income for a given year.
underlying return on assets	A	Underlying profit after tax as a percentage of average total assets for a given year.
underlying basic EPS	A	Underlying profit after tax attributable to ordinary equity holders of £691m, (2020: £20m), divided by the weighted average number of ordinary shares in issue for a given year of 1,442m shares (2020: 1,440m) (which includes deferred shares and excludes own shares held or contingently returnable shares).
underlying profit after tax attributable to ordinary equity holders	A	Underlying profit before tax of £800m (2020: £124m) less underlying tax charge of £30m (2020: £25m), less AT1 distributions of £79m (2020: £79m) and was equal to £691m (2020: £20m). The underlying tax charge (or credit) is the difference between the statutory tax charge (or credit) and the tax attributable to exceptional items.

(1) The term 'financial performance measure' covers all metrics, ratios and percentage calculations used to assess the Group's performance and is interchangeable with similar terminology used in the Annual Report and Accounts such as highlights, key metrics, KPIs and key credit metrics.

Asset quality:

Term	Type	Definition
impairment charge to average customer loans **(cost of risk)**	A	Impairment losses on credit exposures plus credit risk adjustment on fair value loans to average customer loans (defined as loans and advances to customers, other financial assets at fair value and due from customers on acceptances).
total provision to customer loans	A	Total impairment provision on credit exposures as a percentage of total customer loans at a given date.
indexed loan to value **(LTV)** of the mortgage portfolio	A	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.

Capital optimisation:

Term	Type	Definition
Common Equity Tier 1 **(CET1)** ratio	R	CET1 capital divided by RWAs at a given date.
Tier 1 ratio	R	Tier 1 capital as a percentage of RWAs.
total capital ratio	R	Total capital resources divided by RWAs at a given date.
CRD IV leverage ratio	R	This is a regulatory standard ratio proposed by Basel III as a supplementary measure to the risk-based capital requirements. It is intended to constrain the build-up of excess leverage in the banking sector and is calculated by dividing Tier 1 capital resources by a defined measure of on and off-balance sheet items plus derivatives.
UK leverage ratio	R	The Group's leverage ratio on a modified basis, excluding qualifying central bank claims from the exposure measure in accordance with the policy statement issued by the PRA in October 2017.
tangible net asset value **(TNAV)** per share	A	Tangible equity (total equity less intangible assets and AT1) as at the year end of £4,185m (2020: £3,526m) divided by the number of ordinary shares in issue at the year end of 1,444m (2020: 1,444m) (which includes deferred shares of 5m (2020: 6m) and excludes own shares held of 0.1m (2020: 0.2m)).
loan to deposit ratio **(LDR)**	R	Customer loans as a percentage of customer deposits at a given date.
liquidity coverage ratio **(LCR)**	R	Measures the surplus (or deficit) of the Group's high-quality liquid assets relative to weighted net stressed cash outflows over a 30-day period. It assesses whether the Group has sufficient liquid assets to withstand a short-term liquidity stress based on cash outflow assumptions provided by regulators.
minimum requirement for own funds and eligible liabilities **(MREL)** ratio	R	Total capital resources less ineligible AT1 and Tier 2 instruments at the year end of £5,332m (2020: £4,935m) plus senior unsecured securities issued by Virgin Money UK PLC with greater than one year to maturity at the year end of £2,408m (2020: £2,002m) divided by RWAs at the period end of £24,232m (2020: £24,399m).
net stable funding ratio **(NSFR)**	R	The total amount of available stable funding divided by the total amount of required stable funding, expressed as a percentage. The Group monitors the NSFR, based on its own interpretations of current guidance available for CRD IV NSFR reporting. Therefore, the reported NSFR may change over time with regulatory developments. Due to possible differences in interpretation of the rules, the Group's ratio may not be directly comparable with those of other financial institutions.

