Virgin Money Holdings (UK) plc
Pillar 3 Disclosures
31 December 2018

Contents

1. Executive Summary

Introduction

This document presents the consolidated Pillar 3 disclosures of Virgin Money Holdings (UK) plc (the Group, or Virgin Money) as at 31 December 2018.

Pillar 3 requirements are set out under the Capital Requirements Directive and Regulation (CRD IV) and are designed to promote market discipline through the disclosure of key information around capital, risk exposures and risk management. A table setting out how the Group complies with the CRD IV disclosure requirements is shown in table 61.

Where appropriate, cross references have been made to supporting disclosures that are included within the 2018 Virgin Money Group Annual Report and Accounts. As such, these disclosures should be read in conjunction with that document.

On 15 October 2018, the Group was acquired by CYBG PLC. Please refer to the 2018 Virgin Money Group Annual Report and Accounts for full details of this transaction. These disclosures only relate to Virgin Money Holdings (UK) plc subgroup.

Key ratios

Table 1: Key ratios

	2018 £m	2017 £m
Common Equity Tier 1 (CET1) ratio	**15.8%**	13.8%
Tier 1 ratio	**20.3%**	18.0%
Total capital ratio	**20.3%**	18.1%
Leverage ratio	**3.7%**	3.9%
Liquidity coverage ratio (LCR)	**175.9%**	203.1%

The Prudential Regulation Authority (PRA) approved the Group's application for a reduction in the mortgage risk-weights in June 2018. This reflected the excellent credit quality of the mortgage portfolio and led to an increase in the Common Equity Tier 1 (CET1) ratio, which finished 2018 at 15.8%, from 13.8% at the beginning of the year.

During 2018 the Group generated profit attributable to equity shareholders of £55.9m. After taking account of movements in intangible assets and other regulatory items, as well as foreseeable dividends to the parent company of £26m, there was a net increase in CET1 capital of £71.3m over the course of 2018.

The PRA's approval of the Group's application in June supported a decrease in the mortgage risk-weight density to 13.0% at 31 December 2018 from 17.2% at 31 December 2017. After taking growth in balances into account, mortgage RWAs at 31 December 2018 were £4.6bn, a £1.2bn reduction from £5.8bn at 31 December 2017. Credit card RWAs increased to £2.5bn, principally in line with balance growth as the credit card RWAs are calculated using the standardised approach. Other RWAs increased to £1.4bn, including an increase in operational risk RWAs which were recalibrated in line with the standardised approach during the first half of the year to reflect the growth in average income over the past three years. Total RWAs at 31 December 2018 were 7.7% lower than at 31 December 2017 at £8.5bn.

Capital ratios improved during 2018 as a result of the reduction in risk-weighted assets (RWAs) and the net increase in CET1 capital. The Group's total capital ratio increased by 2.2 percentage points to 20.3% and the CET1 ratio increased by 2.0 percentage points to 15.8% as at 31 December 2018. On a fully loaded basis, excluding IFRS 9 transitional arrangements, the total capital ratio was 19.9% and the CET1 ratio was 15.3% as at 31 December 2018.

The leverage ratio at 31 December 2018 reduced to 3.7% which reflected the growth in the Group's lending portfolios and higher levels of on-balance sheet liquidity as Funding for Lending Scheme (FLS) was repaid in full and replaced with Term Funding Scheme (TFS) funding.

The Group's 2018 Supervisory Review and Evaluation Process ("SREP") took effect during July (see page 13 for further details (Pillar 2A)). As at 31 December 2018 Virgin Money's minimum regulatory requirements for CET1 and total capital were 10.4% and 16.3% respectively. The minimum applicable leverage requirement recommended by the EBA remains at 3.0%. Virgin Money therefore has significant headroom against minimum regulatory requirements.

All ratios above are within the Group's risk appetite, which is the amount and type of risk that the Group is prepared to seek, accept or tolerate. The Group's strategy is developed in conjunction with risk appetite.

2. Disclosure policy

Basis of preparation

This document contains the consolidated Pillar 3 disclosures of the Group as at 31 December 2018, prepared in accordance with the requirements of Part Eight of the Capital Requirements Regulation (EU Regulation 575/2013, the CRR).

These disclosures may differ from similar information in the 2018 Virgin Money Group Annual Report and Accounts which is prepared in accordance with International Financial Reporting Standards (IFRS). The reconciliation between the Accounts and Pillar 3 is shown in tables 4 and 5 with significant differences summarised below:

- Virgin Money Giving Limited, a subsidiary within the statutory group, is included in the 2018 Virgin Money Group Annual Report and Accounts but excluded from the regulatory group for Pillar 3 (see section 3);
- Pillar 3 exposure values for mortgages are disclosed using the exposure at default (EAD) measure. This is a parameter used in the Advanced Internal Ratings Based (AIRB) approach to estimate the amount outstanding at the time of default. The EAD calculation is defined as the aggregate of on-balance sheet exposures, off-balance sheet commitments (including amounts where customers have contractual rights to draw down further balances and estimates of interest accruals to the point of default) after application of credit conversion factors, and other relevant regulatory adjustments; and
- all other credit risk exposures, including credit cards and wholesale assets, are measured using the standardised approach. The exposure value is stated net of specific impairment provisions.

Article 432 of the CRR on non-material, proprietary and confidential information permits institutions to omit one or more disclosures if the information provided by such a disclosure is not regarded as material or if the information is regarded as proprietary or confidential. The Group has not omitted any disclosures on this basis.

The implementation of CRD IV is subject to transitional arrangements, with full implementation in the UK required by 1 January 2022 as per Prudential Regulation Authority (PRA) policy statement PS7/13. With the exception of the reduced capital conservation buffer (see table 6, section 5), the only transitional adjustments applying to the Group relate to the implementation of IFRS 9 provisions, which were introduced in 2018. All disclosures shown are after these transitional adjustments with the exception of the disclosures in Appendix 9.

Frequency, media and location

The Group's policy is to publish the required disclosures on an annual basis in conjunction with the 2018 Virgin Money Group Annual Report and Accounts. The Pillar 3 disclosures are published within the Investor Relations section of the corporate website www.virginmoney.com.

The frequency of disclosure will be reviewed should there be a material change in any approach used for the calculation of capital, the business structure or regulatory requirements.

Verification

The Group's Pillar 3 disclosures have been reviewed through the internal governance procedures applicable to all external reporting, including review and approval by the Audit Committee and the Board. In addition, the Group remuneration disclosures in Appendix 7 have been reviewed by the Remuneration Committee. The Pillar 3 disclosures are not subject to audit except where they are equivalent to those prepared under financial reporting requirements and disclosed in the 2018 Virgin Money Group Annual Report and Accounts.

Risk profile disclosure

In accordance with Part Eight of the CRR, the Group is required to assess whether its external disclosures portray its risk profile comprehensively. The disclosures of risk management objectives and procedures within this Pillar 3 document are detailed fully within the Risk Report of the 2018 Virgin Money Group Annual Report and Accounts.

Current developments

The disclosures largely follow the same format as 2017.

Following adoption of IFRS 9 on 1 January 2018, the basis of credit risk provisioning has changed. This is reflected in the Credit Risk section of this document with more details in the Risk Report in the 2018 Virgin Money Group Annual Report and Accounts.

In January 2018, the EBA published final guidelines on the disclosure requirements on IFRS 9 transitional arrangements. The Group has adopted these disclosures in Appendix 9.

The encumbered assets disclosures in Appendix 6 have been updated following the revised disclosure requirements issued by the EBA coming into force this year.

Appendix 11 shows the mapping of the disclosure requirements of Part Eight of the Capital Requirements Regulation to the relevant pages and tables within this Pillar 3 document and the 2018 Virgin Money Group Annual Report and Accounts.

The Financial Services Banking Reform Act 2013 will result in the ring-fencing of retail banking operations to separate them from investment banking activities. The implications of this structural reform to the Group are discussed in more detail on page 34 of the 2018 Virgin Money Group Annual Report and Accounts.

