PILLAR 3 DISCLOSURES 2018

2018 has been another year of strong progress for CYBG, with the continued execution of its strategy and disciplined delivery against all of the strategic targets the Group has set.

The transformation CYBG has undertaken since IPO has positioned the Group well and culminated in the acquisition of Virgin Money to create the first true national competitor to the status quo in UK banking.

View our Annual Report and Accounts, Financial Results and Articles and other information about CYBG at **www.cybg.com/investor-centre/**

Reporting

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.

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Executive summary

1.1 Introduction

This document presents the consolidated Pillar 3 disclosures of CYBG PLC and its controlled entities (the Group) as at 30 September 2018. This report should be read in conjunction with the CYBG PLC Annual Report and Accounts.

The analysis provided within the Pillar 3 disclosures provide detail on aspects of the Group's risk profile and, along with detail on the Risk Management Framework (RMF) supports the Group's position as a strongly capitalised firm which employs robust systems and processes in order to assess, manage and mitigate risk.

The acquisition of Virgin Money occurred in October 2018 and is therefore not included in these disclosures.

1.2 Group at a glance

Our business is delivered through our key brands…
CYBG operates through the retail and commercial banks Clydesdale Bank, established in 1838 in Glasgow, Yorkshire Bank, founded in 1859 in Halifax and through the digital banking service B, created in 2016.

… underpinned by our three strategic priorities…

– Drive sustainable customer growth by investing to broaden the franchise across our target segments and core regions, while enhancing the customer experience.

– Improve efficiency by making our network, operations and organisation more efficient and agile for colleagues and customers.

– Capital optimisation by securing internal ratings-based (IRB) accreditation across all of our lending book (with accreditation for mortgages and small- and medium-sized enterprise (SME) lending achieved in October 2018) and deploying our capital to support our business ambitions while balancing risk and reward.

….and distributed through our omni-channel model
The Group's omni-channel model enables our customers to interact with us in whichever way they choose and we remain focused on delivering an improved service across every channel where we serve and support our customers.

Our strong and growing digital offering, combined with the branch network, contact centre and extensive broker channel, provides an enviable position from which to grow our business.

To achieve our objectives, we are streamlining our front and back office, investing in our digital platform to accelerate the adoption of mobile and online tools and increasing in-branch automation.

1.3 Summary of risk profile

Effective management of risk is a key capability for a successful financial services provider and is fundamental to the Group's strategy. The Group has continued to advance and strengthen its risk management capabilities, evolving in line with industry developments and best practice.

The Board is responsible for determining the nature and extent of the risks it is willing to take in order to achieve its strategic objectives.

As part of its viability assessment under UK Corporate Governance Code (the Code) requirements, the Directors have performed a robust assessment of the risks facing the Group, including those that would threaten its business model and future performance, solvency or liquidity.

The principal risks the Group actively monitors and manages and the Group's key ratios are described below. Further information on the Board's assessment is provided in the Strategic report in the Group's Annual Report and Accounts.

Principal risk category	How this risk is managed
Credit risk is the risk of loss of principal or interest stemming from a borrower's failure to meet contracted obligations to the Group in accordance with the terms agreed. Credit risk is evident at both a portfolio and transactional level.	– Significant credit risk strategies, credit risk appetite and tolerances for credit risk are approved and reviewed by the Board and Boards' Risk Committee. – The credit portfolio is closely monitored with actions initiated where required.
Balance sheet and prudential regulation risk covers a number of categories of risk, which affect the manner in which the Group can support its customers in a safe and sound manner. The risks include the need to withstand times of stress for the loss of funding (liquidity), the impact of restricted access to future sources of deposits (funding), the impact of providing a defined benefit scheme to colleagues (pension) and the need to withstand severe unexpected losses (capital).	– Funding and Liquidity is managed in accordance with standards that are approved by the Board, including the annual ILAAP, Funding and Contingency Funding Plans. These standards maintain appropriate controls on the flow of new lending, deposits and refinancing of existing transactions and also consider the outcomes of stress testing. – The Group completes a formal assessment of capital through an ICAAP which includes the impact of severe, yet plausible, stress events to ensure that appropriate levels and types of capital underpin the strength of the balance sheet in both normal and stressed conditions. – The Group has implemented a range of pension reforms to reduce its exposure to pension risk including the closure of the defined benefit scheme to future accrual for the majority of members from August 2017.
Regulatory and compliance risk is the risk of failing to identify, understand, monitor and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives. In doing so, the Group risks damaging its relationship with its regulators. It is also the failure of not keeping regulators informed of relevant issues and not responding effectively to information requests and regulatory reviews.	– Continued and significant Board and senior management focus is directed towards maintaining regulatory compliance. The Board or Executive Risk Committee approves all material changes to regulatory policy and protocols.
Conduct risk is the risk of undertaking business in a way which is contrary to the interests of our customers, resulting in the delivery of inappropriate customer outcomes, customer detriment, regulatory censure, redress costs and/or reputational damage.	– The Group has an overarching Conduct Framework in place with supporting target outcomes and operating principles, and processes to put things right for customers where they have been impacted by historic issues. Governance, oversight and reporting are in place to ensure those objectives are met.
Operational risk (including resilience and information security) is the risk of loss resulting from inadequate or failed internal processes and systems or from external events. It includes legal risk, and operational risks associated with the execution of strategy.	– The Group has an established Operational Risk Framework to enable identification, management and mitigation of operational risks. Risk categories are used to facilitate the consistent identification, assessment, mitigation, monitoring and reporting of risks and events. – The Group also has an operational resilience framework that is being enhanced to reflect the changing digital environment and work is underway to ensure compliance with the new Operational Continuity in Resolution regulations that come into effect from January 2019.
Financial crime risk is the risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties.	– The Group has an established Financial Crime Framework supporting ongoing management, monitoring and mitigation of financial crime risk. The Group operates zero tolerance for financial crime risk.
Strategic, business and financial performance risk is the risk of significant loss, loss of earnings and/or damage arising from business decisions that impact the long-term interests of stakeholders or from an inability to adapt to external developments.	– The Board approves and oversees the execution of the Strategic Plan and associated strategic risk following the recommendations of the Chief Executive Officer (CEO) and Executive Leadership Team. The Group's risk appetite statement (RAS) sets out the risks it is able and willing to take to achieve its strategic objectives.
People risk is 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.	– Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. – The quality and continuity of the Group's leadership is reviewed and assessed through succession planning and talent management activity.

Executive summary

The key ratios for the Group are presented below.

Table 1: Key ratios

	2018	2017
Common Equity Tier 1 (CET1) ratio	**10.5%**	12.4%
Tier 1 capital ratio	**12.7%**	14.7%
Total capital ratio	**15.9%**	17.9%
CRD IV leverage ratio	**5.6%**	6.3%
UK leverage ratio[1]	**6.5%**	7.4%
Liquidity Coverage Ratio	**137%**	164%
	£m	£m
Risk Weighted Assets (RWAs)	**20,102**	19,678
Total assets	**43,456**	43,231

Underlying capital generation by the core business post additional tier 1 (AT1) distribution was 63bps, largely driven by strong underlying profits more than offsetting asset growth and investment spending. After absorbing the net impact of costs associated with restructuring, the Virgin Money transaction and legacy conduct issues, the Group's CET1 ratio was 190bps lower at 10.5%.

Formal IRB accreditation for the mortgages and SME portfolios was received in October 2018. The adoption of IRB models is expected to result in a material reduction in the Group's credit RWAs and a consequential significant increase in the Group's CET1 ratio of 350bps.

The Group's leverage ratio is 5.6% which exceeds the Basel Committee's proposed minimum of 3%, applicable from 2018. The Group is not currently subject to the Bank of England's (BoE) UK leverage ratio framework. However, under this framework leverage ratios will be calculated on a modified basis, excluding qualifying central bank claims from the exposure measure in accordance with the policy statement issued by the Prudential Regulation Authority (PRA) in October 2017. The Group's modified leverage ratio is 6.5%, well in excess of the PRA minimum of 3.25%. The Group will continue to closely monitor the leverage ratio against emerging rules and minimum calibration.

Further details on the Group's capital ratios, RWAs and leverage ratio are presented in section 4. Required disclosures for Clydesdale Bank PLC are presented in Appendix 1.

(1) The Group's leverage ratio on a modified basis, excluding qualifying central bank claims from the exposure measure in accordance with the policy statement issued by the PRA in October 2017. The Group is currently excluded from the full reporting requirements of the UK leverage ratio framework.

Overview

2.1 Basis of preparation and frequency of disclosures

This document sets out the 2018 Pillar 3 disclosures for the Group, comprising CYBG PLC (the Company) and its controlled entities, including Clydesdale Bank PLC (the Bank) in accordance with the rules laid out in the Capital Requirements Regulation (CRR) (Part 8).

For the year ending September 2018 the Group used the standardised approach (SA) for credit risk, operational risk, market risk and credit valuation adjustment. This approach uses standard risk weighting percentages prescribed within the CRR and PRA implementing rules. The disclosures in this document are based on these approaches.

Throughout the document, unless otherwise specified, credit risk exposures are defined as the aggregate of drawn (on-balance sheet) balances, undrawn (off-balance sheet) commitments and contingent liabilities prior to the application of credit risk mitigation and prior to the application of credit conversion factors. The disclosures may therefore differ from similar information in the Group's Annual Report and Accounts for the year ended 30 September 2018, which are prepared in accordance with International Financial Reporting Standards (IFRS). The information in these disclosures is prepared in accordance with regulatory requirements and may therefore not be directly comparable with that information.

Unless otherwise stated, all figures are as at 30 September 2018, the Group's financial year end, with comparative figures as at 30 September 2017 where relevant.

The Group has a policy for complying with Pillar 3 disclosures, in line with the European Banking Authority (EBA) guidelines on materiality, proprietary and confidential information and on disclosure frequency. These disclosures are published annually, and concurrently with the Group's Annual Report and Accounts in accordance with regulatory guidelines. The Group publishes specific information more frequently where it is required under EBA guidelines. No disclosures have been omitted on the basis of them being regarded as proprietary or confidential.

Omissions of disclosures within this report on grounds of materiality are:

- disclosures relating to 'Exposures in equities not included in the trading book'. See note 3.18 in the Group's Annual Report and Accounts for further information on valuation and key assumptions and methodologies used in valuation;
- separate disclosure of the geographical distribution of lending credit risk exposures to areas outside of the UK. Such exposures are not material and have been classified as 'other geographical areas' within Table 19; and
- additional credit risk mitigation, credit risk adjustment and capital buffer disclosures in relation to the Bank on an individual consolidated basis. These disclosures are materially the same as those provided for the Group. Further information is provided in Appendix 1.

The Group's remuneration disclosures can be found within the Directors' remuneration report in the Group's Annual Report and Accounts.

In December 2016 the EBA published final Guidelines on Pillar 3 disclosures following the revised international Basel Committee on Banking Supervision (BCBS) Pillar 3 requirements (issued January 2015). These Guidelines came into force on 31 December 2017 for Globally and Other Systemically Important Institutions (G-SII and O-SII), and any other institution that has been advised by competent authorities to make every effort to comply with the guidelines. While the Group does not fall into these categories, where appropriate, these templates have been adopted and disclosed within this report.

In January 2018, the EBA published final Guidelines on uniform disclosure requirements of IFRS 9 transitional arrangements. The transitional period for the Group commenced on 1 October 2018. Transitional impacts will therefore be reflected in the Group's September 2019 report.

2.2 Scope of disclosures

The Pillar 3 disclosures in this document relate to the Group, with the exception of Appendix 1 which contains the disclosures required for the Bank (PRA firm reference number 121873), the Group's principal subsidiary.

There is a requirement to calculate and maintain regulatory capital ratios on both a Group basis and on an Individual Consolidated (or Solo) basis for the Bank. There are no differences between the bases of consolidation of the Group for accounting and prudential purposes. All of the Group's subsidiary undertakings are included in the data provided in the Pillar 3 disclosures. Full details of the Group's subsidiaries are provided in note 6.2 of the Group's Annual Report and Accounts for the year ended 30 September 2018 (www.cybg.com/investor-centre/annual-reports/).

The subsidiaries included on the Individual Consolidation basis are:

- Yorkshire Bank Home Loans Limited;
- Clydesdale Bank Asset Finance Limited;
- CGF No. 9 Limited;
- CB Nominees Limited; and
- CYB Intermediaries Limited.

The Group's capital resources are presented in section 4 of this document and the Bank's Individual Consolidated capital resources are presented in Appendix 1 to this document.

The differences between the Group and the Bank are primarily due to:

- reserves held by entities that sit outside of the scope of the Bank's Individual Consolidation that are included in the Group consolidation;
- amounts included in the Bank's results in relation to transactions with the Group's securitisation vehicles or other Group entities which are eliminated on consolidation;
- a small impact from the RWAs of those entities outside of the scope of the Bank's Individual Consolidation; and

Executive summary

Overview

- the conduct indemnity deed[2] between the Group's former parent National Australia Bank Limited (NAB) and the Company which results in different accounting treatment to the Bank but a consistent economic outcome on total capital.

As a result of these differences, the Group's capital requirements as at 30 September 2018 exceeded the Bank's Individual Consolidated capital requirements.

The following companies are securitisation vehicles established in connection with the Group's securitisation programme. Although the share capital of these securitisation vehicles is not owned by the Group, these vehicles are included in the consolidated financial statements as they are controlled by the Group:

- Lanark Holdings Limited;
- Lanark Trustees Limited;
- Lanark Funding Limited;
- Lanark Master Issuer plc;
- Lannraig Holdings Limited;
- Lannraig Funding Limited;
- Lannraig Master Issuer plc; and
- Lannraig Trustees Limited.

There are no current or foreseen material practical or legal impediments to the transfer of capital resources or the repayment of liabilities between consolidated entities within the Group, with the exception of assets and liabilities of the Group's securitisation vehicles (including the covered bond vehicle), and Red Grey Square Funding LLP (see note 5.3 in the Group's Annual Report and Accounts for further details) which are not immediately available to other members of the Group.

2.3 Key matters arising during the year

The following significant events, which had an impact on the Group's capital and risk management, took place during the year ended 30 September 2018.

On 15 October 2018, the Company acquired all the voting rights in Virgin Money by means of a scheme of arrangement under Part 26 of the UK Companies Act 2006 for a purchase consideration of £1.6bn. This comprised the fair value of approximately 541m new CYBG PLC ordinary shares in exchange for all Virgin Money shares at a ratio of 1.2125 CYBG shares for each Virgin Money share. Following completion, Virgin Money shareholders owned approximately 38% of the Combined Group (on a fully diluted basis).

In April 2017 the Group submitted an application to the PRA for permission to adopt the IRB approach for the calculation of Credit Risk Weighted Assets (RWAs). This was followed with model submissions for Mortgages, SME/Corporate, Specialist Lending (Commercial Real Estate) and Unsecured Retail portfolios. Approval for the use of the IRB models for the Mortgage and SME/Corporate portfolios was obtained in October 2018. Refer to the Group's Annual Report and Accounts for further information.

During 2018, the Group has continued the development and refinement of IFRS 9 compliant credit loss models. These models adhere to the Group's internal model standards and policies and have been subject to review, challenge and approval from the Group's internal model governance pathway. The IFRS 9 Project team has provided updates to the Board's Audit Committee on a regular basis throughout the year on the outputs from the parallel run process and the improvements in the reporting of the outputs over the same period. Refer to the Group's Annual Report and Accounts for further information.

In common with the wider UK retail banking sector, the Group continues to deal with complaints and redress issues arising out of historic sales of PPI. During the year, the Group reassessed the level of provision that was considered appropriate to meet current and future expectations in relation to the mis-selling of PPI policies and concluded that a further charge of £500m was required incorporating the Group's estimate of the impact of heightened media coverage, the FCA advertising campaign and increased activity by claims management companies ahead of the August 2019 industry deadline. It also incorporated a reassessment of the costs of processing cases and the impact of experience adjustments. Refer to Note 3.14 of the Group's Annual Report and Accounts for further detail.

The Group issued its second minimum requirement for own funds and eligible liabilities (MREL) eligible Senior debt transaction in September 2018 of £500m.

The Bank of England has set the Group an interim MREL requirement of 18% of RWAs from 1 January 2020 until 31 December 2021. Final end-state MREL will be advised by the end of 2020 and this will need to be met in full by 2022.

2.4 Review and challenge

These disclosures have been subject to internal verification and are reviewed by the Board's Risk Committee (Risk Committee) and the Board's Audit Committee (Audit Committee) on behalf of the Board. The disclosures have not been, and are not required to be, subject to independent external audit and do not constitute any part of the Group's Annual Report and Accounts.

Reviews by the Board

The effectiveness of the risk management and internal control systems is reviewed regularly by the Risk Committee and the Audit Committee. The Risk Committee is responsible for providing oversight and advice to the Board in relation to current

(2) In 2016, the Group entered into a conduct indemnity deed, granted by its former parent, under which all qualifying remediation costs for past conduct issues were reimbursed up to a capped amount. The capped amount was reached during the first half of the year. Since that point, all further PPI related costs are fully borne by the Group.

and potential future risk exposures. The Audit Committee assists the Board in discharging its responsibilities with regard to external and internal audit activities and controls including reviewing audit reports, internal controls and risk management systems.

The Group's risk management and internal control systems are regularly reviewed by the Board and are consistent with the guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council and compliant with the requirements of the Capital Requirements Directive IV (CRD IV). They have been in place for the year under review and up to the date of the approval of the Group's Annual Report and Accounts.

Control effectiveness

A review of the effectiveness of controls is regularly undertaken across the Group, providing an assessment and statement on the effectiveness of the Group's control environment. This provides assurance to the Risk Committee that no new material control issues have been identified and that robust management actions are in place to address specific known gaps.

Bribery and corruption

In compliance with the Bribery Act 2010, the Group has in place risk assessments, policies and guidelines on interacting with customers, suppliers and agents, including specific policies for gifts and hospitality. Certain Senior Managers are required to assess money laundering risks and the adequacy of related internal controls within their areas of responsibility on an ongoing basis. Formal anti-bribery and corruption training is required for all colleagues, the Executive Leadership Team and Directors.

Overall assessment

Over the past year, the Group has further enhanced the RMF, strengthening expectations around managing risks relating to vulnerable customers, model risk, ring-fencing and General Data Protection Regulation (GDPR). The control environment remains stable with the 2018 Control Effectiveness Statement providing assurance that ineffective controls are escalated appropriately and have adequate action plans in place.

The Risk Committee, in conjunction with the Audit Committee, concluded that the Group's risk management and internal control framework in relation to the Group's risk profile and strategy was effective and adequate, and was recommended to and approved by the Board.

Risk management

Risk management

For further information on the Group's approach to risk management refer to the Risk report section of the Group's Annual Report and Accounts.

3.1 Risk principles

The Group's approach to risk management is based on the principle that risk management capability must be embedded across all areas of the Group to be effective. This overriding principle embodies the following concepts:

- commercial decisions are made on the basis of proactive consideration of risk and the potential impact on customers;
- business managers use the RMF to support decision making involving risk and reward trade-offs; and
- colleagues are responsible for risk management in their day-to-day activities.

Risk culture

Central to the risk culture is the safety and soundness of the Group, the fair treatment of customers and meeting obligations to stakeholders, including shareholders, regulators and colleagues. The Board and senior management are responsible for setting and clearly communicating a strong risk culture through their actions and words, and proactively addressing any identified areas of weakness or concern.

Culture is shaped by many aspects including tangible components such as: the Group's code of conduct; operating principles; policies; standards; the risk management operating model; and an approved articulation of risk appetite that aligns to, and supports, the strategic objectives of the Group. The Group strives to instil a culture that supports compliance with all relevant laws, codes and policies and builds constructive regulatory relationships.

Initiatives that support appropriate risk culture include: the performance management framework with all areas required to have a risk management objective, messaging from the CEO and members of the Executive Leadership Team emphasising the importance of risk identification, management and mitigation and the formal whistle-blowing framework that allows colleagues to raise concerns about matters of conduct in confidence and anonymously.

Underpinning the RMF and at the heart of the Group's risk culture, is the concept of personal accountability for risk management at source. This is enabled through a risk management accountability model and a formal delegation framework through which colleagues are able to make risk based decisions.

Risk strategy

The Group has a clearly defined strategy in order to manage and mitigate risk in the daily course of its business. The strategy consists of:

- ensuring all principal, top and emerging risks are identified and assessed;
- ensuring risk appetite is clearly articulated and influences the Group's strategic plan;
- a clearly defined risk culture which emphasises risk management throughout all areas of the business while maintaining independent oversight;
- ongoing analysis of the environment in which the Group operates to proactively address potential risk issues as they arise; and
- supporting commercial decisions and people with appropriate risk processes, systems and controls.

Risk appetite statement (RAS)

Risk appetite is defined as the level and types of risk the Group is willing to assume to achieve its strategic objectives. The RAS articulates and supports communication of the Group's appetite to stakeholders. This is important as it provides the definitive view of risk taking activity the Board is comfortable with the Group undertaking and allows decision makers (including those with delegated authority and also those providing oversight) to exercise judgement with greater confidence and speed.

The RAS aligns to the risks identified and defined in the RMF. The design and structure of the RAS has taken into consideration best practice articulated by the European Central Bank which is aimed at ensuring Boards should be strongly involved in the validation process and monitoring of the RAS.

The Group's RAS is prepared by the Group Chief Risk Officer with consideration of the strategic objectives and business model, as well as the environment in which the Group operates. Reporting to Executive Committees and Board includes details of performance against relevant RAS settings, breaches and trends.

