CLYDESDALE BANK PLC
INTERIM FINANCIAL REPORT
SIX MONTHS TO 31 MARCH 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). This release covers the results of the Group for the six months ended 31 March 2024.

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 69. This basis is classed as an alternative performance measure, see below. 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'. Further information on this change is shown on page 69.

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, the repercussions of the outbreak of coronaviruses (including but not limited to the COVID-19 pandemic), 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, any referendum on Scottish independence and any UK or global cost of living crisis or recession.

In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Forward-looking statements involve inherent risks and uncertainties and should be viewed as hypothetical. Other events not taken into account may occur and may significantly affect the analysis of the forward-looking statements. No member of the Group or their respective directors, officers, employees, agents, advisers or affiliates (each a '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 31 March 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.

Business review

Summary balance sheet

	As at 31 Mar 2024 £m	30 Sep 2023 £m
Customer loans	**72,674**	72,754
Other financial assets	**19,058**	17,760
Other non-financial assets	**1,390**	1,370
Total assets	**93,122**	91,884
Customer deposits	**(68,184)**	(66,609)
Wholesale funding	**(16,322)**	(16,680)
Other liabilities	**(2,961)**	(2,906)
Total liabilities	**(87,467)**	(86,195)
Ordinary shareholders' equity	**(4,820)**	(5,095)
Additional Tier 1 (AT1) equity	**(835)**	(594)
Equity	**(5,655)**	(5,689)
Total liabilities and equity	**(93,122)**	(91,884)

Summary income statement

	6 months to 31 Mar 2024 £m	6 months to 31 Mar 2023 £m	12 months to 30 Sep 2023 £m
Net interest income (excluding notable items)	**869**	855	1,715
Non-interest income (excluding notable items)	**71**	80	158
Total operating income (excluding notable items)	**940**	935	1,873
Notable items in income	***(18)***	*(20)*	*(47)*
Statutory total operating income	**922**	915	1,826
Operating and administrative expenses (excluding notable items)	**(502)**	(477)	(971)
Notable items in expenses	***(49)***	*(57)*	*(202)*
Statutory operating and administrative expenses	**(551)**	(534)	(1,173)
Statutory operating profit before impairment losses	**371**	381	653
Impairment losses on credit exposures	**(93)**	(144)	(309)
Statutory profit on ordinary activities before tax	**278**	237	344
Tax expense	**(43)**	(52)	(95)
Statutory profit attributable to equity holders	**235**	185	249

Business and financial review (continued)

Notable items

	6 months to 31 Mar 2024 £m	6 months to 31 Mar 2023 £m	12 months to 30 Sep 2023 £m
Operating income:			
Acquisition accounting unwinds (net interest income)	**(10)**	(3)	(29)
Hedge ineffectiveness (non-interest income)	**(8)**	(16)	(16)
Other (non-interest income)	**-**	(1)	(2)
Total notable items in statutory operating income	**(18)**	(20)	(47)
Operating expenses:			
Restructuring charges	**(33)**	(53)	(131)
Financial crime prevention programme	**(15)**	-	-
Legacy conduct	**4**	(4)	(12)
Other	**(5)**	-	(59)
Total notable items in statutory operating expenses	**(49)**	(57)	(202)
Operating profit before impairment losses (excluding notable items)	**438**	458	902

Summary

Over the first six months, we have continued to deliver on our strategic ambitions in line with expectations. The Group delivered continued business momentum during H1, supported by ongoing strategic execution, with trading broadly as anticipated. The Group believes the acquisition of Virgin Money by Nationwide presents an exciting opportunity to build on our significant strategic progress by combining two complementary businesses that together can offer more great products and services to a larger customer base, while delivering value for our shareholders. While we expect there to be headwinds through the second half of the year, we remain well placed to deliver growth in our target segments.

Balance sheet summary

The Group's balance sheet remains strong with a robust funding and liquidity position. The Group delivered further lending growth in its target areas during the first half of the year, while overall customer lending was stable at £72.7bn. Mortgage balances reduced 1.5% during the period to £56.6bn, as the rate environment and wider cost of living pressures tempered purchase activity, albeit with signs of improved market activity levels since January. Business lending increased 6.7% overall, as growth in BAU balances offset ongoing reductions in government-backed lending. Unsecured balances increased 3.2% during H1 to £6.7bn, driven by 5.3% growth in the credit card portfolio. Credit quality remained resilient in H1, with provision coverage stable when compared with FY 2023. We continued to attract new deposits during the first half of the year, supporting overall deposit growth of 2.4%, while the mix of deposits remained broadly stable.

Profit and loss summary

Statutory profit before tax in H1 2024 was £278m, which was 17% higher compared to last year (H1 2023: £237m), reflecting higher operating income and lower impairments, offsetting growth in operating and administrative expenses. The Group has continued to grow customer accounts and delivered further growth in its target lending segments of business and unsecured, while broadly maintaining its deposit mix. This, alongside ongoing credit card EIR adjustments, reflecting strong customer activity and updated assumptions, supported 1% growth in total operating income relative to H1 2023. Operating and administrative costs of £551m were 3% higher when compared to H1 2023 as gross cost savings from the restructuring programme were more than offset by inflation and the new BoE Levy. Operating and administrative costs included £49m of notable expenditure during H1, primarily relating to the financial crime prevention programme and ongoing restructuring activity. Credit impairments of £93m were significantly lower year-on-year, reflecting updated macroeconomic assumptions and the ongoing review of the application of SICR on the credit card portfolio, which reduced the ECL provision by £31m during the period.

Capital

The Group has maintained a robust capital position with a Common Equity Tier 1 Capital (CET1) ratio (International Financial Reporting Standard (IFRS) 9 transitional basis) of 14.3%, and a total capital ratio of 20.6%, as capital generation more than offset RWA growth in the period. The Group's CET1 ratio on an IFRS 9 fully loaded basis remained stable at 14.2%. The Group's latest Pillar 2A requirement has a CET1 element of 1.9%. Overall, the Group's Capital Requirements Directive (CRD) IV minimum CET1 requirement is 10.9%.

Funding and liquidity

Funding and liquidity remain strong, with the 12-month average liquidity coverage ratio (LCR) increasing to 151% (FY23 12-month average: 146%) and 12-month average net stable funding ratio (NSFR) stable at 135% (FY23: 136%).

Business and financial review (continued)

Outlook

Following a strong H1, during the second half of the year, the Group expects downward margin pressure relative to H1, primarily reflecting a lower expected contribution from cards EIR adjustments, ongoing competition, and lower interest rates. The Group also anticipates cost pressures from inflation and investment in the second half, which will only be partially mitigated by the ongoing cost savings programme, where certain restructuring activities have now been deferred in light of the proposed acquisition by Nationwide. In the medium term, the Group remains focussed on delivering growth in return accretive segments, continued cost-efficiency and ongoing balance sheet resilience and believes the proposed acquisition by Nationwide will support its strategic ambitions, leveraging Nationwide's scale and pace of investment, as well as Virgin Money's capabilities and strengths.

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.

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. Effective risk management supports the delivery of our strategic objectives and fulfils our Purpose.

This report provides information on developments during the period relating to the Group's risk exposures, including how those risks are managed or mitigated. These risk disclosures support, and should be read in conjunction with, the Risk report in the Annual Report and Accounts 2023.

During H1, Risk have continued work to enhance risk management practices and reporting capabilities, with focus on determining risk and control libraries aligned to our recently launched risk taxonomy, to support reporting from our incoming Integrated Risk Management system. This investment will increase monitoring of controls testing and drive improvements to our capability to execute control effectiveness assessments, which will support more robust risk management and better outcomes for our stakeholders.

We have also remained committed to proactively supporting our customers through the higher-rate environment and cost of living pressures that continue to prevail, and which have the potential to affect customer resilience and debt affordability. Close portfolio monitoring and assessment of aggregate risks is in place to highlight any signs of portfolio deterioration or affordability stress.

Managing execution risk and delivering change sustainably has continued to be a priority for the Group and we have supported the launch of the financial crime prevention programme, to further improve risk controls and strengthen technology, striving to meet evolving regulatory obligations and aligning to our purpose. Fraud and scams continue to become more sophisticated and incidence rates continue to rise across the sector, this investment will bolster our fraud controls and cyber defences, providing customers with improving protections against criminal actors. Risk teams have continued to carry out detailed risk assessments, assurance and oversight activity to support the business in management of fraud and cyber risks. Activity to strengthen oversight of the technology and data risk profile has continued and will remain a focus area, as we work towards adoption of the BCBS 239 data standard.

Building on progress in FY23, we have remained committed to ensuring good customer outcomes, with focus on overseeing the effective implementation and embedding of the FCA's Consumer Duty across the Group, including compliance with the requirements for closed book review and reporting by 31 July 2024. Good customer outcomes are at the heart of our purpose and central to our culture, business objectives and strategy.

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 2023 Annual Report and Accounts.

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	Financial risk includes capital risk, funding risk, liquidity risk, market risk and pension risk, all of which have the ability to impact the financial performance of the Group, if not managed correctly.
Model risk	The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.
Regulatory and compliance risk	The risk of failing to comply with relevant regulatory requirements and changes in the regulatory environment, 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, sanctions, fraud, and bribery and corruption.
Strategic and enterprise risk	The risk of significant loss of earnings or damage from decisions or actions that impact the long-term interests of the Group's stakeholders; or from an inability to 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.

Risk management
Risk overview

Emerging and evolving risks

Emerging and evolving risks are current or future risks arising from internal or external events, with a material unknown or unpredictable component, and the potential to significantly impact the future performance of the Group or prevent delivery of good outcomes for our customers. 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 and remain broadly unchanged, noting the key developments outlined below. Areas of enhanced risk attention include the risks associated with the proposed acquisition by Nationwide Building Society and the continued development of Technology and Data Risks, with a streamlined and refocused emerging risk now defined.

Risks	Description
Deal risk associated to acquisition by Nationwide Building Society	While the Board has recommended the proposal to shareholders, there are a range of strategic & enterprise, financial and people risks should the deal not succeed, which could include: *Strategic & enterprise risk* – There could be: impacts from adjustments to the pace of the Group's cost saving and change programmes; share price volatility and reputational damage, as the market reacts to the Group's revised positioning and strategic outlook; increased scrutiny on the Group's capabilities to execute on its strategic ambitions; and, impacts to FY24 guidance and targets from short term costs related to the transaction. *Financial risk* – There would be impacts to the Group's funding and financial plans if the deal were not to proceed. Spreads for listed debt could widen due to market uncertainty and the outlook for the Group's credit ratings could change, with the potential for downside risk to reflect a lack of clarity on the Group's strategy in the short to medium term. *People risk* – During the transition period, there are people risks associated to talent retention and attraction against the Group's shifting strategic outlook. Significant people risk challenges could affect operations, growth, costs and resilience.
Technology and Data Risks	The pace of technological change, in areas such as Generative AI and cloud solutions, continues to accelerate and risks and opportunities need to be fully understood. These technologies have broad and potentially growing applications, with supporting regulatory frameworks under continuous review. The Group's operations and strategy are increasingly dependent on the use of quality and timely data, within scalable and secure architecture, to support decision making and to underpin our digital capabilities. Stakeholder expectations in relation to the effective governance, management and protection of data continue to evolve. In turn, the landscape of security and cyber threats we face into continues to change 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 Group is investing in capabilities to defend against cyber threats, with key initiatives in place 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, and not all of that information has been replicated in this Interim Financial Report.

Close monitoring, clear policies and a disciplined approach to credit risk management support the Group's operations and have underpinned its resilience in recently challenging times. The significant inflationary headwinds and cost of living pressures together with economic and geopolitical factors that have prevailed over the past 24 months have the potential to affect customer resilience and debt affordability. The Group continually reviews the steps that are being taken to support customers through this period of heightened affordability pressure and ensure that its credit risk framework and associated policies remain effective and appropriate.

The Group has continued to maintain a relatively stable lending book, with gross lending to customers remaining broadly stable overall with £73.3bn at 31 March 2024 (30 September 2023: £73.3bn). While the Mortgage portfolio reduced slightly, the Unsecured portfolio has grown, driven primarily by credit cards. The underlying growth has been maintained in the Business portfolio, with the continuing reduction in the government backed loan schemes outpaced by support for new and existing customers' lending needs.

Asset quality remains robust and most of the key asset quality ratios remained resilient with no significant deterioration. Some weakening in the pre default and early delinquency metrics continue to be monitored closely.

Within the total ECL provision, the modelled and IA provision has remained stable at £617m as at 31 March 2024 (30 September 2023: £617m), resulting in a stable coverage ratio of 84bps, although the composition has changed slightly since September 2023.

Primarily driven by an improving economic outlook, the updated macroeconomic inputs have resulted in a release of modelled provision across all portfolios.

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. This enables the recognition of improving economic forecasts immediately in the same way deterioration is currently recognised immediately following a model economic scenario (MES) refresh, and whilst this may increase the volatility of IFRS stage migration, the impact is not expected to be material. The overall impact of these changes has been to reduce the modelled ECL in the Unsecured portfolio by £31m.

MAs have increased in the period to £81m (30 September 2023: £76m) primarily due to a review of the MAs held for debt sale. The IA impairment charge was £107m in the period (12 months to 30 September 2023: £142m, 6 months to 31 March 2023: £63m), resulting in a total impairment charge to the income statement of £93m (12 months to 30 September 2023: £309m, 6 months to 31 March 2023: £144m), and an associated CoR of 26bps (12 months to 30 September 2023: 42bps, 6 months to 31 March 2023: 40bps).

