CLYDESDALE BANK PLC
INTERIM FINANCIAL REPORT
SIX MONTHS TO 31 MARCH 2020

Clydesdale Bank PLC is registered in Scotland (company number: SC001111) and has its registered office at 30 St Vincent Place, Glasgow, G1 2HL.

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, B and Virgin Money brands. It offers a range of banking services for both retail and business customers through retail branches, lounges, business banking centres, direct and online banking, and brokers. This release covers the results of the Group for the six months ended 31 March 2020.

Statutory basis: Statutory information is set out on pages 33 to 62 and within the interim condensed consolidated financial statements.

Underlying basis: The results are adjusted to remove certain items that do not promote an understanding of historical or future trends of earnings or cash flows, and therefore allows a more meaningful comparison of the Group's underlying performance. A reconciliation from the underlying results to the statutory basis is shown on page 3 and management's rationale for the adjustments is shown on page 63.

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

The information in this document may include forward-looking statements, which are based on assumptions, expectations, valuations, targets, estimates, forecasts and projections about future events. These can be identified by the use of words such as 'expects', 'aims', 'targets', 'seeks', 'anticipates', 'plans', 'intends', 'prospects', 'outlooks', 'projects', 'forecasts', 'believes', 'estimates', 'potential', 'possible', and similar words or phrases. These forward-looking statements, as well as those included in any other material discussed at any presentation, are subject to risks, uncertainties and assumptions about the Group and its securities, investments and the environment in which it operates, including, among other things, the development of its business and strategy, any acquisitions, combinations, disposals or other corporate activity undertaken by the Group (including but not limited to the integration of the business of Virgin Money Holdings (UK) PLC) and its subsidiaries into the Group, trends in its operating industry, changes to customer behaviours and covenant, macro-economic and/or geopolitical factors, the repercussions of the outbreak of coronavirus (including but not limited to the COVID-19 outbreak), changes to its board and/or employee composition, exposures to terrorist activity, IT system failures, cyber-crime, fraud and pension scheme liabilities, changes to law and/or the policies and practices of the Bank of England (BoE), the Financial Conduct Authority (FCA) and/or other regulatory and governmental bodies, inflation, deflation, interest rates, exchange rates, changes in the liquidity, capital, funding and/or asset position and/or credit ratings of the Group and future capital expenditures and acquisitions.

In light of these risks, uncertainties and assumptions, the events in the forward-looking statements may not occur. Forward-looking statements involve inherent risks and uncertainties. Other events not taken into account may occur and may significantly affect the analysis of the forward-looking statements. No member of the Group or their respective directors, officers, employees, agents, advisers or affiliates gives any assurance that any such projections or estimates will be realised or that actual returns or other results will not be materially lower than those set out in this document and/or discussed at any presentation. All forward-looking statements should be viewed as hypothetical. No representation or warranty is made that any forward-looking statement will come to pass. No member of the Group or their respective directors, officers, employees, agents, advisers or affiliates undertakes any obligation to update or revise any such forward-looking statement following the publication of this document nor accepts any responsibility, liability or duty of care whatsoever for (whether in contract, tort or otherwise) or makes any representation or warranty, express or implied, as to the truth, fullness, fairness, merchantability, accuracy, sufficiency or completeness of, the information in this document.

The information, statements and opinions contained in this document do not constitute or form part of, and should not be construed as, any public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Interim financial report

For the six months ended 31 March 2020

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', 'B' and 'Virgin Money' across its core regional markets (Scotland, North East England, North West England, Yorkshire and the Humber) and selected national markets. The banks are strong, low risk, retail-only banks 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 March

	As at **31 Mar 2020** **£m**	30 Sep 2019 £m
Customer loans	**73,174**	72,971
Other financial assets	**14,868**	16,391
Other non-financial assets	**2,117**	1,739
Total assets	**90,159**	91,101
Customer deposits	**(64,652)**	(63,787)
Wholesale funding	**(16,825)**	(18,497)
Other liabilities	**(3,485)**	(3,676)
Total liabilities	**(84,962)**	(85,960)
Ordinary shareholders' equity	**(4,525)**	(4,469)
Additional Tier 1 (AT1) equity	**(672)**	(672)
Equity	**(5,197)**	(5,141)
Total liabilities and equity	**(90,159)**	(91,101)

Summary income statement - underlying and statutory basis

	6 months to 31 Mar 2020 £m	6 months to 31 Mar 2019 £m	12 months to 30 Sep 2019 £m
Net interest income	**702**	706	1,413
Non-interest income	**118**	104	196
Total operating income	**820**	810	1,609
Total operating and administrative expenses	**(465)**	(472)	(942)
Operating profit before impairment losses	**355**	338	667
Impairment losses on credit exposures (excl COVID-19)	**(86)**	(73)	(147)
Impairment overlay for COVID-19	**(146)**	-	-
Total impairment losses on credit exposures	**(232)**	(73)	(147)
Underlying profit on ordinary activities before tax	**123**	265	520
Integration and transformation costs	**(61)**	(38)	(149)
Acquisition accounting unwinds	**(57)**	(67)	(87)
Legacy conduct	**-**	(33)	(433)
Other items	**(9)**	(77)	(33)
Statutory (loss)/profit on ordinary activities before tax	**(4)**	50	(182)
Tax credit	**35**	5	58
Statutory loss attributable to equity holders	**31**	55	(124)

Summary

The COVID-19 outbreak and its impact on the nation's businesses and consumers has markedly changed the operating environment, driving an increased impairment charge of £232m against future loan losses and a reduction in underlying profitability. While we delivered a resilient performance and continued to make good progress on our self-help strategy in the first half of the year, our primary objective now is safeguarding the health and well-being of our colleagues, customers and communities while also protecting the bank.

We enter this period from a position of strength, with a defensive loan book and resilient capital position, meaning we are well-placed to help our customers and colleagues through the crisis. We have rapidly adapted our operations, products and services and I am extremely proud of how our colleagues have risen to the challenge and continued to provide the very best support and advice to our customers. To date we've directly supported over 100,000 retail customers and around 4,500 businesses. We continue to work closely with Government, regulators and peers to ensure we maximise our support to customers and the UK economy.

Amid the uncertainty, it is clear that the pandemic will have long-lasting and wide-ranging effects on how companies do business and on what customers will expect from the organisations they choose to interact with. Although the full impacts from the COVID-19 outbreak will take time to emerge, I'm confident that our agility, digital capabilities and focus on disrupting the status quo will make us stronger and well-equipped to support changing customer needs and play our part in the UK's economic recovery.

Balance sheet summary

The Group's balance sheet optimisation strategy continued in the first half with strong growth in Business and Personal lending, and more selective participation in Mortgages given competitive pressures. On the deposit side our strategy to increase relationship deposits and reduce more expensive term deposits continued to deliver.

Profit and loss summary

Net interest income of £702m was £4m lower half-on-half due to the expected compression in net interest margin relative to H1 2019. Costs were down 1% half-on-half to £465m, and our Transformation programme delivered further net run-rate cost savings with a total of £76m to date. Asset quality remained strong in H1 with £86m of pre-COVID-19 impairments. However, given the uncertain environment and likelihood of higher impairments in the future, this was supplemented by a net COVID-19 impairment charge of £146m. Against a tough backdrop of low growth, historically low rates, combined with the requirement for higher provisions, underlying profit before tax of £123m represents a resilient performance. Statutory profit before tax fell by £54m to a £4m loss before tax as the impact of the higher impairment charge more than offset the reduction in exceptional items which were much lower and there were no payment protection insurance (PPI) or other conduct charges in the period.

Capital

Our Common Equity Tier 1 (CET1) ratio of 14.0% as at 31 March 2020 retains a significant buffer to our Capital Requirements Directive IV (CRD IV) regulatory requirement of 9.9% and provides sufficient capacity to deliver our strategy.

Funding and liquidity

The Group's liquidity surplus continues to comfortably exceed our regulatory minimum and internal risk appetite, with a Liquidity Coverage Ratio (LCR) of 139% as at 31 March 2020 (30 September 2019: 152%).

Outlook

While the outlook remains very uncertain and the range of potential outcomes is wide, the Group has taken the right steps to enter this period of turbulence from a position of strength. Though the full effects of COVID-19 are far from clear at present, over the coming six months we anticipate limited customer demand for lending and an increase in the number of customers suffering challenges. In the near term it is critical our focus remains on supporting our customers, colleagues, communities and protecting the bank through this uncertain period, and if we deliver on that then we have the opportunity to come out of this with our reputation enhanced in the eyes of all of our stakeholders.

Key performance indicators

The Directors do not rely on key performance indicators at the individual subsidiary level. The performance of the Group is included in the Interim Financial Report of Virgin Money UK PLC, formerly known as CYBG PLC ('CYBG'). 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.

Business and financial review (continued)

Reconciliation of statutory to underlying results

The underlying basis presented within this section reflects the Group's results prepared on an underlying basis. These exclude certain items that are included in the statutory results, as management believes that these items are not reflective of the underlying business and do not aid meaningful year-on-year comparison. The table below reconciles the statutory results to the underlying basis, and full details on the adjusted items are included in the Glossary on page 63.

6 months to 31 Mar 2020	Statutory results £m	Restructuring costs £m	Acquisition costs £m	Legacy conduct £m	Other £m	Underlying basis £m
Net interest income	**671**	**-**	**31**	**-**	**-**	**702**
Non-interest income	**99**	**-**	**15**	**-**	**4**	**118**
Total operating income	**770**	**-**	**46**	**-**	**4**	**820**
Total operating and administrative expenses before impairment losses	**(537)**	**61**	**6**	**-**	**5**	**(465)**
Operating profit/(loss) before impairment losses	**233**	**61**	**52**	**-**	**9**	**355**
Impairment losses on credit exposures	**(237)**	**-**	**5**	**-**	**-**	**(232)**
(Loss)/profit on ordinary activities before tax	**(4)**	**61**	**57**	**-**	**9**	**123**

6 months to 31 Mar 2019	Statutory results £m	Restructuring costs £m	Acquisition costs £m	Legacy conduct £m	Other £m	Underlying basis £m
Net interest income	820	-	(34)	-	(80)	706
Non-interest income	104	-	-	-	-	104
Total operating income	924	-	(34)	-	(80)	810
Total operating and administrative expenses before impairment losses	(701)	38	1	33	157	(472)
Operating profit/(loss) before impairment losses	223	38	(33)	33	77	338
Impairment losses on credit exposures	(173)	-	100	-	-	(73)
Profit/(loss) on ordinary activities before tax	50	38	67	33	77	265

12 months to 30 Sep 2019	Statutory results £m	Restructuring costs £m	Acquisition costs £m	Legacy conduct £m	Other £m	Underlying basis £m
Net interest income	1,516	-	(23)	-	(80)	1,413
Non-interest income	257	-	-	-	(61)	196
Total operating income	1,773	-	(23)	-	(141)	1,609
Total operating and administrative expenses before impairment losses	(1,703)	149	5	433	174	(942)
Operating profit/(loss) before impairment losses	70	149	(18)	433	33	667
Impairment losses on credit exposures	(252)	-	105	-	-	(147)
Profit/(loss) on ordinary activities before tax	(182)	149	87	433	33	520

Risk report
Risk overview

Effective risk management is critical to realising the Group's strategic priorities of pioneering growth, delighted customers and colleagues, while operating with super straightforward efficiency, discipline and sustainability. The safety and soundness of the Group is aligned to Our Purpose and is a fundamental requirement to enable our customers and stakeholders to be 'happier about money'.

Risk appetite is defined as the level and types of risk the Group is willing to assume within the boundaries of its risk capacity, to achieve its strategic objectives. The Risk Appetite Statement (RAS) articulates the Group's risk appetite to stakeholders and provides a view on the risk-taking activities the Board is comfortable with, guiding decision-makers in their strategic and business decisions.

The Group identifies and manages risk in line with the Risk Management Framework (RMF). The RMF is the totality of systems, structures, policies, processes and people that identifies, measures, evaluates, controls, mitigates, monitors and reports all internal and external sources of material risk.

COVID-19

The Group's priority in dealing with the exceptional challenges posed by COVID-19 is to ensure the safety of, and provision of support for our customers and colleagues.

COVID-19 is a global crisis resulting in the Group invoking intensive incident management governance and procedural actions. The pandemic poses multiple risks to the Group in both the short and longer-term and the Group's response to date includes:

- updating the capital and funding plans to incorporate the prudential responses introduced, including the UK base rate cut and a reduction in the countercyclical capital buffer;
- implementing the range of available government, regulatory and central bank support measures to support customers, including the application of FCA direction on payment holidays and overdraft buffers and participation in the Coronavirus Business Interruption Loan Scheme (CBILS), the Coronavirus Large Business Interruption Loan Scheme (CLBILS), the Bounce Back Loan Scheme (BBL) and the Term Funding Scheme with additional incentives for SMEs (TFSME);
- operational changes have been made to ensure that as many colleagues as possible can work from home in accordance with the Government's "stay at home, protect the NHS, stay safe" objectives. These changes have been made in ways that allow us to continue to offer support to our customers during these difficult times;
- analysing various scenarios in order to understand and plan for potential outcomes;
- undertaking risk assessments and establishing action plans to address material control gaps;
- re-deploying skilled colleagues to customer support, business lending and financial care departments to ensure customers in or approaching financial difficulty are supported. This includes a balanced streamlining of processes and policies to ensure the timely provision of support to customers who require it most;
- evaluating the potential impacts on financial results, including impairment, provisioning and RWA calculations given the deep and prolonged customer impacts expected. Further detail on this can be found within the Credit risk section on page 8; and
- developing a programme to provide ongoing monitoring of risks, indicators and impacts, with regular reporting to appropriate Leadership Team members and Committees.

Principal risks and definitions

The Group's principal risks remain as disclosed in the 2019 Annual Report and Accounts and are shown below.

Credit risk

The risk of loss of principal or interest stemming from a borrower's failure to meet its contracted obligations to the Group in accordance with the terms agreed. Credit risk manifests at both a portfolio and transactional level.

Financial risk

Financial risk includes capital risk, funding risk, liquidity risk, market risk, model risk, pension risk and financial risks arising from climate change, all of which have the ability to impact the financial performance of the Group, if managed improperly.

Regulatory and compliance risk

The risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to information requests, not meeting regulatory deadlines or obstructing the regulator.

Conduct risk

The risk of undertaking business in a way that is contrary to the interests of customers, resulting in inappropriate customer outcomes or detriment, regulatory censure, redress costs and/or reputational damage.

Operational risk

The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events.

Financial crime risk

The risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties.

Technology risk

The risk of loss resulting from inadequate or failed information technology processes. Technology risk includes cybersecurity, IT resilience, information security, data privacy and payment risk.

Strategic and enterprise risk

The risk of significant loss of earnings or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments, including potential execution risk as a result of integration and transformation activity.

People risk

The risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and who behave in an ethical way.

Operational resilience underpins all nine principal risks and is defined as the ability of the Group to support its customers and protect and sustain the most critical functions and underlying assets, while adapting to expected or unexpected operational stress or disruption. In addition, operational resilience includes having the capacity to recover from issues as and when they arise. The Group assesses its operational resilience in relation to people, technology, third parties and premises, ensuring it aims to provide a superior level of support and services to customers and stakeholders on a consistent and uninterrupted basis.

COVID-19 impacts on principal risks

COVID-19 has emerged as a multi-faceted risk with a variety of implications for individuals, businesses and communities. The measures introduced to support the economy create new operational, conduct, enforceability and financial risks to the Group and these risks will be monitored and managed over time.

The most material potential impacts on the Group's principal risks are:

Risk	Key Mitigating actions
Credit Risk: Although the impact on the Group's retail and business credit portfolios is yet to fully manifest, it is clear that credit risk is heightened, with implications for the Group's customers, resulting in increased levels of capital repayment holidays, forbearance and other forms of customer support. Levels of default, provisions and impairments are also expected to increase over time.	The Group has amended credit frameworks and policies, providing temporary support to existing customers through capital repayment holidays, interest free overdrafts (for retail customers), extensions of credit, including through the CBILS and the CLBILS, and introduced a variety of additional supporting measures across all portfolios. The Group has implemented additional credit monitoring and updated the Risk Appetite Statement.
Operational Risk, Technology Risk and Financial Crime: Increased remote working, the implementation of new processes and the pressure on customer support areas all have the potential to increase the Group's operational risk profile. This could lead to increased errors or delays and subsequent loss. Enabling working from home can increase the risk of internal fraud, which may arise as a result of unauthorised access to critical systems and data. There is an increased risk of cyber-attacks, due to phishing emails which use a COVID-19 theme, and breaches could have legal, regulatory or privacy implications. There is an increased risk of fraud, as fraudsters take advantage of the vulnerabilities created by the current situation.	There is additional fraud monitoring, continuous risk assessment of temporary process changes, customers have been directed to digital banking and there continues to be enhanced focus on supplier service level agreements and contingency plans. A significant amount of work has been undertaken to enable and improve home working conditions, and network capacity for telephony has been increased to meet demand. System monitoring, incident management and escalation processes are in place with oversight from the Risk function. The Group has undertaken risk assessments for remote working, tracked policy exceptions, implemented additional controls such as an increased levels of monitoring and mobilised awareness initiatives.

COVID-19 impacts on principal risks (continued)

People Risk: There is an impact on colleague health from risk of illness and increased absence, in addition to longer-term well-being risks, such as mental health impacts, which may arise from societal factors. These factors could also increase pressure and reduce skills availability in key areas.	The Group is following government advice with colleagues working from home where possible, and social distancing and additional cleaning measures are in place to support key workers based in offices and branches. Vulnerable colleagues are not on site. The Group is ensuring that colleagues are protected through adhering to the government's physical and health measures, while recognising there is uncertainty surrounding timing of their removal or relaxation. Additional well-being programmes have been implemented to support colleagues.
Conduct Risk: There is the potential for harm to customers impacted by COVID-19 through failure to recognise customer circumstances, financial difficulties or vulnerability and to apply appropriate actions.	The Group is prioritising its customers and will maintain open and transparent communication with regulators. The Group is undertaking file reviews, call listening, managing contact centre availability and workflow management impacted due to increased volumes and reduced staff.
Financial Risk: Capital may be required to absorb the impact of heightened levels of credit risk and the expected increase of impairment levels over time. Wholesale funding markets may be fragile during high levels of uncertainty. Customers' use of deposits may change, particularly amongst businesses, and the taking of loan repayment holidays will alter cash flows for the management of liquidity.	Capital, funding and liquidity are all subject to extensive stress testing with the results informing the levels of capital and liquidity that are required to be held in the event of adverse conditions.

Emerging risks

The Group's risks are continually reviewed and reassessed through a horizon scanning process, with escalation and reporting to the Board. The horizon scanning process fully considers all relevant internal and external factors, and is designed to consider and capture those risks which are current but have not yet fully crystallised, as well as those which are expected to crystallise in future periods. These risks are allocated a status based on their expected impact and time to fully crystallise, in line with the definitions outlined in the RMF.

With the exception of material developments in the period as a result of COVID-19, the key emerging risks to the Group's strategy, as stated below, remain broadly unchanged to those set out in the 2019 Annual Report and Accounts.

Geo-political and macro-economic environment	The Group is exposed to a variety of risks resulting from a downturn in the UK economic environment. These risks are expected to crystallise in the near term due to the impact of the COVID-19 pandemic. The precise duration and depth of the downturn is uncertain, but risk to credit and margin performance are expected and significant disruption to both business supply and demand has already been seen. The efficacy of monetary and fiscal policy, and the speed and ability with which the UK can return to normal operating conditions, will determine the overall economic impact for the UK and the Group. Uncertainty remains regarding the future relationship between the UK and EU and whether the scheduled trade deal negotiations can be completed ahead of the transition period end date of 31 December 2020.