3. Scope of consolidation

Regulatory consolidation

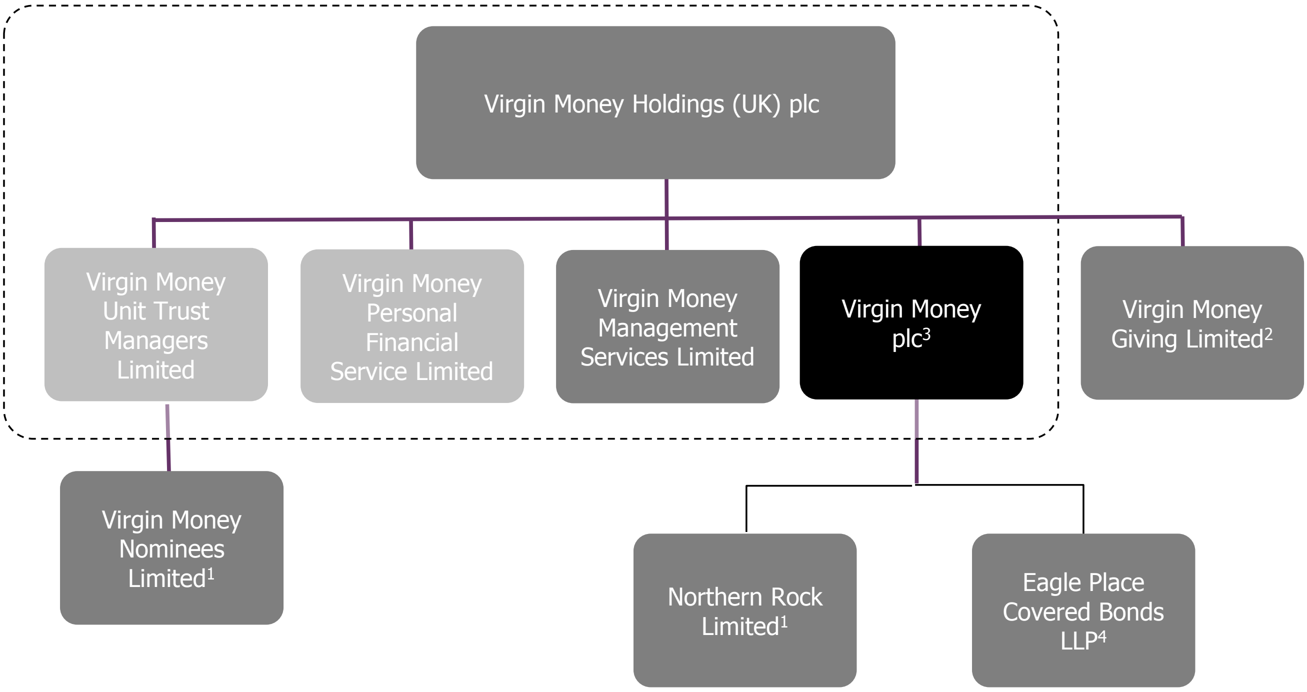
The scope of consolidation for regulatory reporting purposes, including these Pillar 3 disclosures, differs from the scope of consolidation for statutory financial reporting. Virgin Money Giving Limited is excluded from the regulatory consolidation because it is not regulated. Other subsidiary undertakings included within the regulatory consolidation are fully consolidated. The Group holds a small number of low value equity investments, not meeting the accounting definition of a subsidiary, which are treated as investments and reflected in risk-weighted assets accordingly.

The legal and regulatory structure of the Group provides the capability for the prompt transfer of surplus capital resources over and above regulatory requirements or repayment of liabilities when due throughout the Group. There are no current or foreseen material practical impediments to the prompt transfer of own funds or repayment of liabilities among the Group companies.

On 15 October 2018, all share capital of Virgin Money Holdings (UK) plc was acquired by CYBG PLC. These disclosures relate only to Virgin Money as a standalone regulatory group and do not take into account the impact of the acquisition.

The Group structure, including the make-up of the regulatory group, at 31 December 2018 is set out below.

Table 2: Regulatory Group structure



Notes:

1 Dormant Company
2 Not-for-profit organisation
3 Includes all assets of SPVs and Eagle Place Covered Bonds LLP
4 Virgin Money plc also owns 20% of Eagle Place Covered Bonds Finance Limited, the other member of the LLP

Key: FCA regulated; FCA and PRA regulated; Companies not regulated by the PRA or FCA; UK consolidated group for regulatory return purposes

The Virgin Money Foundation (not shown in the diagram above) is an associated undertaking of the Virgin Money Holdings (UK) plc and is not consolidated for regulatory or accounting purposes.

Subsidiary disclosures

Additional disclosures surrounding the capital resources, leverage exposures and capital requirements of Virgin Money plc (VM plc) have been provided within Appendices 2, 3, 4, 5, 8 and 9 of this document together with analysis of its credit risk exposures, credit risk mitigation and impairments. These disclosures are provided to satisfy the significant subsidiary disclosure requirements under CRR Article 13 (Application of disclosure requirements on a consolidated basis).

There are a number of special purpose vehicles (SPVs) established in connection with the Group's securitisation programme. Although VM plc has no direct or indirect ownership interest in these companies, they are accounted for as subsidiaries of VM plc. This is because they are principally engaged in providing a source of long term funding to the Group, which in substance means the Group is exposed to rights of variable returns from its involvement in the SPVs and has the ability to affect those returns through its power over the entities.

There is no significant risk transfer associated with the securitisations and therefore for the purposes of regulatory capital and Pillar 3 disclosures, the SPVs are consolidated within the VM plc disclosures.

Table 3: Special purpose vehicles

As at 31 December 2018:	**Nature of business**
Gosforth Funding 2014-1 plc	Issue of securitised notes
Gosforth Funding 2015-1 plc	Issue of securitised notes
Gosforth Funding 2016-1 plc	Issue of securitised notes
Gosforth Funding 2016-2 plc	Issue of securitised notes
Gosforth Funding 2017-1 plc	Issue of securitised notes
Gosforth Funding 2018-1 plc	Issue of securitised notes
Gosforth Mortgages Trustee 2014-1 Limited	Trust
Gosforth Mortgages Trustee 2015-1 Limited	Trust
Gosforth Mortgages Trustee 2016-1 Limited	Trust
Gosforth Mortgages Trustee 2016-2 Limited	Trust
Gosforth Mortgages Trustee 2017-1 Limited	Trust
Gosforth Mortgages Trustee 2018-1 Limited	Trust
Gosforth Holdings 2014-1 Limited	Holding company
Gosforth Holdings 2015-1 Limited	Holding company
Gosforth Holdings 2016-1 Limited	Holding company
Gosforth Holdings 2016-2 Limited	Holding company
Gosforth Holdings 2017-1 Limited	Holding company
Gosforth Holdings 2018-1 Limited	Holding company

Group balance sheet under regulatory consolidation

The table below provides a reconciliation of the Group's balance sheet on an accounting consolidation basis (which includes all Group companies) to the Group's balance sheet under the regulatory consolidation basis as at 31 December 2018.

Table 4: Reconciliation of statutory balance sheet to regulatory balance sheet

As at 31 December 2018	Accounting balance sheet as in published financial statements	Deconsolidation of entities outside the regulatory group	Regulatory balance sheet
	£m	£m	£m
Assets			
Cash and balances with central banks	**3,472.8**	**-**	**3,472.8**
Due from other banks	**499.7**	**(0.5)**	**499.2**
Financial investments at fair value through other comprehensive income	**2,172.2**	**-**	**2,172.2**
Equity investments at fair value through profit and loss	**1.0**	**-**	**1.0**
Derivative financial instruments	**92.9**	**-**	**92.9**
Loans and advances to customers	**38,555.8**	**-**	**38,555.8**
Current tax assets	**3.6**	**-**	**3.6**
Property, plant and equipment	**71.9**	**-**	**71.9**
Intangible assets	**107.9**	**-**	**107.9**
Deferred tax assets	**21.9**	**-**	**21.9**
Other assets	**93.5**	**0.1**	**93.6**
Disposal group assets held for sale	**23.2**	**-**	**23.2**
Total assets	**45,116.4**	**(0.4)**	**45,116.0**
Liabilities			
Due to other banks	**7,191.9**	**-**	**7,191.9**
Derivative financial instruments	**30.5**	**-**	**30.5**
Customer deposits	**32,429.9**	**-**	**32,429.9**
Provisions for liabilities and charges	**4.5**	**-**	**4.5**
Debt securities in issue	**3,345.2**	**-**	**3,345.2**
Other liabilities	**268.1**	**(0.1)**	**268.0**
Disposal group liabilities held for sale	**3.2**	**-**	**3.2**
Total liabilities	**43,273.3**	**(0.1)**	**43,273.2**
Equity			
Share capital and share premium	**655.9**	**-**	**655.9**
Other equity instruments	**384.1**	**-**	**384.1**
Other reserves	**(16.4)**	**-**	**(16.4)**
Retained earnings	**819.5**	**(0.3)**	**819.2**
Total equity	**1,843.1**	**(0.3)**	**1,842.8**
Total liabilities and equity	**45,116.4**	**(0.4)**	**45,116.0**

Reconciliation of regulatory balance sheet assets to credit risk exposures

A reconciliation of the consolidated regulatory balance sheet to credit risk exposures is presented below.