Group credit risk exposures

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

The Group is also exposed to credit risk on its other banking and treasury-related activities, and holds £12.9bn of cash and balances with central banks and £0.6bn due from other banks at amortised cost (30 September 2023: £11.3bn and £0.7bn respectively), with a further £5.8bn (30 September 2023: £6.2bn) of financial assets at fair value through other comprehensive income (FVOCI). Cash and balances with central banks includes £11.8bn 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

31 March 2024	**Gross loans and advances to customers £m**	**Credit-related commitments £m**	**Total £m**
Mortgages	**56,941**	**2,374**	**59,315**
Unsecured	**7,053**	**11,379**	**18,432**
Business	**9,267**	**4,059**	**13,326**
Total	**73,261**	**17,812**	**91,073**
Impairment provisions on credit exposures (1)	**(612)**	**(5)**	**(617)**
Fair value hedge adjustment	**(305)**	**-**	**(305)**
Maximum credit risk exposure on lending assets	**72,344**	**17,807**	**90,151**
Cash and balances with central banks			**12,930**
Financial instruments at FVOCI			**5,764**
Due from other banks			**592**
Other financial assets at fair value			**58**
Due from related entities			**1**
Derivative financial assets			**44**
Maximum credit risk exposure on all financial assets (2)			**109,540**
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.

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

Key credit metrics

	6 months to 31 Mar 2024 £m	12 months to 30 Sep 2023 £m	6 months to 31 Mar 2023 £m
Impairment charge on credit exposures			
Mortgage lending	**(1)**	2	3
Unsecured lending	**81**	269	126
Business lending	**13**	38	15
Total Group impairment charge	**93**	309	144
Impairment charge (1) to average customer loans (cost of risk (CoR))	**0.26%**	0.42%	0.40%

	6 months to 31 Mar 2024	12 months to 30 Sep 2023
Key asset quality ratios		
Loans in Stage 2	**7.39%**	8.63%
Loans in Stage 3	**1.59%**	1.47%
Total book coverage (2)	**0.84%**	0.84%
Stage 2 coverage (2)	**6.51%**	6.33%
Stage 3 coverage (2)	**16.45%**	13.93%

(1) Inclusive of gains/losses on assets held at fair value and elements of fraud loss.
(2) Excludes the guaranteed element of government-backed loan schemes.

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

			Unsecured									
	Mortgages		Cards		Loans and overdrafts		Combined		Business[2]		Total[2]	
31 March 2024	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1	53,828	94.5%	5,271	82.0%	339	54.2%	5,610	79.5%	7,247	78.2%	66,685	91.0%
Stage 2 - total	2,539	4.5%	1,024	15.9%	281	44.9%	1,305	18.5%	1,568	16.9%	5,412	7.4%
Stage 2: 0 DPD	2,233	4.0%	958	14.9%	277	44.2%	1,235	17.5%	1,544	16.7%	5,012	6.9%
Stage 2: < 30 DPD	135	0.2%	31	0.5%	2	0.3%	33	0.5%	11	0.1%	179	0.2%
Stage 2: > 30 DPD	171	0.3%	35	0.5%	2	0.4%	37	0.5%	13	0.1%	221	0.3%
Stage 3[3]	574	1.0%	132	2.1%	6	0.9%	138	2.0%	452	4.9%	1,164	1.6%
	56,941	100%	6,427	100%	626	100%	7,053	100%	9,267	100%	73,261	100%
ECLs[4]												
Stage 1	9	17.3%	58	14.9%	4	11.2%	62	14.6%	31	22.6%	102	16.6%
Stage 2 - total	25	45.2%	262	67.0%	25	74.7%	287	67.6%	41	29.6%	353	57.1%
Stage 2: 0 DPD	22	40.0%	225	57.5%	23	68.5%	248	58.4%	41	29.4%	311	50.3%
Stage 2: < 30 DPD	1	1.6%	15	3.8%	1	1.8%	16	3.6%	-	0.1%	17	2.6%
Stage 2: > 30 DPD	2	3.6%	22	5.7%	1	4.4%	23	5.6%	-	0.1%	25	4.2%
Stage 3[3]	21	37.5%	71	18.1%	5	14.1%	76	17.8%	65	47.8%	162	26.3%
	55	100%	391	100%	34	100%	425	100%	137	100%	617	100%
Coverage												
Stage 1		0.02%		1.18%		1.06%		1.17%		0.44%		0.15%
Stage 2 - total		0.96%		26.85%		8.75%		22.75%		2.63%		6.51%
Stage 2: 0 DPD		0.97%		24.65%		8.14%		20.77%		2.64%		6.19%
Stage 2: < 30 DPD		0.63%		50.40%		33.63%		49.44%		0.81%		9.04%
Stage 2: > 30 DPD		1.14%		66.02%		58.73%		65.51%		2.05%		12.06%
Stage 3[3]		3.61%		55.85%		77.76%		56.85%		23.98%		16.45%
		0.10%		6.48%		5.20%		6.35%		1.55%		0.84%
Undrawn exposures												
Stage 1	2,261	95.2%	10,818	98.2%	276	75.2%	11,094	97.5%	3,552	87.5%	16,907	94.9%
Stage 2	102	4.3%	172	1.6%	90	24.5%	262	2.3%	483	11.9%	847	4.8%
Stage 3[3]	11	0.5%	22	0.2%	1	0.3%	23	0.2%	24	0.6%	58	0.3%
	2,374	100.0%	11,012	100.0%	367	100.0%	11,379	100.0%	4,059	100.0%	17,812	100.0%

Risk management
Credit risk (continued)

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[(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 £45m 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 the undrawn exposures shown (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.

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:

	Mortgages		Unsecured						Business		Total	
			Cards[3]		Loans and Overdrafts		Combined					
31 March 2024	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
PD deterioration	**1,553**	**61%**	**537**	**52%**	**278**	**99%**	**815**	**63%**	**895**	**57%**	**3,263**	**60%**
Forbearance	**86**	**3%**	**17**	**2%**	**1**	**-**	**18**	**1%**	**262**	**17%**	**366**	**7%**
AFD or Watch List [1]	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**398**	**25%**	**399**	**8%**
> 30 DPD	**171**	**7%**	**35**	**4%**	**2**	**1%**	**37**	**3%**	**13**	**1%**	**221**	**4%**
Other [2]	**728**	**29%**	**435**	**42%**	**-**	**-**	**435**	**33%**	**-**	**-**	**1,163**	**21%**
	2,539	**100%**	**1,024**	**100%**	**281**	**100%**	**1,305**	**100%**	**1,568**	**100%**	**5,412**	**100%**
ECLs												
PD deterioration	**12**	**46%**	**121**	**46%**	**24**	**94%**	**145**	**50%**	**16**	**38%**	**173**	**49%**
Forbearance	**8**	**33%**	**5**	**2%**	**-**	**-**	**5**	**2%**	**12**	**29%**	**25**	**7%**
AFD or Watch List [1]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**33%**	**13**	**4%**
> 30 DPD	**2**	**8%**	**22**	**9%**	**1**	**6%**	**23**	**8%**	**-**	**-**	**25**	**7%**
Other [2]	**3**	**13%**	**114**	**43%**	**-**	**-**	**114**	**40%**	**-**	**-**	**117**	**33%**
	25	**100%**	**262**	**100%**	**25**	**100%**	**287**	**100%**	**41**	**100%**	**353**	**100%**

	Mortgages		Unsecured						Business		Total	
			Cards		Loans and Overdrafts		Combined					
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 by the Group.

(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.

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	
31 March 2024		**Lending £m**	**ECL £m**	**Lending £m**	**ECL £m**	**Lending £m**	**ECL £m**	**Lending £m**	**ECL £m**
Mortgages	**PD range**								
Strong	0 - 0.74	**52,314**	**5**	**1,423**	**2**	**-**	**-**	**53,737**	**7**
Good	0.75 - 2.49	**1,191**	**2**	**435**	**3**	**-**	**-**	**1,626**	**5**
Satisfactory	2.50 - 99.99	**323**	**2**	**681**	**20**	**-**	**-**	**1,004**	**22**
Default	100	**-**	**-**	**-**	**-**	**574**	**21**	**574**	**21**
Total		**53,828**	**9**	**2,539**	**25**	**574**	**21**	**56,941**	**55**
Unsecured									
Strong	0 - 2.49	**4,639**	**33**	**20**	**2**	**-**	**-**	**4,659**	**35**
Good	2.50 - 9.99	**967**	**28**	**798**	**115**	**-**	**-**	**1,765**	**143**
Satisfactory	10.00 - 99.99	**4**	**1**	**487**	**170**	**-**	**-**	**491**	**171**
Default	100	**-**	**-**	**-**	**-**	**138**	**76**	**138**	**76**
Total		**5,610**	**62**	**1,305**	**287**	**138**	**76**	**7,053**	**425**
Business									
Strong	0 - 0.74	**2,317**	**2**	**101**	**-**	**-**	**-**	**2,418**	**2**
Good	0.75 - 9.99	**4,895**	**28**	**1,213**	**22**	**-**	**-**	**6,108**	**50**
Satisfactory	10.00 - 99.99	**35**	**1**	**254**	**19**	**-**	**-**	**289**	**20**
Default	100	**-**	**-**	**-**	**-**	**452**	**65**	**452**	**65**
Total		**7,247**	**31**	**1,568**	**41**	**452**	**65**	**9,267**	**137**

		Stage 1		Stage 2		Stage 3[1]		Total	
30 September 2023		Lending £m	ECL £m	Lending £m	ECL £m	Lending £m	ECL £m	Lending £m	ECL £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 £45m 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, at least 97% is classified as either 'Good' or 'Strong' under the Group's internal PD rating scale with the overall portfolio at 96% (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 MES received during the period, rather than underlying customer rating changes.

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]**				
6 months to 31 March 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	**(3,295)**	**(20)**	**3,294**	**177**	**-**	**-**	**(1)**	**157**	**157**
Transfers from Stage 2 to Stage 1	**3,086**	**24**	**(3,129)**	**(142)**	**-**	**-**	**(43)**	**(118)**	**(118)**
Transfers to Stage 3	**(43)**	**-**	**(348)**	**(73)**	**394**	**88**	**3**	**15**	**15**
Transfers from Stage 3	**33**	**1**	**75**	**7**	**(114)**	**(6)**	**(6)**	**2**	**2**
Net movement	**(219)**	**5**	**(108)**	**(31)**	**280**	**82**	**(47)**	**56**	**56**
New assets originated or purchased [2]	**10,235**	**49**	**329**	**26**	**122**	**21**	**10,686**	**96**	**96**
Repayments and other movements [3]	**(1,383)**	**(2)**	**(359)**	**(3)**	**88**	**3**	**(1,654)**	**(2)**	**(2)**
Repaid or derecognised[3]	**(7,837)**	**(39)**	**(776)**	**(39)**	**(288)**	**(86)**	**(8,901)**	**(164)**	**(164)**
Write-offs	**-**	**-**	**-**	**-**	**(118)**	**(118)**	**(118)**	**(118)**	**-**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**25**	**-**	**25**	**-**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**107**	**-**	**107**	**107**
Closing balance at 31 March 2024	**66,685**	**102**	**5,412**	**353**	**1,164**	**162**	**73,261**	**617**	**93**

	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 £45m 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 are consistent with the prior period with gross flows in and out of Stage 2 the predominant movement. The level of write offs in the 6 month period is trending higher than the full year outcome of the prior period and has been primarily driven from the credit card portfolio, in addition to a small number of individually significant business write offs. The levels of default across the portfolio remain low.

Risk management
Credit risk (continued)

Mortgage credit performance

The contractual amount outstanding on loans and advances that were written off during the reporting period or still subject to enforcement activity was £2.4m (30 September 2023: £5.1m). 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.

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

Breakdown of Mortgage portfolio

31 March 2024	**Gross lending £m**	**Modelled & IA ECL £m**	**MA £m**	**Total ECL £m**	**Net lending £m**	**Coverage %**	**Average LTV %**
Residential - capital repayment	**34,274**	**9**	**3**	**12**	**34,262**	**0.04%**	**56.2%**
Residential - interest only	**7,587**	**8**	**1**	**9**	**7,578**	**0.12%**	**49.2%**
Buy-to-let (BTL)	**15,080**	**8**	**26**	**34**	**15,046**	**0.22%**	**54.9%**
Total Mortgage portfolio	**56,941**	**25**	**30**	**55**	**56,886**	**0.10%**	**53.6%**
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 on a net basis to £56.9bn (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.

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

Stage 3 balances have remained consistently low at 1.0% (30 September 2023: 1.0%) and 86% of the portfolio has an LTV of less than 75% (30 September 2023: 91%), with the weighted average LTV relatively stable in the period to 53.6% (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. Further detail on LTV bandings is provided below.

Mortgage portfolio - interest rate profile

	31 March 2024		30 September 2023	
	£m	**%**	£m	%
Fixed rate	**51,817**	**91.0%**	52,841	91.5%
Variable rate	**4,159**	**7.3%**	3,081	5.3%
Standard variable rate (SVR)	**965**	**1.7%**	1,875	3.2%
Total	**56,941**	**100.0%**	57,797	100.0%

The Group is a signatory to the government mortgage charter announced by the chancellor of the exchequer on 23 June 2023, to support regulated residential mortgage borrowers impacted by higher mortgage interest rates, in particular borrowers whose existing fixed rate deal is due to end in the immediate future.