Underlying adjustments to the statutory view of performance

In arriving at an underlying basis, management have excluded certain items that are not considered to be reflective of the Group's continuing operations. These items are all significant and are typically one-off in nature. All underlying adjustments were subject to agreement as such by the Board Audit Committee. Additional detail is provided below where considered necessary to further explain the rationale for their exclusion from underlying performance, in particular for new items in the current year or recurring non-underlying items:

Item	2021 £m	2020 £m	Reason for exclusion from the Group's current underlying performance
Integration and transformation costs	**(146)**	(139)	These are part of the Group's publicised three-year integration plan following the acquisition of Virgin Money Holdings (UK) PLC and comprise a number of one-off expenses that are required to realise the anticipated cost synergies. Also included are one-off costs to support transformation. This programme will improve our digital capability and consequently enable super straightforward efficiency. Costs are generally restructuring in nature.
Acquisition accounting unwinds	**(88)**	(113)	This consists principally of the unwind of the IFRS 3 fair value adjustments created on the acquisition of Virgin Money Holdings (UK) PLC in October 2018 (£79m charge) and other smaller items amounting to £9m. These represent either one-off adjustments or are the scheduled reversals of the accounting adjustments that arose following the fair value exercise required by IFRS 3. These will continue to be treated as non-underlying adjustments over the expected three to five-year period until they have been fully reversed.
Legacy conduct	**(76)**	(26)	These costs are historical in nature and are not indicative of the Group's current practices.
Other:			
SME transformation	**(1)**	(11)	These costs related to the transformation of the Group's Business banking proposition and mainly comprised costs associated with the RBS incentivised switching scheme.
UTM transition costs	**(6)**	(8)	These costs relate to UTM's transformation costs principally for the build of a new platform for administration and servicing.
VISA Shares	**1**	5	A one-off gain on conversion of Visa B Preference shares to Series A preference shares.
Internally developed software adjustments	**(68)**	–	These costs relate to the write-off of WIP balances held on the balance sheet as a result of a reassessment of the Group's practices on capitalisation against the backdrop of the new digital first strategy and the move to an agile project delivery.
Total other	**(74)**	(14)	

Glossary

Term	Definition
Additional Tier 1 **(AT1)**	Securities that are considered additional Tier 1 capital in the context of CRD IV.
arrears	A customer is in arrears (or in a state of delinquency) when they fail to adhere to their contractual payment obligations resulting in an outstanding loan that is unpaid or overdue. When a customer is in arrears, the total outstanding loans on which payments are overdue are said to be delinquent.
average assets	Represents the average of assets over the year adjusted for any disposed operations.
Bank	Clydesdale Bank PLC.
Basel II	The capital adequacy framework issued by the Basel Committee on Banking Supervision (BCBS) in June 2004.
Basel III	Reforms issued by the BCBS in December 2017 with subsequent revisions.
basis points **(bps)**	One hundredth of a percent (0.01%); meaning that 100 basis points is equal to 1%. This term is commonly used in describing interest rate movements.
Board	Refers to the Virgin Money UK PLC Board or the Clydesdale Bank PLC Board as appropriate.
Bounce back loan scheme **(BBLS)**	A scheme implemented by the UK Government to provide financial support to businesses across the UK that were losing revenue, and seeing their cash flow disrupted as a result of COVID-19, enabling them to benefit from £50,000 or less in finance.
Business lending	Lending to non-retail customers, including overdrafts, asset and lease financing, term lending, bill acceptances, foreign currency loans, international and trade finance, securitisation and specialised finance.
Compound annual growth rate (CAGR)	An annualised average rate of growth between two given years, assuming growth takes place at an exponentially compounded rate.
carbon related assets	Assets tied to the energy and utilities sectors under the Global Industry Classification Standard (mapped to internal industry classifications), excluding water utilities and independent power and renewable electricity producer industries.
carrying value (also referred to as carrying amount)	The value of an asset or a liability in the balance sheet based on either amortised cost or fair value principles.
cash and cash equivalents	For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and non-mandatory deposits with central banks and amounts due from other banks with a maturity of less than three months.
Code	The 2018 UK Corporate Governance Code.
collateral	The assets of a borrower that are used as security against a loan facility.
collective impairment provision	Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment.
commercial paper	An unsecured promissory note issued to finance short-term credit requirements. These instruments have a specified maturity date and stipulate the face amount to be paid to the investor on that date.
Common Equity Tier 1 capital **(CET1)**	The highest quality form of regulatory capital that comprises total shareholders' equity, less goodwill and intangible assets and certain other regulatory adjustments.
Company	Virgin Money UK PLC.
conduct risk	The risk of treating customers unfairly and/or delivering inappropriate outcomes resulting in customer detriment, regulatory fines, compensation, redress costs and/or reputational damage.
Coronavirus business interruption loan scheme **(CBILS)**	A scheme implemented by the UK Government to provide financial support to smaller businesses across the UK that were losing revenue, and seeing their cash flow disrupted, as a result of COVID-19.
Coronavirus large business interruption loan scheme **(CLBILS)**	A scheme implemented by the UK Government to provide financial support to mid-sized and larger businesses across the UK that were suffering disruption to their cash flow due to lost or deferred revenues as a result of COVID-19.