Table 5: Reconciliation of regulatory balance sheet to credit risk exposures

As at 31 December 2018	Regulatory balance sheet £m	Assets deducted from own funds £m	Derivative, central counterparty and repo adjustments £m	Provisions and IFRS 9 transitional adjustments £m	Counterparty credit risk exposures £m	Securitisations £m	Total credit risk exposures £m
Assets							
Cash and balances at central banks	**3,472.8**	-	-	-	-	-	**3,472.8**
Due from other banks	**499.2**		(0.8)		(21.1)		**477.3**
Financial instruments at fair value through other comprehensive income	**2,172.2**	-	90.1	-	(90.1)	(148.1)	**2,024.1**
Equity instruments at fair value through profit and loss	**1.0**	-	-	-	-	-	**1.0**
Derivative financial instruments	**92.9**	-	33.1	-	(126.0)	-	**-**
Loans and advances to customers	**38,555.8**	-	45.3	47.8	-	-	**38,648.9**
Current tax asset	**3.6**	-	-	-	-	-	**3.6**
Property, plant and equipment	**71.9**	-	-	-	-	-	**71.9**
Intangible assets	**107.9**	(107.9)	-	-	-	-	**-**
Deferred tax assets	**21.9**	-	-	-	-	-	**21.9**
Other assets	**93.6**	-	249.3	-	(270.4)	-	**72.5**
Disposal group assets held for sale	**23.2**	-	-	-	-	-	**23.2**
Total assets	**45,116.0**	(107.9)	417.0	47.8	(507.6)	(148.1)	**44,817.2**
AIRB off balance sheet exposures							**1,962.0**
Interest accrued to default							**465.7**
Total regulatory capital exposures							**47,244.9**

Exposures relating to derivatives, central counterparties and repurchase transactions (repos or securities financing transactions) are disclosed within the counterparty credit risk section on pages 32 to 33. Exposures to third party securitisations are disclosed within the securitisation credit risk section on pages 30 to 31. All other exposures fall into the credit risk category and are analysed in more detail on pages 20 to 29.

4. Risk management

This section summarises the overall risk management policy of the Group. More detailed analyses of individual risks (credit risk, market risk, operational risk and funding and liquidity risk) are set out in later sections. Further detail including a statement on the Group's overall risk profile can be found in the Risk Report in the 2018 Virgin Money Group Annual Report and Accounts.

The Group's approach to risk management

Risk management is at the heart of the Group's strategy to enable profitable, long-term growth. This is achieved through a clearly defined risk appetite and informed risk decision-making, supported by a consistent risk-focused culture across the Group.

Risk culture and values

The Group has a customer-focused business model built on a risk culture that reinforces accountability. The Group's risk values describe how all colleagues, suppliers and partners are expected to operate.

Risk appetite

Risk appetite is the amount and type of risk that the Group is prepared to seek, accept or tolerate. It is reflected in frameworks and policies that either limit or, where appropriate, prohibit activities that could be detrimental to the Group. The Group's strategy is developed in conjunction with risk appetite. A Risk Appetite Statement is approved by the Board with each strategic planning cycle.

Governance and control

Delegation of authority from the Board to Executive Committees and Senior Management establishes governance and control. Issues are escalated promptly and remediation plans are initiated where required.

Accountability

The Group uses a 'Three Lines of Defence' model which defines clear responsibilities and accountabilities ensuring effective independent assurance activities over key business activities.

- Line management (first line) have primary responsibility for risk decisions, measuring, monitoring and controlling risks within their areas of accountability;
- the Risk function (second line) provides proactive advice and constructive challenge on the effectiveness of risk decisions taken by management; and
- Internal Audit (third line) provides independent, objective assurance to improve operations.

Risk management framework

The Group's Risk Management Framework covers all types of risk which affect the Group and could impact on the achievement of strategic objectives. It is designed to ensure a consistent approach is taken regarding the treatment of all risks applicable to business management and decision making. The Risk Management Framework is designed to support the identification, assessment, management and control of the material risks that can threaten achievement of the Group's business objectives and is therefore vital to the Group's Senior Management, Board and external stakeholders. The Risk Management Framework is underpinned by the risk policies, standards and procedures of the front-line business areas, which provide the detail of how risks are managed and activities conducted.

Risk decision-making and reporting

A current and forecast view of the Group's overall risk profile, key exposures and management actions is reported to the Risk Management Committee, the Board Risk Committee and the Board. The Chief Risk Officer is a member of the Executive and has direct access to the Chair of the Board Risk Committee. The Board Risk Committee met 4 times during 2018.

Stress testing

Stress testing is an essential risk management tool which examines the sensitivities of the strategic plan and business model and supports the development of management actions and contingency plans. It is overseen by the Board Risk Committee.

Risk disclosure statement

The Board is responsible for reviewing the effectiveness of the Group's risk management arrangements and systems of financial and internal controls. The Board believes that the risk management framework in place is adequate for the Group's profile and strategy.

The Board focuses on ensuring alignment of business development and planning with risk appetite. A clearly defined risk appetite aids the Group in maintaining a high-quality capital base, targeting capital ratios which support business development and are in excess of regulatory minima. Capital is actively managed with regulatory ratios being a key factor in the Group's planning processes and stress analysis. The Group reviews the capital structure on an on-going basis to ensure it is well placed to react to prevailing economic and regulatory conditions. The CET1 ratio for the Group was 15.8% as at 31 December 2018, significantly above regulatory minimum requirements.

5. Regulatory capital framework

This section contains an outline of the capital regulations (as implemented in the UK by the PRA policy statement PS7/13) which define a framework of regulatory capital resources and requirements applicable to the Group. CRD IV came into force in the European Union on 1 January 2014.

Regulatory capital

The capital resources of the Group are detailed in table 7. Resources are classified depending on the level of permanency and loss absorbency exhibited:

Common Equity Tier 1 (CET1) capital

This represents the strongest form of capital consisting of ordinary share capital, share premium and allowable reserves. CET1 capital is stated after deducting regulatory adjustments such as intangible assets, expected losses in excess of provisions in respect of the AIRB mortgage portfolio and foreseeable distributions of current profits not accrued in the balance sheet. CET1 capital can be supplemented by certain subordinated debt liabilities and other capital securities classified as Additional Tier 1 or Tier 2 capital.

Additional Tier 1 (AT1) capital

AT1 capital instruments are non-cumulative perpetual securities that contain a specific provision to write down the security or convert it to equity, should the CET1 ratio fall below a specified trigger limit. The Group's current AT1 securities contain a conversion trigger of 7%.

Tier 2 capital

Tier 2 capital typically comprises certain other subordinated debt securities that do not qualify as AT1. In 2017, Tier 2 capital consisted of general provisions on credit cards, but following the introduction of IFRS 9 on 1 January 2018, all provisions are now classed as specific.

Capital requirements

The capital and prudential requirements included within the capital regulations are categorised under three pillars:

Pillar 1 capital requirements

Pillar 1 of the regulatory framework focuses on the determination of risk-weighted assets and expected losses in respect of the firm's exposure to credit, counterparty credit, operational and market risks.

The regulatory minimum amount of total capital is determined as 8% of the aggregate risk-weighted assets and the Pillar 1 capital requirements referenced in this document are calculated using this regulatory minimum value. At least 4.5% of risk-weighted assets must be covered by CET1 capital.

A range of approaches, varying in sophistication, are available under the CRD IV framework to use in measuring risk-weighted assets to determine the minimum level of capital required. Within the Group, mortgage risk-weighted assets are calculated using the AIRB approach which is subject to a number of internal controls and external approval by the PRA. Other risk-weighted assets are calculated using a simpler standardised approach.

Credit risk

The Group is exposed to credit risk through its retail lending and wholesale investment activity.

The AIRB approach is applied to the Group's residential mortgage portfolio. Risk-weighted assets are calculated using a formula incorporating internal assessments of the probability of a customer defaulting (PD), loss given default (LGD) and exposure at default (EAD) (subject to certain floors).

The Group uses the standardised approach for all credit risk exposures apart from mortgages. The standardised approach is the most basic approach which applies a specified set of risk weights to exposures. Under this approach banks can utilise external ratings to determine risk weights for rated counterparties.

Further qualitative and quantitative disclosures on credit risk are provided in section 8. Further details on the Group's application of the AIRB approach (for mortgages) are provided in Appendix 1.

Counterparty credit risk

The Group is exposed to counterparty credit risk through its use of derivatives for risk management purposes and for asset repurchase agreements (repos) used as a funding tool.

Under the mark-to-market method an add-on for potential future exposure is applied to the balance sheet value of derivatives to give an overall derivative exposure value.

The standardised method is used to determine the exposure value of repos. Exposures are measured by calculating the difference between the current market value of the asset repo'd and the cash received plus interest accumulated, net of collateral posted or received. The risk-weighted exposures for derivatives and repos are calculated by applying standardised risk weights associated with the particular counterparty.

Also included within counterparty credit risk is the credit valuation adjustment (CVA). The CVA is an adjustment to the fair value of a derivative contract reflecting the value of counterparty credit risk inherent in that contract. The standardised approach takes account of the external credit ratings of derivative counterparties and incorporates the derivative exposure value and effective maturity of exposures using the calculation prescribed by the CRR.

Further qualitative and quantitative disclosures on counterparty credit risk and the CVA requirements are provided in section 10.

Operational risk

The standardised approach measures the capital requirement as a percentage of the average net interest and non-interest income. This requires a firm's activities to be split into a number of defined business lines with a specific percentage applied to the income of each business line. The Group adopts this approach, deriving the requirement from the three year average of the aggregate adjusted income of the business.

Further qualitative and quantitative disclosures on operational risk are provided in section 11.

Market risk

The standardised approach for market risk applies mainly to the trading book positions of institutions. As the Group has no trading activities these are not applicable.

While the Group has exposure to interest rate risk in the banking book, the CRR imposes no Pillar 1 requirement in relation to this. As such, the Group's only exposure to market risk is in relation to foreign currency exposure. However, as this is below the de minimis limit for CRD IV, the Group has no Pillar 1 market risk capital requirement.