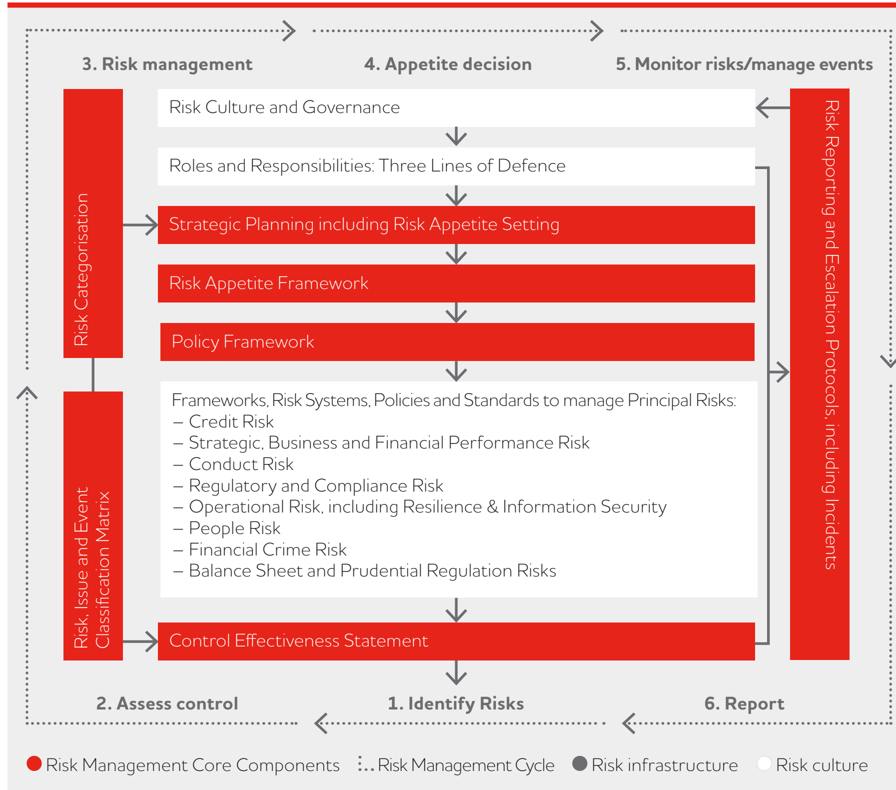
Risk policies and procedures

The policy framework is a key component of the Group's RMF providing structure and governance for the consistent, effective management of policies. In developing the policy framework the Group sets the tone that demonstrates the risk culture expected across the organisation. This aligns with the behavioural expectations for all colleagues which form a core part of our performance management approach. Policy statements and supporting policy standards define the minimum control requirements which must be observed across the Group to manage material sources of risk within risk appetite.

Risk management framework

The Group identifies and manages risk using the RMF (see diagram below), which is the totality of systems, structures, policies, processes and people that identify, measure, evaluate, control, mitigate, monitor and report all internal and external sources of material risk.

Chart 1: Risk management framework



3.2 Risk governance and oversight

The Group's risk governance structure strengthens risk evaluation and management, while also positioning the Group to manage the changing regulatory environment in an efficient and effective manner.

A description of the key roles of the Risk Committee is included in the Risk Committee report within the Group's Annual Report and Accounts. This includes a description of the information flow on risk to the management body and related risk reporting, and details of Risk Committee meetings.

The Group's risk management is governed via a series of committees, as represented within the diagram which follows.

During the year the Group completed a review of the executive committee layer in the risk governance structure to ensure it balances regulatory, legal and compliance obligations while making timely, customer focused decisions that drive the business forward.

Risk management

Risk management

Chart 2: Governance Committee framework

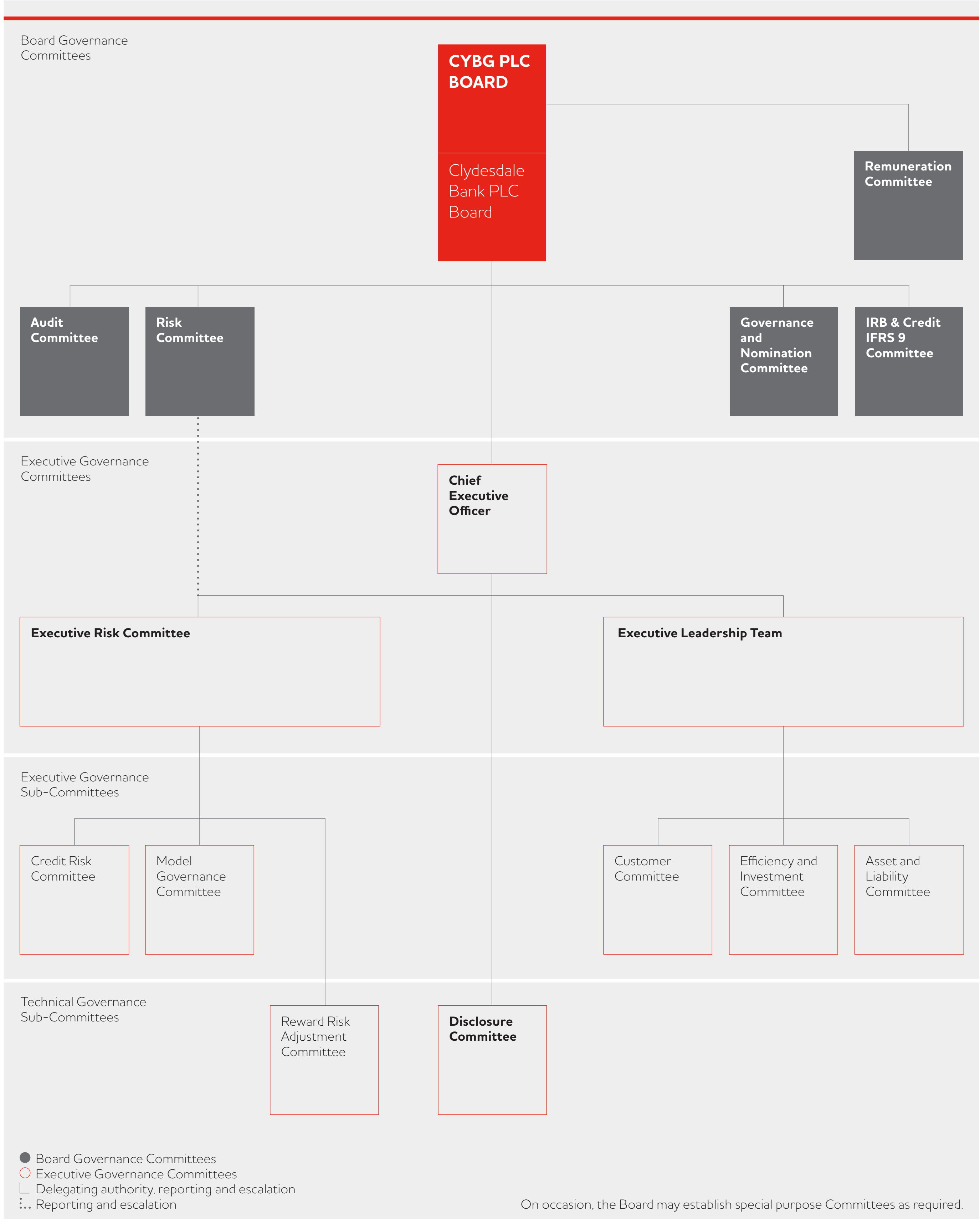


Table 2: Governance Committees

The following Executive level Committees have been established under the authority of the CEO:

Committees	Risk focus
Executive Leadership Team	The Executive Leadership Team supports the CEO to lead the Group to be a strong, customer-focused bank for its communities, by focusing on three business priorities: sustainable growth; efficiency; and capital optimisation.
Executive Risk Committee	The Executive Risk Committee supports the CEO in respect of risk and control accountabilities and serves to provide leadership focus on key risk issues, including: – endorsing the RAS for approval by the Board; – overseeing and challenging the enterprise wide risk performance and control environment of the Group and business units, including the effective use of policy, frameworks and tools; – monitoring the status of regulatory relationships, the reputation of the Group in relation to its regulators and the changing state of the regulatory landscape, including the impacts for and readiness of the Group; – monitoring the strength of risk capability and capacity, including risk training and education plans to ensure an effective risk and control framework; and – reviewing and endorsing risk policies, frameworks and tools for use across the Group.
Disclosure Committee	The Disclosure Committee is responsible for ensuring the Group complies with its continuous disclosure obligations for exchanges on which it has equity and debt securities listed.
The Executive Risk Committee is supported by the following committees:	
Credit Risk Committee	The Credit Risk Committee is responsible for ensuring that the Credit RMF and associated policies remain effective. The committee has oversight of the quality, composition and concentrations of the credit risk portfolio and recommends strategies to adjust the portfolio to react to changes in market conditions.
Model Governance Committee	The Model Governance Committee supports the Board in fulfilling its governance responsibilities for material models and rating systems. The Committee oversees the integration and ongoing use of models across the Group, specifically considering the fitness for purpose, usability and scalability of models.
Reward Risk Adjustment Committee	The Reward Risk Adjustment Committee is responsible for considering and providing feedback to the Boards' Risk Committee and the Remuneration Committee in relation to risk events which may affect awards of variable pay and therefore ensuring that the Group complies with its regulatory requirements in respect of establishing and maintaining a robust risk adjustment process.
The Executive Leadership Team is supported by the following committees:	
Customer Committee	The Customer Committee is responsible for overseeing the service and commercial performance of the Group to ensure that customer needs are being met in line with the Group's strong customer-focused culture and sustainable growth ambitions. It considers the optimal mix of customer-focused products and is responsible for ensuring that the Group operates within a robust conduct and pricing framework.
Efficiency and Investment Committee	The Efficiency and Investment Committee is responsible for overseeing the management of sustainable costs across the Group while supporting its growth ambitions, aligned to risk appetite.
Asset and Liability Committee (ALCO)	ALCO is responsible for monitoring the performance of the Group against the Board approved capital and funding plans. The committee focuses on the Group's non-traded market risks including capital, funding, liquidity and interest rate risk to ensure that the Group's activity complies with regulatory and corporate governance requirements and also delivers Group policy objectives. The impact of pension risk on capital is also assessed by ALCO.

Risk management

Risk management

3.3 The Board and governance

The number of directorships held by Executive and Non-Executive Directors including those in CYBG PLC Group are shown below. In line with the relevant rules[3], directorships in organisations which don't pursue predominantly commercial objectives have been excluded. In addition, where a Director has a number of directorships within one group these are counted as a single directorship.

Table 3: Directorships held

Name	Total Directorships held
James Pettigrew (Non-Executive)	4
David Duffy (Executive)	1
Debbie Crosbie[4] (Executive)	1
Ian Smith (Executive)	2
Clive Adamson (Non-Executive)	4
David Bennett (Non-Executive)	4
Paul Coby (Non-Executive)	1
Adrian Grace (Non-Executive)	2
Fiona MacLeod (Non-Executive)	2
Teresa Robson-Capps (Non-Executive)	3
Tim Wade (Non-Executive)	4
Geeta Gopalan[5] (Non-Executive)	4
Darren Pope[5] (Non-Executive)	2
Amy Stirling[5] (Non-Executive)	3

Board recruitment

The Governance and Nomination Committee is responsible for considering the recruitment of new Directors and it adopts a formal, rigorous and transparent procedure with due regard to diversity, including gender. Before commencing the recruitment process, the Committee evaluates the balance of skills, knowledge, experience, independence and diversity on the Board and, in light of this evaluation, prepares a description of the role and capabilities required. In identifying suitable candidates, the Committee:

- uses open advertising or the services of external advisers to facilitate the search;
- considers candidates from different genders and a wide range of backgrounds;
- considers candidates on merit and against objective criteria ensuring that appointees have sufficient time to devote to the position, in light of other potential significant positions; and
- engages from time to time with the Group's major shareholders in future skills requirements and ideas for potential candidates.

The Governance and Nomination Committee reviewed the structure, size and composition of the Board and Board Committees including skills, experience, independence, knowledge and diversity and considered the longer-term succession of Board and Board Committee members relative to tenure, mix and diversity of skills and the Group's strategy, future, challenges and opportunities and reported the outcome and recommendations to the Board. During the year the Committee recommended to the Board the appointment of Geeta Gopalan and Darren Pope as independent Non-Executive Directors and of Amy Stirling as a Non-Executive Director.

The skills and experience of each Director are described within the Governance report in the Group's Annual Report and Accounts.

Board diversity

The Board is committed to delivering the Group's inclusion strategy and although new appointments are always based on merit, careful consideration is given to the benefits of improving and complementing the diversity, skills, experience and knowledge of the Board. In making recommendations to the Board, the Governance and Nomination Committee makes sure that the Board is made up of competent colleagues with the necessary balance of diversity, skills and experience required to ensure that the Board can function effectively.

The Board remains committed to building strong female representation at all levels within the Group including at Board, executive and senior management levels. The Committee and the Board remains committed to achieving the target it set last year to achieve 33% female representation on the Board by 2020, achieved through the natural cycle of Board renewal. It remains the Board's intention to broaden diversity on the Board beyond gender diversity alone, to reflect the communities in which the Group operates and the diversity of our customers. As at 30 September 2018 there were three female Directors (27%) on the Board which has risen to four (31%) following the appointment of Geeta Gopalan and Amy Stirling on 15 October 2018 and Debbie Crosbie stepping down from the Board on 19 November 2018.

The Group supports the Women in Finance Charter and has a target of 40% women in senior management roles by 2020. During the year a new Culture Dashboard was introduced for the Board which enables the Board to track progress on both gender diversity and broader inclusion metrics and commitments.

(3) PRA Rulebook General Organisational Requirements 5.4 (having regard to General Organisational Requirements 5.5 and 5.6) and FCA Handbook Senior Management Arrangements, Systems and Controls (SYSC) 4.3A.5R (having regard to SYSC 4.3A.6R and 4.3A.7R).
(4) Stepped down from the Board on 19 November 2018.
(5) Appointed to the Board on 15 October 2018.

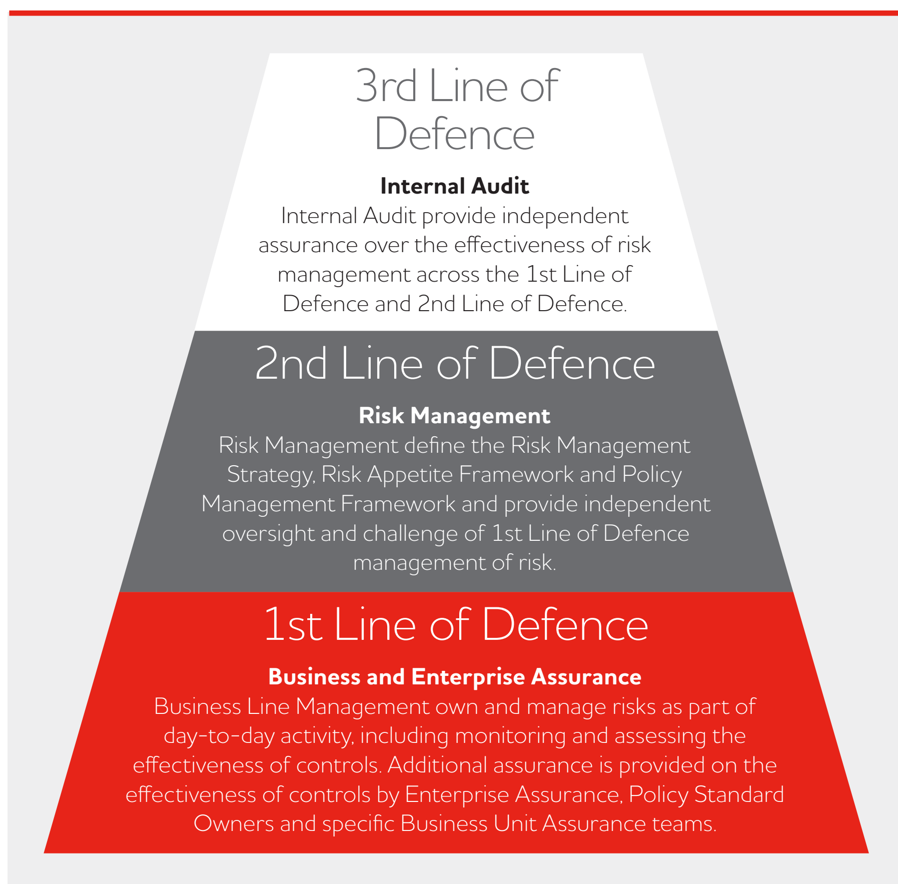
3.4 Three Lines of Defence

Effective operation of a Three Lines of Defence model is integral to the Group's approach to risk management and is based on the overriding principle that risk capability must be embedded within the first line of defence teams to be effective. This principle embodies the following concepts:

- risk management responsibilities are clearly understood by all colleagues when carrying out their day-to-day activities;
- commercial decisions are made on the basis of proactive consideration of risk and the impact on customers;
- management must use the RMF to support decision making involving risk and reward trade-offs;
- risk management activities are focused on enhancing sustainable business performance; and
- regular assessments are undertaken to confirm the effectiveness of the risk and control frameworks in relation to both the current and emerging risk profile.

Control is exercised through a clearly defined delegation of authority, with communication and escalation channels throughout the Group.

Chart 3: Three Lines of Defence



Risk management

The Group's risk management function as at 30 September 2018 is represented below:

Chart 4: Group risk management function

3.5 Stress testing

Stress testing is an important and recognised risk management tool, used to assess the vulnerability of financial institutions through the modelling of adverse scenarios. The Group uses stress testing to support the identification of risks and potential vulnerabilities under adverse economic scenarios or specific events. Risk appetite, risk mitigation and contingency planning are informed by stress testing processes.

In addition to supporting risk appetite, stress testing is used within strategic planning, capital, funding and liquidity plans and for more detailed deep dive analysis within specific portfolios.

The Group undertakes stress testing following the Basel Committee principles and utilising, where appropriate, scenarios provided by the Bank of England.

The Board and senior management are actively involved in the consideration of stress testing. This involvement works through all aspects of stress testing from the consideration of scenarios or events to be tested to the outcomes and mitigating actions. The involvement of the Board and senior management is considered to be essential for the effective operation of stress testing and the manner in which the results can then inform strategic planning and risk appetite. Reverse stress testing is also undertaken to assess the types of risks that would pose fundamental threats to the viability of the Group's business model.

3.6 Principal risks

The Group's principal risks are summarised in section 1. Further information on these risks are included in the Risk report within the Group's Annual Report and Accounts.

3.6.1 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, swaps and bonds). Credit risk can be found both on- and off-balance sheet.

Risk appetite

The Group controls its levels of credit risk by placing limits on the amount it is willing to take within credit risk capacity in order to achieve its business objectives. This involves a defined set of qualitative and quantitative limits in relation to its credit risk concentrations to one borrower, or group of borrowers, and to geographical, product and industry segments. The management of credit risk within the Group is achieved through ongoing approval and monitoring of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios across the Group.

Credit strategies and policies

Credit risks associated with lending are managed through the application of detailed lending policies and standards which outline the approach to lending, underwriting criteria, credit mandates, concentration limits and product terms. Credit risk is managed and monitored using the credit models that underpin the recent IRB approval for the Mortgage and SME/Corporate portfolios. The Group maintains a dynamic approach to credit management and aims to take necessary steps if individual issues are identified or if credit performance deteriorates, or is expected to deteriorate, due to borrower, economic or sector-specific weaknesses.

Roles and responsibilities for the management, monitoring and mitigation of credit risk within the Group are clearly defined in line with the Group's RMF.

Significant credit risk strategies and policies are approved, and reviewed annually, by the Credit Risk Committee. For complex credit products and services, the Head of Business Risk, Head of Retail Risk and Credit Risk Committee provide a policy framework which identifies and quantifies risks and establishes the means of mitigating such risks. These policies and frameworks are delegated to, and disseminated under the guidance and control of executive management, with appropriate oversight through governance committees.

Exposures

Credit risk exposures are categorised as Retail (secured and unsecured) and SME.

(6) Including retail credit risk and business credit risk, respectively.

In terms of loans and advances, credit risk arises both from amounts loaned and commitments to extend credit to customers. To ensure appropriate credit limits exist, especially for SME lending, a single large exposure policy is in place within the Group and forms part of the risk appetite measures that are monitored and reported on a monthly basis. The overall composition and quality of credit portfolio exposures are monitored and periodically reported to the Board and, where required, to the relevant supervisory authorities.

Exposures are also managed in accordance with the large exposure reporting requirements of the CRR.

Measurement

The Group uses a combination of strategies and statistical models that utilise internal and external data to measure the exposure to credit risk within the portfolios.

Portfolios are assessed using segmentation for measurement, reporting and monitoring purposes.

In October 2018, the Group obtained permission to use IRB models to measure the credit risk of loans and advances to customers in its Mortgage and SME/ Corporate portfolios. The Group will continue to further embed the IRB standard through advanced monitoring and governance of its credit models.

As at 30 September 2018, all exposures were measured under the standardised approach for regulatory capital.

Further information on credit risk management is provided in section 6.

3.6.2 Balance sheet and prudential regulation risks

Balance sheet risks in the financial services industry are highly regulated with ongoing changes in the regulatory environment expected to influence the risks and their management. The key risks include capital, liquidity and funding risks, market risk which in the case of the Group is non-traded market risk (incorporating interest rate and foreign exchange risks), pension risk and non-traded equity risk.

