CLYDESDALE BANK PLC
INTERIM FINANCIAL REPORT
6 MONTHS TO 30 SEPTEMBER 2024

Clydesdale Bank PLC is registered in Scotland (company number: SC001111) and has its registered office at 177 Bothwell Street, Glasgow, G2 7ER.

BASIS OF PRESENTATION

Clydesdale Bank PLC (the Bank), together with its subsidiary undertakings (which together comprise the 'Group'), operate under the Clydesdale Bank, Yorkshire Bank and Virgin Money brands. It is the main operating subsidiary of its immediate parent, Virgin Money UK PLC (Virgin Money). Following the acquisition of Virgin Money by Nationwide Building Society (Nationwide), the financial year end of the Bank was changed from 30 September to 31 March in order to align to Nationwide's financial year end. This release therefore covers the interim results of the Group for the 6 months ended 30 September 2024 and the Group's next Annual Report and Accounts will cover the 18-month period ending 31 March 2025. Unless otherwise stated, income statement commentaries throughout this document compare the 12 months ended 30 September 2024 to the 12 months ended 30 September 2023 and the balance sheet analysis compares the Group balance sheet as at 30 September 2024 to the Group balance sheet as at 30 September 2023. The Interim Financial Report is unaudited and the independent review report is included on page 45.

Statutory basis: Statutory information is set out within the interim condensed consolidated financial statements.

Excluding notable items basis: Management exclude certain items from the Group's statutory position to arrive at an 'excluding notable items' basis. The exclusion of notable items aims to remove the impact of one-offs and other volatile items which may distort period-on-period comparisons. Rationale for the notable items is shown on page 73. This basis is classed as an alternative performance measure, see below. In the Group's 2023 Annual Report and Accounts, items adjusted from the Group's statutory position resulted in an 'underlying basis' of performance. Since then, the Group has not presented results on an underlying basis, moving instead to a statutory presentation of its income statement, whilst still providing details of notable items of income and expenditure. Comparative periods have not been restated as the 'excluding notable items basis' is directly comparable to the previously disclosed 'underlying basis'. Further information on this change is shown on page 73.

Alternative performance measures (APMs): the financial performance measures used in monitoring the Group's performance and reflected throughout this report are determined on a combination of bases (including regulatory and APMs), as detailed at 'Measuring financial performance - glossary' on page 181 of the Group's 2023 Annual Report and Accounts. APMs are closely scrutinised to ensure that they provide genuine insights into the Group's progress, however, statutory measures are the key determinant of dividend paying capability.

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

FORWARD-LOOKING STATEMENTS

This document and any other written or oral material discussed or distributed in connection with the results (the 'Information') may include forward-looking statements, which are based on assumptions, expectations, valuations, targets, estimates, forecasts and projections about future events. These can be identified by the use of words such as 'expects', 'aims', 'targets', 'seeks', 'anticipates', 'plans', 'intends', 'prospects', 'outlooks', 'projects', 'forecasts', 'believes', 'estimates', 'potential', 'possible', and similar words or phrases. These forward-looking statements are subject to risks, uncertainties and assumptions about the Group and its securities, investments and the environment in which it operates, including, among other things, the development of its business and strategy, any acquisitions, combinations, disposals or other corporate activity undertaken by the Group, trends in its operating industry, changes to customer behaviours and covenant, macroeconomic and/or geopolitical factors, changes to its Board and/or employee composition, exposures to terrorist activity, IT system failures, cyber-crime, fraud and pension scheme liabilities, risks relating to environmental matters such as climate change including the Group's ability along with the government and other stakeholders to measure, manage and mitigate the impacts of climate change effectively, 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, the repercussions of Russia's invasion of Ukraine, the conflict in the Middle East and any UK or global cost of living crisis or recession.

In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Forward-looking statements involve inherent risks and uncertainties and should be viewed as hypothetical. Other events not taken into account may occur and may significantly affect the analysis of the forward-looking statements. No member of the Group or their respective directors, officers, employees, agents, advisers or affiliates (each a 'Clydesdale Bank PLC Party') gives any representation, warranty or assurance that any such projections or estimates will be realised, or that actual returns or other results will not be materially lower than those set out in the Information. No representation or warranty is made that any forward-looking statement will come to pass. Whilst every effort has been made to ensure the accuracy of the Information, no Clydesdale Bank PLC Party takes any responsibility for the Information or to update or revise it. They will not be liable for any loss or damages incurred through the reliance on or use of it. The Information is subject to change. No representation or warranty, express or implied, as to the truth, fullness, fairness, merchantability, accuracy, sufficiency or completeness of the Information is given.

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No statement in the Information is intended as a profit forecast, profit estimate or quantified benefit statement for any period and no statement in the Information should be interpreted to mean that earnings per share for the Company for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share for the Company or the Group.

Interim financial report

For the six months ended 30 September 2024

Contents

Business and financial review

Principal activities

The Group operates a full service UK-focused retail and commercial banking business under the brand names 'Clydesdale Bank', 'Yorkshire Bank', 'and 'Virgin Money'. The bank is a strong, low risk bank focused on providing residential mortgages, personal and business current accounts, savings, personal loans and credit cards, loans for small and medium businesses, and payment and transaction services.

The acquisition of Virgin Money by Nationwide became effective on 1 October 2024, with Virgin Money shares delisted on the same date. Following the acquisition, the Virgin Money group is wholly owned by Nationwide, forming the second largest provider of mortgages and retail savings in the UK.

Business review

Summary balance sheet

	As at 30 Sep 2024 £m	30 Sep 2023 £m
Customer loans	**71,296**	72,754
Other financial assets	**17,328**	17,760
Other non-financial assets	**1,278**	1,370
Total assets	**89,902**	91,884
Customer deposits	**(69,423)**	(66,609)
Wholesale funding	**(12,261)**	(16,680)
Other liabilities	**(2,670)**	(2,906)
Total liabilities	**(84,354)**	(86,195)
Ordinary shareholders' equity	**(4,855)**	(5,095)
Additional Tier 1 (AT1) equity	**(693)**	(594)
Equity	**(5,548)**	(5,689)
Total liabilities and equity	**(89,902)**	(91,884)

Summary income statement

	6 months to 30 Sep 2024 £m	**12 months to 30 Sep 2024 £m**	6 months to 30 Sep 2023 £m	12 months to 30 Sep 2023 £m
Net interest income (excluding notable items)	**906**	**1,775**	860	1,715
Non-interest income (excluding notable items)	**75**	**146**	78	158
Total operating income (excluding notable items)	**981**	**1,921**	938	1,873
Notable items in income	***12***	***(6)***	*(27)*	*(47)*
Statutory total operating income	**993**	**1,915**	911	1,826
Operating and administrative expenses (excluding notable items)	**(526)**	**(1,028)**	(494)	(971)
Notable items in expenses	***(66)***	***(115)***	*(145)*	*(202)*
Statutory operating and administrative expenses	**(592)**	**(1,143)**	(639)	(1,173)
Statutory operating profit before impairment losses	**401**	**772**	272	653
Impairment losses on credit exposures	**(84)**	**(177)**	(165)	(309)
Statutory profit on ordinary activities before tax	**317**	**595**	107	344
Tax expense	**(133)**	**(176)**	(43)	(95)
Statutory profit attributable to equity holders	**184**	**419**	64	249

Business and financial review (continued)

Notable items

	6 months to 30 Sep 2024	**12 months to 30 Sep 2024**	6 months to 30 Sep 2023	12 months to 30 Sep 2023
	£m	**£m**	£m	£m
Operating income:				
Acquisition accounting unwinds (net interest income)	**(8)**	**(18)**	(26)	(29)
Hedge ineffectiveness (non-interest income)	**(3)**	**(11)**	-	(16)
Other (non-interest income)	**23**	**23**	(1)	(2)
Total notable items in statutory operating income	**12**	**(6)**	(27)	(47)
Operating expenses:				
Restructuring charges	**(23)**	**(56)**	(78)	(131)
Financial crime prevention programme	**(22)**	**(37)**	-	-
Legacy conduct	**7**	**11**	(8)	(12)
Other	**(28)**	**(33)**	(59)	(59)
Total notable items in statutory operating expenses	**(66)**	**(115)**	(145)	(202)
Operating profit before impairment losses (excluding notable items)	**455**	**893**	444	902

Summary

The Group performed well during the 12-month period to 30 September 2024 with a solid overall performance, demonstrated by an improvement in statutory profit after tax of £419m relative to £249m in the previous year. This performance coincided with the acquisition process of Virgin Money by Nationwide, which completed on 1 October 2024. While overall financial performance improved, the acquisition did have some impact during the six-month period to 30 September 2024, most notably as the Group incurred transaction-related costs and paused restructuring activity.

Balance sheet summary

The Group delivered further lending growth in its target segments during the 12-month period to 30 September 2024, while overall customer lending was 2% lower at £71.3bn. Mortgage balances reduced 4% during the 12-month period to £55.1bn, as the Group safeguarded overall returns in a subdued market. Business lending increased 7% overall, as growth in BAU balances offset ongoing reductions in government-backed lending. Unsecured balances increased 4% to £6.8bn, driven by 8% growth in the credit card portfolio. We continued to attract new deposits during the 12-month period to 30 September 2024, supporting overall deposit growth of 4%.

The Group maintained a conservative balance sheet position, including stable provision coverage, robust funding and liquidity and a strong capital position. Total credit provisions at 30 September 2024 were £606m (30 September 2023: £617m) equivalent to a coverage ratio of 0.84% (30 September 2023: 0.84%). Funding and liquidity remain strong, with the 12-month average LCR ratio increasing to 157% (30 September 2023: 146%) and 12-month average net stable funding ratio (NSFR) stable at 138% (30 September 2023: 136%).

Profit and loss summary

During the 12-month period to 30 September 2024, the Group delivered growth in statutory total income of 5% year-on-year, to £1,915m, mainly driven by a £71m increase in net interest income. Statutory non-interest income was 13% higher year-on-year, though was lower when excluding the effects of notable income, including income relating to the purchase of abrdn Holdings Limited's (abrdn) c.50% stake in Virgin Money Investments (VMI) in April. Operating and administrative costs of £1,028m (excluding notable items) were 6% higher year-on-year, reflecting inflation, the new BoE Levy, and the impact on cost savings of the pause to our restructuring programme. Notable expenditure was lower year-on-year, despite the Group incurring additional transaction related-costs, given the higher scale of restructuring charges and intangible asset write-downs incurred in the 12-month period to 30 September 2023. Credit impairment losses of £177m were significantly lower year-on-year, reflecting updated macroeconomic assumptions, the review of the application of significant increase in credit risk (SICR) on the credit card portfolio and resilient credit quality. The combination of all of these factors drove improved profit before tax of £595m, 73% higher year-on-year.

Business and financial review (continued)

Capital

At 30 September 2024, the Group maintained a robust capital position, with a CET1 ratio of 13.6% (IFRS 9 transitional basis) and a total capital ratio of 19.1%. The Group's CET1 ratio on an IFRS 9 fully loaded basis was 13.5%. The Group's CET1 position included a deduction for the £250m (plus VAT of £50m) TMLA fee(1) due to Virgin Enterprises, following amendments to the brand licence agreement between Virgin Money and Virgin Enterprises as part of the Nationwide acquisition. Although this fee was not recognised for accounting purposes, it was deducted from the Bank's regulatory capital resources as it represented a foreseeable charge.

As detailed in note 5.6 to the interim condensed consolidated financial statements, the Group has made a number of material accounting policy changes to align with those used by Nationwide. These changes took place following completion of the acquisition on 1 October 2024 and have therefore not been recognised in the 30 September 2024 interim condensed consolidated financial statements or capital position.

The accounting policy changes include revisions to EIR methodology for mortgages and credit cards and will require restatement to prior periods. The impact of the restatement will include reductions of £185m and £370m to the mortgage EIR asset and to the credit card EIR asset respectively compared to the 30 September 2024 positions. There remains the potential for further adjustments following other changes to accounting policy and practice. On 1 October 2024, the Bank issued ordinary shares to Virgin Money for cash consideration of £650m. This ordinary share issue mitigates the impact of the accounting policy changes noted above on the Group's CET1 ratio.

Key performance indicators

The Directors do not rely on KPIs at the individual subsidiary level. The performance of the Group is included in the Interim Financial Report of Virgin Money UK PLC. The business is managed within the Virgin Money UK PLC Group and the results are consistent with the Group's status as a fully integrated and wholly owned subsidiary of the Virgin Money UK PLC Group. For this reason, the Bank's Directors believe that providing further indicators for the Group itself would not enhance an understanding of the development, performance or position of the Group.

(1) For accounting purposes, the TMLA fee of £250m and the irrecoverable VAT on the first instalment of £25m has been recognised in October 2024. The VAT payable on the second instalment will be recognised in October 2025. Further detail can be found in note 5.6 to the interim condensed consolidated financial statements.

Risk management
Risk overview

Risk management

Risk overview

The objective of risk management is to keep the bank safe, to ensure resilience and to put the customer interests at the centre of our decision making to support good customer outcomes. Effective risk management supports the sustainable delivery of our strategic objectives.

This report provides information on developments during the period relating to the Group's risk exposures, including how those risks are managed or mitigated.

Key developments in 2024

During 2024, Risk has focussed on the launch and delivery of key initiatives, supporting the vision to *'Drive Better Outcomes Through More Impactful Risk Management.'*

Work continues to enhance risk management practices and reporting capabilities. During the period significant effort has been made to ensure readiness for the launch of our new Integrated Risk Management (IRM) system. The new system will provide enhanced risk management practices and reporting capabilities, improving transparency and understanding of risks and related controls across the bank, and building a more data driven approach to risk management. Control effectiveness requires focus, with the introduction of the new IRM system and ongoing training supporting heightened awareness and better controls. Internal policies, standards and procedures are being strengthened in line with improved system capabilities to drive further improvements and uplift overall control quality and completeness in readiness for increased expectations under Principle 29 of the Corporate Governance Code 2024. Additionally, work continues to enhance our internal fraud control environment, with robust plans established which are due to be implemented by December 2024.

A new model inventory solution was launched, delivering core functionality to support adherence to the new supervisory statement (SS)1/23 'Model risk management principles for banks'. This is another step forward as we continue to automate and digitise, bringing efficiencies in our deliverables and strengthening our model risk management objectives.

The second phase of Consumer Duty was implemented, including compliance with the requirements for closed book review and reporting. This helps to deliver good outcomes for our customers and included the launch of our new vulnerability disclosure tool.

We have successfully launched our enhanced financial crime protection programme, with all three lines of defence collaborating to ensure we can keep our customers and the Group safe, and enable the Group to adapt to new and evolving threats such as Artificial Intelligence (AI) and cybercrime.

Principal risks

Principal risks are those which could result in events or circumstances that might threaten the Group's business model, future performance, solvency, liquidity or reputation. The Group's principal risks are listed below and remain as disclosed in the 2024 March Interim Financial Report.

Principal risks	Definitions
Credit risk	The risk that a retail or business customer or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk needs to be managed through the life cycle of each loan from origination to repayment, redemption, write-off or sale. It manifests in the products that the Group offers and in which it invests and can arise in respect of both on- and off-balance sheet exposures.
Financial risk	The risk that the Group cannot meet its obligations to repay depositors' funds in a timely manner or that there is insufficient ability to absorb losses. Several categories of risk are included (liquidity, funding, capital, pension and market risks), that must all be managed in a way that maintains the confidence of customers, investors, and regulators.
Model risk	The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.
Regulatory and compliance risk	The risk of failing to comply with relevant regulatory requirements and changes in the regulatory environment, failing to manage legal risks effectively, or failing to manage a constructive relationship with our regulators, by not keeping them informed of relevant issues, not responding effectively to information requests or not meeting regulatory deadlines.
Conduct risk	The risk of undertaking business in a way which fails to deliver good customer outcomes in line with the FCA's Consumer Duty, and causes customer harm, and may result in regulatory censure, redress costs and/or reputational damage.
Operational risk	The risk of loss or customer harm resulting from inadequate or failed internal processes, people and systems or from external events, incorporating the inability to maintain critical services, recover quickly and learn from unexpected/adverse events. Operational risk includes: change risk; third-party risk; cyber and information security risk; physical and personal security risk; IT resilience risk; data management risk; payment creation, execution and settlement risk; and people risk.
Economic crime risk	The risk that the Group fails to detect and prevent its products and services from being used to facilitate economic crime, resulting in harm to customers, the Group and its reputation, or third parties. This includes money laundering, terrorist financing, facilitation of tax evasion, sanctions, fraud, and bribery and corruption.

Risk management

Risk overview

Principal risks (continued)

Principal risks	Definitions
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 fund or manage required change projects or adapt to external developments.
Climate risk	The risk of exposure to physical and transition risks arising from climate change.

Emerging and evolving risks

Emerging and evolving risks are current or future risks arising from internal or external events, with a material unknown or unpredictable component, and the potential to significantly impact the future performance of the Group or prevent delivery of good outcomes for our customers over the medium to long term (12 months +). Emerging and evolving risks are continually assessed through a horizon scanning process, considering all internal and external factors, with escalation and reporting to the Board.

The emerging and evolving risk classifications reported in the Group's 2023 Annual Report and Accounts have been reviewed throughout the year and updated.

Risks	Description
Economic and Geopolitical risks	Uncertainty in the UK economic environment prevails and further changes were outlined in the UK Government's October 2024 Budget, with inflation and Bank rate levels continuing to impact consumer confidence and housing market activity. These uncertainties could affect customer resilience and consequently debt affordability. Geopolitical volatility remains with ongoing conflict in Ukraine and Gaza, and other global tensions arising. Although the Group's direct exposures to these areas is very limited, there is the risk of a broader macroeconomic impact, disruption in supply chains, and the heightened risk of cyber-attacks and economic crime. The Group maintains robust capital and liquidity levels, with stress testing against a range of severe but plausible market scenarios performed to understand and mitigate risks to financial resilience.
Evolving regulatory environment	Firms remain subject to constantly evolving regulation and oversight from different regulatory bodies. This regulatory landscape requires ongoing responses, specialist resource and funding to execute multifaceted and large-scale change projects, to ensure compliance. It is anticipated that continued technological advancements and the rise of AI will drive changing regulations which the Group will need to adopt, requiring continued investment to protect our customers. The Group works with regulators to ensure it meets its obligations and any implications from upcoming regulatory activity are incorporated into the strategic planning cycle.
Third-party risk	There are increasingly complex and significant dependencies on third-party suppliers, including outsourcing of certain activities, which require effective management of the levels of risk that arise. Dependencies on a particular supplier for multiple business capabilities could affect resilience and mean a single failure disrupts multiple aspects of the business. These risks are closely managed and mitigated through our third-party framework, policy and standards.
Emergent Technology Risks	Accelerated technological change in areas such as AI, quantum computing and data science, places increasing strategic importance on the effective and efficient use of systems and data to remain competitive. The Group's operations and digital strategy are increasingly dependent on the use of quality and timely data, within scalable and secure architecture, to support decision making.
Integration risk	There are a range of operational and people risks that could arise due to integration activity following the acquisition by NBS, which could include: *Operational risk:* The harmonisation of operational processes, IT and systems, and organisational cultures, could negatively impact efficiency, productivity and quality, and lead to increased costs and complexities, as well as disruption to service and delivery, if not carefully managed. *People risk:* People risk is heightened, driven by an uncertain and changing environment which could have varying adverse impacts, for example on attrition and talent attraction.
Cyberattacks	The landscape of security and cyber threats continues to advance and is becoming more sophisticated in terms of frequency, impact, and severity, with potential that AI-assisted tools such as voice and image generation create further risks. The current geopolitical and macroeconomic environment heightens the risk of cyberattacks on the Group, with wide-ranging impacts including financial and data loss, disruption to our business and customer service, and reputational damage. The Group is investing in capabilities to defend against cyber threats, with key initiatives ongoing to upgrade propositions across areas such as financial crime prevention and cyber defence.

Risk management
Credit risk

Risk management
Credit risk (continued)

Credit risk overview

Credit risk is the risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk manifests itself in the financial instruments and products that the Group offers and in which it invests and can arise in respect of both on- and off-balance sheet exposures. This remains consistent with the Group's position as described in the Group's 2023 Annual Report and Accounts, however not all of that information has been replicated in this Interim Financial Report.

Close monitoring, clear policies and underwriting criteria, and a disciplined approach to credit risk management support the Group's operations and have underpinned its resilience in recently challenging times. Inflationary headwinds and cost of living pressures are improving but remain sufficiently challenging to continue to have the potential to affect customer resilience and debt affordability. The Group continually reviews the steps that are being taken to support customers through this period of heightened affordability pressure and ensure that its credit risk framework and associated policies remain effective and appropriate.

The Group has continued to maintain a relatively stable lending book, with gross lending to customers reducing slightly overall to £71.9bn at 30 September 2024 (30 September 2023: £73.3bn) as 7% growth in target segments of Unsecured and Business was offset by a 4% reduction in Mortgages. The Unsecured balances increased 6% to £7.2bn (30 September 2023 £6.8bn), driven by 9% growth in the credit card portfolio. Business lending increased 7% overall to £9.3bn (30 September 2023: £8.7bn), as growth in BAU balances offset ongoing reductions in government-backed lending.

Asset quality remains robust and most of the key asset quality ratios remained resilient with no significant deterioration.

During the 12 month period to 30 September 2024, the Group reviewed the existing staging approach for credit cards in the Unsecured portfolio which focused on the triggers that move exposures from Stage 1 (requiring a 12-month ECL calculation) to Stage 2 (requiring a lifetime ECL calculation) and removed the requirement for a two-month probation period before accounts could return to Stage 1 from Stage 2 for non-forborne exposures. The overall impact of this change has been a reduction of £31m in the modelled ECL in the Unsecured portfolio.

Primarily driven by an improving economic outlook, the updated macroeconomic inputs have resulted in a release of modelled provision across all portfolios. MAs also reduced in the period to £71m (30 September 2023: £76m). The total ECL provision reduced to £606m as at 30 September 2024 (30 September 2023: £617m); the coverage ratio remained stable at 84bps.

The impairment charge to the income statement is £177m (12 months to 30 September 2023: £309m) with an associated CoR of 24bps (12 months to 30 September 2023: 42bps).

Group credit risk exposures

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

The Group is also exposed to credit risk on its other banking and treasury-related activities and holds £10.7bn of cash and balances with central banks and £0.5bn due from other banks at amortised cost (30 September 2023: £11.3bn and £0.7bn respectively), with a further £6.1bn (30 September 2023: £6.2bn) of financial assets at FVOCI. Cash and balances with central banks include £9.7bn of cash held with the BoE (30 September 2023: £10.2bn). Balances with other banks and financial assets at FVOCI are primarily held with senior investment grade counterparties. All other banking and treasury related financial assets are classed as Stage 1 with no material ECL provision held.