Further qualitative and quantitative disclosures on market risk are provided in section 12.

Pillar 2 capital requirements

Pillar 2 describes the supervisory review process and the assessment of additional capital resources required to cover specific risks faced by firms that have not been covered by the minimum regulatory requirements as set out in Pillar 1.

From 1 January 2018, the Pillar 2A add on has been set as a firm specific capital requirement rather than as Individual Capital Guidance. At 31 December 2018, the Group's Total Capital Requirement (TCR) was 13.4% of risk-weighted assets (being Pillar 1 of 8% plus Pillar 2A of 5.4%)

The PRA may also set a further buffer requirement determining capital to be held against future periods of stress as described under Pillar 2B below.

Pillar 2A

Key to the PRA's TCR setting process is the Group's assessment of the amount of capital needed, a process known as the Internal Capital Adequacy Assessment Process (ICAAP). The Group's TCR maintains capital at a level which exceeds this requirement. At least 56.25% of Pillar 1 and Pillar 2A must be covered by CET1 capital.

The ICAAP supplements the Pillar 1 capital requirements for credit risk, counterparty credit risk, operational risk and market risk by assessing the material risks not covered or fully captured under Pillar 1. An ICAAP is completed and approved by the Board annually and submitted to the PRA every two years.

The ICAAP assesses all risks not captured by Pillar 1 but the material risks identified are:

- Credit concentration risk – the risk of losses arising as a result of concentrations of exposures due to imperfect diversification. This imperfect diversification can arise from the small size of a portfolio or a large number of exposures to specific obligors (single name concentration) or from imperfect diversification with respect to economic sectors or geographical regions;
- credit risk – underestimation. There are asset classes for which the standardised approach is considered to underestimate the risk. Potential underestimation is quantified against benchmark internal ratings based approaches and included in Pillar 2 credit risk;
- interest rate risk in the banking book – the risk of losses arising from changes in the interest rates associated with banking book items; and
- operational risk – to the extent not covered by Pillar 1, the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and including legal risk.

Pillar 2B

Forecast capital positions are subjected to extensive stress analyses to determine the adequacy of the Group's capital resources under stressed conditions. Under Pillar 2B the PRA uses the outputs from some of these stress analyses to inform the setting of the Group's PRA buffer assessment, defining a minimum level of capital buffers over and above the minimum regulatory requirements that should be maintained in non-stressed conditions as mitigation against potential future periods of stress. The PRA requires this buffer to remain confidential between the Group and the PRA.

The PRA buffer is discussed further in the regulatory capital buffers section below.

Regulatory capital buffers

The requirement to maintain a countercyclical buffer of up to 2.5% was introduced on 1 January 2016. This buffer has been designed to require banks to hold additional capital to remove or reduce the build-up of systemic risk in times of excessive market wide credit expansion, providing additional loss absorbing capacity. The buffer is determined by reference to buffer rates for the individual countries where the Group has credit risk exposures.

The Financial Policy Committee (FPC) of the Bank of England is responsible for setting the UK countercyclical rate and for recognising rates set by other jurisdictions, or for recommending higher rates. The buffer is currently set at 1.0%.

Foreign exposures qualifying for the countercyclical buffer make up less than the de minimis level of 2% of the total exposures, therefore the Group treats all exposures as arising in the UK. See Appendix 4 for further analysis.

The FPC can also set sectoral capital requirements which are temporary increases to institutions' capital requirements on exposures to specific sectors, if the FPC judges that excessive lending to those sectors poses risks to financial stability. No sectoral capital requirements currently apply to the Group.

There are two other CET1 capital buffers phased in over the period from 2016 to 1 January 2019, the capital conservation buffer and the systemic buffer.

The capital conservation buffer is a general buffer of up to 2.5% of risk-weighted assets designed to build up capital buffers outside periods of stress. During 2018 the transitional regulations set this at 1.875%, rising to 2.5% on 1 January 2019.

The framework for a systemic risk buffer for ring-fenced banks will be applied to individual institutions by the PRA and will be introduced, like ring-fencing rules, from 1 January 2019. This buffer is currently not applicable to the Group.

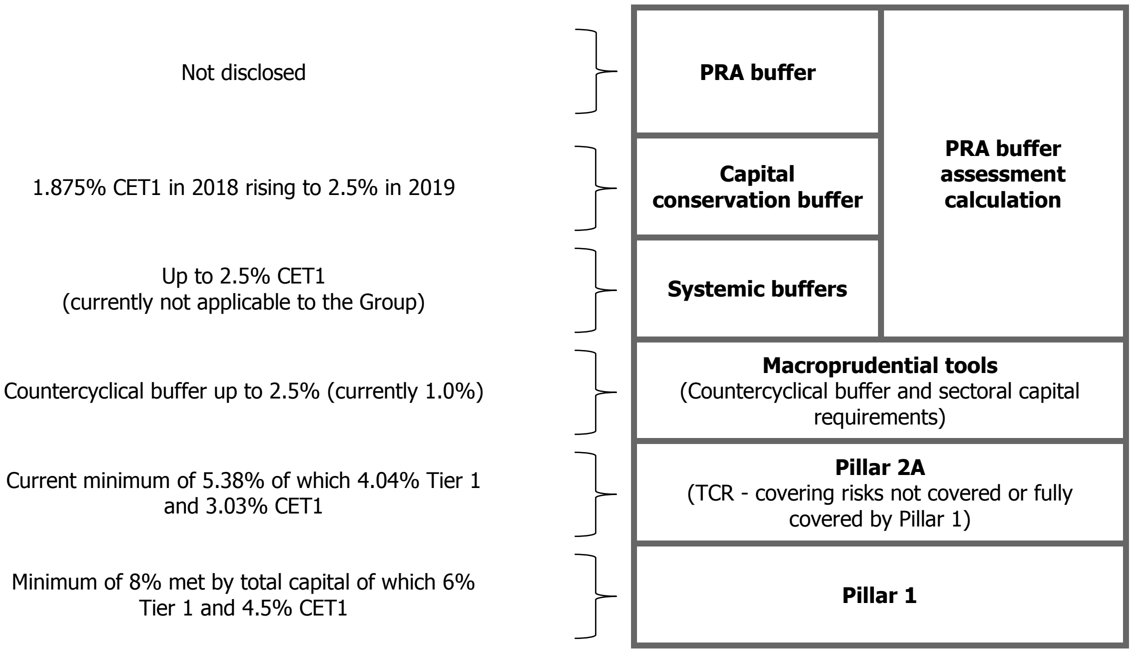
The PRA buffer takes into account the extent to which these CRD IV buffers already capture the risks identified in the PRA buffer assessment. The excess of the PRA buffer assessment over the capital conservation buffer and any systemic buffers is treated as the PRA buffer. Where the PRA buffer assessment is less than the capital conservation buffer and systemic buffers, no PRA buffer will be applied.

All buffers are required to be fully met with CET1 capital, with the exception of the PRA buffer. The requirement for the PRA buffer to be met by CET1 capital is being phased in up to 1 January 2019. For 2018, 75% of the PRA buffer must be met by CET1 capital, rising to 100% on 1 January 2019. Where there is a breach of the PRA buffer, this would trigger a discussion between the firm and the PRA to agree what action is required. Where the capital conservation buffer and systemic buffers are binding, a breach of these buffer requirements would give rise to automatic constraints upon any discretionary capital distributions or variable remuneration awards by the Group.

The following table summarises all regulatory capital requirements for the Group:

Table 6: Summary of capital requirements

Requirement or buffer	Calculation method	Quality of capital	Impact on the Group
CRD IV			
Pillar 1	Fixed percentage of RWAs based on Article 92 of the CRR	4.5% of RWAs met by CET1 capital 6.0% of RWAs met by Tier 1 capital 8.0% of RWAs met by total capital	As shown in Pillar 1 capital requirements section
Pillar 2A	Percentage of RWAs set by the PRA	56.25% of Pillar 2A met by CET1 capital 75% of Pillar 2A met by Tier 1 capital 100% of Pillar 2A met by total capital	Total capital requirement of 5.38% of RWAs
Macroprudential tools (countercyclical buffer and sectoral capital requirements)	Expressed as a percentage of RWAs	All to be met by CET1 capital	Set by the Bank of England, currently 1.0%
Systemic buffers	Expressed as a percentage of RWAs	All to be met by CET1 capital	Currently not applicable to the Group
Capital conservation buffer	Expressed as a percentage of RWAs	All to be met by CET1 capital	1.875% in 2018, rising to 2.5% in 2019
Bank of England			
PRA buffer	Expressed as a percentage of RWAs	50% met by CET1 in 2018 rising to 100% by 2019	PRA buffer is set by the PRA and is confidential
Minimum Requirements for Own Funds and Eligible Liabilities (MREL)	Determined by the risk-weighted capital regime – currently the Group is not part of the PRA leverage framework	To be met by MREL eligible capital and debt. Any CET1 held for regulatory buffers must be deducted	Currently equal to minimum capital requirements, 18% of RWAs from 1 January 2020



Pillar 3

Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. CRD IV sets out the minimum disclosures required under Pillar 3.