Risk overview (continued)

Emerging risks (continued)

Regulatory change	There is wide-ranging and material short-term disruption to firms and regulators as a result of COVID-19 that impacts customers, businesses and firms, requiring large-scale prioritisation decisions in a fast-moving and highly uncertain environment. The longevity of temporary changes (e.g. cancellation of the 2020 Annual Cyclical Scenario), or the possible requirement for lasting changes, is currently unknown and may impact firms in the medium term. Beyond COVID-19, there is continued evolution of the regulatory landscape, and the requirement to respond to on-going prudential and conduct driven initiatives.
Competition	The Group continues to operate in a highly competitive environment, with growth across a number of digital-only providers, and emerging signs of participation from large technology companies. Forced changes in customer behaviour, as a result of COVID 19, could make it easier, and faster, for these digital companies to enter the UK financial services market. As the market continues to react to COVID-19, and the impacts become clearer, it will be necessary to remain agile, focused and responsive to ensure we are addressing new risks in a safe and efficient manner. This increased competition within the financial services industry could also drive consolidation within the market, as banks review ways of increasing their UK footprint.
Climate change	The Group continues to consider its exposure to the physical, transitional and reputational risks arising from climate change, and the transition to a low carbon economy, which have the potential to impact the Group's customers, strategic priorities and operational activities.

Further detail on these risks and how they are managed is available in the 2019 Annual Report and Accounts.

Risk report
Credit risk

Credit risk is the risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. Credit risk manifests itself in the financial instruments and/or products that the Group offers, and those in which the Group invests (including, among others, loans, guarantees, credit-related commitments, letters of credit, acceptances, inter-bank transactions, foreign exchange transactions, swaps and bonds). Credit risk can be found both on-balance sheet and off-balance sheet.

COVID-19 Assessment

The single largest impact on the Group's credit risk profile, for the six months to 31 March 2020, has been the emergence of the COVID-19 pandemic.

The implications of the COVID-19 pandemic on both the Global and UK macro-economic environment is evolving and fluid. Given the fluidity it has not been possible to fully reflect anticipated economic impacts in the underlying assumptions embedded within the IFRS 9 models. As a result, the Group's approach to estimating the impact of COVID-19 on impairment provisioning has been partially enacted through post model adjustments, and in doing so has not impacted the staging composition of the portfolios as at 31 March 2020. A three-stage approach has been adopted comprising (i) weighting the existing IFRS 9 models to a 100% severe downside scenario; (ii) applying additional expert credit risk judgment overlays in relation to the individual portfolios based on customer insight and expected behaviour; and (iii) modelling a "pandemic" scenario for our largest at risk portfolios of business and credit cards. The additional expert credit risk judgement is based on an assessment of credit performance at both the portfolio and customer level for Business lending with a particular focus on higher risk sectors and specific segments of the portfolio. For the mortgages and personal portfolios, expert judgement and historical data has been used to determine what proportion of customers, for example, those granted payment holidays, could potentially lead to credit losses. The outcome of this has resulted in an increase to the impairment provision of £164m, split £110m in Business, £39m in Personal and £15m in Mortgages. After reallocating some of the existing provision for economic uncertainty, the net increase to the impairment charge is £146m, split £104m in Business, £32m in Personal and £10m in Mortgages.

IFRS 9 Methodology
While the overall policies and methodologies adopted by the Group relative to the calculation of IFRS 9 provision are compliant with the standard, there are differences in the detail relating to the two heritage businesses inputs and process supporting the Expected Credit Loss (ECL) calculation. The complexity of the underlying data, model related methodology and inputs used means that a single methodology in providing a combined Group ECL view, while being developed, is not possible at this point in time, with each heritage retaining its own distinct set of IFRS 9 compliant models.

Key credit metrics

	As at		
	31 Mar 2020 (unaudited) £m	30 Sept 2019 (audited) £m	31 Mar 2019 (unaudited) £m
Impairment provisions held on credit exposures[(1)] (pre COVID-19 overlay)			
Mortgage lending	**40**	40	35
Personal lending	**199**	175	152
Business lending	**157**	147	163
	396	362	350

	As at		
	31 Mar 2020 (unaudited) £m	30 Sept 2019 (audited) £m	31 Mar 2019 (unaudited) £m
Impairment provisions held on credit exposures[(1)] (post COVID-19 overlay)			
Mortgage lending	**50**	40	35
Personal lending	**231**	175	152
Business lending	**261**	147	163
	542	362	350

(1) The impairment provision includes an element relating to the Group's undrawn credit exposures.

Risk report
Credit risk (continued)

Key credit metrics (continued)

	6 months to 31 Mar 2020 (unaudited) £m	Pro-forma[3] 12 months to 30 Sept 2019 (unaudited) £m	Pro- forma 6 months to 31 Mar 2019 (unaudited) £m
Underlying impairment charge on credit exposures[1]			
Mortgage lending (pre COVID-19)	**2**	4	1
Mortgage lending impairment overlay for COVID-19	**10**	n/a	n/a
Personal lending (pre COVID-19)	**68**	124	584
Personal lending impairment overlay for COVID-19	**32**	n/a	n/a
Business lending (pre COVID-19)	**16**	25	18
Business lending impairment overlay for COVID-19	**104**	n/a	n/a
	232	153	77
Asset quality measures:			
Underlying cost of risk pre COVID-19[2]	**0.23%**	0.21%	0.21%
Underlying cost of risk post COVID-19 overlay	**0.63%**	n/a	n/a
Stage 3 assets to customer loans	**1.13%**	1.09%	1.08%
Total provision to customer loans pre COVID-19	**0.55%**	0.50%	0.49%
Total provision to customer loans post COVID-19 overlay	**0.75%**	n/a	n/a
Stage 3 provision to Stage 3 loans	**18.38%**	14.32%	15.00%

(1) The underlying impairment charge in the 2019 periods exclude the impact of the acquisition of Virgin Money Holdings (UK) PLC on 15th October 2018.
(2) Inclusive of gains/losses on assets held at fair value and elements of fraud loss.
(3) The comparative has been restated in line with the current period presentation.

The increase in the underlying pre-COVID-19 impairment charge, to £86m for the 6 months to 31 March 2020 (£77m H1 FY19; £76m H2 FY19) reflects a higher charge on business exposures as a result of portfolio growth and the recognition of a small number of , individually significant, provisions. The charge relative to personal exposures has also increased due to a higher level of early stage delinquency and arrears, together with a lower level of recoveries, the pre-COVID-19 cost of risk, at 23bps, is reflective of normalisation and is in line with expectations.

Overall asset quality remained resilient, reflective of the focus on responsible credit decisions and controlled risk appetite. The level of Stage 3 assets remains modest against a growing book and demonstrates the credit quality of the portfolios, supported by the low interest rate environment. The ratio of total provisions to customer loans, pre-COVID-19, at 0.55% is reflective of a well-collateralised portfolio, supported by the size of the mortgage portfolio which proportionately requires a lower provision coverage.

The distribution of the Group’s gross loans and advances is analysed below:

As at 31 March 2020 (unaudited)	**Stage 1 £m**	**Stage 2 <30 DPD £m**	**Stage 2 >30 DPD £m**	**Stage 2 Total £m**	**Stage 3 £m**	**Stage 3 POCI £m**	**Total £m**
Mortgages	**56,906**	**2,180**	**188**	**2,368**	**398**	**92**	**59,764**
Personal of which:	**4,929**	**425**	**35**	**460**	**66**	**5**	**5,460**
- credit cards	***3,875***	***384***	***28***	***412***	***50***	***5***	***4,342***
- personal overdrafts	***42***	***-***	***1***	***1***	***3***	***-***	***46***
- other retail lending	***1,012***	***41***	***6***	***47***	***13***	***-***	***1,072***
Business	**5,567**	**2,456**	**3**	**2,459**	**273**	**-**	**8,299**
Closing balance	**67,402**	**5,061**	**226**	**5,287**	**737**	**97**	**73,523**

Key credit metrics (continued)

As at 30 September 2019 (audited)

	Stage 1 £m	Stage 2 <30 DPD £m	Stage 2 >30 DPD £m	Stage 2 Total £m	Stage 3 £m	Stage 3 POCI £m	Total £m
Mortgages	58,120	1,637	168	1,805	363	103	60,391
Personal of which:	4,787	392	32	424	61	8	5,280
- credit cards	*3,806*	*353*	*25*	*378*	*46*	*8*	*4,238*
- personal overdrafts	*53*	*-*	*1*	*1*	*4*	*-*	*58*
- other retail lending	*928*	*39*	*6*	*45*	*11*	*-*	*984*
Business	5,016	2,280	5	2,285	272	-	7,573
Closing balance	67,923	4,309	205	4,514	696	111	73,244

The lending portfolio increased by £279m between 1 October 2019 and 31 March 2020, with growth in both business and personal lending marginally offset by a small contraction in mortgages lending.

Mortgages - With total gross loans and advances of £59.84bn as at 31 March 2020, there has been marginal underlying contraction in the portfolio. Over 95% are classed as Stage 1, reflective of the strong credit quality of the portfolio. Stage 3 purchased or originated credit impaired (POCI) for Mortgages reduced from £103m as at 30 September 2019 to £92m as at 31 March 2020, as a result of customer redemptions and balance paydowns.

Personal - Of the £5.5bn total personal portfolio, the majority is credit cards, at £4.3bn. The growth in the period results mainly from the credit cards portfolio, however there has also been an increase in the balance of personal loans. The personal portfolio continues to evidence stable performance with 90% of balances classed as Stage 1. Stage 3 POCI has reduced from £8m as at 30 September 2019 to £5m as at 31 March 2020, due to write-offs and customer balance paydowns.

Business - At £8.3bn, business lending continues to evidence strong underlying growth. The proportion of lending in Stage 2 has remained stable at 30%, reflective of the Group's controlled and cautious approach to identifying customers experiencing financial difficulty and, where appropriate, providing early intervention assistance such as forbearance, to support customers in meeting their financial commitments to the Group.

Credit quality of loans and advances as at 31 March 2020 (unaudited)

The following tables highlight the significant exposure to credit risk in respect of which the ECL model is applied for the Group's Mortgage, Personal and Business loans and advances, including loan commitments and financial guarantee contracts, based on the following risk gradings.

Credit risk exposure, by internal probability of default (PD) rating, by IFRS 9 stage allocation (unaudited)

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

As at 31 March 2020

	Gross carrying amount				
	Stage 1 12 month ECLs £m	**Stage 2 (not credit impaired) Lifetime ECLs £m**	**Stage 3 (credit impaired) Lifetime ECLs £m**	**Stage 3 (POCI) Lifetime ECLs £m**	**Total £m**
Mortgages					
<0.15	**36,087**	**369**	**-**	**-**	**36,456**
0.15 to <0.25	**6,135**	**178**	**-**	**-**	**6,313**
0.25 to <0.50	**9,040**	**395**	**-**	**-**	**9,435**
0.50 to <0.75	**2,683**	**170**	**-**	**-**	**2,853**
0.75 to <2.50	**2,561**	**629**	**-**	**-**	**3,190**
2.50 to <10.00	**339**	**266**	**-**	**-**	**605**
10.00 to <100.00	**61**	**361**	**-**	**-**	**422**
100.00 (Default)	**-**	**-**	**398**	**92**	**490**
Total	**56,906**	**2,368**	**398**	**92**	**59,764**

Personal					
<0.15	**81**	**-**	**-**	**-**	**81**
0.15 to <0.25	**70**	**-**	**-**	**-**	**70**
0.25 to <0.50	**1,248**	**5**	**-**	**-**	**1,253**
0.50 to <0.75	**1,001**	**7**	**-**	**-**	**1,008**
0.75 to <2.50	**1,910**	**35**	**-**	**-**	**1,945**
2.50 to <10.00	**584**	**250**	**-**	**-**	**834**
10.00 to <100.00	**35**	**163**	**-**	**-**	**198**
100.00 (Default)	**-**	**-**	**66**	**5**	**71**
Total	**4,929**	**460**	**66**	**5**	**5,460**
Business					
<0.15	**658**	**5**	**-**	**-**	**663**
0.15 to <0.25	**308**	**10**	**-**	**-**	**318**
0.25 to <0.50	**785**	**56**	**-**	**-**	**841**
0.50 to <0.75	**365**	**118**	**-**	**-**	**483**
0.75 to <2.50	**2,373**	**971**	**-**	**-**	**3,344**
2.50 to <10.00	**1,078**	**1,159**	**-**	**-**	**2,237**
10.00 to <100.00	**-**	**140**	**-**	**-**	**140**
100.00 (Default)	**-**	**-**	**273**	**-**	**273**
Total	**5,567**	**2,459**	**273**	**-**	**8,299**

Credit quality of loans and advances as at 30 September 2019 (audited)

As at 30 September 2019

	Gross carrying amount				
	Stage 1 12 month ECLs £m	Stage 2 (not credit impaired) Lifetime ECLs £m	Stage 3 (credit impaired) Lifetime ECLs £m	Stage 3 (POCI) Lifetime ECLs £m	Total £m
Mortgages					
<0.15	38,816	389	-	-	39,205
0.15 to <0.25	5,836	103	-	-	5,939
0.25 to <0.50	7,983	245	-	-	8,228
0.50 to <0.75	2,422	96	-	-	2,518
0.75 to <2.50	2,648	455	-	-	3,103
2.50 to <10.00	376	274	-	-	650
10.00 to <100.00	39	243	-	-	282
100.00 (Default)	-	-	363	103	466
Total	58,120	1,805	363	103	60,391
Personal					
<0.15	93	-	-	-	93
0.15 to <0.25	68	-	-	-	68
0.25 to <0.50	1,326	6	-	-	1,332
0.50 to <0.75	967	8	-	-	975
0.75 to <2.50	1,743	36	-	-	1,779
2.50 to <10.00	553	231	-	-	784
10.00 to <100.00	37	143	-	-	180
100.00 (Default)	-	-	61	8	69
Total	4,787	424	61	8	5,280

Credit quality of loans and advances as at 30 September 2019 (audited) (continued)

Business					
<0.15	530	5	-	-	535
0.15 to <0.25	440	17	-	-	457
0.25 to <0.50	718	52	-	-	770
0.50 to <0.75	535	101	-	-	636
0.75 to <2.50	2,199	1,019	-	-	3,218
2.50 to <10.00	592	919	-	-	1,511
10.00 to <100.00	2	172	-	-	174
100.00 (Default)	-	-	272	-	272
Total	5,016	2,285	272	-	7,573

The following tables disclose the impairment allowance by portfolio:

As at 31 March 2020 (unaudited)

	Stage 1 £m	**Stage 2 <30 DPD £m**	**Stage 2 >30 DPD £m**	**Stage 2 Total £m**	**Stage 3 £m**	**Stage 3 POCI £m**	**Total £m**
Mortgages	**7**	**8**	**7**	**15**	**29**	**(1)**	**50**
Personal of which:	**79**	**92**	**20**	**112**	**42**	**(2)**	**231**
- credit cards	***65***	***85***	***15***	***100***	***30***	***(2)***	***193***
- personal overdrafts	***2***	***-***	***1***	***1***	***3***	***-***	***6***
- other retail lending	***12***	***7***	***4***	***11***	***9***	***-***	***32***
Business	**44**	**140**	**-**	**140**	**77**	**-**	**261**
Closing balance	**130**	**240**	**27**	**267**	**148**	**(3)**	**542**

As at 30 September 2019 (audited)

	Stage 1 £m	Stage 2 <30 DPD £m	Stage 2 >30 DPD £m	Stage 2 Total £m	Stage 3 £m	Stage 3 POCI £m	Total £m
Mortgages	6	5	4	9	26	(1)	40
Personal of which:	53	71	16	87	37	(2)	175
- credit cards	*42*	*65*	*12*	*77*	*28*	*(2)*	*145*
- personal overdrafts	*2*	*-*	*1*	*1*	*3*	*-*	*6*
- other retail lending	*9*	*6*	*3*	*9*	*6*	*-*	*24*
Business	20	72	-	72	55	-	147
Closing balance	79	148	20	168	118	(3)	362

The Group's impairment allowance has increased by £180m in the period from 1 October 2019 to 31 March 2020, which is primarily due to the impact of the COVID-19 related overlay of £164m.

Mortgages - The Mortgage impairment allowance of £50m is reflective of the level of collateral held and the low expected credit loss for this portfolio. The increase from September 2019 is due to the £15m impact of COVID-19 overlay.

Personal - The total impairment allowance for the personal portfolio of £231m has increased by £56m, of which £39m is attributed to the COVID-19 overlay. The underlying increase in impairment allowance over the period is almost entirely due to the credit cards portfolio as a result of the combined effect of portfolio growth, higher default rates due to seasoning and maturation of the portfolio and routine recalibration of underlying provisioning models.

Business - Total impairment allowance for the business portfolio increased by £114m to £261m, primarily due to the impact of the COVID-19 overlay. The pre-COVID-19 increase is due to the growth in the portfolio over the period.

Coverage ratios

As at 31 March 2020 (unaudited)

	Stage 1	Stage 2 <30 DPD	Stage 2 >30 DPD	Stage 2 Total	Stage 3	Stage 3 POCI	Total
	%	%	%	%	%	%	%
Mortgages	**0.01**	**0.39**	**3.88**	**0.67**	**7.23**	**(0.58)**	**0.09**
Personal of which:	**1.65**	**22.44**	**59.68**	**25.27**	**66.67**	**(36.72)**	**4.40**
- credit cards	***1.69***	***22.83***	***54.95***	***25.03***	***63.13***	***(36.72)***	***4.56***
- personal overdrafts	***5.51***	***13.69***	***66.06***	***57.77***	***86.07***	**-**	***12.20***
- other retail lending	***1.32***	***18.59***	***82.36***	***26.83***	***76.05***	**-**	***3.32***
Business	**0.80**	**5.86**	**6.37**	**5.86**	**29.14**	**-**	**3.23**
Closing balance	**0.19**	**4.84**	**12.35**	**5.16**	**20.43**	**(2.43)**	**0.75**

As at 30 September 2019 (audited)

	Stage 1	Stage 2 <30 DPD	Stage 2 >30 DPD	Stage 2 Total	Stage 3	Stage 3 POCI	Total
	%	%	%	%	%	%	%
Mortgages	0.01	0.29	2.26	0.47	7.13	(0.80)	0.07
Personal of which:	1.15	18.22	51.18	20.64	62.14	(22.61)	3.39
- credit cards	*1.11*	*18.49*	*46.91*	*20.35*	*60.39*	*(22.61)*	*3.42*
- personal overdrafts	*5.00*	*14.17*	*66.02*	*56.00*	*91.21*	-	*11.41*
- other retail lending	*1.09*	*15.56*	*68.29*	*22.35*	*60.64*	-	*2.75*
Business	0.40	3.13	2.27	3.13	19.99	-	1.93
Closing balance	0.12	3.41	9.68	3.69	16.89	(2.30)	0.50

The coverage ratio increased by 25bps in the period, of which 21bps can be attributed to the impact of the COVID-19 related overlay

Mortgages - The coverage ratio increased by 2bps in the period as a result of the COVID-19 overlay. On an underlying basis the coverage ratio remained stable at 7bps, reflective of the composition, quality and value of the mortgage portfolio.

Personal - The total coverage ratio increased by 101bps, with the COVID-19 overlay representing 61bps. Underlying coverage of 3.79% is an increase of 40bps, primarily due to the increased early delinquency and arrears and maturation of the portfolios.

Business - Coverage for the business portfolio increased by 130bps, almost all of which is attributable to the COVID-19 overlay. Excluding the impact of the overlay, the underlying increase was 2bps reflective of portfolio growth in Stage 1 where proportionately less provision coverage is required, and a small number of significant write-offs from Stage 3. Coverage in Stage 2 for the business portfolio has reduced on an underlying basis to 3.07%

Reconciliation of movement in gross balances and impairment loss allowance (unaudited)

The following tables explain the changes in the loss allowance and gross carrying value of the portfolios between 30 September 2019 and 31 March 2020. 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.