Glossary continued

Term	Definition
counterparty	The other party that participates in a financial transaction, with every transaction requiring a counterparty in order for the transaction to complete.
Coverage ratio	Impairment allowance as at the year end shown as a percentage of gross loans and advances as at the year end.
covered bonds	A corporate bond with primary recourse to the institution and secondary recourse to a pool of assets that act as security for the bonds on issuer default. Covered bonds remain on the issuer's balance sheet and are a source of term funding for the Group.
CRD IV	European legislation to implement Basel III. It replaces earlier European CRDs with a revised package consisting of a new CRD and a new CRR. CRD IV sets out capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also 'Basel III'.
credit conversion factor **(CCF)**	CCFs are used in determining the EAD in relation to a credit risk exposure. The CCF is an estimate of the proportion of undrawn and off-balance sheet commitments expected to be drawn down at the point of default.
Credit impaired financial asset	A financial asset that is in default or has an individually assessed provision. This is also referred to as a 'Stage 3' impairment loss and subject to a lifetime ECL calculation. The Group considers 90 DPD as a backstop in determining whether a financial asset is credit impaired.
credit risk adjustment/ credit valuation adjustment	An adjustment to the valuation of financial instruments held at fair value to reflect the creditworthiness of the counterparty.
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set-off or netting.
customer deposits	Money deposited by individuals or corporate entities that are not credit institutions, and can be either interest bearing, non-interest bearing or term deposits.
days past due **(DPD)**	The number of days a facility has borrowing in excess of an agreed or expired limit or, where facilities are subject to a regular repayment schedule, contractual payments are not fully up to date.
default	A customer is in default when either they are more than 90 DPD on a credit obligation to the Group, or are considered unlikely to pay their credit obligations in full without recourse to actions such as realisation of security (if held).
delinquency	See 'arrears'.
Demerger	The demerger of the Group from NAB which took effect on 8 February 2016 pursuant to which all of the issued share capital of CYB Investments Limited was transferred to the Company (formerly CYBG PLC) by NAB in consideration for the issue and transfer of the Company (formerly CYBG PLC) shares to NAB in part for the benefit of NAB (which NAB subsequently sold pursuant to the Company's IPO) and in part for the benefit of NAB shareholders under a scheme of arrangement under part 5.1 of the Australian Corporations Act.
derivative	A financial instrument that is a contract or agreement whose value is related to the value of an underlying instrument, reference rate or index.
effective interest rate **(EIR)**	The carrying value of a certain financial instrument which amortises the relevant fees over the expected life of the instrument.
encumbered assets	Assets that have been pledged as security, collateral or legally 'ring-fenced' in some other way which prevents those assets being transferred, pledged, sold or otherwise disposed.
exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure at default **(EAD)**	The estimate of the amount that the customer will owe at the time of default.
fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.
forbearance	The term generally applied to the facilities provided or changes to facilities provided to assist borrowers, who are experiencing, or are about to experience, a period of financial stress.
funding risk	A form of liquidity risk arising when the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.
Group	Virgin Money UK PLC and its controlled entities.