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

Risk management
Credit risk (continued)

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

30 September 2024	Gross loans and advances to customers £m	Credit-related commitments £m	Total £m
Mortgages	**55,409**	**2,458**	**57,867**
Unsecured	**7,197**	**10,990**	**18,187**
Business	**9,334**	**4,217**	**13,551**
Total	**71,940**	**17,665**	**89,605**
Impairment provisions on credit exposures [(1)]	**(602)**	**(4)**	**(606)**
Fair value hedge adjustment	**(112)**	**-**	**(112)**
Maximum credit risk exposure on lending assets	**71,226**	**17,661**	**88,887**
Cash and balances with central banks			**10,695**
Financial instruments at FVOCI			**6,087**
Due from other banks			**518**
Other financial assets at fair value			**53**
Due from related entities			**47**
Derivative financial assets			**44**
Maximum credit risk exposure on all financial assets [(2)]			**106,331**
30 September 2023			
Mortgage	57,797	2,685	60,482
Unsecured	6,814	11,242	18,056
Business	8,684	4,073	12,757
Total	73,295	18,000	91,295
Impairment provisions held on credit exposures [(1)]	(612)	(5)	(617)
Fair value hedge adjustment	(492)	-	(492)
Maximum credit risk exposure on lending assets	72,191	17,995	90,186
Cash and balances with central banks			11,282
Financial instruments at FVOCI			6,184
Due from other banks			661
Other financial assets at fair value			61
Due from related entities			-
Derivative financial assets			135
Maximum credit risk exposure on all financial assets [(2)]			108,509

(1) The total ECL provision covers both on and off-balance sheet exposures which are reflected in notes 3.1.1.1 and 3.3 respectively. All tables and ratios that follow are calculated using the combined on- and off-balance sheet ECL, which is consistent for all periods reported. Off-balance sheet exposures include financial guarantees and other credit commitments.

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

Key credit metrics

	6 months to 30 Sep 2024 £m	**12 months to 30 Sep 2024 £m**	6 months to 30 Sep 2023 £m	12 months to 30 Sep 2023 £m
Impairment charge on credit exposures				
Mortgage lending	**(4)**	**(5)**	(1)	2
Unsecured lending	**73**	**154**	143	269
Business lending	**15**	**28**	23	38
Total Group impairment charge	**84**	**177**	165	309
Impairment charge [(1)] to average customer loans (cost of risk (CoR))	**0.23%**	**0.24%**	0.45%	0.42%

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

	As at 30 Sep 2024	30 Sep 2023
Key asset quality ratios		
Loans in Stage 2	**7.34%**	8.63%
Loans in Stage 3	**1.61%**	1.47%
Total book coverage [(1)]	**0.84%**	0.84%
Stage 2 coverage [(1)]	**6.14%**	6.33%
Stage 3 coverage [(1)]	**18.40%**	13.93%

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

Risk management
Credit risk (continued)

Credit quality of loans and advances

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

Gross loans and advances (1) ECL and coverage

	Mortgages		Unsecured						Business(2)		Total(2)	
			Cards		Loans and overdrafts		Combined					
30 September 2024	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	52,370	94.5%	5,565	83.7%	296	53.6%	5,861	81.4%	7,276	78.0%	65,507	91.1%
Stage 2 - total	2,477	4.5%	946	14.3%	249	45.2%	1,195	16.6%	1,606	17.2%	5,278	7.3%
Stage 2: 0 DPD	2,122	3.8%	889	13.4%	246	44.6%	1,135	15.8%	1,586	17.0%	4,843	6.7%
Stage 2: < 30 DPD	104	0.2%	27	0.4%	1	0.2%	28	0.4%	9	0.1%	141	0.2%
Stage 2: > 30 DPD	251	0.5%	30	0.5%	2	0.4%	32	0.4%	11	0.1%	294	0.4%
Stage 3(3)	562	1.0%	134	2.0%	7	1.2%	141	2.0%	452	4.8%	1,155	1.6%
	55,409	100.0%	6,645	100.0%	552	100.0%	7,197	100.0%	9,334	100.0%	71,940	100.0%
ECLs(4)												
Stage 1	7	15.0%	72	18.9%	4	11.9%	76	18.4%	25	17.1%	108	17.8%
Stage 2 - total	22	44.1%	242	63.3%	21	72.3%	263	63.9%	38	26.5%	323	53.4%
Stage 2: 0 DPD	8	15.4%	210	55.0%	20	67.0%	230	55.8%	38	26.4%	276	45.6%
Stage 2: < 30 DPD	3	5.6%	13	3.3%	-	1.3%	13	3.2%	-	0.1%	16	2.6%
Stage 2: > 30 DPD	11	23.1%	19	5.0%	1	4.0%	20	4.9%	-	0.0%	31	5.2%
Stage 3(3)	20	40.9%	68	17.8%	5	15.8%	73	17.7%	82	56.4%	175	28.8%
	49	100.0%	382	100.0%	30	100.0%	412	100.0%	145	100.0%	606	100.0%
Coverage												
Stage 1		0.01%		1.37%		1.21%		1.36%		0.35%		0.16%
Stage 2 - total		0.86%		26.73%		8.76%		22.80%		2.44%		6.14%
Stage 2: 0 DPD		0.35%		24.71%		8.22%		20.97%		2.45%		5.70%
Stage 2: < 30 DPD		2.53%		49.62%		34.49%		48.95%		1.08%		11.09%
Stage 2: > 30 DPD		4.52%		66.11%		58.25%		65.57%		1.39%		11.01%
Stage 3(3)		3.57%		52.22%		79.25%		53.43%		33.01%		18.40%
		0.09%		6.06%		5.47%		6.02%		1.61%		0.84%
Undrawn exposures												
Stage 1	2,344	95.4%	10,510	98.2%	269	94.1%	10,779	98.1%	3,668	87.0%	16,791	95.1%
Stage 2	102	4.1%	172	1.6%	16	5.6%	188	1.7%	530	12.5%	820	4.6%
Stage 3	12	0.5%	22	0.2%	1	0.3%	23	0.2%	19	0.5%	54	0.3%
	2,458	100.0%	10,704	100.0%	286	100.0%	10,990	100.0%	4,217	100.0%	17,665	100.0%

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

	Mortgages		Unsecured						Business [(2)]		Total[(2)]	
			Cards		Loans and overdrafts		Combined					
30 September 2023	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	54,540	94.3%	4,658	76.5%	398	54.8%	5,056	74.2%	6,293	72.5%	65,889	89.9%
Stage 2 - total	2,704	4.7%	1,321	21.7%	321	44.3%	1,642	24.1%	1,980	22.8%	6,326	8.6%
Stage 2: 0 DPD	2,405	4.2%	1,250	20.5%	316	43.6%	1,566	23.0%	1,951	22.4%	5,922	8.1%
Stage 2: < 30 DPD	98	0.2%	37	0.6%	2	0.3%	39	0.6%	14	0.2%	151	0.2%
Stage 2: > 30 DPD	201	0.3%	34	0.6%	3	0.4%	37	0.5%	15	0.2%	253	0.3%
Stage 3[(3)]	553	1.0%	109	1.8%	7	0.9%	116	1.7%	411	4.7%	1,080	1.5%
	57,797	100%	6,088	100%	726	100%	6,814	100%	8,684	100%	73,295	100%
ECLs[(4)]												
Stage 1	13	22.6%	42	10.8%	4	12.1%	46	10.9%	30	22.6%	89	14.5%
Stage 2 - total	27	47.9%	294	74.9%	28	73.5%	322	74.8%	51	39.4%	400	64.7%
Stage 2: 0 DPD	23	42.0%	256	65.3%	25	67.1%	281	65.5%	51	39.2%	355	57.6%
Stage 2: < 30 DPD	1	1.3%	17	4.3%	1	1.9%	18	4.1%	-	0.2%	19	3.0%
Stage 2: > 30 DPD	3	4.6%	21	5.3%	2	4.5%	23	5.2%	-	-	26	4.1%
Stage 3[(3)]	17	29.5%	56	14.3%	5	14.4%	61	14.3%	50	38.0%	128	20.8%
	57	100%	392	100%	37	100%	429	100%	131	100%	617	100%
Coverage												
Stage 1		0.02%		0.98%		1.07%		0.99%		0.49%		0.13%
Stage 2 - total		0.99%		23.16%		8.16%		20.07%		2.66%		6.33%
Stage 2: 0 DPD		0.98%		21.31%		7.56%		18.38%		2.67%		6.02%
Stage 2: < 30 DPD		0.74%		48.66%		35.30%		47.94%		1.56%		12.19%
Stage 2: > 30 DPD		1.28%		64.90%		56.02%		64.16%		0.95%		10.38%
Stage 3[(3)]		3.03%		54.15%		77.16%		55.57%		19.76%		13.93%
		0.10%		6.88%		4.88%		6.65%		1.60%		0.84%
Undrawn exposures												
Stage 1	2,560	95.4%	10,493	96.2%	280	82.1%	10,773	95.8%	3,453	84.7%	16,786	93.3%
Stage 2	114	4.2%	387	3.6%	60	17.6%	447	4.0%	597	14.7%	*1,158*	6.4%
Stage 3	11	0.4%	21	0.2%	1	0.3%	22	0.2%	23	0.6%	*56*	0.3%
	2,685	100%	10,901	100%	341	100%	*11,242*	100%	4,073	100%	18,000	100%

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

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

(3) Stage 3 includes purchased or originated credit impaired (POCI) for gross loans and advances of £39m for Mortgages and £1m for Unsecured (30 September 2023: £48m and £1m respectively); and ECL of (£1m) for Mortgages and (£1m) for Unsecured (30 September 2023: (£1m) and (£1m) respectively).

(4) Includes £4m ECL held for off-balance sheet exposures (30 September 2023: £5m), of which £1m (30 September 2023: £1m) is held under Stage 1 and £3m (30 September 2023: £4m) under Stage 2.

Risk management
Credit risk (continued)

Credit quality of loans and advances (continued)

Stage 2 balances

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

			Unsecured									
	Mortgages		**Cards[3]**		**Loans and overdrafts**		**Combined**		**Business**		**Total**	
30 September 2024	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
PD deterioration	**1,390**	**56%**	**465**	**49%**	**247**	**99%**	**712**	**60%**	**713**	**44%**	**2,815**	**53%**
Forbearance	**98**	**4%**	**15**	**2%**	**-**	**-**	**15**	**1%**	**308**	**19%**	**421**	**8%**
AFD or Watch List [1]	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**574**	**36%**	**575**	**11%**
> 30 DPD	**251**	**10%**	**30**	**3%**	**2**	**1%**	**32**	**3%**	**11**	**1%**	**294**	**6%**
Other [2]	**737**	**30%**	**436**	**46%**	**-**	**-**	**436**	**36%**	**-**	**-**	**1,173**	**22%**
	2,477	**100%**	**946**	**100%**	**249**	**100%**	**1,195**	**100%**	**1,606**	**100%**	**5,278**	**100%**
ECLs												
PD deterioration	**7**	**32%**	**105**	**43%**	**20**	**95%**	**125**	**48%**	**11**	**29%**	**143**	**44%**
Forbearance	**2**	**9%**	**5**	**2%**	**-**	**-**	**5**	**2%**	**10**	**26%**	**17**	**5%**
AFD or Watch List [1]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17**	**45%**	**17**	**5%**
> 30 DPD	**11**	**50%**	**19**	**8%**	**1**	**5%**	**20**	**8%**	**-**	**-**	**31**	**10%**
Other [2]	**2**	**9%**	**113**	**47%**	**-**	**-**	**113**	**42%**	**-**	**-**	**115**	**36%**
	22	**100%**	**242**	**100%**	**21**	**100%**	**263**	**100%**	**38**	**100%**	**323**	**100%**

			Unsecured									
	Mortgages		Cards		Loans and overdrafts		Combined		Business		Total	
30 September 2023	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD deterioration	1,739	65%	777	59%	317	99%	1,094	67%	1,229	62%	4,062	64%
Forbearance	81	3%	16	1%	1	-	17	1%	281	14%	379	6%
AFD or Watch List [1]	1	-	-	-	-	-	-	-	455	23%	456	7%
> 30 DPD	201	7%	34	3%	3	1%	37	2%	15	1%	253	4%
Other [2]	682	25%	494	37%	-	-	494	30%	-	-	1,176	19%
	2,704	100%	1,321	100%	321	100%	1,642	100%	1,980	100%	6,326	100%
ECLs												
PD deterioration	18	67%	143	49%	26	93%	169	52%	23	45%	210	52%
Forbearance	3	11%	5	2%	-	-	5	2%	14	28%	22	6%
AFD or Watch List [1]	-	-	-	-	-	-	-	-	14	27%	14	4%
> 30 DPD	3	11%	21	7%	2	7%	23	7%	-	-	26	7%
Other [2]	3	11%	125	42%	-	-	125	39%	-	-	128	31%
	27	100%	294	100%	28	100%	322	100%	51	100%	400	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.

(2) Other refers primarily to rules using additional credit reference agency data as well as a number of smaller value drivers.

(3) During the period, changes to the credit card SICR model, that removed the requirement for a two-month probation before accounts could return to Stage 1 from Stage 2 for non-forborne exposures, resulted in a reduced modelled ECL in the credit cards portfolio by £31m.

Risk management
Credit risk (continued)

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

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

		Stage 1		Stage 2		Stage 3[1]		Total	
30 September 2024		**Lending**	**ECL**	**Lending**	**ECL**	**Lending**	**ECL**	**Lending**	**ECL**
		£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Mortgages	**PD range**								
Strong	0 - 0.74	**50,750**	**4**	**1,283**	**1**	**-**	**-**	**52,033**	**5**
Good	0.75 - 2.49	**1,303**	**1**	**420**	**1**	**-**	**-**	**1,723**	**2**
Satisfactory	2.50 - 99.99	**317**	**2**	**774**	**20**	**-**	**-**	**1,091**	**22**
Default	100	**-**	**-**	**-**	**-**	**562**	**20**	**562**	**20**
Total		**52,370**	**7**	**2,477**	**22**	**562**	**20**	**55,409**	**49**
Unsecured									
Strong	0 - 2.49	**4,795**	**38**	**16**	**1**	**-**	**-**	**4,811**	**39**
Good	2.50 - 9.99	**1,061**	**37**	**720**	**105**	**-**	**-**	**1,781**	**142**
Satisfactory	10.00 - 99.99	**5**	**1**	**459**	**157**	**-**	**-**	**464**	**158**
Default	100	**-**	**-**	**-**	**-**	**141**	**73**	**141**	**73**
Total		**5,861**	**76**	**1,195**	**263**	**141**	**73**	**7,197**	**412**
Business									
Strong	0 - 0.74	**2,528**	**2**	**150**	**-**	**-**	**-**	**2,678**	**2**
Good	0.75 - 9.99	**4,740**	**23**	**1,307**	**27**	**-**	**-**	**6,047**	**50**
Satisfactory	10.00 - 99.99	**8**	**-**	**149**	**11**	**-**	**-**	**157**	**11**
Default	100	**-**	**-**	**-**	**-**	**452**	**82**	**452**	**82**
Total		**7,276**	**25**	**1,606**	**38**	**452**	**82**	**9,334**	**145**

		Stage 1		Stage 2		Stage 3[1]		Total	
30 September 2023		Lending	ECL	Lending	ECL	Lending	ECL	Lending	ECL
		£m	£m	£m	£m	£m	£m	£m	£m
Mortgages	PD range								
Strong	0 - 0.74	52,612	8	1,355	2	-	-	53,967	10
Good	0.75 - 2.49	1,540	2	553	3	-	-	2,093	5
Satisfactory	2.50 - 99.99	388	3	796	22	-	-	1,184	25
Default	100	-	-	-	-	553	17	553	17
Total		54,540	13	2,704	27	553	17	57,797	57
Unsecured									
Strong	0 - 2.49	4,443	29	123	12	-	-	4,566	41
Good	2.50 - 9.99	607	16	1,063	148	-	-	1,670	164
Satisfactory	10.00 - 99.99	6	1	456	162	-	-	462	163
Default	100	-	-	-	-	116	61	116	61
Total		5,056	46	1,642	322	116	61	6,814	429
Business									
Strong	0 - 0.74	1,860	2	158	-	-	-	2,018	2
Good	0.75 - 9.99	4,360	27	1,441	30	-	-	5,801	57
Satisfactory	10.00 - 99.99	73	1	381	21	-	-	454	22
Default	100	-	-	-	-	411	50	411	50
Total		6,293	30	1,980	51	411	50	8,684	131

(1) Stage 3 includes POCI for gross lending of £39m for Mortgages and £1m for Unsecured (30 September 2023: £48m and £1m respectively); and ECL of (£1m) for Mortgages and (£1m) for Unsecured (30 September 2023: (£1m) and (£1m) respectively).

In terms of the credit quality of the loan commitments and financial guarantee contracts, 96% is classified as either 'Good' or 'Strong' under the Group's internal PD rating scale (30 September 2023: 96%) and the level of default remaining low.

The improvements to the profile of the PD groupings has been predominantly driven by the updates to model economic scenarios (MES).

IFRS 9 staging

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

	Stage 1		**Stage 2**		**Stage 3(1)**				
12 months to 30 September 2024	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions £m**	**Income statement £m**
Opening balance at 1 October 2023	**65,889**	**89**	**6,326**	**400**	**1,080**	**128**	**73,295**	**617**	
Transfers from Stage 1 to Stage 2	**(6,934)**	**(53)**	**6,907**	**412**	**-**	**-**	**(27)**	**359**	**359**
Transfers from Stage 2 to Stage 1	**5,881**	**54**	**(5,985)**	**(340)**	**-**	**-**	**(104)**	**(286)**	**(286)**
Transfers to Stage 3	**(85)**	**(1)**	**(679)**	**(152)**	**769**	**177**	**5**	**24**	**24**
Transfers from Stage 3	**70**	**1**	**162**	**11**	**(249)**	**(11)**	**(17)**	**1**	**1**
Net movement	**(1,068)**	**1**	**405**	**(69)**	**520**	**166**	**(143)**	**98**	**98**
New assets originated or purchased (2)	**20,091**	**91**	**700**	**47**	**300**	**46**	**21,091**	**184**	**184**
Repayments and other movements (3)	**(3,071)**	**1**	**(612)**	**13**	**191**	**(8)**	**(3,492)**	**6**	**6**
Repaid or derecognised(3)	**(16,334)**	**(74)**	**(1,541)**	**(68)**	**(696)**	**(187)**	**(18,571)**	**(329)**	**(329)**
Write-offs	**-**	**-**	**-**	**-**	**(240)**	**(240)**	**(240)**	**(240)**	**-**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**52**	**-**	**52**	**-**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**218**	**-**	**218**	**218**
Closing balance at 30 September 2024	**65,507**	**108**	**5,278**	**323**	**1,155**	**175**	**71,940**	**606**	**177**

	Stage 1		Stage 2		Stage 3(1)				
12 months to 30 September 2023	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m	Income statement £m
Opening balance at 1 October 2022	66,385	85	5,723	268	1,036	104	73,144	457	
Transfers from Stage 1 to Stage 2	(8,561)	(46)	8,535	414	-	-	(26)	368	368
Transfers from Stage 2 to Stage 1	6,077	16	(6,125)	(129)	-	-	(48)	(113)	(113)
Transfers to Stage 3	(96)	-	(586)	(109)	686	138	4	29	29
Transfers from Stage 3	121	-	134	8	(266)	(10)	(11)	(2)	(2)
Net movement	(2,459)	(30)	1,958	184	420	128	(81)	282	282
New assets originated or purchased (2)	20,489	57	629	44	161	34	21,279	135	135
Repayments and other movements (3)	(2,990)	12	(556)	(22)	140	(4)	(3,406)	(14)	(14)
Repaid or derecognised(3)	(15,536)	(35)	(1,428)	(74)	(490)	(127)	(17,454)	(236)	(236)
Write-offs	-	-	-	-	(187)	(187)	(187)	(187)	-
Cash recoveries	-	-	-	-		38	-	38	-
Individually assessed impairment charge	-	-	-	-	-	142	-	142	142
Closing balance at 30 September 2023	65,889	89	6,326	400	1,080	128	73,295	617	309

(1) Stage 3 includes POCI for gross loans and advances of £39m for Mortgages and £1m for Unsecured (30 September 2023: £48m and £1m respectively), and ECL of (£1m) for Mortgages and (£1m) for Unsecured (30 September 2023: (£1m) and (£1m) respectively). Nil for Business in both periods.

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

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

The IFRS 9 staging movements are driven by a variety of factors at individual product portfolio levels, with further detail provided in the following portfolio performance pages. Overall, the portfolio movements across staging show an improving trend with a net increase in the proportion held in Stage 1, and reduction in Stage 2. Updates to the macroeconomic assumptions used in the Group's IFRS 9 modelling, the SICR model changes in the unsecured portfolio and generally improved customer account performance all contribute to this. The level of write offs in the current 12 month period is higher than the prior 12 month period and has been primarily driven from the credit card portfolio, in addition to a small number of individually significant business write offs. Overall the levels of default across the portfolio remain low.

IFRS 9 staging (continued)

The contractual amount outstanding on loans and advances that were written off during the reporting period and still subject to enforcement activity was £7m (30 September 2023: £5m). The Group has not purchased any lending assets in the period (30 September 2023: 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

30 September 2024	**Gross lending £m**	**Modelled & IA ECL £m**	**MA £m**	**Total ECL £m**	**Net lending £m**	**Coverage %**	**Average LTV %**
Residential - capital repayment	**33,537**	**11**	**5**	**16**	**33,521**	**0.05%**	**55.6%**
Residential - interest only	**7,251**	**8**	**1**	**9**	**7,242**	**0.12%**	**48.9%**
Buy-to-let (BTL)	**14,621**	**8**	**16**	**24**	**14,597**	**0.17%**	**54.6%**
Total Mortgage portfolio	**55,409**	**27**	**22**	**49**	**55,360**	**0.09%**	**54.6%**
30 September 2023							
Residential - capital repayment	35,085	10	5	15	35,070	0.04%	54.2%
Residential - interest only	7,503	8	1	9	7,494	0.12%	47.0%
BTL	15,209	7	26	33	15,176	0.21%	52.8%
Total Mortgage portfolio	57,797	25	32	57	57,740	0.10%	52.9%

Mortgage lending reduced in the period to £55.4bn (30 September 2023: £57.8bn) with lower demand for new lending owing to the higher rate environment, stressed affordability pressure and wider cost of living considerations, being outpaced by repayments and redemptions. Interest rates remain elevated as the Bank of England (BoE) look to steadily reduce the rate of inflation towards their 2% target, however the BoE base rate has reduced in the second half of the financial year, which has slightly eased affordability pressures and prompted a partial recovery in the housing market.

The portfolio continues to evidence good underlying credit performance, with the majority (98%) of lending not past due at the balance sheet date (30 September 2023: 98%), and 95% of loans held in Stage 1 (30 September 2023: 94%). The proportion of the portfolio rated Strong or Good at the balance sheet date under the Group's internal PD rating scale remains high at 97% (30 September 2023: 97%) reflecting the quality of the portfolio.

Stage 3 balances have remained low at 1.0% (30 September 2023: 1.0%) and 87% of the portfolio has an LTV of less than 75% (30 September 2023: 91%), with the weighted average LTV relatively stable in the period at 54.6% (30 September 2023: 52.9%).

All of these key metrics evidence a high quality mortgage portfolio, with relatively low risk of default, driven by sound lending decisions and underwriting criteria.

Mortgage portfolio - interest rate profile

	30 September 2024		30 September 2023	
	£m	**%**	£m	%
Fixed rate	**50,408**	**91.0%**	52,841	91.5%
Variable rate	**3,194**	**5.7%**	3,081	5.3%
Standard variable rate (SVR)	**1,807**	**3.3%**	1,875	3.2%
Total	**55,409**	**100.0%**	57,797	100.0%

The Group is a signatory to the Mortgage Charter introduced by the Government to support mortgage customers impacted by higher mortgage interest rates and provide help and support to those who are in financial difficulty. This provides an option for borrowers who are up to date on their mortgage payments to switch to interest only payments for a six-month period. To date the number of customers requiring this support has been low.