	Non credit impaired				Credit impaired				Total	Total
	Stage 1		Stage 2		Stage 3		Stage 3 POCI			
	Gross Loans £m	ECL £m	Gross Loans £m	ECL £m	Gross Loans £m	ECL £m	Gross Loans £m	ECL £m	Gross Loans £m	ECL £m
Opening balance at 1 October 2019	67,923	79	4,514	168	696	118	111	(3)	73,244	362
Transfers Across Stages	(1,511)	(3)	790	29	141	54	-	-	(580)	80
Assets Originated or Purchased.	9,790	42	529	37	68	3	-	-	10,387	82
Repayments and Other movements	(8,800)	12	(546)	33	(100)	29	(13)	1	(9,459)	75
Write-offs	-	-	-	-	(68)	(68)	(1)	(1)	(69)	(69)
Cash Recoveries	-	-	-	-	-	12	-	-	-	12
Closing balance at 31 March 2020	67,402	130	5,287	267	737	148	97	(3)	73,523	542

The contractual amount outstanding on loans and advances that were written off during the reporting period or still subject to enforcement activity was £2.9m.

Transfers Across Stage - The net movement of loan and ECL balances across the IFRS stages

Assets originated or purchased - The balance and ECL calculated on newly opened or originated assets. Assets where the term has ended, and a new facility has been provided are reported as new assets.

Repayments and other movements - Movements due to customer repayment and other minor movements not captured under any other category.

Write-offs - The amount of principal written off and derecognised from the balance sheet.

Cash recoveries - ECL impact of payments received on assets that had previously been written off.

Mortgage lending by average loan to value ratio (LTV)

The LTV ratio of mortgage lending, coupled with the relationship of the debt to customers' income, is key to the credit quality of these loans. The table below sets out the indexed LTV analysis of the Group's mortgage stock:

LTV[(1)]	**31 Mar 2020 (unaudited) %**	30 Sep 2019 (audited) %
Less than 50%	**34**	35
50% to 75%	**49**	48
76% to 80%	**6**	6
81% to 85%	**5**	5
86% to 90%	**4**	4
91% to 95%	**2**	2
96% to 100%	**-**	-
Greater than 100%	**-**	-
	100	100

(1) LTV of the mortgage portfolio is defined as mortgage portfolio weighted by balance. The heritage Clydesdale and Yorkshire Bank portfolios are indexed using the MIAC Acadametrics indices at a given date, while the heritage Virgin Money portfolio is indexed using the Markit indices. The Group view is a combined summary of the two portfolios.

Forbearance

In dealing with the exceptional challenges posed by COVID-19 and to ensure the appropriate provision of support for our customers, a number of concessions have been, and will continue to be, granted in response to the short-term financial consequences for our customers. In line with regulatory guidance, these interim measures are not considered to be forbearance, as determined by the Group's Forbearance Policy, and have not been reflected in the Group's forbearance disclosures.

Where underlying, longer term financial difficulties are evident the Group's normal forbearance assessment applies.

Mortgage and Personal forbearance

The table below summarises the level of forbearance in respect of the Group's mortgage and credit card portfolios at each balance sheet date. All balances subject to forbearance are classed as either Stage 2 or Stage 3 for ECL purposes.

As at 31 March 2020 (unaudited)

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Formal arrangements	**1,333**	**159**	**0.26**	**6.7**	**4.20**
Temporary arrangements	**856**	**111**	**0.19**	**4.2**	**3.81**
Payment arrangement	**1,353**	**134**	**0.22**	**3.1**	**2.34**
Payment holiday	**1,340**	**148**	**0.25**	**1.4**	**0.97**
Interest only conversion	**353**	**53**	**0.09**	**0.2**	**0.43**
Term extension	**165**	**14**	**0.02**	**0.1**	**0.59**
Other	**33**	**3**	**0.01**	**-**	**0.62**
Legal	**135**	**12**	**0.02**	**1.0**	**8.20**
Total mortgage forbearance	**5,568**	**634**	**1.06**	**16.7**	**2.65**
Personal forbearance - credit cards	**6,609**	**30**	**0.61**	**14.0**	**46.73**
Total	**12,177**	**664**	**1.03**	**30.7**	**4.59**

As at 30 September 2019 (audited)

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of loans	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Formal arrangements	1,352	157	0.26	4.4	2.83
Temporary arrangements	913	119	0.20	3.1	2.62
Payment arrangement	1,118	113	0.19	1.6	1.41
Payment holiday	981	114	0.19	0.7	0.58
Interest only conversion	358	54	0.09	0.3	0.57
Term extension	174	16	0.03	0.1	0.64
Other	35	3	0.00	-	0.50
Legal	130	13	0.02	0.3	2.46
Total mortgage forbearance	5,061	589	0.98	10.5	1.79
Personal forbearance - credit cards	5,522	24	0.53	9.5	41.30
Total	10,583	613	0.95	20.0	3.31

Mortgage and Personal forbearance (continued)

Relative to Mortgages, when all other avenues of resolution including forbearance have been explored, the Group will take steps to repossess and sell underlying collateral. In the period to 31 March 2020, there were 34 repossessions of which 8 were voluntary (12 months to 30 September 2019: 66 including 14 voluntary).

Forbearance - other personal lending

Excluding credit cards, the Group currently exercises limited forbearance strategies in relation to other types of personal lending; namely current accounts and personal loans. The Group has assessed the total loan balances subject to forbearance on other types of personal lending to be £10.9m as at 31 March 2020 (30 September 2019: £11.5m), representing 1.08% of the personal lending portfolio (30 September 2019: 1.10%).

Impairment provisions on forborne balances totalled £4.2m as at 31 March 2020 (30 September 2019: £3.6m) providing overall coverage of 38.3% (30 September 2019: 31.58%).

Business forbearance

The tables below summarise the total number of arrangements in place and the loan balances and impairment provisions associated with those arrangements. All balances subject to forbearance are classed as either Stage 2 or Stage 3 for ECL purposes.

As at 31 March 2020 (unaudited)

	Total loans and advances subject to forbearance measures			Impairment allowance on loans subject to forbearance measures	
	Number of customers	**Gross carrying amount £m**	**% of total portfolio**	**Impairment allowance £m**	**Coverage %**
Term extension	**199**	**189**	**2.23**	**22.9**	**12.15**
Deferral of contracted capital repayments	**86**	**98**	**1.16**	**19.3**	**19.75**
Reduction in contracted interest rate	**2**	**1**	**0.01**	**0.1**	**5.32**
Alternative forms of payment	**2**	**6**	**0.08**	**0.4**	**5.97**
Debt forgiveness	**2**	**4**	**0.05**	**0.3**	**6.89**
Refinancing	**17**	**9**	**0.10**	**2.1**	**23.45**
Covenant breach/reset/waiver	**55**	**201**	**2.37**	**36.2**	**18.02**
Total business forbearance	**363**	**508**	**6.00**	**81.3**	**16.00**

As at 30 September 2019 (audited)

	Total loans and advances subject to forbearance measures			Impairment allowance on loans and advances subject to forbearance measures	
	Number of customers	Gross carrying amount £m	% of total portfolio	Impairment allowance £m	Coverage %
Term extension	187	153	1.93	14.9	9.70
Deferral of contracted capital repayments	98	134	1.68	15.0	11.16
Reduction in contracted interest rate	3	1	0.02	-	3.37
Alternative forms of payment	2	7	0.08	0.4	5.37
Debt forgiveness	2	4	0.05	-	1.06
Refinancing	16	10	0.12	1.5	15.03
Covenant breach/reset/waiver	60	200	2.50	23.6	11.82
Total business forbearance	368	509	6.38	55.4	10.87

Included in other financial assets at fair value is a portfolio of loans which are included in the above table. The gross value of fair value loans subject to forbearance as at 31 March 2020 is £6m (30 September 2019: £8m), representing 0.07% of the total business portfolio (30 September 2019: 0.11%). The credit risk adjustment on these amounts totalled £0.2m (30 September 2019: £0.6m), a coverage of 4.26% (30 September 2019: 6.94%).

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, model risk, pension risk and financial risks arising from climate change.

Capital risk

Capital is held by the Group to protect its depositors, to cover inherent risks in a normal and stressed operating environment and to support the Group's strategy of pioneering growth. Capital risk is the risk that the Group has insufficient quantity or quality of capital to support its operations.

Included in this section are certain Pillar 3 disclosures which the Group has assessed as requiring semi-annual disclosure.

Regulatory capital developments

The Group measures the amount of capital it is required to hold by applying CRD IV as implemented in the UK by the Prudential Regulation Authority (PRA) and supplemented through additional regulation under the PRA Rulebook. The table below summarises the amount of capital in relation to RWAs the Group is currently required to hold, excluding any PRA Buffer. These ratios apply at the consolidated Group level.

	As at 31 March 2020	
Minimum requirements (unaudited)	**CET1**	**Total capital**
Pillar 1(1)	4.5%	8.0%
Pillar 2A	2.9%	5.2%
Total capital requirement	**7.4%**	**13.2%**
Capital conservation buffer	2.5%	2.5%
UK countercyclical capital buffer(2)	0.0%	0.0%
Total (excluding PRA buffer)(3)	**9.9%**	**15.7%**

(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 UK countercyclical capital buffer (CCyB) is set by the Financial Policy Committee (FPC). On 11 March 2020, as part of a package of measures to combat the COVID-19 virus, the FPC announced an immediate reduction of the UK CCyB from 1.00% to 0.00%.

(3) The Group may be subject to a PRA buffer as set by the PRA but is not permitted to disclose the level of any buffer. A PRA buffer can consist of two components:
- a risk management and governance buffer that is set as a scalar of the Pillar 1 and Pillar 2A requirements.
- a buffer relating to the results of the Band of England stress tests.

The Group continues to maintain a significant buffer to its CRD IV minimum CET1 requirement of 9.9%, being a buffer equivalent to £0.8 billion.

The Group's total capital Pillar 2A requirement has reduced from 5.3% at September 2019 to 5.2% at March 2020. This is because some elements of the Pillar 2A requirement are fixed and therefore represent a lower percentage of RWAs following the RWA growth seen since September 2019.

The UK countercyclical capital buffer (CCyB) may be set between 0% and 2.5%. At its December 2019 meeting, the FPC raised the level of the UK CCyB rate that it expects to set in a standard risk environment from in the region of 1% to in the region of 2% and accordingly raised the UK CCyB rate from 1% to 2% which would have taken effect in December 2020.

The FPC also noted that the PRA would consult in 2020 on a proposal to reduce variable Pillar 2A requirements for the largest UK banks by 50% of the relevant firm-specific increase in the UK CCyB rate.

The FPC stated that its intention was to leave the overall loss-absorbing capacity in the banking system broadly unaffected but that the changes will shift the balance of that capacity to higher-quality Tier 1 capital. The PRA's consultation has since been launched and was in line with these proposals.

However, on 11 March 2020, as part of the package of measures to combat the COVID-19 virus, the FPC announced a reduction in the UK CCyB to 0% with immediate effect. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

The Bank of England has not yet advised the Group's final MREL requirements. From 1 January 2020 until 31 December 2021, the Group is required to hold 18% of RWA in the form of MREL. From 1 January 2022, the Group continues to expect that it will be subject to an end state MREL of two times Pillar 1 and Pillar 2A capital.

Following the Bank of England's announcement on 20 March 2020, in relation to supervisory and prudential policy measures to address the challenges of COVID-19, the requirements to comply with updates to definition of default, as well as mortgage Hybrid PD and loss given default (LGD) are now required to be approved and implemented by 1 January 2022, a year later than the original timeline.

Regulatory capital developments (continued)

Distributable reserves are determined as required by the Companies Act 2006 by reference to a company's individual financial statements. At 31 March 2020, the Bank had accumulated distributable reserves of £1,018m (30 September 2019: £1,015m).

Capital position

The Group's capital position as at 31 March 2020 is summarised below.

Regulatory capital (unaudited)[(1)]

	31 Mar 2020 £m	30 Sep 2019 £m
Statutory total equity	**5,197**	5,141
CET1 capital: Regulatory Adjustments[(2)]		
External note reserve	**(672)**	(672)
Defined benefit pension fund assets	**(402)**	(257)
Prudent valuation adjustment	**(5)**	(5)
Intangible assets	**(501)**	(501)
Goodwill	**(11)**	(11)
Deferred tax asset relying on future profitability	**(268)**	(250)
Cash flow hedge reserve	**50**	25
Excess expected losses	**-**	(88)
AT1 coupon accrual	**(21)**	(20)
IFRS 9 transitional adjustments	**147**	100
Total CET1 capital	**3,514**	3,462
AT1 capital		
AT1 capital instruments	**672**	672
Total AT1 capital	**672**	672
Total Tier 1 capital	**4,186**	4,134
Tier 2 capital		
Subordinated debt	**723**	723
IRB excess provisions over expected losses	**5**	-
Total Tier 2 capital	**728**	723
Total regulatory capital	**4,914**	4,857

(1) The table shows the capital position on a CRD IV \`fully loaded\` basis and transitional IFRS 9 basis
(2) A number of regulatory adjustments to CET1 capital are required under CRD IV regulatory capital rules.

Capital position (continued)

Regulatory capital flow of funds (unaudited)[1]	31 Mar 2020 £m	30 Sep 2019 £m
CET1 capital[2]		
CET1 capital at 1 October	**3,462**	2,148
Share capital: ordinary share new issuance	**-**	1,779
Retained earnings and other reserves (including special purpose entities)	**55**	(186)
Prudent valuation adjustment	**-**	(2)
Intangible assets	**-**	(89)
Goodwill	**-**	(11)
Deferred tax asset relying on future profitability	**(18)**	(58)
Defined benefit pension fund assets	**(145)**	(119)
Cash flow hedge reserve	**25**	(12)
IRB shortfall of credit risk adjustments to expected losses	**88**	(88)
IFRS 9 transitional relief	**47**	100
Total CET1 capital	**3,514**	3,462
AT1 capital		
AT1 capital at 1 October	**672**	425
Share capital issued: AT1 capital issued	**-**	247
Total AT1 capital	**672**	672
Total Tier 1 capital	**4,186**	4,134
Tier 2 capital		
Tier 2 capital at 1 October	**723**	629
IRB excess provisions over expected losses	**5**	-
Credit risk adjustments[3]	**-**	(152)
Other movements	**-**	(1)
Capital instruments issued: subordinated debt	**-**	247
Total Tier 2 capital	**728**	723
Total capital	**4,914**	4,857

(1) The table shows the capital position on a CRD IV `fully loaded` basis and transitional IFRS 9 basis.
(2) CET1 capital is comprised of shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.
(3) The transition to IFRS 9 reporting has removed the requirement for Tier 2 credit risk adjustments.

The Group's CET1 capital increased by £52m in the first six months of the year, primarily due to movement in the internal ratings-based (IRB) shortfall of credit risk adjustments to expected losses. This was driven by an increase in impairment provisions as a result of the COVID-19 related overlay, alongside an increase in retained earnings. These increases are offset by a charge to the Group's defined benefit pension scheme which was closed to future accrual for most members on 1 August 2017.

AT1 and Tier 2 capital remained stable during the first six months of the year.

Minimum Pillar 1 capital requirements (unaudited)	31 Mar 2020 £m	30 Sep 2019 £m
Credit risk	**1,771**	1,685
Operational risk	**209**	209
Counterparty credit risk	**18**	15
Credit valuation adjustment	**16**	15
Total Pillar 1 regulatory capital requirements	**2,014**	1,924

Capital (continued)

IFRS 9 transitional arrangements[1] (unaudited)

	31 March 2020 (£m)	
Available capital (amounts)	**IFRS 9 Transitional basis**	**IFRS 9 Fully loaded basis**
CET1 capital	**3,514**	**3,367**
Tier 1 capital	**4,186**	**4,039**
Total capital	**4,914**	**4,767**
RWA (amounts)		
Total RWA	**25,171**	**25,072**
Capital ratios		
CET1 (as a percentage of risk exposure amount)	**14.0%**	**13.4%**
Tier 1 (as a percentage of risk exposure amount)	**16.6%**	**16.1%**
Total capital (as a percentage of risk exposure amount)	**19.5%**	**19.0%**
Leverage ratio		
Leverage ratio total exposure measure	**94,444**	**94,298**
Leverage ratio	**4.4%**	**4.3%**

(1) The table shows a comparison of capital resources, requirements and ratios with and without the application of transitional arrangements for IFRS 9.

Transitional arrangements in Capital Requirements Regulation (CRR) mean the regulatory capital impact of ECL is being phased in over time. The Group currently receives 85% relief on new provisions due to IFRS 9.

RWA movements (unaudited)

	6 months to 31 March 2020					6 months to 30 September 2019				
RWA flow statement	**IRB RWA £m**	**STD RWA £m**	**Other RWA £m**	**Total £m**	**Capital Required £m**	IRB RWA £m	STD RWA £m	Other RWA £m	Total £m	Capital required £m
RWA at 1 October	**15,104**	**5,938**	**3,004**	**24,046**	**1,924**	15,318	5,547	3,009	23,874	1,910
Asset size	**213**	**314**	**48**	**575**	**46**	129	372	(5)	496	40
Asset quality	**135**	**86**	**-**	**221**	**18**	156	(7)	-	149	12
Model updates[1]	**(148)**	**-**	**-**	**(148)**	**(12)**	(511)	-	-	(511)	(41)
Methodology and policy	**417**	**-**	**-**	**417**	**33**	11	-	-	11	1
Other	**-**	**60**	**-**	**60**	**5**	1	26	-	27	2
RWA at 31 March	**15,721**	**6,398**	**3,052**	**25,171**	**2,014**	15,104	5,938	3,004	24,046	1,924

(1) Model updates include the mortgage quarterly PD calibrations.

Methodology and policy movements have been driven primarily by the inclusion of a new mortgage LGD model, approved by the regulator and deployed into the heritage Virgin Money rating system in March 2020. This resulted in an uplift of £511m in RWA, reflecting increased risk sensitivity and improved downturn estimation. The other material change is the inclusion of additional eligible collateral types within the business portfolio following approval by the PRA, resulting in a reduction of RWA of £94m.

Capital (continued)

Pillar 1 RWA and capital requirements by business line (unaudited)

	At 31 March 2020			At 30 September 2019		
Capital requirements for calculating RWA	**Capital required £m**	**RWA £m**	**Exposure £m**	Capital required £m	RWA £m	Exposure £m
Corporates	**529**	**6,617**	**8,971**	501	6,258	8,587
Retail	**728**	**9,104**	**63,747**	708	8,846	64,067
Total IRB approach	**1,257**	**15,721**	**72,718**	1,209	15,104	72,654
Central governments or central banks	**-**	**-**	**10,257**	1	9	11,660
Regional governments or local authorities	**1**	**13**	**202**	1	13	175
Public sector entities	**-**	**5**	**344**	-	5	335
Multilateral development banks	**-**	**-**	**1,146**	-	-	1,034
Financial institutions	**14**	**177**	**835**	16	206	959
Corporates	**27**	**337**	**360**	28	349	378
Retail	**334**	**4,177**	**5,570**	319	3,993	5,324
Secured by mortgages on immovable property	**46**	**579**	**968**	40	496	873
Exposures in default	**6**	**80**	**71**	5	59	55
Collective investments undertakings	**-**	**-**	**-**	-	-	-
Equity exposures	**-**	**4**	**3**	-	5	3
Items associated with particularly high risk	**3**	**32**	**21**	1	11	7
Covered bonds	**13**	**157**	**1,566**	11	141	1,415
Other items	**70**	**837**	**993**	54	651	743
Total standardised approach	**514**	**6,398**	**22,336**	476	5,938	22,961
Total credit risk	**1,771**	**22,119**	**95,054**	1,685	21,042	95,615
Operational risk	**209**	**2,621**		209	2,621	
Counterparty credit risk	**18**	**229**		15	191	
Credit valuation adjustment	**16**	**202**		15	192	
Total Pillar 1 regulatory capital requirements	**2,014**	**25,171**		1,924	24,046	

The exposure amounts disclosed above are post-credit conversion factors and pre-credit mitigation.

Additional breakdown analysis of the IRB portfolios can be seen within the 'EU CR6 -IRB Approach – Credit risk by exposure class and PD range' tables on pages 22 - 25.