Term	Definition
hedge ineffectiveness	Represents the extent to which the income statement is impacted by changes in fair value or cash flows of hedging instruments not being fully offset by changes in fair value or cash flows of hedged items.
IFRS 9	The financial instrument accounting standard which was adopted by the Group with effect from 1 October 2018.
IFRS 9 transitional adjustments – dynamic	That part of the transitional adjustments on regulatory capital arising from the increase in impairment provisions (on non-credit impaired exposures) from the date of initial adoption of IFRS 9 to the reporting date.
IFRS 9 transitional adjustments – static	That part of the transitional adjustments on regulatory capital arising from the increase in impairment provisions on initial adoption of IFRS 9 from those calculated under IAS 39.
impairment allowances	An ECL provision held on the balance sheet for financial assets calculated in accordance with IFRS 9. The impairment allowance is calculated as either a 12-month or a lifetime ECL.
impairment losses	The ECL calculated in accordance with IFRS 9 and recognised in the income statement with the carrying value of the financial asset reduced by creating an impairment allowance. Impairment losses are calculated as either a 12-month or lifetime ECL.
Internal Capital Adequacy Assessment Process **(ICAAP)**	The Group's assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
Internal Liquidity Adequacy Assessment Process **(ILAAP)**	The Group's assessment and management of balance sheet risks relating to funding and liquidity.
Internal Ratings-Based approach **(IRB)**	A method of calculating credit risk capital requirements using internal, rather than supervisory, estimates of risk parameters.
investment grade	The highest possible range of credit ratings, from 'AAA' to 'BBB', as measured by external credit rating agencies.
Level 1 fair value measurements	Financial instruments whose fair value is derived from unadjusted quoted prices for identical instruments in active markets.
Level 2 fair value measurements	Financial instruments whose fair value is derived from quoted prices for similar instruments in active markets and financial instruments valued using models where all significant inputs are observable.
Level 3 fair value measurements	Financial instruments whose fair value is derived from valuation techniques where one or more significant inputs are unobservable.
lifetime ECL	The ECL calculation performed on financial assets where a SICR since origination has been identified. This can be either a 'Stage 2' or 'Stage 3' impairment loss depending on whether the financial asset is credit impaired.
Listing Rules	Regulations applicable to any company listed on a UK stock exchange, subject to the oversight of the UK Listing Authority (UKLA). The Listing Rules set out mandatory standards for any company wishing to list its shares or securities for sale to the public.
loan to value ratio **(LTV)**	A ratio that expresses the amount of a loan as a percentage of the value of the property on which it is secured.
Loss given default **(LGD)**	The estimate of the loss that the Group will suffer if the customer defaults (incorporating the effect of any collateral held).
medium-term notes	Debt instruments issued by corporates, including financial institutions, across a range of maturities.
Minimum Requirement for Own Funds and Eligible Liabilities **(MREL)**	A minimum requirement for institutions to maintain equity and eligible debt liabilities, to help ensure that if an institution fails the resolution authority can use these financial resources to absorb losses and recapitalise the continuing business.
net interest income **(NII)**	The amount of interest received or receivable on assets, net of interest paid or payable on liabilities.
Net Promoter Score **(NPS)**	This is an externally collated customer loyalty metric that measures loyalty between a provider, who in this context is the Group, and a consumer.
operational risk	The risk of loss resulting from inadequate or failed internal processes, people strategies and systems or from external events.
pension risk	The risk that, at any point in time, the available assets to meet pension liabilities are at a value below current and future scheme obligations.

Glossary continued

Term	Definition
Personal lending	Lending to individuals rather than institutions excluding mortgage lending which is reported separately.
PPI redress	PPI customer redress and all associated costs excluding fines.
probability of default **(PD)**	The probability that a customer will default over either the next 12 months or lifetime of the account.
regulatory capital	The capital which the Group holds, determined in accordance with rules established by the PRA.
relationship deposits	Current account and linked savings balances
residential mortgage-backed securities **(RMBS)**	Securities that represent interests in groups or pools of underlying mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).
ring-fencing	A regime of rules which require banks to change the way that they are structured by separating retail banking services from investment and international banking. This is to ensure the economy and taxpayers are protected in the event of any future financial crises.
risk appetite	The level and types of risk the Group is willing to assume within the boundaries of its risk capacity to achieve its strategic objectives.
risk-weighted asset **(RWA)**	On and off-balance sheet assets of the Group are allocated a risk weighting based on the amount of capital required to support the asset.
sale and repurchase agreement **(repo)**	A short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or a reverse repo.
Scheme	The Group's defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme.
secured lending	Lending in which the borrower pledges some asset (e.g. property) as collateral for the lending.
securitisation	The practice of pooling similar types of contractual debt and packaging the cash flows from the financial asset into securities that can be sold to institutional investors in debt capital markets. It provides the Group with a source of secured funding than can achieve a reduction in funding costs by offering typically 'AAA' rated securities secured by the underlying financial asset.
Significant increase in credit risk **(SICR)**	The assessment performed on financial assets at the reporting date to determine whether a 12-month or lifetime ECL calculation is required. Qualitative and quantitative triggers are assessed in determining whether there has been a SICR since origination. The Group considers 30 DPD as a backstop in determining whether a SICR since origination has occurred.
standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the own funds or liquidity which a bank holds.
structured entity **(SE)**	An entity created to accomplish a narrow well-defined objective (e.g. securitisation of financial assets). An SE may take the form of a corporation, trust, partnership or unincorporated entity. SEs are often created with legal arrangements that impose strict limits on the activities of the SE. May also be referred to as an SPV.
subordinated debt	Liabilities which rank after the claims of other creditors of the issuer in the event of insolvency or liquidation.
Term Funding Scheme **(TFS)**	A scheme launched in 2016 by the BoE to allow banks and building societies to borrow from the BoE at rates close to base rate. This is designed to increase lending to businesses by lowering interest rates and increasing access to credit.
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures CET1 capital plus other Tier 1 securities (as defined by CRD IV) in issue, subject to deductions.
Tier 2 capital	A component of regulatory capital, including qualifying subordinated debt, eligible collective impairment allowances and other Tier 2 securities as defined by CRD IV.
unaudited	Financial information that has not been subject to validation by the Group's external auditor.