Risk appetite

The primary objective for the management of balance sheet risks is to maintain the risk profile within approved risk limits, to maintain the confidence of the Group's customers and other stakeholders. Balance sheet risks are also managed to protect current and future earnings from the impact of market volatility. The Group applies a prudent approach to balance sheet risks in order to safeguard the ongoing strength and resilience of the balance sheet.

Risk appetite is approved for balance sheet risks by the Board, with authority delegated to ALCO for subsequent implementation and monitoring. The Board has established a range of measures of risk appetite for capital including CET1, leverage and minimum holdings of capital. Measures for funding and liquidity risks consider the structure of the balance sheet and the Group's overall funding profile and Overall Liquidity Adequacy Rule (OLAR). The OLAR covers the Board's appetite in relation to regulatory liquidity requirements and also covers the need to maintain access to liquidity resources sufficient to accommodate outflows of funds in a range of stress scenarios over a three-month period.

The Group's participation in wholesale markets, along with its use of financial instruments, is to fund its banking activities and to manage the liquidity and interest rate risks arising from these activities. The Group establishes an appetite for these risks based on an overriding principle that the Group will not engage in proprietary risk taking.

Capital

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 sustainable growth. Capital risk is the risk that the Group has insufficient quantity or quality of capital to support its operations.

Further information on capital risk management is provided in section 5.

Funding and liquidity risk

Funding risk relates to the impact on the Group's strategy of being unable to raise funds from customers and the wholesale markets of sufficient quantity and of appropriate mix and tenor. An inability to raise sufficient funds may lead to a reduction in lending growth or a requirement to raise the price paid for deposits, both outcomes having an adverse effect on shareholder value. Where funding risk manifests itself in an adverse effect on mix and tenor, for example, a high proportion of short-term wholesale deposits, there is an increased liquidity risk to the Group.

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. These obligations include the repayment of deposits on demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and tax, the payment of dividends and the ability to fund new and existing loan commitments.

Further information on funding and liquidity risk management is provided in section 10.

Market risks

Market risk is the risk associated with adverse changes in the fair value, or accrual income and expense, of assets and liabilities held by the Group as a result of movements in market factors such as interest rates, foreign exchange rates, volatility and credit spreads. The Group's balance sheet is predominantly UK based and is denominated in GBP, therefore foreign exchange risk is not a major part of the Group's risk profile.

Structural interest rate risk comprises the sensitivity of the Group's current and future net interest income and economic value to movements in market interest rates. The major contributors to interest rate risk are:

- the investment of non-interest bearing deposits and equity into interest-bearing assets;
- the mismatch between repricing dates of interest-bearing assets and liabilities;
- basis risk, for example, the inability of the pricing 'basis' for customer asset and liability products to be replicated in the financial markets or the risk arising from changing relationships between different interest rate yield curves; and
- customer optionality, e.g. the right to repay borrowing in advance of contract maturity dates.

Further information on market risk management is provided in section 9.

Pension risk

The Group operates a defined benefit (DB) pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme (the Scheme).

Risk management

Risk management

Clydesdale Bank PLC is the Scheme's principal employer and there are no other participating employers. Following a consultation process the Scheme was closed to future accrual on 1 August 2017 for the majority of members. A small number of members elected to keep DB accruals subject to making an increased contribution to the Scheme and to also forego other remuneration benefits.

DB pension schemes provide a promise to pay members a pre-determined level of income at retirement which is independent of the contributions and investment returns (assets) used to fund these benefit promises (collectively the liabilities). As such, there are significant risks associated with managing a DB scheme. These risks will continue until the Scheme is formally wound up, either in the event that all the liabilities are transferred to a third party (for example an insurer) or once all individual member benefits are paid.

The Scheme's assets are held under a separate trust and the Scheme is managed by a corporate Trustee Board independently of the Group, per the Scheme Trust Deed and Rules. Therefore, the Group's ability to directly manage the Scheme is limited to certain powers within the governing documentation. Aside from the Group's role to sponsor the Scheme to ensure there are sufficient assets to meet benefit payments as they fall due, the Group's focus is directed on mitigating the impact on capital and earnings through working with the trustee to implement risk reduction initiatives. Several activities have been implemented since 2003 with the specific aim of reducing risk in the Scheme, including a de-risking journey plan, benefit reforms and the outcome of the 2017 consultation on future accruals.

Further information on pension risk is provided in note 3.16 of the Group's Annual Report and Accounts.

3.6.3 Regulatory, compliance and conduct risk

Regulatory and compliance risk

Regulatory and compliance risk is the risk of: failing to understand and comply with relevant laws, regulations, licence conditions, supervisory requirements, self-regulatory industry codes of conduct and voluntary initiatives; failing to identify, monitor and respond to changes in the regulatory environment; damaging the Group's relationship with its regulators through non-compliance with requirements, not keeping regulators informed of relevant issues that affect (or which may affect) the Group, not responding effectively to the information requests and review findings of the regulators, by providing incorrect or inadequate information, not meeting regulatory deadlines or obstructing the regulator from fulfilling its role.

Risk appetite

The Group has no appetite for actions resulting in breaches of regulation or for inaction in addressing identified control failures that result in non-compliance.

Mitigation measures

- The Group has a regulatory engagement policy designed to ensure an open and cooperative relationship is maintained with regulators at all times, ensuring that all key interactions with regulators are managed, recorded and escalated as appropriate.
- All colleagues are required to achieve mandated standards of compliance learning including the Conduct Rules.
- Material changes to regulatory policies and protocols are approved by either the Executive Leadership Team or the Board.
- The Group Chief Risk Officer and Risk Leadership Team consider compliance risk topics when setting risk appetite and through ongoing risk assessment, profiling and reporting.

Monitoring

A risk management oversight and compliance monitoring plan is approved by Board's Risk Committee on an annual basis which independently assesses the control framework underpinning compliance with laws and regulations.

Conduct risk

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

Risk appetite

The Group is committed to acting in the interests of its customers, and has no appetite for conduct risk.

Mitigation measures

The Group has a conduct framework which recognises the key conduct risks inherent in the Group's strategy through which it seeks to apply high standards in the design and sale of products, and the treatment of its customers through continuous monitoring and responding to customer feedback and complaints. In addition, if things do go wrong, action is taken to ensure we put things right for our customers.

Products are designed and sold to meet customer needs and expectations with governance processes embedded to ensure those objectives are met.

Consideration of customer outcomes is embedded within the Group's operating processes, and metrics are regularly monitored to help ensure outcomes are appropriate.

Exposures

There continues to be a great deal of uncertainty and significant judgement is required in determining the quantum of conduct risk-related liabilities with note 3.14 of the Group's Annual Report and Accounts reflecting the Group's current position in relation to redress provisions for PPI, interest rate hedging products and other smaller historic conduct matters. The final amount required to settle the Group's potential liabilities for these matters is materially uncertain. The Group will continue to reassess the adequacy of provisions for these matters and the assumptions underlying the calculations at each reporting date based upon experience and other relevant factors at that time.

Monitoring

This is a principal focus of the Board, senior management and regulators, and the Group seeks to ensure customers are treated fairly and products are designed and sold to meet their needs. The Group also works to ensure that customer expectations are met and complaints are dealt with effectively and fairly. All Three Lines of Defence consider conduct risk as part of their oversight and assurance activities.

3.6.4 Operational risk (including resilience and information security

Operational risk (including resilience and information security) is the risk of loss resulting from inadequate or failed internal processes, people strategies and systems or from external events including, for example, the prospect of a cyber-attack. It is a core component of the RMF and is embedded in day-to-day business activities. Responsibilities are set out in a structured operational risk framework that seeks to identify, assess, mitigate, monitor, and report the operational risks and events that could impact the achievement of business objectives or impact core business processes.

Business units are responsible for the day-to-day management of operational risk, with oversight from the risk management function, and independent assurance activities undertaken by internal audit.

The requirements of the operational RMF are defined in an overarching operational risk policy and related minimum standards, and reflect the Group's operational risk appetite.

Risk appetite

The Group is prepared to tolerate a level of operational risk exposure within agreed thresholds and limits. A level of resilience risk from internal and external events is tolerated however immediate steps must be taken to minimise customer disruption through recovery within defined timelines. Operational risks arise from day-to-day business activities, which may result in direct or indirect losses and could adversely impact the Group's financial performance, levels of customer care and reputation.

Further information on operational risk management is provided in section 7.

3.6.5 Financial crime risk

Financial crime risk is the risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties. It encompasses the risk of failing to understand and comply with relevant laws, regulations and supervisory requirements relating to money laundering, terrorism financing, bribery and corruption and sanctions and embargoes.

It also includes risks associated with external or internal acts intended to defraud, misappropriate, and circumvent policy, funds, information, regulations and property. The Group maintains an overarching financial crime policy and four policy standards aligned to each material financial crime risk. These are:

Sanctions – The Group has no appetite for non-compliance with the legal and regulatory obligations relating to sanctions and embargoes. To reflect the Group's risk appetite and to protect the Group from financial and reputational damage, including regulatory censure, fines and enforcement action, the Sanctions and Embargoes Policy articulates a set of minimum standards and requirements which must be complied with.

Anti-money laundering – The Group applies a prescribed high-risk customer model which sets out the types of customer it has no risk appetite to onboard, as well as customers with whom the Group is prohibited from entering into or maintaining a customer relationship. All other customers who are not proscribed shall be subject to controls commensurate with their risk.

Anti-bribery and corruption –The Group does not tolerate the direct or indirect offer, payment, solicitation or acceptance of bribes in any form. The Group has in place risk assessments, policies and guidelines on interacting with customers, suppliers and agents, including specific policies for gifts and hospitality. Senior managers across the business are required to complete an evaluation of risk areas as part of the risk assessment process.

Fraud – The Group accepts that, in order to conduct business in a commercially viable manner, it is willing to sustain fraud losses within an agreed set of parameters. The application of fraud risk management considers customer impacts, industry trends and financial impacts of fraud which, on occasion, provide conflicting priorities. Emerging risks are identified and assessed with action taken to mitigate them. An agreed loss plan is set and performance against this is overseen by the policy owner and reported through the appropriate governance committees. With regard to internal fraud, the Group recognises the risk of internal fraud but has no appetite for it. Consequently there is a control framework in place to mitigate that risk.

Exposures

There are currently no significant exposures to report. The Group continues to review the external environment for any change in regulatory or legislative direction, taking action as appropriate.

Mitigation measures

Risk assessments against the four financial crime policy standards take place on an annual basis. Over and above these assessments, regular oversight of higher-risk activities takes place as part of the formal oversight plan and embedded activity takes place throughout the year. Key performance metrics relative to critical financial crime systems are kept under review to ensure ongoing effectiveness. Third party tools are used to test system effectiveness where available and appropriate. Training completion and compliance is subject to annual oversight.

All standards are reflected in the Group policy and standards and financial crime prevention manual, the content of which is provided by financial crime risk and updated as appropriate.

Monitoring

The financial crime team is responsible for strategy, governance, standard setting, oversight, training and reporting to the competent authorities and governance committees/Board.

The control framework is owned by financial crime risk but management and execution of customer identity and verification, customer due diligence, enhanced due diligence, identifying high-risk customers, including correspondent banking relationships and record keeping is the responsibility of first line business units.

Account opening pass rates are reported on a monthly basis and overseen as part of a regular process undertaken by financial crime risk.

Higher-risk customers are referred to financial crime risk and senior management within Customer Banking for agreement and sign off that business is within appetite and then continue to be monitored on an ongoing basis.

Screening customers for sanctions or politically exposed persons and transaction monitoring is carried out by financial crime risk. Sanctions screening for payments is carried out by the Payments team in the first line. Critical financial crime systems oversight is independently tested by Internal Audit.

Capital resources

Capital resources

4.1 Own funds

The table below shows the composition of the Group's regulatory capital position as at 30 September 2018 on a CRD IV basis. The table includes 2017 comparatives prepared on the same basis. The table follows the disclosure format required by the EBA Implementing Technical Standard on Disclosure for Own Funds, however only items applicable to the Group are shown.

The capital resources of the Bank are presented in Appendix 1 of this document.

Table 4: Capital composition

	As at 30 September	**2018 £m**	2017 £m
	Common Equity Tier 1 capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	**89**	88
1a	*Of which: ordinary shares*	**89**	88
2	Retained earnings	**2,860**	2,857
3	Accumulated other comprehensive income (and other reserves)	**(30)**	7
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**(10)**	(10)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**2,909**	2,942
	Common Equity Tier 1 capital: regulatory adjustments		
7	Additional value adjustments	**(3)**	(4)
8	Intangible assets	**(412)**	(339)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	**(99)**	(28)
11	Fair value reserves related to gains or losses on cash flow hedges	**39**	1
15	Defined benefit pension fund assets	**(138)**	(135)
25a	Losses and distributions for the current financial year (negative amount)	**(183)**	–
28	**Total regulatory adjustments to Common Equity Tier 1**	**(796)**	(505)
29	**Common Equity Tier 1 capital**	**2,113**	2,437
	Additional Tier 1 capital: instruments		
30	Capital instruments and the related share premium accounts	**450**	450
31	*Of which: classified as equity under applicable accounting standards*	**450**	450
36	**Additional Tier 1 capital before regulatory adjustments**	**450**	450
44	**Additional Tier 1 capital**	**450**	450
45	**Tier 1 Capital**	**2,563**	2,887
	Tier 2 capital: Instruments and provisions		
46	Capital instruments and the related share premium accounts	**474**	473
50	Credit risk adjustments	**152**	154
51	**Tier 2 capital before regulatory adjustments**	**626**	627
58	**Tier 2 capital**	**626**	627
59	**Total capital**	**3,189**	3,514
60	**Total risk weighted assets**	**20,102**	19,678

As at 30 September		**2018 £m**	2017 £m
	Capital ratios and buffers		
61	Common Equity Tier 1	**10.5%**	12.4%
62	Tier 1	**12.7%**	14.7%
63	Total capital	**15.9%**	17.9%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	**6.9%**	5.8%
65	*Of which: capital conservation buffer requirement*	**1.9%**	1.3%
66	*Of which: countercyclical buffer requirement*	**0.5%**	0.0%
67	*Of which: systemic risk buffer requirement*	**0.0%**	0.0%
67a	*Of which: Global Systemically Important Institution or Other Systemically Important Institution buffer*	**0.0%**	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**6.0%**	7.9%
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**152**	154
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	**228**	224

Significant movements in capital and related deductions are described in section 4.2.

Tier 1 capital
Tier 1 capital comprises:

- ordinary shares;
- share premium;
- retained earnings;
- accumulated other comprehensive income (and other reserves);
- AT1 instruments; and
- adjustments as set out by the regulatory requirements governing capital resources.

Accumulated other comprehensive income (and other reserves) represents adjustments for asset revaluation, cash flow hedge and available for sale reserves.

Additional details of the perpetual capital notes are included in Appendix 2 and note 4.1 to the Group's Annual Report and Accounts for the year ended 30 September 2018.

Tier 2 capital
Tier 2 capital comprises:

- subordinated loan debt;
- eligible collective impairment allowances; and
- adjustments as set out by the regulatory requirements governing capital resources.

Subordinated loan debt is unsecured and ranks below the claims of all depositors and other ordinary creditors. Additional details of the subordinated notes are included in Appendix 2 and in note 3.15 to the Group's Annual Report and Accounts for the year ended 30 September 2018.

Under the regulatory rules, the percentage of subordinated loan debt permitted to be included as qualifying regulatory capital is limited to a maximum of 25% of total capital.

Full terms and conditions for the Group's marketed debt securities are available on the Group's website (www.cybg.com/investor-centre/debt-investors/).

Capital resources

4.2 Movements in capital

The CET1 ratio reduced from 12.4% to 10.5%, predominantly the result of underlying capital generation being insufficient to offset exceptional items, particularly provisions for legacy conduct issues (as detailed in the Financial results section of the Group's Annual Report and Accounts). In addition, RWAs also increased by £424m, mainly due to the growth in mortgage lending.

Table 5: Capital flow statement

	2018 £m	2017 £m
Common Equity Tier 1 capital		
Common Equity Tier 1 capital at 1 October	**2,437**	2,397
Share capital: ordinary share new issuance	**1**	–
Retained earnings and other reserves	**(34)**	(11)
Prudent valuation adjustment	**1**	3
Intangible assets	**(73)**	(83)
Deferred tax assets relying on future profitability	**(71)**	7
Defined benefit pension fund assets	**(3)**	(135)
Fair value reserves related to gains or losses on cash flow hedges	**38**	67
Losses for the current financial year	**(183)**	192
Total Common Equity Tier 1 capital	**2,113**	2,437
Tier 1 capital		
Tier 1 capital at 1 October	**450**	450
	450	450
Total Tier 1 capital	**2,563**	2,887
Tier 2 capital		
Tier 2 capital at 1 October	**627**	625
Credit risk adjustments	**(2)**	3
Other movements	**1**	(1)
Total Tier 2 capital	**626**	627
Total capital at 30 September	**3,189**	3,514

A number of deductions are applied in calculating regulatory capital under CRD IV. These include deductions for: intangible assets, deferred tax assets (DTAs) that rely on future profitability, defined benefit pension scheme IAS 19 surpluses and prudent valuation adjustments.

The most significant of these are:

- the IAS 19 valuation of defined benefit pension schemes is included in accounting reserves. This means that an IAS 19 deficit position is automatically reflected in regulatory capital. If the IAS 19 valuation is a surplus, the regulatory rules do not permit this to contribute towards regulatory capital and this figure must be deducted. At 30 September 2017, the IAS 19 valuation was a surplus of £207m. At 30 September 2018, the IAS 19 valuation was a surplus of £212m, resulting in the net of tax movement of £3m seen in Table 5. The IAS 19 position moved into surplus following the closure of the Scheme to future accrual in August 2017 and a surplus position has been maintained throughout the year;
- the regulatory adjustment required in respect of deferred tax assets that rely on future profitability. At 30 September 2017 £28m was deducted from CET1 capital and this increased to £99m due to the statutory loss in the year resulting in the £71m movement shown in Table 5;
- the regulatory adjustment required in respect of intangible assets (computer software and other IT development which has been capitalised). At 30 September 2017 £339m was deducted from CET1 capital and this increased to £412m as a result of significant investment spending resulting in the £73m movement shown in Table 5; and
- the adjustment for fair value reserves related to gains or losses on cash flow hedges has increased during the year from £1m to £39m.

Table 6 shows the capital position on a transitional and a 'fully loaded' CRD IV basis. All of the Group's capital instruments are fully compliant with CRD IV, therefore the only difference shown is in respect of transitional capital buffers.

Table 6: CRD IV end-point vs transitional comparison

		Current rules		Full impact	
As at 30 September		**2018 £m**	2017 £m	**2018 £m**	2017 £m
	Common Equity Tier 1 capital: Instruments and reserves				
1	Capital instruments and the related share premium accounts	**89**	88	**89**	88
1a	*Of which: ordinary shares*	**89**	88	**89**	88
2	Retained earnings	**2,860**	2,857	**2,860**	2,857
3	Accumulated other comprehensive income (and other reserves)	**(30)**	7	**(30)**	7
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**(10)**	(10)	**(10)**	(10)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**2,909**	2,942	**2,909**	2,942
	Common Equity Tier 1 capital: regulatory adjustments				
7	Additional value adjustments	**(3)**	(4)	**(3)**	(4)
8	Intangible assets	**(412)**	(339)	**(412)**	(339)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	**(99)**	(28)	**(99)**	(28)
11	Fair value reserves related to gains or losses on cash flow hedges	**39**	1	**39**	1
15	Defined benefit pension fund assets	**(138)**	(135)	**(138)**	(135)
25a	Losses and distributions for the current financial year (negative amount)	**(183)**	–	**(183)**	–
28	**Total regulatory adjustments to Common Equity Tier 1**	**(796)**	(505)	**(796)**	(505)
29	**Common Equity Tier 1 capital**	**2,113**	2,437	**2,113**	2,437
	Additional Tier 1 capital: instruments				
30	Capital instruments and the related share premium accounts	**450**	450	**450**	450
31	*Of which: classified as equity under applicable accounting standards*	**450**	450	**450**	450
36	**Additional Tier 1 capital before regulatory adjustments**	**450**	450	**450**	450
44	**Additional Tier 1 capital**	**450**	450	**450**	450
45	**Tier 1 capital**	**2,563**	2,887	**2,563**	2,887
	Tier 2 capital: Instruments and provisions				
46	Capital instruments and the related share premium accounts	**474**	473	**474**	473
50	Credit risk adjustments	**152**	154	**152**	154
51	**Tier 2 capital before regulatory adjustments**	**626**	627	**626**	627
58	**Tier 2 capital**	**626**	627	**626**	627
59	**Total capital**	**3,189**	3,514	**3,189**	3,514
60	**Total risk weighted assets**	**20,102**	19,678	**20,102**	19,678

Capital resources

	As at 30 September	Current rules 2018 £m	Current rules 2017 £m	Full impact 2018 £m	Full impact 2017 £m
	Capital ratios and buffers				
61	Common Equity Tier 1	**10.5%**	12.4%	**10.5%**	12.4%
62	Tier 1	**12.7%**	14.7%	**12.7%**	14.7%
63	Total capital	**15.9%**	17.9%	**15.9%**	17.9%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	**6.9%**	5.8%	**8.0%**	7.0%
65	*Of which: capital conservation buffer requirement*	**1.9%**	1.3%	**2.5%**	2.5%
66	*Of which: countercyclical buffer requirement*	**0.5%**	0.0%	**1.0%**	0.5%
67	*Of which: systemic risk buffer requirement*	**0.0%**	0.0%	**0.0%**	0.0%
67a	*Of which: Global Systemically Important Institution or Other Systemically Important Institution buffer*	**0.0%**	0.0%	**0.0%**	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**6.0%**	7.9%	**6.0%**	7.9%
	Applicable caps on the inclusion of provisions in Tier 2				
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**152**	154	**152**	154
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	**228**	224	**228**	224

4.3 Reconciliation of statutory equity to regulatory capital

Table 7: Reconciliation of statutory equity to regulatory capital

As at 30 September	2018 £m	2017 £m
Statutory total equity	**3,186**	3,402
Less pension regulatory adjustments	**(138)**	(135)
Less additional value adjustment	**(3)**	(4)
Less intangible assets	**(412)**	(339)
Less deferred tax assets relying on future profitability	**(99)**	(28)
Less cash flow hedge	**39**	1
Additional Tier 1 foreseeable dividend	**(10)**	(10)
Regulatory Tier 1 capital	**2,563**	2,887
Statutory Tier 2 subordinated debt	**472**	476
Unamortised hedge on issuance	**2**	(3)
Regulatory Tier 2 subordinated debt	**474**	473

4.4 Leverage ratio

Management of excessive leverage
The leverage ratio is monitored against a Board set RAS with the responsibility for managing the ratio delegated to ALCO, which monitors it on a monthly basis.