Leverage framework

At present the Group has no minimum UK leverage requirement as it is currently exempt from the UK Leverage Framework Regime, which only applies to institutions with retail deposit levels of £50 billion or more.

Under the EBA leverage rules, the leverage ratio is calculated by dividing Tier 1 capital resources by a defined measure of on-balance sheet assets and off-balance sheet items. While there is currently no minimum leverage requirement under the CRR, in August 2016 the EBA recommended that a 3.0% minimum leverage ratio requirement should be introduced from 1 January 2018. The Group leverage ratio of 3.7% as at 31 December 2018 exceeds this recommended minimum requirement.

Appendix 5 shows detailed leverage ratio disclosures made in accordance with the EBA's Implementing Technical Standard EBA/ITS/2014/04/rev1.

Minimum requirements for own funds and eligible liabilities

Minimum Requirements for Own Funds and Eligible Liabilities (MREL) were applicable from 1 January 2016 on a transitional basis, with full implementation required by 1 January 2022. From 1 January 2020 until 31 December 2021 the Group will be required to hold 18% of risk-weighted assets in the form of MREL. From 1 January 2022, the Group will be subject to an end state MREL of two times Pillar 1 and Pillar 2A capital. Following the combination with CYBG, the combined Group is working towards implementation of these requirements.

6. Capital management

Risk appetite

The Group maintains a high-quality capital base, targeting capital ratios which support business development and the risks inherent in the strategic plan. The Group's capital planning approach is focused on maintaining capital in excess of regulatory requirements at all times.

Mitigation

The Group has capital management procedures that are designed to ensure compliance with risk appetite and regulatory requirements and are positioned to meet anticipated future changes to capital requirements.

The Group is able to accumulate additional capital through profit retention, by raising equity through, for example, a rights issue or debt exchange and by raising Additional Tier 1 and Tier 2 capital. The cost and availability of additional capital is dependent upon market conditions and perceptions at the time. The Group is also able to manage the demand for capital through management actions including adjusting lending strategy, risk hedging strategies and through business disposals. If necessary, this could include limiting business growth.

Monitoring

Capital is actively managed with regulatory ratios being a key factor in the Group's planning processes and stress analysis. A longer-term forecast of the Group's capital position, based upon the strategic plan, is produced at least annually to inform the capital strategy. Shorter-term forecasts are more frequently undertaken to understand and respond to variations of the Group's actual performance against the plan.

Regular reporting of actual and projected ratios is undertaken, including submissions to the Asset and Liability Committee, the Risk Management Committee and the Board.

Analysis of capital resources

The following table sets out the capital resources of the Group.

Table 7: Group capital resources

	2018 £m	2017 £m
Common Equity Tier 1		
Share capital and share premium	**655.9**	654.6
Other equity instruments	**384.1**	384.1
Other reserves	**(16.4)**	(18.1)
Retained earnings	**819.5**	804.3
Total equity per balance sheet	**1,843.1**	1,824.9
Regulatory capital adjustments		
Net (assets)/liabilities of companies outside the regulatory group[1]	**(0.3)**	(0.3)
Foreseeable distribution on Additional Tier 1 securities[2]	**(3.8)**	(3.8)
Foreseeable distributions on ordinary share capital[2]	**(26.0)**	(18.1)
Other equity instruments[3]	**(384.1)**	(384.1)
Cash flow hedge reserve[4]	**14.5**	22.7
Additional valuation adjustment[5]	**(2.3)**	(1.2)
Intangible assets[6]	**(107.9)**	(128.4)
Excess of expected loss over impairment[7]	**(40.1)**	(46.9)
Deferred tax on tax losses carried forward[8]	**-**	(0.6)
IFRS 9 transitional adjustments[9]	**42.4**	-
Common Equity Tier 1 capital	**1,335.5**	1,264.2
Additional Tier 1 securities	**384.1**	384.1
Total Tier 1 capital	**1,719.6**	1,648.3
Tier 2 capital		
General credit risk adjustments	**-**	14.3
Total Tier 2 capital	**-**	14.3
Total own funds	**1,719.6**	1,662.6
Pillar 1 risk-weighted assets		
Retail mortgages	**4,594.1**	5,790.5
Unsecured lending	**2,486.5**	2,282.9
Wholesale	**172.2**	99.4
Other assets	**214.7**	180.3
Counterparty credit risk	**88.4**	47.1
Credit valuation adjustments	**16.6**	10.4
Securitisation exposures in the banking book	**29.6**	12.3
Operational risk	**867.3**	755.7
Total risk-weighted assets	**8,469.4**	9,178.6
Common Equity Tier 1 ratio	**15.8%**	13.8%
Tier 1 ratio	**20.3%**	18.0%
Total capital ratio	**20.3%**	18.1%

1. Assets/liabilities of Virgin Money Giving Limited included within the statutory consolidated Group have been removed from reserves as this company is not part of the regulatory Group.
2. Foreseeable distributions on ordinary shares and AT1 securities as at 31 December 2018 are deducted from CET1 capital under CRD IV.
3. Other equity instruments have been excluded from CET1 capital but instead make up Additional Tier 1 capital.
4. Under CRD IV, fair value reserves related to gains or losses on cash flow hedges are excluded from CET1 capital.
5. Under CRD IV, an additional valuation adjustment is applied in relation to the prudent valuation of all assets measured at fair value.
6. Intangible assets are required to be deducted from capital resources for regulatory purposes.
7. The excess of regulatory expected losses calculated under the AIRB approach over accounting provisions are deducted from CET1 capital.
8. Deferred tax on tax losses carried forward are deducted from CET1 capital. Other deferred tax balances arising from temporary differences are below the threshold for deduction and are risk-weighted at 250%.
9. The IFRS 9 transitional adjustments apply for 5 years following IFRS 9's introduction. Capital resources are increased by a proportion of the total day one provision increase plus the same proportion increase in Stage 1 and Stage 2 provisions since day one. In 2018 this proportion is 95%.

Please see Appendix 2 for the CRD IV disclosure template as published by the EBA in Implementing Technical Standard 2013/01.

Table 8: Movements in capital resources

	Common Equity Tier 1	Additional Tier 1 capital	Tier 2 capital	Total
	£m	£m	£m	£m
At 31 December 2017	**1,264.2**	**384.1**	**14.3**	**1,662.6**
Changes on adoption of IFRS 9 at 1 January 2018	**(33.6)**	**-**	**-**	**(33.6)**
IFRS 9 transitional adjustments	**31.9**			**31.9**
Movement in available-for-sale reserve	**(4.6)**	**-**	**-**	**(4.6)**
Revaluation reserve financial instruments at fair value through other comprehensive income	**4.6**	**-**	**-**	**4.6**
Movement in general provision following IFRS 9	**-**	**-**	**(14.3)**	**(14.3)**
At 1 January 2018	**1,262.5**	**384.1**	**-**	**1,646.6**
Movement in ordinary share capital and share premium account	**1.3**	**-**	**-**	**1.3**
Movement in retained earnings before distributions	**38.5**	**-**	**-**	**38.5**
Movement in additional valuation adjustment	**(1.1)**	**-**	**-**	**(1.1)**
Movement in revaluation reserve financial instruments at fair value through other comprehensive income	**(6.5)**	**-**	**-**	**(6.5)**
Distributions on ordinary shares paid in the year	**28.4**	**-**	**-**	**28.4**
Distributions on ordinary shares accrued in the year	**(26.0)**	**-**	**-**	**(26.0)**
AT1 coupons accrued at previous year end	**3.8**	**-**	**-**	**3.8**
AT1 coupons accrued at this year end	**(3.8)**	**-**	**-**	**(3.8)**
Movement in intangible assets	**20.5**	**-**	**-**	**20.5**
Movement in excess of expected loss over impairment	**6.8**	**-**	**-**	**6.8**
Movement in deferred tax on tax losses carried forward	**0.6**	**-**	**-**	**0.6**
IFRS 9 transitional adjustments	**10.5**	**-**	**-**	**10.5**
At 31 December 2018	**1,335.5**	**384.1**	**-**	**1,719.6**

The increase in capital resources is driven by the increase in retained earnings and the net reduction in intangible asset deduction. The day one impact of IFRS 9 reserves has been more than offset by the transitional arrangements which provide relief against day one and subsequent IFRS 9 movements.

Capital securities

Virgin Money Holdings (UK) plc issued Additional Tier 1 securities of £160.0 million to investors in July 2014, which have a discretionary coupon of 7.875% per annum and an optional call date of July 2019. A further £230.0 million of Additional Tier 1 securities were issued to investors in November 2016, which have a discretionary coupon of 8.75% per annum.

The main features of both securities can be found in Appendix 3 of this document and the full terms and conditions can be found on the Investor Relations section of the corporate website at www.virginmoney.com.

7. Pillar 1 capital requirements overview

Group risk-weighted assets and Pillar 1 capital requirements

The Pillar 1 capital requirements of the Group are made up of credit risk, counterparty credit risk (including credit valuation adjustment) and operational risk elements.

The following table sets out the risk-weighted assets and Pillar 1 capital requirements of the Group.