Term	Definition
unsecured lending	Lending in which the borrower pledges no assets as collateral for the lending (such as credit cards and current account overdrafts).
value at risk **(VaR)**	A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.
Virgin Money	Virgin Money UK PLC. 'Virgin Money' is also used throughout this report when referring to the acquired business of Virgin Money Holdings (UK) PLC and its controlled entities or subsequent integration of the acquired business within the enlarged Group.

Abbreviations

AFD	Approaching financial difficulty
AGM	Annual General Meeting
ALCO	Asset and Liability Committee
APM	Alternative Performance Measure
ASX	Australian Securities Exchange
AT1	Additional Tier 1
ATM	Automated teller machine
BBLS	Bounce back loan scheme
BCA	Business current account
BCBS	Basel Committee on Banking Supervision
BCR	Banking Competition Remedies
BNPL	Buy Now Pay Later
BoE	Bank of England
bps	Basis points
BTL	Buy-to-let
CAGR	Compound Annual Growth Rate
CBI	Confederation of British Industry
CBILS	Coronavirus business interruption loan scheme
CCF	Credit conversion factor
CCyB	Countercyclical Capital Buffer
CDI	CHESS Depositary Interest
CDP	Carbon Disclosure Project
CER	Certified Emissions Reduction
CET1	Common Equity Tier 1 Capital
CIO	Chief Information Officer
CIR	Cost to income ratio
CLBILS	Coronavirus large business interruption loan scheme
CMA	Competition and Markets Authority
CPI	Consumer Price Index
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
CSRBB	Credit spread risk in the banking book
DEP	Deferred Equity Plan
DPD	Days past due
DTR	Disclosure Guidance and Transparency Rules
EAD	Exposure at default
EBA	European Banking Authority
EBT	Employee benefit trust
ECL	Expected credit loss
EIR	Effective interest rate
EPC	Energy performance certificate
EPS	Earnings per share
ESG	Environmental, social and governance
FCA	Financial Conduct Authority
FIRB	Foundation internal ratings-based
FPC	Financial Policy Committee
FRC	Financial Reporting Council
FSMA	Financial Services and Markets Act 2000
FTE	Full time equivalent
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GAAP	Generally Accepted Accounting Principles
GDIA	Group Director Internal Audit
GDP	Gross Domestic Product
GDPR	General Data Protection Regulation
GHG	Greenhouse Gases
GOFCoE	Global Open Finance Centre of Excellence
G-SII	Global Systematically Important Institution
HMRC	Her Majesty's Revenue and Customs
HPI	House Price Index
HQLA	High Quality Liquid Asset
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard
ILAAP	Internal Liquidity Adequacy Assessment Process
IPO	Initial Public Offering
IRB	Internal ratings-based
IRRBB	Interest rate risk in the banking book
ISA	International Standards on Auditing
ISDA	International Swaps and Derivatives Association
ISR	Information Security and Resilience
JV	Joint venture
KMP	Key management personnel
KPI	Key Performance Indicator
LCR	Liquidity coverage ratio
LDR	Loan to deposit ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate

LSE	London Stock Exchange
LTIP	Long-term incentive plan
LTV	Loan to value
MGC	Model Governance Committee
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MRT	Material Risk Takers
NAB	National Australia Bank Limited
NII	Net interest income
NIM	Net interest margin
NPS	Net promoter score
NSFR	Net stable funding ratio
NZBA	Net-Zero Banking Alliance
PBT	Profit before tax
PCA	Personal current accounts
PCAF	Partnership for Carbon Accounting Financials
PD	Probability of Default
PIE	Pension Increase Exchange
PMA	Post-model adjustment
POCI	Purchased or originated credit impaired
PPI	Payment protection insurance
PSD2	Payment Services Directive 2
PRA	Prudential Regulation Authority
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RFR	Risk free rate
RLS	Recovery Loan Scheme
RMBS	Residential mortgage-backed securities
RMF	Risk Management Framework
RoTE	Return on Tangible Equity
RPI	Retail Price Index
RRA	Russell Reynolds Associates
RWA	Risk-weighted asset
SASB	Sustainability Accounting Standards Board
SAYE	Save As You Earn
SDG	Sustainable Development Goal
SE	Structured entity
SICR	Significant increase in credit risk
SIP	Share Incentive Plan
SME	Small or medium-sized enterprise
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average
SRB	Systemic Risk Buffer
SST	Solvency Stress Test
STIP	Short-term Incentive Plan
TCFD	Task Force on Climate-related Financial Disclosures
TFS	Term Funding Scheme
TFSME	Term Funding Scheme with additional incentives for SMEs
TNAV	Tangible net asset value
UN PRB	United Nations' Principles for Responsible Banking
UNEPFI	United Nations Environment Programme Finance Initiative
UTM	Virgin Money Unit Trust Managers Limited
VAA	Virgin Atlantic Airways Limited
VaR	Value at risk
VIU	Value-in-use
VMG	Virgin Money Giving Limited
WIP	Work-in-progress
YBHL	Yorkshire Bank Home Loans Limited
YoY	Year-on-year

Country by country reporting

The Capital Requirements (Country by Country Reporting) Regulations 2013 came into effect on 1 January 2014 and place certain reporting obligations on financial institutions that are within the scope of the European Union's CRD IV. The purpose of the Regulations is to provide clarity on the source of the Group's income and the locations of its operations.

The vast majority of entities that are consolidated within the Group's financial statements are UK registered entities. The activities of the Group are described in the Strategic report.

	2021 UK
Average FTE employees (number)	**7,415**
Total operating income (£m)	**1,489**
Profit before tax (£m)	**417**
Corporation tax paid (£m)	**27**
Public subsidies received (£m)	**–**

The only other non-UK registered entity of the Group is a Trustee company that is part of the Group's securitisation vehicles (Lanark and Lannraig). Lannraig Trustees Limited is registered in Jersey. This entity plays a part in the overall securitisation process by having the beneficial interest in certain mortgage assets assigned to it. This entity has no assets or liabilities recognised in its financial statements with the securitisation activity taking place in other UK registered entities of the structures. This entity does not undertake any external economic activity and has no employees. The results of this entity as well as those of the entire Lanark and Lannraig securitisation structures are consolidated in the financial statements of the Group.

Shareholder information

Annual general meeting (AGM)

The Company's 2022 AGM will be held on 17 February 2022. Full details for the arrangements for the AGM and details of the resolutions to be proposed, together with explanatory notes, will be set out in the Notice of AGM to be published on the Company's website (www.virginmoneyukplc.com).

The AGM provides shareholders the opportunity to vote on each individual resolution either online or by post. Shareholders typically vote on the re-appointment of each individual Director on an annual basis and various share capital and remuneration matters.

Shareholder enquiries

The Company's share register is maintained by the Company's Registrar, Computershare. Shareholders with queries relating to their shareholding should contact Computershare directly using one of the methods below (shareholders can visit the Investor Centre online by scanning the QR code below with a compatible mobile device):

Registrar
Computershare UK
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
United Kingdom BS99 6ZZ

Tel within UK – 0370 707 1172
Tel outside UK – +44 370 707 1172
Email: www.investorcentre.co.uk/contactus
Web: www.investorcentre.co.uk

Computershare Australia
Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067
Australia

Tel within Australia – 1800764308
Tel outside Australia – 03 9415 4142
Email: www.investorcentre.com/contact
Web: www.investorcentre.com/au

Duplicate shareholder accounts

If you receive more than one copy of Company mailings this may indicate that more than one account is held in your name on the register. This happens when the registration details of separate transactions differ slightly. If you believe more than one account exists in your name you may contact the Company's Registrar, Computershare, to request that the accounts are combined. There is no charge for this service.