The leverage ratio is the ratio of Tier 1 capital to total exposure. Tier 1 capital is defined according to CRD IV and, for this purpose, the full impact of CRD IV requirements on Tier 1 capital are assumed to be in force. Exposures are defined as the total on- and off-balance sheet exposures (after application of credit conversion factors). This follows the definition given in the Delegated Act amending CRR article 429, and includes deductions applied to Tier 1 capital.

Tables 8, 9 and 10 below show the leverage ratio disclosure templates required by the EBA's Implementing Technical Standards on disclosure of the leverage ratio.

Table 8: LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		2018 £m	2017 £m
1	Total assets as per published financial statements	**43,456**	43,231
4	Adjustments for derivative financial instruments	**(134)**	(228)
5	Adjustments for securities financing transactions (SFTs)	**1,468**	1,461
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**1,763**	2,019
7	Other adjustments	**(613)**	(505)
8	Total leverage ratio exposure	**45,940**	45,978

Capital resources

Capital resources

Table 9: LRCom: Leverage ratio common

		2018 £m	2017 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**43,194**	42,949
2	(Asset amounts deducted in determining Tier 1 capital)	**(613)**	(505)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**42,581**	42,444
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**226**	192
5	Add-on amounts for potential future exposure (PFE) associated with all derivatives transactions (mark-to-market method)	**208**	200
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(306)**	(338)
11	Total derivative exposures	**128**	54
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**4,525**	5,235
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(3,057)**	(3,774)
16	Total securities financing transaction exposures	**1,468**	1,461
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**7,135**	8,519
18	(Adjustments for conversion to credit equivalent amounts)	**(5,372)**	(6,500)
19	Other off-balance sheet exposures	**1,763**	2,019
	Capital and total exposures		
20	Tier 1 capital	**2,563**	2,887
21	Total leverage ratio exposures	**45,940**	45,978
	Leverage ratio		
22	Leverage ratio	**5.6%**	6.3%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	**Fully phased in**	Fully phased in

Table 10: LRSpl: Split-up of on-balance sheet exposures

		2018 £m	2017 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**43,194**	42,949
EU-3	Banking book exposures, of which:	**43,194**	42,949
EU-4	Covered bonds	**615**	477
EU-5	Exposures treated as sovereigns	**6,990**	8,523
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities NOT treated as sovereigns[7]	**240**	216
EU-7	Institutions[7]	**616**	470
EU-8	Secured by mortgages of immovable properties[7]	**27,759**	27,489
EU-9	Retail exposures	**1,420**	1,134
EU-10	Corporate[7]	**3,651**	3,016
EU-11	Exposures in default	**460**	472
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)[7]	**1,443**	1,152

The Group's leverage ratio is 5.6% which exceeds the Basel Committee's proposed minimum of 3%, applicable from 2018. The movement in the year has been driven by the fall in Tier 1 capital resources.

(7) FY17 figures have been restated to reflect a change in presentation of credit risk mitigation effects with no impact to the leverage ratio calculation. Exposures are presented pre credit risk mitigation.

The UK leverage ratio framework, which came in to force on 1 January 2016, is relevant to PRA regulated banks and building societies with consolidated retail deposits equal to or greater than £50bn. As at 30 September 2018 the Group was currently excluded from these requirements. On 3 October 2017, the PRA published a policy statement – 'UK Leverage Ratio treatment of claims on central banks'. The PRA Rulebook has been amended to:

- align with its July 2016 modification by consent to exclude central bank claims matched by deposits in the same currency and of identical or longer maturity from the definition of the total leverage exposure measure in the UK leverage ratio framework;
- increase the minimum leverage ratio requirement from 3% to 3.25% of total exposures; and
- align the UK leverage ratio reporting and disclosure requirements to the proposed definition of the total exposure measure and 3.25% minimum leverage ratio requirement.

If these modifications are applied to the Group, this results in an increase in the leverage ratio from 5.6% under CRD IV to 6.5% on the PRA modified basis as a result of the Group's significant exposures to central banks within its liquid asset portfolio and Note cover.

On 14 November 2018, the PRA published a policy statement - 'UK leverage ratio: Applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer', confirming that from 1 January 2019 the UK leverage ratio framework will apply on a sub-consolidated basis to ring-fenced bodies in scope.

Capital requirements

5.1 Capital management

The Group's Capital Risk Policy Standard provides the framework for the manner in which capital is managed within the Group. The objectives of the policy standard are to efficiently manage the capital base to optimise shareholder returns while maintaining robust capital adequacy, meeting regulators' requirements, managing the rating agencies' assessment of the Group and ensuring that excessive leverage is not taken.

Measurement

The Group manages capital in accordance with prudential rules issued by the PRA and Financial Conduct Authority (FCA), which implemented CRD IV legislation with effect from 1 January 2014. The Group's approach to Pillar 1 for the year ended 30 September 2018 was to use the standardised approaches to calculating RWAs. The standardised approaches are inherently conservative and the Group has been developing the capability to utilise IRB methods for the calculation of credit risk capital. A waiver to utilise IRB models was submitted to the PRA during 2017 and subsequently approved in October 2018 for its Mortgage and SME/Corporate portfolios.

There are also some risks which are not adequately covered by the Pillar 1 requirements (e.g. interest rate risk and pension obligation risk). These risks are captured within the Group's Pillar 2A requirements. Pillar 2A capital requirements are determined as part of the ICAAP process and subsequently agreed by the PRA through their Capital Supervisory Review & Evaluation process. The PRA set these additional minimum requirements through the issuance of an institution specific Individual Capital Guidance (ICG) which was applicable at 30 September 2018.

In addition, the PRA may also determine that further additional 'Pillar 2B' capital is required to be held as a buffer to cover periods of potential future stress, based on an institution's own stress testing as part of the ICAAP. This buffer is set by the PRA as a minimum level of capital which the institution is required to hold over and above the minimum regulatory capital buffers which are described in the next section. The Group may be subject to a Pillar 2B buffer as set by the PRA but is not permitted to disclose the level of any buffer.

Capital buffers

The regulatory capital buffer framework is intended to ensure firms maintain a sufficient amount of capital above their regulatory minimum in order to withstand periods of stress. The UK is implementing the provisions on capital buffers outlined in the Capital Requirements Directive to create combined capital buffers including a Capital Conservation Buffer (CCB); a Countercyclical Capital Buffer (CCyB); a Global Systemically Important Institution Buffer; and a Systemic Risk Buffer (SRB). In the UK, the CCB has been introduced with transitional provisions from 2016 (0.625%) to 2019 (2.5%).

The CCyB has been effective from 1 May 2014 and is dependent upon the BoE view of credit conditions in the economy. The CCyB was 0.5% of RWAs at 30 September 2018 with this rising to 1.00% in November 2018.

The Group's capital planning considers the impact of all relevant capital buffers.

The PRA's final rules on the approach to identifying other systemically important institutions were published in February 2016. In line with expectations, Clydesdale Bank PLC was not designated an O-SII. Similarly the Financial Policy Committee issued its final framework for setting the SRB in May 2016. This confirmed that banks with total assets of less than £175bn (which includes the Group) will be subject to a 0% SRB.

Minimum requirement for own funds and eligible liabilities

In November 2016, the BoE provided additional information on how MREL will be applied to firms that are subject to the use of resolution tools that the BoE would employ in the event of a firm entering resolution. From 1 January 2022, those firms, which include the Group, will be required to hold both their going concern requirements together with additional MREL of an amount equal to those going concern requirements. The timetable for meeting MREL has been extended to 2022 and the BoE will review calibration and transition by the end of 2020, before setting end-state MREL. Interim MREL has been established for the transitional period.

During 2018 the Group issued its second unsecured bond that, in addition to the Group's capital base, will contribute to meeting MREL requirements. This activity firmly established CYBG's name in the unsecured market with investors. The second bond takes total outstanding issuance to £0.8bn.

Monitoring

The capital plan is approved by the Board on an annual basis. The Group's ALCO monitors the capital plan and forecast positions on a monthly basis. This ensures that performance trends are appropriately reviewed and that there is transparency on the impact on capital ratios, risk appetite and the future outlook.

Recent developments

Information on banking reform, ring-fencing and resolution, all of which may impact the Group's capital and funding structures, are provided in the Risk report of the Group's Annual Report and Accounts.

5.2 Minimum capital requirement

To determine minimum capital requirements under the CRD IV Framework, the Group has applied the standardised approach to measure credit risk and operational risk. Under the approach the Group calculates its Pillar 1 capital requirement based on 8% of total RWAs. This covers credit risk, operational risk, counterparty credit risk and credit valuation adjustment (CVA). The table below sets out the risk weighted assets and Pillar 1 capital requirements of the Group.

Table 11: EU OV1 – Overview of risk weighted assets

		RWAs		Minimum capital requirements
		2018 £m	2017 £m	**2018 £m**
1	Credit risk (excluding counterparty credit risk (CCR))	**17,876**	17,442	**1,431**
2	*Of which the standardised approach*	**17,876**	17,442	**1,431**
6	CCR	**343**	305	**27**
7	*Of which mark to market*	**125**	138	**10**
12	*Of which CVA*	**218**	167	**17**
23	Operational risk	**1,655**	1,621	**132**
25	*Of which standardised approach*	**1,655**	1,621	**132**
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**228**	310	**18**
29	Total	**20,102**	19,678	**1,608**

Refer to Table 16 in section 6 for a summary of the Group's RWAs and capital requirements under Pillar 1.

Table 12: Capital requirements

	As at 30 September 2018	
Minimum requirements	**CET1**	**Total capital**
Pillar 1[8]	**4.5%**	**8.0%**
Pillar 2A[9]	**2.5%**	**4.5%**
Individual capital guidance	**7.0%**	**12.5%**
Capital conservation buffer[10]	**1.9%**	**1.9%**
UK countercyclical capital buffer[11]	**0.5%**	**0.5%**
Total (excluding PRA buffer)[12]	**9.4%**	**14.9%**

(8) The minimum amount of total capital under Pillar 1 of the regulatory framework is determined as 8% of RWAs, of which at least 4.5% of RWAs is required to be covered by CET1 capital.
(9) Growth in RWAs at CYBG PLC has meant that at 30 September 2018 the Pillar 2A total capital requirement, as set by the PRA's ICG, has reduced from 4.6% to 4.5%. At least 56.25% of this needs to be met with CET1, equating to approximately 2.5% of RWAs.
(10) The CCB is being phased in over the period from 1 January 2016 to 1 January 2019. The CCB has been set at 2.5% of RWAs, with 1.875% applicable for 2018.
(11) The UK CCyB may be set between 0% and 2.5%. On 27 June 2018 the UK CCyB increased from 0% to 0.5% and the Financial Policy Committee (FPC) reaffirmed that it expects to increase the UK CCyB from 0.5% to 1.0% from 28 November 2018. The FPC will conduct a comprehensive assessment of the resilience of the UK banking system in the 2018 stress test and review the adequacy of the 1.0% CCyB rate.
(12) 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 BoE stress tests.

Capital requirements

Capital requirements

The countercyclical capital buffer is an additional requirement, introduced by CRD IV, to the overall capital requirement of the Group. The tables below disclose relevant information for the calculation of the Group's countercyclical capital buffer as at 30 September 2018 in line with EBA/RTS/2014/17. As permitted by the Regulatory Technical Standards (RTS), as the Group's relevant foreign credit exposures are below 2% of aggregate risk weighted exposures the Group has chosen to allocate these to the UK.

Table 13: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

2018

		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
		Exposure value for SA 010	Exposure value for IRB 020	Sum of long and short positions of trading book exposures for SA 030	Value of trading book exposures for internal models 040	Exposure value for SA 050	Exposure value for IRB 060	Of which: General credit exposures 070	Of which: Trading book exposures 080	Of which: Securitisation exposures 090	Total 100	Own funds requirements weights 110	Countercyclical capital buffer rates 120
Row		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		%
010	Breakdown by country: UK	**35,988**	**–**	**–**	**–**	**–**	**–**	**1,485**	**–**	**–**	**1,485**	**1.00**	**0.5%**
020	Total	**35,988**	**–**	**–**	**–**	**–**	**–**	**1,485**	**–**	**–**	**1,485**	**1.00**	**0.5%**

2017

		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
		Exposure value for SA 010	Exposure value for IRB 020	Sum of long and short positions of trading book exposures for SA 030	Value of trading book exposures for internal models 040	Exposure value for SA 050	Exposure value for IRB 060	Of which: General credit exposures 070	Of which: Trading book exposures 080	Of which: Securitisation exposures 090	Total 100	Own funds requirements weights 110	Countercyclical capital buffer rates 120
Row		£m	£m	£m	£m	£m	£m	£m	£m	£m	£m		%
010	Breakdown by country: UK	34,708	–	–	–	–	–	1,455	–	–	1,455	1.00	0.0%
020	Total	34,708	–	–	–	–	–	1,455	–	–	1,455	1.00	0.0%

Table 14: Amount of institution-specific countercyclical capital buffer

Row		**2018 £m**
010	Total risk exposure amount	**20,102**
020	Institution specific countercyclical capital buffer rate	**0.5%**
030	Institution specific countercyclical capital buffer requirement	**101**

Row		2017 £m
010	Total risk exposure amount	19,678
020	Institution specific countercyclical capital buffer rate	0.0%
030	Institution specific countercyclical capital buffer requirement	–

Credit risk

6.1 Credit risk exposure: analysis by exposure class

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. As at 30 September 2018, the total credit risk exposures of the Group amounted to £54.1bn (2017: £56.5bn). The overall capital requirement for credit risk has increased by 2% from £1,420m in 2017 to £1,449m in 2018. The table below shows movements in credit risk RWAs from 1 October 2017 to 30 September 2018, with movements ascribed to changes in book size and book quality.

Table 15: Credit risk RWAs

	Credit risk RWAs £m
RWAs at 1 October 2017	17,752
Book size growth	348
Book quality deterioration	4
RWAs at 30 September 2018	**18,104**

Credit risk exposures by exposure class are provided in the table below, together with the associated average credit risk exposure (calculated using the previous four quarters exposure per the EBA's Common Reporting 'Credit Risk Standardised Approach' returns). The table also includes risk weighted assets and minimum capital requirements under Pillar 1 for each of the respective exposure classes.

The exposure amounts disclosed are pre-application of credit risk mitigation and pre-application of credit conversion factors, unless otherwise stated. This contrasts with the exposures disclosed within the Risk report in the Group's Annual Report and Accounts for the year ended 30 September 2018, which are disclosed before any relevant credit risk mitigation and after credit conversion factors have been applied.

Table 16: EU CRB-B – Total and average net amount of exposures

		2018			
		a	b		
		Net value of exposures at the end of the period £m	Average net exposures over the period £m	Risk-weighted assets £m	Minimum capital requirements £m
16	Central governments or central banks	**11,365**	**10,615**	**1**	**–**
17	Regional governments or local authorities	**335**	**434**	**12**	**1**
18	Public sector entities	**195**	**188**	**2**	**–**
19	Multilateral development banks	**155**	**180**	**–**	**–**
21	Institutions	**639**	**677**	**136**	**11**
22	Corporates	**6,145**	**6,441**	**3,956**	**316**
23	*Of which: SMEs*	4,312	4,160	2,697	216
24	Retail	**4,263**	**4,337**	**1,124**	**90**
25	*Of which: SMEs*	–	–	–	–
26	Secured by mortgages on immovable property	**29,213**	**28,922**	**11,708**	**938**
27	*Of which: SMEs*	3,728	3,735	2,838	227
28	Exposures in default	**476**	**496**	**562**	**45**
	Of which: SMEs	191	192	267	21
29	Items associated with particularly high risk	**38**	**49**	**49**	**4**
	Of which: SMEs	38	29	49	4
30	Covered bonds	**615**	**570**	**61**	**5**
32	Collective investments undertakings	**1**	**1**	**1**	**–**
33	Equity exposures	**4**	**4**	**5**	**–**
34	Other exposures	**715**	**636**	**487**	**39**
35	**Total standardised approach**	**54,159**	**53,550**	**18,104**	**1,449**
36	**Total**	**54,159**	**53,550**	**18,104**	**1,449**

Capital requirements

Credit risk

		2017			
		a	b		
		Net value of exposures at the end of the period £m	Average net exposures over the period £m	Risk-weighted assets £m	Minimum capital requirements £m
16	Central governments or central banks	12,948	10,036	–	–
17	Regional governments or local authorities	496	504	19	2
18	Public sector entities	196	127	5	–
19	Multilateral development banks	205	211	–	–
21	Institutions	1,465	1,573	163	13
22	Corporates	6,120	6,260	3,418	273
23	*Of which: SMEs*	3,233	3,154	1,830	146
24	Retail	3,077	3,051	905	72
25	*Of which: SMEs*	–	–	–	–
26	Secured by mortgages on immovable property	30,395	29,291	12,001	961
27	*Of which: SMEs*	3,877	3,875	3,017	241
28	Exposures in default	510	501	590	47
	Of which: SMEs	214	217	285	23
29	Items associated with particularly high risk	40	31	40	3
	Of which: SMEs	40	31	40	3
30	Covered bonds	477	400	48	4
32	Collective investments undertakings	1	2	1	–
33	Equity exposures	3	19	5	–
34	Other exposures	586	585	557	45
35	**Total standardised approach**	56,519	52,591	17,752	1,420
36	**Total**	56,519	52,591	17,752	1,420

The items included in the Other exposures exposure class that attract a capital charge include items in the course of collection, fixed assets and DTAs which have not been deducted.

Total credit risk exposures at the end of the period fell. This fall was primarily due to the movements in Central governments and central banks and Institutions. The movement in Central governments and central banks can display volatility as is seen when considering the comparison to the increase in total exposures viewed over the average of the whole period. The volatility can occur as result of the manner in which the Group's overall liquidity position is being managed on any given day and from fluctuations in cash balances. Over the year the Group has also seen further diversification of the portfolio of liquid assets with a reduction in Gilts and an increase in high credit quality covered bonds that supports the Group's liquidity coverage ratio. The reduction in Institutions was driven by the maturity of a repo and there no longer being an outstanding reimbursement receivable from NAB in relation to the conduct indemnity deed (see note 3.14 of Group's Annual Report and Accounts for further details).

In 2018 there was a reclassification of the unsecured element of mortgages secured on immovable property, including retail pipeline, which has led to a migration of exposures into the Retail and Corporates exposure classes. This change affected £2.0bn of exposures with £0.5bn being allocated to Corporates and £1.5bn to Retail. The corresponding RWA movements from the reclassification sees a reduction in Secured by mortgages on immovable property of £500m with increases of £375m and £125m across Corporate and Retail respectively.

RWAs have grown over the period reflecting the on-going success of the Group in supporting customers with mortgage lending and core SME growth. The management of RWAs was subject to ongoing activities to optimise the use of capital. Examples of this can be seen with reductions in undrawn limits across various categories (refer to Table 27 within the Report for a breakdown of on- and off-balance sheet credit risk exposures).

The table below shows credit risk exposure by the customer industry classification, including SME exposures. The regulatory SME definition is based on customers with an annual turnover not exceeding EUR 50m. This is consistent with the SME definition in CRR article 501, which states that among the criteria listed in Commission Recommendation 2003/361/EC (concerning the definition of micro, small and medium-sized enterprises) only the annual turnover is to be taken into account. The table below is based on the customer industry identifier used for credit risk purposes and may differ from classifications used for other external reporting.