Mortgage credit performance (continued)

Collateral

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

Average LTV of Mortgage portfolio by staging

30 September 2024	Stage 1			Stage 2			Stage 3[2]			Total		
	Loans		ECL	Loans		ECL	Loans		ECL	Loans		ECL
LTV [1]	£m	%	£m	£m	%	£m	£m	%	£m	£m	%	£m
Less than 50%	**20,177**	**39%**	**2**	**1,358**	**55%**	**3**	**247**	**44%**	**4**	**21,782**	**39%**	**9**
50% to 75%	**25,478**	**49%**	**3**	**977**	**40%**	**11**	**223**	**40%**	**5**	**26,678**	**48%**	**19**
76% to 80%	**2,731**	**5%**	**-**	**63**	**3%**	**2**	**25**	**4%**	**1**	**2,819**	**6%**	**3**
81% to 85%	**1,821**	**3%**	**1**	**33**	**1%**	**1**	**15**	**3%**	**1**	**1,869**	**3%**	**3**
86% to 90%	**1,484**	**3%**	**1**	**29**	**1%**	**1**	**16**	**3%**	**1**	**1,529**	**3%**	**3**
91% to 95%	**615**	**1%**	**-**	**11**	**-**	**1**	**12**	**2%**	**1**	**638**	**1%**	**2**
96% to 100%	**40**	**-**	**-**	**1**	**-**	**-**	**4**	**1%**	**1**	**45**	**-**	**1**
Greater than 100%	**24**	**-**	**-**	**5**	**-**	**3**	**20**	**3%**	**6**	**49**	**-**	**9**
	52,370	**100%**	**7**	**2,477**	**100%**	**22**	**562**	**100%**	**20**	**55,409**	**100%**	**49**

30 September 2023	Stage 1			Stage 2			Stage 3[2]			Total		
	Loans		ECL	Loans		ECL	Loans		ECL	Loans		ECL
LTV [1]	£m	%	£m	£m	%	£m	£m	%	£m	£m	%	£m
Less than 50%	22,680	42%	4	1,551	58%	5	282	50%	2	24,513	42%	11
50% to 75%	26,913	49%	6	1,009	37%	14	203	37%	4	28,125	49%	24
76% to 80%	2,270	4%	1	81	3%	2	22	4%	1	2,373	4%	4
81% to 85%	1,408	3%	1	33	1%	1	13	2%	1	1,454	3%	3
86% to 90%	992	2%	-	23	1%	-	9	2%	1	1,024	2%	1
91% to 95%	236	-	-	3	-	-	11	2%	1	250	-	1
96% to 100%	8	-	-	2	-	1	3	1%	-	13	-	1
Greater than 100%	33	-	1	2	-	4	10	2%	7	45	-	12
	54,540	100%	13	2,704	100%	27	553	100%	17	57,797	100%	57

(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 £39m (30 September 2023: £48m) of POCI gross loans and advances and (£1m) ECL (30 September 2023: (£1m)).

The Mortgage portfolio remains highly secured with 87% of mortgages, by loan value, having an indexed LTV of less than 75% (30 September 2023: 91%), and an average portfolio LTV of 54.6% (30 September 2023: 52.9%). The introduction of a new 2 year fixed 95% product together with increased lending to first time buyers in the period have driven the higher value of lending in the 91% to 95% range. The total portfolio has reduced by 4.3% with the highest reduction by proportion in Stage 2 and value in Stage 1.

Forbearance

The volume and value of loans in forbearance has changed in the period to 3,701/£522m from 3,801/£498m at 30 September 2023. This remains a primary measure of early intervention and support that customers use to find breathing space and make good choices towards the most favourable outcome.

When all other avenues of resolution, including forbearance, have been explored, the Group will take steps to repossess and sell underlying collateral. In the 12 month period to 30 September 2024, there were 86 repossessions (30 September 2023: 55). The Group remains committed to supporting the customer and places good customer outcomes at the centre of this strategy.

Risk management
Credit risk (continued)

Mortgage credit performance (continued)

IFRS 9 staging

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

	Stage 1		**Stage 2**		**Stage 3[1]**				
12 months to 30 September 2024	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions £m**	**Income statement £m**
Opening balance at 1 October 2023	**54,540**	**13**	**2,704**	**27**	**553**	**17**	**57,797**	**57**	
Transfers from Stage 1 to Stage 2	**(3,914)**	**(4)**	**3,892**	**38**	**-**	**-**	**(22)**	**34**	**34**
Transfers from Stage 2 to Stage 1	**3,466**	**3**	**(3,491)**	**(31)**	**-**	**-**	**(25)**	**(28)**	**(28)**
Transfers to Stage 3	**(46)**	**-**	**(297)**	**(11)**	**342**	**9**	**(1)**	**(2)**	**(2)**
Transfers from Stage 3	**60**	**1**	**107**	**10**	**(176)**	**(5)**	**(9)**	**6**	**6**
Net movement	**(434)**	**-**	**211**	**6**	**166**	**4**	**(57)**	**10**	**10**
New assets originated or purchased [2]	**5,578**	**2**	**-**	**-**	**1**	**-**	**5,579**	**2**	**2**
Repayments and other movements [3]	**(2,444)**	**(6)**	**(109)**	**(7)**	**(13)**	**10**	**(2,566)**	**(3)**	**(3)**
Repaid or derecognised[3]	**(4,870)**	**(2)**	**(329)**	**(4)**	**(142)**	**(5)**	**(5,341)**	**(11)**	**(11)**
Write-offs	**-**	**-**	**-**	**-**	**(3)**	**(3)**	**(3)**	**(3)**	**-**
Individually assessed impairment release[4]	**-**	**-**	**-**	**-**	**-**	**(3)**	**-**	**(3)**	**(3)**
Closing balance at 30 September 2024	**52,370**	**7**	**2,477**	**22**	**562**	**20**	**55,409**	**49**	**(5)**
of which:									
Residential - capital repayment	**31,994**	**3**	**1,272**	**6**	**271**	**7**	**33,537**	**16**	
Residential - interest only	**6,483**	**-**	**590**	**2**	**178**	**7**	**7,251**	**9**	
BTL	**13,893**	**4**	**615**	**14**	**113**	**6**	**14,621**	**24**	

	Stage 1		Stage 2		Stage 3[1]				
12 months to 30 September 2023	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m	Income statement £m
Opening balance at 1 October 2022	54,791	10	3,090	32	583	14	58,464	56	
Transfers from Stage 1 to Stage 2	(5,237)	(3)	5,203	63	-	-	(34)	60	60
Transfers from Stage 2 to Stage 1	4,827	1	(4,852)	(49)	-	-	(25)	(48)	(48)
Transfers to Stage 3	(58)	-	(273)	(5)	328	7	(3)	2	2
Transfers from Stage 3	112	-	104	7	(222)	(3)	(6)	4	4
Net movement	(356)	(2)	182	16	106	4	(68)	18	18
New assets originated or purchased [2]	8,372	2	-	-	-	-	8,372	2	2
Repayments and other movements [3]	(2,366)	4	(99)	(15)	(9)	3	(2,474)	(8)	(8)
Repaid or derecognised[3]	(5,901)	(1)	(469)	(6)	(126)	(3)	(6,496)	(10)	(10)
Write-offs	-	-	-	-	(1)	(1)	(1)	(1)	-
Individually assessed impairment charge	-	-	-	-	-	-	-	-	-
Closing balance at 30 September 2023	54,540	13	2,704	27	553	17	57,797	57	2
of which:									
Residential - capital repayment	33,328	3	1,489	6	268	6	35,085	15	
Residential - interest only	6,651	1	657	2	195	6	7,503	9	
BTL	14,561	9	558	19	90	5	15,209	33	

(1) Stage 3 includes POCI for gross loans and advances of £39m and ECL of (£1m) (30 September 2023: £48m and (£1m) respectively).
(2) Includes assets where the term has ended, and a new facility has been provided.
(3) 'Repayments' comprises payments made on customer lending which are not yet fully paid at the reporting date and the customer arrangement remains live at that date. 'Repaid' refers to payments made on customer lending which is either fully repaid or derecognised by the reporting date and the customer arrangement is therefore closed at that date.
(4) During the period the Group implemented an updated valuation and calculated provision process, a new MA has been introduced to reflect this policy while upstream processes are adapted. Further details are shown on page 29.

Mortgage credit performance (continued)

The Mortgage portfolio continues to evidence strong performance with levels of delinquency and impairment remaining relatively low.

The level of mortgage lending classed as Stage 1 increased to 94.5% (30 September 2023: 94.3%), with a decrease in assets in Stage 2 from 4.7% to 4.5%. Within the Stage 2 category, 86% is not yet past due at the balance sheet date (30 September 2023: 89%). The proportion of mortgages classified as Stage 3 remains modest at 1.0% (30 September 2023: 1.0%). The net movements across the stages show reductions, primarily in the Stage 2 and 3 portfolios, driven by an improving macroeconomic outlook and successful outcomes in either restoring customers to fully performing or resuming satisfactory repayment schedules, as the Group remains committed to the delivery of good customer outcomes.

The sustained quality in the internal PD ratings and high quality of collateral underpinning the book are key factors in an impairment release of £5m in the period (12 months to 30 September 2023: charge of £2m) and associated CoR of (1) bps (12 months to 30 September 2023: Nil bps). Provision coverage has remained relatively stable in the period at 9bps (30 September 2023: 10bps).

Unsecured credit performance

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

Breakdown of Unsecured portfolio

30 September 2024	Gross lending £m	Modelled ECL £m	MA £m	Total ECL £m	Net lending £m	Coverage %
Credit cards	**6,645**	**337**	**45**	**382**	**6,263**	**6.06%**
Personal loans	**524**	**28**	**(1)**	**27**	**497**	**5.03%**
Overdrafts	**28**	**3**	**-**	**3**	**25**	**14.34%**
Total Unsecured lending portfolio	**7,197**	**368**	**44**	**412**	**6,785**	**6.02%**
30 September 2023						
Credit cards	6,088	364	28	392	5,696	6.88%
Personal loans	699	32	1	33	666	4.59%
Overdrafts	27	4	-	4	23	11.62%
Total Unsecured lending portfolio	6,814	400	29	429	6,385	6.65%

Unsecured gross lending balances increased to £7.2bn (30 September 2023: £6.8bn) with underlying growth in the credit card portfolio offset by repayments in the personal loan portfolio.

The overall credit quality of the Unsecured portfolio is stabilising. In the six months ended 30 September 2024, credit card arrears has gradually improved, however, remains elevated reflecting the ongoing maturation and diversification into higher risk segments. The proportion of the portfolio classed as Stage 1 or Stage 2 not past due is 97% (30 September 2023: 97%), with 92% of the portfolio rated Strong or Good at the balance sheet date under the Group's internal PD rating scale (30 September 2023: 92%).

Stage 3 balances have remained low at 2.0% (30 September 2023: 1.7%). The value of credit cards written off in the period, net of recoveries, was £168m (12 months to 30 September 2023: £116m).

During the period, the Group reviewed the existing staging approach for credit cards in the Unsecured portfolio which focused on the triggers that move exposures from Stage 1 (requiring a 12-month ECL calculation) to Stage 2 (requiring a lifetime ECL calculation) and removed the requirement for a two-month probation period before accounts could return to Stage 1 from Stage 2 for non-forborne exposures. The overall impact of these changes has been a reduction of £31m in the modelled ECL in the Unsecured portfolio. This has been partially offset by the ECL attributable to the credit card portfolio growth.

Overall, coverage reduced to 602bps (30 September 2023: 665bps).

Risk management
Credit risk (continued)

Unsecured credit performance (continued)

Forbearance

The level of forbearance concessions agreed in the Unsecured portfolio, particularly in credit cards, has increased in line with a significantly growing portfolio, diversification and elevated arrears, although remains relatively low in proportion at 1.88% of the total portfolio lending at 30 September 2024 (30 September 2023: 1.42%). The level of impairment coverage on forborne lending has remained stable at 46% (30 September 2023: 46%).

Credit cards forbearance totalled £122m (30,598 accounts), an increase from the 30 September 2023 position of £90m (22,206 accounts) reflective of the portfolio growth and diversification strategy. This represents 1.96% of total credit cards balances (30 September 2023: 1.56%).

Limited forbearance is exercised in relation to Personal loans and overdrafts, and remains relatively stable at £1m (30 September 2024: £2m) which equates to 0.36% of the portfolio (30 September 2023: £2m, 0.51%).

IFRS 9 staging

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

	Stage 1		**Stage 2**		**Stage 3[(1)]**				
12 months to 30 September 2024	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions £m**	**Income statement £m**
Opening balance at 1 October 2023	**5,056**	**46**	**1,642**	**322**	**116**	**61**	**6,814**	**429**	
Transfers from Stage 1 to Stage 2	**(1,779)**	**(45)**	**1,785**	**352**	**-**	**-**	**6**	**307**	**307**
Transfers from Stage 2 to Stage 1	**1,560**	**47**	**(1,639)**	**(293)**	**-**	**-**	**(79)**	**(246)**	**(246)**
Transfers to Stage 3	**(22)**	**-**	**(233)**	**(133)**	**261**	**157**	**6**	**24**	**24**
Transfers from Stage 3	**-**	**-**	**1**	**-**	**(4)**	**(4)**	**(3)**	**(4)**	**(4)**
Net movement	**(241)**	**2**	**(86)**	**(74)**	**257**	**153**	**(70)**	**81**	**81**
New assets originated or purchased [(2)]	**1,307**	**11**	**-**	**-**	**2**	**2**	**1,309**	**13**	**13**
Repayments and other movements [(3)]	**(42)**	**20**	**(315)**	**28**	**206**	**(8)**	**(151)**	**40**	**40**
Repaid or derecognised[(3)]	**(219)**	**(3)**	**(46)**	**(13)**	**(218)**	**(135)**	**(483)**	**(151)**	**(151)**
Write-offs	**-**	**-**	**-**	**-**	**(222)**	**(222)**	**(222)**	**(222)**	**-**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**51**	**-**	**51**	**-**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**171**	**-**	**171**	**171**
Closing balance at 30 September 2024	**5,861**	**76**	**1,195**	**263**	**141**	**73**	**7,197**	**412**	**154**

	Stage 1		Stage 2		Stage 3[(1)]				
12 months to 30 September 2023	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Gross loans £m	ECL £m	Total gross loans £m	Total provisions £m	Income statement £m
Opening balance at 1 October 2022	5,324	63	1,109	181	80	40	6,513	284	
Transfers from Stage 1 to Stage 2	(1,621)	(39)	1,642	320	-	-	21	281	281
Transfers from Stage 2 to Stage 1	590	13	(608)	(69)	-	-	(18)	(56)	(56)
Transfers to Stage 3	(15)	-	(179)	(100)	200	121	6	21	21
Transfers from Stage 3	-	-	1	-	(5)	(5)	(4)	(5)	(5)
Net movement	(1,046)	(26)	856	151	195	116	5	241	241
New assets originated or purchased [(2)]	1,101	12	1	-	2	2	1,104	14	14
Repayments and other movements [(3)]	(97)	-	(282)	2	152	(6)	(227)	(4)	(4)
Repaid or derecognised[(3)]	(226)	(3)	(42)	(12)	(152)	(91)	(420)	(106)	(106)
Write-offs	-	-	-	-	(161)	(161)	(161)	(161)	-
Cash recoveries	-	-	-	-	-	37	-	37	-
Individually assessed impairment charge	-	-	-	-	-	124	-	124	124
Closing balance at 30 September 2023	5,056	46	1,642	322	116	61	6,814	429	269

(1) Stage 3 includes POCI for gross loans and advances of £1m and ECL of (£1m) (30 September 2023: £1m and (£1m) respectively).

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

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

Unsecured credit performance (continued)

The changes to the credit card SICR model that removed the requirement for a two-month probation, is the primary driver of the increase in the balance of Unsecured lending classed as Stage 1 to 81.4% (30 September 2023: 74.2%), with a corresponding decrease in assets in Stage 2 from 24.1% to 16.6%. Within the Stage 2 category, 95.0% is not past due (30 September 2023: 95.4%). The proportion classified as Stage 3 increased slightly to 2.0% (30 September 2023: 1.7%).

The level of write offs in the Unsecured portfolio has increased slightly, commensurate with a growing portfolio, with an increase in the volume of credit card balances reaching 180 DPD the primary driver, although the level of post write off recoveries remains good. The value of fraud losses has increased from £6m to £12m, although remains modest in context to the portfolio size. The total ECL held on balance sheet has decreased from £429m at 30 September 2023 to £412m at 30 September 2024 with the improved economic outlook and the removal of the staging probation period the primary drivers. Modelled provision coverage, excluding MAs, is 510bps (30 September 2023: 589bps).

The total Unsecured impairment charge in the period is £154m (12 months to 30 September 2023: £269m), which is net of an individually assessed charge of £171m (12 months to 30 September 2023: £124m). The associated CoR is 230bps (12 months to 30 September 2023: 430bps).

The total provision coverage has reduced to 602bps (30 September 2023: 665bps).

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 portfolio

30 September 2024	Gross lending £m	Government [(1)] £m	Total gross £m	Modelled & IA ECL £m	MA £m	Total ECL £m	Net lending £m	Coverage [(2)] %
Agriculture	**1,393**	**33**	**1,426**	**5**	**-**	**5**	**1,421**	**0.39%**
Business services	**1,079**	**163**	**1,242**	**45**	**1**	**46**	**1,196**	**4.14%**
Commercial Real Estate	**838**	**3**	**841**	**5**	**-**	**5**	**836**	**0.67%**
Government, health & education	**1,554**	**28**	**1,582**	**9**	**-**	**9**	**1,573**	**0.61%**
Hospitality	**882**	**48**	**930**	**3**	**-**	**3**	**927**	**0.38%**
Manufacturing	**661**	**53**	**714**	**20**	**1**	**21**	**693**	**3.12%**
Resources	**164**	**4**	**168**	**1**	**-**	**1**	**167**	**0.77%**
Retail and wholesale trade	**790**	**103**	**893**	**20**	**1**	**21**	**872**	**2.65%**
Transport and storage	**369**	**23**	**392**	**5**	**-**	**5**	**387**	**1.27%**
Utilities, post and telecoms	**501**	**7**	**508**	**6**	**-**	**6**	**502**	**1.30%**
Other	**530**	**108**	**638**	**21**	**2**	**23**	**615**	**3.55%**
Total Business portfolio	**8,761**	**573**	**9,334**	**140**	**5**	**145**	**9,189**	**1.61%**
30 September 2023								
Agriculture	1,315	46	1,361	4	1	5	1,356	0.35%
Business services	1,153	212	1,365	38	3	41	1,324	3.45%
Commercial Real Estate	715	4	719	5	1	6	713	0.72%
Government, health & education	1,200	38	1,238	9	2	11	1,227	0.85%
Hospitality	779	60	839	3	1	4	835	0.50%
Manufacturing	669	77	746	17	3	20	726	2.87%
Resources	160	5	165	2	-	2	163	1.65%
Retail and wholesale trade	758	145	903	19	2	21	882	2.72%
Transport and storage	290	32	322	4	-	4	318	1.47%
Utilities, post and telecoms	376	11	387	4	1	5	382	1.22%
Other	501	138	639	11	1	12	627	2.36%
Total Business portfolio	7,916	768	8,684	116	15	131	8,553	1.60%

(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). This excludes £186m (30 September 2023: £143m) of guarantee claim funds received from British Business Bank.
(2) Coverage ratio excludes the guaranteed element of government-backed loan schemes.

Gross Business lending increased to £9.3bn (30 September 2023: £8.7bn). The government-guaranteed lending portfolio continues to reduce as borrowers repay balances. These schemes are closed to new applications and have been replaced by the Growth Guarantee Scheme from 1 July 2024, this lending will not be separately tracked and reported. Growth remains targeted to sectors and sub sectors where we have well established expertise. The sector mix remained stable with lending to the agriculture, business services and government, health and education sectors continuing to account for almost half of the total book, at 46% (30 September 2023: 46%).

The proportion of loans in Stage 1 has increased from 72.5% at 30 September 2023 to 78.0% at 30 September 2024, with a corresponding decrease in the proportion of loans in Stage 2 to 17.2% (30 September 2023: 22.8%). Within the Stage 2 category, 98.8% is not past due (30 September 2023: 98.5%) Stage 3 loans remain modest at 4.8% (30 September 2023: 4.7%).

The PDs for Business lending combine both internal ratings information and forward-looking economic forecasts. The proportion of assets classed as 'Strong' or 'Good' has increased to 93% (30 September 2023: 90%) primarily due to the improved outlook.

Risk management
Credit risk (continued)

Business credit performance (continued)

There has been no significant deterioration in asset quality metrics across the portfolio however, a small number of individually significant specific provisions have been recognised increasing the value of IA held by £35m to £60m at 30 September 2024. A range of external risks have remained prevalent throughout the period including geopolitical, general inflationary pressures, continued high interest rate environment and ongoing supply chain distribution and labour market disruption. However, the economic outlook is more favourable and the updated macroeconomic inputs have resulted in a £23m release of modelled provision.

Overall, portfolio coverage remains prudent at 161bps (30 September 2023: 160bps).

Forbearance

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

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

Business portfolio forbearance has remained relatively stable from £493m (291 customers) at 30 September 2023 to £517m (278 customers) at 30 September 2024.

As a percentage of the Business portfolio, forborne balances are 5.27% (30 September 2023: 5.35%) with impairment coverage increasing to 14.47% (30 September 2023: 9.14%), primarily due to individually assessed provisions raised.

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

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

IFRS 9 staging

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

	Stage 1		Stage 2		Stage 3[3]				
12 months to 30 September 2024	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Gross loans £m**	**ECL £m**	**Total gross loans £m**	**Total provisions[3] £m**	**Income statement £m**
Opening balance at 1 October 2023	**6,293**	**30**	**1,980**	**51**	**411**	**50**	**8,684**	**131**	
Transfers from Stage 1 to Stage 2	**(1,241)**	**(4)**	**1,230**	**22**	**-**	**-**	**(11)**	**18**	**18**
Transfers from Stage 2 to Stage 1	**855**	**4**	**(856)**	**(16)**	**-**	**-**	**(1)**	**(12)**	**(12)**
Transfers to Stage 3	**(17)**	**-**	**(149)**	**(9)**	**166**	**11**	**-**	**2**	**2**
Transfers from Stage 3	**10**	**-**	**55**	**1**	**(68)**	**(2)**	**(3)**	**(1)**	**(1)**
Net movement	**(393)**	**-**	**280**	**(2)**	**98**	**9**	**(15)**	**7**	**7**
New assets originated or purchased [1]	**13,206**	**78**	**699**	**47**	**297**	**44**	**14,202**	**169**	**169**
Repayments and other movements [2]	**(585)**	**(14)**	**(188)**	**(8)**	**(3)**	**(9)**	**(776)**	**(31)**	**(31)**
Repaid or derecognised[2]	**(11,245)**	**(69)**	**(1,165)**	**(50)**	**(336)**	**(48)**	**(12,746)**	**(167)**	**(167)**
Write-offs	**-**	**-**	**-**	**-**	**(15)**	**(15)**	**(15)**	**(15)**	**-**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**	**-**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**50**	**-**	**50**	**50**
Closing balance at 30 September 2024	**7,276**	**25**	**1,606**	**38**	**452**	**82**	**9,334**	**145**	**28**

Business credit performance (continued)

12 months to 30 September 2023	Stage 1 Gross loans £m	Stage 1 ECL £m	Stage 2 Gross loans £m	Stage 2 ECL £m	Stage 3[3] Gross loans £m	Stage 3[3] ECL £m	Total gross loans £m	Total provisions[3] £m	Income statement £m
Opening balance at 1 October 2022	6,270	12	1,524	55	373	50	8,167	117	
Transfers from Stage 1 to Stage 2	(1,703)	(4)	1,689	31	-	-	(14)	27	27
Transfers from Stage 2 to Stage 1	659	1	(666)	(11)	-	-	(7)	(10)	(10)
Transfers to Stage 3	(23)	-	(134)	(4)	158	10	1	6	64
Transfers from Stage 3	8	-	30	-	(40)	(2)	(2)	(2)	(2)
Net movement	(1,059)	(3)	919	16	118	8	(22)	21	21
New assets originated or purchased [1]	11,017	43	627	44	159	32	11,803	119	119
Repayments and other movements [2]	(526)	8	(172)	(8)	(1)	(1)	(699)	(1)	(1)
Repaid or derecognised[2]	(9,409)	(30)	(918)	(56)	(213)	(33)	(10,540)	(119)	(119)
Write-offs	-	-	-	-	(25)	(25)	(25)	(25)	-
Cash recoveries	-	-	-	-	-	1	-	1	-
Individually assessed impairment charge	-	-	-	-	-	18	-	18	18
Closing balance at 30 September 2023	6,293	30	1,980	51	411	50	8,684	131	38

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

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

(3) This excludes £186m (30 September 2023: £143m) of guarantee claim funds received from British Business Bank.