Capital (continued)

Capital position and CET1 (unaudited)	**31 Mar 2020 £m**	30 Sep 2019 £m
RWA(1)		
Retail mortgages	**9,104**	8,845
Business lending	**7,580**	7,122
Other retail lending	**4,238**	4,042
Other lending	**266**	485
Other(2)	**931**	548
Credit risk	**22,119**	21,042
Credit valuation adjustment	**202**	192
Operational risk	**2,621**	2,621
Counterparty credit risk	**229**	191
Total RWA	**25,171**	24,046
Capital ratios		
CET1 ratio	**14.0%**	14.4%
Tier 1 ratio	**16.6%**	17.2%
Total capital ratio	**19.5%**	20.2%

(1) RWA are calculated under the advanced internal ratings-based (AIRB) approach for the mortgage portfolio and the foundation internal ratings-based (FIRB) approach for the business portfolio, with all other portfolios being calculated under the standardised approach, via either sequential IRB implementation or Permanent Partial Use (PPU).

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

EU CR6 – IRB approach - Credit risk by exposure class and PD range.

Heritage Clydesdale Bank PLC and heritage Virgin Money PLC have separate IRB models for Retail Mortgages, with different modelling methodologies and risk profiles. Combining these into a single table does not provide a valid representation of risk, therefore the position of each portfolio as at 31 March 2020 (unaudited) is presented separately below.

The exposure amounts shown are disclosed after, where applicable, on- or off- balance sheet netting.

Clydesdale Bank PLC Retail Mortgages
(AIRB) Retail Secured by Immovable Property non-SME(1)

PD scale	Original on balance sheet gross exposures £m	Off-balance sheet exposures pre-CCF £m	Average CCF	EAD post CRM and post CCF £m	Average PD	Number of obligors	Average LGD	Average maturity	RWAs £m	RWA density(2)	EL £m	Value adjustments and provisions £m
As at 31 Mar 2020												
0.00 to <0.15	1,656	522	102.1%	2,228	0.12%	17,282	13.64%	-	72	3.2%	-	
0.15 to <0.25	4,073	319	102.2%	4,496	0.20%	36,136	12.25%	-	232	5.2%	1	
0.25 to <0.50	10,035	449	102.1%	10,734	0.37%	54,179	15.51%	-	1,110	10.3%	6	
0.50 to <0.75	2,241	52	102.2%	2,348	0.62%	10,834	18.13%	-	409	17.4%	3	
0.75 to <2.50	4,729	125	102.1%	4,966	1.29%	24,422	17.32%	-	1,304	26.3%	11	
2.50 to <10.00	769	11	102.4%	799	4.63%	5,763	16.89%	-	447	55.9%	7	
10.00 to <100.00	253	3	102.2%	262	35.23%	1,790	15.79%	-	218	83.3%	15	
100.00 (Default)	306	8	100.0%	313	100.00%	2,520	20.20%	-	711	226.8%	9	
Subtotal	**24,062**	**1,489**	**102.1%**	**26,146**	**2.19%**	**152,926**	**15.47%**	**-**	**4,503**	**17.2%**	**52**	**30**
As at 30 Sep 2019												
0.00 to <0.15	2,425	821	102.1%	3,319	0.11%	26,334	14.89%	-	116	3.5%	-	
0.15 to <0.25	4,668	294	102.2%	5,080	0.20%	36,111	12.90%	-	275	5.4%	1	
0.25 to <0.50	9,881	208	102.2%	10,331	0.37%	51,816	16.01%	-	1,125	10.9%	6	
0.50 to <0.75	1,605	58	102.1%	1,702	0.62%	7,575	19.11%	-	312	18.4%	2	
0.75 to <2.50	4,765	87	102.1%	4,963	1.30%	25,051	17.94%	-	1,362	27.4%	11	
2.50 to <10.00	801	14	102.4%	833	4.77%	6,544	17.60%	-	494	59.3%	7	
10.00 to <100.00	225	4	102.3%	233	36.42%	1,726	15.94%	-	196	83.9%	14	
100.00 (Default)	283	7	100.0%	290	100.00%	2,514	21.06%	-	679	224.4%	10	
Subtotal	24,653	1,493	102.1%	26,751	2.03%	157,671	15.94%	-	4,559	17.0%	51	29

(1) Clydesdale Bank PLC retail mortgages excluding the portfolio of heritage Virgin Money mortgages transferred under FSMA Part VII

(2) RWA density calculation has been performed on unrounded figures.

Capital (continued)

Virgin Money Retail Mortgages
(AIRB) Retail Secured by Immovable Property non-SME[1]

PD scale	Original on balance sheet gross exposures £m	Off- balance sheet exposures pre-CCF £m	Average CCF	EAD post CRM and post CCF £m	Average PD	Number of obligors	Average LGD	Average maturity	RWAs £m	RWA density[2]	EL £m	Value adjustments and provisions £m
As at 31 Mar 2020												
0.00 to <0.15	4,885	389	100.0%	5,337	0.10%	34,143	10.24%	-	137	2.6%	-	
0.15 to <0.25	7,236	247	100.0%	7,570	0.19%	54,842	10.72%	-	342	4.5%	2	
0.25 to <0.50	13,817	395	100.0%	14,377	0.36%	84,315	11.89%	-	1,165	8.1%	6	
0.50 to <0.75	4,733	97	100.0%	4,891	0.67%	29,339	18.64%	-	937	19.2%	6	
0.75 to <2.50	3,045	375	100.0%	3,469	1.42%	25,798	15.59%	-	887	25.6%	8	
2.50 to <10.00	1,192	28	100.0%	1,237	4.01%	9,732	17.22%	-	629	50.8%	8	
10.00 to <100.00	646	11	100.0%	666	32.87%	5,479	13.33%	-	451	67.8%	26	
100.00 (Default)	54	1	100.0%	54	100.00%	478	10.00%	-	53	98.4%	3	
Subtotal	**35,608**	**1,543**	**100.0%**	**37,601**	**1.50%**	**244,126**	**12.84%**	**-**	**4,601**	**12.2%**	**59**	**19**
As at 30 Sep 2019												
0.00 to <0.15	2,598	163	100.0%	2,794	0.12%	18,484	9.35%	-	73	2.6%	-	
0.15 to <0.25	8,636	294	100.0%	9,035	0.20%	61,300	8.41%	-	321	3.6%	2	
0.25 to <0.50	10,325	245	100.0%	10,690	0.35%	59,179	10.29%	-	706	6.6%	4	
0.50 to <0.75	8,267	149	100.0%	8,523	0.63%	55,895	15.77%	-	1,318	15.5%	9	
0.75 to <2.50	3,755	294	100.0%	4,104	1.26%	30,016	12.65%	-	798	19.5%	7	
2.50 to <10.00	1,453	34	100.0%	2,507	3.77%	11,718	14.43%	-	620	41.1%	8	
10.00 to <100.00	589	10	100.0%	608	32.72%	5,034	12.22%	-	373	61.4%	21	
100.00 (Default)	55	1	100.0%	55	100.0%	492	12.66%	-	79	141.9%	3	
Subtotal	35,678	1,190	100.0%	37,316	1.51%	242,118	11.48%	-	4,288	11.5%	54	15

(1) Retail mortgages written under the Virgin Money brand which were previously held in Virgin Money plc prior to the FSMA Part VII transfer.
(2) RWA density calculation has been performed on unrounded figures.

Capital (continued)

Clydesdale Bank PLC Corporates - Other
(FIRB) Corporates - Other

PD scale	Original on balance sheet gross exposures £m	Off-balance sheet exposures pre-CCF £m	Average CCF	EAD post CRM and post CCF £m	Average PD	Number of obligors	Average LGD	Average maturity	RWAs £m	RWA density[(1)]	EL £m	Value adjustments and provisions £m
As at 31 Mar 2020												
0.00 to <0.15	17	47	71.8%	67	0.11%	26	34.34%	651	15	22.6%	-	
0.15 to <0.25	38	26	73.6%	65	0.20%	9	38.54%	926	28	42.6%	-	
0.25 to <0.50	329	162	51.1%	413	0.40%	57	43.70%	1,055	285	69.0%	1	
0.50 to <0.75	42	33	71.4%	66	0.62%	18	44.10%	908	52	79.1%	-	
0.75 to <2.50	625	449	56.4%	897	1.65%	342	42.14%	1,053	998	111.4%	6	
2.50 to <10.00	212	63	71.6%	261	4.03%	105	43.26%	916	372	142.6%	5	
10.00 to <100.00	17	6	71.6%	21	22.53%	47	42.84%	959	52	244.9%	2	
100.00 (Default)	83	17	73.8%	95	100.00%	92	42.06%	745	-	0.0%	40	
Subtotal	**1,363**	**803**	**59.1%**	**1,885**	**6.79%**	**696**	**42.31%**	**995**	**1,802**	**95.6%**	**54**	**66**
As at 30 Sep 2019												
0.00 to <0.15	7	72	74.0%	69	0.11%	29	39.27%	597	16	23.6%	-	
0.15 to <0.25	39	29	73.6%	67	0.20%	17	40.09%	1,063	32	47.9%	-	
0.25 to <0.50	362	199	58.1%	480	0.41%	72	44.03%	982	325	67.7%	1	
0.50 to <0.75	22	12	29.9%	26	0.62%	28	43.23%	976	21	79.3%	-	
0.75 to <2.50	535	306	65.5%	746	1.60%	352	43.93%	1,060	858	114.9%	5	
2.50 to <10.00	96	62	72.6%	145	4.03%	85	42.58%	1,014	208	143.4%	2	
10.00 to <100.00	4	3	72.7%	7	23.43%	40	43.47%	805	16	246.6%	1	
100.00 (Default)	91	10	73.5%	98	100.0%	87	42.52%	796	-	0.0%	42	
Subtotal	1,156	693	64.7%	1,638	7.29%	710	43.49%	996	1,476	90.1%	51	37

(1) RWA density calculation has been performed on unrounded figures.

Capital (continued)

Clydesdale Bank PLC Business Lending (FIRB) Corporates - Business

PD scale	Original on balance sheet gross exposures £m	Off-balance sheet exposures pre-CCF £m	Average CCF	EAD post CRM and post CCF £m	Average PD	Number of obligors	Average LGD	Average maturity	RWAs £m	RWA density[(1)]	EL £m	Value adjustments and provisions £m
As at 31 Mar 2020												
0.00 to <0.15	102	98	69.6%	172	0.11%	181	41.92%	931	41	24.0%	-	
0.15 to <0.25	170	154	70.3%	280	0.19%	646	39.43%	870	74	26.4%	-	
0.25 to <0.50	784	388	70.6%	1,068	0.36%	1,646	39.16%	894	426	39.9%	2	
0.50 to <0.75	381	149	66.4%	480	0.62%	691	39.28%	905	250	52.0%	1	
0.75 to <2.50	3,239	883	67.1%	3,850	1.52%	5,745	39.41%	1,008	2,934	76.2%	23	
2.50 to <10.00	822	273	64.4%	999	4.57%	1,823	39.88%	822	948	94.9%	18	
10.00 to <100.00	85	14	74.8%	96	20.04%	163	39.05%	679	142	148.2%	8	
100.00 (Default)	136	7	69.4%	141	100.00%	151	40.47%	823	-	0.0%	57	
Subtotal	**5,719**	**1,966**	**67.8%**	**7,086**	**3.84%**	**11,046**	**39.51%**	**942**	**4,815**	**67.9%**	**109**	**176**
As at 30 Sep 2019												
0.00 to <0.15	75	76	68.0%	130	0.11%	176	41.50%	831	28	21.4%	-	
0.15 to <0.25	235	187	70.5%	367	0.19%	686	40.73%	939	112	30.4%	-	
0.25 to <0.50	752	376	67.7%	1,015	0.39%	1,611	39.42%	891	405	39.9%	2	
0.50 to <0.75	356	125	71.1%	447	0.62%	665	39.14%	1,100	250	55.9%	1	
0.75 to <2.50	3,108	910	66.6%	3,734	1.50%	5,794	40.34%	995	2,852	76.4%	23	
2.50 to <10.00	843	259	67.9%	1,021	4.48%	1,808	41.33%	853	1,008	98.7%	19	
10.00 to <100.00	77	12	70.6%	86	18.60%	164	40.55%	710	129	150.5%	6	
100.00 (Default)	145	6	75.0%	150	100.0%	179	40.65%	7776	-	0.0%	61	
Subtotal	5,591	1,951	67.7%	6,950	3.95%	11,083	40.32%	952	4,784	68.8%	112	99

(1) RWA density calculation has been performed on unrounded figures.

Leverage

Leverage ratio (unaudited)	**31 Mar 2020 £m**	30 Sep 2019 £m
Total Tier 1 capital for the leverage ratio		
Total CET1 capital	**3,514**	3,462
AT1 capital	**672**	672
Total Tier 1	**4,186**	4,134
Exposures for the leverage ratio		
Total assets as per published financial statements	**90,159**	91,101
Adjustment for off-balance sheet items	**2,811**	2,728
Adjustment for derivative financial instruments	**(420)**	(35)
Adjustment for securities financing transactions	**2,884**	1,934
Other adjustments	**(1,990)**	(986)
Leverage ratio exposure	**94,444**	94,742
CRD IV leverage ratio[(1)]	**4.4%**	4.4%
UK leverage ratio[(2)]	**4.9%**	4.9%
Average UK leverage ratio exposure[(3)]	**86,096**	n/a
Average UK leverage ratio[(3)]	**4.7%**	n/a

(1) IFRS 9 transitional capital arrangements have been applied to the CRD IV leverage ratio calculation as at 31 March 2020.

(2) The Group's leverage ratio on a modified basis as at 31 March 2020, excluding qualifying central bank claims from the exposure measure in accordance with the policy statement issued by the PRA in October 2017.

(3) The fully loaded average leverage exposure measure is based on the daily average of on-balance sheet items and three month-end average of off-balance sheet items. The average leverage ratio is based on the average of the month end tier 1 capital position. Under the UK Leverage Ratio Framework, the Group was only required to start reporting average balances from December 2019.

Leverage (continued)

The UK leverage ratio framework, which came into force on 1 January 2016, is relevant to PRA regulated banks and building societies with consolidated retail deposits equal to or greater than £50bn. The first reporting date from which the Group met this threshold was 31 December 2019 and as a result the average UK leverage ratio exposure and average UK leverage ratio are disclosed.

The leverage ratio is monitored against a Board set Risk Appetite Statement with the responsibility for managing the ratio delegated to the Group's Asset and Liabilities Committee (ALCO), which monitors it on a monthly basis.

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

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

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

The Group's CRD IV leverage ratio of 4.4% (30 September 2019: 4.4%) exceeds the Basel Committee's proposed minimum of 3% applicable from 2018, and the Group's UK leverage ratio of 4.9% (30 September 2019: 4.9%) exceeds the UK minimum ratio of 3.25%.

Following the FPC announcement on 11 March 2020, the Group's CCyB rate reduced to 0% which also moved the leverage ratio buffer to 0%.

Funding and liquidity risk

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

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

The Group is predominantly funded by personal and business customers. Customer funding is supported by the Group's ongoing wholesale funding programmes, medium-term secured funding issuance (e.g. the Group's securitisation programmes), Regulated Covered Bonds and unsecured medium-term notes.

Funding risk exposures arise from an unsustainable or undiversified funding base, for example, a reliance on short-term wholesale deposits. The risk may result in deviation from funding strategy, requiring funding to be originated rapidly and excessive cost, or require a reduction in lending growth, which are outcomes that may adversely affect customers or shareholders.

The Group's primary liquidity risk exposure arises through the redemption of retail deposits where customers have the ability to withdraw funds with limited or no notice. Exposure also arises from the refinancing of customer and wholesale funding at maturity and the requirement to fund new and existing committed lending obligations including mortgage pipeline and credit card facilities.

Sources of funding

The table below provides an overview of the Group's sources of funding as at 31 March 2020:

	31 Mar 2020 (unaudited) £m	30 Sept 2019 (audited) £m
Total assets	**90,159**	91,101
Less: other liabilities(1)	**(5,608)**	(5,777)
Funding requirement	**84,551**	85,324
Funded by:		
Customer deposits	**64,853**	64,000
Debt securities in issue	**6,911**	7,267
Due to other banks	**7,590**	8,916
of which:		
Secured loans	**7,122**	7,308
Securities sold under agreements to repurchase	**401**	1,554
Transaction balances with other banks	**12**	12
Deposits with other banks	**55**	42
Equity	**5,197**	5,141
Total funding	**84,551**	85,324

(1) Other liabilities includes customer deposits at fair value through profit or loss, derivative financial instruments, due to related entities, deferred tax liabilities, provisions for liabilities and charges, amounts due to related entities 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 2020, the Group had a funding requirement of £84,551m (30 September 2019: £85,324m) with the majority being used to support loans and advances to customers.

Customer deposits

The majority of the Group's funding requirement was met by customer deposits of £64,853m (30 September 2019: £64,000m). Customer deposits are comprised of interest bearing deposits, term deposits and non-interest bearing demand deposits from a range of sources including personal and business customers. The increase of £853m in the six month period ended 31 March 2020 is primarily due to increased current accounts.

Equity

Equity of £5,197m (30 September 2019: £5,141m) was also used to meet the Group's funding requirement. Equity is comprised of ordinary share capital, retained earnings, other equity investments and a number of other reserves. For full details on equity refer to note 4.1.

Liquid assets

The quantity and quality of the Group's liquid assets are calibrated to the Board's view of liquidity risk appetite and remain at a prudent level above regulatory requirements. The Group was compliant with all internal and regulatory liquidity metrics at 31 March 2020 (30 September 2019: compliant).

The liquid asset portfolio provides a buffer against sudden and potentially sharp outflows of funds. Liquid assets must therefore be of a high quality, so they can be realised for cash and cannot be encumbered for any other purpose (e.g. to provide collateral for payments systems).

Liquid assets (continued)

The volume and quality of the Group's liquid asset portfolio is defined through a series of stress tests across a range of time horizons and stress conditions. The stresses applied ensure the portfolio meets internal and external requirements of stressed outflow, including most recently the Group's view of liquidity risk due to COVID-19 impacts. The liquid asset portfolio is primarily comprised of cash at the Bank of England, UK government securities (Gilts) and listed securities (e.g. bonds issued by supra-nationals and AAA-rated covered bonds).

Liquid asset portfolio(1)	**31 Mar 2020 (unaudited) £m**	30 Sep 2019 (audited) £m	**Change** %	**Average 2020 £m**	Average 2019 £m
Level 1					
Cash and balances with central banks	**5,969**	7,469	(20.1)	6,530	7,266
UK government treasury bills and gilts	**1,078**	1,076	0.2	1,389	870
Other debt securities	**3,269**	2,867	14.0	3,117	2,604
Total level 1	**10,316**	11,412	(9.6)	11,036	10,740
Level 2(2)	**29**	29	-	37	103
Total LCR eligible assets	**10,345**	11,441	(9.6)	11,073	10,843

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

Encumbered assets by asset category

The Group manages the level of asset encumbrance to ensure appropriate volumes of assets are maintained to support future planned and potential stressed funding requirements. Encumbrance limits are set in the Group RAS and calibrated to ensure that after a stress scenario is applied, the balance sheet can recover over an acceptable period of time. Examples of reasons for asset encumbrance include, among others, supporting the Group's secured funding programmes to provide stable term funding to the Group, the posting of assets in respect of drawings under the Term Funding Scheme, use of assets as collateral for payments systems in order to support customer transactional activity, and providing security for the Group's issuance of Scottish bank notes.