Table 17: EU CRB-D – Concentration of exposures by industry

		2018										
		Government administration & defence £m	Agriculture, forestry, fishing & mining £m	Financial investment & insurance £m	Real estate – construction £m	Manu-facturing £m	Personal lending £m	Real estate – mortgage £m	Wholesale and retail trade £m	All other business £m	Non-customer assets £m	**Total £m**
7	Central governments or central banks	1,920	–	9,441	–	–	–	–	–	4	–	**11,365**
8	Regional governments or local authorities	335	–	–	–	–	–	–	–	–	–	**335**
9	Public sector entities	180	–	–	–	–	–	–	–	15	–	**195**
10	Multilateral development banks	–	–	155	–	–	–	–	–	–	–	**155**
12	Institutions	–	–	639	–	–	–	–	–	–	–	**639**
13	Corporates	–	565	169	204	1,258	–	–	987	2,962	–	**6,145**
14	Retail	–	–	–	–	–	2,997	1,266	–	–	–	**4,263**
15	Secured by mortgages on immovable property	–	1,308	29	38	197	–	24,991	326	2,324	–	**29,213**
16	Exposures in default	–	104	–	4	6	20	249	12	81	–	**476**
17	Items associated with particularly high risk	–	–	–	–	–	–	–	–	38	–	**38**
18	Covered bonds	–	–	615	–	–	–	–	–	–	–	**615**
20	Collective investments undertakings	–	–	–	–	–	–	–	–	1	–	**1**
21	Equity exposures	–	–	–	–	–	–	–	–	4	–	**4**
22	Other exposures	91	–	371	–	–	–	1	36	–	216	**715**
23	**Total standardised approach**	2,526	1,977	11,419	246	1,461	3,017	26,507	1,361	5,429	216	**54,159**
24	**Total**	2,526	1,977	11,419	246	1,461	3,017	26,507	1,361	5,429	216	**54,159**
	Of which: SME	–	1,833	166	165	1,025	–	–	1,043	4,037	–	**8,269**

Capital requirements

Credit risk

		2017										
		Government administration & defence £m	Agriculture, forestry, fishing & mining £m	Financial investment & insurance £m	Real estate – construction £m	Manu-facturing £m	Personal lending £m	Real estate – mortgage £m	Wholesale and retail trade[13] £m	All other business[13] £m	Non-customer assets £m	Total £m
7	Central governments or central banks	2,889	–	10,059	–	–	–	–	–	–	–	12,948
8	Regional governments or local authorities	496	–	–	–	–	–	–	–	–	–	496
9	Public sector entities	177	–	–	–	–	–	–	–	19	–	196
10	Multilateral development banks	–	–	205	–	–	–	–	–	–	–	205
12	Institutions	–	–	1,465	–	–	–	–	–	–	–	1,465
13	Corporates	–	445	360	220	1,037	–	–	973	3,085	–	6,120
14	Retail	–	–	–	–	–	3,077	–	–	–	–	3,077
15	Secured by mortgages on immovable property	–	1,586	21	51	243	–	25,607	447	2,440	–	30,395
16	Exposures in default	–	92	–	1	13	20	241	21	122	–	510
17	Items associated with particularly high risk	–	–	–	–	–	–	–	–	40	–	40
18	Covered bonds	–	–	477	–	–	–	–	–	–	–	477
20	Collective investments undertakings	–	–	–	–	–	–	–	–	1	–	1
21	Equity exposures	–	–	–	–	–	–	–	–	3	–	3
22	Other exposures	123	–	218	–	–	–	1	50	–	194	586
23	**Total standardised approach**	3,685	2,123	12,805	272	1,293	3,097	25,849	1,491	5,710	194	56,519
24	**Total**	3,685	2,123	12,805	272	1,293	3,097	25,849	1,491	5,710	194	56,519
	Of which: SME	–	1,847	110	195	896	–	–	970	3,346	–	7,364

(13) FY17 figures have been restated to reflect a change in presentation of industry classifications with no impact to total credit risk exposures.

6.2 Credit risk exposure: analysis by residual maturity

Table 18: EU CRB-E – Maturity of exposures

		2018					
		a	b	c	d	e	f
		Net exposure value					
		On demand £m	<= 1 year £m	> 1 year <= 5 years £m	> 5 years £m	No stated maturity £m	Total £m
7	Central governments or central banks	–	6,005	3,385	595	1,380	**11,365**
8	Regional governments or local authorities	–	324	–	11	–	**335**
9	Public sector entities	–	51	129	15	–	**195**
10	Multilateral development banks	–	50	105	–	–	**155**
12	Institutions	–	89	10	2	538	**639**
13	Corporates	–	3,210	2,406	529	–	**6,145**
14	Retail	–	3,274	634	355	–	**4,263**
15	Secured by mortgages on immovable property	–	1,242	3,326	24,645	–	**29,213**
16	Exposures in default	–	102	111	263	–	**476**
17	Items associated with particularly high risk	–	20	18	–	–	**38**
18	Covered bonds	–	20	395	200	–	**615**
20	Collective investments undertakings	–	–	1	–	–	**1**
21	Equity exposures	–	–	3	1	–	**4**
22	Other exposures	–	–	–	–	715	**715**
23	**Total standardised approach**	**–**	**14,387**	**10,523**	**26,616**	**2,633**	**54,159**
24	**Total**	**–**	**14,387**	**10,523**	**26,616**	**2,633**	**54,159**

		2017					
		a	b	c	d	e	f
		Net exposure value					
		On demand £m	<= 1 year £m	> 1 year <= 5 years £m	> 5 years £m	No stated maturity £m	Total £m
7	Central governments or central banks	–	7,283	2,735	1,215	1,715	12,948
8	Regional governments or local authorities	–	484	1	11	–	496
9	Public sector entities	–	51	130	15	–	196
10	Multilateral development banks	–	50	155	–	–	205
12	Institutions	–	695	10	2	758	1,465
13	Corporates	–	3,503	2,194	396	27	6,120
14	Retail	–	2,399	574	104	–	3,077
15	Secured by mortgages on immovable property	–	2,990	3,377	24,028	–	30,395
16	Exposures in default	–	155	120	235	–	510
17	Items associated with particularly high risk	–	9	17	14	–	40
18	Covered bonds	–	95	200	182	–	477
20	Collective investments undertakings	–	–	1	–	–	1
21	Equity exposures	–	2	–	1	–	3
22	Other exposures	–	–	–	–	586	586
23	**Total standardised approach**	–	17,716	9,514	26,203	3,086	56,519
24	**Total**	–	17,716	9,514	26,203	3,086	56,519

The maturity of exposures is shown on a contractual basis rather than the actual redemptions experienced by the Group. Undrawn values have been allocated to the contractual maturity of the underlying exposure.

Capital requirements

Credit risk

6.3 Credit risk exposure: analysis by geography

Table 19: EU CRB-C – Geographical breakdown of exposures

		2018			2017		
		a	m	n	a	m	n
		UK £m	Other geographical areas £m	Total £m	UK £m	Other geographical areas £m	Total £m
7	Central governments or central banks	**11,345**	**20**	**11,365**	12,948	–	12,948
8	Regional governments or local authorities	**335**	**–**	**335**	496	–	496
9	Public sector entities	**51**	**144**	**195**	51	145	196
10	Multilateral development banks	**–**	**155**	**155**	–	205	205
12	Institutions	**639**	**–**	**639**	1,091	374	1,465
13	Corporates	**6,134**	**11**	**6,145**	6,097	23	6,120
14	Retail	**4,255**	**8**	**4,263**	3,068	9	3,077
15	Secured by mortgages on immovable property	**29,129**	**84**	**29,213**	30,359	36	30,395
16	Exposures in default	**476**	**–**	**476**	510	–	510
17	Items associated with particularly high risk	**38**	**–**	**38**	40	–	40
18	Covered bonds	**615**	**–**	**615**	477	–	477
20	Collective investments undertakings	**1**	**–**	**1**	1	–	1
21	Equity exposures	**4**	**–**	**4**	3	–	3
22	Other exposures	**715**	**–**	**715**	586	–	586
23	**Total standardised approach**	**53,737**	**422**	**54,159**	55,727	792	56,519
24	**Total**	**53,737**	**422**	**54,159**	55,727	792	56,519

Credit risk exposures outside of the UK arising on lending are not material and have been classified as Other geographical areas. The geographical location is based on the physical location of the counterparty with which the Group deals. In some cases this may differ from the location of the counterparty's ultimate parent company. Exposures arising on supranational bonds issued by multilateral development banks are held as part of the Group's liquidity buffer. In line with guidance issued by the EBA, these have been classified to the geographical area 'Other' irrespective of the location of the issuer.

6.4 Impaired lending and provisions

6.4.1 Definition

The following definitions are employed:

- past due but not impaired: loans that are in arrears but have not been individually assessed as impaired;
- non-performing/default: this is considered to have occurred with regard to a particular customer or obligor when either of the following two events has taken place:
  - It is considered that the customer or obligor is unlikely to pay its credit obligation to the Bank in full, without recourse to actions such as realisation of security (if held).
  - The customer or obligor is more than 90 days past due on any obligation to the Bank;
- impaired: loans which have been individually assessed for impairment as there is objective evidence of impairment, including changes in customer circumstances;
- impairment provisions: a provision held on balance sheet to recognise that a loan is impaired. This can be at either the individual or collective level;
- a collective impairment provision: an impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- specific provision: relates to a specific loan, and represents the estimated shortfall between the carrying value of the asset and the estimated future cash flows, including the estimated realisable value of securities after meeting securities realisation costs.

6.4.2 Managing impaired exposures and impairment provisions

Provisioning policy

The management of impaired assets, the setting of impairment provisions and the write-off of impaired assets are included with the Group's credit policy and procedures, and are reviewed on an annual basis. The treatment of impaired assets is determined by the Risk function and the calculation of impairment provisions aligns with current accounting policy, as agreed with the Finance function.

Accounting policy

The Group first assesses whether objective evidence of impairment exists individually for loans and advances that are individually significant, and individually or collectively for loans and advances that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the income statement.

For the purposes of a collective evaluation of impairment, loans and advances are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated. The Group uses historical loss experience and its experienced judgement to estimate the amount of an impairment loss. This incorporates amounts calculated to overcome model deficiencies and systemic risks where appropriate and supported by historic loss experience data. The use of such judgements and reasonable estimates is considered by management to be an essential part of the process.

Adequacy reviews

All impaired lending assets are reviewed on a continual basis and must be formally reviewed at least quarterly.

All non-impaired lending is subject to a collective assessment for pools of assets with similar credit risk characteristics where no objective evidence of impairment exists. The provisioning policy requires impairment losses to be based on events which have already taken place and prevailing economic conditions.

Reporting

The formal reporting of impaired lending, provisions and associated relevant asset quality metrics and trends are completed on a monthly basis and distributed to the appropriate portfolio managers, Senior Managers, Executive Committees, Risk Committee and Board.

The Group reviews, at least bi-annually, its provision reserves against actual experience to identify whether its policies have resulted in over or under provisioning across the economic cycle. The responsibility for the review rests with the Risk function which reports its findings and recommendations to the Risk Committee, and the Board.

Management of customers experiencing financial difficulties

Information and analysis on the measures adopted by the Group to support customers experiencing financial difficulties are detailed in the Risk report section of the Group's Annual Report and Accounts.

Capital requirements

Credit risk

6.5 Analysis of past due and impaired loans and advances to customers

As at 30 September 2018, past due but not impaired exposures in respect of loans and advances to customers amounted to £564m (2017: £513m). Impaired exposures in respect of loans and advances to customers amounted to £125m (including £2m of fair value loans) (2017: £179m, including £4m of fair value loans).

Tables 20-23 have been prepared in accordance with FINREP regulations.

Table 20 below provides an ageing analysis of accounting on-balance sheet past-due exposures regardless of their impairment status.

Table 20: EU CR1-D – Ageing of past-due exposures

		2018					
		a	b	c	d	e	f
		Gross carrying values					
		≤ 30 days £m	> 30 days ≤ 60 days £m	> 60 days ≤ 90 days £m	> 90 days ≤ 180 days £m	> 180 days ≤ 1y ear £m	> 1 year £m
1	Loans	**293**	**62**	**38**	**61**	**52**	**58**
3	**Total exposures**	**293**	**62**	**38**	**61**	**52**	**58**

		2017					
		a	b	c	d	e	f
		Gross carrying values					
		≤ 30 days £m	> 30 days ≤ 60 days £m	> 60 days ≤ 90 days £m	> 90 days ≤ 180 days £m	> 180 days ≤ 1 year £m	> 1 year £m
1	Loans	270	47	36	64	46	50
3	**Total exposures**	270	47	36	64	46	50

Table 21 below provides an overview of non-performing and forborne exposures.

Table 21: EU CR1-E – Non-performing and forborne exposures

		2018												
		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
			Of which performing but past due >30 days and <=90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
		£m	£m	£m	£m	Of which defaulted £m	Of which impaired £m	Of which forborne £m	£m	Of which forborne £m	£m	Of which forborne £m	£m	£m
10	Debt securities	**1,553**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
20	Loans and advances	**40,502**	**86**	**648**	**404**	**404**	**125**	**301**	**(159)**	**(29)**	**(44)**	**(26)**	**316**	**248**
30	Off-balance sheet exposures	**7,135**	**–**	**29**	**16**	**16**	**–**	**1**	**–**	**–**	**–**	**–**	**–**	**–**

		2017												
		a	b	c	d	e	f	g	h	i	j	k	l	m
		Gross carrying values of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
			Of which performing but past due >30 days and <=90 days	Of which performing forborne	Of which non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
		£m	£m	£m	£m	Of which defaulted £m	Of which impaired £m	Of which forborne £m	£m	Of which forborne £m	£m	Of which forborne £m	£m	£m
10	Debt securities	2,176	–	–	–	–	–	–	–	–	–	–	–	–
20	Loans and advances	39,937	81	627	457	457	179	342	(163)	(37)	(58)	(30)	336	257
30	Off-balance sheet exposures	8,519	–	22	38	38	–	10	–	–	–	–	–	–

Table 22 below provides an overview of the changes in the stock of general and specific credit risk adjustments.

Table 22: EU CR2-A – Changes in the stock of general and specific credit risk adjustments

		2018		2017	
		a	**b**	a	b
		Accumulated specific credit risk adjustment £m	**Accumulated general credit risk adjustment £m**	Accumulated specific credit risk adjustment £m	Accumulated general credit risk adjustment £m
1	**Opening balance**	**56**	**154**	64	151
2	Increases due to amounts set aside for estimated loan losses during the period	**–**	**41**	–	48
4	Decreases due to amounts taken against accumulated credit risk adjustments	**(68)**	**–**	(75)	–
5	Transfers between credit risk adjustments	**43**	**(43)**	45	(45)
8	Other adjustments[14]	**12**	**–**	22	–
9	**Closing balance**	**43**	**152**	56	154

(14) Other adjustments relate to transfers to net present value provision amortisation, fair value accounting adjustments and cash recoveries.

Capital requirements

Credit risk

An analysis of the changes in the stock of default impaired loans is provided in Table 23 below.

Table 23: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

		2018	2017
		a	a
		Gross carrying value defaulted exposures £m	Gross carrying value defaulted exposures £m
1	**Opening balance**	**179**	233
2	Loans and debt securities that have defaulted or impaired since the last reporting period[15]	**40**	72
3	Returned to non-defaulted status	**(55)**	(77)
4	Amounts written off	**(39)**	(49)
6	**Closing balance**	**125**	179

6.6 Analysis by industry sector

An analysis of past due but not impaired loans and advances to customers and impaired loans and advances to customers, by industry sector, is provided in the table below:

Table 24: All past due and impaired loans and advances to customers by industry

	2018		2017	
As at 30 September	Past due but not impaired £m	Impaired £m	Past due but not impaired £m	Impaired £m
Agriculture, forestry, fishing and mining	**59**	**19**	68	19
Asset and lease financing	**15**	**–**	16	6
Financial, investment and insurance	**–**	**–**	1	–
Personal lending	**41**	**–**	37	–
Manufacturing	**5**	**4**	6	3
Other commercial and industrial	**71**	**61**	56	101
Real estate – construction	**3**	**2**	2	1
Real estate – mortgage	**370**	**39**	327	49
Total	**564**	**125**	513	179

(15) This excludes default non-impaired loans.

6.7 Analysis by geography

All past due but not impaired loans and advances to customers and impaired loans and advances to customers are categorised as being in the United Kingdom. All closing impairment provisions, the net charge to the income statement, and advances written off in respect of loans and advances to customers are categorised as being in the United Kingdom.

6.8 Analysis by industry

The movement in total impairment provisions, from 1 October 2017 to 30 September 2018, by industry sector is provided below:

Table 25: Analysis of impairment provisions by industry (including fair value)

	2018			2017		
As at 30 September	**Impairment provisions £m**	**Net charge £m**	**Advances written off £m**	Impairment provisions £m	Net charge £m	Advances written off £m
Agriculture, forestry, fishing and mining	**20**	**(3)**	**–**	22	1	(1)
Asset and lease financing	**2**	**–**	**(5)**	7	7	–
Financial, investment and insurance	**2**	**–**	**–**	2	–	–
Personal lending	**28**	**24**	**(30)**	24	11	(28)
Manufacturing	**16**	**7**	**(8)**	17	12	(17)
Other commercial and industrial	**100**	**8**	**(23)**	113	13	(24)
Real estate – construction	**3**	**1**	**–**	3	–	(1)
Real estate – mortgage	**32**	**1**	**(2)**	33	(2)	(4)
Total	**203**	**38**	**(68)**	221	42	(75)

6.9 Use of External Credit Assessment Institutions (ECAIs)

The Group makes limited use of credit assessments by ECAIs in assigning risk weights to credit risk exposures under the standardised approach. This typically applies in the case of certain Central government, Central bank and Institution exposures.

The appropriate risk weight to apply to the credit risk exposure is determined by assigning the exposure to the relevant credit quality step under CRR Part 3, Title II, Chapter 2 (Standardised Credit Risk), based on the EBA's mapping of credit assessments to credit quality steps. Where appropriate, the Group makes use of credit assessments provided by Moody's.

Capital requirements

Credit risk

6.10 Credit risk mitigation

The Group uses a range of approaches to mitigate credit risk. The Group has a RAS and comprehensive credit risk management policies that restrict the level of exposure to any one borrower or group of borrowers, industries and countries.

6.10.1 Collateral held as security and other credit enhancements

The Group evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Group upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held can vary, but may include:

- specific charges over defined assets of the counterparty;
- a floating charge over all assets and undertakings of an entity, including uncalled capital and called but unpaid capital;
- specific or interlocking guarantees; and
- loan agreements which include affirmative and negative covenants and in some instances guarantees of counterparty obligations.

Generally, the Group does not take possession of collateral it holds as security or call on other credit enhancements that would result in recognition of an asset on its balance sheet.

It is the Group's policy to dispose of repossessed properties with the proceeds used to reduce or repay the outstanding balance. In general, the Group does not occupy repossessed properties for its own business use.

Residential mortgages
Residential property is the Group's main source of collateral and means of mitigating loss in the event of the default credit risk inherent in its residential mortgage portfolios. All lending activities are supported by an appropriate form of valuation using either professional or indexed (subject to policy rules and confidence levels) valuations.

Commercial property
Commercial property is the Group's main source of collateral on SME lending and means of mitigating loss in the event of default. Collateral for the majority of commercial loans comprises first legal charges over freehold or long leasehold property (including formal Companies House registration where appropriate).

Non-property related collateral
In addition to residential and commercial property based security, the Group also takes other forms of collateral when lending. This can involve obtaining security against the underlying loan through the use of cash collateral and/or netting agreements, both of which reduce the original exposure by the amount of collateral held, subject to volatility and maturity adjustments where applicable.

The Group also operates a policy of obtaining security against the underlying loan via the use of guarantees, which can be either limited or unlimited, making the guarantor liable for only a portion or all of the debt.

Monitoring
Credit policies and procedures, which are subject to ongoing review, are documented and disseminated in a form that supports the credit operations of the Group.

- Credit Risk Committee (CRC): The CRC ensures that the credit RMF and associated policies remain effective. The Committee has oversight of the quality, composition and concentrations of the credit risk portfolio and considers strategies to adjust the portfolio to react to changes in market conditions.
- RAS measures: Measures are monitored monthly and reviewed bi-annually, at a minimum, to ensure that the measures accurately reflect the Group's risk appetite, strategy and concerns relative to the wider macro environment. All measures are subject to extensive engagement with the Executive Leadership Team and the Board, and are subject to endorsement from executive governance committees prior to Board approval. Regulatory engagement is also scheduled as appropriate.
- Risk concentration: Concentration of risk is managed by client/counterparty, product, geographical region and industry sector. In addition, single name exposure limits exist to control exposures to a single entity/counterparty. Concentrations are also considered through the RAS process focusing particularly on comparing the portfolio against market benchmarks.
- *Single large exposure excesses:* All excesses are reported to the Transactional Credit Committee (TCC) and relevant Head of Risk. Any exposure which continues or is expected to continue beyond 30 days will also be submitted to the TCC with proposals to correct the exposure within an agreed period, not to exceed 12 months.

6.10.2 Derivatives

The Group maintains control limits on net open derivative positions. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. assets where their fair value is positive), which, in relation to derivatives, may only be a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk is managed as part of the customers' overall exposure together with potential exposures from market movements.

Master netting agreements
The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with whom it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, credit risk associated with the favourable contracts is reduced by a master netting arrangement to the extent that, if any counterparty failed to meet its obligations in accordance with the agreed terms, all amounts with the counterparty are terminated and settled on a net basis. Derivative financial instrument contracts are typically subject to the International Swaps and Derivatives Association (ISDA) master netting agreements, as well as Credit Support Annexes (CSA), where relevant, around collateral arrangements attached to those ISDA agreements. Derivative exchange or clearing counterparty agreements exist where contracts are settled via an exchange or clearing house.

6.10.3 Analysis of credit risk mitigation techniques

Table 26 below shows the use of credit risk mitigation techniques broken down by exposure class. The exposure amounts within this table are disclosed after, where applicable, on- or off-balance sheet netting.

Exposures secured represents the carrying amount of the exposure, irrespective of the level of collateralisation. Exposures unsecured represents the carrying amount of exposures with no security or collateral attached.