The level of Business lending classed as Stage 1 increased to 78.0% (30 September 2023: 72.5%), with a corresponding decrease in Stage 2 from 22.8% at 30 September 2023 to 17.2% at 30 September 2024, primarily driven by an improving macroeconomic outlook. The proportion of loans in Stage 2 and not past due remains high at 98.8% (30 September 2023: 98.5%). The majority of the balances in Stage 2 are due to PD deterioration since origination, however, there have been some PD improvements in the period, in addition to proactive management measures such as early intervention, heightened monitoring and forbearance concessions. Stage 3 loans have remained relatively stable at 4.8% (30 September 2023: 4.7%) and are predominantly comprised of fully secured Bounce Back Loans.

The level of write offs in the portfolio remains low, with a small number of customers driving the majority of the £15m of balances written off in the period. The level of provision recognition in the period has also remained subdued on a volume basis, with a small number of individually significant provisions driving the majority of the IA charge of £50m in the period (30 September 2023: £18m).

Included within the Stage 3 ECL provision of £82m are individually assessed balances of £60m (30 September 2023: £50m of Stage 3 ECL provision including £25m of individually assessed balances). This results in an overall provision of £145m (30 September 2023: £131m) and an impairment charge of £28m in the period (12 months to 30 September 2023: £38m) and associated CoR of 30bps (12 months to 30 September 2023: 44bps).

Macroeconomic assumptions, scenarios and weightings

The Group's ECL allowance at 30 September 2024 was £606m (30 September 2023: £617m).

Macroeconomic assumptions

The Group engages Oxford Economics to provide a wide range of future macroeconomic assumptions, which are used in the scenarios over the five-year forecast period, reflecting the best estimate of future conditions under each scenario outcome. The macroeconomic assumptions were provided by Oxford Economics on 28 August 2024 and changes in macroeconomic assumptions between then and 30 September 2024 have been considered in concluding on the quantum of MAs. 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.

The base case scenario reflects an upturn in economic data since August 2023, with GDP now forecast to rise by 1.1%, up from 0.4% previously. However, with the new UK Government indicating a tightening of fiscal policies following their review of the public finances, the improvement is not expected to carry forward into next year, leaving the outer years of the forecast broadly unchanged.

While future fiscal policy remains uncertain, the Bank of England's Monetary Policy Committee has begun the process of loosening monetary policy with the first cut of the base rate in August 2024. The latest forecast sees a steady reduction in base rate down to the new floor of 2% by the end of 2027, the previous floor of 1.75% was reached in Q2 2028. Against this backdrop, inflation is set to remain marginally above the bank's target rate of 2%, higher than previous forecast. Unemployment is also expected to peak slightly lower (4.4%) but will take longer to return to the long term equilibrium rate (3.75%), remaining low by historical standards.

During the period the Group introduced a fourth macroeconomic scenario to the IFRS 9 models. Management determined that the inclusion of an additional scenario would more appropriately reflect a wider range of possible outcomes than the previous three scenario view provided. In addition, management also observed that by only selecting three scenarios, the Group was not fully aligned to prevailing industry best practice. The choice of scenarios and weightings was debated and decided by the newly formed Provision Adequacy Committee (PAC). The scenarios and weightings selected were as follows:

Scenario	**30 Sep 2024 (%)**	30 Sep 2023 (%)
Upside	**10**	10
Base	**55**	55
Downside	**20**	35
Severe downside	**15**	n/a

The Group maintained the same scenarios and weightings as previously selected for the upside and base scenarios. The Group opted to retain the existing downside scenario with the previous weighting of 35% split between this and the more severe downside scenario. This has maintained the overall split of weights between the upside, base and downside scenarios in a relatively benign forecasting environment.

Risk management
Credit risk (continued)

Macroeconomic assumptions (continued)

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

	Base (55%)	Upside (10%)	Downside (20%)	Severe downside (15%)
GDP	• Growth accelerates throughout 2024, reaching 2% by Q4 • Overall year on year growth is forecast at 1.1% in 2024, followed by 1.8% in 2025 • Having initially peaked at the end of 2024 at 2% GDP dips before peeking a second time in H2 2025 at 1.9% before gradually falling back to an equilibrium rate of c. 1.5%	• GDP growth accelerates towards the end of 2024 and into 2025 to peak at 5.3% in Q3 • Year on year growth in 2024 is 1.5%, followed by 4.7% in 2025 • From the peak in 2025 the rate falls rapidly back to a plateau of 2.4% in 2027 before falling again to the long run rate of 1.5% by the end of 2028	• From a high of 1.3% in Q3 2024, GDP growth falls to c. 0% in Q4 and down to a low of (2.45%) in Q3 2025 • From this low point the recovery is equally as swift, moving back into growth in Q1 2026 to a stable 1.75% by the end of 2028 • This volatility results in annual growth of 0.6% in 2024, followed by a contraction of 1.8% in 2025 before recovering to grow by 0.9% in 2026, followed by 1.3% in 2027 and 1.7% in 2028	• GDP growth falls from a peak of 1.3% in Q3 2024 to a low of (4.8%) in Q3 2025 • The recession lasts for six quarters, returning to a position of growth in Q2 2026, but the recovery beyond that point is slow with the lost ground not recovered until 2029 • Overall year on year growth is forecast at 0.3% in 2024, followed by a contraction of 3.8% in 2025 and growth of 0.3%, 1.0% and 1.7% across the remainder of the forecast
Inflation	• The recent fall in inflation stalls at 2.1% before climbing back to 2.5% by the end of 2024 • The rate fluctuates between 2.3% and 2.6% in 2025, closing out at 2.4% • From early 2026 the rate begins to fall back towards the Bank of England's target rate of 2%, which is achieved in 2029, albeit with some small seasonal volatility on the way	• From a low of 2.1% in Q3 2024, inflation grows over the next 12 months to a peak of 3.8% in Q3 2025 • From the 2025 high, the rate falls steadily, finally achieving the Bank of England's target rate of 2% by the end of 2028 • As a result, the average rate rises from 2.6% in 2024 to 3.5% in 2026 before falling back to 3.1% in 2027	• From the current rate of 2.1%, just above the Bank of England's target rate, inflation falls steadily to a low of c. 0.9% in Q1 2026 • From this low point the rate then gradually increases back to a baseline of just below 2% by the end of 2027	• Inflation continues to fall through the Bank of England's target rate to a low of c. 0.2% in H2 2025 • From this low point, inflation grows steadily, to stabilise at the 2.0% target rate in Q1 2028, before dipping back slightly to 1.9% in Q4

Macroeconomic assumptions (continued)

	Base (55%)	Upside (10%)	Downside (20%)	Severe downside (15%)
Base rate	• The Bank of England's MPC began the process of easing monetary policy with a 0.25% cut to the base rate in August, with one further 0.25% cut forecast in 2024 • The rate continues to fall steadily at 0.25% per quarter to a terminal rate of 2.0% by the end of 2027	• Following the rate reduction in August, the MPC raise the base rate back to 5.25% in Q4 2024 • The base rate remains at this level until Q4 2025 when a series of rate cuts are initiated, bringing it down to a new terminal rate of 2.5% by Q2 2028	• The MPC follow the August rate cut with a series of cuts, at a more accelerated rate than seen in the other scenarios • The rate falls to 4.5% in December 2024, 2.25% in December 2025 and 1.5% in December 2026	• The Bank of England base rate is cut at an accelerated rate, falling to 1.5% by the end of 2025 at an average of 0.25% per month • The terminal rate of 0.75% is reached by the end of 2026
HPI	• Growth in HPI, which began in Q2 2024, continues throughout 2024 to a peak of 3.9% in Q1 2025 • The growth rate then falls rapidly to dip below zero in Q1 2026 before it again recovers to above 4% in 2028 • Q4 v Q4 in 2024 sees growth of 3.8%, followed by 0.6%, 2.3%, 3.7% and 4.5% in 2025 through to 2028	• Following a quarter-on-quarter fall in HPI in Q1 2024 the index grows rapidly to a peak of c. 5.2% in Q1 2025 • This peak is followed by a period of more volatile growth, from a low of 1.9% in Q1 2026, to a high of 6.5% in Q3 2027, to a low of 4.2% in Q3 2028 and back to 4.5% in Q1 2029 • Overall Q4 v Q4 growth is 4.6% in 2024, followed by 2.6%, 4.7%, 6.0% and 4.7% from 2025 through 2028	• HPI peaks in Q3 2024 at c. 2.8% before falling to a low of (7.0%) over the next 12 months before climbing back to 4.9% by the end of 2028 • On an annualised basis, Q4 v Q4 growth in 2024 is 1.0%, which is followed by contractions of 6.1% in 2025 and 2.5% in 2026 • Q4 v Q4 growth in the outer years is 0.5% in 2027 and 4.9% in 2028	• HPI contracts in Q4 2024, with negative growth of 0.3%, and continues to fall to a low of 10.65% in Q3 2025 • The rate of the contraction eases, but the value continues to fall until the end of 2027 • On an annualised basis, Q4 v Q4 HPI contracts in 2024 by 0.3%, followed by 9.3% in 2025, 5.3% in 2026 and 1.7% in 2027. The index returns to growth in 2028 with a rise of 5.2%
Unemployment	• Unemployment forecasts remain volatile due to the low response rate to the Labour Force Survey. • The latest forecast sees the rate peak at 4.4% in Q3 2024, where it remains until it begins to fall back in Q2 2025 • The rate falls gradually throughout the remainder of the forecast, approaching the long run forecast level of 3.75% by the end of 2028	• Unemployment peaks at 4.4% in Q3 2024, the same as in the base case • However, unlike the base case, the rate begins to fall back immediately and at an increased rate, achieving the new long run forecast of 3.6% in Q1 2026	• From the outset unemployment grows at a steady rate, from the current low of 4.4% in Q3 2024 to a peak of 6.9% in Q3 2027 • From that peak, the subsequent fall is more subdued, only reaching 6.5% by the end of 2028	• Unemployment grows from the outset, rising to a peak of 7.3% in Q3 2027 • The recovery is also subdued, falling to 6.9% by the end of 2028

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

Five-year simple averages on unemployment, GDP and HPI

30 September 2024	Unemployment %	GDP %	HPI %
Upside	**3.8**	**2.6**	**4.4**
Base	**4.1**	**1.6**	**3.0**
Downside	**5.9**	**0.5**	**(0.4)**
Severe downside(1)	**6.2**	**(0.1)**	**(2.3)**
30 September 2023			
Upside	3.9	2.2	1.3
Base	4.2	1.2	(0.2)
Downside	6.1	0.2	(3.3)

(1) The number of scenarios included in the IFRS 9 macro-economic models was increased from three to four compared to the prior period.

The use of estimates, judgements and sensitivity analysis

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

The use of estimates

Economic scenarios

The calculation of the Group's impairment provision is sensitive to changes in the chosen weightings. 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:

30 September 2024	Probability Weighted (1) £m	Upside £m	Base £m	Downside £m	Severe downside £m
Mortgages	**27**	**24**	**25**	**30**	**33**
Unsecured of which:	**368**	**346**	**353**	**397**	**408**
Cards	*337*	*319*	*324*	*360*	*367*
Personal loans and overdrafts(2)	*31*	*27*	*29*	*37*	*41*
Business(2)	**80**	**69**	**74**	**90**	**101**
Total	**475**	**439**	**452**	**517**	**542**

30 September 2023	Probability Weighted(1) £m	Upside £m	Base £m	Downside £m
Mortgages	20	17	18	24
Unsecured of which:	399	382	382	433
Cards	364	352(3)	350	391
Personal loans and overdrafts(2)	35	30	32	42
Business(2)	91	81	86	107
Total	510	480	486	564

(1) In addition to the probability weighted modelled provision shown in the table, the Group holds £71m relative to MAs and £60m of IA provision (30 September 2023: £76m and £30m respectively).

(2) Salary Finance (Salary Finance Loans Limited) contributes more than 50% of the combined personal loans and overdrafts ECL.

(3) Due to a minor model interaction effect, the 100% ECL for upside is marginally higher than the base case

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

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

The use of estimates (continued)

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

- *Mortgages:* Unemployment and HPI
- *Unsecured: Unemployment*
- *Business:* Unemployment and HPI

In addition to assessing the ECL impact of applying a 100% weighting to each of the four 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 most sensitive inputs that have the most significant ECL impact. Having accessed the ECL across the relevant portfolios, there are no material differences to the sensitivity disclosures on Unemployment and HPI changes in the period from those disclosed in the Group's 2023 Annual Report and Accounts.

The use of judgement

SICR

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

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

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

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

	30 Sep 2024	30 Sep 2023
	£m	£m
A 10% movement in the mortgage portfolio from Stage 1 to Stage 2	**+13**	+13
A 10% movement in the credit card portfolio from Stage 1 to Stage 2	**+120**(1)	+89
A 10% movement in the business portfolio from Stage 1 to Stage 2	**+13**	+10
A PD stress which increases PDs upwards by 20% for all portfolios	**+125**	+131

(1) The review of the staging approach for credit cards has increased the proportion of lending in Stage 1 and is the primary driver of the increased impact shown.

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.

MAs

At 30 September 2024, £71m of MAs (30 September 2023: £76m) are included within the total ECL provision of £606m (30 September 2023: £617m).

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

The selection of appropriate MAs is a major component in determining the Group's ECL, the impact of these adjustments and how they impact the Group's total reported ECL allowance and coverage ratio for each portfolio is:

30 September 2024(1)

	Mortgages £m	**Unsecured £m**	**Business £m**	**Total £m**
ECL before adjustments (A)	**26.7**	**367.7**	**140.2**	**534.6**
Adjustments:				
To address economic resilience	**-**	**-**	**-**	**-**
Additional BTL impact	**15.0**	**-**	**-**	**15.0**
Credit card adjustments	**-**	**45.7**	**-**	**45.7**
Other adjustments	**7.3**	**(1.4)**	**4.8**	**10.7**
Total adjustments (B)	**22.3**	**44.3**	**4.8**	**71.4**
Total reported ECL (A + B)	**49.0**	**412.0**	**145.0**	**606.0**
% of total ECL (B / total reported ECL)	**46%**	**11%**	**3%**	**12%**
Coverage - total	**0.09%**	**6.02%**	**1.61%**	**0.84%**
Coverage - total ex MAs	**0.05%**	**5.11%**	**1.50%**	**0.74%**

30 September 2023(1)

	Mortgages £m	Unsecured £m	Business £m	Total £m
ECL before adjustments (A)	25.2	400.2	115.5	540.9
Adjustments:				
To address economic resilience	*5.0*	*-*	*15.0*	*20.0*
Additional BTL impact	*25.1*	*-*	*-*	*25.1*
Credit card adjustments	*-*	*27.5*	*-*	*27.5*
Other adjustments	*1.7*	*1.3*	*0.5*	*3.5*
Total adjustments (B)	31.8	28.8	15.5	76.1
Total reported ECL (A + B)	57.0	429.0	131.0	617.0
% of total ECL (B / total reported ECL)	56%	7%	12%	12%
Coverage - total	*0.10%*	*6.65%*	*1.60%*	*0.84%*
Coverage - total ex MAs	*0.04%*	*5.87%*	*1.33%*	*0.74%*

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

Mortgages

Asset quality metrics for the BTL mortgage book remain robust, but the Group continues to review the level of provisioning held for this customer cohort and has retained a £15m MA (30 September 2023: £25m) to ensure the coverage on this portfolio remains higher than the coverage on the residential portfolio. The improvements in the economic outlook have resulted in the release of the MA for economic uncertainty. The Group no longer raises individually assessed provisions on the Mortgage portfolio and has implemented an updated valuation and calculated provision process. A new MA has been introduced to reflect this new policy within the ECL calculations while upstream processes are adapted. An additional new MA has also been introduced to reflect that the observed default rate in some cohorts of the portfolio is higher than the model assumptions. These, together with other small MAs total £7m (30 September 2023: £2m), taking total MAs held to £22m, down from £32m at 30 September 2023.

Risk management
Credit risk (continued)

Unsecured

The Unsecured portfolio comprises credit cards, personal loans and overdrafts, with credit cards the largest consideration for MAs. The Salary Finance joint venture is also included in this portfolio.

A refresh of the existing debt sale MA, held to reflect up to date contract terms, has reduced the overall debt sale MA held from £29m at 30 September 2023 to £22m at 30 September 2024. Two new MAs were introduced during the period, a £11m MA in advance of a probable model realignment and a £13m MA in recognition of a scheduled modelling upgrade which was implemented in October 2024. A negative £3m MA held for the Salary Finance joint venture, has been raised as a result of a reduction in the facility limit. This and some other smaller MAs take the total MA held to £44m from £29m at 30 September 2023.

Business

The full £15m relating to economic uncertainty, implemented in September 2023, has been released as economic forecasts have improved.

A new £5m MA has been introduced to better reflect origination risk for some lending facilities where the Group's platform has not retained sufficient information to automatically ensure that loans are correctly attributed to their origination date and origination ratings. This can result in loans appearing in Stage 1 that have deteriorated since their true origination. This will be released when new processes are implemented to better identify these occurrences.

The Group assesses and reviews the need for and quantification of MAs on a regular basis via the newly formed PAC, with the CFO recommending the level of MAs to the Board Audit Committee at each external reporting period.

Macroeconomic assumptions

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

30 September 2024

Scenario	VMUK weighting	Economic measure (2)	2024 %	2025 %	2026 %	2027 %	2028 %
Upside	10%	Base rate	**5.2**	**5.2**	**4.3**	**3.3**	**2.5**
		Unemployment	**4.3**	**3.8**	**3.6**	**3.6**	**3.6**
		GDP	**1.5**	**4.7**	**2.8**	**2.4**	**1.7**
		Inflation	**2.6**	**3.5**	**3.1**	**2.5**	**2.2**
		HPI	**4.6**	**2.6**	**4.7**	**6.0**	**4.4**
Base	55%	Base rate	**5.1**	**4.2**	**3.2**	**2.3**	**2.0**
		Unemployment	**4.3**	**4.3**	**4.1**	**3.9**	**3.8**
		GDP	**1.1**	**1.8**	**1.8**	**1.7**	**1.6**
		Inflation	**2.6**	**2.5**	**2.2**	**2.2**	**2.2**
		HPI	**3.8**	**0.6**	**2.3**	**3.7**	**4.5**
Downside	20%	Base rate	**5.1**	**3.1**	**1.8**	**1.5**	**1.5**
		Unemployment	**4.4**	**5.4**	**6.4**	**6.9**	**6.6**
		GDP	**0.6**	**(1.8)**	**0.9**	**1.3**	**1.7**
		Inflation	**2.4**	**1.2**	**1.0**	**1.8**	**2.0**
		HPI	**1.0**	**(6.1)**	**(2.5)**	**0.5**	**4.9**
Severe downside(3)	15%	Base rate	**5.0**	**2.6**	**1.1**	**0.8**	**0.8**
		Unemployment	**4.5**	**5.6**	**6.8**	**7.2**	**7.0**
		GDP	**0.3**	**(3.8)**	**0.3**	**1.0**	**1.7**
		Inflation	**2.4**	**0.5**	**0.5**	**1.6**	**2.0**
		HPI	**(0.3)**	**(9.3)**	**(5.3)**	**(1.7)**	**5.2**
Weighted average		Base rate	**5.1**	**3.9**	**2.7**	**2.0**	**1.8**
		Unemployment	**4.4**	**4.7**	**4.9**	**5.0**	**4.8**
		GDP	**0.9**	**0.6**	**1.5**	**1.6**	**1.7**
		Inflation	**2.5**	**2.0**	**1.8**	**2.1**	**2.1**
		HPI	**2.7**	**(2.0)**	**0.4**	**2.5**	**4.7**

30 September 2023

Scenario	VMUK weighting	Economic measure (2)	2023 %	2024 %	2025 %	2026 %	2027 %
Upside	10%	Base rate	4.8	6.5	6.0	5.0	4.0
		Unemployment	4.2	4.1	3.9	3.8	3.7
		GDP	0.8	3.0	2.6	3.0	1.6
		Inflation	7.6	4.2	2.5	1.1	1.7
		HPI	(1.3)	(4.8)	(0.9)	6.6	7.0
Base	55%	Base rate	4.7	5.4	4.5	3.5	2.5
		Unemployment	4.2	4.5	4.3	3.9	3.9
		GDP	0.5	0.4	1.5	2.3	1.5
		Inflation	7.6	3.2	1.5	1.0	1.7
		HPI	(2.7)	(7.2)	(2.9)	4.6	7.1
Downside	35%	Base rate	4.6	4.5	3.5	2.5	1.5
		Unemployment	4.3	5.7	6.7	7.0	6.8
		GDP	(0.1)	(3.3)	0.7	1.9	1.6
		Inflation	7.4	1.7	0.4	0.7	1.7
		HPI	(4.7)	(12.7)	(7.6)	1.0	7.5
Weighted average		Base rate	4.7	5.2	4.3	3.3	2.3
		Unemployment	4.2	4.9	5.1	5.0	4.9
		GDP	0.3	(0.6)	1.3	2.2	1.6
		Inflation	7.5	2.8	1.2	0.9	1.7
		HPI	(3.3)	(8.9)	(4.4)	3.6	7.3

(1) Macroeconomic assumptions provided by Oxford Economics on 28 August 2024 and reported on a calendar year basis unless otherwise stated. Any changes in macroeconomic assumptions between this date and 30 September 2024 have been considered as part of the MAs.

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

(3) The number of scenarios included in the IFR9 macro-economic models was increased from three to four compared to the prior period.

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.

Capital risk

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

Regulatory capital developments

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

Internal ratings-based (IRB) model changes

Ahead of the Group's implementation of mortgage IRB models (including hybrid PD), a model adjustment has been applied to increase RWAs and expected losses in advance of formal approval of models.

Basel 3.1

Following the publication of final reforms to the Basel III framework in December 2017, the PRA published CP16/22 at the end of November 2022, covering its consultation on the UK implementation of these reforms. The PRA then issued PS17/23 covering the 'near final' rules and policy on Operational Risk, Counterparty Credit Risk, Credit Valuation Adjustment Risk and Market Risk in December 2023 with the remaining elements of Credit Risk, Output Floor and Reporting and Disclosure requirements published in PS 9/24 in September 2024. There are a number of key amendments to the standardised approaches to credit and operational risks together with the introduction of a new standardised RWA output floor to be introduced gradually over a transition period. There are also amendments to IRB approaches, Credit Valuation Adjustments, Credit Risk Mitigation rules and associated reporting and disclosure requirements. Based on the Group's initial interpretation of the near-final rules, the Group expects a benefit to the CET1 ratio from Basel 3.1 implementation on day 1 (1 January 2026). The Group expects the RWA output floor based on the standardised approach to bind later in the transitional period, subject to a more granular assessment of the PRA's final rules and the evolution of the Group's balance sheet.