Table 9: Risk-weighted assets and capital requirements

	Risk-weighted assets		**Pillar 1 capital requirements**
	2018 **£m**	2017 £m	**2018** **£m**
Credit risk (excluding counterparty credit risk)	**7,412.8**	8,326.0	**593.0**
Of which standardised approach	***2,818.7***	*2,535.5*	***225.5***
Of which the AIRB approach	***4,594.1***	*5,790.5*	***367.5***
Counterparty credit risk	**105.0**	57.5	**8.4**
Of which mark-to-market	***19.5***	*15.3*	***1.6***
Of which the standardised approach	***68.9***	*31.8*	***5.5***
Of which CVA	***16.6***	*10.4*	***1.3***
Securitisation exposures in banking book (standardised approach)	**29.6**	12.3	**2.4**
Operational risk (standardised approach)	**867.3**	755.7	**69.4**
Amounts below the thresholds for deduction (subject to 250% risk weight)	**54.7**	27.1	**4.3**
Total	**8,469.4**	9,178.6	**677.5**

In the table above, amounts below the thresholds for deduction relate to deferred tax assets that do not relate to tax losses carried forward and a £2.9m investment in CYBG PLC shares. As the value of these assets are below the CRR threshold, they are not deducted from own funds but instead are risk-weighted at 250%. In the credit risk section these exposures have been included within the 'other assets' or 'equities' categories.

Risk-weighted assets movement

The following table sets out the movements in the Group's risk-weighted assets split between book size, model changes and other movements.

Table 10: Risk-weighted assets movement

Risk-weighted assets	**AIRB (mortgages)**	**Standardised (credit cards)**	**Other standardised assets[1]**	**Credit valuation adjustment**	**Operational risk**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2018	**5,790.5**	**2,282.9**	**339.1**	**10.4**	**755.7**	**9,178.6**
Change in book size	**768.3**	**216.4**	**-**	**-**	**-**	**984.7**
Model updates	**(1,667.7)**	**-**	**-**	**-**	**-**	**(1,667.7)**
Other movements	**(297.0)**	**(12.8)**	**165.8**	**6.2**	**111.6**	**(26.2)**
At 31 December 2018	**4,594.1**	**2,486.5**	**504.9**	**16.6**	**867.3**	**8,469.4**

1. This includes non-CVA counterparty credit risk.

Movements in the AIRB mortgage risk-weighted assets are described in table 34 in Appendix 1. During 2018, the Group carried out a re-segmentation of the mortgage AIRB models, resulting in a £1.7bn reduction in mortgage risk-weighted assets. This model change was approved by the PRA in June 2018.

Movements in other standardised assets reflect changes in the wholesale asset portfolio.

Operational risk is calculated using the standardised approach, based on the average Group income over the past three years. The year-on-year increase reflects the increasing income from 2014 to 2017.

8. Pillar 1 capital requirements - credit risk

Definition

Credit risk is defined as the risk that a borrower or counterparty fails to pay the interest or the capital due on a loan or other financial instrument (both on and off-balance sheet).

Risk appetite

The Group has appetite for high-quality credit exposures including affordable retail lending and liquid wholesale investments.

Exposures

The principal sources of credit risk arise from loans and advances to customers, loans and advances to banks and debt securities. The credit risk exposures of the Group are set out on page 22.

In terms of loans and advances, credit risk arises both from amounts lent and commitments to extend credit to a customer. This applies to the secured and unsecured portfolios.

Credit risk in the wholesale portfolio arises from loans and advances to banks and debt securities. Risks arising from derivatives and foreign exchange activities are classed as counterparty credit risk.

Measurement

The Group uses models to measure credit risk exposures including statistical models for the mortgage AIRB approach. Models are supported by both internal and external data. For all other exposures the Group applies standardised risk weightings.

Mitigation

Credit policy

The Risk function uses the Group's risk appetite to set out the credit policy for each type of credit risk. These policies are supported by lending manuals which define the responsibilities of underwriters and provide a rule set for credit decisions. The risk appetite, target market and risk acceptance criteria are reviewed at least annually. Risk oversight teams monitor early warning indicators, credit performance trends, key risk indicators, and review and challenge exceptions to planned outcomes. They test the adequacy of credit risk infrastructure and governance processes throughout the Group. Counterparty exposures are regularly reviewed and appropriate interventions are used where necessary. Risk Assurance, within the Risk function, perform independent risk-based reviews and provide an assessment of the effectiveness of internal controls and risk management practices. Oversight and review is also undertaken by Internal Audit.

Controls over AIRB rating systems

The Group has an established Independent Model Validation team that sets common minimum standards for predictive modelling development and operations. The standards are designed to ensure risk models and associated AIRB rating systems are developed consistently and are of sufficient quality to support business decisions and meet regulatory requirements.

Credit underwriting

The Group uses a variety of lending criteria when assessing applications for secured and unsecured lending. The general approval process uses credit acceptance scorecards and involves a review of an applicant's previous credit history using information held by credit reference agencies.

The Group assesses the affordability of the borrower under stressed scenarios including increased interest rates. In addition, the Group has in place limits on permitted indebtedness which take into account the debt customers hold with other lenders.

The Group rejects any application for a product where a customer is registered as bankrupt or insolvent, or has a County Court Judgement that is either unsatisfied or is for a value greater than £500 registered at a credit reference agency used by the Group. In addition, the Group's approach to underwriting applications takes into account the total unsecured debt held by a customer and their ability to afford that debt.

For residential mortgages, the Group's policy is to accept only standard applications with a loan-to-value ratio (LTV) of less than 95%. The Group has maximum % LTV limits which depend upon the loan size.

Table 11: Maximum LTVs

Loan size	Maximum LTV
Residential	
£1 to £500,000	**95% (purchase)**
£1 to £500,000	**95% (re-mortgage)**
£500,001 to £1,250,000	**80%**
£1,250,001 to £2,000,000	**75%**
Residential interest only	**75%**
Buy-to-let	**80%**

Monitoring

The Group produces regular portfolio monitoring reports for review by Senior Management. The Risk function in turn produces a review of credit risk throughout the Group, including reports on significant credit exposures, which are presented to the Risk Management Committee and the Board Risk Committee.

The performance of all rating models is monitored on a regular basis to ensure that:

- Appropriate risk differentiation capability is provided;
- generated ratings remain as accurate and robust as practical; and
- appropriate risk estimates are assigned to grades and pools of accounts.

In the event that the monitoring identifies material exceptions or deviations from expected outcomes, these are escalated for resolution.

Details of the monitoring of rating models are provided in Appendix 1.

Credit risk exposure by exposure class

For the purposes of these disclosures, credit exposure for the AIRB portfolios refers to the calculated EAD. As detailed on page 3, the EAD calculation includes amounts where customers have contractual rights to draw down further balances and estimates of interest accruals to the point of default.

The following table sets out the exposures for the various types of asset held by the Group and the average exposures during the year. The Group does not have any exposures to corporates or small and medium sized enterprises (SMEs).

Table 12: Group exposures, risk weights and average exposures

As at 31 December 2018	**Exposure[1]**	**Risk-weighted assets**	**Minimum capital requirement**	**Average risk weight**	**Average exposure in period**
	£m	**£m**	**£m**	**%**	**£m**
AIRB					
Retail exposures secured by real estate collateral	**37,770.8**	**4,594.1**	**367.5**	**12.2**	**36,984.1**
Standardised					
Credit cards and other retail exposures	**3,280.2**	**2,460.1**	**196.8**	**75.0**	**3,179.7**
Exposures in default	**26.4**	**26.4**	**2.1**	**100.0**	**22.3**
Central governments and central banks	**4,214.3**	**-**	**-**	**-**	**4,681.1**
Public sector entities	**14.9**	**-**	**-**	**-**	**3.7**
Multilateral development banks	**593.1**	**-**	**-**	**-**	**469.4**
Institutions	**546.0**	**110.5**	**8.8**	**20.2**	**425.5**
Covered bonds	**616.9**	**61.7**	**4.9**	**10.0**	**541.5**
Equities	**6.5**	**10.8**	**0.9**	**166.2**	**4.3**
Other assets	**175.8**	**203.9**	**16.3**	**116.0**	**180.0**
Total standardised	**9,474.1**	**2,873.4**	**229.8**	**30.3**	**9,507.5**
Total	**47,244.9**	**7,467.5**	**597.3**	**15.8**	**46,491.6**

As at 31 December 2017	Exposure[1]	Risk-weighted assets	Minimum capital requirements	Average risk weight	Average exposure in period
	£m	£m	£m	%	£m
AIRB					
Retail exposures secured by real estate collateral	36,097.6	5,790.5	463.2	16.0	35,019.1
Standardised					
Credit cards and other retail exposures	3,022.1	2,266.5	181.3	75.0	2,829.3
Exposures in default	16.4	16.4	1.3	100.0	14.5
Central governments and central banks	2,931.7	-	-	-	2,797.3
Multilateral development banks	234.1	-	-	-	192.6
Institutions	288.0	59.7	4.8	20.7	440.1
Covered bonds	396.5	39.7	3.2	10.0	406.6
Equities	3.1	3.1	0.2	100.0	5.5
Other assets	165.5	177.2	14.2	107.1	174.1
Total standardised	7,057.4	2,562.6	205.0	36.3	6,860.0
Total	43,155.0	8,353.1	668.2	19.4	41,879.1

1. Exposures are stated net of specific credit risk adjustments and before credit risk mitigation.

In early 2018, we repaid our remaining Funding for Lending Scheme (FLS) balances in full, using our final drawing from the Term Funding Scheme (TFS). TFS drawings totalled £6.4bn at the closure of the scheme at the end of February 2018 and a schedule for the staged repayment of TFS significantly ahead of contractual maturity is in place.