Electronic communications

The Company uses its website (www.virginmoneyukplc.com) as its primary means of communication with its shareholders provided that the shareholder has agreed or is deemed to have agreed that communications may be sent or supplied in that manner. Electronic communications allow shareholders to access information instantly as well as helping the Company reduce its costs and its impact on the environment. Shareholders who have consented or are deemed to have consented to electronic communications can revoke their consent at any time by contacting the Company's Registrar, Computershare.

Shareholders can sign up for electronic communications online via the following links:

Holders of shares on the London Stock Exchange:
www.investorcentre.co.uk/ecomms

Holders of CDIs on the Australian Securities Exchange:
www.investorcentre.com/au

Dividend Payments

Where possible, shareholders are encouraged to have their dividend payments paid directly into their bank accounts.

Holders of ordinary shares listed on the London Stock Exchange are encouraged to elect to receive dividend payments direct to UK (GBP) accounts.

Holders of CDIs quoted on the Australian Securities Exchange are encouraged to elect to receive dividend payments direct to UK (GBP) accounts, Australian (AUD) accounts and New Zealand (NZD) accounts. Holders who have not provided direct payment instruction will receive (by post) an Australian (AUD) cheque.

Shareholder information continued

Sharegift
Do you have a small holding of Virgin Money or other shares? Did you know that you can transfer shares to charity, free of charge?

ShareGift is the share donation charity that uses small or unwanted shareholdings to generate funds for good causes. The charity aggregates and sells donated shares, then uses the proceeds to make donations to other registered charities.

Since it was set up, ShareGift has donated over £35million to more than 3,000 charities. Your small or unwanted shares could make a real difference too.

Ordinary Shareholders – ShareGift
Sharegift (https://www.sharegift.org) or call +44 (0)20 7930 3737.

CDI Holders – ShareGift Australia
Sharegift (https://sharegiftaustralia.org.au) or call 02 8328 9444.

Corporate website
Information on the Company is available on its website (www.virginmoneyukplc.com) including:

- financial information – annual and half-yearly reports as well as trading updates;
- share price information – current trading details;
- shareholder information – investor presentations and share register profile; and
- news releases – current and historical.

Unsolicited telephone calls and communication
Shareholders are advised to be wary of any unsolicited advice, offers to buy shares at a discount, or offers of free reports about the Company. These are typically from overseas based 'brokers' who target shareholders, offering to sell them what often turns out to be worthless or high risk shares. These operations are commonly known as 'boiler rooms' and the 'brokers' can be very persistent and extremely persuasive.

Shareholders are advised to deal with only financial services firms that are authorised by the FCA. You can check a firm is properly authorised by the FCA before getting involved by visiting www.fca.org.uk/register. If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme if anything goes wrong. For more detailed information on how you can protect yourself from an investment scam, or to report a scam, go to www.fca.org.uk/scamsmart.

Shareholder interests as at 30 September 2021
By size of holding:

Range	No of shareholders	%	No of shares	%
1–1,000	117,595	79.68	38,776,968	2.69
1,001–5,000	23,126	15.67	48,817,246	3.39
5,001–10,000	3,739	2.53	26,561,234	1.85
10,001–100,000	2,811	1.90	66,822,820	4.64
100,001–999,999,999	317	0.22	1,259,015,163	87.43

Financial calendar for FY22
2022 key financial reporting dates will be published on our website – www.virginmoneyukplc.com

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 Annual Report and Accounts covers the results of the Group for the year ended 30 September 2021.

Statutory basis

Statutory information is set out on page 61 and within the financial statements.

Underlying basis

The results are adjusted to remove certain items that do not promote an understanding of historical or future trends of earnings or cash flows, which enables a more meaningful comparison of the Group's underlying performance. A reconciliation from the underlying results to the statutory basis is shown on page 62 and rationale for the adjustments is shown on page 324.

Alternative performance measures (APMs)

The financial key performance indicators (KPIs) used in monitoring the Group's performance and reflected throughout this report are determined on a combination of bases (including statutory, regulatory and alternative performance measures), as detailed at 'Measuring financial performance – glossary' on pages 322 to 323. 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.

The financial information relating to the year ended 30 September 2021 is entirely consistent with the equivalent unaudited financial information contained in the trading update released on 4 November 2021, including the statutory profit before tax of £417m and the underlying profit before tax of £801m which were set out in the trading update.

Forward-looking statements

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

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

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

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

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