	Assets encumbered with non-central bank counterparties					Assets not positioned at the central bank				
31 March 2020 (unaudited)	Covered bonds £m	Securiti-sations £m	Other £m	Total £m	Positioned at the central bank (including encumbered) £m	Readily available for encumbrance £m	Other assets capable of being encumbered £m	Cannot be encumbered £m	Total £m	Total £m
Loans and advances to customers	2,653	7,923	-	10,576	16,962	24,681	17,953	3,233	62,829	**73,405**
Cash and balances with central banks	-	-	-	-	2,851	5,799	-	-	8,650	**8,650**
Due from other banks	207	412	106	725	100	-	92	29	221	**946**
Derivative financial instruments	-	-	-	-	-	-	-	403	403	**403**
Financial instruments at fair value through other comprehensive income	-	-	563	563	-	4,072	-	-	4,072	**4,635**
Other assets	-	-	556	556	-	-	333	1,231	1,564	**2,120**
Total assets	**2,860**	**8,335**	**1,225**	**12,420**	**19,913**	**34,552**	**18,378**	**4,896**	**77,739**	**90,159**

Encumbered assets by asset category (continued)

30 September 2019 (unaudited)	Assets encumbered with non-central bank counterparties: Covered bonds £m	Securitisations £m	Other £m	Total £m	Positioned at the central bank (including encumbered) £m	Assets not positioned at the central bank: Readily available for encumbrance £m	Other assets capable of being encumbered £m	Cannot be encumbered £m	Total £m	**Total £m**
Loans and advances to customers	2,896	8,571	-	11,467	19,929	19,933	18,587	3,430	61,879	73,346
Cash and balances with central banks	-	-	-	-	3,219	7,077	-	-	10,296	10,296
Due from other banks	156	550	171	877	-	-	131	10	141	1,018
Derivative financial instruments	-	-	-	-	-	-	-	366	366	366
Financial instruments at fair value through other comprehensive income	41	34	555	630	-	3,697	-	1	3,698	4,328
Other assets	-	-	409	409	-	-	163	1,175	1,338	1,747
Total assets	**3,093**	**9,155**	**1,135**	**13,383**	**23,148**	30,707	18,881	4,982	77,718	91,101

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

Analysis of debt securities in issue by residual maturity (unaudited)

	3 months or less £m	**3 to 12 months £m**	**1 to 5 years £m**	**Over 5 years £m**	**Total at 31 Mar 2020 £m**	Total at 30 Sep 2019 £m
Covered bonds	26	-	620	1,271	**1,917**	1,912
Securitisation	6	1,569	3,113	-	**4,688**	5,051
Medium term notes	306	-	-	-	**306**	304
Total debt securities in issue	338	1,569	3,733	1,271	**6,911**	7,267

External credit ratings

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

	Outlook as at 31 Mar 2020(1)	**As at 31 Mar 2020**	As at 30 Sep 2019
Virgin Money UK PLC			
Moody's	**Stable**	**Baa3**	Baa3
Fitch	**Stable(3)**	**BBB+**	BBB+
Standard & Poor's	**Stable(4)**	**BBB-**	BBB-
Clydesdale Bank PLC			
Moody's(2)	**Stable**	**Baa1**	Baa1
Fitch	**Stable(3)**	**A-**	A-
Standard & Poor's	**Positive(4)**	**BBB+**	BBB+

(1) For detailed background on the latest credit opinions please refer to the respective rating agency websites.
(2) Long-term deposit rating.
(3) Moved to "Rating Watch Negative" on 1 April 2020 – see commentary below.
(4) Moved to "Negative" on 23 April 2020 – see commentary below.

External credit ratings (continued)

On 21 October 2019, Fitch and Moody's withdrew the long-and short-term ratings of Virgin Money Holdings (UK) PLC and Virgin Money PLC following completion of the FSMA Part VII transfer.

On 12 November 2019, Moody's changed the outlook on Virgin Money UK PLC and Clydesdale Bank PLC long-term ratings from 'Positive' to 'Stable'. This followed a revision in Moody's outlook for the UK Sovereign from 'Stable' to 'Negative', reflecting their view that UK institutions have weakened, and the UK's economic and fiscal strength is likely to be weaker going forward. Subsequently, Moody's adjusted the ratings outlook for 15 UK banks and building societies, including the Group.

On 17 January 2020, S&P changed the outlook on the Clydesdale Bank PLC long-term rating from 'Stable' to 'Positive', reflecting the progress the Group has made in raising additional loss-absorbing capacity buffers.

The following changes have been made to the Group's long-term credit ratings or outlooks since the period end:

- On 1 April 2020 Fitch changed the outlook on the Virgin Money UK PLC and Clydesdale Bank PLC long-term ratings from "Stable" to "Rating Watch Negative". This followed Fitch's one notch downgrade to the UK Sovereign rating, reflecting their view of the near-term damage to the UK economy and significant weakening in the UK's public finances caused by the COVID-19 outbreak, in addition to the lingering uncertainty regarding the post-Brexit UK-EU trade relationship. Subsequently, Fitch adjusted the ratings Outlook on 18 UK banks and building societies, including the Group.
- On 23 April 2020, S&P changed the outlook on the Virgin Money UK PLC long-term rating from "Stable" to "Negative" and the outlook on the Clydesdale Bank PLC long-term rating from "Positive" to "Negative", as part of the broader action on the European banking sector. The outlook revisions reflect S&P's view that the economic stress triggered by the COVID-19 outbreak is likely to put pressure the Group's asset quality and earnings, and it may struggle to maintain an additional loss-absorbing capacity ratio sustainably above 8% in 2020.

LIBOR replacement

The Group has a LIBOR replacement programme to manage the impact of the Bank of England's plan to discontinue the use of LIBOR as a reference rate after 2021. The work to decommission LIBOR is focused on reducing the use of LIBOR well in advance of December 2021 and to migrate existing loans onto new reference rates. A similar approach is being taken with new and existing derivatives. The programme will ensure that the risks of being unable to offer products with suitable reference rates will be mitigated and that full consideration is given to the potential for any conduct issues that may arise through the transition.

Financial risks arising from climate change

The Group is contributing to global efforts to limit the global temperature rise to 1.5 degrees Celsius this century, in line with the Paris Agreement.

The Group aims to have 'net zero' carbon emissions by 2030. Progress is being monitored through the Group's annual CO2 disclosures (see page 38 of the Virgin Money UK PLC 2019 Annual Report and Accounts). The Group has a process to apply Environment, Social and Governance (ESG) criteria to lending decisions and has committed to targeting 5% of business banking loans being focused on firms pursuing activity promoting environmental sustainability. Work continues to deepen the Group's understanding of financial risks arising from climate change, in line with its plan to embed consideration of climate change into all business practices. As part of this work, the Group's existing ESG criteria has been reviewed and actions have been identified to reflect the Group's evolving approach to managing climate change risks.

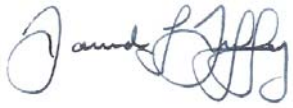
Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge these interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' (IAS 34) as adopted by the European Union and that the interim management report includes a fair review of the information required by 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 2020 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 2020 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
5 May 2020

Independent review report to Clydesdale Bank PLC

Introduction

We have been engaged by Clydesdale Bank PLC to review the condensed set of financial statements in the interim financial report for the six months ended 31 March 2020 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 5.4. 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.

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

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the accounting policies set out in note 1.2.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to Clydesdale Bank PLC a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 (UK and Ireland), "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. 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.

Conclusion

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 2020 is not prepared, in all material respects, in accordance with the accounting policies set out in note 1.2, which comply with International Accounting Standard 34, “Interim Financial Reporting”, as adopted by the European Union.

Ernst & Young LLP

Ernst & Young LLP
Leeds
5 May 2020

Interim condensed consolidated income statement
for the period ended 31 March

	Note	**6 months to 31 Mar 2020 (unaudited) £m**	6 months to 31 Mar 2019 (unaudited) £m	12 months to 30 Sep 2019[1] (audited) £m
Interest income		**1,135**	1,254	2,420
Other similar interest		**5**	7	13
Interest expense and similar charges		**(469)**	(441)	(917)
Net interest income	2.2	**671**	820	1,516
Gains less losses on financial instruments at fair value		**(7)**	(11)	(20)
Other operating income		**106**	115	277
Non-interest income	2.3	**99**	104	257
Total operating income		**770**	924	1,773
Operating and administrative expenses before impairment losses	2.4	**(537)**	(701)	(1,703)
Operating profit before impairment losses		**233**	223	70
Impairment losses on credit exposures		**(237)**	(173)	(252)
(Loss)/profit on ordinary activities before tax		**(4)**	50	(182)
Tax credit	2.5	**35**	5	58
Profit/(loss) for the period		**31**	55	(124)
Attributable to:				
Ordinary shareholders		**1**	21	(198)
Other equity holders		**30**	18	41
Non-controlling interests		**-**	16	33
Profit/(loss) for the period		**31**	55	(124)

(1) The comparative has been restated in line with the current year presentation. Refer to note 1.4.

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

The notes on pages 38 to 62 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of comprehensive income for the period ended 31 March

	6 months to 31 Mar 2020 (unaudited) £m	6 months to 31 Mar 2019 (unaudited) £m	12 months to 30 Sep 2019 (audited)(1) £m
Profit/(loss) for the period	**31**	55	(124)
Items that may be reclassified to the income statement			
Change in cash flow hedge reserve			
(Losses)/gains during the period	**(52)**	13	73
Transfers to the income statement	**18**	6	(58)
Taxation thereon - deferred tax credit/(charge)	**8**	(9)	(9)
Taxation thereon - current tax credit	**1**	5	6
	(25)	15	12
Change in fair value through other comprehensive income (FVOCI) reserve			
Gains during the period	**(13)**	2	13
Transfers to the income statement	**(16)**	-	(4)
Taxation thereon - deferred tax credit/(charge)	**9**	-	(2)
	(20)	2	7
Total items that may be reclassified to the income statement	**(45)**	17	19
Items that will not be reclassified to the income statement			
Change in asset revaluation reserve			
Taxation thereon - deferred tax credit/(charge)	**-**	-	(1)
Change in defined benefit pension plan	**197**	(37)	110
Taxation thereon - deferred tax (charge)/credit	**(77)**	13	(56)
Taxation thereon - current tax credit	**4**	-	7
	124	(24)	61
Total items that will not be reclassified to the income statement	**124**	(24)	60
Other comprehensive income/(losses), net of tax	**79**	(7)	79
Total comprehensive income/(losses) for the period, net of tax	**110**	48	(45)
Attributable to:			
Ordinary shareholders	**80**	14	(119)
Other equity holders	**30**	18	41
Non-controlling interests	**-**	16	33
Total comprehensive income/(losses) for the period, net of tax	**110**	48	(45)

(1) The comparative has been restated in line with the current year presentation. Refer to note 1.4.

The notes on pages 38 to 62 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated balance sheet
As at 31 March

	Note	6 months to 31 Mar 2020 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
Assets			
Financial assets at amortised cost			
Loans and advances to customers	3.1	**73,191**	73,093
Cash and balances with central banks		**8,650**	10,296
Due from other banks		**946**	1,018
Financial assets at fair value through profit or loss			
Loans and advances to customers	3.2	**214**	253
Derivative financial instruments	3.3	**403**	366
Other financial assets	3.2	**2**	8
Due from related entities	5.2	**15**	18
Financial instruments at fair value through other comprehensive income	3.9	**4,635**	4,328
Property, plant and equipment		**318**	145
Intangible assets and goodwill		**515**	516
Current tax assets		**17**	10
Deferred tax assets	3.4	**443**	418
Defined benefit pension assets	3.8	**618**	396
Other assets		**192**	236
Total assets		**90,159**	91,101
Liabilities			
Financial liabilities at amortised cost			
Customer deposits		**64,853**	64,000
Debt securities in issue	3.5	**6,911**	7,267
Due to other banks	3.6	**7,590**	8,916
Financial liabilities at fair value through profit or loss			
Customer deposits	3.2	**-**	4
Derivative financial instruments	3.3	**205**	273
Due to related entities		**2,323**	2,315
Deferred tax liabilities	3.4	**244**	199
Provisions for liabilities and charges	3.7	**258**	459
Other liabilities		**2,578**	2,527
Total liabilities		**84,962**	85,960
Equity			
Share capital and share premium	4.1	**2,792**	2,792
Other equity instruments	4.1	**672**	672
Other reserves	4.1	**(58)**	(13)
Retained earnings		**1,791**	1,690
Total equity		**5,197**	5,141
Total liabilities and equity		**90,159**	91,101

The notes on pages 38 to 62 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 5 May 2020 and were signed on its behalf by:

David Duffy
Chief Executive Officer

Ian Smith
Chief Financial Officer

Company name: Clydesdale Bank PLC, Company number: SC001111

Interim condensed consolidated statement of changes in equity

	Share capital and share premium	Other equity instruments	Other reserves: Asset reval reserve	Other reserves: FVOCI reserve	Other reserves: Cash flow hedge reserve	Retained earnings	Non- controlling interest	Total equity
Note	4.1.1	4.1.2	4.1.3	4.1.3	4.1.3		4.1.4	
	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 October 2018(1)	1,013	425	2	4	(37)	1,863	-	3,270
Profit for the period(2)	-	-	-	-	-	(124)	-	(124)
Other comprehensive (losses)/income net of tax	-	-	(1)	7	12	61	-	79
Total comprehensive (losses)/income for the period	-	-	(1)	7	12	(63)	-	(45)
Acquisition of Virgin Money Holdings (UK) PLC	1,549	-	-	-	-	(17)	422	1,954
Dividends paid to ordinary shareholders	-	-	-	-	-	(44)	-	(44)
AT1 distributions paid(2)	-	-	-	-	-	(42)	-	(42)
Distributions to non-controlling interests(2)	-	-	-	-	-	(33)	-	(33)
Ordinary shares issued	230	-	-	-	-	-	-	230
Capital note redemption	-	-	-	-	-	29	(422)	(393)
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	-	(3)	-	(3)
AT1 issuance	-	247	-	-	-	-	-	247
As at 30 September 2019(1)	2,792	672	1	11	(25)	1,690	-	5,141
Adjustment on adoption of IFRS 16 (net of tax)	-	-	-	-	-	1	-	1
As at 1 October 2019(1)	2,792	672	1	11	(25)	1,691	-	5,142
Profit for the period	-	-	-	-	-	31	-	31
Other comprehensive (losses)/income net of tax	-	-	-	(20)	(25)	124	-	79
Total comprehensive (losses)/income for the period	-	-	-	(20)	(25)	155	-	110
Dividends paid to ordinary shareholders	-	-	-	-	-	(10)	-	(10)
AT1 distributions paid	-	-	-	-	-	(30)	-	(30)
Settlement of Virgin Money Holdings (UK) PLC share awards	-	-	-	-	-	(2)	-	(2)
FSMA transfer	-	-	-	-	-	(13)	-	(13)
At 31 March 2020(1)	**2,792**	**672**	**1**	**(9)**	**(50)**	**1,791**	**-**	**5,197**

(1) The balances as at 1 October 2018 and 30 September 2019 have been audited; the movements in the individual six months period to 31 March 2020, together with the impact of the adoption of IFRS 16, are unaudited.
(2) The comparative has been restated in line with the current period presentation. Refer to note 1.4.

The notes on pages 38 to 62 form an integral part of these interim condensed consolidated financial statements.

Interim condensed consolidated statement of cash flows for the period ended 31 March

	Note	6 months to 31 Mar 2020 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
Operating activities			
Loss on ordinary activities before tax		**(4)**	(182)
Adjustments for:			
Non-cash or non-operating items included in loss before tax		**(358)**	(934)
Changes in operating assets		**(433)**	(2,675)
Changes in operating liabilities		**(674)**	2,658
Payments for short-term and low value leases		**(1)**	-
Interest received		**1,151**	2,320
Interest paid		**(434)**	(808)
Tax paid - Group relief		**(12)**	(8)
Net cash (used in)/provided by operating activities		**(765)**	370
Cash flows from investing activities			
Interest received		**22**	27
Cash acquired on acquisition of Virgin Money Holdings (UK) PLC		**-**	4,656
Proceeds from maturity of financial instruments at FVOCI		**691**	659
Proceeds from sale of financial assets at FVOCI		**551**	352
Purchase of financial assets at FVOCI		**(1,519)**	(1,647)
Proceeds from sale of 50% (less one share) consideration in Virgin Money Unit Trust Managers Limited		**-**	45
Proceeds from sale of property, plant and equipment		**-**	3
Purchase of property, plant and equipment		**(2)**	(20)
Purchase and development of intangible assets		**(51)**	(130)
Net cash (used in)/provided by investing activities		**(308)**	3,945
Cash flows from financing activities			
Interest paid		**(27)**	(14)
Repayment of principal portion of lease liabilities [(1)]	**5.3**	**(15)**	-
Proceeds from issuance of other equity instruments		**-**	247
Repayment of AT1 securities classified as non-controlling interest		**-**	(160)
Redemption and principal repayment on RMBS and covered bonds	**5.3**	**(876)**	(2,003)
Issuance of RMBS and covered bonds	**5.3**	**491**	2,226
Amounts repaid under the TFS	**5.3**	**(200)**	(1,295)
Net decrease/(increase) in amounts due from related entities		**4**	(12)
Net increase in amounts due to related entities		**2**	611
Ordinary dividends paid	**4.1**	**(10)**	(44)
AT1 distributions	**4.1**	**(30)**	(41)
Distributions to non-controlling interests		**-**	(33)
Net cash used in financing activities		**(661)**	(518)
Net (decrease)/increase in cash and cash equivalents		**(1,734)**	3,797
Cash and cash equivalents at the beginning of the period		**11,131**	7,334
Cash and cash equivalents at the end of the period[(2)]		**9,397**	11,131

(1) The Group adopted IFRS 16 'Leases' on 1 October 2019. The payment of principal amounts of lease liabilities is now included as a deduction within financing activities whereas previously under IAS 17 'Leases' operating lease charges were included as a deduction within cash flow from operating activities. Interest on lease liabilities is included within 'interest paid' and depreciation on right of use assets is included within 'depreciation'.

(2) Cash and cash equivalents has been restated in the comparative period in line with the current period presentation, as detailed in note 1.2.

The notes on pages 38 to 62 form an integral part of these interim condensed consolidated financial statements.

Notes to the interim condensed consolidated financial statements
Section 1: Basis of preparation and accounting policies

Overview

These interim condensed consolidated financial statements for the six months ended 31 March 2020 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 'Interim Financial Reporting' as adopted by the European Union (EU). They do not include all the information required by International Financial Reporting Standards (IFRS) in full annual financial statements and should therefore be read in conjunction with the Annual Report and Accounts for the year ended 30 September 2019, which were prepared in accordance with IFRS as adopted by the EU. Copies of the 2019 Annual Report and Accounts are available from Companies House.

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 2019 have been delivered to the Registrar of Companies and contained an unqualified audit report under Section 495 of the Act, which did not draw attention to any matters by way of emphasis and did not contain any statements under Section 498 of the Act.

1.1 Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the business and financial review section of these interim condensed consolidated financial statements. This should be read in conjunction with the strategic report which can be found in the Annual Report and Accounts for the year ended 30 September 2019. In addition, the Risk report contained in the 2019 Annual Report includes the Group's risk management objectives. The Group's objectives, policies and processes for managing capital can be found in the risk management section of this report.

In relation to the recent COVID-19 outbreak, our business continuity plans are working well. At this very early stage of the outbreak however it is difficult to fully assess the magnitude of the impact on the Group. The Directors are mindful of the risks associated with COVID-19 and have a plan in place to ensure the continuation of the Group's operations during COVID-19 and we have no reason to believe, at this stage, it will impact the going concern of the Company.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore believe 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.

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 Clydesdale Bank PLC Annual Report and Accounts for the year ended 30 September 2019 except for those policies highlighted below. Comparatives are presented on a basis that conforms to the current presentation except where stated otherwise.

Changes to accounting policies on adoption of IFRS 16 'Leases' with effect from 1 October 2019

The Group adopted IFRS 16: 'Leases' from 1 October 2019, which replaces IAS 17 'Leases,' IFRIC 4 'Determining whether an Arrangement contains a Lease,' SIC-15 'Operating Leases‑Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease.'