Pillar 2A

As part of its Basel 3.1 proposals, the PRA announced its intention to review Pillar 2A methodologies after the rules on Basel 3.1 are finalised, with a view to consult on any proposed changes in 2025. This review could have an impact on the Group which will be assessed when the proposals are published. In addition, both of the PRA's 'near-final' policy statements on Basel 3.1 discuss the PRA's plans to perform an off-cycle review of Pillar 2 capital requirements ahead of day 1 with specific focus on 'double counts' and 're-basing' Pillar 2A and PRA buffer requirements.

Resolvability Assessment Framework

The Resolvability Assessment Framework sets out what is required to ensure major UK banks can be safely resolved. Along with other firms, the Group submitted an assessment of its resolvability outcomes that was the subject of feedback from the BoE in August 2024. No material issues were identified with respect to the Group's approach to achieving the Adequate Financial Resources or Co-ordination and Communication outcome. An area for further enhancement was identified relating to the Continuity and Restructuring outcome, and the BoE will continue to engage with the Group on this issue. The engagement will also cover the impact of the NBS acquisition.

Regulatory capital developments (continued)

Model Risk Management (MRM)

The PRA's policy on Model Risk Management Principles for Banks (Supervisory Statement 1/23) came into effect on 17 May 2024. Before the effective date, firms have been expected to conduct an initial self-assessment of their implemented MRM frameworks against the policy and, where relevant, to prepare remediation plans to address any identified shortcomings. The Group has undertaken a programme of work to update the policies and frameworks to make them compliant to the new regulations as well as the implementation of improved capability for model inventory and approaches to model tiering and classifications. Gaps with regards to the live practice of MRM principles have been identified and will be addressed in accordance with the policy's approach to remediation plans.

Capital resources

The Group's capital resources position is summarised below:

Regulatory capital[1]	**30 Sep 2024 £m**	30 Sep 2023 £m
Statutory total equity	**5,548**	5,689
CET1 capital: regulatory adjustments[2]		
Other equity instruments	**(693)**	(594)
Defined benefit pension fund assets	**(322)**	(333)
Prudent valuation adjustment	**(5)**	(5)
Intangible assets	**(119)**	(162)
Goodwill	**(33)**	(11)
Deferred tax asset relying on future profitability	**(253)**	(369)
Cash flow hedge reserve	**(175)**	(496)
AT1 coupon accrual	**(15)**	(12)
TMLA fee[3]	**(218)**	-
Foreseeable dividend on ordinary shares	**-**	(27)
Excess expected losses	**(125)**	(103)
IFRS 9 transitional adjustments	**36**	112
Unconsolidated losses arising from JV	**(5)**	(4)
Total regulatory adjustments to CET1	**(1,927)**	(2,004)
Total CET1 capital	**3,621**	3,685
AT1 capital		
AT1 capital instruments	**693**	594
Total AT1 capital	**693**	594
Total Tier 1 capital	**4,314**	4,279
Tier 2 capital		
Subordinated debt	**773**	1,022
Total Tier 2 capital	**773**	1,022
Total regulatory capital	**5,087**	5,301

(1) Data in the table is reported under CRD IV on a fully loaded basis with IFRS 9 transitional arrangements applied.
(2) A number of regulatory adjustments to CET1 capital are required under CRD IV regulatory capital rules
(3) Details on the TMLA fee can be found in note 5.6 of the interim condensed consolidated financial statements and is treated as a 'foreseeable charge' for capital purposes.

Capital resources (continued)

Regulatory capital flow of funds[1]	**12 months to 30 Sep 2024 £m**	12 months to 30 Sep 2023 £m
CET1 capital[2]		
CET1 capital at 1 October	**3,685**	3,606
Retained earnings and other reserves (including special purpose entities)	**108**	(345)
Intangible assets and goodwill	**21**	94
Deferred tax asset relying on future profitability	**116**	48
Defined benefit pension fund assets	**11**	317
Movement in AT1 foreseeable distributions	**(3)**	1
TMLA fee[3]	**(218)**	-
Foreseeable dividend on ordinary shares	**-**	(27)
Excess expected losses	**(22)**	(3)
IFRS 9 transitional adjustments	**(76)**	(2)
Unconsolidated losses arising from JV	**(1)**	(4)
Total CET1 capital at 30 September	**3,621**	3,685
AT1 capital		
AT1 capital at 1 October	**594**	662
AT1 instrument issued net of costs	**346**	-
AT1 instrument redeemed	**(247)**	(68)
Total AT1 capital at 30 September	**693**	594
Total Tier 1 capital at 30 September	**4,314**	4,279
Tier 2 capital		
Tier 2 capital at 1 October	**1,022**	1,020
Capital instrument redeemed	**(250)**	-
Amortisation of issue costs	**1**	2
Total Tier 2 capital at 30 September	**773**	1,022
Total capital at 30 September	**5,087**	5,301

(1) Data in the table is reported under CRD IV as implemented by the PRA on a fully loaded basis with IFRS 9 transitional arrangements applied.
(2) CET1 capital is comprised of shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
(3) Details on the TMLA fee can be found in note 5.6 of the interim condensed consolidated financial statements and is treated as a 'foreseeable charge' for capital purposes.

The Group's CET1 capital reduced by £64m during the period. The Group reported a profit after tax of £419m, which together with reductions in intangibles and goodwill, pension and deferred tax asset deductions of £148m, and after absorbing other movements in reserves, along with an increase in excess expected losses and tapering of IFRS 9 transitional relief, led to a net increase in CET1 of £371m. Capital generated was utilised to fund £217m distributions to fund the share buyback programme and AT1 coupons in VMUK. The TMLA fee, payable following completion of the Nationwide acquisition of Virgin Money, has been recognised within capital as a foreseeable charge on an after-tax basis, absorbing a further £218m.

In December 2023, the Group redeemed £250m of 7.875% Fixed Rate Reset Callable Notes due 2028, held as Tier 2 capital. The Group also issued a new £350m AT1 instrument and simultaneously tendered 42% of its £250m 9.25% AT1 instrument, first callable in June 2024 (note 4.1.2). The Group redeemed the residual £144m 9.25% AT1 securities on their call date in June 2024.

Risk weighted assets

	30 September 2024			30 September 2023		
Minimum capital requirements	**Exposure £m**	**RWA £m**	**Minimum capital requirements £m**	Exposure £m	RWA £m	Minimum capital requirements £m
Retail mortgages	**57,753**	**8,683**	**694**	60,354	9,072	726
Business lending	**13,385**	**8,661**	**693**	12,635	6,990	559
Other retail lending	**17,730**	**5,144**	**412**	17,586	4,819	385
Other lending	**17,656**	**362**	**29**	18,322	364	29
Other(1)	**574**	**660**	**53**	587	662	54
Total credit risk	**107,098**	**23,510**	**1,881**	109,484	21,907	1,753
Credit valuation adjustment		**110**	**9**		278	22
Operational risk		**2,841**	**227**		2,841	227
Counterparty credit risk		**139**	**11**		146	12
Total	**107,098**	**26,600**	**2,128**	109,484	25,172	2,014

(1) The items included in the Other exposure class that attract a capital charge include items in the course of collection, fixed assets, prepayments, other debtors and deferred tax assets that are not deducted.

RWA movements

	12 months to 30 September 2024					12 months to 30 September 2023				
RWA movements	**IRB RWA £m**	**STD RWA £m**	**Non-credit risk RWA(2) £m**	**Total £m**	**Minimum capital requirement £m**	IRB RWA £m	STD RWA £m	Non-credit risk RWA(2) £m	Total £m	Minimum capital requirement £m
Opening RWA	**15,476**	**6,431**	**3,265**	**25,172**	**2,014**	14,941	6,120	3,067	24,128	1,931
Asset size	**22**	**405**	**-**	**427**	**34**	60	129	-	189	15
Asset quality	**918**	**13**	**-**	**931**	**75**	(1,011)	124	-	(887)	(71)
Model updates(1)	**(412)**	**-**	**-**	**(412)**	**(33)**	1,486	-	-	1,486	119
Methodology and policy	**666**	**-**	**-**	**666**	**53**	-	5	-	5	-
Other	**-**	**(9)**	**(175)**	**(184)**	**(15)**	-	53	198	251	20
Closing RWA	**16,670**	**6,840**	**3,090**	**26,600**	**2,128**	15,476	6,431	3,265	25,172	2,014

(1) Model updates include MAs.
(2) Non-credit risk RWA includes operational risk, credit valuation adjustment and counterparty credit risk.

RWA increased c.£1.4bn to £26.6bn primarily due to increased lending in the retail unsecured and business portfolios offset by reduced lending within the mortgage portfolio. Model updates include a £0.5bn decrease in the hybrid model MA and a £0.1bn increase in the business models MA,

Methodology and policy reflects changes in relation to business lending updates and associated changes to the SME support factor being applied. Other non-credit risk RWA movements are largely due to movements within the credit valuation adjustment portfolio of £0.2bn.

Financial risk (continued)

IFRS 9 transitional arrangements

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

	30 September 2024 (£m)	
Available capital (amounts)	**IFRS 9 Transitional basis**	**IFRS 9 Fully loaded basis**
CET1 capital	**3,621**	**3,585**
Tier 1 capital	**4,314**	**4,278**
Total capital	**5,087**	**5,051**
RWA (amounts)		
Total RWA	**26,600**	**26,571**
Capital ratios		
CET1 (as a percentage of RWA)	**13.6%**	**13.5%**
Tier 1 (as a percentage of RWA)	**16.2%**	**16.1%**
Total capital (as a percentage of RWA)	**19.1%**	**19.0%**
Leverage ratio		
Leverage ratio total exposure measure	**84,135**	**84,099**
UK leverage ratio	**5.1%**	**5.1%**

Transitional arrangements in Capital Requirements Regulation (CRR) mean the regulatory capital impact of ECL is being phased in over time. Following the CRR Quick Fix amendments package, which applied from 27 June 2020, relevant provisions raised from 1 January 2020 through to 2024 have a CET1 add-back percentage of 50% in 2023, reducing to 25% in 2024. From 1 January 2025, the Group will no longer apply transitional relief in respect of IFRS 9.

At 30 September 2024, £36m of IFRS 9 transitional adjustments (30 September 2023: £112m) have been applied to the Group's capital position in accordance with CRR, which is entirely comprised of dynamic relief (30 September 2023: £3m static and £109m dynamic).

Capital requirements

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

	As at 30 Sep 2024	
Minimum requirements	**CET1**	**Total capital**
Pillar 1[(1)]	**4.5%**	**8.0%**
Pillar 2A	**1.9%**	**3.4%**
Total capital requirement (TCR)	**6.4%**	**11.4%**
Capital conservation buffer	**2.5%**	**2.5%**
UK countercyclical capital buffer	**2.0%**	**2.0%**
Total (excluding PRA buffer)[(2)]	**10.9%**	**15.9%**

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

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

The Group continues to maintain a significant surplus above its capital requirements. At 30 September 2024 the Group maintained CET1 capital in excess of its maximum distributable amount requirements equal to 2.7% of RWAs (equivalent to £716m).

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

Capital requirements (continued)

In November 2023 the PRA communicated an update to the Group's Pillar 2A requirement setting it as 3.41% of RWAs, of which 1.92% must be met with CET1 capital (30 September 2023: 2.97% of which 1.67% had to be met with CET1 capital). Applying this updated requirement in September 2024 resulted in a modest increase in total capital requirements of £117m and CET1 requirements of £66m. At 30 September 2024 this resulted in a TCR of 11.41% of RWAs (equivalent to £3,035m) of which 6.4% must be met with CET1 capital (equivalent to £1,708m).

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

The Group's CCyB reflects an exposure weighted average of the CCyB rates applicable in the geographies the Group operates in. Currently this reflects only the UK. As had been previously announced, the CCyB increased in the prior year to 2% in July 2023 to align with its guidance for the CCyB rate under standard risk conditions. The Financial Policy Committee has noted the considerable uncertainties in relation to the economic outlook and will continue to monitor the situation and stands ready to vary the UK CCyB rate - in either direction - in line with the evolution of economic conditions, underlying vulnerabilities and the overall risk environment.

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

Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

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

	30 Sep 2024 £m	30 Sep 2023 £m
Total capital resources(1)(2)	**5,087**	5,301
Eligible senior unsecured securities issued by Clydesdale Bank PLC(2)	**2,580**	2,707
Total MREL resources	**7,667**	8,008
RWA	**26,600**	25,172
Total MREL resources available as a percentage of RWA	**28.8%**	31.8%
UK leverage exposure measure	**84,135**	86,545
Total MREL resources available as a percentage of UK leverage exposure measure	**9.1%**	9.3%

(1) The capital position reflects the application of the transitional arrangements for IFRS 9.
(2) Includes MREL instrument maturity adjustments, the add-back of regulatory amortisation and the deduction of instruments with less than one year to maturity.

Clydesdale Bank PLC is a material subsidiary of VMUK and as such the BoE in its capacity as the UK Resolution Authority can set an 'Internal MREL'. The Group's internal MREL is set equal to the greater of two times its TCR or two times the UK Leverage Ratio requirement. The Group also has a loss-absorbing capacity (LAC) requirement equal to MREL plus any applicable buffers.

As at 30 September 2024, the Group's risk based LAC requirement of 27.3% of RWA exposures (or 8.6% when expressed as a percentage of leverage) was greater than the leverage based LAC requirement of 8.3% of leverage exposures, meaning the RWA measure is the binding requirement.

MREL resources were £7.7bn (30 September 2023: £8.0bn), equivalent to 28.8% of RWAs exposures (30 September 2023: 31.8%) or 9.1% when expressed as a percentage of leverage (30 September 2023: 9.3%). This provides prudent headroom of £0.4bn or 1.5% above the LAC requirement of 27.3% of RWAs, or 0.5% above the LAC requirement of 8.6% when expressed as a percentage of leverage exposures.

Dividend

An interim dividend of £151m in respect of the period ending 31 March 2025 was paid in November 2023.

For details of dividends paid in the year see note 4.1.1 of the interim condensed consolidated financial statements.

Leverage

Leverage ratio	30 Sep 2024 £m	30 Sep 2023 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	**3,621**	3,685
AT1 capital	**693**	594
Total Tier 1 capital	**4,314**	4,279
Exposures for the leverage ratio		
Total assets	**89,902**	91,884
Adjustment for off-balance sheet items	**2,978**	2,999
Adjustment for derivative financial instruments	**585**	706
Adjustment for securities financing transactions	**974**	2,261
Adjustment for qualifying central bank claims	**(8,818)**	(9,052)
Regulatory deductions and other adjustments	**(1,486)**	(2,253)
UK leverage ratio exposure(1)	**84,135**	86,545
UK leverage ratio(1)	**5.1%**	4.9%
Average UK leverage ratio exposure(2)	**84,882**	86,202
Average UK leverage ratio(2)	**5.0%**	4.9%

(1) The UK leverage ratio and exposure measure are calculated after applying the IFRS 9 transitional arrangements of the CRR.

(2) The average leverage exposure measure is based on the daily average of on-balance sheet items and month-end average of off-balance sheet and capital items over the quarter (1 July 2024 to 30 September 2024).

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

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

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

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

The Group's UK leverage ratio of 5.1% (30 September 2023: 4.9%) exceeds the UK minimum ratio of 3.25%.

Funding and liquidity risk

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

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

Sources of funding

The table below provides an overview of the Group's sources of funding:

	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Total assets	**89,902**	91,884
Less: Other liabilities(1)	**(5,730)**	(6,293)
Funding requirement	**84,172**	85,591
Funded by:		
Customer deposits	**69,816**	66,827
Debt securities in issue	**5,807**	6,155
Due to other banks	**3,001**	6,920
of which:		
Secured loans	**2,988**	6,291
Securities sold under agreements to repurchase	**-**	552
Transaction balances with other banks	**1**	-
Deposits with other banks	**12**	77
Equity	**5,548**	5,689
Total funding	**84,172**	85,591

(1) Other liabilities include derivatives, 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 2024, the Group had a funding requirement of £84,172m (30 September 2023: £85,591m) with the majority being used to support loans and advances to customers. The Group measures the sustainability and stability of funding through the NSFR. The Group has sufficient stable funding to meet NSFR regulatory requirements and internal risk appetite.

Customer deposits

The majority of the Group's funding requirement was met by customer deposits of £69,816m (30 September 2023: £66,827m). Customer deposits comprise interest-bearing deposits, term deposits and non-interest-bearing demand deposits from a range of sources including Personal and Business customers.

Debt securities in issue

Customer deposits are supported by wholesale term funding, providing diversity and stability in funding mix. Debt securities decrease to £5,807m (30 September 2023: £6,155m) with maturities of existing programmes partially offset by issuance from our medium-term note and securitisation programmes.

Equity

Equity of £5,548m (30 September 2023: £5,689m) was also used to meet the Group's funding requirement. Equity comprises ordinary share capital, retained earnings, other equity investments and a number of other reserves. For full details on equity refer to note 4.1 within the interim condensed consolidated financial statements.

Risk management
Financial risk (continued)

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.

	Average	
	30 Sep 2024	30 Sep 2023
LCR	**£m**	£m
Eligible liquidity buffer	**14,676**	13,798
Net stress outflows	**9,368**	9,424
Surplus	**5,308**	4,374
LCR	**157%**	146%

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

	30 Sep 2024	30 Sep 2023	Change	**Average at 30 Sep 2024**	Average at 30 Sep 2023
Liquid asset portfolio[1]	**£m**	£m	%	**£m**	£m
Level 1					
Cash and balances with central banks	**8,709**	8,940	(2.6)	**9,718**	9,604
UK Government treasury bills and gilts	**1,717**	1,655	3.7	**1,479**	1,182
Other debt securities	**3,059**	3,153	(3.0)	**3,102**	2,782
Total level 1	**13,485**	13,748	(1.9)	**14,299**	13,568
Level 2[2]	**596**	471	26.5	**528**	327
Total LCR eligible assets	**14,081**	14,219	(1.0)	**14,827**	13,895

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

The NSFR was implemented by the PRA on 1 January 2022 based on Basel standards. The 12-month average NSFR as at 30 September 2024 is 138% (30 September 2023: 136%) comfortably in excess of the regulatory minimum requirement of 100%.

Analysis of debt securities in issue by residual maturity

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

	3 months or less	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total at 30 Sep 2024**	Total at 30 Sep 2023
	£m	**£m**	**£m**	**£m**	**£m**	£m
Covered bonds	**8**	**15**	**3,838**	**-**	**3,861**	4,415
Securitisation	**61**	**176**	**1,709**	**-**	**1,946**	1,740
Total debt securities in issue	**69**	**191**	**5,547**	**-**	**5,807**	6,155

External credit ratings

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

	Outlook as at	As at	
	30 Sep 2024(1)	**30 Sep 2024**	30 Sep 2023
Virgin Money UK PLC			
Moody's	**Stable**	**A3**	Baa1
Fitch	**Rating Watch Positive**	**BBB+**	BBB+
Standard & Poor's	**CreditWatch Positive**	**BBB-**	BBB-
Clydesdale Bank PLC			
Moody's(2)	**Stable**	**A1**	A3
Fitch	**Rating Watch Positive**	**A-**	A-
Standard & Poor's	**CreditWatch Positive**	**A-**	A-

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

Following the announcement of the potential acquisition by Nationwide in March 2024, the rating agencies in the table above had announced potential positive changes to the Group's credit ratings.

On 6 September 2024, following regulatory approval of the acquisition, Moody's upgraded the long-term senior unsecured and issuer ratings of Virgin Money to A3 from Baa1 and the Group's long-term deposit rating to A1 from A3. These changes reflect Moody's expectation that Nationwide will provide support to its new subsidiary in case of need and an expectation that Nationwide and Virgin Money will be resolved as a single unit in the case of failure. The outlook on Virgin Money's long-term issuer and senior unsecured ratings, and the outlook on the Group's deposit rating are now Stable. This is in line with the outlook on Nationwide's long-term deposit and senior unsecured debt ratings, and reflects Moody's view that the asset quality of the newly combined group will remain resilient, and capital will remain strong.

On 1 October 2024, following the completion of the acquisition, both S&P and Fitch announced rating actions.

S&P upgraded Virgin Money's long-term issuer credit rating to BBB from BBB- and the Group's long-term issuer credit rating to A from A-. This reflects S&P's view of Virgin Money's status within the new Nationwide group as highly strategic and that the Virgin Money's subgroup will benefit from a higher-rated parent's support. Following the rating actions, the outlook was changed to stable from CreditWatch Positive, reflecting S&P's view that Nationwide will continue to deliver a resilient performance and maintain a robust balance sheet, while mitigating the execution risks arising from the acquisition given the gradual integration timeline.

Fitch upgraded Virgin Money's long-term issuer default rating to A- from BBB+ and affirmed the Group's long-term issuer default rating at A-. The upgrade to Virgin Money's rating reflects Fitch's view that Virgin Money will benefit from a very high likelihood of support from Nationwide, while execution risks are mitigated by transitional resolution arrangements and a conservative and gradual integration process. For the same reasons, at the same time, Fitch assigned the Group a new deposit rating of A, one notch above its long-term issuer default rating. Following the rating actions, the outlook was changed to Stable from Rating Watch Positive, mirroring the outlook on Nationwide.

Net interest income

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

12 months NII sensitivity	**30 Sep 2024 £m**	30 Sep 2023 £m
+25 basis point parallel shift	**12**	11
+100 basis point parallel shift	**54**	42
-25 basis point parallel shift	**(20)**	(11)
-100 basis point parallel shift	**(63)**	(45)

Risk management
Financial risk (continued)

Net interest income (continued)

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 rate pass on in line with internal scenario specific pass on assumptions. Any rate reduction in a rate fall scenario is subject to product floors with the assumption customer rates would not go negative.
- Additional commercial pricing responses and management actions are not included.
- While in practice hedging strategy would be reviewed in light of changing market conditions, the sensitivities assume no changes over the 12-month period.

Structural hedge

The Group operates a structural hedging programme to manage interest rate risk on rate insensitive balances. The structural hedge is used to mitigate any volatility in the prevailing rate environment by smoothing NII, with a weighted average life of around 2.5 years.

LIBOR replacement

All regulatory milestones in relation to LIBOR cessation have been met and there are no conduct issues to note.

At 30 September 2024, the Group holds no LIBOR exposure, in any currency, on the balance sheet (30 September 2023: £0.9m remained on three-month GBP synthetic LIBOR).

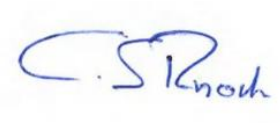
Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge these interim condensed consolidated financial statements have been prepared in accordance with UK adopted International Accounting Standard 34 'Interim Financial Reporting' (IAS 34) and that the interim management report includes:

a) an indication of important events that have occurred during the 12 months ended 30 September 2024 and their impact on the interim condensed consolidated financial statements and a description of the principal risks and uncertainties for the remaining six months of the extended financial period to 31 March 2025; and

b) material related party transactions in the 12 months ended 30 September 2024 and any material changes in the related party transactions described in the last Annual Report of Clydesdale Bank PLC.