Credit risk exposure by industry or counterparty type

The tables below give details of the distribution of exposures by industry or counterparty type.

Table 13: Credit risk exposures by industry or counterparty type

As at 31 December 2018	Lending – individuals £m	Financial/ Sovereign £m	Other assets £m	Total £m
AIRB				
Retail exposures secured by real estate collateral	**37,770.8**	**-**	**-**	**37,770.8**
Standardised				
Credit cards and other retail exposures	**3,280.2**	**-**	**-**	**3,280.2**
Exposures in default	**26.4**	**-**	**-**	**26.4**
Central governments and central banks	**-**	**4,214.3**	**-**	**4,214.3**
Public sector entities	**-**	**14.9**	**-**	**14.9**
Multilateral development banks	**-**	**593.1**	**-**	**593.1**
Institutions	**-**	**546.0**	**-**	**546.0**
Covered bonds	**-**	**616.9**	**-**	**616.9**
Equities	**-**	**-**	**6.5**	**6.5**
Other assets	**-**	**-**	**175.8**	**175.8**
Total	**41,077.4**	**5,985.2**	**182.3**	**47,244.9**

As at 31 December 2017	Lending – individuals £m	Financial/ Sovereign £m	Other assets £m	Total £m
AIRB				
Retail exposures secured by real estate collateral	36,097.6	-	-	36,097.6
Standardised				
Credit cards and other retail exposures	3,022.1	-	-	3,022.1
Exposures in default	16.4	-	-	16.4
Central governments and central banks	-	2,931.7	-	2,931.7
Multilateral development banks	-	234.1	-	234.1
Institutions	-	288.0	-	288.0
Covered bonds	-	396.5	-	396.5
Equities	-	-	3.1	3.1
Other assets	-	-	165.5	165.5
Total	39,136.1	3,850.3	168.6	43,155.0

Credit risk exposure by geographical area

The tables below give details of the geographical distribution of exposures.

Table 14: Credit risk exposures by geographical area

As at 31 December 2018	UK £m	Europe £m	Rest of the world £m	Total £m
AIRB				
Retail exposures secured by real estate collateral	**37,770.8**	**-**	**-**	**37,770.8**
Standardised				
Credit cards and other retail exposures	**3,280.2**	**-**	**-**	**3,280.2**
Exposures in default	**26.4**	**-**	**-**	**26.4**
Central governments and central banks	**4,214.3**	**-**	**-**	**4,214.3**
Public sector entities	**-**	**14.9**	**-**	**14.9**
Multilateral development banks	**-**	**301.0**	**292.1**	**593.1**
Institutions	**109.5**	**145.1**	**291.4**	**546.0**
Covered bonds	**616.9**	**-**	**-**	**616.9**
Equities	**5.0**	**-**	**1.5**	**6.5**
Other assets	**175.8**	**-**	**-**	**175.8**
Total	**46,198.9**	**461.0**	**585.0**	**47,244.9**

As at 31 December 2017	UK £m	Europe £m	Rest of the world £m	Total £m
AIRB				
Retail exposures secured by real estate collateral	36,097.6	-	-	36,097.6
Standardised				
Credit cards and other retail exposures	3,022.1	-	-	3,022.1
Exposures in default	16.4	-	-	16.4
Central governments and central banks	2,931.7	-	-	2,931.7
Multilateral development banks	-	121.8	112.3	234.1
Institutions	72.3	16.1	199.6	288.0
Covered bonds	396.5	-	-	396.5
Equities	1.7	-	1.4	3.1
Other assets	165.5	-	-	165.5
Total	42,703.8	137.9	313.3	43,155.0

Credit risk exposure by residual maturity

The following tables give details of the contractual residual maturities of exposures.

Table 15: Credit risk exposures by residual maturity

As at 31 December 2018	**< 1 year**	**Residual maturity** **1-5 yrs**	**> 5 years**	**Total**
	£m	**£m**	**£m**	**£m**
AIRB				
Retail exposures secured by real estate collateral	**148.7**	**996.3**	**36,625.8**	**37,770.8**
Standardised				
Credit cards and other retail exposures	**3,280.2**	**-**	**-**	**3,280.2**
Exposures in default	**26.4**	**-**	**-**	**26.4**
Central governments and central banks	**3,897.0**	**-**	**317.3**	**4,214.3**
Public sector entities	**-**	**14.9**	**-**	**14.9**
Multilateral development banks	**25.0**	**395.7**	**172.4**	**593.1**
Institutions	**497.7**	**20.0**	**28.3**	**546.0**
Covered bonds	**10.5**	**344.8**	**261.6**	**616.9**
Equities	**6.5**	**-**	**-**	**6.5**
Other assets	**175.8**	**-**	**-**	**175.8**
Total	**8,067.8**	**1,771.7**	**37,405.4**	**47,244.9**

As at 31 December 2017	< 1 year	Residual maturity 1-5 yrs	> 5 years	Total
	£m	£m	£m	£m
AIRB				
Retail exposures secured by real estate collateral	150.4	959.3	34,987.9	36,097.6
Standardised				
Credit cards and other retail exposures	3,022.1	-	-	3,022.1
Exposures in default	16.4	-	-	16.4
Central governments and central banks	2,724.4	-	207.3	2,931.7
Multilateral development banks	-	132.9	101.2	234.1
Institutions	288.0	-	-	288.0
Covered bonds	28.9	182.1	185.5	396.5
Equities	3.1	-	-	3.1
Other assets	165.5	-	-	165.5
Total	6,398.8	1,274.3	35,481.9	43,155.0

Exposures in equities

The Group holds a small quantity of equity exposures.

Table 16: Exposures in equities

	2018	2017
	£m	£m
Other equities	**6.5**	3.1

The Group accounts for equities as financial instruments at fair value through other comprehensive income. They are measured at fair value, or cost, where their fair value cannot be reliably measured. The Group made no realised gains or losses on sales of equities that were recognised in CET1 capital during the year. As at 31 December 2018 there was an unrealised loss on equities recognised in CET1 capital of £0.8 million.

Exposures subject to the standardised approach

The Group uses the standardised approach to calculate risk-weighted assets on all exposures apart from retail mortgages.

The allocation of capital to credit risk within wholesale investments is calculated under the standardised approach as per CRD IV. For exposures to institutions and covered bonds, the Group uses credit ratings provided by the recognised credit rating agencies Standard and Poor's, Moody's and Fitch.

The following table shows the risk weights applied to credit risk exposures subject to the standardised approach, by exposure class, together with the risk-weighted asset value.

Table 17: Standardised exposures by risk weight

As at 31 December 2018					**Risk Weight**				
Exposure Class	**0%**	**10%**	**20%**	**50%**	**75%**	**100%**	**250%**	**Total**	**Unrated[1]**
Credit cards and other retail exposures	**-**	**-**	**-**	**-**	**3,280.2**	**-**	**-**	**3,280.2**	**3,280.2**
Exposures in default	**-**	**-**	**-**	**-**	**-**	**26.4**	**-**	**26.4**	**26.4**
Central governments and central banks	**4,214.3**	**-**	**-**	**-**	**-**	**-**	**-**	**4,214.3**	**-**
Public sector entities	**14.9**	**-**	**-**	**-**	**-**	**-**	**-**	**14.9**	**-**
Multilateral development banks	**593.1**	**-**	**-**	**-**	**-**	**-**	**-**	**593.1**	**-**
Institutions	**-**	**-**	**541.7**	**4.3**	**-**	**-**	**-**	**546.0**	**-**
Covered bonds	**-**	**616.9**	**-**	**-**	**-**	**-**	**-**	**616.9**	**-**
Equities	**-**	**-**	**-**	**-**	**-**	**3.6**	**2.9**	**6.5**	**6.5**
Other items	**4.7**	**-**	**-**	**-**	**-**	**149.2**	**21.9**	**175.8**	**175.8**
Total	**4,827.0**	**616.9**	**541.7**	**4.3**	**3,280.2**	**179.2**	**24.8**	**9,474.1**	**3,488.9**

As at 31 December 2017					Risk Weight				
Exposure Class	0%	10%	20%	50%	75%	100%	250%	Total	Unrated[1]
Credit cards and other retail exposures	-	-	-	-	3,022.1	-	-	3,022.1	3,022.1
Exposures in default	-	-	-	-	-	16.4	-	16.4	16.4
Central governments and central banks	2,931.7	-	-	-	-	-	-	2,931.7	-
Multilateral development banks	234.1	-	-	-	-	-	-	234.1	-
Institutions	-	-	281.1	6.9	-	-	-	288.0	-
Covered bonds	-	396.5	-	-	-	-	-	396.5	-
Equities	-	-	-	-	-	3.1	-	3.1	3.1
Other items	4.6	-	-	-	-	150.1	10.8	165.5	165.5
Total	3,170.4	396.5	281.1	6.9	3,022.1	169.6	10.8	7,057.4	3,207.1

1. Unrated balances refer to those exposures not rated by credit rating agencies.

Wholesale credit risk exposures by credit rating

The following tables give details of the credit grading of the Group's wholesale exposures.