During the period there has been a shift and increase in the volume of customers opening tracker mortgages as customers monitor the interest rate movements. The increase in interest rates has also driven a reduction in the volume of customers on the SVR.

Mortgage credit performance (continued)

Collateral

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

Average LTV of Mortgage portfolio by staging

31 March 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%	**20,218**	**38%**	**2**	**1,395**	**55%**	**3**	**264**	**46%**	**3**	**21,877**	**38%**	**8**
50% to 75%	**26,218**	**49%**	**4**	**980**	**39%**	**11**	**214**	**37%**	**5**	**27,412**	**48%**	**20**
76% to 80%	**3,297**	**6%**	**1**	**78**	**3%**	**1**	**33**	**6%**	**2**	**3,408**	**6%**	**4**
81% to 85%	**1,939**	**4%**	**1**	**38**	**1%**	**1**	**18**	**3%**	**2**	**1,995**	**4%**	**4**
86% to 90%	**1,362**	**2%**	**-**	**26**	**1%**	**-**	**15**	**3%**	**1**	**1,403**	**3%**	**1**
91% to 95%	**706**	**1%**	**-**	**15**	**1%**	**1**	**4**	**1%**	**1**	**725**	**1%**	**2**
96% to 100%	**53**	**-**	**-**	**3**	**-**	**1**	**6**	**1%**	**1**	**62**	**-**	**2**
Greater than 100%	**35**	**-**	**1**	**4**	**-**	**7**	**20**	**3%**	**6**	**59**	**-**	**14**
	53,828	**100%**	**9**	**2,539**	**100%**	**25**	**574**	**100%**	**21**	**56,941**	**100%**	**55**

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 £45m (30 September 2023: £48m) of POCI gross loans and advances and (£1m) ECL (30 September 2023: (£1m)).

The Mortgage portfolio remains highly secured with 86% of mortgages, by loan value, having an indexed LTV of less than 75% (30 September 2023: 91.1%), and an average portfolio LTV of 53.6% (30 September 2023: 52.9%). A new 2 year fixed 95% product and increased lending to first time buyers in the period has driven the higher value of lending in the 91% to 95% range. The total portfolio has reduced by 1.5% 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 3,743/£513m from 3,801/£498m at 30 September 2023, indicating that this is still 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 6 month period to 31 March 2024, there were 35 repossessions (12 months to 30 September 2023: 55). The Group remains committed to supporting the customer and places good customer outcomes at the centre of this strategy.

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)]**				
6 months to 31 March 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	**(1,937)**	**(1)**	**1,927**	**17**	**-**	**-**	**(10)**	**16**	**16**
Transfers from Stage 2 to Stage 1	**1,738**	**2**	**(1,749)**	**(20)**	**-**	**-**	**(11)**	**(18)**	**(18)**
Transfers to Stage 3	**(21)**	**-**	**(155)**	**(3)**	**175**	**4**	**(1)**	**1**	**1**
Transfers from Stage 3	**31**	**1**	**50**	**7**	**(84)**	**(2)**	**(3)**	**6**	**6**
Net movement	**(189)**	**2**	**73**	**1**	**91**	**2**	**(25)**	**5**	**5**
New assets originated or purchased [(2)]	**2,838**	**1**	**-**	**-**	**1**	**-**	**2,839**	**1**	**1**
Repayments and other movements [(3)]	**(1,127)**	**(6)**	**(49)**	**-**	**(6)**	**10**	**(1,182)**	**4**	**4**
Repaid or derecognised[(3)]	**(2,234)**	**(1)**	**(189)**	**(3)**	**(64)**	**(3)**	**(2,487)**	**(7)**	**(7)**
Write-offs	**-**	**-**	**-**	**-**	**(1)**	**(1)**	**(1)**	**(1)**	**-**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**(4)**	**-**	**(4)**	**(4)**
Closing balance at 31 March 2024	**53,828**	**9**	**2,539**	**25**	**574**	**21**	**56,941**	**55**	**(1)**
of which:									
Residential - capital repayment	**32,658**	**2**	**1,343**	**3**	**273**	**7**	**34,274**	**12**	
Residential - interest only	**6,773**	**1**	**616**	**1**	**198**	**7**	**7,587**	**9**	
BTL	**14,397**	**6**	**580**	**21**	**103**	**7**	**15,080**	**34**	

	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 £45m 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.

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, 88% 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 a wide variety of factors, but broadly they are all successful outcomes in either restoring customers to fully performing or resuming satisfactory repayment schedules, as the Group is 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 £1m in the period (12 months to 30 September 2023: charge of £2m, 6 months to 31 March 2023: charge of £3m) and associated CoR of nil bps (12 months to 30 September 2023: nil bps, 6 months to 31 March 2023: 1bps). Provision coverage has remained stable in the period at 10bps (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 credit portfolio

31 March 2024	Gross lending £m	Modelled ECL £m	MA £m	Total ECL £m	Net lending £m	Coverage %
Credit cards	**6,427**	**354**	**37**	**391**	**6,036**	**6.48%**
Personal loans	**601**	**29**	**1**	**30**	**571**	**4.91%**
Overdrafts	**25**	**4**	**-**	**4**	**21**	**11.34%**
Total Unsecured lending portfolio	**7,053**	**387**	**38**	**425**	**6,628**	**6.35%**
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 £7.1bn (30 September 2023: £6.8bn) with underlying growth in the credit card portfolio offset by the personal loan portfolio which continues to contract.

While there has been evidence of a slight deterioration in early stage delinquency metrics in the portfolio against a backdrop of a downturn in the broader UK economy, the credit quality of the Unsecured portfolio remains high, with 97.1% of the portfolio in Stage 1 or Stage 2 not past due (30 September 2023: 97.2%).

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. This enables the recognition of improving economic forecasts immediately in the same way deterioration is currently recognised immediately following a MES refresh, and whilst this may increase the volatility of IFRS stage migration, the impact is not expected to be material. The overall impact of these changes has been to reduce the modelled ECL in the Unsecured portfolio by £31m. This has been partially offset by the ECL attributable to the credit card portfolio growth. In addition, the updated macroeconomic scenarios drove a further reduction in modelled ECL of £8m.

A refreshed debt sale MA has been introduced to account for the deferral period for the receipt of Cards debt sale proceeds. The total MA held for debt sale increased by £8.7m to £37.6m.

Overall, coverage reduced slightly to 635bps (30 September 2023: 665bps), driven by the reduction in modelled ECL.

The value of credit cards written off in the period, net of recoveries, was £76m (12 months to 30 September 2023: £116m).

Unsecured credit performance (continued)

Forbearance

The level of forbearance concessions agreed in the Unsecured portfolio, particularly in credit cards, has increased in line with portfolio arrears, driven by continued portfolio maturation, the Group's diversification strategy and the wider economic environment, although remains relatively low at 1.76% of total portfolio lending at 31 March 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 £112m (27,392 accounts), an increase from the 30 September 2023 position of £90m (22,206 accounts) reflective of the current environment. This represents 1.84% of total credit cards balances (30 September 2023: 1.56%).

Limited forbearance is exercised in relation to Personal loans and overdrafts, and it remains relatively stable at £2m which equates to 0.46% 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]**				
6 months to 31 March 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	**(767)**	**(17)**	**781**	**148**	**-**	**-**	**14**	**131**	**131**
Transfers from Stage 2 to Stage 1	**754**	**19**	**(785)**	**(109)**	**-**	**-**	**(31)**	**(90)**	**(90)**
Transfers to Stage 3	**(10)**	**-**	**(118)**	**(67)**	**132**	**80**	**4**	**13**	**13**
Transfers from Stage 3	**-**	**-**	**-**	**-**	**(3)**	**(3)**	**(3)**	**(3)**	**(3)**
Net movement	**(23)**	**2**	**(122)**	**(28)**	**129**	**77**	**(16)**	**51**	**51**
New assets originated or purchased [2]	**646**	**6**	**-**	**-**	**2**	**2**	**648**	**8**	**8**
Repayments and other movements [3]	**33**	**10**	**(189)**	**-**	**103**	**(2)**	**(53)**	**8**	**8**
Repaid or derecognised[3]	**(102)**	**(2)**	**(26)**	**(7)**	**(103)**	**(63)**	**(231)**	**(72)**	**(72)**
Write-offs	**-**	**-**	**-**	**-**	**(109)**	**(109)**	**(109)**	**(109)**	**-**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**24**	**-**	**24**	**-**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**86**	**-**	**86**	**86**
Closing balance at 31 March 2024	**5,610**	**62**	**1,305**	**287**	**138**	**76**	**7,053**	**425**	**81**

	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 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 total ECL held on balance sheet has decreased from £429m at 30 September 2023 to £425m at 31 March 2024 with the improved economic outlook and the removal of the staging probation period being the primary drivers. Modelled provision coverage alone is now 549bps (30 September 2023: 589bps).

The 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, is the primary driver of the increase in the balance of Unsecured lending classed as Stage 1 to 79.5% (30 September 2023: 74.2%), with a corresponding decrease in assets in Stage 2 from 24.1% to 18.5%. This change was approved on the basis that it will enable the recognition of improving economic forecasts immediately following a refresh, and whilst account volatility may increase, the impact is not expected to be material. Within the Stage 2 category, 94.6% is not yet past due (30 September 2023: 95.4%). The proportion classified as Stage 3 increased slightly to 2.0% (30 September 2023: 1.7%).

The total ECL provision held for the unsecured portfolio as at 31 March 2024 is £425m (30 September 2023: £429m), which in addition to a net write off impairment charge of £86m, gives rise to a total impairment charge in the period of £81m (12 months to 30 September 2023: £269m, 6 months to 31 March 2023: £126m) and associated CoR of 242bps (12 months to 30 September 2023: 430bps, 6 months to 31 March 2023: 410bps).

The total provision coverage has reduced to 635bps (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 credit portfolio

31 March 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	**1,316**	**40**	**1,356**	**4**	**1**	**5**	**1,351**	**0.37%**
Business services	**1,172**	**185**	**1,357**	**42**	**3**	**45**	**1,312**	**3.66%**
Commercial Real Estate	**818**	**3**	**821**	**4**	**-**	**4**	**817**	**0.50%**
Government, health & education	**1,395**	**33**	**1,428**	**7**	**1**	**8**	**1,420**	**0.60%**
Hospitality	**849**	**53**	**902**	**3**	**1**	**4**	**898**	**0.44%**
Manufacturing	**699**	**65**	**764**	**15**	**2**	**17**	**747**	**2.39%**
Resources	**168**	**4**	**172**	**1**	**-**	**1**	**171**	**1.00%**
Retail and wholesale trade	**764**	**125**	**889**	**23**	**2**	**25**	**864**	**3.21%**
Transport and storage	**337**	**28**	**365**	**4**	**-**	**4**	**361**	**1.12%**
Utilities, post and telecoms	**513**	**9**	**522**	**6**	**1**	**7**	**515**	**1.29%**
Other	**569**	**122**	**691**	**15**	**2**	**17**	**674**	**2.74%**
Total Business portfolio	**8,600**	**667**	**9,267**	**124**	**13**	**137**	**9,130**	**1.55%**
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 £168m (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. 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 45% (30 September 2023: 46%).

Risk management
Credit risk (continued)

Business credit performance (continued)

Whilst there is some weakening in the pre and early delinquency metrics being monitored, there has been no significant deterioration in asset quality metrics across the portfolio however, a small number of individually significant specific provisions have been recognised increasing the value of IA held by £18m. A range of external risks have remained prevalent throughout the period including geopolitical, general inflationary pressures, interest rate rises, ongoing supply chain distribution and labour market disruption, as well as wider geopolitical risks. However, the updated economic outlook is more favourable and the updated macroeconomic inputs have resulted in a £10m release of modelled provision.

The proportion of loans in Stage 1 has increased from 72.5% at 30 September 2023 to 78.2% at 31 March 2024, with a corresponding decrease in the proportion of loans in Stage 2 to 16.9% (30 September 2023: 22.8%). Within the Stage 2 category, 98.5% is not past due (30 September 2023: 98.5%) and 92% remain rated as 'Strong' or 'Good' (30 September 2023: 90%) under the Group's internal PD rating scale. Stage 3 loans remain modest at 4.9% (30 September 2023: 4.7%).

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.

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

Business portfolio forbearance has remained relatively stable from £493m (291 customers) at 30 September 2023 to £521m (286 customers) at 31 March 2024.

As a percentage of the Business portfolio, forborne balances are 5.33% (30 September 2023: 5.35%) with impairment coverage increasing to 11.59% (30 September 2023: 9.14%), primarily due to specific provisions raised.

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

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]				
6 months to 31 March 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	**(591)**	**(2)**	**587**	**11**	**-**	**-**	**(4)**	**9**	**9**
Transfers from Stage 2 to Stage 1	**594**	**3**	**(595)**	**(13)**	**-**	**-**	**(1)**	**(10)**	**(10)**
Transfers to Stage 3	**(12)**	**-**	**(75)**	**(4)**	**87**	**4**	**-**	**-**	**-**
Transfers from Stage 3	**1**	**-**	**24**	**-**	**(28)**	**(1)**	**(3)**	**(1)**	**(1)**
Net movement	**(8)**	**1**	**(59)**	**(6)**	**59**	**3**	**(8)**	**(2)**	**(2)**
New assets originated or purchased [1]	**6,752**	**43**	**329**	**26**	**120**	**19**	**7,201**	**88**	**88**
Repayments and other movements [2]	**(289)**	**(7)**	**(121)**	**-**	**(9)**	**(6)**	**(419)**	**(13)**	**(13)**
Repaid or derecognised[2]	**(5,501)**	**(36)**	**(561)**	**(30)**	**(121)**	**(20)**	**(6,183)**	**(86)**	**(86)**
Write-offs	**-**	**-**	**-**	**-**	**(8)**	**(8)**	**(8)**	**(8)**	**-**
Cash recoveries	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**	**-**
Individually assessed impairment charge	**-**	**-**	**-**	**-**	**-**	**26**	**-**	**26**	**26**
Closing balance at 31 March 2024	**7,247**	**31**	**1,568**	**41**	**452**	**65**	**9,267**	**137**	**13**

Risk management
Credit risk (continued)

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 £168m (30 September 2023: £143m) of guarantee claim funds received from British Business Bank.