Signed by order of the Board



Chris Rhodes
Chief Executive Officer
26 November 2024

Independent review report to Clydesdale Bank PLC

Conclusion

We have been engaged by Clydesdale Bank PLC (the Company) to review the condensed set of financial statements in the interim financial report for the six and twelve month periods ended 30 September 2024 which comprises the Interim condensed consolidated income statement, Interim condensed consolidated statement of comprehensive income, Interim condensed consolidated balance sheet, Interim condensed consolidated statement of changes in equity, Interim condensed consolidated statement of cash flows and the related explanatory notes 1.1 to 5.6. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six and twelve month periods ended 30 September 2024 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34.

Basis for Conclusion

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

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

Conclusions Relating to Going Concern

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

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

Responsibilities of the Directors

The Directors are responsible for preparing the interim financial report in accordance with UK adopted International Accounting Standard 34.

In preparing the interim financial report, the directors are responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the review of the financial information

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

Use of our report

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

Ernst & Young LLP

Ernst & Young LLP
Edinburgh
26 November 2024

Financial statements

Interim condensed consolidated income statement

	Note	**6 months to 30 Sep 2024 (unaudited) £m**	**12 months to 30 Sep 2024 (unaudited) £m**	6 months to 30 Sep 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Interest income		**2,467**	**4,851**	2,122	3,830
Other similar interest		**1**	**3**	1	3
Interest expense and similar charges		**(1,570)**	**(3,097)**	(1,289)	(2,147)
Net interest income	2.1	**898**	**1,757**	834	1,686
Gains less losses on financial instruments at fair value		**(1)**	**(9)**	-	(17)
Other operating income		**96**	**167**	77	157
Non-interest income	2.2	**95**	**158**	77	140
Total operating income		**993**	**1,915**	911	1,826
Operating and administrative expenses before impairment losses	2.3	**(592)**	**(1,143)**	(639)	(1,173)
Operating profit before impairment losses		**401**	**772**	272	653
Impairment losses on credit exposures		**(84)**	**(177)**	(165)	(309)
Profit on ordinary activities before tax		**317**	**595**	107	344
Tax expense	2.4	**(133)**	**(176)**	(43)	(95)
Profit for the period		**184**	**419**	64	249
Attributable to:					
Ordinary shareholders		**144**	**353**	38	195
Other equity holders		**40**	**66**	26	54
Profit for the period		**184**	**419**	64	249

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

The notes on pages 51 to 72 form an integral part of these interim condensed consolidated financial statements.

Financial statements

Interim condensed consolidated statement of comprehensive income

	Note	**6 months to 30 Sep 2024 (unaudited) £m**	**12 months to 30 Sep 2024 (unaudited) £m**	6 months to 30 Sep 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Profit for the period		**184**	**419**	64	249
Items that may be reclassified to the income statement					
Change in cash flow hedge reserve					
(Losses)/gains during the period	4.1.3	**(87)**	**(390)**	162	(268)
Transfers to the income statement	4.1.3	**(16)**	**(53)**	(3)	(12)
Taxation thereon - deferred tax credit/(expense)		**28**	**122**	(44)	77
		(75)	**(321)**	115	(203)
Change in FVOCI reserve					
Losses during the period		**(18)**	**(34)**	(2)	(50)
Transfers to the income statement		**(1)**	**(1)**	-	(1)
Taxation thereon - deferred tax credit		**6**	**10**	1	14
		(13)	**(25)**	(1)	(37)
Total items that may be reclassified to the income statement		**(88)**	**(346)**	114	(240)
Items that will not be reclassified to the income statement					
Change in defined benefit pension plan		**(24)**	**(113)**	(123)	(544)
Taxation thereon - deferred tax credit		**6**	**46**	44	188
Taxation thereon - current tax credit/(expense)		**-**	**2**	(1)	1
Total items that will not be reclassified to the income statement		**(18)**	**(65)**	(80)	(355)
Other comprehensive (losses)/gains, net of tax		**(106)**	**(411)**	34	(595)
Total comprehensive gains/(losses) for the period, net of tax		**78**	**8**	98	(346)
Attributable to:					
Ordinary shareholders		**38**	**(58)**	72	(400)
Other equity holders		**40**	**66**	26	54
Total comprehensive gains/(losses) attributable to equity holders		**78**	**8**	98	(346)

The notes on pages 51 to 72 form an integral part of these interim condensed consolidated financial statements.

Financial statements

Interim condensed consolidated balance sheet

As at 30 September	Note	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Assets			
Financial instruments	3.1		
At amortised cost	3.1.1		
Loans and advances to customers	3.1.1.1	**71,226**	72,191
Cash and balances with central banks		**10,695**	11,282
Due from other banks		**518**	661
At FVOCI		**6,087**	6,184
At FVTPL	3.1.2		
Loans and advances to customers	3.1.2.1	**52**	59
Derivatives	3.1.2.2	**44**	135
Other		**1**	2
Due from related entities	5.2	**47**	-
Intangible assets and goodwill		**152**	173
Deferred tax	2.4	**291**	296
Defined benefit pension assets	3.2	**429**	512
Other assets		**360**	389
Total assets		**89,902**	91,884
Liabilities			
Financial instruments	3.1		
At amortised cost	3.1.1		
Customer deposits		**69,816**	66,827
Debt securities in issue	3.1.1.2	**5,807**	6,155
Due to other banks	3.1.1.3	**3,001**	6,920
At FVTPL	3.1.2		
Derivatives	3.1.2.2	**191**	290
Due to related entities	5.2	**3,453**	3,605
Deferred tax	2.4	**107**	179
Provisions for liabilities and charges	3.3	**38**	69
Other liabilities		**1,941**	2,150
Total liabilities		**84,354**	86,195
Equity			
Share capital and share premium	4.1.1	**2,792**	2,792
Other equity instruments	4.1.2	**693**	594
Other reserves		**157**	503
Retained earnings		**1,906**	1,800
Total equity		**5,548**	5,689
Total liabilities and equity		**89,902**	91,884

The notes on pages 51 to 72 form an integral part of these interim condensed consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors on 26 November 2024 and were signed on its behalf by:

Chris Rhodes
Chief Executive Officer

Clifford Abrahams
Chief Financial Officer

Company name: Clydesdale Bank PLC, Company number: SC001111

Financial statements

Interim condensed consolidated statement of changes in equity

			Other reserves			
	Share capital and share premium	**Other equity instruments**	**FVOCI reserve**	**Cash flow hedge reserve**	**Retained earnings**	**Total equity**
Note	4.1.1	4.1.2		4.1.3		
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
As at 1 October 2022[(1)]	2,792	662	44	699	2,214	6,411
Profit for the year	-	-	-	-	249	249
Other comprehensive losses net of tax	-	-	(37)	(203)	(355)	(595)
Total comprehensive losses for the year	-	-	(37)	(203)	(106)	(346)
AT1 distributions paid	-	-	-	-	(54)	(54)
Dividends paid to ordinary shareholders	-	-	-	-	(248)	(248)
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	(2)	(2)
AT1 redemption	-	(68)	-	-	(4)	(72)
As at 30 September 2023[(1)]	2,792	594	7	496	1,800	5,689
Profit for the year	-	-	-	-	419	419
Other comprehensive losses net of tax	-	-	(25)	(321)	(65)	(411)
Total comprehensive (losses)/income for the year	-	-	(25)	(321)	354	8
AT1 distributions paid	-	-	-	-	(66)	(66)
Dividends paid to ordinary shareholders	-	-	-	-	(177)	(177)
AT1 issuance	-	346	-	-	-	346
AT1 redemption	-	(247)	-	-	(3)	(250)
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	(2)	(2)
As at 30 September 2024[(1)]	**2,792**	**693**	**(18)**	**175**	**1,906**	**5,548**

(1) The balances as at 1 October 2022 and 30 September 2023, and the movements in the 12 month period to 30 September 2023 have been audited; the movements in the 12 month period to 30 September 2024 are unaudited.

The notes on pages 51 to 72 form an integral part of these interim condensed consolidated financial statements.

Financial statements

Interim condensed consolidated statement of cash flows

For the period ended 30 September	Note	**12 months to 30 Sep 2024 (unaudited) £m**	12 months to 30 Sep 2023 (audited) £m
Operating activities			
Profit on ordinary activities before tax		**595**	344
Adjustments for:			
Non-cash or non-operating items included in profit before tax		**(1,516)**	(1,203)
Changes in operating assets		**502**	(551)
Changes in operating liabilities		**1,856**	284
Payments for short-term and low value leases		**(1)**	(3)
Interest received		**4,639**	3,300
Interest paid		**(1,965)**	(1,173)
Tax paid		**(37)**	(50)
Net cash provided by operating activities		**4,073**	948
Cash flows from investing activities			
Interest received		**315**	232
Proceeds from sale and maturity of financial assets at FVOCI		**1,709**	1,868
Purchase of financial assets at FVOCI		**(1,401)**	(2,950)
Proceeds from sale of property, plant and equipment		**3**	1
Purchase of property, plant and equipment		**(7)**	(9)
Purchase and development of intangible assets		**(6)**	(11)
Acquisition of controlled entities		**(20)**	-
Net cash provided by/(used in) investing activities		**593**	(869)
Cash flows from financing activities			
Interest paid		**(989)**	(743)
Repayment of principal portions of lease liabilities	**5.3**	**(22)**	(24)
Issuance of RMBS and covered bonds	**5.3**	**500**	1,826
Redemption and principal repayment on RMBS and covered bonds	**5.3**	**(894)**	(1,012)
Issuance of AT1 securities		**347**	-
Redemption of AT1 securities		**(250)**	(72)
Amounts repaid under the TFSME	**5.3**	**(3,250)**	(1,000)
Net increase in amounts due from related entities		**-**	7
Net (decrease)/increase in amounts due to related entities	**5.3**	**(319)**	297
AT1 distributions	**4.1**	**(66)**	(54)
Ordinary dividends paid	**4.1**	**(177)**	(248)
Net cash used in financing activities		**(5,120)**	(1,023)
Net decrease in cash and cash equivalents		**(454)**	(944)
Cash and cash equivalents at the beginning of the period		**11,667**	12,611
Cash and cash equivalents at the end of the period		**11,213**	11,667

The notes on pages 51 to 72 form an integral part of these interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements

Section 1: Basis of preparation and accounting policies

Overview

These interim condensed consolidated financial statements for the six months ended 30 September 2024 have been prepared in accordance with UK adopted IAS 34. They do not include all the information required by IASs in full annual financial statements and should therefore be read in conjunction with the Group's 2023 Annual Report and Accounts which was prepared in accordance with UK adopted IASs. Copies of the 2023 Annual Report and Accounts are available from the Group's website at https://www.virginmoneyukplc.com/investor-relations/results-and-reporting/annual-reports/.

The UK Finance Code for Financial Reporting Disclosure (the Disclosure Code) sets out disclosure principles together with supporting guidance in respect of the financial statements of UK banks. The Group has adopted the Disclosure Code and these interim condensed consolidated financial statements have been prepared in compliance with the Disclosure Code's principles. Terminology used in these interim condensed consolidated financial statements is consistent with that used in the Group's 2023 Annual Report and Accounts.

The information in these interim condensed consolidated financial statements is unaudited and does not constitute annual accounts within the meaning of Section 434 of the Companies Act 2006 (the Act). Statutory accounts for the year ended 30 September 2023 have been delivered to the Registrar of Companies and contained an unqualified audit report under Section 495 of the Act, which did not draw attention to any matters by way of emphasis and did not contain any statements under Section 498 of the Act.

1.1 Going concern

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

On 1 October 2024 Virgin Money was acquired by Nationwide. The Directors' going concern assessment has focussed on the current Board approved strategy, with consideration of integration related risks and the monitoring and mitigation activities around them. Nationwide has publicly stated that in the medium term, the Group will continue to operate as a separate legal entity within the combined Nationwide group, with a separate board of directors and a banking licence held by the Bank. Following completion, Nationwide is working with the Group's management to undertake a detailed review of the Group which will include, among other considerations, an appraisal of the short and long-term objectives, strategy, and potential of the Group within the Nationwide group structure. Nationwide expects that this review will be completed within approximately 18 months from the acquisition date. The Directors expect that Nationwide will manage any consequential changes to Group capital, funding sources and strategy in a controlled manner which ensures the Group continues to meet all regulatory capital and funding requirements and can continue to operate as a going concern for at least the next 12 months from the date the interim condensed consolidated financial statements are authorised for issue. This expectation reflects Nationwide's approach to the management of the combined group following acquisition, including the downstreaming of capital to mitigate the impact of transaction related adjustments on the Group as set out in note 5.6.

Looking ahead, the Group will continue to focus on supporting customers and maintaining operational stability while supporting Nationwide in its 18-month strategic review of Virgin Money and gradual approach to integration. Further details are contained in the Nationwide's Interim Results for the period ended 30 September 2024.

1.2 Accounting policies

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are consistent with those policies followed in the preparation of the Group's 2023 Annual Report and Accounts except for those policies highlighted in note 1.4. Comparatives are presented on a basis that conforms to the current presentation unless stated otherwise.

1.3 Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and judgements that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosed amounts of contingent liabilities. Assumptions made at each balance sheet date are based on best estimates at that date. Although the Group has internal control systems in place to ensure that best estimates can be reliably measured, actual amounts may differ from those estimated. There has been no change to the areas where the Group applies critical accounting estimates and judgements compared to those shown in the Group's 2023 Annual Report and Accounts.

There have been no material changes to the main accounting estimates and judgements for EIR from the detail disclosed in note 2.1 of the Group's Annual Report and Accounts for the year ended 30 September 2023 however there have been some methodology changes for credit card EIR as described below.

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

1.3 Critical accounting estimates and judgements (continued)

EIR

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

Mortgages

For mortgage products the main accounting estimates and judgements when calculating the EIR continue to be the product life (including assumptions based on observed historic customer behaviour when in a standard variable rate (SVR) period) and the applicable SVR.

As at 30 September 2024, a total EIR adjustment of £200m (30 September 2023: £209m) has been recognised for mortgages. This represented 0.4% (30 September 2023: 0.4%) of the balance sheet carrying value of gross loans and advances to customers for mortgage lending. The net impact of the mortgage EIR adjustments on the income statement in the period was a charge representing (0.5)% of gross customer interest income for mortgages (12 months to 30 September 2023: a credit in the year representing 0.5% of gross customer interest income for mortgages).

Credit cards

During the period, the credit card EIR methodology has been reviewed with a view to simplifying the approach. This has allowed the Group to remove the temporary macro-economic adjustments that were previously applied at 30 September 2023, which has been compensated by the Group reducing the expectation of future balances.

Key assumptions continue to be yield and balance attrition. Yield is a function of the Interest Bearing Balance (IBB) and the Annual Percentage Rate charged to customers. Balance attrition is a function of customer activity and repayment expectations. IBB and balance attrition is impacted by customer behaviour and while there is evidence to support the expected IBB and balance attrition assumptions, there is inherent risk that this data may differ in the future. The Group has embedded a reduced expectation of future balances as part of the methodology review and has applied an average IBB of 53.7% and a long run average attrition rate of 4.4% per month.

As at 30 September 2024, a total EIR adjustment of £370m (30 September 2023: £259m) has been recognised for credit cards. This represented 5.9% (30 September 2023: 4.5%) of the balance sheet carrying value of gross loans and advances to customers for credit cards. The impact of the net credit card EIR adjustments on the income statement was a credit in the period representing 16.5% of gross customer interest income for credit cards (30 September 2023: charge in the year representing (6.2)% of gross customer interest income for credit cards).

Sensitivity analysis (mortgages and credit cards)

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

Sensitivity impact on the mortgage EIR adjustment	**30 Sep 2024 £m**	30 Sep 2023 £m
+/- 1 month change to the timing of customer repayments, redemptions and product transfers	**14/(14)**	21/(18)
50bps increase to the BoE base rate not passed through to the Group's SVR	**(45)**	(42)

The new simplified approach for the credit card EIR methodology reduces the exposure to customer behaviours at the end of the promotional period and therefore the sensitivities for the current year have been updated accordingly. These now consider IBB and balance attrition assumptions over the full expected life rather than focusing on the post-promotional period.

Sensitivity impact on the credit card EIR adjustment	**30 Sep 2024 £m**	30 Sep 2023 £m
+/- 5 ppts change to post-promotional IBB assumption(1) (9.1% relative increase/decrease)	**n/a**	25/(26)
+/- 5 ppts change to IBB assumption (9.3% relative increase/decrease)	**48/(47)**	n/a
+/- 0.5 ppts change to post-promotional monthly balance attrition rate (33% relative increase/decrease)	**n/a**	(7)/7
+/- 0.5 ppts change to monthly balance attrition rate (16.0% relative increase/decrease)	**(18)/21**	n/a

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

The simplified credit card EIR methodology incorporates a reduced expectation of future balances in order to mitigate the inherent judgement and estimation uncertainty that exists in determining the EIR adjustment.

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

1.3 Critical accounting estimates and judgements (continued)

The sensitivities disclosed above are provided in the context of the Group's policies and practices adopted at the balance sheet date. Following the acquisition of Virgin Money by Nationwide on 1 October 2024, the Group has made changes to EIR accounting for both mortgage and credit cards to align with Nationwide. These changes have a material impact on EIR adjustments after the balance sheet date. Refer to note 5.6 for further information.

1.4 Accounting developments

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

- *Amendments to IAS 8 'Accounting Policies and Accounting Estimates':* This was issued in February 2021 (applicable for accounting periods beginning on or after 1 January 2023) and received endorsement for use in the UK in November 2022. The amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.
- *Amendments to IAS 12 'Income Tax': Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction.* This was issued in May 2021 (applicable for accounting periods beginning on or after 1 January 2023) and received endorsement for use in the UK in November 2022. The amendments provide a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.
- *International Tax Reform - Pillar 2 Model Rules: Amendments to IAS 12*. This was issued in May 2023 (with additional disclosure requirements applicable for accounting periods beginning on or after 1 January 2023, although some paragraphs were for immediate application) and received endorsement for use in the UK in July 2023. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the implementation of the Organisation for Economic Co-operation and Development Pillar 2 model rules, together with targeted disclosure requirements for affected entities (further detail on how this has been reflected in UK tax legislation can be found in note 2.4).

Amendments to IAS 1 'Presentation of financial statements' and *IFRS Practice Statement 2 'Making materiality judgements'* which were issued in February 2021 (applicable for accounting periods beginning on or after 1 January 2023) and endorsed for use in the UK by the UK Endorsement Board in November 2022 was early adopted by the Group with effect from 1 October 2022.

The IASB has issued a number of new amended International Financial Reporting Standards (IFRSs) in the current and previous periods that are not mandatory for the current reporting period and have not been early adopted by the Group. The majority of these are not expected to have a material impact for the Group.

IFRS 18 '*Primary Financial Statements – General Presentation and Disclosures*' was issued on 9 April 2024 and is effective for reporting periods beginning on or after 1 January 2027 (subject to UK endorsement). The new Standard will replace IAS 1 'Presentation of Financial Statements' and while much of IAS 1 has been retained in IFRS 18, there are a number of new requirements whose aim is to help entities improve how they communicate their financial performance to investors. These include i) the presentation of new defined subtotals in the income statement; ii) the disclosure of management-defined performance measures; and iii) enhanced requirements for grouping (aggregation and disaggregation) of information. Whilst the changes are a few years away from becoming mandatory, the Group is currently analysing the full potential impacts of the new Standard and expects IFRS 18 will alter the way certain information is presented but will not have a material effect on the values that are ultimately reported.

Changes in the period - Expected credit losses (ECL)

During the period, the Group reviewed the existing staging approach for credit cards in the Unsecured portfolio which focused on the triggers that move exposures from Stage 1 (requiring a 12-month ECL calculation) to Stage 2 (requiring a lifetime ECL calculation). The overall impact of these changes has been a reduction of £31m in the modelled ECL in the Unsecured portfolio.

1.5 Presentation of risk disclosures

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

Section 2: Results for the period

2.1 Net interest income

	6 months to 30 Sep 2024 (unaudited) £m	**12 months to 30 Sep 2024 (unaudited) £m**	6 months to 30 Sep 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Interest income				
Loans and advances to customers	**1,997**	**3,948**	1,714	3,150
Loans and advances to other banks	**310**	**581**	262	435
Financial assets at FVOCI	**160**	**322**	146	245
Total interest income	**2,467**	**4,851**	2,122	3,830
Other similar interest				
Financial assets at FVTPL	**1**	**3**	1	3
Total other similar interest	**1**	**3**	1	3
Less: interest expense and similar charges				
Customer deposits	**(1,091)**	**(2,076)**	(764)	(1,233)
Debt securities in issue	**(252)**	**(524)**	(231)	(395)
Due to other banks	**(138)**	**(326)**	(215)	(372)
Due to related entities	**(86)**	**(166)**	(76)	(143)
Other interest expense	**(3)**	**(5)**	(3)	(4)
Total interest expense and similar charges	**(1,570)**	**(3,097)**	(1,289)	(2,147)
Net interest income	**898**	**1,757**	834	1,686

2.2 Non-interest income

	6 months to 30 Sep 2024 (unaudited) £m	**12 months to 30 Sep 2024 (unaudited) £m**	6 months to 30 Sep 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Gains less losses on financial instruments at fair value				
Held for trading derivatives	**2**	**2**	5	2
Financial assets at fair value[(1)]	**1**	**2**	(3)	-
Ineffectiveness arising from fair value hedges	**(31)**	**(53)**	16	29
Amounts recycled to profit and loss from cash flow hedges[(2)]	**26**	**56**	4	2
Ineffectiveness arising from cash flow hedges	**1**	**(16)**	(22)	(50)
	(1)	**(9)**	-	(17)
Other operating income				
Net fee and commission income	**72**	**132**	62	128
Margin on foreign exchange derivative brokerage	**11**	**21**	10	19
Gain on sale of financial assets at FVOCI	**1**	**1**	-	1
Share of JV loss after tax	**-**	**(1)**	-	-
Other income	**12**	**14**	5	9
	96	**167**	77	157
Total non-interest income	**95**	**158**	77	140

(1) Included within financial assets at fair value is a credit risk gain on loans and advances at fair value of £Nil for the 6 months to 30 September 2024 and £Nil for the 12 months to 30 September 2024 (6 months to 30 September 2023: £Nil, 12 months to 30 September 2023: £Nil) and a fair value gain on equity investments of £Nil for the 6 months to 30 September 2024 and £Nil for the 12 months to 30 September 2024 (6 months to 30 September 2023: £Nil, 12 months to 30 September 2023: £Nil).
(2) In respect of de-designated cash flow hedges where the swap was subsequently re-designated in a fair value hedge.

The Group's unrecognised share of profit or loss in JVs for the 6 months to 30 September 2024 was £2m loss and for the 12 months to 30 September 2024 was £1m profit (6 months to 30 September 2023: £3m loss, 12 months to 30 September 2023: £6m loss). For loss-making entities, subsequent profits earned are not recognised until previously unrecognised losses are extinguished. On a cumulative basis the Group's unrecognised share of losses net of unrecognised profits of JVs is £14m (12 months to 30 September 2023: £15m).

On 2 April 2024 the Group acquired the remaining c50% ordinary share capital of Virgin Money Unit Trust Managers Limited (UTM), a JV with abrdn Holdings Limited (abrdn), for £20m. UTM is now a wholly owned subsidiary. Prior to the acquisition date, the Group classed UTM as a JV accounted for under the equity method. Details of the acquisition are shown in note 5.5.