Table 26: EU CR3 – CRM techniques – overview

		2018				
		a	b	c	d	e
	Exposure classes	Exposures unsecured – carrying amount £m	Exposures secured – carrying amount £m	Exposures secured by collateral £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives £m
	Central governments or central banks	6,840	4,525	4,525	–	–
	Regional governments or local authorities	252	–	–	–	–
	Public sector entities	195	–	–	–	–
	Multilateral development banks	155	–	–	–	–
	Institutions	639	–	–	–	–
	Corporates	5,407	663	646	17	–
	Retail	4,075	188	188	–	–
	Secured by mortgages on immovable property(16)	–	29,213	29,213	–	–
	Exposures in default	75	401	401	–	–
	Items associated with particularly high risk	10	28	28	–	–
	Covered bonds	615	–	–	–	–
	Collective investments undertakings	1	–	–	–	–
	Equity exposures	4	–	–	–	–
	Other exposures	715	–	–	–	–
	Total standardised approach	**18,983**	**35,018**	**35,001**	**17**	**–**
1	*Of which: total loans*	17,440	35,018	35,001	17	–
2	*Of which: total debt securities*	1,543	–	–	–	–
3	**Total exposures**	**18,983**	**35,018**	**35,001**	**17**	**–**
4	*Of which: defaulted*	75	401	401	–	–
	Of which: SME	3,749	4,477	4,477	–	–

(16) Includes both commercial and residential immovable property collateral.

Capital requirements

Credit risk

		2017				
		a	b	c	d	e
	Exposure classes	Exposures unsecured – carrying amount £m	Exposures secured – carrying amount £m	Exposures secured by collateral £m	Exposures secured by financial guarantees £m	Exposures secured by credit derivatives £m
	Central governments or central banks	8,319	4,629	4,629	–	–
	Regional governments or local authorities	437	–	–	–	–
	Public sector entities	196	–	–	–	–
	Multilateral development banks	205	–	–	–	–
	Institutions	495	970	970	–	–
	Corporates	6,024	54	29	25	–
	Retail	3,077	–	–	–	–
	Secured by mortgages on immovable property	8	30,353	30,353	–	–
	Exposures in default	99	411	411	–	–
	Items associated with particularly high risk	25	15	15	–	–
	Covered bonds	477	–	–	–	–
	Collective investments undertakings	1	–	–	–	–
	Equity exposures	3	–	–	–	–
	Other exposures	586	–	–	–	–
	Total standardised approach	19,952	36,432	36,407	25	–
1	*Of which: total loans*	17,894	36,068	36,043	25	–
2	*Of which: total debt securities*	2,058	364	364	–	–
3	**Total exposures**	19,952	36,432	36,407	25	–
4	*Of which: defaulted*	99	411	411	–	–
	Of which: SME	3,534	3,795	3,795	–	–

The decrease in cash collateral held and corresponding exposure is due to movement within repurchase (repo) and similar transactions outstanding at 30 September 2018 (including Term Funding Scheme drawings), reflected within Central governments or central banks. The decrease in cash collateral held and corresponding exposure in Institutions is due to the maturity of a repurchase (repo) and no outstanding reimbursement receivable from NAB previously held in relation to the conduct indemnity deed.

Table 27 below, shows a breakdown of exposures under the standardised approach pre and post application of credit conversion factors (CCF) and credit risk mitigation (CRM). For retail exposures secured by mortgages the protection effect of mortgage collateral is intrinsically part of the definition of the original exposure class.

Table 27: EU CR4 – Standardised approach – credit risk exposure and CRM effects

		2018					
		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWAs £m	RWA density[17] %
1	Central governments or central banks	**11,360**	**5**	**9,103**	**1**	**1**	**0**
2	Regional government or local authorities	**95**	**240**	**12**	**48**	**12**	**20**
3	Public sector entities	**145**	**50**	**145**	**10**	**2**	**1**
4	Multilateral development banks	**155**	**–**	**155**	**–**	**–**	**0**
6	Institutions	**617**	**22**	**631**	**14**	**136**	**21**
7	Corporates	**3,651**	**2,494**	**3,536**	**659**	**3,956**	**94**
8	Retail	**1,425**	**2,838**	**1,425**	**74**	**1,124**	**75**
9	Secured by mortgages on immovable property	**27,754**	**1,459**	**27,754**	**668**	**11,708**	**41**
10	Exposures in default	**460**	**16**	**460**	**5**	**562**	**121**
11	Items associated with particularly high risk	**28**	**10**	**28**	**4**	**49**	**153**
12	Covered bonds	**615**	**–**	**615**	**–**	**61**	**10**
14	Collective investments undertakings	**1**	**–**	**1**	**–**	**1**	**100**
15	Equity exposures	**4**	**–**	**4**	**–**	**5**	**125**
16	Other exposures	**715**	**–**	**715**	**–**	**487**	**68**
17	Total	**47,025**	**7,134**	**44,584**	**1,483**	**18,104**	**39**

		2017					
		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	Exposure classes	On-balance sheet amount £m	Off-balance sheet amount £m	On-balance sheet amount £m	Off-balance sheet amount £m	RWAs £m	RWA density[17] %
1	Central governments or central banks	12,947	1	10,502	–	–	0
2	Regional government or local authorities	71	425	12	85	19	20
3	Public sector entities	145	51	145	10	5	3
4	Multilateral development banks	205	–	205	–	–	0
6	Institutions	1,440	25	595	13	163	27
7	Corporates	3,016	3,104	2,924	775	3,418	92
8	Retail	1,134	1,943	1,134	73	905	75
9	Secured by mortgages on immovable property	27,489	2,906	27,452	712	12,001	43
10	Exposures in default	473	37	473	10	590	122
11	Items associated with particularly high risk	15	25	15	11	40	150
12	Covered bonds	477	–	477	–	48	10
14	Collective investments undertakings	1	–	1	–	1	100
15	Equity exposures	3	–	3	–	5	145
16	Other exposures	586	–	585	–	557	95
17	Total	48,002	8,517	44,523	1,689	17,752	38

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

Capital requirements

Credit risk

Table 28 shows a breakdown of exposures post CCF and post CRM. Risk weight categories do not reflect where the SME supporting factor has been applied.

Table 28: EU CR5 – Standardised approach

		2018																
	Exposure classes	0% £m	2% £m	4% £m	10% £m	20% £m	35% £m	50% £m	70% £m	75% £m	100% £m	150% £m	250% £m	370% £m	1250% £m	Others £m	**Total £m**	**Of which unrated £m**
1	Central governments or central banks	9,103	–	–	–	–	–	–	–	–	1	–	–	–	–	–	**9,104**	**–**
2	Regional government or local authorities	–	–	–	–	60	–	–	–	–	–	–	–	–	–	–	**60**	**60**
3	Public sector entities	143	–	–	–	12	–	–	–	–	–	–	–	–	–	–	**155**	**155**
4	Multilateral development banks	155	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**155**	**–**
6	Institutions	–	–	–	–	626	–	17	–	–	2	–	–	–	–	–	**645**	**69**
7	Corporates	–	–	–	–	–	–	4	–	–	4,191	–	–	–	–	–	**4,195**	**4,190**
8	Retail	–	–	–	–	–	–	–	–	1,499	–	–	–	–	–	–	**1,499**	**1,494**
9	Secured by mortgages on immovable property	–	–	–	–	–	25,188	–	–	–	3,234	–	–	–	–	–	**28,422**	**28,305**
10	Exposures in default	–	–	–	–	–	–	–	–	–	270	195	–	–	–	–	**465**	**465**
11	Higher-risk categories	–	–	–	–	–	–	–	–	–	–	32	–	–	–	–	**32**	**32**
12	Covered bonds	–	–	–	615	–	–	–	–	–	–	–	–	–	–	–	**615**	**–**
14	Collective investments undertakings	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	**1**	**1**
15	Equity	–	–	–	–	–	–	–	–	–	3	–	1	–	–	–	**4**	**4**
16	Other items	365	–	–	–	–	–	–	–	–	259	–	91	–	–	–	**715**	**–**
17	Total	9,766	–	–	615	698	25,188	21	–	1,499	7,961	227	92	–	–	–	**46,067**	**34,775**

Explanations on key movements in exposure classes during the year are shown in section 6.1.

		2017																
	Exposure classes	0% £m	2% £m	4% £m	10% £m	20% £m	35% £m	50% £m	70% £m	75% £m	100% £m	150% £m	250% £m	370% £m	1250% £m	Others £m	Total £m	Of which unrated £m
1	Central governments or central banks	10,502	–	–	–	–	–	–	–	–	–	–	–	–	–	–	10,502	–
2	Regional government or local authorities	–	–	–	–	97	–	–	–	–	–	–	–	–	–	–	97	97
3	Public sector entities	144	–	–	–	7	–	–	–	–	4	–	–	–	–	–	155	10
4	Multilateral development banks	205	–	–	–	–	–	–	–	–	–	–	–	–	–	–	205	–
6	Institutions	–	–	–	–	478	–	126	–	–	4	–	–	–	–	–	608	69
7	Corporates	–	–	–	–	109	–	–	–	–	3,590	–	–	–	–	–	3,699	3,589
8	Retail	–	–	–	–	–	–	–	–	1,207	–	–	–	–	–	–	1,207	1,207
9	Secured by mortgages on immovable property	–	–	–	–	–	24,226	–	–	189	3,749	–	–	–	–	–	28,164	28,090
10	Exposures in default	–	–	–	–	–	–	–	–	–	269	214	–	–	–	–	483	483
11	Higher-risk categories	–	–	–	–	–	–	–	–	–	–	26	–	–	–	–	26	26
12	Covered bonds	–	–	–	477	–	–	–	–	–	–	–	–	–	–	–	477	–
14	Collective investments undertakings	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	1	1
15	Equity	–	–	–	–	–	–	–	–	–	2	–	1	–	–	–	3	3
16	Other items	212	–	–	–	–	–	–	–	–	251	–	122	–	–	–	585	354
17	Total	11,063	–	–	477	691	24,226	126	–	1,396	7,870	240	123	–	–	–	46,212	33,929

Capital requirements

Operational risk (including resilience and information security)

7.1 Approach to monitoring and mitigating exposures

Losses may result from both internal and external events, and are categorised using risk categories aligned to Basel II. The Basel II categories are used to ensure that data can be reported externally and compared with other industry data.

The Group has identified, assessed and is currently monitoring all key operational risks across the categories noted below, including undertaking an assessment of control effectiveness, monitoring trends in key risk indicators and escalating events, in accordance with policy requirements.

Stress testing

The Group develops and maintains a suite of operational risk scenarios using internal and external data. These scenarios provide insights into the stresses the business could be subject to given extreme circumstances. Scenarios cover all material operational risks including execution of change, failures to core processes or contagion risk from a third party. Scenarios are owned by senior management custodians with review and challenge provided by Risk Management, Executive Risk Committee and Board Risk Committee, as part of the ICAAP process. Management actions are agreed and monitored and linked with business resilience and continuity testing where appropriate.

Risk category	
Operational resilience risk	The risks associated with the ability of the Group to quickly adapt to disruptions while maintaining continuous business operations and safeguarding people, assets and overall brand equity, even in the face of adverse events, shocks and chronic or incremental changes. **How this risk is managed** – the Group has a well defined and embedded resilience framework that is designed to both prevent disruptions from occurring and, where they do occur, to minimise the impact to customers and colleagues through speedy resolution.
Information security risk	The risks associated with inadequate and failed information technology processes and components (including hardware, software and networking components). **How this risk is managed** – the Group continues to enhance and invest in the control environment, recognising the changing cyber landscape and the increased focus on digital capabilities, as well as the changing risk profile of the business.
Change risk	The risks associated with a failure to execute and deliver change that could result in an inability to meet our strategic objectives, including failing to meet our customer, regulator, colleague, or shareholders' expectations, at a Group level and local management level. **How this risk is managed** – the Group maintains a centralised view of change to ensure that the risks of individual changes are managed effectively and that change is prioritised to minimise the overall risks to the organisation in line with risk appetite.
Third party risk	The risks associated with ensuring the Group's outsourced and offshoring arrangements are controlled effectively, including the risk of failure to service existing and new customers, and the potential cessation of specific activities, or the risk of personally identifiable information or Group sensitive data being exposed or exploited, or the risk of financial, reputational and regulatory censure if the third party enters into any illegal or unethical activities. **How this risk is managed** – the Group continues to strengthen its third party management framework and oversight, and ensures that the procurement of service providers adheres to these requirements.
Data risk	The risks associated with the accuracy, management and use of data that underpins decision-making at every level across the organisation. **How this risk is managed** – the Group has a data management framework for the development, use, monitoring, management and ownership of data. Data quality is assessed against three key attributes: completeness; appropriateness; and accuracy. Furthermore, the Group has strengthened its data protection management and GDPR compliance framework.

Integration risk	The operational risks associated with management of a large scale integration plan including: the need for effective governance and clear accountability; increased threat of cybersecurity incident; risks associated with systems migration or inadequate testing or poor management of external and internal communications; and a poor risk culture. **How this risk is managed** - the Group will establish integration programme activities to mitigate the risks, including: – the preparation and delivery of the Financial Services and Markets Act (FSMA) Part VII transfer; – the development, validation and implementation of Group re-branding requirements; – migration support for enterprise systems implementation; – inputs for ongoing programme management reporting, dependencies and resource management; and – Risk SME input to provide support and challenge to the overall programme.

7.2 Measurement

The Group calculates its operational risk capital requirements under the standardised approach. The capital requirement is calculated using the historic three-year average risk weighted income method where different income streams are allocated a different risk weighting.

7.3 Operational risk RWAs and capital requirement

The capital requirement calculated under the standardised approach at 30 September 2018 was £132m (2017: £130m).

The table below shows movements in RWAs for operational risk from 1 October 2017 to 30 September 2018.

Table 29: Operational risk RWAs

Operational risk RWAs	£m
As at 1 October 2017	1,621
Movement	34
As at 30 September 2018	**1,655**

The increase in RWAs for operational risk is due to the increase in revenue generated by the Group over the last three years compared to the three years prior to 30 September 2017. The Group recognises the limitations of the standardised approach and applies a more granular firm specific assessment as part of pillar 2.

Capital requirements

Counterparty credit risk

8.1 Definition

The Group provides products to its customers in order to manage their interest rate, currency and commodity risk, and the Group in turn hedges this risk with other financial counterparties. In addition, the Group enters into sale and repurchase agreements with other financial counterparties for the purpose of liquidity risk management and funding.

Derivative and repo transactions give rise to credit exposures to counterparties. Counterparty credit risk (CCR) is the risk that a counterparty to a transaction may default before the final settlement of the transaction's cash flows. This section describes the Group's approach to managing CCR concerning financial instruments, including derivatives and repurchase agreements.

8.2 Internal capital and credit limits

Counterparty credit limits for derivatives are approved and assigned by an appropriately authorised Delegated Commitment Authority (DCA). Limits are based on the credit quality of the counterparty and the appetite for the projected maximum potential future exposure of anticipated derivative transactions. They also reflect the nature of the relevant documentation, including whether or not the transaction is subject to regular exchange of margin. Credit exposures for each transaction are measured as the current mark-to-market value and the potential credit exposure which is an estimate of possible future changes in mark-to-market value. Limit excesses, whether they are active or passive, are subject to formal approval by a DCA.

8.3 Securing collateral and establishing credit reserves

The risk that counterparties could default is mitigated by offsetting the amounts due to the same counterparties (i.e. netting) and by cash collateral deposited by counterparties (i.e. collateralisation).

Collateralisation reduces the credit exposure recorded against market transactions. Counterparty credit exposures may be collateralised by an approved list of eligible collateral via market standard master agreements (such as CSAs to ISDA Master Agreements and Global Master Repurchase Agreements). CCR policy governs types of acceptable collateral and that collateral which may be subject to haircuts depending on asset type. Systems support daily marking-to-market of net exposures and margin requirements, marking-to-market of collateral value and reconciliation of collateral receipt and holdings against collateral due.

8.4 Wrong way risk

Wrong way risk occurs when exposure to a counterparty increases when the credit quality of that counterparty deteriorates. This could happen, for example, where CCR is mitigated through the use of collateral issued by the counterparty. Our high quality collateral requirements mitigate this risk to a material extent. This is not considered to be a material risk to the Group due to the types of credit mitigation that are in place.

8.5 Downgrade impact

The Group calculates, as part of its regular liquidity reporting, the amount of any additional collateral that would have to be posted in the event of a downgrade in its external rating. For transactions that would be affected by a downgrade clause, planning for, and the impact of, the event for the Group is managed by the Group's Treasury division.

8.6 Exposures

Counterparty credit risk exposures are first measured using the mark-to-market method and subsequently risk weighted under the standardised approach. The Group calculates a CVA on external derivative transactions with financial counterparties. The Group has no exposures to credit derivatives as at 30 September 2018 (2017: £Nil).

8.7 Counterparty credit risk exposures

An analysis of the Group's counterparty credit risk exposures is presented in the tables below.

The following table provides an overview of the method used to calculate counterparty credit risk regulatory requirements.

Table 30: EU CCR1 – Analysis of CCR exposure by approach

		2018						
		a	**b**	**c**	**d**	**e**	**f**	**g**
		Notional £m	**Replacement cost/current market value £m**	**Potential future credit exposure £m**	**EEPE £m**	**Multiplier £m**	**EAD post CRM £m**	**RWAs £m**
1	Mark to market		**262**	**303**			**433**	**125**
11	Total							**125**

		2017						
		a	b	c	d	e	f	g
		Notional £m	Replacement cost/current market value £m	Potential future credit exposure £m	EEPE £m	Multiplier £m	EAD post CRM £m	RWAs £m
1	Mark to market		282	357			392	138
11	Total							138

CRD IV introduced a regulatory capital charge to cover credit valuation adjustment risk, the risk of adverse moves in the credit valuation adjustments taken for expected credit losses on derivative transactions. Certain counterparty exposures are exempt from CVA, such as non-financial counterparties and sovereigns. Details of the CVA capital charge are set out below:

Table 31: EU CCR2 – CVA capital charge

		2018		2017	
		a	**b**	a	b
		Exposure value £m	**RWAs £m**	Exposure value £m	RWAs £m
4	All portfolios subject to the standardised method	**344**	**218**	329	167
5	Total subject to the CVA capital charge	**344**	**218**	329	167

Table 32 below provides an overview of exposures to central counterparties. There were no exposures to central counterparties in 2017.

Table 32: EU CCR8 – Exposures to central counterparties (CCPs)

		2018		2017	
		a	**b**	a	b
		EAD post CRM £m	**RWAs £m**	EAD post CRM £m	RWAs £m
1	**Exposures to qualifying central counterparites (QCCPs) (total)**		**1**		–
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	**49**	**1**	–	–
3	*(i) OTC derivatives*	**49**	**1**	–	–
7	Segregated initial margin	**44**		–	

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Capital requirements

Counterparty credit risk

The table below presents a breakdown of counterparty credit risk exposures by exposure class and by risk weight.

Table 33: EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

	Exposure classes	0% £m	2% £m	4% £m	10% £m	20% £m	50% £m	70% £m	75% £m	100% £m	150% £m	Others £m	Total £m	Of which unrated £m
	2018													
6	Institutions	**–**	**49**	**–**	**–**	**294**	**49**	**–**	**–**	**–**	**–**	**–**	**392**	**–**
7	Corporates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**41**	**–**	**–**	**41**	**41**
11	Total	**–**	**49**	**–**	**–**	**294**	**49**	**–**	**–**	**41**	**–**	**–**	**433**	**41**
	2017													
6	Institutions	–	–	–	–	296	33	–	–	–	–	–	329	–
7	Corporates	–	–	–	–	–	–	–	–	63	–	–	63	63
11	Total	–	–	–	–	296	33	–	–	63	–	–	392	63

Table 34 below shows the impact of netting and collateral held on counterparty credit risk exposures.

Table 34: EU CCR5-A – Impact of netting and collateral held on exposure values

		a	b	c	d	e
		Gross positive fair value or net carrying amount £m	Netting benefits £m	Netted current credit exposure £m	Collateral held £m	Net credit exposure £m
	2018					
1	**Derivatives**	**262**	**(95)**	**470**	**(37)**	**433**
4	Total	**262**	**(95)**	**470**	**(37)**	**433**
	2017					
1	**Derivatives**	282	(216)	423	(31)	392
4	Total	282	(216)	423	(31)	392

Market risks

9.1 Market risks

The focus of the Group's activity is to provide high-quality banking services to its customers. These services include the provision of foreign exchange products and derivative products to enable customers to manage risks within their businesses. As a result of these activities, the Group may be exposed to forms of market risk that would arise from movements in price on these products. Controls include the hedging of these products as and when they arise.

9.2 Measurement

Interest rate risk in the banking book (IRRBB) is measured, monitored, and managed from both an internal management and regulatory perspective. The RMF incorporates both market valuation and earnings-based approaches. In accordance with the Group IRRBB Policy Standard risk measurement techniques include: basis point sensitivity value at risk (VaR), earnings at risk (EaR), interest rate risk stress testing, repricing analysis, cash flow analysis, and scenario analysis.

The key features of the internal interest rate risk management model are:

- the use of basis point sensitivity analysis;
- VaR and EaR are measured on a statistical basis: 99% confidence level with appropriate holding periods depending on varying risk types;
- historical simulation approach utilising instantaneous interest rate shocks including parallel rate movements and twists in the yield curve to explore risks around exposures to movements in short- or long-term interest rates;
- static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing);
- investment term for capital is modelled with a benchmark term agreed by ALCO;
- investment term for core non-interest bearing assets and liabilities is modelled on a behavioural basis with a benchmark term agreed by ALCO; and
- assumptions covering the behavioural life of products and customer behaviour for optionality are reviewed and approved by ALCO.