The updated MES is the primary driver of the £412m drop in the value of loans in stage 2, with the majority migrating to stage 1 as a result of the improved economic forecasts. The proportion of loans in stage 2 and not past due remains high at 98.5% (30 September 2023: 98.5%). The level of write offs in the portfolio remains low, with a small number of connections driving the majority of the £8m 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 in the period. The level of Business lending classed as Stage 1 increased to 78.2% (30 September 2023: 72.5%), with a corresponding decrease in Stage 2 from 22.8% at 30 September 2023 to 16.9% at 31 March 2024. The majority of the balances in Stage 2 (98.5%) are not past due and are primarily in Stage 2 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 4.9% (30 September 2023: 4.7%) and are predominantly comprised of Bounce Back Loans.

The PDs for Business lending combine both internal ratings information and forward-looking economic forecasts. The material drivers of the PD and stage migrations in the period are the economic forecasts, rather than internal drivers or the emergence of arrears or defaults. The proportion of assets classed as 'Strong' has increased to 26% (30 September 2023: 23%), with assets classed as 'Strong' or 'Good' also improving to 92% (30 September 2023: 90%).

The specific provisions held on balance sheet have increased to £43m (30 September 2023: £25m) primarily due to a small number of individually significant provisions recognised in the period. This results in an overall provision of £137m (30 September 2023: £131m) and an impairment charge of £13m in the period (12 months to 30 September 2023: £38m, 6 months to 31 March 2023: £15m) and associated CoR of 30bps (12 months to 30 September 2023: 44bps, 6 months to 31 March 2023: 34bps).

Overall, portfolio coverage remains prudent at 155ps (30 September 2023: 160bps).

Macroeconomic assumptions, scenarios and weightings

The Group's ECL allowance at 31 March 2024 was £617m (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 February 2024 and changes in macroeconomic assumptions between then and 31 March 2024 have been considered in concluding on the quantum of the 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.

Weak economic data in December saw the UK economy fall into a mild recession, however a strong start to the year has recovered any ground lost as a result. Inflation has continued to fall back towards the BoE's long term target rate of 2%, which supports the expectation that the Bank's Monetary Policy Committee will begin cutting the bank base rate, from the current 16 year high of 5.25%, in Q2 2024. The unemployment outlook has also improved following the release of revised LFS data by the Office of National Statistics in February.

Against this backdrop the Group has assessed the available IFRS 9 scenarios for inclusion in the macroeconomic models. The selection of scenarios and the appropriate weightings applied to each of those scenarios are considered, debated and decided by the Asset and Liability Committee (ALCO) and the Audit Committee. The three scenarios selected and the weights applied have been maintained as follows:

Scenario	**31 Mar 2024 (%)**	30 Sept 2023 (%)
Upside	**10**	10
Base	**55**	55
Downside	**35**	35

The Group continue to select three scenarios, with the largest weighting applied to the base scenario. The decision to maintain the choice of scenarios, and the weightings applied to each of those scenarios, is a reflection of the relatively stable progression across recent forecasts since the September 2023 update.

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

	Base (55%)	**Upside (10%)**	**Downside (35%)**
GDP	• Negative growth in Q1 2024 is followed by accelerated growth from H2 2024, exceeding 2% towards the end of 2025 • Overall year on year growth is forecast at 0.4% in 2024, followed by 1.8% in 2025 • Growth peaks at 2.2% in Q1 2026 before falling back to a long run average on 1.5% by the end of 2029	• Despite a contraction of 0.2% in Q1 2024, year on year growth reaches 2.1% in 2024 • Year on year growth accelerates in 2025 to 3.8% before slowing in the outer years • Growth of 2.8% in 2026 is followed by 2.2% in 2027 before levelling out at 1.6% in 2028	• The mild recession from Q4 2023 to Q1 2024 becomes a deep recession, with GDP contracting by 2.1% in 2024 • The recession ends in Q3 2025 with growth of 0.8% in the quarter, but the average for the year remains negative at 0.5% • Productivity stabilises from that point on sees growth of 1.5% in 2026, 1.6% in 2027 and 1.8% in 2028

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

Risk management
Credit risk (continued)

Macroeconomic assumptions (continued)

	Base (55%)	Upside (10%)	Downside (35%)
Inflation	• Inflation continues to fall quickly, dropping below the BoE's 2% target in Q2 2024 • Having hit a low of 1.6% the rate slowly increases to a high of 2.3% by the end of 2025 before falling back to 2% by the end of 2028	• Inflation continues to fall rapidly to a low of 1.9% in Q2 2024 before rising again, leading to an average of 2.6% for the year • The rate continues to rise until Q3 2025, peaking at 3.4%, with an average of 3.3% for the year • Inflation then falls back, with averages of 2.7% in 2026, 2.2% in 2027 and 2.1% in 2028	• Inflation falls rapidly, dropping to just above 0% in Q1 2025 before increasing steadily back to the BoE's target rate of 2% by Q2 2027 • This is reflected in the average annual rates, with inflation of 1.4% in 2024, 0.6% in 2025 and 1.6% in 2026 before stabilising at 2.0% in 2027
Base rate	• The BoE base rate begins to fall from the current high of 5.25% in Q2 2024 • The rate falls steadily at around 25bps per quarter to a low of 2.0% in 2027	• Two 25bp rate increases sees the BoE base rate peak at 5.75% in Q3 2024, where it remains through Q1 2025 • The rate falls consistently from Q2 2025 through to Q3 2028 when the rate levels out at 2.5%	• As with the base case, the BoE base rate begins to fall from the current high of 5.25% in Q2 2024 • The rate is cut at an accelerated rate, through to Q1 2027 where it stabilises at 1.5% • Overall the average rate drops from 4.7% in 2024 to 3.0% in 2025 and 2.0% in 2026
HPI	• HPI falls throughout 2024, albeit at a lower rate than previously forecast • Q4 v Q4 in 2024 sees a contraction of 1.3% • Growth returns from Q1 2025, with Q4 v Q4 growth 2.6% followed by 4.4% in both 2026 and 2027, before easing to 3.4% in 2028	• Following a quarter on quarter fall in the HPI in Q1 2024 the index value increases throughout the remainder of the forecast • Overall Q4 v Q4 growth in 2024 is broadly flat at 0.2% • Growth accelerates to 4.9% in 2025 and 6.7% in 2026 before falling back to 5.1% in 2027 and 3.3% in 2028	• Starting from a fall of 0.8% in Q1 2024, v Q1 2023, HPI falls rapidly to -7.7% in Q4 2024 v Q4 2023 • The index continues to fall until Q1 2027 at which point it begins to increase, but at the end of the 5 year horizon it remains well below the levels seen at the start of the forecast • Overall Q4 v Q4 comparison sees negative growth of 2.9% in 2025 and 0.7% in 2026, before positive growth of 3.5% in 2027 and 3.8% in 2028
Unemployment	• Following the revision to LFS data, unemployment peaks at 4.1% in Q3 2024 • The rate remains at that level until Q2 2025 when in gradually begins to fall to a new long run average of 3.8%	• Unemployment peaks below 4% in Q1 2024 before falling to a low of 3.6% in Q3 2025 • Although the rate rises slightly in the outer years the annual average for 2026 through to 2028 remains at 3.6%	• Unemployment increases steadily from a low of 3.9% in Q1 2024 to a peak of 6.9% in Q1 2027 • Having peaked the rate slowly falls back to 6.6% by the end of 2028

Five-year simple averages on unemployment, GDP and HPI

31 March 2024	Unemployment %	GDP %	HPI %
Upside	**3.7**	**2.5**	**4.0**
Base	**3.8**	**1.5**	**2.7**
Downside	**6.1**	**0.4**	**(0.8)**
30 September 2023			
Upside	3.9	2.2	1.3
Base	4.2	1.2	(0.2)
Downside	6.1	0.2	(3.3)

The use of estimates, judgements and sensitivity analysis

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

The use of estimates

Economic scenarios

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

31 March 2024	Probability Weighted [(1)] £m	Upside £m	Base £m	Downside £m
Mortgages	**24**	**22**	**23**	**28**
Unsecured of which:	**386**	**367**	**367**	**426**
Cards	*353*	339[(3)]	*338*	*388*
Personal loans and overdrafts[(2)]	*33*	*28*	*29*	*38*
Business[(2)]	**81**	**74**	**77**	**92**
Total	**491**	**463**	**467**	**546**

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 £81m relative to MAs and £44m of IA provision (30 September 2023: £76m and £30m respectively).
(2) Salary Finance contributes more than 50% of the combined personal loans and overdrafts ECL.
(3) Due to a minor model interaction effect, the 100% ECL for Upside is marginally higher than the Base case

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

Certain asset classes are less sensitive to specific macroeconomic factors. To ensure appropriate levels of ECL, the relative lack of sensitivity is compensated for through the application of MAs, further detail of which can be found on page 28.

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

Risk management
Credit risk (continued)

The use of estimates (continued)

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

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

	31 Mar 2024	30 Sept 2023
	£m	£m
A 10% movement in the mortgage portfolio from Stage 1 to Stage 2	**+9**	+13
A 10% movement in the credit card portfolio from Stage 1 to Stage 2	**+114**[(1)]	+89
A 10% movement in the business portfolio from Stage 1 to Stage 2	**+12**	+10
A PD stress which increases PDs upwards by 20% for all portfolios	**+132**	+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.

Risk management
Credit risk (continued)

MAs

At 31 March 2024, £81m of MAs (30 September 2023: £76m) are included within the total ECL provision of £617m (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 impact of these adjustments and how they impact the Group's total reported ECL allowance and coverage ratio for each portfolio is:

31 March 2024(1)

	Mortgages £m	**Unsecured £m**	**Business £m**	**Total £m**
ECL before adjustments (A)	**24.6**	**387.4**	**124.2**	**536.2**
Adjustments:				
To address economic resilience	**2.5**	**-**	**-**	**2.5**
Additional BTL impact	**25.1**	**-**	**-**	**25.1**
Other credit card adjustments	**-**	**36.7**	**-**	**36.7**
Other adjustments	**2.8**	**0.9**	**12.8**	**16.5**
Total adjustments (B)	**30.4**	**37.6**	**12.8**	**80.8**
Total reported ECL (A + B)	**55.0**	**425.0**	**137.0**	**617.0**
% of total ECL (B / total reported ECL)	**55%**	**9%**	**9%**	**13%**
Coverage - total	**0.10%**	**6.35%**	**1.55%**	**0.84%**
Coverage - total ex MAs	**0.04%**	**5.49%**	**1.40%**	**0.73%**

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*
Other 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

The selection of appropriate MAs is a major component in determining the Group's ECL. 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 the £25m MA (30 September 2023: £25m) to ensure the coverage on this portfolio remains higher than the coverage on the residential portfolio and in line with peers. The improvements in the economic outlook have resulted in the MA for economic uncertainty being reduced from £5m to £3m. The Group no longer raise individually assessed provisions on the mortgage portfolio and have implemented an updated valuation and calculated provision process. A new MA has been introduced to reflect this new policy within ECL calculations while upstream processes are adapted. This together with other small MAs total £3m (30 September 2023: £2m), taking total MAs held to £30m, 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 refresh of the debt sale adjustments has introduced a new debt sale MA of £11m to account for the deferral period for the receipt of Cards debt sale proceeds from 12 to 18 months. Due to the time value of money, this will have an adverse impact on recovery rates as recoveries from debt sale activities must be discounted. This is not currently captured in the model, and so the ECL impact of the increased Loss Given Defaults (LGDs), due to reduced recovery rates post discounting, is held as an MA. There are 3 other separate MAs held for debt sale, reflecting the difference between the updated contracts and the current models.

Business

The £15m economic uncertainty MA, implemented in September 2023, has been released. The economic forecasts have improved sufficiently that the requirement for a non-targeted uncertainty MA has been removed.

Two new MAs have been introduced in the period, one of which being a £8m MA relating to the LGD model. The current LGD implementation assumes a constant discounting approach across all LGD segments. The new ECL calculator enables a more granular segmentation which improves the accuracy of the calculation. This MA will be held as until the implementation of the new calculator later this financial year.

In addition, a new £5m MA has been introduced to better reflect origination risk for some lending facilities where our 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. The new ECL calculator can identify loans which have an incorrect origination date and rating and calculate the correct ECL for these loans meaning the MA will be released when it is implemented.

The Group assesses and reviews the need for and quantification of MAs on a quarterly basis, with the CFO recommending the level of MAs to the Board Audit Committee twice a year at each external reporting period.