Section 2: Results for the period (continued)

2.2 Non-interest income (continued)

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

	6 months to 30 Sep 2024 (unaudited) £m	**12 months to 30 Sep 2024 (unaudited) £m**	6 months to 30 Sep 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Current account and debit card fees	**48**	**96**	48	100
Credit cards	**33**	**62**	35	63
Insurance, protection and investments	**15**	**18**	3	7
Other fees(1)	**8**	**15**	8	16
Total fee and commission income	**104**	**191**	94	186
Total fee and commission expense	**(32)**	**(59)**	(32)	(58)
Net fee and commission income	**72**	**132**	62	128

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

2.3 Operating and administrative expenses before impairment losses

	6 months to 30 Sep 2024 (unaudited) £m	**12 months to 30 Sep 2024 (unaudited) £m**	6 months to 30 Sep 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Staff costs	**275**	**503**	241	432
Property and infrastructure	**17**	**47**	40	74
Technology and communications	**68**	**136**	68	130
Corporate and professional services	**100**	**198**	131	240
Depreciation, amortisation and impairment	**50**	**94**	63	116
Other expenses	**82**	**165**	96	181
Total operating and administrative expenses	**592**	**1,143**	639	1,173

Staff costs comprise the following items:

	6 months to 30 Sep 2024 (unaudited) £m	**12 months to 30 Sep 2024 (unaudited) £m**	6 months to 30 Sep 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Salaries and wages	**156**	**303**	143	275
Social security costs	**17**	**35**	17	32
Defined contribution pension expense	**31**	**62**	29	56
Defined benefit pension credit	**(12)**	**(25)**	(26)	(50)
Compensation costs	**192**	**375**	163	313
Equity based compensation(1)	**13**	**19**	2	6
Bonus awards	**36**	**48**	14	22
Performance costs	**49**	**67**	16	28
Redundancy and restructuring	**4**	**7**	6	7
Temporary staff costs	**11**	**20**	12	24
Other	**19**	**34**	44	60
Other staff costs	**34**	**61**	62	91
Total staff costs	**275**	**503**	241	432

(1) Includes National Insurance on equity based compensation. On sanction of the Scheme by the Court, on 27 September 2024, existing share awards vested. At this date, the share-based payment charge was accelerated because there are no remaining service or performance conditions. For some employees who are Material Risk Takers, whilst the awards vested on Court Sanction, they are still being delivered over the original vesting schedule to meet PRA regulations.

Section 2: Results for the period (continued)

2.4 Taxation

	6 months to 30 Sep 2024 (unaudited) £m	**12 months to 30 Sep 2024 (unaudited) £m**	6 months to 30 Sep 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Current tax				
Current period	**34**	**66**	6	29
Adjustment in respect of prior periods	**2**	**1**	(1)	(2)
	36	**67**	5	27
Deferred tax				
Current period	**96**	**108**	38	71
Adjustment in respect of prior periods	**1**	**1**	-	(3)
	97	**109**	38	68
Tax expense for the period	**133**	**176**	43	95

The tax assessed for the period differs from that arising after applying the standard rate of corporation tax in the UK of 25% (2023 22%). A reconciliation from the expense implied by the standard rate to the actual tax expense is as follows:

	6 months to 30 Sep 2024 (unaudited) £m	**12 months to 30 Sep 2024 (unaudited) £m**	6 months to 30 Sep 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Profit on ordinary activities before tax	**317**	**595**	107	344
Tax expense based on the standard rate of corporation tax in the UK of 25% (2023: 22%)	**79**	**149**	24	76
Effects of:				
Disallowable expenses	**1**	**-**	2	3
Deferred tax assets derecognised	**54**	**62**	19	19
Impact of rate changes (charge/(credit))	**3**	**(27)**	5	9
AT1 distribution	**(10)**	**(17)**	(6)	(12)
Banking surcharge	**4**	**7**	-	5
Adjustments in respect of prior periods	**2**	**2**	(1)	(5)
Tax expense for the period	**133**	**176**	43	95

The Group's effective tax rate is 29.6% (12 months ended 30 September 2023: 27.6%). This is higher than the standard rate of corporation tax due to loss de-recognition as a result of changes to future forecast profits. The credit for the 12 months to 30 September 2024, arising from rate changes in the period relates to the impact of the reduction in the authorised surplus payments charge rate from 35% to 25% with effect from 6 April 2024, which applies to the Group's defined benefit pension scheme.

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

Movement in deferred tax asset/(liability)

	Acquisition accounting adjustments £m	Cash flow hedge reserve £m	Gains on financial instruments at FVOCI £m	Tax losses carried forward £m	Capital allowances £m	Other temporary differences £m	Total deferred tax assets £m	Defined benefit pension scheme surplus £m	Total deferred tax liabilities £m
As at 1 October 2022[(1)]	(8)	(267)	(16)	417	111	19	256	(350)	(350)
Income statement credit/(charge)	2	1	-	(42)	(8)	(4)	(51)	(17)	(17)
Other comprehensive income credit	-	77	14	-	-	-	91	188	188
As at 30 September 2023[(1)]	(6)	(189)	(2)	375	103	15	296	(179)	(179)
Income statement credit/(charge)	1	1	(1)	(124)	(9)	(3)	(135)	26	26
Deferred taxes acquired in business combinations	-	-	-	2	-	(4)	(2)	-	-
Other comprehensive income credit	-	122	10	-	-	-	132	46	46
As at 30 September 2024[(1)]	**(5)**	**(66)**	**7**	**253**	**94**	**8**	**291**	**(107)**	**(107)**

(1) The balances as at 1 October 2022 and 30 September 2023, and the movements in the 12 month period to 30 September 2023 have been audited; the balances and movements in the 12 month period to 30 September 2024 are unaudited.

Section 2: Results for the period (continued)

2.4 Taxation (continued)

The deferred tax assets and liabilities detailed above arise primarily in the Bank 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.

The Group has unrecognised deferred tax assets of £89m (30 September 2023: £21m) on £356m gross losses (30 September 2023: £83m) valued at the mainstream rate of 25% representing tax losses whose use is not forecast within the foreseeable future.

The Group has assessed the likelihood of recovery of the deferred tax assets at 30 September 2024, and considers it probable that sufficient future taxable profits will be available over the corporate planning horizon against which the underlying deductible temporary differences can be utilised. Deferred tax assets are recognised to the extent that they are expected to be utilised within six years of the balance sheet date. If, instead of six years, the period were five or seven years, the total recognised deferred tax asset would decrease to £244m or increase to £338m respectively. If Group taxable profit forecasts were 10% lower than anticipated, the total deferred tax asset would be £275m. If Group taxable profit forecasts were 10% higher than anticipated, the deferred tax asset would be £307m. All tax assets arising will be used within the UK.

Other temporary differences include deferred tax assets for the IFRS 9 transitional adjustment of £7m and equity-based compensation of £5m (30 September 2023: £9m and £5m respectively) offset by a deferred tax liability on the customer intangible asset created on the acquisition of the remaining c50% of UTM in April 2024 (note 5.5).

On 11 July 2023, the UK Government enacted legislation to implement the G20-OECD Inclusive Framework Pillar 2 rules in the UK, including a Qualified Domestic Minimum Top-Up Tax rule. This legislation, applicable to both wholly domestic groups and multinationals, seeks to ensure that large UK-headquartered enterprises pay a minimum tax rate of 15% on UK and overseas profits. The legislation is effective for accounting periods beginning on or after 31 December 2023. As highlighted at note 5.6, Virgin Money was acquired by Nationwide on 1 October 2024. This will be the first (tax) accounting period for which the Group is in scope of the Pillar 2 legislation; it will form part of the Nationwide group assessment in Nationwide's consolidated March 2025 Annual Report and Accounts.

There is a transitional 'safe harbour' regime which aims to reduce the compliance burden in the early years of the legislation. Where a group elects to use this regime and meets a minimum effective tax rate then no top-up tax arises. No material impact of Pillar 2 is expected for members of the Nationwide group, including Virgin Money, as it is UK-based; the standard rate of corporation tax in the UK is 25% (28% where the banking surcharge is relevant). However, as the effective tax rate will depend upon financial results at the time of each periodic assessment, no forward-looking assurance can be provided. The IAS 12 exemption to recognise and disclose information about deferred tax assets and liabilities related to Pillar 2 income taxes has been applied.

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Section 3: Assets and liabilities

3.1 Financial instruments

3.1.1 Financial instruments at amortised cost

3.1.1.1 Loans and advances to customers

	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Gross loans and advances to customers	**71,940**	73,295
Impairment provisions on credit exposures(1)	**(602)**	(612)
Fair value hedge adjustment	**(112)**	(492)
	71,226	72,191

(1) ECLs on off-balance sheet exposures of £4m (30 September 2023: £5m) are presented as part of the provisions for liabilities and charges balance (note 3.3).

The Group has a portfolio of fair valued business loans of £52m (30 September 2023: £59m) which are classified separately as financial assets at FVTPL (note 3.1.2.1). Combined with the above, this is equivalent to total loans and advances of £71,278m (30 September 2023: £72,250m).

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

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

3.1.1.2 Debt securities in issue

The breakdown of debt securities in issue is shown below:

30 September 2024 (unaudited)

	Securitisation £m	**Covered bonds £m**	**Total £m**
Debt securities	**1,935**	**3,838**	**5,773**
Accrued interest	**11**	**23**	**34**
	1,946	**3,861**	**5,807**

30 September 2023 (audited)

	Securitisation £m	Covered bonds £m	Total £m
Debt securities	1,729	4,392	6,121
Accrued interest	11	23	34
	1,740	4,415	6,155

Key movements in the period are shown in the table below(1). Full details of all notes in issue can be found at

https://www.virginmoneyukplc.com/investor-relations/debt-investors/.

	12 months to 30 Sep 2024 (unaudited)				12 months to 30 Sep 2023 (audited)			
	Issuances		**Redemptions**		Issuances		Redemptions	
	Denomination	**£m**	**Denomination**	**£m**	Denomination	£m	Denomination	£m
Securitisation	**GBP**	**500**	**GBP**	**294**	GBP	900	USD, GBP	1,012
Covered bonds	**-**	**-**	**GBP**	**600**	EUR, GBP	926	-	-
		500		**894**		1,826		1,012

(1) Other movements relate to foreign exchange, hedging adjustments and the capitalisation and amortisation of issuance costs.

3.1.1.3 Due to other banks

	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Secured loans	**2,988**	6,291
Securities sold under agreements to repurchase(1)	**-**	552
Transaction balances with other banks	**1**	-
Deposits from other banks	**12**	77
	3,001	6,920

(1) There are no underlying securities sold under agreements to repurchase as at 30 September 2024 (carrying value of underlying securities sold under agreements to repurchase at 30 September 2023: £1,047m). In the prior year, these related to mortgage assets as well as internally held debt securities, backed by mortgage assets.

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

Section 3: Assets and liabilities (continued)

3.1 Financial instruments (continued)

3.1.2 Financial instruments at fair value through profit or loss

3.1.2.1 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 £52m (30 September 2023: £59m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £1m (30 September 2023: £1m).

3.1.2.2 Derivative financial instruments

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

	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Fair value of derivative financial assets		
Designated as hedging instruments	**16**	96
Designated as held for trading	**28**	39
	44	135
Fair value of derivative financial liabilities		
Designated as hedging instruments	**147**	204
Designated as held for trading	**44**	86
	191	290

Cash collateral totalling £151m (30 September 2023: £267m) has been pledged and £4m has been received (30 September 2023: £33m) in respect of derivatives with other banks. These amounts are included within due from and due to other banks respectively. Net collateral received from clearing houses, which did not meet offsetting criteria, totalled £Nil (30 September 2023: £116m) 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.

Section 3: Assets and liabilities (continued)

3.1 Financial instruments (continued)

3.1.2 Financial instruments at fair value through profit or loss

3.1.2.2 Derivative financial instruments

Total derivative contracts	30 Sep 2024 (unaudited) Notional contract amount £m	30 Sep 2024 (unaudited) Fair value of assets £m	30 Sep 2024 (unaudited) Fair value of liabilities £m	30 Sep 2023 (audited) Notional contract amount £m	30 Sep 2023 (audited) Fair value of assets £m	30 Sep 2023 (audited) Fair value of liabilities £m
Derivatives designated as hedging instruments						
Cash flow hedges						
Interest rate swaps (gross)	**31,563**	**394**	**165**	51,185	1,295	545
Less: net settled interest rate swaps(1)	**(31,460)**	**(384)**	**(162)**	(49,888)	(1,222)	(531)
Interest rate swaps (net)(2)	**103**	**10**	**3**	1,297	73	14
Fair value hedges						
Interest rate swaps (gross)(3)	**23,760**	**691**	**816**	19,203	1,219	862
Less: net settled interest rate swaps(1)	**(23,060)**	**(691)**	**(804)**	(18,113)	(1,206)	(820)
Interest rate swaps (net)(2)	**700**	**-**	**12**	1,090	13	42
Cross currency swaps(2)	**2,477**	**6**	**132**	2,350	10	148
	3,177	**6**	**144**	3,440	23	190
Total derivatives designated as hedging instruments	**3,280**	**16**	**147**	4,737	96	204
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange(2)	**579**	**8**	**6**	654	7	9
Options(2)	**-**	**-**	**-**	-	-	-
	579	**8**	**6**	654	7	9
Interest rate related contracts						
Interest rate swaps (gross)	**1,997**	**30**	**30**	1,910	47	50
Less: net settled interest rate swaps(1)	**(911)**	**(22)**	**(5)**	(753)	(43)	(1)
Interest rate swaps (net)(2)	**1,086**	**8**	**25**	1,157	4	49
Swaptions(2)	**10**	**-**	**1**	10	-	1
Options(2)	**1,260**	**5**	**5**	1,067	16	16
	2,356	**13**	**31**	2,234	20	66
Commodity related contracts	**128**	**7**	**7**	167	12	11
Total derivatives designated as held for trading	**3,063**	**28**	**44**	3,055	39	86

(1) Presented within other assets and other liabilities.
(2) Presented within derivative financial instruments.
(3) Includes inflation and interest rate risk related swaps with a notional of £1,480m and a fair value liability of £431m. These swaps are centrally cleared and net settled.

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

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

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

Section 3: Assets and liabilities (continued)

3.1 Financial instruments (continued)

3.1.3 Fair value of financial instruments

This section should be read in conjunction with note 3.1.4 of the Group's 2023 Annual Report and Accounts, which provides more detail about accounting policies adopted and valuation methodologies used in calculating fair value. There have been no changes in the accounting policies adopted or the valuation methodologies used. Fair value measurements are assigned to Level 1, 2 or 3 of the fair value hierarchy depending on the significance of the inputs used in determining fair value (Level 1 being the lowest and Level 3 being the highest).

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

The tables below show a comparison of the carrying amounts of financial assets and liabilities measured at amortised cost, and their fair values, where these are not approximately equal. The financial assets and liabilities exclude certain financial instruments presented within other assets and other liabilities relating to accruals, trade receivables, trade payables and settlement balances which are classified as amortised cost.

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 difference between carrying value and fair value is relevant in a trading environment but is not relevant to balances such as loans and advances to customers and customer deposits.

	30 Sep 2024 (unaudited)		30 Sep 2023 (audited)	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to customers(1)	**71,226**	**71,612**	72,191	71,611
Financial liabilities				
Customer deposits(2)	**69,816**	**69,806**	66,827	66,625
Debt securities in issue(2)	**5,807**	**5,855**	6,155	6,191
Due to other banks(2)	**3,001**	**3,001**	6,920	6,940
Due to related entities(2)	**3,453**	**3,555**	3,605	3,699

(1) Categorised as Level 3 in the fair value hierarchy with the exception of £1,114m (30 September 2023: £1,085m) of overdrafts which are categorised as Level 2.
(2) Categorised as Level 2 in the fair value hierarchy.

(b) Fair value of financial instruments recognised on the balance sheet at fair value

The following tables provide an analysis of financial instruments that are measured at fair value, using the fair value hierarchy described above:

	Fair value measurement as at 30 Sep 2024 (unaudited)				Fair value measurement as at 30 Sep 2023 (audited)			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets								
Held at FVOCI	**6,087**	**-**	**-**	**6,087**	6,184	-	-	6,184
Loans and advances to customers	**-**	**52**	**-**	**52**	-	59	-	59
Derivatives	**-**	**44**	**-**	**44**	-	135	-	135
Other	**-**	**-**	**1**	**1**	-	-	2	2
Total financial assets at fair value	**6,087**	**96**	**1**	**6,184**	6,184	194	2	6,380
Financial liabilities								
Derivatives	**-**	**191**	**-**	**191**	-	290	-	290
Total financial liabilities at fair value	**-**	**191**	**-**	**191**	-	290	-	290

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

Section 3: Assets and liabilities (continued)

3.2 Retirement benefit obligations

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

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

	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Fair value of Scheme assets	**2,823**	2,796
Defined benefit obligation	**(2,394)**	(2,284)
Net defined benefit pension asset	**429**	512

On 6 April 2023, the Scheme entered into a longevity swap transaction with Pacific Life Re International Limited and Zurich Assurance Ltd to manage longevity risk in relation to c.£1.6bn of pensioner liabilities. The arrangement provides long term protection to the Scheme against costs resulting from pensioners or their dependants living longer than currently expected, enhancing security for Scheme members and reducing risk for the Group. The fair value of the hedge instrument as at 30 September 2024 is a liability of £27m (30 September 2023: £Nil).

The latest formal triennial valuation for the Scheme was undertaken as at 30 September 2022 and reported a surplus of £256m (previously a surplus of £144m based on Scheme data and market conditions as at 30 September 2019) and a technical provision funding level of 109% (previously 103%). The next triennial valuation will be conducted in the year ending 30 September 2026 based on Scheme data and market conditions as at 30 September 2025.

In June 2023, His Majesty's High Court of Justice issued a ruling in respect of Virgin Media Limited versus NTL Pension Trustees II Limited (and others) challenging the validity of rule amendments made to pension schemes contracted out on a Reference Scheme Test basis between 6 April 1997 and 5 April 2016. An appeal hearing was subsequently held in June 2024 with the Court of Appeal upholding the initial High Court determination. The Group is aware of the resulting request for guidance across the industry from the Department of Work & Pensions following this determination. The Scheme Trustees have taken initial legal advice and await further industry guidance to be issued. Directors have undertaken a high-level assessment and have concluded that the likelihood of any impact on member liabilities is remote.

3.3 Provisions for liabilities and charges

	Employee related costs provision £m	Customer related provision £m	Property provision £m	Off-balance sheet ECL provisions £m	Total £m
As at 1 October 2022[(1)]	7	13	27	3	50
Charge to the income statement	7	-	24	2	33
Utilised	(6)	(3)	(5)	-	(14)
As at 30 September 2023[(1)]	8	10	46	5	69
Charge/(credit) to the income statement	10	(3)	2	(1)	8
Utilised	(12)	(1)	(26)	-	(39)
As at 30 September 2024[(1)]	**6**	**6**	**22**	**4**	**38**

(1) The balances as at 1 October 2022 and 30 September 2023, and the movements in the 12 month period to 30 September 2023 have been audited; the balances and movements in the 12 month period to 30 September 2024 are unaudited.

Employee related costs provision

This includes provision for staff redundancies and for NIC on equity based compensation. During the period, provisions of £10m (30 September 2023: £7m) were raised relating to staff redundancy costs.

Customer related provision

This relates to customer matters, legal proceedings and claims arising in the ordinary course of the Group's business. A number of these matters are now reaching a conclusion and the risk that the final amount required to settle the Group's potential liabilities in these matters being materially more than the remaining provision is now considered to be low. Following a review of the final amounts required £3m was released during the period (30 September 2023: £Nil).

Property provision

This includes costs for stores and office closures. During the period, provisions of £2m (30 September 2023: £24m) were raised.

Section 4: Capital

4.1 Equity

4.1.1 Share capital and share premium

	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Share capital	**1,243**	1,243
Share premium	**1,549**	1,549
	2,792	2,792

	30 Sep 2024 (unaudited) Number of shares	30 Sep 2023 (audited) Number of shares	**30 Sep 2024 (unaudited) £m**	30 Sep 2023 (audited) £m
Ordinary shares of £0.10 each - allotted, called up, and fully paid				
Opening and closing ordinary share capital	**12,431,538,208**	12,431,538,208	**1,243**	1,243

The holders of ordinary shares are entitled to dividends as declared and are entitled to one vote per share at meetings of the shareholders of the Bank. All shares in issue at 30 September 2024 rank equally with regard to the Bank's residual assets.

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

- A final dividend in respect of the year ended 30 September 2022 of 0.83p per ordinary share in the Bank amounting to £103m was paid in March 2023.
- An interim dividend of £50m in respect of the year ended 30 September 2023 was paid in November 2022.
- Further interim dividends amounting to £45m and £50m, were paid in June 2023 and August 2023 respectively.
- A final dividend in respect of the year ended 30 September 2023 of 0.21p per ordinary share in the Company, amounting to £26m, was paid in March 2024.
- An interim dividend of £151m in respect of the period ending 31 March 2025 was paid in November 2023.

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

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

Section 4: Capital (continued)

4.1 Equity (continued)

4.1.2 Other equity instruments

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

	30 Sep 2024 (unaudited)		30 Sep 2023 (audited)	
	Carrying value £m	**Nominal value £m**	Carrying value £m	Nominal value £m
Perpetual securities (fixed 9.25% up to the first reset date) issued on 13 March 2019 with an optional redemption on 8 June 2024.	**-**	**-**	247	250
Perpetual securities (fixed 8.25% up to the first reset date) issued on 17 June 2022 with an optional redemption on 17 June 2027.	**347**	**350**	347	350
Perpetual securities (fixed 11.0% up to the first reset date) issued on 8 December 2023 with an optional redemption on 8 December 2028.	**346**	**350**	-	-
	693	**700**	594	600

On 6 December 2023, perpetual securities (fixed 9.25% up to the first reset date) issued on 13 March 2019 totalling £105m were redeemed. The remaining £142m were redeemed on the optional redemption date of 8 June 2024.

The issuances are treated as equity instruments in accordance with IAS 32 '*Financial Instruments: Presentation*' with the proceeds included in equity, net of transaction costs which is the difference between the nominal and carrying values. AT1 distributions of £66m were paid in the period (12 months ended 30 September 2023: £54m).

4.1.3 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.

	12 months to 30 Sep 2024 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Opening cash flow hedge reserve	**496**	699
Amounts recognised in other comprehensive income:		
Cash flow hedge - interest rate risk		
Effective portion of changes in fair value of interest rate swaps	**(390)**	(268)
Amounts transferred to the income statement	**(53)**	(12)
Taxation	**122**	77
Closing cash flow hedge reserve	**175**	496

Section 5: Other notes

5.1 Contingent liabilities and commitments

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

	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**10**	12
Due between 3 months and 1 year	**25**	18
Due between 1 year and 3 years	**10**	8
Due between 3 years and 5 years	**3**	1
Due after 5 years	**37**	40
	85	79
Other credit commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**17,580**	17,921

Other contingent liabilities

Conduct risk related matters and legal claims

There continues to be uncertainty with judgement required in determining the quantum of conduct risk related liabilities, with note 3.3 reflecting the Group's current position where a provision can be reliably estimated. Until all matters are resolved the final amount required to settle the Group's potential liabilities for conduct related matters remains uncertain.

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

The Group's subsidiary, Clydesdale Bank PLC, along with its former parent company, National Australia Bank Limited, is a defendant in nine separate claims (comprising 904 individual claimants) co-ordinated by the claims management company, RGL Management Limited, in connection with (i) the payment of break costs and (ii) the composition of fixed interest rates, both, in respect of historic tailored business loans. On 19 March 2024 His Majesty's High Court delivered its judgment in the first and fourth claims dismissing all claims made against Clydesdale Bank PLC and National Australia Bank Limited. Costs have been awarded in favour of Clydesdale Bank PLC and National Australia Bank Limited. The Claimants have appealed parts of the judgment. The appeal hearing is listed to take place on 16-20 June 2025. No provision has been made in these interim condensed consolidated financial statements in respect of the current claims, nor any other claims of a similar nature which may be brought by other claimants.