Foreign exchange risk is assessed based on the absolute exposure in each currency.

9.3 Mitigation measures

Market risks are overseen by ALCO with delegation for day-to-day management given to Treasury. Treasury use a number of techniques and products to manage market risks including interest rate swaps, cash flow netting and foreign exchange. Basis risk is managed through a combination of wholesale market basis risk management products, pricing strategies and product innovation.

Fair value hedges

The Group hedges part of its existing interest rate risk, resulting from potential movements in the fair value of fixed rate assets and liabilities. The fair value of these swaps is disclosed in note 3.18 of the Group's Annual Report and Accounts. There were no transactions for which fair value hedge accounting had to be discontinued in the year.

Cash flow hedges

The Group hedges a portion of the variability in future cash flows attributable to interest rate and foreign currency risk. The interest and foreign currency risk arise from variable interest rate assets and liabilities which are hedged using cross currency and interest rate swaps, and material non-GBP denominated assets which are hedged using foreign exchange forward contracts. There were no transactions for which cash flow hedge accounting had to be discontinued in the period as a result of the highly probable cash flows no longer being expected to occur. The fair value of derivatives is disclosed in note 3.18 of the Group's Annual Report and Accounts.

Capital requirements

Market risks

9.4 Monitoring

Model parameters and assumptions are reviewed and updated on at least an annual basis. Material changes require the approval of ALCO. Oversight of market risk is conducted by the Group's balance sheet and liquidity risk oversight team that is independent of the Treasury function. The Board and Executive Risk Committee, through ALCO's oversight, monitors risk to ensure it remains within approved policy limits and Board requirements.

The table below provides the increase or decrease in economic value for upward and downward rate shocks.

Table 35: Interest rate risk in the banking book

	2018		2017	
As at 30 September	**200bp parallel increase £m**	**200bp parallel decrease £m**	200bp parallel increase £m	200bp parallel decrease £m
Change in economic value	**(3)**	**4**	8	(10)

Note: If it was assumed that rates are floored at zero, the impact of the downward rate shock as at 30 September 2018 would be £(2)m.

Treasury monitor basis point sensitivity of economic value on a daily basis, and all other limits no less frequently than monthly.

Funding and liquidity risk

10.1 Funding and liquidity risk

Funding risk relates to the impact on the Group's strategy of being unable to raise funds from customers and the wholesale markets of sufficient quantity and of appropriate mix and tenor. An inability to raise sufficient funds may lead to a reduction in lending growth or a requirement to raise the price paid for deposits, both outcomes having an adverse effect on shareholder value. Where funding risk manifests itself in an adverse effect on mix and tenor, for example, a high proportion of short-term wholesale deposits, there is an increased liquidity risk to the Group.

Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due at acceptable cost. These obligations include the repayment of deposits on demand or at their contractual maturity dates, the repayment of borrowings and loan capital as they mature, the payment of operating expenses and tax, the payment of dividends and the ability to fund new and existing loan commitments.

10.2 Risk assessment

The framework for the Group's approach to funding risk leads to the development of a Group funding plan that is subject to approval by the Board and is consistent with risk appetite and the Group's strategic objectives. The development of the Group's funding plan is informed by the requirements of the Group's Balance Sheet Risk Policy Standards.

Liquidity risk exposures are subject to assessment under both regulatory and internal requirements. Exposures relate to the outflow of funds under a series of stress scenarios less the impact of inflows from assets, liquidation of high-quality liquid assets or through other actions instigated by the Group. Liquidity within the Group is managed in accordance with the ILAAP that is approved by the Board.

The Treasury function is responsible for the development and execution of strategy subject to oversight from the Risk Management function. In relation to funding and liquidity risk, the primary management committee is ALCO.

The Group continues to maintain its strong funding and liquidity position and seeks to achieve an appropriate balance between profitability, liquidity risk and capital optimisation. Funding is predominantly provided by Retail and SME customers and this is supported by medium-term secured funding issuance (e.g. the Group's Lanark securitisation programme), its Regulated Covered Bond (RCB) platform and unsecured medium-term notes (the Group also raised funds through the Term Funding Scheme prior to the Scheme's closure to new drawings in early 2018). These funding programmes are a source of strength for the Group and leverage the Group's high-quality mortgage book as a source of collateral for secured funding.

10.3 Monitoring

Funding and liquidity risks are subject to a range of measures contained within the Group's RAS and a series of limits agreed by ALCO. These measures provide a view of risks both under normal and stressed conditions with a focus on: cash outflows and inflows under stress; concentration risks; refinancing risks; readiness of mitigating action; and provide a short and long-term view of risks. An early warning framework is also operated to ensure quick escalation of any issues (see Contingency Funding Plan section below).

The Group operates a Funds Transfer Pricing (FTP) system. A key purpose of FTP is to ensure that liquidity risk is a factor in the pricing of loans and deposits.

10.4 Mitigation

The Group has several sources of funding which are well diversified in terms of the type of instrument and product, counterparty, term structure and market. Refinancing risks are carefully managed and are subject to controls overseen by ALCO.

The Group holds a portfolio of High Quality Liquid Assets (HQLA) that can be utilised to raise funding in times of stress. The size of the HQLA portfolio is calibrated based on a view of potential outflows under both systemic and idiosyncratic stress events. In addition, the Group can use the repo market to generate funds and can also participate in Bank of England operations through the Sterling Monetary Framework.

10.5 Contingency Funding Plan

A Contingency Funding Plan has been established for management of an escalated liquidity requirement if the Group experiences either restricted access to wholesale funding or a significant increase in the withdrawal of funds. The plan identifies triggers for escalation, details the action required, allocates the key tasks to individuals, provides a timeframe and defines a management committee to manage the action plan.

Table 36 provides a summary of key liquidity metrics.

Table 36: EU LIQ1 – Liquidity coverage ratio

		2018 £m	2017 £m
21	Liquidity buffer	**5,355**	6,292
22	Net liquidity outflow	**3,916**	3,831
23	Liquidity coverage ratio	**137%**	164%

The Group's liquidity surplus continues to comfortably exceed our regulatory minimum and internal risk appetite, with a liquidity coverage ratio of 137% as at 30 September 2018 (2017: 164%).

Securitisation

Securitisation

11.1 Objectives and roles in relation to securitisation activity

The Group has established two master trust Residential Mortgage Backed Security (RMBS) securitisation programmes (Lanark and Lannraig) which provide the Group with term funding via public debt capital markets and contingent liquidity. The master trust structure facilitates the issuance of multiple series of notes which can have differently rated tranches, tenor and repayment features tailored specifically to investor preference. Each series of notes is supported by the same pool of mortgage assets that can be replenished, subject to eligibility criteria, as the trust reduces in size due to prepayments.

The master trust structure comprises three Special Purpose Vehicles (SPVs) which legally isolate the underlying mortgage assets beyond the reach of the Group and its creditors in a bankruptcy, winding-up or receivership event. The three SPVs are:

- Mortgages Trustee: the purpose of which is to acquire mortgage assets and their related security from the Bank and Yorkshire Bank Home Loans Limited and hold such mortgage assets and their related security on trust.
- Funding: the purpose of which is to purchase a beneficiary share in the trust property, using the proceeds of an inter-company loan from the Master Issuer.
- Master Issuer: the purpose of which is to issue RMBS notes which represent the mortgage-backed obligations, and to lend the note proceeds to Funding under the inter-company loan arrangements.

11.2 Roles

The Group's roles in the securitisation programmes are sponsor, originator, servicer, cash manager, bank account provider(18), asset swap provider(18) and transaction account provider. The obligations in these roles are outlined in the transaction documents in accordance with market practice and regulatory requirements.

The master trust structures are supported by fully funded reserve accounts that are sized according to rating agency requirements. The reserve accounts are funded from a subordinated loan from the Bank. The Bank also provides a start-up loan for each issuance. This loan provides for fees charged in relation to new issuances. Both loans are repaid from revenue receipts generated by the asset pool.

The Group is under no obligation to support any losses incurred by the securitisation programmes or noteholders. The principal and interest received from the mortgage assets are used to repay note principal and meet interest payments.

11.3 Associated risks

The Group has not sought to obtain regulatory capital relief from securitisation as significant risk transfer is not achieved. Capital is therefore calculated in accordance with the underlying risk weighting on the balance sheet. The principal risks within the securitised transformation are:

- credit risk: the risk that borrowers fail to meet their obligations as and when they fall due. This risk is assessed by credit rating agencies both at note issuances and on an ongoing basis. All Class A notes have Aaa credit ratings from Moody's, AAA from Fitch and AAA from Standard and Poor's (S&P). The Group monitors the performance of its mortgage book and the securitisation portfolio by assessing key metrics such as arrears, loan-to-value and geographic distributions;
- prepayment risk: the risk that customers could prepay all or part of their outstanding debt before the maturity of outstanding bonds. This risk is factored into credit rating agencies' cash flow models and is mitigated through mortgage substitution or pool replenishment;
- basis risk: there is a fixed-floating interest rate mismatch between the mortgage pool assets and the three-month Sterling LIBOR linked intercompany loan. To mitigate this risk, Funding has entered into interest rate swap agreements;
- foreign exchange rate risk: there is a mismatch between the GBP denominated intercompany loan between Funding and Master Issuer, and the amounts payable to non-GBP denominated noteholders. This risk is mitigated by a balance guaranteed cross currency swap. Where there are non-GBP tranches, cross currency swaps have been executed with suitably rated counterparties to mitigate foreign exchange currency risk;
- call risk: there is a risk that any notes are not called on their respective call dates; and
- liquidity risk: there is a mismatch between the capital and interest payments on the underlying mortgage assets and the capital and interest payments through securitisation structures to investors.

The Group retains credit risks associated with the mortgage assets as these remain on-balance sheet. The risk to the programme is mitigated by the over-collateralisation of mortgage assets, seller share and reserve accounts.

(18) The Bank is the asset swap provider for SVR loans for Lannraig Funding Ltd and joint bank account provider for Lanark Funding Ltd.

11.4 Issuer and retained positions

In August 2007, the Group launched the inaugural issuance from Lanark Master Trust (Lanark). The asset pool originally comprised of owner-occupied residential mortgage loans and a small amount of buy-to-let (BTL) loans. In June 2011, BTL loans were removed from the Lanark mortgage pool and replaced with owner-occupied residential mortgage loans.

To date, there have been eleven issuances from Lanark. An external credit rating assessment is provided and monitored by Moody's, Fitch and S&P.

Credit enhancement for the securitisation structures is provided by subordinated Class Z Variable Funding Notes (Z VFN) representing specific reserves and excess spread. The Group retains the Class Z VFN in the form of amortising notes. The Group utilised the Lanark programme in February 2018 with the issuance of 300m USD-denominated and 285m GBP-denominated floating rate notes as part of Lanark 2018-1, and in July 2018 with the issuance of 400m USD-denominated and 250m GBP-denominated floating rate notes as part of Lanark 2018-2. All currency notes were swapped back to GBP.

In September 2011, the Group established Lannraig Master Trust (Lannraig). The asset pool is made up exclusively of BTL mortgage loans. To date, there have been two issuances from Lannraig. External credit rating assessments are provided by Moody's, Fitch and S&P. All outstanding Class A notes are rated AAA and have been sold or retained by the Group. Credit enhancement for the securitisation structures is provided by a subordinated Class Z VFN representing specific reserves and excess spread. The Group retains the Class Z VFN Notes in the form of amortising Z VFN notes.

Table 37: Outstanding notes
At 30 September 2018, the outstanding notes are:

Issuer	Class A notes	Class Z notes	Total retained position
Lanark Master Issuer plc	£3,749m	£787m	£1,587m
Lannraig Master Issuer plc	£715m	£184m	£899m

Table 38: On-balance sheet securitised exposures
As at 30 September 2018, on-balance sheet securitised exposures are:

	Mortgage asset pool	Impaired and 90 days past due
Lanark Trustee Ltd	£5,479m	£28m
Lannraig Trustee Ltd	£933m	£8m

The SPVs are fully consolidated in the Group's Annual Report and Accounts.

The Group does not have any synthetic securitisations outstanding or any resecuritisations.

11.5 Securitisation accounting policies

The Bank has sold mortgages to the securitisation vehicles. However, these mortgages continue to be recognised on the Group's balance sheet. The mortgages do not qualify for derecognition from the balance sheet because the Group remains exposed to the risks and rewards of ownership on an ongoing basis. It is exposed primarily to the credit risk, liquidity risk and interest rate risk of the mortgages. The Group is also exposed to the residual rewards of the mortgages as a result of its ability to benefit from the future performance of the mortgages through the receipt of deferred consideration.

The externally held Class A Notes are disclosed in note 3.15 in the Group's Annual Report and Accounts. The Notes are initially recognised at fair value, being the issue proceeds net of transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method. To avoid grossing up the balance sheet the retained Class A and Z Notes and the equivalent deemed loan, together with the related income, expenditure and cash flows, are not recognised in the Bank or Group's Annual Report and Accounts.

Asset encumbrance

12.1 Overview

The term encumbrance is used to denote those assets on a bank's balance sheet which have been pledged as security, collateral or legally ring-fenced in some other way which prevents the firm from being able to transfer, pledge, sell or otherwise use/dispose of these assets.

These disclosures are based on the EBA RTS on disclosure of encumbered and unencumbered assets (EBA/RTS/2017/03).

12.2 Debt securities

Sale and repo transactions are used, in the ordinary course of business, to manage short-term cash flow requirements and mismatches. A repo transaction involves the pledge of marketable securities as security in exchange for receiving a deposit. During the term of the repo the securities pledged are encumbered. The Group has entered into a number of repo agreements with a range of market counterparties.

The Bank is a direct participant in a number of payment and clearing systems, all of which require collateral to be posted to support its obligations. Where the collateral requirements are met with marketable securities, the securities pledged become encumbered.

12.3 Loans and advances – mortgage encumbrance

The Group has three structured funding programmes: two securitisation Master Trust structures as outlined in section 11 and one RCB programme (Clydesdale Covered Bonds No. 2 LLP), also backed by residential mortgages. Term funding issuance from these platforms results in a portion of the Group's mortgage assets becoming encumbered.

Over-collateralisation levels are embedded in each programme to meet the minimum levels as specified by the programme documents and as agreed with the ratings agencies and regulators to mitigate certain legal risks, such as set-off rights.

The SPVs also hold cash balances in segregated Guaranteed Investment Contract (GIC) bank accounts with external counterparties. The use of these balances is restricted to the repayment of debt securities issued by the SPVs and other legal obligations associated with these structures. These balances are, therefore, considered by the Group to be encumbered.

From time to time cash held in the GIC accounts is invested for a short term in Certificates of Deposit (CDs) issued by highly rated counterparties. The purpose of these transactions is to manage concentration risk. The use of these CDs is similarly restricted so they are also considered to be encumbered.

The Group has also utilised whole mortgage pools and self-issued RMBS notes with the Bank of England to support collateral requirements of central bank operations and for secured funding as part of the Bank of England's Term Funding Scheme. Assets utilised through these facilities are treated as encumbered. Additional information is provided in the Risk report in the Group's Annual Report and Accounts.

12.4 Other assets

Note cover

Under Part 6 of the Banking Act 2009, banks in Scotland and Northern Ireland which issue bank notes are required at all times to hold backing assets equivalent to 100% of their bank notes in circulation. Banks may use a combination of Bank of England notes, UK coin and funds held in specific bank accounts at the Bank of England. As a result, note cover backing assets held with the Bank of England are considered to be encumbered assets. If note issuance increases then additional cash balances are required to be placed with the Bank of England. However, as this process creates equal and offsetting liabilities for the encumbered assets there is no material risk to depositors or the Group.

Cash ratio deposit

Cash Ratio Deposits are non-interest bearing deposits lodged with the Bank of England by eligible institutions (i.e. banks and building societies), who have reported average eligible liabilities of over £600m over a calculation period. The level of each institution's Cash Ratio Deposit is calculated twice-yearly in May and November. A ratio is calculated by the Bank of England based on Gilt yield data. This is then applied to the institution's average eligible liabilities over the previous six end-of-calendar months, in excess of £600m, to calculate the required Cash Ratio Deposit. Due to the permanent nature of the Cash Ratio Deposit, the requirement is considered to be an encumbered asset.

Margin

As noted above, a repo transaction involves the pledge of marketable securities in exchange for receiving a deposit. During the period of the repo, the market value of the securities pledged fluctuates whilst the value of the underlying cash deposit remains fixed. To account for the fluctuations in the market value of the securities, additional cash ('margin') is passed between the parties. Cash margin paid out by the Group in respect of repo transactions is treated as encumbered.

Likewise, where the Group has entered into a derivative transaction with another market counterparty, the market value of the derivative fluctuates with changes in market rates. In addition, Initial Margin may be required by market counterparties in respect of executing centrally cleared derivatives. In both examples margin is passed between the parties, either in the form of cash or other securities. Margin paid out by the Group in respect of derivative transactions is treated as encumbered.

Payment system collateral

The Group (via the Bank) is a direct participant in a number of UK payment and clearing systems, all of which require collateral to be posted to support the Group's obligations. Collateral posted up to the minima required to pre-fund deferred net settlement payment systems is treated as encumbered. Balances in collateralisation accounts in excess of the minima required are not treated as encumbered.

The Group is a direct member of Trans-European Automated Real-time Gross Settlement Express Transfer (Target2). This is facilitated via an account held with the Dutch Central Bank which is funded as and when required to meet payments. The balance of this account is, therefore, treated as encumbered by the Group.

Assets not available for encumbrance
In general intangible assets, deferred tax assets, derivative fair values and other assets are not considered to be available for encumbrance in the normal course of business. Additional information is provided in the Risk report in the Group's Annual Report and Accounts.

12.5 Encumbered assets

The amounts disclosed in Tables 39, 40 and 41 below are median values for the financial year 2018 calculated using quarterly data.

Tables 39-41 are populated in line with EBA RTS and as such differ from the disclosures contained in the Group's Annual Report and Accounts as at 30 September 2018. Volatility in the level of encumbered assets is not significant and the use of monthly data is not expected to result in materially different information relative to the data below. Table 39 shows encumbered and unencumbered assets in carrying amount and fair value by broad category of asset type. Table 40 shows collateral received by the Group. Table 41 shows the carrying amount of encumbered assets/collateral received and associated liabilities.

Table 39: Fair value of encumbered assets (Template A)

		2018			
		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
	Template A	£m	£m	£m	£m
010	Assets of the reporting institutions	**13,452**		**28,962**	
030	Equity instruments	**–**		**3**	
040	Debt securities	**128**	**128**	**1,373**	**1,373**
050	*of which: covered bonds*	**–**	**–**	**574**	**574**
070	*of which: issued by general governments*	**84**	**84**	**412**	**412**
080	*of which: issued by financial corporations*	**25**	**25**	**919**	**919**
120	Other assets	**13,324**		**27,537**	

		2017			
		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
	Template A	£m	£m	£m	£m
010	Assets of the reporting institutions	12,871		27,815	
030	Equity instruments	–		15	
040	Debt securities	225	225	1,793	1,793
050	*of which: covered bonds*	–	–	410	410
070	*of which: issued by general governments*	116	116	1,116	1,116
080	*of which: issued by financial corporations*	109	109	356	356
120	Other assets[19]	12,393		26,121	

(19) In line with the EBA's RTS on asset encumbrance disclosures, Other assets is now presented including cash on hand, loans on demand and loans and advances. 2017 data has been presented consistent with this requirement for reference. Other assets also includes assets which are deemed unavailable for encumbrance such as intangible assets and goodwill.

Asset encumbrance

Asset encumbrance

Table 40: Received collateral (Template B)

		2018	
			Unencumbered
		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
	Template B	£m	£m
130	Collateral received by the reporting institution	–	29
230	Other collateral received	–	29
241	**Own covered bonds and asset-backed securities (ABS) issued and not yet pledged**		1,685
250	**Total assets, collateral received and own debt securities issued**	13,452	

		2017	
			Unencumbered
		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
		010	040
	Template B	£m	£m
130	Collateral received by the reporting institution	–	–
230	Other collateral received	–	–
241	**Own covered bonds and asset-backed securities issued and not yet pledged**		697
250	**Total assets, collateral received and own debt securities issued**	12,871	

Table 41: Encumbered assets/collateral received and associated liabilities (Template C)

		2018		2017	
		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030	010	030
	Template C	£m	£m	£m	£m
010	Carrying amount of selected financial liabilities	**6,505**	**10,527**	7,162	10,089

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Appendix 1: Disclosures for Clydesdale Bank PLC

The following tables present the disclosures required for the Bank on an individual consolidated basis. The differences between the Group and the Bank relate primarily to reserves held by entities that sit outside of the scope of the Bank solo consolidation that are included in the Group consolidation, a small impact from the risk weighted assets of these entities and AT1 capital issued by the Group.