Macroeconomic assumptions

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

31 March 2024

Scenario	VMUK weighting	Economic measure [2]	**2024** %	**2025** %	**2026** %	**2027** %	**2028** %
Upside	10%	Base rate	**5.6**	**5.5**	**4.5**	**3.5**	**2.6**
		Unemployment	**3.9**	**3.7**	**3.6**	**3.6**	**3.6**
		GDP	**2.1**	**3.8**	**2.8**	**2.2**	**1.6**
		Inflation	**2.6**	**3.3**	**2.7**	**2.2**	**2.1**
		HPI	**0.2**	**4.9**	**6.7**	**5.1**	**3.3**
Base	55%	Base rate	**5.0**	**4.0**	**3.0**	**2.1**	**2.0**
		Unemployment	**4.0**	**3.9**	**3.8**	**3.8**	**3.8**
		GDP	**0.4**	**1.8**	**2.0**	**1.7**	**1.7**
		Inflation	**2.1**	**2.1**	**2.2**	**2.1**	**2.1**
		HPI	**(1.3)**	**2.6**	**4.4**	**4.4**	**3.4**
Downside	35%	Base rate	**4.7**	**3.0**	**2.0**	**1.5**	**1.5**
		Unemployment	**4.6**	**5.7**	**6.6**	**6.8**	**6.6**
		GDP	**(2.1)**	**(0.5)**	**1.5**	**1.6**	**1.8**
		Inflation	**1.4**	**0.6**	**1.6**	**2.0**	**2.0**
		HPI	**(7.7)**	**(2.9)**	**(0.7)**	**3.5**	**3.8**
Weighted average		Base rate	**4.9**	**3.8**	**2.8**	**2.0**	**1.9**
		Unemployment	**4.2**	**4.5**	**4.7**	**4.8**	**4.7**
		GDP	**(0.3)**	**1.2**	**1.9**	**1.7**	**1.7**
		Inflation	**1.9**	**1.7**	**2.1**	**2.1**	**2.0**
		HPI	**(3.4)**	**0.9**	**2.9**	**4.1**	**3.6**

Risk management
Credit risk (continued)

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 February 2024 and reported on a calendar year basis unless otherwise stated. Any changes in macroeconomic assumptions between this date and 31 March 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.

Risk management
Financial risk (continued)

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

Capital risk

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

Regulatory capital developments

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

Internal ratings-based (IRB) model changes
Following the BoE's announcements in 2020 regarding supervisory and prudential policy measures to address the challenges of COVID-19, the requirements relating to compliance with updates to definition of default and mortgage IRB models were extended. The Group will apply the relevant models after PRA approval.

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. There are a number of key amendments to the standardised approaches to credit and operational risks together with the introduction of a new standardised RWA output floor, the latter of which will be introduced gradually over a transition period. There are also amendments to IRB approaches, Credit Valuation Adjustments, Credit Risk Mitigation rules and associated reporting and disclosure requirements. The Group continues to expect some modest upside to our capital position from Basel 3.1 implementation on day 1 (1 July 2025), subject to regulatory approval. Since the publication of CP16/22, the PRA has 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 to be published in Q2 2024. The Group will implement the final Basel 3.1 policies from 1 July 2025 in line with the PRA's prescribed timelines.

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, the first part of the PRA's 'near-final' policy statement on Basel 3.1 included the announcement of 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.

Solvency Stress Test and Annual Cyclical Scenarios (ACS)
The Group completed the 2022 ACS exercise in Q2 FY23. The scenario tested the resilience of the UK Banking system to deep simultaneous recessions in the UK and global economies, real income shocks, large falls in asset prices and higher global interest rates, as well as a separate stress of conduct costs. The BoE published results in July 2023, with the Group remaining significantly in excess of its reference rates on both a transitional and non-transitional basis. In October 2023 the BoE confirmed their intention to run a desk-based stress test exercise, rather than an ACS, in 2024 and the Group is participating in this exercise as required.

Resolvability Assessment Framework
The BoE has introduced a Resolvability Assessment Framework to ensure major UK banks can be safely resolved. The Group is required to submit an assessment of its resolvability to the BoE biennially; the first assessment was submitted in October 2021 with disclosures published in June 2022. The BoE concluded that, upon their first assessment as resolution authority of the eight major banks, a major UK bank could enter resolution safely, remaining open and continuing to provide vital banking services to the economy. The Group has submitted an updated self assessment to support their next public disclosure in June 2024.

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 as at 31 March 2024 is summarised below:

Regulatory capital(1)	31 Mar 2024 £m	30 Sep 2023 £m
Statutory total equity	**5,655**	5,689
CET1 capital: regulatory adjustments(2)		
Other equity instruments	**(835)**	(594)
Defined benefit pension fund assets	**(331)**	(333)
Prudent valuation adjustment	**(6)**	(5)
Intangible assets	**(139)**	(162)
Goodwill	**(11)**	(11)
Deferred tax asset relying on future profitability	**(337)**	(369)
Cash flow hedge reserve	**(250)**	(496)
AT1 coupon accrual	**(18)**	(12)
Foreseeable dividend on ordinary shares	**-**	(27)
Excess expected losses	**(101)**	(103)
IFRS 9 transitional adjustments	**38**	112
Unconsolidated losses arising from JV	**(4)**	(4)
Total regulatory adjustments to CET1	**(1,994)**	(2,004)
Total CET1 capital	**3,661**	3,685
AT1 capital		
AT1 capital instruments	**835**	594
Total AT1 capital	**835**	594
Total Tier 1 capital	**4,496**	4,279
Tier 2 capital		
Subordinated debt	**773**	1,022
Total Tier 2 capital	**773**	1,022
Total regulatory capital	**5,269**	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

Capital resources (continued)

Regulatory capital flow of funds[(1)]	**6 months to 31 Mar 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)	**(2)**	(345)
Intangible assets	**23**	94
Deferred tax asset relying on future profitability	**32**	48
Defined benefit pension fund assets	**2**	317
Movement in AT1 foreseeable distributions	**(6)**	1
Foreseeable dividend on ordinary shares	**-**	(27)
Excess expected losses	**2**	(3)
IFRS 9 transitional adjustments	**(74)**	(2)
Prudent valuation adjustment	**(1)**	-
Unconsolidated losses arising from JV	**-**	(4)
Total CET1 capital at 31 March	**3,661**	3,685
AT1 capital		
AT1 capital at 1 October	**594**	662
AT1 instrument issued net of costs	**346**	-
AT1 instrument redeemed	**(105)**	(68)
Total AT1 capital at 31 March	**835**	594
Total Tier 1 capital at 31 March	**4,496**	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 31 March	**773**	1,022
Total capital at 31 March	**5,269**	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.

The Group's CET1 capital showed a decrease of £24m during the period. Capital generated from the profit for the period of £235m was offset by distributions of £177m to fund the share buyback programme and AT1 coupons in VMUK. The reduction in standardised IFRS 9 provisions recognised in the period together with a tapering of relief reduced the IFRS 9 transitional adjustments by £74m. Other main movements included reductions in the intangible assets balance of £23m and in the deferred tax recognised on tax losses carried forward of £32m, offset by £12m market driven movements in the reserves balance for assets held at fair value.

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

Minimum capital requirements	31 March 2024 Exposure £m	31 March 2024 RWA £m	31 March 2024 Minimum capital requirements £m	30 September 2023 Exposure £m	30 September 2023 RWA £m	30 September 2023 Minimum capital requirements £m
Retail mortgages	**59,191**	**8,446**	**676**	60,354	9,072	726
Business lending	**13,192**	**7,903**	**632**	12,635	6,990	559
Other retail lending	**17,926**	**4,969**	**397**	17,586	4,819	385
Other lending	**19,587**	**379**	**30**	18,322	364	29
Other(1)	**604**	**684**	**55**	587	622	54
Total credit risk	**110,500**	**22,381**	**1,790**	109,484	21,907	1,753
Credit valuation adjustment		**198**	**16**		278	22
Operational risk		**2,841**	**227**		2,841	227
Counterparty credit risk		**159**	**13**		146	12
Total	**110,500**	**25,579**	**2,046**	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

	6 months to 31 March 2024					6 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**	15,526	6,156	3,005	24,687	1,975
Asset size	**196**	**198**	**-**	**394**	**32**	12	206	-	218	17
Asset quality	**410**	**34**	**-**	**444**	**35**	(1,153)	111	-	(1,042)	(82)
Model updates(1)	**(383)**	**-**	**-**	**(383)**	**(31)**	1,091	-	-	1,091	87
Methodology and policy	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Other	**-**	**19**	**(67)**	**(48)**	**(4)**	-	(42)	260	218	17
Closing RWA	**15,699**	**6,682**	**3,198**	**25,579**	**2,046**	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.£0.4bn to £25.6bn primarily due to increased lending in the Retail unsecured and Business portfolios, and higher risk weights associated with new business lending.

Updates to Hybrid model related MAs have reduced RWAs by £0.5bn in the mortgage portfolio, while Business model MA updates have resulted in an RWA increase of £0.1bn.

IFRS 9 transitional arrangements

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

	31 March 2024 (£m)	
Available capital (amounts)	**IFRS 9 Transitional basis**	**IFRS 9 Fully loaded basis**
CET1 capital	**3,661**	**3,623**
Tier 1 capital	**4,496**	**4,458**
Total capital	**5,269**	**5,231**
RWA (amounts)		
Total RWA	**25,579**	**25,549**
Capital ratios		
CET1 (as a percentage of RWA)	**14.3%**	**14.2%**
Tier 1 (as a percentage of RWA)	**17.6%**	**17.4%**
Total capital (as a percentage of RWA)	**20.6%**	**20.5%**
Leverage ratio		
Leverage ratio total exposure measure	**85,723**	**85,684**
UK leverage ratio	**5.2%**	**5.2%**

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

At 31 March 2024, £38m 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 31 March 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 31 March 2024 the Group maintained CET1 capital in excess of its maximum distributable amount requirements equal to 3.4% of RWAs (equivalent to £867m).

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 March 2024 resulted in a modest increase in total capital requirements of £113m and CET1 requirements of £63m. At 31 March 2024 this resulted in a TCR of 11.41% of RWAs (equivalent to £2,919m) of which 6.4% must be met with CET1 capital (equivalent to £1,642m).

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:

	31 Mar 2024 **£m**	30 Sep 2023 £m
Total capital resources[(1)(2)]	**5,269**	5,301
Eligible senior unsecured securities issued by Clydesdale Bank PLC[(2)]	**3,333**	2,707
Total MREL resources	**8,602**	8,008
RWA	**25,579**	25,172
Total MREL resources available as a percentage of RWA	**33.6%**	31.8%
UK leverage exposure measure	**85,723**	86,545
Total MREL resources available as a percentage of UK leverage exposure measure	**10.0%**	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 31 March 2024, the Group's risk based LAC requirement of 27.3% of RWA exposures (or 8.2% when expressed as a percentage of leverage) was greater than the leverage based LAC requirement of 26.8% of RWAs, meaning the RWA measure is the binding requirement.

MREL resources were £8.6bn (30 September 2023: £8.0bn), equivalent to 33.6% of RWAs exposures (30 September 2023: 31.8%) or 10% when expressed as a percentage of leverage (30 September 2023: 9.3%). This provides prudent headroom of £1.6bn or 6.3% above the LAC requirement of 27.3% of RWAs, or 1.9% above the LAC requirement of 8.2% when expressed as a percentage of leverage exposures.

Dividend

No interim dividend has been proposed by the Directors in respect of the year ending 30 September 2024.

Risk management

Financial risk (continued)

Leverage

Leverage ratio	31 Mar 2024 £m	30 Sep 2023 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	**3,661**	3,685
AT1 capital	**835**	594
Total Tier 1 capital	**4,496**	4,279
Exposures for the leverage ratio		
Total assets	**93,122**	91,884
Adjustment for off-balance sheet items	**2,962**	2,999
Adjustment for derivative financial instruments	**676**	706
Adjustment for securities financing transactions	**1,870**	2,261
Adjustment for qualifying central bank claims	**(10,968)**	(9,052)
Regulatory deductions and other adjustments	**(1,939)**	(2,253)
UK leverage ratio exposure(1)	**85,723**	86,545
UK leverage ratio(1)	**5.2%**	4.9%
Average UK leverage ratio exposure(2)	**86,216**	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 January 2023 to 31 March 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 5.2% (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 as at 31 March 2024:

	31 Mar 2024	30 Sep 2023
	£m	£m
Total assets	**93,122**	91,884
Less: Other liabilities[(1)]	**(6,627)**	(6,293)
Funding requirement	**86,495**	85,591
Funded by:		
Customer deposits	**68,663**	66,827
Debt securities in issue	**5,943**	6,155
Due to other banks	**6,234**	6,920
of which:		
Secured loans	**5,116**	6,291
Securities sold under agreements to repurchase	**1,058**	552
Transaction balances with other banks	**2**	-
Deposits with other banks	**58**	77
Equity	**5,655**	5,689
Total funding	**86,495**	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 31 March 2024, the Group had a funding requirement of £86,495m (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 £68,663m (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
Growth in customer deposits has been supported by an increase in debt securities to £5,943m (30 September 2023: £6,155m). The wholesale funding has been primarily driven by issuance from our medium-term note and securitisation programmes.

Equity
Equity of £5,655m (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	
	31 Mar 2024	30 Sep 2023
LCR	**£m**	£m
Eligible liquidity buffer	**14,135**	13,798
Net stress outflows	**9,387**	9,424
Surplus	**4,748**	4,374
LCR	**151%**	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.