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The Group's accounting as a lessor is substantially unchanged from the previous approach under IAS 17; however, it resulted in most leases where the Group is a lessee being brought on to the balance sheet under a single lease model, removing the distinction between finance and operating leases. IFRS 16 requires a lessee to recognise a 'right‑of‑use' asset and a corresponding lease liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. On transition and as permitted by IFRS 16, the Group has not restated comparative figures, with the adoption impact adjusted through retained earnings. Adoption of the new standard has had a material impact on the Group's financial statements, with right-of-use assets of £194m recognised on transition together with lease liabilities of £205m. As at 31 March 2020 the right-of-use assets and lease liabilities were £182m and £193m respectively. Further detail on the transitional impact of IFRS 16 can be found in note 5.4. The accounting policies relating to leases has been revised as follows:

1.2 Accounting policies (continued)

Lessee accounting

The Group recognises a right-of-use asset and a lease liability at the commencement date of the lease. The right-of-use asset is initially measured at cost, comprising the initial amount of the lease liability plus any initial direct costs incurred and any lease payments made at or before the lease commencement date, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease. If that rate cannot readily be determined, as is the case in the vast majority of the leasing activities of the Group, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset in a similar economic environment with similar terms and conditions. The liability is remeasured when there is a change in future lease payments arising from a change in an index or a rate or a change in the Group's assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset or is recorded in the income statement if the carrying amount of the right‑of‑use asset has been reduced to zero.

Termination options are included in a number of leases across the Group with a small number of leases having extension options. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining judgements on the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Periods covered by termination options are only included in the lease term if it is reasonably certain that the lease will not be terminated. The assessment of the lease term is reviewed if a significant event or a significant change in circumstances occurs that is within the control of the Group.

The Group has elected to apply the recognition exemptions for short‑term leases (with a remaining lease term of less than 12 months) and low value leases. Lease payments associated with these leases will be recognised as an expense on a straight line basis over the term of the lease. Low value assets comprise primarily IT and office equipment.

Lessor accounting

As a lessor, the Group classifies leases as either operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

Other changes

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
This amendment was issued by the International Accounting Standards Board (IASB) in September 2019, was effective for financial years beginning on or after 1 January 2020 (with early adoption permitted) and was endorsed for use in the EU in January 2020. The detail of the amendments and related disclosures requirements relating to IAS 39 and IFRS were 7 early adopted by the Group with effect from 1 October 2019 (the Group exercised the accounting policy choice to continue hedge accounting under IAS 39 on adoption of IFRS 9 in October 2018). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interbank offered rates (IBOR) with an alternative nearly risk-free interest rate (an RFR). Further detail on the effect of early adopting the amendment in these interim condensed consolidated financial statements, including the nominal amount of the hedging instruments in hedging relationships directly affected by uncertainties related to LIBOR reform, is disclosed in note 3.3.

Cash and cash equivalents
During the period, the Group has re-assessed the individual elements that comprise 'cash and cash equivalents'. This has resulted in a revision to the definition that more closely aligns the Group's internal use of the cash and cash equivalents definition and cash management practices, with the changes resulting in an increase to the cash and cash equivalents balance primarily as a result of the inclusion of amounts due from other banks. The revised definition can be found on page 64. Comparative periods have been restated to reflect this change in definition, with the balance for the 12 months to 30 September 2019 increasing by £1,011m from £10,120m to £11,131m.

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. The Group's critical accounting estimates and judgements are unchanged compared to those shown in the 2019 Annual Report and Accounts, however the following updates are provided below:

Allowance for impairment losses on credit exposures

The Group's allowance for ECL's at 31 March 2020 was £542m (31 March 2019: £350m; 30 September 2019: £362m).

The Group's approach to calculating ECL's is to model a number of economic scenarios over a five-year forecast period. The output of the models is then supplemented by a series of Post Model Adjustments (PMA's) where management consider that not all the risks identified in a product segment have been, or are capable of being, accurately reflected within those models.

The COVID-19 pandemic has introduced unprecedented economic uncertainty. Due to the evolving estimates of the severity and duration of the economic impact, coupled with the evolving nature of the mitigating measures being introduced by the UK and Scottish Governments, it has been appropriate to reflect the estimated impact via focused PMA's.

The Group has responded by calculating a model-based PMA for COVID-19 supplemented by further PMA's at a product level to address additional risks. The Group has assessed that it requires to hold a PMA of £164m in relation to the COVID-19 pandemic. £144m has been driven by the Business and credit card portfolios, with a further £20m attributed to the Group's mortgage, personal loan and current account portfolios.

The following sections set out the approach and conclusions in calculating the allowance for ECL's:

- the Group's response in estimating the COVID-19 PMA; and
- the Group's standard approach for the pre COVID-19 modelled output.

COVID-19 PMA

The COVID-19 pandemic has resulted in a significant PMA. In adopting this approach, the Group has reviewed the statements and guidance issued by the PRA, FCA, IASB and other regulators released towards the end of March 2020 to help guide banks in assessing the impact of COVID-19 on IFRS 9 ECL requirements. In addition, the approach reflects the significant mitigating measures that have been introduced by the UK and Scottish Governments and the Group, along with the wider Banking industry, to support individuals and businesses, which have also been considered in estimating the Group's ECLs. The overall impact of COVID-19 over the longer term is subject to a great deal of uncertainty.

In the period since social distancing lockdown measures were introduced in the UK there has been a substantial impact to businesses and individuals. The Group has assessed that the more material impact from an ECL perspective will be on the business and unsecured personal lending portfolios, primarily credit cards. Therefore, while the impact of COVID-19 will be on the whole lending book, particular focus has been applied to the Group's £8.3bn business banking portfolio and £4.2bn credit card portfolio.

The Group's approach has been to determine a separate model-based PMA by applying a 100% weighting to the Group's existing severe downside scenario. This scenario includes the projected significant negative movements in both UK GDP and house prices expected in quarters two and three and a short-term acceleration of unemployment over the planning horizon. The scenario recognised the potential that the recovery in the economy may be more gradual and therefore reflects a slower return to normal economic conditions over the forecast horizon.

The modelling of the severe downside weighted at 100% has been further supplemented by additional PMA's at a product level to address additional risks, primarily in business lending and unsecured personal lending. Finally, the Group undertook further sensitivity analysis through the use of a specific pandemic scenario model applied to the Business and credit card portfolios. The impact of the further work undertaken on these two portfolios is provided below:

Business Lending

In addition to considering the modelled PMA elements of the severe downside scenario as outlined above, the Group has performed:

- A detailed review of the Group's most significant customers by value; and
- An assessment of the impact of a proportion of business customers being impacted by a negative rating migration in the Group's through the cycle IRB probability of default models.

1.3 Critical accounting estimates and judgements (continued)

Allowance for impairment losses on credit exposures (continued)

Credit Cards
The analysis considers the impact of customers requesting payment holidays and the potential, over time, for a proportion of these customers to move into arrears.

There is a risk that the measures introduced could result in the payment holidays masking true deterioration in customer position due to loss of earnings, jobs or other income. There is also a risk that customer financial difficulty could extend beyond the payment holiday period and thus lead to arrears and losses emerging later. The risk is somewhat mitigated due to the UK Government offering to cover 80% of salaries (up to £2,500) and average profits for self-employed customers. The salary promise does not entirely preclude employed customers from being affected as, in addition to the short-term reduction in income, some businesses could fail, driving up unemployment and financial hardship.

Pandemic downside scenario
On 22 April 2020 the Group's external macro-economic scenario provider issued a COVID-19 specific pandemic downside scenario. The Group has applied this to the Business and credit card portfolios by applying a 100% weighting.

The 5-year simple average model inputs are:

	UK GDP growth	CPI inflation	House prices	Bank rate	ILO Unemployment
COVID-19 scenario	1.0%	1.2%	(0.7)%	0.4%	5.6%

While the simple 5-year average illustrates the impact of COVID-19 on the long run economic cycle, this obscures the significant and unprecedented impacts within these figures. Many of these are currently forecast to transpire within the next 12 months. Most significant among these are a startling peak in unemployment at 9.7% in the quarter to March 2021, with GDP anticipated to contract significantly in the quarter to September 2020. The modelled outcomes are fully reflective of these economic consequences.

In applying the approach outlined above the Group has a total COVID-19 overlay of £164m. This comprises £110m for Business, £39m for Personal and £15m for Mortgages.

Pre COVID-19 modelled output
The Group continues to calculate the pre COVID-19 ECL allowance with reference to three economic scenarios over a five-year forecast period. A number of key economic assumptions such as unemployment rates, base rates and inflation are used which ensures that non-linear relationships between different forward-looking scenarios and their associated credit losses do not materially impact the ECL calculation.

The three chosen scenarios have been updated to reflect the current economic environment. There have been no changes to the related weightings at 31 March 2020 from those used at 30 September 2019:

Base case (60%)

The base case used by the Group for IFRS 9 modelling is also used for the Group's internal planning purposes and reflects the outcome of the December 2019 election result, which delivered a working majority for the Conservative party and the resultant implications for the EU withdrawal agreement. However, the outlook remains weak by historical standards.

Mild upside (20%)

This could be considered an alternative base case scenario, where cyclical momentum in the developed world exceeds current expectations. GDP averages 2.3%, compared to 1.5% in the base case, unemployment reaches a trough of 3.3% driving an accelerated increase in bankers buying rate (BBR).

Severe downside (20%)

This scenario encompasses the possibility of the UK entering a recession later this year which lasts until mid-2022 and sees GDP fall by 3.1% peak to trough. This is a more severe impact than the median post war fall of 2.5% reflecting the ongoing uncertainty over a future trade deal with the EU.

1.3 Critical accounting estimates and judgements (continued)

Allowance for impairment losses on credit exposures (continued)

Considering the nature and quantum of the PMA's allocated across the lending portfolios, the Group's standard sensitivity disclosures on the impact to ECL's from changes in the weightings of individual economic scenarios would not provide meaningful information. As such, they have not been disclosed.

Macro-economic assumptions

A range of future macro-economic conditions is used in the scenarios over a five-year forecast period and reflects the best estimates of future conditions under each scenario. The Group has identified the following key macro-economic conditions as the most significant inputs for IFRS 9 modelling purposes: UK GDP growth, CPI inflation, house prices, bank rates, unemployment rates and CRE capital values. These are assessed and reviewed by an internal panel on a six-monthly basis to ensure appropriateness and relevance to the ECL calculation. Where model inputs are not reflective of the current market conditions at the date of the financial statements, the Group may reflect these through the use of temporary adjustments to the ECL calculation using expert credit judgement.

The simple forward-looking five-year averages for the key model inputs used in the ECL calculations at 31 March 2020 (2020-2024) and 30 September 2019 (2019-2023) are:

	UK GDP growth	CPI inflation	House prices	Bank rate	ILO Unemployment
31 March 2020					
Mild upside	2.3%	2.1%	5.2%	1.7%	3.3%
Base	1.5%	1.7%	2.6%	0.7%	3.7%
Severe downside	(0.1%)	0.9%	(5.2%)	0.2%	5.7%
30 September 2019					
Mild upside	2.7%	2.3%	5.8%	2.0%	3.4%
Base	1.8%	1.7%	2.9%	0.9%	3.8%
Severe downside	0.2%	0.8%	(4.6%)	0.4%	5.8%

Other PMAs

In addition, there are further non COVID-19 related PMAs which increase the collectively assessed modelled output where the Group considers that not all the risks identified in a product segment have been, or are capable of being, accurately reflected within those models. The Group has reviewed these and considered that £19m of PMAs to cover these areas is appropriate.

Effective interest rate

Effective interest rate is determined at initial recognition based upon management's best estimate of the future cash flows of the financial instrument. In the event these estimates are revised at a later date, a present value adjustment to the carrying value of the effective interest rate asset may be recognised in profit or loss. Such adjustments can introduce income statement volatility and consequently the effective interest rate method introduces a source of estimation uncertainty. Management considers that material risk of adjustments exists in relation to the application of effective interest rate to the Group's mortgage and credit card portfolios.

Mortgages

The main accounting judgement when assessing the cash flows within the Group's secured lending effective interest rate model is the product life (including assumptions based on observed historic customer behaviour when in a standard variable rate (SVR) period) and the early repayment charge income receivable. The Group currently assumes that 83% of customers will have fully repaid or re-mortgaged within two months of reverting to SVR. If this were to increase to 88%, the loans and advances to customers balance would reduce by £8m with the adjustment recognised in net interest income.

Credit cards

The Group measures credit card effective interest rate by modelling expected cash flows based on assumptions of future customer behaviour, which is supported by observed experience. Key behavioural assumptions include an estimation of utilisation of available credit, transaction and repayment activity and the retention of the customer balance after the end of a promotional period.

The effective interest rate of new business written post-acquisition is 5.47% while that on acquired portfolios nearing the end of their promotional periods is 8.49%. Revisions to the estimates of future cash flows (compared to the original assumptions) that would have resulted in the effective interest rate across all cohorts being reduced by 25bps, would lead to a £35m decrease in the loans and advances to customers balance. This present value adjustment would be recognised in interest income.

The Group holds an appropriate level of model risk reserve across both asset classes to mitigate the risk of estimation uncertainty.

1.4 Accounting developments

In addition to the policy changes highlighted above in note 1.2, the Group has also adopted the following IASB pronouncements in the current financial period which have all been endorsed for use in the EU. Unless stated otherwise, these do not have a material impact on the interim condensed consolidated financial statements:

- IFRIC interpretation 23: 'Uncertainty over Income Tax Treatments', issued June 2017 and effective for financial years beginning on or after 1 January 2019. The new interpretation applies to any situation in which there is uncertainty as to whether an income tax treatment is acceptable under tax law and is not limited to actual ongoing disputes;
- 'Annual Improvements to IFRS Standards 2015-2017 Cycle' issued December 2017 and effective for financial years beginning on or after 1 January 2019. The IASB has made amendments to the following standards: IFRS 3 'Business Combinations'; IFRS 11 'Joint arrangements'; IAS 12 'Income Taxes'; and IAS 23 'Borrowing Costs'. The amendment to IAS 12 clarifies that the income tax consequences of distributions on financial instruments classified as equity should be recognised alongside the past transactions or events that generated the distributable profits. This means that the taxation impacts of distributions relating to AT1 securities and non-controlling interests are now recognised within tax expense in the income statement as opposed to being recognised directly in retained earnings within equity. The amendment impacts only the presentation of the related taxation and not the calculation, with no change to the Group's net assets but an increase in profit attributable to equity owners. Comparatives have been restated. The adoption of this amendment has resulted in a reduction in tax expense and an increase in profit for the period of £8m (six months to March 2019: £8m; 12 months to 30 September 2019: £15m);
- amendment to IAS 19: 'Plan amendment, curtailment or settlement' issued in February 2018 and effective prospectively for financial years beginning on or after 1 January 2019. The amendments clarify that after a plan event companies should use these updated assumptions to measure current service cost and net interest for the remainder of the reporting period; and
- amendment to IAS 28: 'Long-term Interests in Associates and Joint Ventures' issued in October 2017 and effective for financial years beginning on or after 1 January 2019. The amendment clarifies that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests).

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

1.5 Presentation of risk disclosures

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

Notes to the interim condensed consolidated financial statements (continued)
Section 2: Results for the period

2.1 Segment information

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

With effect from 1 October 2019, the business has been aligned to a three operating segments model: Business, Personal and Mortgages. However, 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 until segment reporting has been fully embedded within the Group.

	6 months to 31 Mar 2020 (unaudited) £m	6 months to 31 Mar 2019 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
Net interest income	**671**	820	1,516
Non-interest income	**99**	104	257
Total operating income	**770**	924	1,773
Operating and administrative expenses	**(537)**	(701)	(1,703)
Impairment losses on credit exposures	**(237)**	(173)	(252)
Segment (loss)/profit before tax	**(4)**	50	(182)
Average interest earning assets	**86,847**	85,628	86,362

2.2 Net interest income

	6 months to 31 Mar 2020 (unaudited) £m	6 months to 31 Mar 2019 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
Interest income			
Loans and advances to customers	**1,083**	1,204	2,320
Loans and advances to other banks	**30**	34	72
Financial assets at fair value through other comprehensive income	**22**	15	27
Other interest income	**-**	1	1
Total interest income	**1,135**	1,254	2,420
Other similar interest			
Financial assets at fair value through profit or loss	**8**	12	21
Derivatives economically hedging interest bearing assets	**(3)**	(5)	(8)
Total other similar interest	**5**	7	13
Less: interest expense and similar charges			
Customer deposits	**(315)**	(274)	(580)
Debt securities in issue	**(54)**	(56)	(112)
Due to other banks	**(46)**	(70)	(144)
Due to related parties	**(51)**	(33)	(72)
Other interest expense	**(3)**	(8)	(9)
Total interest expense and similar charges	**(469)**	(441)	(917)
Net interest income	**671**	820	1,516

2.3 Non-interest income

	6 months to 31 Mar 2020 (unaudited) £m	6 months to 31 Mar 2019 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
Gains less losses on financial instruments at fair value			
Held for trading derivatives	**9**	8	16
Financial assets and liabilities at fair value(1)	**(2)**	(6)	-
Ineffectiveness arising from fair value hedges	**(6)**	(7)	(22)
Ineffectiveness arising from cash flow hedges	**(8)**	(6)	(14)
	(7)	(11)	(20)
Other operating income			
Net fee and commission income	**82**	103	195
Margin on foreign exchange derivative brokerage	**9**	11	19
Gain on sale of financial assets at fair value through other comprehensive income	**16**	-	3
Gain on sale of Virgin Money Unit Trust Managers Limited	**-**	-	35
Share of joint venture results	**(3)**	-	(2)
Other income	**2**	2	27
	106	115	277
Total non-interest income	**99**	104	257

(1) A credit risk gain on loans and advances at fair value of £1m, offset by a fair value loss of £3m, has been recognised in the current period (31 March 2019: £1m gain and £7m loss, 30 September 2019: £2m gain and £2m loss).

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

	6 months to 31 Mar 2020 (unaudited) £m	6 months to 31 Mar 2019 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
Current account and debit card fees	**56**	59	117
Credit cards	**22**	20	42
Insurance, protection and investments	**12**	23	37
Non-banking and other fees(1)	**14**	16	31
Total fee and commission income	**104**	118	227
Total fee and commission expense	**(22)**	(15)	(32)
Net fee and commission income	**82**	103	195

(1) Non-banking and other fees include mortgages, invoice and asset finance, and ATM fees.

2.4 Operating and administrative expenses

	6 months to 31 Mar 2020 (unaudited) £m	6 months to 31 Mar 2019 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
Personnel expenses	**203**	236	419
Depreciation and amortisation expense	**76**	56	108
Other operating and administrative expenses	**258**	409	1,176
Total operating and administrative expenses	**537**	701	1,703

Personnel expenses comprise the following items:

	6 months to 31 Mar 2020 (unaudited) £m	6 months to 31 Mar 2019 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
Salaries, wages and non-cash benefits and social security costs	**121**	148	256
Defined contribution pension expense	**25**	18	47
Defined benefit pension expense	**(1)**	16	9
Equity based compensation	**4**	5	4
Other personnel expenses	**54**	49	103
Personnel expenses	**203**	236	419

2.5 Taxation

	6 months to 31 Mar 2020 (unaudited) £m	6 months to 31 Mar 2019 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
Current tax			
Current period	**9**	9	5
Adjustment in respect of prior periods	**1**	(3)	(5)
	10	6	-
Deferred tax (note 3.4)			
Current period	**(44)**	(13)	(61)
Adjustment in respect of prior periods	**(1)**	2	3
	(45)	(11)	(58)
Tax credit for the period	**(35)**	(5)	(58)

The tax assessed for the period differs from that arising from applying the standard rate of corporation tax in the UK of 19%. A reconciliation from the (credit)/expense implied by the standard rate to the actual tax expense is as follows:

	6 months to 31 Mar 2020 (unaudited) £m	6 months to 31 Mar 2019 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
(Loss)/profit on ordinary activities before tax	**(4)**	50	(182)
Tax (credit)/expense based on the standard rate of corporation tax in the UK of 19% (March and September 2019: 19%)	**(1)**	9	(35)
Effects of:			
Disallowable expenses	**2**	2	47
Deferred tax assets de-recognised/(recognised)	**4**	(16)	(49)
Bank levy	**-**	-	1
Banking surcharge	**-**	6	-
Non-taxable gain on partial disposal of UTM	**-**	-	(7)
Impact of rate change	**(34)**	3	2
AT1 distribution	**(6)**	(8)	(15)
Adjustments in respect of prior periods/years	**-**	(1)	(2)
Tax credit for the period	**(35)**	(5)	(58)

Deferred tax assets recognised represent historic losses, previously derecognised, that are now brought onto the balance sheet in accordance with the Group's established methodology, reflecting their expected utilisation against future taxable profits.