Table 42: Capital composition

As at 30 September		**2018 £m**	2017 £m
	Common Equity Tier 1 capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	**1,013**	502
1a	*Of which: ordinary shares*	**1,013**	502
2	Retained earnings	**2,162**	2,555
3	Accumulated other comprehensive income (and other reserves)	**(27)**	312
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**(10)**	(10)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**3,138**	3,359
	Common Equity Tier 1 capital: regulatory adjustments		
7	Additional value adjustments	**(3)**	(4)
8	Intangible assets	**(412)**	(339)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	**(192)**	(110)
11	Fair value reserves related to gains or losses on cash flow hedges	**36**	(1)
15	Defined benefit pension fund assets	**(138)**	(135)
25a	Losses for the current financial year (negative amount)	**(279)**	(328)
28	**Total regulatory adjustments to Common Equity Tier 1**	**(988)**	(917)
29	**Common Equity Tier 1 capital**	**2,150**	2,442
	Additional Tier 1 capital: instruments		
30	Capital instruments and the related share premium accounts	**425**	425
31	*Of which: classified as equity under applicable accounting standards*	**425**	425
36	**Additional Tier 1 capital before regulatory adjustments**	**425**	425
44	**Additional Tier 1 capital**	**425**	425
45	**Tier 1 capital**	**2,575**	2,867
	Tier 2 capital: Instruments and provisions		
46	Capital instruments and the related share premium accounts	**477**	476
50	Credit risk adjustments	**152**	154
51	**Tier 2 capital before regulatory adjustments**	**629**	630
58	**Tier 2 capital**	**629**	630
59	**Total capital**	**3,204**	3,497
60	**Total risk weighted assets**	**19,952**	19,886
	Capital ratios and buffers		
61	Common Equity Tier 1	**10.8%**	12.3%
62	Tier 1	**12.9%**	14.4%
63	Total capital	**16.1%**	17.6%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	**6.9%**	5.8%
65	*Of which: capital conservation buffer requirement*	**1.9%**	1.3%
66	*Of which: countercyclical buffer requirement*	**0.5%**	0.0%
67	*Of which: systemic risk buffer requirement*	**0.0%**	0.0%
67a	*Of which: Global Systemically Important Institution or Other Systemically Important Institution buffer*	**0.0%**	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**6.3%**	7.8%
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**152**	154
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	**226**	227

The Bank's individually consolidated CET1 ratio at 30 September 2018 is 10.8%, with the movement driven by similar factors as those driving the movement in the Group's ratio.

The table below shows movements in the Bank's capital during 2018.

Table 43: Capital flow statement

	2018 £m	2017 £m
Common Equity Tier 1 capital		
Common Equity Tier 1 capital at 1 October	**2,442**	2,391
Share capital: ordinary share new issuance	**511**	178
Retained earnings and other reserves	**(732)**	(228)
Prudent valuation adjustment	**1**	3
Intangible assets	**(73)**	(83)
Deferred tax assets relying on future profitability	**(82)**	(39)
Defined benefit pension fund assets	**(3)**	(135)
Fair value reserves related to gains or losses on cash flow hedges	**37**	66
Losses for the current financial year	**49**	289
Total Common Equity Tier 1 capital	**2,150**	2,442
Tier 1 capital		
Tier 1 capital at 1 October	**425**	425
	425	425
Total Tier 1 capital	**2,575**	2,867
Tier 2 capital		
Tier 2 capital at 1 October	**630**	630
Credit risk adjustments	**(2)**	3
Other movements	**1**	(3)
Total Tier 2 capital	**629**	630
Total capital at 30 September	**3,204**	3,497

Tier 1 capital
The Bank's Tier 1 capital comprises:

- ordinary shares;
- retained earnings;
- accumulated other comprehensive income (and other reserves);
- AT1 instruments; and
- adjustments as set out by the regulatory requirements governing capital resources.

Regulatory adjustments are made where appropriate. These are made on a consistent basis as the Group, described in section 4.

Tier 2 capital
Tier 2 capital comprises:

- subordinated loan debt;
- eligible collective impairment allowances; and
- adjustments as set out by the regulatory requirements governing capital resources.

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Appendix 1: Disclosures for Clydesdale Bank PLC

Table 44: CRD IV end-point vs transitional comparison

		Current rules		Full impact	
	As at 30 September	**2018 £m**	2017 £m	**2018 £m**	2017 £m
	Common Equity Tier 1 capital: Instruments and reserves				
1	Capital instruments and the related share premium accounts	**1,013**	502	**1,013**	502
1a	*Of which: ordinary shares*	**1,013**	502	**1,013**	502
2	Retained earnings	**2,162**	2,555	**2,162**	2,555
3	Accumulated other comprehensive income (and other reserves)	**(27)**	312	**(27)**	312
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**(10)**	(10)	**(10)**	(10)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**3,138**	3,359	**3,138**	3,359
	Common Equity Tier 1 capital: regulatory adjustments				
7	Additional value adjustments	**(3)**	(4)	**(3)**	(4)
8	Intangible assets (net of related tax liability)	**(412)**	(339)	**(412)**	(339)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	**(192)**	(110)	**(192)**	(110)
11	Fair value reserves related to gains or losses on cash flow hedges	**36**	(1)	**36**	(1)
15	Defined benefit pension fund assets	**(138)**	(135)	**(138)**	(135)
25a	Losses for the current financial year (negative amount)	**(279)**	(328)	**(279)**	(328)
28	**Total regulatory adjustments to Common Equity Tier 1**	**(988)**	(917)	**(988)**	(917)
29	**Common Equity Tier 1 capital**	**2,150**	2,442	**2,150**	2,442
	Additional Tier 1 capital: instruments				
30	Capital instruments and the related share premium accounts	**425**	425	**425**	425
31	*Of which: classified as equity under applicable accounting standards*	**425**	425	**425**	425
36	**Additional Tier 1 capital before regulatory adjustments**	**425**	425	**425**	425
44	**Additional Tier 1 capital**	**425**	425	**425**	425
45	**Tier 1 Capital**	**2,575**	2,867	**2,575**	2,867
	Tier 2 capital: Instruments and provisions				
46	Capital instruments and the related share premium accounts	**477**	476	**477**	476
50	Credit risk adjustments	**152**	154	**152**	154
51	**Tier 2 capital before regulatory adjustments**	**629**	630	**629**	630
58	**Tier 2 capital**	**629**	630	**629**	630
59	**Total capital**	**3,204**	3,497	**3,204**	3,497
60	**Total risk weighted assets**	**19,952**	19,886	**19,952**	19,886
	Capital ratios and buffers				
61	Common Equity Tier 1	**10.8%**	12.3%	**10.8%**	12.3%
62	Tier 1	**12.9%**	14.4%	**12.9%**	14.4%
63	Total capital	**16.1%**	17.6%	**16.1%**	17.6%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	**6.9%**	5.8%	**8.0%**	7.0%
65	*Of which: capital conservation buffer requirement*	**1.9%**	1.3%	**2.5%**	2.5%
66	*Of which: countercyclical buffer requirement*	**0.5%**	0.0%	**1.0%**	0.5%
67	*Of which: systemic risk buffer requirement*	**0.0%**	0.0%	**0.0%**	0.0%
67a	*Of which: Global Systemically Important Institution or Other Systemically Important Institution buffer*	**0.0%**	0.0%	**0.0%**	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**6.3%**	7.8%	**6.3%**	7.8%
	Applicable caps on inclusion of provisions in Tier 2				
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**152**	154	**152**	154
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	**226**	227	**226**	227

Table 45: Reconciliation of statutory equity to regulatory capital

	2018 £m	2017 £m
Statutory total equity	**3,294**	3,466
Less pension regulatory adjustments	**(138)**	(135)
Less additional value adjustment	**(3)**	(4)
Less intangible assets	**(412)**	(339)
Less deferred tax asset relying on future profitability	**(192)**	(110)
Less cash flow hedge	**36**	(1)
Additional Tier 1 foreseeable dividend	**(10)**	(10)
Regulatory Tier 1 capital	**2,575**	2,867
Statutory Tier 2 subordinated debt	**477**	476
Regulatory Tier 2 subordinated debt	**477**	476

The Bank's individual consolidated leverage ratio is calculated on a basis consistent with that of the Group, as set out in section 4.4. The tables below show the calculation of the leverage ratio for the Bank as at 30 September 2018.

Table 46: LRCom: Leverage ratio common disclosure

		2018 £m	2017 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**42,969**	42,759
2	(Asset amounts deducted in determining Tier 1 capital)	**(709)**	(589)
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	**42,260**	42,170
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin) (19)	**140**	83
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method) (19)	**146**	146
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(306)**	(338)
11	Total derivative exposures	**(20)**	(109)
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**4,525**	5,235
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**(3,057)**	(3,774)
16	Total securities financing transaction exposures	**1,468**	1,461
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**7,135**	8,519
18	(Adjustments for conversion to credit equivalent amounts)	**(5,372)**	(6,500)
19	Other off-balance sheet exposures	**1,763**	2,019
	Capital and total exposures		
20	Tier 1 capital	**2,575**	2,867
21	Total leverage ratio exposures	**45,471**	45,541
	Leverage ratio		
22	Leverage ratio	**5.7%**	6.3%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	**Fully phased in**	Fully phased in

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Appendix 1: Disclosures for Clydesdale Bank PLC

Table 47: LRSpl: Split-up of on-balance sheet exposures

		2018 £m	2017 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**42,969**	42,759
EU-3	Banking book exposures, of which:	**42,969**	42,759
EU-4	Covered bonds	**615**	477
EU-5	Exposures treated as sovereigns	**6,991**	8,158
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities NOT treated as sovereigns[20]	**240**	216
EU-7	Institutions[20]	**156**	176
EU-8	Secured by mortgages of immovable properties[20]	**27,759**	27,489
EU-9	Retail exposures	**1,420**	1,134
EU-10	Corporate[20]	**3,651**	3,271
EU-11	Exposures in default	**460**	472
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)[20]	**1,677**	1,366

The following table shows the Bank's individual consolidated capital resources requirement under Pillar 1 as at 30 September 2018.

Table 48: Pillar 1 capital requirements

	2018		2017	
Pillar 1 capital requirements	RWA £m	Capital £m	RWA £m	Capital £m
Central governments or central banks	**1**	**–**	–	–
Regional government or local authority	**12**	**1**	19	2
Public sector entities	**2**	**–**	5	–
Institutions	**44**	**4**	104	8
Corporates	**3,956**	**316**	3,760	301
Retail	**1,120**	**90**	905	72
Secured by mortgages on immovable property	**11,711**	**937**	12,001	961
Exposures in default	**562**	**45**	590	47
Exposures associated with particularly high risk	**49**	**4**	40	3
Covered bonds	**61**	**5**	48	4
Collective investments undertakings	**1**	**–**	1	–
Equity exposures	**5**	**–**	5	–
Other items	**487**	**39**	557	45
Total credit risk	**18,011**	**1,441**	18,035	1,443
Counterparty credit risk	**82**	**7**	99	8
Credit valuation adjustment	**185**	**15**	116	9
Operational risk	**1,674**	**134**	1,636	131
	19,952	**1,597**	19,886	1,591

The differences between the credit RWAs for the Group and those of the Bank relate primarily to exposures arising within the Group's securitisation vehicles in relation to the GIC account, partially offset by intercompany exposures which exist at Bank level but not at Group level. The difference in RWAs for counterparty credit risk relates to derivatives within the Group's securitisation vehicles.

(20) FY17 figures have been restated to reflect a change in presentation of credit risk mitigation effects with no impact to the leverage ratio calculation. Exposures are presented pre credit risk mitigation.

Appendix 2: Main features of regulatory capital instruments

1	Issuer	CYBG PLC	CYBG PLC	CYBG PLC	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC
2	ISIN	GB00BD6GN030	XS1346644799	XS1346646901	n/a	n/a	n/a
3	Governing law	English	English	English	English	English	English
Regulatory treatment							
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Common Equity Tier 1	Additional Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Common Equity Tier 1	Additional Tier 1	Tier 2
6	Eligible at Group or Bank	CYBG Group	CYBG Group	CYBG Group	CB Solo Consolidated	CB Solo Consolidated	CB Solo Consolidated
7	Instrument type (type to be specified by each jurisdiction)	Ordinary Shares	Additional Tier 1 – Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes	Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026	Ordinary Shares	Additional Tier 1 – Fixed Rate Reset Perpetual Subordinated Permanent Write Down Notes	Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026
8	Regulatory capital value	88,360,607	449,658,000	472,650,429	502,470,583	425,431,130	475,598,288
9	Nominal value (£)	88,360,607	450,000,000	475,000,000	502,470,583	450,000,000	475,000,000
9a	Issue price (£)	88,360,607	449,658,000	473,318,500	502,470,583	425,431,130	479,998,226
9b	Redemption price (£)	88,360,607	450,000,000	475,000,000	502,470,583	450,000,000	475,000,000
10	Accounting classification	Equity	Equity	Liability – amortised cost	Equity	Equity	Liability – amortised cost
11	Original date of issue	Various	8 February 2016	8 February 2016	Various	8 February 2016	8 February 2016
12	Perpetual or dated	Perpetual	Perpetual	10-year non-call 5-years	Perpetual	Perpetual	10-year non-call 5-years
13	Original maturity date	n/a	n/a	9 February 2026	n/a	n/a	9 February 2026
14	Issuer call subject to prior supervisory approval	n/a	Yes	Yes	n/a	Yes	Yes
15	First call date	n/a	8 December 2022	8 February 2021	n/a	8 December 2022	8 February 2021
16	Subsequent call dates	n/a	Any Distribution payment date thereafter	Any interest payment date thereafter	n/a	Any Distribution payment date thereafter	Any interest payment date thereafter

Appendices

Appendix 2: Main features of regulatory capital instruments

Coupons/dividends							
17	Fixed or floating dividend/ coupon	n/a	Fixed	Fixed	n/a	Fixed	Fixed
18	Coupon rate and any related index	n/a	8%	5%	n/a	8%	5%
19	Existence of a dividend stopper	n/a	No	No	n/a	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory	Fully discretionary	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory	Fully discretionary	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	n/a	No	No	n/a	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	n/a	Non-cumulative	Non-cumulative	n/a
23	Convertible or non-convertible	n/a	Equity Conversion	Non-convertible	n/a	Non-convertible	Non-convertible
24	If convertible, conversion triggers	n/a	CYBG Group CET1 < 7%	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	Fully	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	119p (66% of IPO share price)	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	Mandatory	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	Ordinary Shares	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	CYBG PLC	n/a	n/a	n/a	n/a
30	Write-down feature	n/a	No	None contractual, statutory via bail-in	n/a	Yes - full permanent	None contractual, statutory via bail-in
31	If write-down, trigger(s)	n/a	n/a	n/a	n/a	CB Group CET1 < 7% or CB Solo CET1 < 7%	n/a
32	If write-down, full or partial	n/a	n/a	n/a	n/a	Full	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	Permanent	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a
35	Instrument type immediately senior	n/a	Tier 2	Senior Unsecured	n/a	Tier 2	Senior Unsecured
36	Non-compliant transitioned features	n/a	No	No	n/a	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a

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Appendix 4: Glossary

Term	Definition
backing assets	Backing assets relate to obligations to place collateral with the BoE as part of the regulations that allow certain firms, including the Bank, to issue Scottish bank notes.
Basel II	The capital adequacy framework issued by the BCBS in June 2006 defining how firms should calculate their regulatory capital requirements.
Basel III	Reforms issued by the BCBS in December 2010 to strengthen global capital and liquidity rules with the goal of promoting a more resilient banking sector. In Europe the new requirements were implemented by CRD IV, on a phased basis from 1 January 2014 with full implementation by 1 January 2019.
basis points (bps)	One hundredth of a percent (0.01%); meaning that 100 basis points is equal to 1%. This term is commonly used in describing interest rate movements.
capital buffers	Capital conservation buffer – A buffer set for all banks that can be used to absorb losses while avoiding breaching minimum requirements. It is designed to ensure that banks build up capital outside periods of stress which can be drawn down as losses are incurred. Systemic risk buffer – A buffer set for ring-fenced banks and large building societies to reduce their probability of failure or distress. It is commensurate with the greater cost that their failure or distress would have for the UK economy. Firms with total assets less than £175bn are subject to a 0% SRB. Countercyclical capital buffer - A capital buffer to ensure eligible firms have a sufficient capital base to absorb losses in stressed periods. The CCyB aims to ensure that banking sector capital requirements take account of the macroeconomic financial environment in which banks operate. It enables the Bank of England's Financial Policy Committee to adjust the resilience of the banking system to the changing scale of risk the system faces over time. PRA buffer – A buffer set using supervisory judgement informed by the impact of stress scenarios on a firm's capital requirements and resources, and taking account where appropriate of other factors including leverage, systemic importance and weaknesses in firms' risk management and governance. This is set on a firm-specific basis.
capital conservation buffer (CCB)	Refer to 'capital buffers'.
Capital Requirements Directive IV (CRD IV)	European legislation to implement Basel III. It replaces earlier European capital requirements directives with a revised package consisting of a new Capital Requirements Directive and a new Capital Requirements Regulation. CRD IV sets out capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also 'Basel III'.
collateral	The assets of a borrower that are used as security against a loan facility.
Common Equity Tier 1 (CET1) capital	The highest quality form of regulatory capital that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments.
Common Equity Tier 1 (CET1) ratio	CET1 capital divided by RWAs at a given date.
countercyclical capital buffer (CCyB)	Refer to 'capital buffers'.
covered bonds	A corporate bond with primary recourse to the institution and secondary recourse to a pool of assets that act as security for the bonds on issuer default. Covered bonds remain on the issuer's balance sheet and are a source of term funding for the Group.
credit conversion factor (CCF)	Credit conversion factors are used in determining the exposure at default in relation to a credit risk exposure. The CCF is an estimate of the proportion of undrawn and off-balance sheet commitments expected to be drawn down at the point of default.
credit quality steps	A credit quality assessment scale as set out in CRD IV.
credit risk mitigation (CRM)	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set-off or netting.
earnings at risk (EaR)	A measure of the quantity by which net interest income might change in the event of an adverse change in interest rates.
EAD	Exposure at default.

Term	Definition
EBA Implementing Technical Standard on Disclosure for Own Funds	Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.
EBA/RTS/2014/17	EBA Final draft Regulatory Technical Standards on disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer under Article 440 of Regulation (EU) No 575/2013.
EEPE	Effective expected positive exposure.
encumbered assets	Assets that have been pledged as security, collateral or legally 'ring-fenced' in some other way which prevents those assets being transferred, pledged, sold or otherwise disposed.
External Credit Assessment Institutions (ECAIs)	ECAIs include external credit rating agencies such as Moody's, Fitch and S&P.
FCA	Financial Conduct Authority.
Group	CYBG and its controlled entities.
IFRS 9	The new financial instrument accounting standard which is applicable for accounting periods beginning on or after 1 January 2018, which the Group will adopt from 1 October 2018.
interest rate risk in the banking book (IRRBB)	IRRBB arises from changes in interest rates that may impact the Group's financial condition in terms of earnings (net interest income) or economic value of the balance sheet.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
Internal Liquidity Adequacy Assessment Process (ILAAP)	The Group's assessment and management of balance sheet risks relating to funding and liquidity.
Internal Ratings-Based approach (IRB)	A method of calculating credit risk capital requirements using internal, rather than supervisory, estimates of risk parameters.
IPO	Initial public offering.
leverage ratio	This is a regulatory standard ratio introduced by the Basel III as a supplementary measure to the risk based capital requirements. It is intended to constrain the build-up of excess leverage in the banking sector and is calculated by dividing Tier 1 capital resources by a defined measure of on and off-balance sheet items plus derivatives.
minimum requirement for own funds and eligible liabilities (MREL)	MREL is a minimum requirement for institutions to maintain equity and eligible debt liabilities, to help ensure that when an institution fails the resolution authority can use these financial resources to absorb losses and recapitalise the continuing business. The BoE set out its approach to setting banks' MREL in November 2016.
operational risk	The risk of loss resulting from inadequate or failed internal processes, people strategies and systems or from external events.
Pillar 1	The quantitative elements of the Basel III framework including the minimum regulatory capital requirements for credit, operational and market risks.
Pillar 2	The qualitative expectations of the Basel III framework to be met through the supervisory review process. This includes the ICAAP, governance process and the supervisory review and evaluation process.
Pillar 3	The final pillar of the Basel III framework which aims to encourage market discipline by improving the information made available to the market. This pillar sets out disclosure requirements for banks on their capital, risk exposures and risk assessment processes.
PRA	Prudential Regulation Authority.
PRA buffer	Refer to 'capital buffers'.
regulatory capital	The capital which the Group holds, determined in accordance with rules established by the PRA.
repurchase (repo) agreement	A short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or a reverse repo.

Appendices

Appendix 4: Glossary

Term	Definition
residential mortgage-backed securities (RMBS)	Securities that represent interests in groups or pools of underlying mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).
risk appetite	The level and types of risk the Group is willing to assume within the boundaries of its risk capacity to achieve its strategic objectives.
risk weighted assets (RWA)	On- and off-balance sheet assets of the Group are allocated a risk weighting based on the amount of capital required to support the asset.
risk management framework (RMF)	The Group identifies and manages risk using the RMF which is the totality of systems, structures, policies, processes and people that identify, measure, evaluate, control, mitigate, monitor and report all internal and external sources of material risk.
Scheme	The Group's defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme.
securities financing transaction (SFT)	Repurchase transactions, securities or commodities lending or borrowing transactions or other capital market driven transactions.
securitisation	The practice of pooling similar types of contractual debt and packaging the cash flows from the financial asset into securities that can be sold to institutional investors in debt capital markets. It provides the Group with a source of secured funding than can achieve a reduction in funding costs by offering typically 'AAA' rated securities secured by the underlying financial asset.
standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the own funds or liquidity which a bank holds.
systemic risk buffer (SRB)	Refer to 'capital buffers'.
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, subject to deductions.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk weighted assets.
Tier 2 capital	A component of regulatory capital, including qualifying subordinated debt, eligible collective impairment allowances and other Tier 2 securities as defined by CRD IV.
Virgin Money	Virgin Money Holdings (UK) plc.

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