	31 Mar 2024	30 Sep 2023	Change	**Average at 31 Mar 2024**	Average at 30 Sep 2023
Liquid asset portfolio[1]	**£m**	£m	%	**£m**	£m
Level 1					
Cash and balances with central banks	**10,857**	8,940	21.4	**9,553**	9,604
UK Government treasury bills and gilts	**1,228**	1,655	(25.8)	**1,378**	1,182
Other debt securities	**3,136**	3,153	(0.5)	**2,946**	2,782
Total level 1	**15,221**	13,748	10.7	**13,877**	13,568
Level 2[2]	**512**	471	8.7	**448**	327
Total LCR eligible assets	**15,733**	14,219	10.6	**14,325**	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 31 March 2024 is 135% (30 September 2023: 136%) comfortably in excess of the binding minimum requirement of 100%.

Analysis of debt securities in issue by residual maturity

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

	3 months or less £m	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total at 31 Mar 2024 £m**	Total at 30 Sep 2023 £m
Covered bonds	**43**	**10**	**3,831**	**-**	**3,884**	4,415
Securitisation	**72**	**153**	**1,834**	**-**	**2,059**	1,740
Total debt securities in issue	**115**	**163**	**5,665**	**-**	**5,943**	6,155

External credit ratings

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

	Outlook as at	As at	
	31 Mar 2024(1)	**31 Mar 2024**	30 Sep 2023
Virgin Money UK PLC			
Moody's	**Positive**	**Baa1**	Baa1
Fitch	**Positive**	**BBB+**	BBB+
Standard & Poor's	**CreditWatch Positive**	**BBB-**	BBB-
Clydesdale Bank PLC			
Moody's(2)	**Positive**	**A3**	A3
Fitch	**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.

On 21 March 2024, Standard & Poor's placed the long- and short-term issuer credit ratings of the Group on CreditWatch with positive implications. The CreditWatch positive placement reflects the potential for Standard & Poor's to upgrade the Group by up to two notches on completion of Nationwide's acquisition of the Group, given the greater potential for support from the parent, and that they expect to resolve the CreditWatch placement upon completion of the acquisition.

On 22 March 2024, Moody's placed on review for upgrade Clydesdale Bank PLC B's A3 long-term deposit and senior unsecured and Virgin Money UK PLC's Baa1 long-term issuer ratings. The ratings review reflects Moody's expectation that upon the completion of the acquisition by Nationwide, the adjusted base line credit assessment of the bank could benefit from potential support from its new parent. It also reflects the potential benefit to senior creditors of the Group if its liability structure converges with that of Nationwide, resulting in lower loss-given failure. Moody's also note the uplift that could be incorporated from a potential moderate likelihood of government support, in case of need, due to the systemic importance of Nationwide.

On 6 June 2024, Fitch Ratings maintained Virgin Money UK PLC's long- and short-term Issuer Default Ratings (IDRs) and debt ratings on Rating Watch Positive pending the acquisition by Nationwide. At the same time, Fitch affirmed the long-term IDR of Clydesdale Bank PLC at 'A-' and revised its Outlook to Stable from Positive. The stabilisation of the Outlook on Clydesdale Bank PLC's long-term IDR primarily reflects Fitch's updated lower view of the profitability outlook compared to a year ago. The Outlook revision also reflects potential strategy execution risks from the takeover by Nationwide, with Fitch expecting to assign an 'a-' Shareholder Support Rating to Virgin Money UK PLC and Clydesdale Bank PLC once the acquisition is finalised.

Net interest income

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

12 months NII sensitivity	**31 Mar 2024 £m**	30 Sep 2023 £m
+25 basis point parallel shift	**9**	11
+100 basis point parallel shift	**39**	42
-25 basis point parallel shift	**(19)**	(11)
-100 basis point parallel shift	**(68)**	(45)

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.

Risk management
Financial risk (continued)

LIBOR replacement

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

As at 31 March 2024 loans with an aggregate value of £0.8m (30 September 2023: £0.9m) with 6 customers (30 September 2023: 8 customers) remained on three-month GBP synthetic LIBOR. This temporary reference rate ceased at the end of March 2024 and the remaining loans will be transitioned to alternative reference rates.

Post 31 March 2024, the Group holds no LIBOR exposure, in any currency, on the balance sheet.

Statement of Directors' responsibilities

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

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

b) material related party transactions in the six months ended 31 March 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

David Duffy
Chief Executive Officer
12 June 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 months ended 31 March 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 5.5. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 March 2024 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Basis for Conclusion

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

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

Conclusions Relating to Going Concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis 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 the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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

Auditor's Responsibilities for the review of the financial information

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

Use of our report

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

DocuSigned by:
Ernst & Young LLP
497AACD870CD42E

Ernst & Young LLP
Edinburgh
12 June 2024

Financial statements
Interim condensed consolidated income statement

	Note	**6 months to 31 Mar 2024 (unaudited) £m**	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Interest income		**2,384**	1,708	3,830
Other similar interest		**2**	2	3
Interest expense and similar charges		**(1,527)**	(858)	(2,147)
Net interest income	2.1	**859**	852	1,686
Gains less losses on financial instruments at fair value		**(8)**	(17)	(17)
Other operating income		**71**	80	157
Non-interest income	2.2	**63**	63	140
Total operating income		**922**	915	1,826
Operating and administrative expenses before impairment losses	2.3	**(551)**	(534)	(1,173)
Operating profit before impairment losses		**371**	381	653
Impairment losses on credit exposures		**(93)**	(144)	(309)
Profit on ordinary activities before tax		**278**	237	344
Tax expense	2.4	**(43)**	(52)	(95)
Profit for the period		**235**	185	249
Attributable to:				
Ordinary shareholders		**209**	157	195
Other equity holders		**26**	28	54
Profit for the period		**235**	185	249

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

The notes on pages 50 to 68 form an integral part of these interim condensed consolidated financial statements.

Financial statements

Interim condensed consolidated statement of comprehensive income

	Note	**6 months to 31 Mar 2024 (unaudited) £m**	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Profit for the period		**235**	185	249
Items that may be reclassified to the income statement				
Change in cash flow hedge reserve				
Losses during the period	4.1.3	**(303)**	(430)	(268)
Transfers to the income statement	4.1.3	**(37)**	(9)	(12)
Taxation thereon - deferred tax credit		**94**	121	77
		(246)	(318)	(203)
Change in FVOCI reserve				
Losses during the period		**(16)**	(48)	(50)
Transfers to the income statement		**-**	(1)	(1)
Taxation thereon - deferred tax credit		**4**	13	14
		(12)	(36)	(37)
Total items that may be reclassified to the income statement		**(258)**	(354)	(240)
Items that will not be reclassified to the income statement				
Change in defined benefit pension plan		**(89)**	(421)	(544)
Taxation thereon - deferred tax credit		**40**	144	188
Taxation thereon - current tax credit		**2**	2	1
Total items that will not be reclassified to the income statement		**(47)**	(275)	(355)
Other comprehensive losses, net of tax		**(305)**	(629)	(595)
Total comprehensive losses for the period, net of tax		**(70)**	(444)	(346)
Attributable to:				
Ordinary shareholders		**(96)**	(472)	(400)
Other equity holders		**26**	28	54
Total comprehensive losses attributable to equity holders		**(70)**	(444)	(346)

The notes on pages 50 to 68 form an integral part of these interim condensed consolidated financial statements.

Financial statements

Interim condensed consolidated balance sheet

	Note	31 Mar 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	72,344	72,191
Cash and balances with central banks		12,930	11,282
Due from other banks		592	661
At FVOCI		5,764	6,184
At FVTPL	3.1.2		
Loans and advances to customers	3.1.2.1	57	59
Derivatives	3.1.2.2	44	135
Other		1	2
Due from related entities	5.2	1	-
Intangible assets and goodwill		150	173
Deferred tax	2.4	354	296
Defined benefit pension assets	3.2	442	512
Other assets		443	389
Total assets		93,122	91,884
Liabilities			
Financial instruments	3.1		
At amortised cost	3.1.1		
Customer deposits		68,663	66,827
Debt securities in issue	3.1.1.2	5,943	6,155
Due to other banks	3.1.1.3	6,234	6,920
At FVTPL	3.1.2		
Derivatives	3.1.2.2	210	290
Due to related entities	5.2	4,145	3,605
Deferred tax	2.4	111	179
Provisions for liabilities and charges	3.3	61	69
Other liabilities		2,100	2,150
Total liabilities		87,467	86,195
Equity			
Share capital and share premium	4.1.1	2,792	2,792
Other equity instruments	4.1.2	835	594
Other reserves		245	503
Retained earnings		1,783	1,800
Total equity		5,655	5,689
Total liabilities and equity		93,122	91,884

The notes on pages 50 to 68 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 12 June 2024 and were signed on its behalf by:

David Duffy
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

	Share capital and share premium	Other equity instruments	Other reserves: FVOCI reserve	Other reserves: 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 period	-	-	-	-	185	185
Other comprehensive losses net of tax	-	-	(36)	(318)	(275)	(629)
Total comprehensive losses for the period	-	-	(36)	(318)	(90)	(444)
AT1 distributions paid	-	-	-	-	(28)	(28)
Dividends paid to ordinary shareholders	-	-	-	-	(153)	(153)
AT1 redemption	-	(68)	-	-	(4)	(72)
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	(1)	(1)
As at 31 March 2023(1)	2,792	594	8	381	1,938	5,713
Profit for the period	-	-	-	-	64	64
Other comprehensive (losses)/income net of tax	-	-	(1)	115	(80)	34
Total comprehensive (losses)/income for the period	-	-	(1)	115	(16)	98
AT1 distributions paid	-	-	-	-	(26)	(26)
Dividends paid to ordinary shareholders	-	-	-	-	(95)	(95)
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	(1)	(1)
As at 30 September 2023(1)	2,792	594	7	496	1,800	5,689
Profit for the period	-	-	-	-	235	235
Other comprehensive losses net of tax	-	-	(12)	(246)	(47)	(305)
Total comprehensive (losses)/income for the period	-	-	(12)	(246)	188	(70)
AT1 distributions paid	-	-	-	-	(26)	(26)
Dividends paid to ordinary shareholders	-	-	-	-	(177)	(177)
AT1 issuance	-	346	-	-	-	346
AT1 redemption	-	(105)	-	-	(1)	(106)
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	(1)	(1)
As at 31 March 2024(1)	**2,792**	**835**	**(5)**	**250**	**1,783**	**5,655**

(1) The balances as at 1 October 2022 and 30 September 2023 have been audited; the movements in the individual six month periods to 31 March 2023 and 31 March 2024 are unaudited.

The notes on pages 50 to 68 form an integral part of these interim condensed consolidated financial statements.

Financial statements
Interim condensed consolidated statement of cash flows

	Note	**6 months to 31 Mar 2024 (unaudited) £m**	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Operating activities				
Profit on ordinary activities before tax		**278**	237	344
Adjustments for:				
Non-cash or non-operating items included in profit before tax		**(717)**	(662)	(1,203)
Changes in operating assets		**(408)**	(579)	(551)
Changes in operating liabilities		**1,924**	1,144	284
Payments for short-term and low value leases		**(1)**	-	(3)
Interest received		**2,262**	1,457	3,300
Interest paid		**(764)**	(382)	(1,173)
Tax paid		**(16)**	(24)	(50)
Net cash provided by operating activities		**2,558**	1,191	948
Cash flows from investing activities				
Interest received		**169**	105	232
Proceeds from sale and maturity of financial assets at FVOCI		**1,168**	971	1,868
Purchase of financial assets at FVOCI		**(599)**	(1,602)	(2,950)
Proceeds from sale of property, plant and equipment		**-**	1	1
Purchase of property, plant and equipment		**(3)**	(3)	(9)
Purchase and development of intangible assets		**(3)**	(6)	(11)
Net cash provided by/(used in) investing activities		**732**	(534)	(869)
Cash flows from financing activities				
Interest paid		**(490)**	(278)	(743)
Repayment of principal portions of lease liabilities	**5.3**	**(11)**	(14)	(24)
Issuance of RMBS and covered bonds	**5.3**	**500**	400	1,826
Redemption and principal repayment on RMBS and covered bonds	**5.3**	**(784)**	(705)	(1,012)
Issuance of AT1 securities		**347**	-	-
Redemption of AT1 securities		**(106)**	(72)	(72)
Amounts repaid under the TFSME	**5.3**	**(1,150)**	(200)	(1,000)
Net increase in amounts due from related entities		**-**	-	7
Net increase in amounts due to related entities	**5.3**	**462**	426	297
AT1 distributions	**4.1**	**(26)**	(28)	(54)
Ordinary dividends paid	**4.1**	**(177)**	(153)	(248)
Net cash used in financing activities		**(1,435)**	(624)	(1,023)
Net increase/(decrease) in cash and cash equivalents		**1,855**	33	(944)
Cash and cash equivalents at the beginning of the period		**11,667**	12,611	12,611
Cash and cash equivalents at the end of the period		**13,522**	12,644	11,667

The notes on pages 50 to 68 form an integral part of these interim condensed consolidated financial statements.

Financial statements
Notes to the interim condensed consolidated financial statements

Section 1: Basis of preparation and accounting policies

Overview

These interim condensed consolidated financial statements for the six months ended 31 March 2024 have been prepared in accordance with UK adopted IAS 34. They have also been prepared in accordance with the Disclosure Guidance and Transparency Rules of the UK's FCA. 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 22 May 2024 Virgin Money UK PLC's shareholders voted to approve the acquisition of Virgin Money UK PLC by Nationwide. The transaction remains subject to regulatory approvals and the satisfaction or waiver of other conditions as set out in the Scheme document.