The rate change mainly arises on the revaluation of the Group's net deferred tax assets to reflect the reversal of the previously enacted 17% mainstream corporation tax rate in the Budget of 11 March 2020 (see note 3.4).

As outlined in note 1.4, and in accordance with IASB improvements for periods commencing on or after 1 January 2019, the tax credit associated with the distribution on AT1 instruments and to non-controlling interests have been presented in the income statement, rather than in equity. This change is presentational only; it has no effect on total shareholder assets. Prior period comparatives have been restated.

Section 3: Assets and liabilities

3.1 Loans and advances to customers

	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
Gross loans and advances to customers	**73,523**	73,244
Impairment provisions on credit exposures	**(542)**	(362)
Fair value hedge adjustment	**210**	211
	73,191	73,093

Included within gross loans and advances is £713m (30 September 2019: £685m) relating to finance lease receivables.

The Group has a portfolio of fair valued business loans of £214m (30 September 2019: £253m) which are classified separately as financial assets at fair value through profit or loss on the balance sheet (note 3.2). Combined with the above, this is equivalent to total loans and advances of £73,405m (30 September 2019: £73,346m).

The fair value hedge adjustment represents an offset to the fair value movement on derivatives designated in hedge accounting relationships of the mortgage portfolio. Such relationships are established to protect the Group from interest rate risk on fixed rate products.

The Group has transferred a proportion of mortgages to the securitisation and covered bond programmes (note 3.3).

3.2 Financial assets and liabilities at fair value through profit or loss

	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
Financial assets at fair value through profit or loss		
Loans and advances	**214**	253
Other financial assets	**2**	8
	216	261
Financial liabilities at fair value through profit or loss		
Customer deposits – term deposits	**-**	4

Loans and advances

Included in financial assets at fair value through profit or loss is a historical portfolio of loans (sales ceased in 2012). Interest rate risk associated with these loans is managed using interest rate derivative contracts and the loans are recorded at fair value to avoid an accounting mismatch. The maximum credit exposure of the loans is £214m (30 September 2019: £253m) including accrued interest receivable of £1m (30 September 2019: £1m). The cumulative loss in the fair value of the loans attributable to changes in credit risk amounts to £3m (30 September 2019: £4m); the change for the current period is a decrease of £1m (30 September 2019: decrease of £4m) of which £1m (30 September 2019: £2m) has been recognised in the income statement.

Other financial assets

Included in other financial assets are £2m (30 September 2019: £2m) of unlisted securities and £Nil (30 September 2019: £6m) of debt instruments.

Refer to note 3.9 for further information on the valuation methodology applied to financial assets held at fair value through profit and loss and their classification within the fair value hierarchy. Details of the credit quality of financial assets is provided in the Risk report.

Customer deposits - term deposits

Included in other financial liabilities at fair value through profit or loss are fixed rate deposits, the interest rate risk on which is hedged using interest rate derivative contracts. The deposits are recorded at fair value to avoid an accounting mismatch.

The change in fair value attributable to changes in the Group's credit risk is £Nil (30 September 2019: £Nil). The Group is contractually obligated to pay £Nil (30 September 2019: £Nil) less than the carrying amount at maturity to the deposit holder.

3.3 Derivative financial instruments

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

	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
Fair value of derivative financial assets		
Designated as hedging instruments	**256**	315
Designated as held for trading	**147**	51
	403	366
Fair value of derivative financial liabilities		
Designated as hedging instruments	**99**	191
Designated as held for trading	**106**	82
	205	273

Cash collateral on derivatives placed with banks totalled £51m (30 September 2019: £55m). Cash collateral received on derivatives totalled £102m (30 September 2019: £149m). These amounts are included within due from and due to other banks respectively. Collateral placed with clearing houses, which did not meet offsetting criteria set out in IAS 32, totalled £37m (30 September 2019: £55m) and is included within other assets.

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

	31 March 2020 (unaudited)			30 September 2019 (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)	**31,327**	**100**	**165**	25,023	105	121
Less: Net settled interest rate swaps[1]	**(20,776)**	**(44)**	**(126)**	(14,513)	(47)	(75)
Interest rate swaps (net)[2]	**10,551**	**56**	**39**	10,510	58	46
Cross currency swaps[2]	**641**	**68**	**-**	1,446	162	-
	11,192	**124**	**39**	11,956	220	46
Fair value hedges						
Interest rate swaps (gross)	**20,783**	**186**	**565**	25,492	146	526
Less: Net settled interest rate swaps[1]	**(19,348)**	**(80)**	**(520)**	(23,872)	(60)	(389)
Interest rate swaps (net)[2]	**1,435**	**106**	**45**	1,620	86	137
Cross currency swaps[2]	**1,000**	**26**	**15**	808	9	8
	2,435	**132**	**60**	2,428	95	145
Total derivatives designated as hedging instruments	**13,627**	**256**	**99**	14,384	315	191
Derivatives designated as held for trading						
Foreign exchange rate related contracts						
Spot and forward foreign exchange[2]	**1,211**	**30**	**23**	728	16	15
Cross currency swaps[2]	**1,460**	**69**	**9**	1,123	11	9
Options[2]	**1**	**-**	**-**	2	-	-
	2,672	**99**	**32**	1,853	27	24
Interest rate related contracts						
Interest rate swaps (gross)	**721**	**23**	**48**	1,159	24	53
Less: Net settled interest rate swaps[1]	**-**	**-**	**-**	(363)	(5)	(2)
Interest rate swaps (net)[2]	**721**	**23**	**48**	796	19	51
Swaptions[2]	**11**	**-**	**1**	11	-	2
Options[2]	**482**	**2**	**3**	465	2	3
	1,214	**25**	**52**	1,272	21	56
Commodity related contracts	**133**	**23**	**22**	55	2	2
Equity related contracts	**-**	**-**	**-**	3	1	-
Total derivatives designated as held for trading	**4,019**	**147**	**106**	3,183	51	82

(1) Presented within other assets
(2) Presented within derivative financial instruments

3.3 Derivative financial instruments (continued)

Derivatives transacted to manage the Group's interest rate exposure on a net portfolio basis are accounted for as either cash flow hedges or fair value hedges as appropriate. Cash flow hedged derivatives include vanilla interest rate swaps and cross currency swaps. Derivatives traded to manage interest rate risk on certain fixed rate assets, such as 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.

Interest Rate Benchmark Reform

As highlighted in note 1.2, the Group has early adopted and applied the Amendments to IAS 39 and IFRS 7 on Interest Rate Benchmark Reform. The amendments provide temporary exceptions from applying specific hedge accounting requirements during the period of uncertainty resulting from interest rate benchmark reform. However, any hedge ineffectiveness continues to be recorded in the income statement.

In summary, the reliefs provided by the amendments that apply to the Group are:

- When considering the ‘highly probable’ requirement, the Group has assumed that the IBOR interest rates upon which the hedged items are based do not change as a result of IBOR reform.
- In assessing whether the hedge is expected to be highly effective on a prospective basis the Group has assumed that the IBOR interest rates upon which the cash flows of the hedged items and the hedging instruments that hedge them are based are not altered by IBOR reform.
- The Group will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness fall outside the 80‑125 per cent range and the hedging relationship is subject to interest rate benchmark reforms. For those hedging relationships that are not subject to the interest rate benchmark reforms the Group will continue to cease hedge accounting if retrospective effectiveness is outside the 80‑125 per cent range.
- The Group has retained the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.
- The Group has assessed whether the hedged IBOR risk component is a separately identifiable risk only when it first designates a hedged item in a fair value hedge and not on an ongoing basis.

The Group has cash flow and fair value hedge accounting relationships that are exposed to different IBORs, predominantly GBP LIBOR, but also Euro Interbank Offer Rate (EURIBOR) and USD LIBOR, which are subject to the interest rate benchmark reform.

As at 31 March 2020, the notional of the hedged items that the Group has designated into cash flow hedge relationships that is directly affected by the interest rate benchmark reform is £28,817m, of which £28,176m relates to GBP LIBOR. These are principally debt securities in issue, both current and highly probable forecast issuances. The notional of the hedged items that the Group has designated in fair value hedge relationships that is directly affected by the interest rate benchmark reform is £15,818m. These fair value hedges principally relate to fixed rate mortgages.

At 31 March 2020, the notional amount of the hedging instruments in hedging relationships to which these amendments apply was £44,706m, of which £15,889m relates to fair value hedges and £28,817m relates to cash flow hedges.

Page 30 of the Risk report describes how the Group is managing the transition to new benchmark interest rates.

The Group will continue to apply the amendments to IAS 39 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed ends. The Group has assumed that this uncertainty will not end until the Group’s contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment.

3.4 Deferred tax

The Group has recognised deferred tax in relation to the following items:

	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
Deferred tax assets		
Tax losses carried forward	**268**	249
Capital allowances	**107**	90
Cash flow hedge reserve	**11**	3
Acquisition accounting adjustments	**20**	44
Transitional adjustment - IFRS 9	**16**	16
Transitional adjustment - available for sale reserve	**1**	1
Employee equity based compensation	**4**	4
Loss on financial instruments at fair value through other comprehensive income	**3**	-
Pension spreading	**11**	11
Other	**2**	-
	443	418
Deferred tax liabilities		
Defined benefit pension scheme surplus	**(216)**	(139)
Acquisition accounting adjustments	**(22)**	(51)
Intangible assets	**(4)**	(4)
Gains on financial instruments at fair value through other comprehensive income	**(2)**	(5)
	(244)	(199)
Net deferred tax asset	**199**	219

Since 1 April 2017, the statutory rate of UK corporation tax has been 19%. The previously enacted corporation tax reduction to 17% on 1 April 2020 was cancelled in the Budget of 11 March 2020, and a resolution effecting this passed by Parliament on 17 March 2020. This new rate is used to measure the values at which assets are expected to be realised and liabilities settled. The result is a significant credit to the income statement as set out in note 2.5.

At 31 March 2020, the Group had an unrecognised deferred tax asset of £131m valued at 19% (30 September 2019: £114m, valued at the previously enacted rate of 17%) representing trading losses with a gross value of £688m (30 September 2019: £668m). Although there is no prescribed period after which losses expire, a deferred tax asset has not been recognised in respect of these losses as the Directors have insufficient certainty over their recoverability in the foreseeable future.

3.5 Debt securities in issue

The breakdown of debt securities in issue is shown below:

31 March 2020 (unaudited)

	Medium-term notes £m	Securitisation £m	Covered bonds £m	Total £m
Carrying value	**301**	**4,667**	**1,826**	**6,794**
Fair value hedge adjustments	**(1)**	**13**	**65**	**77**
Total debt securities	**300**	**4,680**	**1,891**	**6,871**
Accrued interest payable	**6**	**8**	**26**	**40**
	306	**4,688**	**1,917**	**6,911**

30 September 2019 (audited)

	Medium-term notes £m	Securitisation £m	Covered bonds £m	Total £m
Carrying value	300	5,040	1,828	7,168
Fair value hedge adjustments	1	2	74	77
Total debt securities	301	5,042	1,902	7,245
Accrued interest payable	3	9	10	22
	304	5,051	1,912	7,267

The following table provides a breakdown of the medium-term notes in issuance:

Medium-term notes (excluding accrued interest)

	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
VM PLC 2.25% fixed rate senior notes due 2020	**300**	301

During the period, the Group issued £491m in Sterling and US Dollar denominations from the Lanark securitisation programme (30 September 2019: £1,102m). There have been no medium-term notes or covered bonds issued.

3.6 Due to other banks

	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
Secured loans	**7,122**	7,308
Securities sold under agreements to repurchase(1)	**401**	1,554
Transaction balances with other banks	**12**	12
Deposits from other banks	**55**	42
	7,590	8,916

(1) The underlying securities sold under agreements to repurchase have a carrying value of £550m (30 September 2019: £2,324m).

Secured loans comprise amounts drawn under the Term Funding Schemes (including accrued interest).

3.7 Provisions for liabilities and charges

	6 months to 31 Mar 2020 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
PPI redress provision		
Opening balance	**379**	275
Charge to the income statement	**-**	415
Utilised	**(161)**	(311)
Closing balance	**218**	379
Customer redress and other provisions		
Opening balance	**25**	41
Adoption of IFRS 16 (note 5.4)	**8**	-
Opening balance (restated)	**33**	41
Virgin Money provision on acquisition	**-**	11
(Credit)/charge to the income statement	**(1)**	18
Utilised	**(18)**	(45)
Closing balance	**14**	25
Restructuring provision		
Opening balance	**55**	15
Adoption of IFRS 16 (note 5.4)	**(10)**	-
Opening balance (restated)	**45**	15
Virgin Money provision on acquisition	**-**	2
Charge to the income statement	**18**	64
Utilised	**(37)**	(26)
Closing balance	**26**	55
Total provisions for liabilities and charges	**258**	459

PPI redress

In common with the wider UK retail banking sector, the Group continues to deal with complaints received in the period up to the time bar in August 2019. The Group has made good progress in reviewing and closing the remaining information requests and related complaints and considers the remaining provision to be enough to meet current and future expectations in relation to the mis-selling of PPI policies and therefore no additional charge was required in the period. The total provision raised to date in respect of PPI is £3,055m (30 September 2019: £3,055m), with £218m of this remaining (30 September 2019: £379m).

At 30 September 2019 the Group had received 629,000 complaints and allowed for a further 86,000 complaints to be converted from c.325,000 IRs that remained unprocessed at that time.

In the last six months the Group has processed the majority of the unprocessed IRs, with c.8,000 IRs now left to review. Based on the IR-to-complaint conversion rate experience over the past six months it is now estimated that the actual final number of complaints, from the stock of information requests which existed as at 30 September 2019, will be c.100,000.

In the last six months the Group has closed c.75,000 complaints representing the 52,000 complaints which were outstanding at the end of September 2019 and c.25,000 which have been converted from IRs outstanding at the end of September 2019. Subject to estimating the valid complaints in the final c8,000 IRs the Group has c.75,000 complaints left to review.

The overall provision continues to be based on several assumptions derived from a combination of past experience, estimated future experience, industry comparison and the exercise of judgement in the key areas identified. Our experience since the time bar has been positive relative to expectations particularly around the validity of complaints requiring redress (uphold rate), and this more than offsets the costs associated with the additional complaints. As the operation moves into the final months the main area of variability is the uphold rate on the remaining complaints. Using current experience and extrapolating on the remaining cases indicates a potential provision surplus, but this will not be validated until the outstanding complaints have been closed. In terms of the Group's sensitivity to this variable, the actual complaint uphold rate would have to increase by c.70% relative to the 25% experienced in the six months to 31 March 2020 in order to utilise the remaining provision. Therefore there does of course remain a residual risk that existing provisions for PPI customer redress may not cover all potential costs, but given the experience over the past six months this risk has reduced significantly.

3.7 Provisions for liabilities and charges (continued)

Customer redress and other provisions
Other provisions include amounts in respect of a number of non-PPI conduct related matters, legal proceedings, claims arising in the ordinary course of the Group's business and property related provisions. The Group has not raised further provisions in relation to non-PPI conduct matters in the period. The ultimate cost to the Group of these customer redress matters is driven by a number of factors relating to offers of redress, compensation, offers of alternative products, consequential loss claims and administrative costs. The matters are at varying stages of their life cycle and in certain circumstances, usually early in the life of a potential issue, elements of the potential exposure are contingent. These factors could result in the total cost of review and redress varying materially from the Group's estimate. The final amount required to settle the Group's potential liabilities in these matters is therefore uncertain and further provision could be required.

Restructuring provision
Restructuring of the business continues with a provision held to cover redundancy payments, property vacation costs and associated enablement costs.

3.8 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 Scheme's funding and investment strategy.

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

	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
Fair value of Scheme assets	**4,437**	4,707
Total defined benefit obligation	**(3,819)**	(4,311)
Net defined benefit pension asset	**618**	396

The Group also provides post-retirement health care under a defined benefit scheme for pensioners and their dependant relatives for which provision of £2m (30 September 2019: £3m) has been made on a basis consistent with the methodology applied to the defined benefit pension scheme. This is a closed scheme and the provision will be utilised over the life of the remaining scheme members.

3.9 Fair value of financial instruments

This section should be read in conjunction with note 3.18, Fair value of financial instruments, of the 2019 Clydesdale Bank PLC 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.

(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, as reported on the balance sheet, and their fair values where these are not approximately equal.

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

	31 Mar 2020 (unaudited)		30 Sep 2019 (audited)	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Loans and advances to customers (1)	**73,191**	**73,114**	73,093	73,117
Financial liabilities				
Due to other banks(2)	**7,590**	**7,590**	8,916	8,874
Customer deposits(2)	**64,853**	**65,055**	64,000	64,166
Debt securities in issue(3)	**6,911**	**7,008**	7,267	7,365
Due to related entities(2)	**2,323**	**2,409**	2,315	2,318

(1) Loans and advances to customers are categorised as Level 3 in the fair value hierarchy with the exception of £1,415m (30 September 2019: £1,513m) of overdrafts which are categorised as Level 2.
(2) Categorised as Level 2 in the Fair Value Hierarchy.
(3) Categorised as Level 2 in the Fair Value Hierarchy with the exception of £306m of listed debt (30 September 2019: £305m) which is categorised as level 1.

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

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

	Fair value measurement as at 31 Mar 2020 (unaudited)				Fair value measurement as at 30 Sep 2019 (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								
Financial assets at fair value through other comprehensive income	**4,635**	**-**	**-**	**4,635**	4,328	-	-	4,328
Financial assets at fair value through profit or loss	**-**	**214**	**-**	**214**	-	253	-	253
Other financial assets	**-**	**-**	**2**	**2**	-	-	8	8
Derivative financial assets	**-**	**403**	**-**	**403**	-	366	-	366
Total financial assets at fair value	**4,635**	**617**	**2**	**5,254**	4,328	619	8	4,955
Financial liabilities								
Customer deposits	**-**	**-**	**-**	**-**	-	4	-	4
Derivative financial liabilities	**-**	**205**	**-**	**205**	-	273	-	273
Total financial liabilities at fair value	**-**	**205**	**-**	**205**	-	277	-	277

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

3.9 Fair value of financial instruments (continued)

Additional analysis on assets and liabilities measured at fair value based on valuation techniques for which any significant input is not based on observable market data (Level 3):

Level 3 movement analysis:

	6 months to 31 Mar 2020 (unaudited)		12 months to 30 Sep 2019 (audited)	
	Financial assets available for sale £m	Financial assets at fair value through profit or loss £m	Financial assets available for sale £m	Financial assets at fair value through profit or loss £m
Balance at the beginning of the period	-	8	11	-
Reclassification on adoption of IFRS 9(1)	-	-	(11)	11
Fair value gains/(losses) recognised(2)				
In profit or loss - realised	-	5	-	3
Purchases	-	-	-	1
Sales	-	(10)	-	(4)
Settlements	-	(1)	-	(3)
Balance at the end of the period	-	2	-	8

(1) Changes required as a result of the adoption of IFRS 9 from 1 October 2018.

(2) Net gains or losses were recorded in non-interest income, FVOCI reserve or available for sale reserve as appropriate.

Quantitative information about significant unobservable inputs in Level 3 valuations

The table below lists key unobservable inputs to Level 3 financial instruments, and provides the range of those inputs as at 31 March 2020.