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

Section 5: Other notes (continued)

5.2 Related party transactions

Amounts due from related entities	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Other receivables	**47**	-

There was no interest income recognised on the above amounts in either the current or prior period.

Amounts due to related entities	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Deposits	**83**	40
Other payables	**23**	5
Medium-term notes	**2,606**	2,608
Subordinated debt	**741**	952
Total amounts due to related entities	**3,453**	3,605
Interest expense on the above amounts was as follows (note 2.1):		
Interest expense to related parties	**166**	143

The balances are classified at amortised cost (Stage 1) with an immaterial ECL impact.

Medium-term notes comprise dated, unsecured loans and are issued to Virgin Money UK PLC. These securities will, in the event of the winding-up of the issuer, be subordinated to the claims of the depositors and all other creditors of the issuer, other than creditors whose claims rank junior to the claims of the medium-term note liabilities, including those of subordinated debt holders. The debt is employed in the general business of the Bank.

Subordinated debt comprises dated, unsecured loan capital and is issued to Virgin Money UK PLC. This debt will, in the event of the winding-up of the issuer, be subordinated to the claims of the depositors and all other creditors of the issuer, other than creditors whose claims rank junior to the claims of the holders of the subordinated liabilities. The debt is employed in the general business of the Bank.

Other transactions with related entities	30 Sep 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Other income		
Non-interest income received	**3**	4
Other expenses		
Other expenses	**22**	21
Equity		
Ordinary dividends paid	**177**	248
AT1 distributions	**66**	54
Total dividends to related entities	**243**	302

In addition to the above, the Group also 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 £12m (30 September 2023: £7m). Pension contributions of £6m were made to the Scheme in the period (12 months ended 30 September 2023: £7m).

The Group granted a £75m uncommitted liquidity facility to the Scheme as an additional contingency against future short-term liquidity challenges resulting from unexpected market turbulence. There is also a £7m BACS facility held for the Scheme in relation to payments to the Scheme's members (30 September 2023: £7m). As at 30 September 2024, the amount drawn under both facilities was £Nil (30 September 2023: £Nil).

Section 5: Other notes (continued)

5.2 Related party transactions (continued)

JVs

As at 30 September 2024 the Group's value of investments in JVs is £Nil (30 September 2023: £10m). The total share of losses recognised in the period was £Nil (12 months to 30 September 2023: £Nil).

On 2 April 2024 the Group acquired the remaining c50% ordinary share capital of UTM a JV with abrdn for £20m. UTM is now a wholly owned subsidiary. Prior to the acquisition date, the Group classed UTM as a JV accounted for under the equity method. Transactions prior to the acquisition date are shown in note 5.5.

The Group had the following transactions with Salary Finance during the period:

- The Group provides Salary Finance with a revolving credit facility funding line, of which the current gross lending balance was £234m (30 September 2023: £290m) and the undrawn facility was £16m (30 September 2023: £60m). The facility is held under Stage 2 for credit risk purposes (30 September 2023: Stage 2), with an ECL allowance of £19m (30 September 2023: £22m) held against the lending. An impairment release of £3m was recognised in the period (12 months to 30 September 2023: £3m charge). The lending made via Salary Finance continues to be held as part of the Group's Unsecured lending portfolio and consists of personal lending to Salary Finance customers. The Group received £15m of interest income from Salary Finance in the period (12 months to 30 September 2023: £16m) and holds deposits of £12m (30 September 2023: £10m). During the period the facility limit was reduced to £250m (30 September 2023: £350m) in line with the reduction in lending. Board approval for this limit is in place until December 2025, which is subject to review if circumstances change.

Other related party transactions with Virgin Group(1)

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

- The Group incurs credit card commissions and air mile charges from Virgin Atlantic Airways Limited (VAA) in respect of an agreement between the two parties. Amounts payable to VAA totalled £3m (30 September 2023: £2m) and expenses of £19m were incurred in the period (12 months to 30 September 2023: £17m).
- The Group incurs charges and receives commissions concerning the cashback incentive scheme with Virgin Red Limited in relation to the credit card, PCA and investment portfolio. Amounts receivable totalled £0.3m (30 September 2023: £0.2m), amounts payable totalled £0.2m (30 September 2023: £0.1m) and during the period this resulted in expenses of £1.5m (12 months to 30 September 2023: £0.5m) along with income of £1m (12 months to 30 September 2023: £0.4m).
- The Group has an arrangement with Virgin Start Up Limited to host a series of events, podcasts and videos and other digital content. During the period this resulted in amounts payable of £Nil (30 September 2023: £0.1m) and expenses payable of £0.3m (12 months to 30 September 2023: £0.4m).
- The Group provides lending facilities to other Virgin Group companies. The approved facility limit is £20m (30 September 2023: £20m) with the current gross lending balance as at 30 September 2024 being £10m (30 September 2023: £10m). The undrawn facility at September 2024 was £10m (30 September 2023: £10m). During the period this resulted in interest income of £0.7m (12 months to 30 September 2023: £0.2m). The facility is held under Stage 1 for credit risk purposes (30 September 2023: Stage 1), there are no ECL provisions held against this facility and it is within the usual parameters for the current business portfolio with commercial terms that comply with existing credit policy.

(1) All companies were incorporated in England and Wales.

Charities

The Group provides banking services to Virgin Money Foundation which has resulted in customer deposits of £1m (30 September 2023: £1m). The Group made donations of £1m in the period (12 months to 30 September 2023: £1m) to the Foundation to enable it to pursue its charitable objectives. The Group has also provided a number of support services to the Foundation on a pro bono basis, including use of facilities and employee time. The estimated gift in kind for support services provided during the period was £0.4m (12 months to 30 September 2023: £0.5m).

Section 5: Other notes (continued)

5.3 Notes to the statement of cash flows

	Term funding schemes[1] £m	Debt securities in issue £m	Intercompany loans £m	Lease liabilities £m	Total £m
As at 1 October 2022[2]	7,230	5,347	3,210	132	15,919
Cash flows:					
Cash flows:					
Issuances	-	1,826	747	-	2,573
Redemptions	-	(1,012)	(432)	-	(1,444)
Repayment	(1,000)	-	(18)	(24)	(1,042)
Tax paid	-	-	-	(1)	(1)
Non-cash flows:					
Fair value and other associated adjustments	-	(15)	77	-	62
Additions to right-of-use asset in exchange for increased lease liabilities	-	-	-	76	76
Remeasurement	-	-	-	(6)	(6)
Movement in accrued interest	61	12	14	3	90
Unamortised costs	-	(3)	3	-	-
Other movements	-	-	4	-	4
As at 30 September 2023[2]	**6,291**	**6,155**	**3,605**	**180**	**16,231**
Cash flows:					
Issuances	-	500	641	-	1,141
Drawdowns	-	-	44	-	44
Redemptions	-	(894)	(998)	-	(1,892)
Repayment	(3,250)	-	(5)	(22)	(3,277)
Non-cash flows:					
Fair value and other associated adjustments	-	44	136	-	180
Additions to right-of-use asset in exchange for increased lease liabilities	-	-	-	2	2
Movement in accrued interest	(53)	-	6	5	(42)
Unamortised costs	-	2	-	-	2
Other movements	-	-	24	-	24
As at 30 September 2024[2]	**2,988**	**5,807**	**3,453**	**165**	**12,413**

(1) This includes amounts drawn under the TFS and TFSME.
(2) The balances as at 1 October 2022 and 30 September 2023, and the movements in the 12 month period to 30 September 2023 have been audited; the balances and movements in the 12 month period to 30 September 2024 are unaudited.

Section 5: Other notes (continued)

5.4 Segment information

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

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

	6 months to 30 Sep 2024 (unaudited) £m	**12 months to 30 Sep 2024 (unaudited) £m**	6 months to 30 Sep 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Net interest income	**898**	**1,757**	834	1,686
Non-interest income	**138**	**201**	77	140
Total operating income	**1,036**	**1,958**	911	1,826
Operating and administrative expenses	**(635)**	**(1,186)**	(639)	(1,173)
Impairment losses on credit exposures	**(84)**	**(177)**	(165)	(309)
Segment profit before tax	**317**	**595**	107	344
Average interest earning assets	**90,345**	**89,899**	90,042	89,810

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.

Section 5: Other notes (continued)

5.5 Virgin Money Unit Trust Managers Limited acquisition

On 2 April 2024 the Group acquired the remaining c50% of the ordinary share capital of UTM for cash consideration of £20m and obtained control of UTM. UTM provides investment management services to retail customers including general investment accounts, stocks and shares ISAs and a pension product.

Prior to obtaining control, UTM was a JV with abrdn, with the Group holding a 50% plus one share equity interest which it accounted for under the equity method. With UTM having successfully completed its technology platform migration and launched the Virgin Money Investments digital platform, taking full ownership will enable the Group to focus on our expertise in branding and distribution, while abrdn will continue to provide investment advisory services.

The goodwill of £10m arising from the acquisition primarily represents the potential for future new customer acquisition and related asset under management growth following the adoption of the modern investment platform. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following tables summarise the consideration paid for UTM and the amounts of the identifiable assets acquired and liabilities assumed recognised at the acquisition date (2 April 2024).

	£m
Consideration	
Cash consideration transferred	**20**
Fair value of the Group's equity interest in UTM held before the business combination	**20**
Consideration attributed to settlement of pre-existing relationships(1)	**(7)**
Total consideration	**33**

	£m
Recognised amounts of identifiable assets acquired and liabilities assumed	
Financial assets	**16**
Other assets	**3**
Identifiable intangible assets	**4**
Total assets	**23**
Financial liabilities	**-**
Other liabilities	**12**
Total liabilities	**12**
Net assets	**11**

	£m
Fair value of net assets acquired	**11**
Goodwill arising on acquisition	**22**
Total consideration	**33**

(1) Pre-existing banking, debtor and creditor relationships between UTM and the Group were deemed to be settled at carrying value on acquisition with no resulting gains or losses. These amounts are now eliminated on consolidation and therefore excluded from recognised assets acquired and liabilities assumed with the deemed settlement value being deducted from total consideration.

The revenue included in the consolidated statement of comprehensive income since 2 April 2024 contributed by UTM is £12m (recognised within other operating income). UTM also contributed losses of £1m over the same period. Had UTM been consolidated from 1 October 2023 the consolidated income statement would have included total revenue of £23m and losses of £3m relating to UTM.

In the period prior to the acquisition the Group received £5m of recharge income (30 September 2023: £9m) from UTM in accordance with a service level agreement in respect of resourcing, infrastructure and marketing. The Group provided UTM with a 30 day notice account with customer deposits of £10m (30 September 2023: £17m) which resulted in interest of £0.3m being paid to UTM (30 September 2023: £0.5m).

5.6 Post balance sheet events

Nationwide's acquisition of Virgin Money UK PLC

On 1 October 2024 Virgin Money and Nationwide announced that all the conditions set out in the scheme of arrangement announced on 21 March 2024 had been satisfied, or waived, and the scheme had become effective in accordance with its terms. As a result, Virgin Money was delisted from the London and Australian Stock Exchange. The completion of the transaction on 1 October 2024 has given rise to the following post balance sheet impacts for the Group.

Section 5: Other notes (continued)

5.6 Post balance sheet events (continued)

Nationwide's acquisition of Virgin Money UK PLC (continued)

Brand licence agreement

On 22 May 2024, Virgin Money's shareholders approved amendments to the brand licence agreement between Virgin Money, the Bank's immediate parent, and Virgin Enterprises Limited (Virgin Enterprises), which governs the use of the 'Virgin Money' brand (the 'TMLA').

A deed of amendment in respect of the TMLA was then subsequently entered into by Virgin Money and Virgin Enterprises on 1 October 2024. As previously announced, the TMLA fee of £250m plus irrecoverable VAT of £50m became due to Virgin Enterprises following the amendment. The TMLA fee will be recharged from Virgin Money to the Bank.

This is a non-adjusting event, and consequently has not been recognised in the Group's 30 September 2024 interim condensed consolidated financial statements. The TMLA fee is payable in two equal instalments, with the first paid in October 2024 and the second due in October 2025. The full TMLA fee of £250m and the irrecoverable VAT on the first instalment of £25m has been recognised in October 2024. The VAT payable on the second instalment will be recognised in October 2025 in line with the scheduled invoice. The full £300m was reflected for regulatory capital purposes as a foreseeable charge in the period ended 30 September 2024.

Change in accounting reference date

Following completion of the Nationwide acquisition, the Group changed its accounting reference date from 30 September to 31 March to align with the reporting date of the Group's new ultimate parent. The next full Annual Report and Accounts of the Group will be for the 18-month period to 31 March 2025.

Changes to accounting policies

Following completion of the Nationwide acquisition, the Group also made the following changes to accounting policies to align with those used by the Group's new ultimate parent. These changes will be presented within the Group's results for the 18-month period to 31 March 2025.

EIR accounting

The principal changes to the Group's accounting policies for mortgage and credit card EIR are:

- Mortgage EIR: the removal of SVR interest cash flows at the end of the initial product term and alignment in approach to ERC methodology; and
- *Credit card EIR:* a change to the unit of account methodology from the current method (whereby the unit of account is the contract with the customer) to the unit of account being the balance outstanding at the reporting date.

These changes will require restatement to previously reported prior periods, which will be adjusted through opening retained earnings. The pre-tax impact of this would be as follows:

	Mortgages £m	Credit cards £m	Total £m
Decrease in retained earnings as at 1 October 2022	(171)	(285)	(456)
(Decrease)/increase in retained earnings as at 30 September 2023	(7)	26	19
Total decrease in retained earnings as at 30 September 2023	(178)	(259)	(437)
EIR asset as at 30 September 2023 as reported	209	259	468
Adjustments as above	(178)	(259)	(437)
Revised EIR asset as at 1 October 2023	31	-	31

There will be deferred tax implications arising from the above adjustments that will be reported in the Group's Annual Report and Accounts for the 18-month period to 31 March 2025.

Section 5: Other notes (continued)

5.6 Post balance sheet events (continued)

Nationwide's acquisition of Virgin Money UK PLC (continued)

In terms of the EIR asset reported at 30 September 2024, this will be revised through a combination of the above adjustments and the reversal of income that will be reflected in the results for the 18-month period to 31 March 2025:

	Mortgages £m	Credit cards £m	Total £m
EIR asset as at 30 September 2024 (note 1.3)	200	370	570
Prior period adjustments as above	(178)	(259)	(437)
Current period adjustments	(7)	(111)	(118)
Revised EIR asset as at 30 September 2024	15	-	15

The current period adjustments will be tax impacted as part of the Group's results for the 18-month period to 31 March 2025.

Further detail on the Group's EIR accounting applicable as at 30 September 2024 can be found in note 1.3.

As a result of this change in accounting policy, EIR accounting will not be presented as a critical accounting estimate and judgement in future reporting periods.

Hedge accounting

On 1 October 2024 the Group adopted the general hedge accounting requirements of IFRS 9 to align with the Nationwide accounting policy. This will impact the Group's micro fair value hedges and the Group's macro cash flow hedge. The change is prospective (meaning no restatement of prior periods is required) and the Group continues to apply IAS 39 fair value hedge accounting for portfolio hedges of interest rate risk (macro hedge accounting).

The changes include:

- the ability to choose to exclude currency basis spreads from hedge designation and instead report this element of fair valuation directly in a hedge reserve within equity;
- the performance of hedge effectiveness testing on a prospective basis only, in line with risk management strategy; and
- the inability to voluntarily de-designate hedging relationships, unless there has been a change to risk management objectives.

This will not have a material impact on results and will require the creation of an 'other hedging reserve' within equity to include the impact of foreign currency basis spreads.

Further detail on the Group's hedge accounting applicable as at 30 September 2024 can be found in note 3.1.2.2.

In addition to the above, there are other changes the Group will be required to make as a result of alignments to Nationwide's accounting policies, practice and presentation in the Group's Annual Report and Accounts for the 18-month period to 31 March 2025. The majority of these are likely to be presentational adjustments only that will result in restatements to the prior period primary statements, although some further adjustment to the opening retained earnings position may also be necessary.

Ordinary share issuance

In order to mitigate the effect of the updates detailed above, on 1 October 2024, Virgin Money issued 298m ordinary shares to Nationwide for cash consideration of £650m. On the same date, the Bank issued 298m ordinary shares to Virgin Money for cash consideration of £650m, recognising share capital of £30m and share premium of £620m. This ordinary share issue ensures the Group's CET1 ratio remains greater than 13.5% after the impact of the TMLA fee and the changes to accounting policies noted above.

Capital reduction

On 28 October 2024, a petition was presented to the Court of Session, Edinburgh, Scotland by the Bank seeking an order for confirmation of the reduction of its share premium account (the 'Reduction'). Subject to approval of the Court at the hearing scheduled for 28 November 2024, the Reduction will have the effect of reducing the share premium balance of the Bank by £1,549m with a corresponding increase in retained earnings. The Reduction creates additional distributable profits in the Bank, mitigating the negative impact of the acquisition related impacts and expenditure detailed in this note. The Reduction has no impact on the Bank's capital position and capability to meet its capital and liquidity requirements, but the increase in distributable reserves provides further flexibility to make payments of interest on its AT1 Capital and distributions to Virgin Money.

Additional information
Measuring financial performance - glossary

Management exclude certain items from the Group's statutory position to arrive at an 'excluding notable items' basis. The exclusion of notable items aims to remove the impact of one-offs and other volatile items which may distort period-on-period comparisons. Previously, items adjusted from the Group's statutory position resulted in an 'underlying basis' of performance. The Group no longer presents results on an underlying basis, moving instead to a statutory presentation of its income statement, whilst still providing details of notable items of income and expenditure. Comparative periods have not been restated as the 'excluding notable items basis' is directly comparable to the previously disclosed 'underlying basis'. Management's approach to notable items is aligned to the European Securities and Markets Authority (ESMA) guidelines on APMs and recommendations are subject to review and agreement by the Board Audit Committee. Additional detail on these items is provided below to help understand their inclusion as a notable item.

Notable items within operating income

Item	**6 months to 30 Sep 2024 £m**	**12 months to 30 Sep 2024 £m**	6 months to 30 Sep 2023 £m	12 months to 30 Sep 2023 £m	Reason for inclusion as a notable item
Acquisition accounting unwinds	**(8)**	**(18)**	(26)	(29)	This consists of the unwind of the IFRS 3 fair value adjustments created on the acquisition of Virgin Money Holdings (UK) PLC in October 2018. These represent either one-off adjustments or are the scheduled reversals of the accounting adjustments that arose following the fair value exercise required by IFRS 3. These will continue to be treated as notable items until the remaining amounts have been fully reversed.
Hedge ineffectiveness	**(3)**	**(11)**	-	(16)	The result of hedge accounting and fair value movements on derivatives in economic hedges to the extent they either do not meet the criteria for hedge accounting or give rise to hedge ineffectiveness. Hedge ineffectiveness largely represents timing differences that will reverse out over the lives of derivatives that are used in economic hedges, is often volatile, and driven by accounting requirements and not generally considered as a component of the core financial result.
Other:					
UTM income	**12**	**12**	-	-	The post-acquisition revenue recognised within UTM since it became a wholly owned subsidiary on 2 April 2024. This was not incorporated in the Group's guidance for the 12-month period to 30 September 2024, first set in November 2023.
UTM acquisition gain	**11**	**11**	-	-	A one-off gain recognised on the Group's pre-acquisition interest in UTM.
UTM transition costs	**-**	**-**	(1)	(2)	These costs relate to UTM's transformation costs principally for the build of a new platform for administration and servicing.
Total	**12**	**(6)**	(27)	(47)	

Notable items within operating expenses

Item	**6 months to 30 Sep 2024 £m**	**12 months to 30 Sep 2024 £m**	6 months to 30 Sep 2023 £m	12 months to 30 Sep 2023 £m	Reason for inclusion as a notable item
Restructuring charges	**(23)**	**(56)**	(78)	(131)	These costs relate to the Group's £275m restructuring programme as first announced alongside the Group's FY21 results.
Financial crime prevention programme	**(22)**	**(37)**	-	-	The Group has initiated a 'financial crime prevention programme' which will deliver significantly enhanced financial crime, fraud, and cyber security and controls across the Group's estate and is estimated to cost c.£130m over 3 years. This is a one-off programme of activity driving a significant increase in spend.
Legacy conduct	**7**	**11**	(8)	(12)	These credits/(costs) are historical in nature and are not indicative of the Group's current practices.
Other:					
UTM expenses	**(12)**	**(12)**	-	-	The post-acquisition operating expenses recognised within UTM since it became a wholly owned subsidiary on 2 April 2024. This was not incorporated in the Group's guidance for the 12-month period to 30 September 2024, first set in November 2023.
Transaction costs	**(16)**	**(21)**	-	-	Costs incurred as a direct consequence of the Nationwide offer. This includes professional advisory fees, including incremental audit fees following the resignation of PwC and appointment of EY.
Internally developed software adjustments	**-**	**-**	(47)	(47)	This is a write-off charge in relation to the Group's mortgage digitisation programme. Following an assessment of the progress of the project to upgrade the mortgage platform and challenges identified during testing, we anticipate a significant deferral and redesign as we implement the upgraded capability.
Property, plant and equipment, and investment property adjustments	**-**	**-**	(12)	(12)	£6m of costs related to a data cleanse exercise conducted on the Group's fixed asset registers ahead of a migration to a single fixed asset register and a £6m reduction in the valuation of an investment property due to changes in market conditions.
Total	**(66)**	**(115)**	(145)	(202)	

Additional information

Glossary

For a glossary of terms and abbreviations used within this report refer to pages 183 to 187 of the Group's 2023 Annual Report and Accounts.

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

Term	Definition
Nationwide	Nationwide Building Society, a building society authorised by the PRA and regulated by the FCA and the PRA under registration number 106078
Nationwide group	Nationwide and its subsidiary undertakings
Trademark licence agreement (TMLA)	Trademark licence agreement between Virgin Money and Virgin Enterprises which governs the use of the 'Virgin Money' brand

Abbreviations

IBB	Interest bearing balance
MA	Management adjustment
MES	Model economic scenarios
MRM	Model risk management
PAC	Provision Adequacy Committee
TCR	Total capital requirement
TMLA	Trademark licence agreement
VMI	Virgin Money Investments (legal entity name 'Virgin Money Unit Trust Managers Limited')

Additional information

Officers and professional advisers

<u>Non-Executive Directors</u>

Board Chair	David Bennett(1)
Senior Independent Non-Executive Director	Tim Wade(2)
Independent Non-Executive Directors(3)	Lucinda Charles-Jones(2) Elena Novokreshchenova(2) Petra van Hoeken(2)(4)
<u>Executive Directors</u>	Chris Rhodes(5) Clifford Abrahams
Group Company Secretary	Lorna McMillan
Group General Counsel and Purpose Officer	James Peirson
Independent auditors	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

(1) Member of the Remuneration Committee and Governance and Nomination Committee.
(2) All Independent Non-Executive Directors are members of the Remuneration Committee, Audit Committee, Risk Committee and Governance and Nomination Committee.
(3) Darren Pope stepped down as an Independent Non-Executive Director of the Board on 1 October 2024. Sara Weller, Non-Executive Director, stepped down from the Board on 1 October 2024.
(4) Petra van Hoeken was appointed to the Board on 1 July 2024 following Geeta Gopalan, Independent Non-Executive Director, stepping down from the Board on 30 June 2024.
(5) Chris Rhodes was appointed as an Executive Director on 1 October 2024 following David Duffy stepping down from the Board on 1 October 2024.

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