The Directors' going concern assessment has focussed on the current Board approved strategy, with consideration of acquisition related risks and the mitigation activities around them. Should the acquisition proceed, the Directors expect that the new parent company 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.

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 a successful completion, Nationwide intends to work 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. Nationwide expects that this review will be completed within approximately 18 months from the acquisition date.

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.

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

1.3 Critical accounting estimates and judgements (continued)

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.

Mortgages

As at 31 March 2024, a total EIR adjustment of £218m (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 represented 1.0% of gross customer interest income for mortgages (year to 30 September 2023: 0.5%).

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 51.9% and a long run average attrition rate of 3.8% per month.

As at 31 March 2024, a total EIR adjustment of £292m (30 September 2023: £259m) has been recognised for credit cards. This represented 4.8% (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 10.8% 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	**31 Mar 2024** **£m**	30 Sep 2023 £m
+/- 1 month change to the timing of customer repayments, redemptions and product transfers	**16/(16)**	21/(18)
50bps increase to the BoE base rate not passed through to the Group's SVR	**(47)**	(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 focussing on the post-promotional period.

Sensitivity impact on the credit card EIR adjustment	**31 Mar 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 (10.8% relative increase/decrease)	**55/(55)**	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 (16.4% relative increase/decrease)	**(23)/26**	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. During the period, the Group outperformed the expectation set through the new simplified EIR methodology, and there is sufficient capacity in the underlying methodology to materially absorb the above sensitivities.

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

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.

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

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 to reduce the modelled ECL in the Unsecured portfolio by £31m.

1.5 Presentation of risk disclosures

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

Section 2: Results for the period

2.1 Net interest income

	6 months to 31 Mar 2024 (unaudited) £m	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Interest income			
Loans and advances to customers	**1,951**	1,436	3,150
Loans and advances to other banks	**271**	173	435
Financial assets at FVOCI	**162**	99	245
Total interest income	**2,384**	1,708	3,830
Other similar interest			
Financial assets at FVTPL	**2**	2	3
Total other similar interest	**2**	2	3
Less: interest expense and similar charges			
Customer deposits	**(985)**	(469)	(1,233)
Debt securities in issue	**(272)**	(164)	(395)
Due to other banks	**(188)**	(157)	(372)
Due to related entities	**(80)**	(67)	(143)
Other interest expense	**(2)**	(1)	(4)
Total interest expense and similar charges	**(1,527)**	(858)	(2,147)
Net interest income	**859**	852	1,686

2.2 Non-interest income

	6 months to 31 Mar 2024 (unaudited) £m	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Gains less losses on financial instruments at fair value			
Held for trading derivatives	**-**	(3)	2
Financial assets at fair value[(1)]	**1**	3	-
Ineffectiveness arising from fair value hedges	**(22)**	13	29
Amounts recycled to profit and loss from cash flow hedges[(2)]	**30**	(2)	2
Ineffectiveness arising from cash flow hedges	**(17)**	(28)	(50)
	(8)	(17)	(17)
Other operating income			
Net fee and commission income	**60**	66	128
Margin on foreign exchange derivative brokerage	**10**	9	19
Gain on sale of financial assets at FVOCI	**-**	1	1
Share of JV loss after tax	**(1)**	-	-
Other income	**2**	4	9
	71	80	157
Total non-interest income	**63**	63	140

(1) Included within financial assets at fair value is a credit risk gain on loans and advances at fair value of £Nil (period ended 31 March 2023: £Nil, year ended 30 September 2023: £Nil) and a fair value gain on equity investments of £Nil (period ended 31 March 2023: £Nil, year ended 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 of JVs for the period was £3m (period ended 31 March 2023: £3m loss, year ended 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 £12m (period ended 31 March 2023: £12m, year ended 30 September 2023: £15m).

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 31 Mar 2024 (unaudited) £m	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Current account and debit card fees	**48**	52	100
Credit cards	**29**	28	63
Insurance, protection and investments	**3**	4	7
Other fees(1)	**7**	8	16
Total fee and commission income	**87**	92	186
Total fee and commission expense	**(27)**	(26)	(58)
Net fee and commission income	**60**	66	128

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

2.3 Operating and administrative expenses before impairment losses

	6 months to 31 Mar 2024 (unaudited) £m	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Staff costs	**228**	191	432
Property and infrastructure	**30**	34	74
Technology and communications	**68**	62	130
Corporate and professional services	**98**	109	240
Depreciation, amortisation and impairment	**44**	53	116
Other expenses	**83**	85	181
Total operating and administrative expenses	**551**	534	1,173

Staff costs comprise the following items:

	6 months to 31 Mar 2024 (unaudited) £m	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Salaries and wages	**147**	132	275
Social security costs	**18**	15	32
Defined contribution pension expense	**31**	27	56
Defined benefit pension credit	**(13)**	(24)	(50)
Compensation costs	**183**	150	313
Equity based compensation(1)	**6**	4	6
Bonus awards	**12**	8	22
Performance costs	**18**	12	28
Redundancy and restructuring	**3**	1	7
Temporary staff costs	**9**	12	24
Other	**15**	16	60
Other staff costs	**27**	29	91
Total staff costs	**228**	191	432

(1) Includes National Insurance on equity based compensation.

Financial statements

Notes to the interim condensed consolidated financial statements (continued)

Section 2: Results for the period (continued)

2.4 Taxation

	6 months to 31 Mar 2024 (unaudited) £m	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Current tax			
Current period	**32**	23	29
Adjustment in respect of prior periods	**(1)**	(1)	(2)
	31	22	27
Deferred tax			
Current period	**12**	33	71
Adjustment in respect of prior periods	**-**	(3)	(3)
	12	30	68
Tax expense for the period	**43**	52	95

The tax assessed for the period differs from that arising from 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 31 Mar 2024 (unaudited) £m	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Profit on ordinary activities before tax	**278**	237	344
Tax expense based on the standard rate of corporation tax in the UK of 25% (March and September 2023: 22%)	**70**	52	76
Effects of:			
Disallowable expenses	**(1)**	1	3
Deferred tax assets derecognised	**8**	-	19
Banking surcharge	**3**	5	5
Impact of rate changes	**(30)**	4	9
AT1 distribution	**(7)**	(6)	(12)
Adjustments in respect of prior periods	**-**	(4)	(5)
Tax expense for the period	**43**	52	95

The Group's effective tax rate is 15.5% (period ended 31 March 2023: 21.8%, year ended 30 September 2023: 28%). The impact of the banking surcharge on profits in excess of the threshold is more than offset by the tax deduction for AT1 distributions for which the accounting charge is included in the statement of changes in equity, while the tax effect is, in accordance with legislation, reflected in the income statement.

The reduction to the authorised surplus payments charge from 35% to 25% from 6 April 2024 was substantively enacted on 11 March 2024 and drives the current period rate change credit.

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
At 1 October 2022	(8)	(267)	(16)	417	111	19	256	(350)	(350)
Income statement credit/(charge)	2	1	-	(42)	(8)	(4)	(51)	(17)	(17)
Other comprehensive income charge	-	77	14	-	-	-	91	188	188
At 30 September 2023	(6)	(189)	(2)	375	103	15	296	(179)	(179)
Income statement credit/(charge)	1	-	-	(36)	(4)	(1)	(40)	28	28
Other comprehensive income credit	-	94	4	-	-	-	98	40	40
At 31 March 2024	**(5)**	**(95)**	**2**	**339**	**99**	**14**	**354**	**(111)**	**(111)**

Section 2: Results for the period (continued)

2.4 Taxation (continued)

Other temporary differences include the IFRS 9 transitional adjustment of £8m and equity-based compensation of £5m (30 September 2023: £9m and £5m respectively).

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 £28m (30 September 2023: £21m) (£113m gross loss (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 31 March 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 £309m or increase to £382m respectively, with the latter being full recognition of losses. If Group profit forecasts were 10% lower than anticipated, the total deferred tax asset would be £331m. If Group taxable profit forecasts were 10% higher than anticipated, the deferred tax asset would be £376m. All tax assets arising will be used within the UK.

The UK Government passed the legislation required to enact the Pillar 2 Model Rules, as highlighted in note 1.4, for UK based groups in July 2023. It is effective for accounting periods beginning on or after 1 January 2024. The legislation introduces a domestic UK top-up tax for the profits made by group subsidiaries where they are taxed at a Pillar 2 effective tax rate of less than 15%. The Bank’s trading operations are wholly within the UK. No material impact of Pillar 2 is expected, though as this will depend upon financial results at the time of each periodic assessment, no forward-looking assurance can be given.

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

	31 Mar 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Gross loans and advances to customers	**73,261**	73,295
Impairment provisions on credit exposures(1)	**(612)**	(612)
Fair value hedge adjustment	**(305)**	(492)
	72,344	72,191

(1) ECLs on off-balance sheet exposures of £5m (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 £57m (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 £72,401m (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:
31 March 2024 (unaudited)

	Securitisation £m	**Covered bonds £m**	**Total £m**
Debt securities	**2,044**	**3,831**	**5,875**
Accrued interest	**15**	**53**	**68**
	2,059	**3,884**	**5,943**

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/.

	Period to 31 March 2024				Year to 30 September 2023			
	Issuances		**Redemptions**		Issuances		Redemptions	
	Denomination	**£m**	**Denomination**	**£m**	Denomination	£m	Denomination	£m
Securitisation	**GBP**	**500**	**GBP**	**184**	GBP	900	USD, GBP	1,012
Covered bonds	**-**	**-**	**GBP**	**600**	EUR, GBP	926	-	-
		500		**784**		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

	31 Mar 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Secured loans	**5,116**	6,291
Securities sold under agreements to repurchase(1)	**1,058**	552
Transaction balances with other banks	**2**	-
Deposits from other banks	**58**	77
	6,234	6,920

(1) The underlying securities sold under agreements to repurchase have a carrying value of £1,816m (30 September 2023: £1,047m) and relate 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 £57m (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); the change for the current period is £Nil (period ended 31 March 2023: £Nil, year ended 30 September 2023: £Nil) of which £Nil (period ended 31 March 2023: £Nil, year ended 30 September 2023: £Nil) has been recognised in the income statement.

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:

	31 Mar 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Fair value of derivative financial assets		
Designated as hedging instruments	**21**	96
Designated as held for trading	**23**	39
	44	135
Fair value of derivative financial liabilities		
Designated as hedging instruments	**156**	204
Designated as held for trading	**54**	86
	210	290

Cash collateral totalling £224m (30 September 2023: £267m) has been pledged and £12m 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 £8m (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

	31 March 2024 (unaudited)			30 September 2023 (audited)		
Total derivative contracts	**Notional contract amount £m**	**Fair value of assets £m**	**Fair value of liabilities £m**	Notional contract amount £m	Fair value of assets £m	Fair value of liabilities £m
Derivatives designated as hedging instruments						
Cash flow hedges						
Interest rate swaps (gross)	**37,103**	**658**	**246**	51,185	1,295	545
Less: net settled interest rate swaps(1)	**(37,054)**	**(658)**	**(246)**	(49,888)	(1,222)	(531)
Interest rate swaps (net)(2)	**49**	**-**	**-**	1,297	73	14
Fair value hedges						
Interest rate swaps (gross)(3)	**21,093**	**866**	**822**	19,203	1,219	862
Less: net settled interest rate swaps(1)	**(20,393)**	**(866)**	**(814)**	(18,113)	(1,206)	(820)
Interest rate swaps (net)(2)	**700**	**-**	**8**	1,090	13	42
Cross currency swaps(2)	**2,951**	**21**	**148**	2,350	10	148
	3,651	**21**	**156**	3,440	23	190
Total derivatives designated as hedging instruments	**3,700**	**21**	**156**	4,737	96	204
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange(2)	**667**	**5**	**5**	654	7	9
Options(2)	**-**	**-**	**-**	-	-	-
	667	**5**	**5**	654	7	9
Interest rate related contracts						
Interest rate swaps (gross)	**1,828**	**30**	**39**	1,910	47	50
Less: net settled interest rate swaps(1)	**(862)**	**(25)**	**(4)**	(753)	(43)	(1)
Interest rate swaps (net)(2)	**966**	**5**	**35**	1,157	4	49
Swaptions(2)	**10**	**-**	**1**	10	-	1
Options(2)	**1,138**	**8**	**8**	1,067	16	16
	2,114	**13**	**44**	2,234	20	66
Commodity related contracts	**163**	**5**	**5**	167	12	11
Total derivatives designated as held for trading	**2,944**	**23**	**54**	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 £413m. 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.

There are various limitations inherent in this fair value disclosure, particularly where prices are derived from unobservable inputs due to some financial instruments not being traded in an active market. The methodologies and assumptions used in the fair value estimates are described in the notes to the tables in note 3.1.4 of the Group's 2023 Annual Report and Accounts. The difference between carrying value and fair value is relevant in a trading environment but is not relevant to assets such as loans and advances.