	Fair value £m	Valuation technique	Unobservable inputs	Low range	High range
Other financial assets at fair value through profit or loss (FVTPL)					
Equity investments	2	Discounted cash flow	Contingent litigation risk	0%	100%
Debt investments	-	Discounted cash flow	Recoverable amount	0%	100%

Sensitivity of Level 3 fair value measurements to reasonably possible alternative assumptions

Where valuation techniques use non-observable inputs that are significant to a fair value measurement in its entirety, changing these inputs will change the resultant fair value measurement. The most significant input into the FVTPL equity investment is the recoverable amount, which could reduce the carrying value of investments to £nil.

Other than this significant Level 3 measurement, the Group has a limited remaining exposure to Level 3 fair value measurements and changing one or more of the inputs for fair value measurements in Level 3 to reasonable alternative assumptions would not change the fair value significantly with respect to profit or loss, total assets, total liabilities or equity on these remaining Level 3 measurements.

Section 4: Capital

4.1 Equity

4.1.1 Share capital and share premium

	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
Share capital	**1,243**	1,243
Share premium	**1,549**	1,549
Share capital and share premium	**2,792**	2,792

	31 Mar 2020 (unaudited) Number of shares	30 Sep 2019 (audited) Number of shares	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
Ordinary shares of £0.10 each - allotted, called up, and fully paid				
Opening ordinary share capital	**12,431,538,208**	10,131,538,207	**1,243**	1,013
Issued under employee share schemes	**-**	2,300,000,001	**-**	230
Closing ordinary share capital	**12,431,538,208**	12,431,538,208	**1,243**	1,243

All ordinary shares issued were at par and fully paid up.

The holders of ordinary shares are entitled to dividends as declared from time to time and are entitled to one vote per share at meetings of the shareholders of the Bank. All shares in issue at 31 March 2020 rank equally with regard to the Bank's residual assets.

During the period to 31 March 2020, a dividend of £10m was paid to the parent company. The Directors recommended that no interim dividend would be paid in respect of the half year ended 31 March 2020. This reflects the current uncertainty as to the overall impact of the COVID-19 virus and is consistent with the PRA's statement welcoming the decision of large UK banks to suspend dividends until the end of 2020.

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.

4.1.2 Other equity instruments

Other equity instruments consist of the following Perpetual Contingent Convertible Notes held by Virgin Money UK PLC:

- Perpetual securities (fixed 8% up to the first reset date) issued on 8 February 2016 with a nominal value of £450m and optional redemption on 8 December 2022.
- Perpetual securities (fixed 9.25% up to the first reset date) issued on 13 March 2019 with a nominal value of £250m and optional redemption on 8 June 2024.

The issues are treated as equity instruments in accordance with IAS 32 'Financial Instruments: Presentation' with the proceeds included in equity, net of transaction costs of £3m (30 September 2019: £3m). AT1 distributions of £30m were paid in the period (30 September 2019: £41m paid). Following revisions to the tax rules on hybrid capital which took effect from 1 January 2019, Hybrid Capital Instruments elections covering the Group's AT1s that existed at 1 January 2019 were made to HMRC on 27 September 2019. Accordingly, in line with the revised standard, the tax credits for these payments have been recognised in the income statement.

4.1 Equity (continued)

4.1.3 Other reserves

Asset revaluation reserve
The asset revaluation reserve includes the gross revaluation increments and decrements arising from the revaluation of land and buildings.

FVOCI reserve
The FVOCI reserve records the unrealised gains and losses arising from changes in the fair value of financial assets at fair value through other comprehensive income. The movements in this reserve are detailed in the consolidated statement of comprehensive income.

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 2020 (unaudited) £m	12 months to 30 Sep 2019 (audited) £m
At 1 October	**(25)**	(37)
Amounts recognised in other comprehensive income:		
Cash flow hedge – interest rate risk		
Effective portion of changes in fair value of interest rate swaps	**(32)**	14
Amounts transferred to the income statement	**(2)**	(1)
Taxation	**9**	(3)
Cash flow hedge – foreign exchange risk		
Effective portion of changes in fair value of cross currency swaps	**(20)**	59
Amounts transferred to the income statement	**20**	(57)
Taxation	**-**	-
Closing cash flow hedge reserve	**(50)**	(25)

4.1.4 Non-controlling interests

On 15 October 2018, the date on which it was acquired by Virgin Money UK PLC, Virgin Money Holdings (UK) PLC (now an intermediate holding company within the Group) had in issue Fixed Rate Resettable AT1 securities issued on the Luxembourg Stock Exchange. In accordance with IAS 32 these are classified as equity instruments. The Group did not acquire the AT1 securities at that time, consequently these represented a non-controlling interest. As the AT1 instruments are actively traded, the fair value on acquisition of £422m was calculated based on the market price on the Luxembourg Stock Exchange at its close of business on 12 October 2018. Subsequently on 20 August 2019, there was a change in obligor from Virgin Money Holdings (UK) PLC to Virgin Money UK PLC, following which these instruments have been recognised within other equity (note 4.1.2).

There were no distributions to non-controlling interests in the current period (30 September 2019: £33m paid, £26m net of tax).

Notes to the interim condensed consolidated financial statements (continued)
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 defaults. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contract amounts is not representative of future liquidity requirements.

	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
Guarantees and assets pledged as collateral security:		
Due in less than 3 months	**20**	24
Due between 3 months and 1 year	**22**	24
Due between 1 year and 3 years	**9**	6
Due between 3 years and 5 years	**11**	11
Due after 5 years	**49**	48
	111	113
Other credit commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend at call	**16,463**	15,158

Other contingent liabilities

Conduct risk related matters
There continues to be uncertainty and thus judgement is required in determining the quantum of conduct risk related liabilities, with note 3.7 reflecting the Group's current position in relation to redress provisions including those for PPI. Following the August 2019 time bar for PPI complaints the Group has made good progress in reviewing and closing the Information Requests and related complaints. Until all matters are closed the final amount required to settle the Group's potential liabilities for these, and other conduct related matters, remains uncertain. Contingent liabilities include those matters where redress is likely to be paid and costs incurred but the amounts cannot currently be estimated.

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

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

5.2 Related party transactions

Amounts due from related parties	**31 Mar 2020 (unaudited) £m**	30 Sep 2019 (audited) £m
Loans - Virgin Money UK PLC	**7**	11
Other receivables - Virgin Money UK PLC	**8**	7
Total amounts due from related entities	**15**	18

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

Amounts due to related parties	**31 Mar 2020 (unaudited) £m**	30 Sep 2019 (audited) £m
Debt securities - Virgin Money UK PLC	**2,319**	2,311
Other payables - Virgin Money UK PLC	**4**	4
Total amounts due to related entities	**2,323**	2,315
Interest expense on the above amounts was as follows (note 2.2):		
Virgin Money UK PLC	**51**	72

Debt securities	**31 Mar 2020 (unaudited) £m**	30 Sep 2019 (audited) £m
Subordinated debt	**732**	732
Medium-term notes	**1,587**	1,579
Total debt securities	**2,319**	2,311

Subordinated debt comprises dated, unsecured loan capital and is issued to Virgin Money UK PLC. These debts 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.

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.

5.2 Related party transactions (continued)

	31 Mar 2020 (unaudited) £m	30 Sep 2019 (audited) £m
Assets with related entities		
Investments in joint ventures and associates		
Virgin Money Unit Trust Managers Limited[1]	**5**	8
Other assets		
Amounts due from Virgin Money Unit Trust Managers Limited[1]	**3**	2
Total assets with related entities	**8**	10
Liabilities with related entities		
Customer deposits		
The Virgin Money Foundation	**1**	1
Other liabilities		
Group pension deposits[2]	**25**	17
Commissions and charges due to Virgin Atlantic Airways Limited[3]	**4**	6
Total liabilities with related entities	**30**	24
Transactions with related entities		
Non-interest income		
Net fees and commissions to Virgin Atlantic Airways Limited	**(8)**	(15)
Share of post-tax result of Virgin Money Unit Trust Managers Limited[1]	**(3)**	(1)
Operating and administrative expenses		
Costs recharged to Virgin Money Unit Trust Managers Limited[1]	**3**	2
Donations net of costs recharged to the Virgin Money Foundation[4]	**(1)**	(2)
Total income statement	**(9)**	(16)

(1) The Group has a joint venture with Aberdeen Standard Investments, named Virgin Money Unit Trust Managers Limited (UTM).

(2) The Group and the Trustee to the pension scheme have entered into a contingent Security Arrangement which provides additional support to the Scheme by underpinning recovery plan contributions and some additional investment risk. The security is in the form of a pre-agreed maximum level of assets that are set aside for the benefit of the Pension Scheme in certain trigger events. These assets are held by Red Grey Square Funding LLP, an insolvency remote consolidated structured entity. The Group incurred costs in relation to pension scheme administration. These costs, which amounted to £Nil (31 March 2019: £0.2m, 30 September 2019: £0.1m), were charged to the Group sponsored scheme. Information on the pension schemes operated by the Group is provided in note 3.8. Pension contributions of £25m (31 March 2019: £55m, 30 September 2019: £83m) were made to the Scheme (note 2.4).

(3) The Group incurs credit card commissions and air mile charges with Virgin Atlantic Airways Limited (VAA) in respect of an agreement between the two parties. Cash costs payable to VAA totalling £1m (31 March 2019: £2.7m, 30 September 2019: £1.5m) have been deferred on the balance sheet.

(4) The Group has made donations to the Virgin Money Foundation to enable it to pursue its charitable objectives. The Group has also provided a number of support services to the Virgin Money Foundation on a pro bono basis, including use of facilities and employee time. The estimated gift in kind for support services provided during the year was £0.1m (31 March 2019: £0.3m, 30 September 2019: £0.3m) and is included in the total value disclosed above.

During the period to 31 March 2020 the Group did not pay any ordinary dividends to Virgin Group Holdings Limited.

5.3 Notes to the statement of cash flows

	Term Funding Scheme £m	Debt securities in issue £m	Lease liabilities[1] £m	Intercompany loans £m	Total £m
At 1 October 2018	2,254	3,698	-	1,313	7,265
Cash flows:					
Issuances	-	2,226	-	644	2,870
Redemptions	-	(2,003)	-	-	(2,003)
Drawdowns	-	-	-	(33)	(33)
Repayment	(1,295)	-	-	-	(1,295)
Non-cash flows					
Acquisition of TFS and debt securities in issue	6,387	3,209	-	-	9,596
Movement in FV hedge	-	42	-	-	42
Movement in accrued interest	(3)	2	-	13	12
Unrealised foreign exchange movements	-	79	-	-	79
Unamortised costs	(1)	-	-	28	27
Other movement	(34)	14	-	350	330
At 30 September 2019	7,308	7,267	-	2,315	16,890
Adjustment on transition to IFRS 16	-	-	205	-	205
Revised 1 October 2019	7,308	7,267	205	2,315	17,095
Cash flows:					
Issuances	-	491	-	2	493
Redemptions	-	(876)	-	-	(876)
Repayment	(200)	-	(15)	-	(215)
Non-cash flows					
Fair value adjustments and associated unwind on acquired TFS and debt securities in issue	18	-	-	-	18
Movement in accrued interest	(4)	18	1	-	15
Other movements	-	11	2	6	19
At 31 March 2020	**7,122**	**6,911**	**193**	**2,323**	**16,549**

(1) The Group adopted IFRS 16 'Leases' on 1 October 2019. The payment of principal amounts of lease liabilities is now included as a deduction within financing activities whereas previously under IAS 17 'Leases' operating lease charges were included as a deduction within cash flow from operating activities. Interest on lease liabilities is included within 'interest paid'.

5.4 Transition to IFRS 16 'Leases'

The Group's lease portfolio consists principally of leases for offices and stores. The Group also leases equipment, but this is generally of low value. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions, although most are industry standard in nature.

The Group has adopted IFRS 16 Leases from 1 October 2019 and elected to apply the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings as at 1 October 2019 and comparatives are not restated. Under the modified retrospective approach, at transition, lease liabilities have been measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 October 2019. The weighted-average borrowing rate applied to these lease liabilities on transition was 1.7%.

For the purposes of applying the modified retrospective approach, the Group has elected to:

- measure the right-of-use asset at an amount equal to the lease liability at the date of initial application adjusted by the amount of any prepaid or accrued lease payments;
- apply the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term;
- apply the practical expedient to rely on its assessment as to whether the lease was onerous under IAS 37 and therefore adjust the right-of-use asset at the date of initial application by the onerous lease provision rather than conduct an impairment test; and
- apply the practical expedient to grandfather the assessment of which transactions are leases. It will apply IFRS 16 only to contracts that were previously identified as leases by IAS 17. Contracts that were not identified as leases under IAS 17 and IFRIC 4 will not be reassessed. Therefore, the definition of a lease under IFRS 16 will only be applied to contracts entered into or changed on or after 1 October 2019.

5.4 Transition to IFRS 16 'Leases' (continued)

The impact of the adoption of IFRS 16 on the opening balance sheet as at 1 October 2019 is shown in the table below:

	As at 30 September 2019 £m	Impact of IFRS 16 £m	Restated as at 1 October 2019 £m
Property, plant and equipment	145	194	339
Loans and advances to customers	73,093	6	73,099
Other assets	236	(6)	230
Provisions	459	(3)	456
Other liabilities	2,527	196	2,723
Equity	5,141	1	5,142

The adoption of IFRS 16 has absorbed 11bps of the Group's CET1 capital, principally through the risk weighting of assets now recognised on balance sheet.

Lease liabilities amounting to £205 million in respect of leased properties previously accounted for as operating leases were recognised at 1 October 2019. Included in the £196 million movement in other liabilities on adoption is a £9 million transfer of rent-free period accruals out of other liabilities on transition.

The following is a reconciliation of operating lease commitments disclosed at 30 September 2019 to the lease liability recognised at 1 October 2019:

	£m
Undiscounted future minimum lease payments under operating leases at 30 September 2019	414
Leases not yet commenced at 1 October 2019	(129)
Irrecoverable VAT included in future minimum lease payments	(49)
Short-term leases recognised on a straight line basis as an expense	(2)
Lease prepayments	(6)
Discounted at the incremental borrowing rate	(24)
Other	1
Total lease liability recognised as at 1 October 2019	**205**

IFRS 16 amends the criteria applied to assess whether a sub-lease is an operating lease or a finance lease. Changes to the classification of sub-leases where the Group is lessor under IFRS 16 has resulted in certain sub-leases of surplus estate previously classified as operating leases being reclassified as finance leases. In those cases, any difference between the value of the impaired right-of-use asset on transition and the sub-lease receivable recognised on transition is recognised as a gain or loss directly within equity.

Under IFRS 16, the operating lease expense previously recorded in operating and administrative costs has been replaced by a depreciation charge (also included within operating and administrative costs), which is lower than the operating lease expense recognised under IAS 17, and a separate interest expense, recorded in 'interest expense'. While the decision to transition using the modified retrospective approach impacts comparability with prior periods within the Group's consolidated income statement, the line item impact is not material.

There is no net cash flow impact arising from the adoption of the new standard.

The Group's revised accounting policy is disclosed in note 1.2.

Additional information
Measuring financial performance - glossary

Underlying adjustments

In arriving at an underlying basis, the effects of certain items that do not promote an understanding of historical or future trends of earnings or cash flows are removed, as management consider that this presents more comparable results period on period. These items are all significant, and are typically one-off in nature. Additional detail is provided below where considered necessary to further explain the rationale for their exclusion from underlying performance, in particular for new items in the current period or recurring non-underlying items:

Item	**6 months to 31 Mar 2020 £m**	6 months to 31 Mar 2019 £m	12 months to 30 Sep 2019 £m	Reason for exclusion from the Group's current underlying performance
Integration and transformation costs	**(61)**	(38)	(149)	These are part of the Group's publicised three-year integration plan following the acquisition of Virgin Money Holdings (UK) PLC and comprise a number of one-off expenses that are required to realise the anticipated cost synergies. Also included are one-off costs to support transformation. This programme will improve our digital capability and consequently enable super straightforward efficiency. Costs are expected to be restructuring in nature.
Acquisition accounting unwinds	**(57)**	(67)	(87)	This consists principally of the unwind of the IFRS 3 fair value adjustments created on the acquisition of Virgin Money Holdings (UK) PLC in October 2018 (6 months to 31 Mar 2020: £46m charge, 6 months to 31 Mar 2019: £33m gain, 6 months to 30 Sep 2019: £10m charge) and the IFRS 9 impairment impact on acquired assets (6 months to 31 Mar 2020: £5m charge, 6 months to 31 Mar 2019: £100m charge, 6 months to 30 Sep 2019: £3m charge) with other items amounting to £6m (6 months to 31 Mar 2019: £Nil, 6 months to 30 Sep 2019: £7m charge). These represent either one-off adjustments or are the scheduled reversals of the accounting adjustments that arose following the fair value exercise required by IFRS 3. These will continue to be treated as non-underlying adjustments over the expected three to five-year period until they have been fully reversed.
Legacy conduct	**-**	(33)	(433)	These costs are historical in nature and are not indicative of the Group's current practices.
Other:				
SME transformation	**(5)**	(17)	(30)	These costs are significant due to the unique growth opportunities currently available to the Group in respect of its Business lending in relation to the RBS proposition.
UTM transition costs	**(4)**	-	(1)	These costs relate to UTM's transformation costs principally for the build of a new platform for administration and servicing. The costs are one-off in nature as part of the transition to the new JV proposition.
Intangible asset write-off	**-**	(127)	(127)	The charge for the software write-off in the prior period was significant and arose in respect of software assets which are no longer considered to be of value relative to the Group's strategy following the acquisition of Virgin Money Holdings (UK) PLC.
Mortgage EIR adjustments	**-**	80	80	The alignment of accounting practices is a one-off exercise arising from the acquisition.
Consent solicitation	-	-	22	A one-off gain relating to the change in obligor of senior debt from Virgin Money Holdings (UK) PLC to CYBG PLC on 20 August 2019.
Gain on sale of UTM	**-**	-	35	A one-off gain recognised on the disposal of 50% (less one share) of Virgin Money Unit Trust Managers Limited.
GMP equalisation cost	**-**	(11)	(11)	A one-off charge for GMP equalisation in the Group's defined benefit scheme.
Legacy restructuring and separation	**-**	(2)	(5)	These legacy costs were significant in prior periods and related to the Sustain programme, and demerger from NAB, both of which are now complete.
Gain on disposal of VocaLink	**-**	-	4	
Total other	**(9)**	(77)	(33)	

Additional information

Glossary

For a glossary of terms and abbreviations used within this report refer to pages 189 to 194 of the Group Annual Report and Accounts for the year ended 30 September 2019.

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

Cash and cash equivalents	For the purposes of the statement of cash flows, cash and cash equivalents comprise cash and non-mandatory deposits with central banks and amounts due from other banks with a maturity of less than three months.
Internal probability of default (PD) ratings	The rating applied as a result of mapping all internal models that predict the probability of default onto a common scale.

Additional information

Abbreviations

CBILS	Coronavirus business interruption loan scheme
CLBILS	Coronavirus large business interruption loan scheme
COVID- 19	Corona Virus Disease 2019
CRE	Commercial real estate
EBT	Employee benefit trust
EEL	Excess expected loss
FV	Fair value
IR	Information request
PMA	Post model adjustment
TFSME	Term funding scheme with additional incentives for SMEs

Additional information

Officers and professional advisers

<u>**Non-Executive Directors**</u>

Chairman	Jim Pettigrew
Deputy Chairman and Senior Independent Non-Executive Director	David Bennett
Independent Non-Executive Directors	Paul Coby Geeta Gopalan Adrian Grace Fiona MacLeod Darren Pope Dr Teresa Robson-Capps Tim Wade
Non-Executive Director	Amy Stirling
<u>**Executive Directors**</u>	David Duffy Ian Smith
Company Secretary	Lorna McMillan
Group General Counsel	James Peirson
Independent auditors	Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR

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