	31 Mar 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)	**72,344**	**72,780**	72,191	71,611
Financial liabilities				
Customer deposits(2)	**68,663**	**68,507**	66,827	66,625
Debt securities in issue(2)	**5,943**	**6,031**	6,155	6,191
Due to other banks(2)	**6,234**	**6,280**	6,920	6,940
Due to related entities(2)	**4,145**	**4,294**	3,605	3,699

(1) Categorised as Level 3 in the fair value hierarchy with the exception of £1,094m (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 31 Mar 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	**5,764**	**-**	**-**	**5,764**	6,184	-	-	6,184
Loans and advances to customers	**-**	**57**	**-**	**57**	-	59	-	59
Derivatives	**-**	**44**	**-**	**44**	-	135	-	135
Other	**-**	**-**	**1**	**1**	-	-	2	2
Total financial assets at fair value	**5,764**	**101**	**1**	**5,866**	6,184	194	2	6,380
Financial liabilities								
Derivatives	**-**	**210**	**-**	**210**	-	290	-	290
Total financial liabilities at fair value	**-**	**210**	**-**	**210**	-	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 present value of the defined benefit obligation:

	31 Mar 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Fair value of Scheme assets	**2,919**	2,796
Defined benefit obligation	**(2,477)**	(2,284)
Net defined benefit pension asset	**442**	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.£1.6b of pensioner liabilities. The arrangement provides long term protection to the Scheme against costs resulting from pensioners or their dependants living longer than currently expected, enhancing security for Scheme members and reducing risk for the Group. The fair value of the hedge instrument is £Nil (30 September 2023: £Nil).

During 2023 the Trustee concluded the latest triennial valuation for the Scheme, which was conducted in accordance with Scheme data and market conditions as at 30 September 2022. The valuation resulted in an improvement in the Scheme's funding position, with a reported surplus of £256m (previously a surplus of £144m based on Scheme data and market conditions as at 30 September 2019) and a technical provisions funding level of 109% (previously 103%). As the 2022 valuation outcome was a funding surplus, a deficit recovery plan is not required and the Group is not required to make any additional contributions to the Scheme other than the ongoing funding of the Scheme's administrative expenses.

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.

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	7	13	27	3	50
Charge to the income statement	7	-	24	2	33
Utilised	(6)	(3)	(5)	-	(14)
As at 30 September 2023	8	10	46	5	69
Charge/(credit) to the income statement	4	(5)	4	-	3
Utilised	(6)	(1)	(6)	-	(13)
Other	-	2	-	-	2
As at 31 March 2024	**6**	**6**	**44**	**5**	**61**

Employee related costs provision

This includes provision for staff redundancies and for NIC on equity based compensation. During the period, provisions of £4m (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. During the period, a £2m (30 September 2023: £Nil) legacy insurance claim was received to cover the remaining provision offset by a release of £5m (30 September 2023: £Nil) following a review of the final amounts required.

Property provision

This includes costs for stores and office closures. During the period, provisions of £4m (30 September 2023: £24m) were raised.

Section 4: Capital

4.1 Equity

4.1.1 Share capital and share premium

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

	31 Mar 2024 (unaudited) Number of shares	30 Sep 2023 (audited) Number of shares	**31 Mar 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 31 March 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.
- During the period to 31 March 2023, an interim dividend of £50m was paid in respect of the year ending 30 September 2023.
- 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 ending 30 September 2023 of 0.21p per ordinary share in the Company, amounting to £26m, was paid in March 2024.
- During the period to 31 March 2024, an interim dividend of £151m was paid in respect of the year ending 30 September 2024.

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:

	31 March 2024		30 September 2023	
	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.	**142**	**144**	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**	-	-
	835	**844**	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 £26m were paid in the period (period ended 31 March 2023: £28m; year 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.

	6 months to 31 Mar 2024 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
At 1 October	**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	**(303)**	(268)
Amounts transferred to the income statement	**(37)**	(12)
Taxation	**94**	77
Closing cash flow hedge reserve	**250**	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.

	31 Mar 2024 (unaudited) £m	30 Sep 2023 (audited) £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**16**	12
Due between 3 months and 1 year	**33**	18
Due between 1 year and 3 years	**12**	8
Due between 3 years and 5 years	**1**	1
Due after 5 years	**40**	40
	102	79
Other credit commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**17,710**	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, 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 the Group and National Australia Bank Limited. Costs have been awarded in favour of the Group and National Australia Bank Limited. The Claimants intend to appeal parts of the judgment. No provision has been made in these 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	**31 Mar 2024 (unaudited) £m**	30 Sep 2023 (audited) £m
Other receivables	**1**	-

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

Amounts due to related entities	**31 Mar 2024 (unaudited) £m**	30 Sep 2023 (audited) £m
Deposits	**114**	40
Other payables	**8**	5
Medium-term notes	**3,301**	2,608
Subordinated debt	**722**	952
Total amounts due to related entities	**4,145**	3,605
Interest expense on the above amounts was as follows (note 2.1):		
Interest expense to related parties	**80**	143

These are all classified at amortised cost and, for IFRS 9 purposes, held under Stage 1. The impact of the ECL requirements under IFRS 9 on these financial assets is immaterial.

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	**31 Mar 2024 (unaudited) £m**	30 Sep 2023 (audited) £m
Other income		
Non-interest income received	**1**	4
Other expenses		
Other expenses	**10**	21
Equity		
Ordinary dividends paid	**177**	248
AT1 distributions	**26**	54
Total dividends to related entities	**203**	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 £11m (30 September 2023: £7m). Pension contributions of £6m were made to the Scheme in the period (period ended 31 March 2023: £6m; year 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. As at 31 March 2024, the amount drawn under the facility was £Nil (30 September 2023: £Nil). 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 31 March 2024, the amount drawn on the facility was £Nil (30 September 2023: £Nil).

Section 5: Other notes (continued)

5.2 Related party transactions (continued)

JVs and associates

The Group holds investments in JVs of £9m (30 September 2023: £10m). The total share of losses recognised in the period was £1m (period ended 31 March 2023: £Nil; year ended 30 September 2023: £Nil). In addition, the Group had the following transactions with JV entities during the period:

- Salary Finance - the Group provides Salary Finance with a revolving credit facility funding line, of which the current gross lending balance was £260m (30 September 2023: £290m) and the undrawn facility was £90m (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 £21m (30 September 2023: £22m) held against the lending. An impairment release of £1m was recognised in the period (period ended 31 March 2023: £1m release; year ended 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. During the period, there has been no material change to the ECL allowance held from that at September 2023. Additionally, the Group received £8m of interest income from Salary Finance in the period (period ended 31 March 2023: £8m; year ended 30 September 2023: £16m) and holds deposits of £10m (30 September 2023: £10m). Board approval is in place for this facility up until December 2025 with £350m being the approved limit; and

- Virgin Money Unit Trust Managers Limited (UTM) - the Group provides banking services to UTM which has resulted in amounts due of £3m (30 September 2023: £3m). Additionally, the Group received £5m of recharge income in the period (period ended 31 March 2023: £4m; year ended 30 September 2023: £9m) from UTM in accordance with a Service Level Agreement in respect of resourcing, infrastructure and marketing. During the period, the Group provided no additional funding to UTM (30 September 2023: £Nil). The Group has also paid consortium relief to UTM of £Nil (30 September 2023: £1m) for losses surrendered from UTM. The Group provides 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). On 2 April 2024 the Group acquired the remaining 50 per cent ordinary share capital of UTM for £20m. Refer to note 5.5 for further information.

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 £2m (30 September 2023: £2m) and expenses of £9m were incurred in the period (period ended 31 March 2023: £7m; year ended 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 and PCA portfolio. Amounts receivable totalled £0.5m (31 March 2023: £0.2m; 30 September 2023: £0.2m), amounts payable totalled £Nil (31 March 2023: £1m; 30 September 2023: £0.1m) and during the period this resulted in expenses of £0.5m (period ended 31 March 2023: £0.5m, year ended 30 September 2023: £0.5m) along with income of £0.5m (period ended 31 March 2023: £0.2m, year ended 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 £0.2m (period ended 31 March 2023: £0.2m, year ended 30 September 2023: £0.4m).

(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 (period ended 31 March 2023: £1m; year ended 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 £0.2m (period ended 31 March 2023: £0.3m; year ended 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
At 1 October 2022	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
At 30 September 2023	**6,291**	**6,155**	**3,605**	**180**	**16,231**
Cash flows:					
Issuances	-	500	641	-	1,141
Drawdowns	-	-	73	-	73
Redemptions	-	(784)	(250)	-	(1,034)
Repayment	(1,150)	-	(2)	(11)	(1,163)
Non-cash flows:					
Fair value and other associated adjustments	-	38	77	-	115
Additions to right-of-use asset in exchange for increased lease liabilities	-	-	-	1	1
Remeasurement	-	-	-	1	1
Movement in accrued interest	(25)	34	(3)	2	8
Other movements	-	-	4	-	4
At 31 March 2024	**5,116**	**5,943**	**4,145**	**173**	**15,377**

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

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 31 Mar 2024 (unaudited) £m	6 months to 31 Mar 2023 (unaudited) £m	12 months to 30 Sep 2023 (audited) £m
Net interest income	**859**	852	1,686
Non-interest income	**63**	63	140
Total operating income	**922**	915	1,826
Operating and administrative expenses	**(551)**	(534)	(1,173)
Impairment losses on credit exposures	**(93)**	(144)	(309)
Segment profit before tax	**278**	237	344
Average interest earning assets	**89,611**	89,568	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 Post-balance sheet events

Virgin Money Unit Trust Managers Limited acquisition

At 31 March 2024 the Group held a 50 per cent plus one share equity interest in the ordinary share capital of Virgin Money Unit Trust Managers Limited (UTM), a JV with abrdn plc (abrdn). The Group's investment in the JV is accounted for under the equity method and the carrying value of the investment at 31 March 2024 is £9m, included within other assets on the Group balance sheet. UTM provides investment management services to retail customers including general investment accounts, stocks and shares ISAs and a pension product.

On 2 April 2024 the Group acquired the remaining 50 per cent ordinary share capital of UTM for £20m. The Group will consolidate UTM from 2 April 2024. 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.

Because of the limited time available between the acquisition and approval of these financial statements, the Group is still in the process of establishing:

a) the fair value of the existing interest in UTM held by the Group prior to the acquisition date and the resulting gain or loss recognised as a result of the IFRS requirement for acquisitions completed in stages to remeasure the previously held interest to fair value immediately before the business combination; and
b) the fair value of the assets and liabilities acquired and the associated identifiable intangible assets and goodwill.

At 31 December 2023, being the year end date of the most recently audited financial statements, UTM had net assets of £21m. Total assets of £33m comprise primarily cash at bank of £19m along with trade receivables and other receivables of £10m. Total liabilities of £12m include trade and other payables of £6m and amounts due to related parties of £6m. The values shown include £11m of cash and term deposits held with Group companies and amounts due to the Group of £5m. Refer to note 5.2 for further information.

Nationwide's acquisition of Virgin Money UK PLC

On 21 March 2024, the boards of Virgin Money UK PLC and Nationwide announced that they had agreed the terms of a recommended cash acquisition of the entire issued and to be issued share capital of Virgin Money UK PLC by Nationwide. The acquisition is being implemented by way of a scheme of arrangement. On 22 May 2024, it was announced that Virgin Money UK PLC's shareholders voted in favour of the recommended cash acquisition by Nationwide. The transaction remains subject to regulatory approvals and the satisfaction or waiver of other conditions as set out in the scheme document following which there will be a court hearing to sanction the scheme. The scheme will become effective shortly after approval by the court with the acquisition expected to complete in calendar Q4 2024. In addition, Virgin Money UK PLC's shareholders approved amendments to the brand licence agreement between Virgin Money UK PLC and Virgin Enterprises Limited (the 'TMLA'), which governs the use of the 'Virgin Money' brand, pursuant to the TMLA Amendment Agreement(1) and which are contingent on the scheme becoming effective. The TMLA Amendment Agreement includes arrangements for the payment of an exit fee of £250m, payable by Virgin Money UK PLC to Virgin Enterprises Limited, following completion.

(1) The agreement entered into between Nationwide and Virgin Enterprises Limited on 7 March 2024 (as amended by a side letter dated 21 March 2024) pursuant to which the parties have agreed to procure that a deed of amendment in respect of the TMLA is entered into shortly following completion of the proposed acquisition.

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 31 Mar 2024 £m**	6 months to 31 Mar 2023 £m	12 months to 30 Sep 2023 £m	Reason for inclusion as a notable item
Acquisition accounting unwinds	**(10)**	(3)	(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	**(8)**	(16)	(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. These items are often volatile, driven by accounting requirements and not generally considered as a component of the core financial result.
Other:				
UTM transition costs	**-**	(1)	(2)	These costs relate to UTM's transformation costs principally for the build of a new platform for administration and servicing.
Total	**(18)**	(20)	(47)	

Notable items within operating expenses

Item	**6 months to 31 Mar 2024 £m**	6 months to 31 Mar 2023 £m	12 months to 30 Sep 2023 £m	Reason for inclusion as a notable item
Restructuring charges	**(33)**	(53)	(131)	These costs relate to the Group's £275m restructuring programme as first announced alongside the Group's FY21 results.
Financial crime prevention programme	**(15)**	-	-	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	**4**	(4)	(12)	These credits/(costs) are historical in nature and are not indicative of the Group's current practices.
Other:				
Transaction costs	**(5)**	-	-	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)	In FY23 the write-off charge was 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)	In FY23, £6m of these 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	**(49)**	(57)	(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

Abbreviations

IBB	Interest bearing balance
MA	Management adjustment
MES	Model economic scenarios
MRM	Model risk management
TCR	Total capital requirement

Additional information

Officers and professional advisers

Non-Executive Directors

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

(1) Member of the Remuneration Committee and Governance and Nomination Committee.
(2) All Independent Non-Executive Directors are members of the Remuneration Committee, Audit Committee, Risk Committee and Governance and Nomination Committee.
(3) Geeta Gopalan will step down from the Board on 30 June 2024.
(4) Member of the Governance and Nomination Committee.

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