Table 18: Standardised wholesale exposures by credit rating

	Exposure by external rating[1]			
As at 31 December 2018	**AAA to AA- £m**	**A+ to A- £m**	**BBB+ to BBB- £m**	**Total £m**
Central governments and central banks	**4,214.3**	**-**	**-**	**4,214.3**
Public sector entities	**14.9**	**-**	**-**	**14.9**
Multilateral development banks	**593.1**	**-**	**-**	**593.1**
Institutions	**435.8**	**110.1**	**0.1**	**546.0**
Covered bonds	**616.9**	**-**	**-**	**616.9**
Total	**5,875.0**	**110.1**	**0.1**	**5,985.2**

	Exposure by external rating[1]			
As at 31 December 2017	AAA to AA- £m	A+ to A- £m	BBB+ to BBB- £m	Total £m
Central governments and central banks	2,931.7	-	-	2,931.7
Multilateral development banks	234.1	-	-	234.1
Institutions	89.7	191.4	6.9	288.0
Covered bonds	396.5	-	-	396.5
Total	3,652.0	191.4	6.9	3,850.3

1. There is no credit risk mitigation applicable.

Collateral for secured retail and wholesale exposures

The sole collateral type for secured loans and advances to customers is residential property. Property offered as collateral must be of acceptable construction and located in England, Wales, Scotland or Northern Ireland. Title to the property must be good, marketable and free from onerous restrictions and conditions. The Group requires first legal charge over the property offered as collateral and does not accept charges over part of the collateral. The Group does not lend where the collateral is land only unless the product is Custom Build.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other bills are generally unsecured, with the exception of asset-backed securities and similar instruments such as covered bonds, which are secured by portfolios of financial assets. Collateral is generally not held against loans and advances to financial institutions, except where a collateral agreement has been entered into under a master netting agreement.

A large proportion of derivative exposure is cleared at Qualifying Central Counterparties (QCCPs) which replaces exposure to individual counterparties with an exposure against the Central Counterparty (CCP). Where derivatives are directly with a wholesale counterparty, these are collateralised under a Credit Support Annex (CSA) in conjunction with the International Swaps and Derivatives Association (ISDA) Master Agreement.

The CSA allows margin calls to be made on the net mark-to-market value of derivative exposures with a particular counterparty. All interest rate derivative relationships are subject to margin calls on a daily basis. Collateral held or paid under the CSAs is in the form of cash and government securities in GBP, USD and Euros. As permitted under the standardised approach, the Group recognises the risk mitigating effect of these CSAs in its Pillar 1 capital calculations.

In order to minimise credit loss the Group will receive additional collateral from certain counterparties in the event their credit rating falls below contractually set triggers.

It is the Group's policy that, at the time of borrowing, collateral should always be realistically valued by an appropriately qualified source, independent of both the credit decision process and the customer. Collateral valuation is reviewed on a regular basis.

Fair value of collateral

Collateral held in relation to secured loans is capped at the amount outstanding on an individual loan basis. The percentages in the table below represent the value of collateral, capped at loan amount, divided by the total loan amount in each IFRS 9 stage, which are defined in table 20.

Table 19: Fair value of collateral against secured loans, capped at loan value

As at 31 December 2018	**Total collateral value of residential mortgage loans**	
	£m	**%**
Stage 1	**33,399.7**	**100.0**
Stage 2	**1,812.2**	**100.0**
Stage 3	**132.4**	**100.0**
Total	**35,344.3**	**100.0**

As at 31 December 2017	Total collateral value of residential mortgage loans	
	£m	%
Stage 1	32,033.7	100.0
Stage 2	1,482.1	100.0
Stage 3	168.4	100.0
Total	33,684.2	100.0

Some segments in the table above may appear fully collateralised however contain some immaterial balances in negative equity.

At 31 December 2018 cash collateral in relation to derivatives and repos of £69.7 million (2017: £93.0 million) had been pledged by the Group and £52.4 million (2017: £49.4 million) has been received as cash collateral by the Group. As at 31 December 2018 £90.1 million (2017: £76.0 million) has been received as collateral in the form of securities by the Group.

Credit risk impairments

Under IAS 39 loans were classified under specific credit risk classifications, including past due and impaired. Following the introduction of IFRS 9, loan categorisations have changed in accordance with the following table.

Table 20: Categorisation of credit risk by impairment level

Credit risk categorisation	Expected credit loss (ECL) calculation period	Description
Stage 1	12 months	A loan that is not credit-impaired on initial recognition and has not experienced a significant increase in credit risk
Stage 2	Lifetime	If a significant increase in credit risk has occurred since initial recognition, the loan is moved to stage 2, but is not yet deemed to be credit-impaired.
Stage 3	Lifetime	If the loan is credit-impaired it is moved to stage 3. All expired term, material fraud and operational risk loans are classified as credit-impaired.

Impairment provisioning

The Group's impairment provisions are calculated in line with IFRS 9 which provides for expected credit losses based on the credit risk categorisation of the exposure. Full details are provided in the Risk Report of the 2018 Virgin Money Group Annual Report and Accounts. Following the adoption of IFRS 9 all provisions have been classed as specific credit risk adjustments. All exposures are located in the UK.

Table 21: Analysis of retail credit risk exposures by IFRS 9 allocation and total provisions

As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total	General impairment provisions	Specific impairment provisions
	£m	£m	£m	£m	£m	£m
Retail mortgages	**33,399.7**	**1,812.4**	**132.4**	**35,344.5**	**-**	**13.8**
Credit cards	**2,950.4**	**386.4**	**41.8**	**3,378.6**	**-**	**114.4**
Other retail exposures	**-**	**0.1**	**-**	**0.1**	**-**	**0.1**
Total	**36,350.1**	**2,198.9**	**174.2**	**38,723.2**	**-**	**128.3**

Table 22: Analysis of movements in impairment provisions

	Retail mortgages	Credit cards	Other retail exposures	Total
	£m	£m	£m	£m
General impairment provisions				
At 31 December 2017	**10.9**	**14.3**	**0.1**	**25.3**
Reclassification due to IFRS 9	**(10.9)**	**(14.3)**	**(0.1)**	**(25.3)**
At 1 January 2018	**-**	**-**	**-**	**-**
Specific impairment provisions				
At 31 December 2017	**1.2**	**32.9**	**-**	**34.1**
Reclassification due to IFRS 9	**10.9**	**14.3**	**0.1**	**25.3**
Day 1 IFRS 9 adjustments	**-**	**44.8**	**-**	**44.8**
At 1 January 2018	**12.1**	**92.0**	**0.1**	**104.2**
Increase in provision during year	**1.9**	**69.4**	**-**	**71.3**
Amounts written off during the year	**(0.2)**	**(47.0)**	**-**	**(47.2)**
At 31 December 2018	**13.8**	**114.4**	**0.1**	**128.3**

9. Pillar 1 capital requirements – credit risk – securitisation

The Group is a participant in the securitisation market, operating as an originator and an investor in third party securitisations. As an originator, the Group undertakes securitisation activities principally to provide funding diversification, giving access to a wide range of investors in different geographic areas. Securitisation also serves to generate liquidity from residential mortgage loans. As an investor, the Group invests directly in third party asset-backed securities as part of its liquidity management activity.

Originated securitisations

The Group has securitised certain mortgage loans by transferring the loans to special purpose vehicles (SPVs) controlled but not legally owned by the Group. Only residential mortgages have been included within originated securitisations.

The Group administers the SPV and the originating Group company receives fees from the SPV for continuing to service the loans. The Group also acts as the cash manager for the transactions, operates as the basis rate swap provider and the start-up loan provider and provides a guaranteed investment contract bank account.

Notes issued as part of a securitisation are divided into separate tranches depending upon their level of subordination. The most junior tranches are retained by the Group. This means that any shortfall in income would firstly be borne by any reserve funds within the structure and would then be borne as losses by the Group as junior noteholders. This means there is effectively no significant risk transfer of credit risk away from the Group, as a result the Group does not benefit from lower regulatory capital requirements in respect of these securitised assets.

Within the Group's financial statements, the treatment of SPVs is assessed in accordance with International Financial Reporting Standard 10. The accounting policies are described in more detail in Note 1.8 to the consolidated financial statements in the 2018 Virgin Money Group Annual Report and Accounts.

Securitisation programmes and activity

Table 23: Securitisation activity during the year

As at 31 December 2018	**Securities issued**	**Of which retained**	**Currency**
	£m	**£m**	
Gosforth Funding 2018-1 plc	**1,427.2**	**647.8**	**US Dollar, Sterling**
Total	**1,427.2**	**647.8**	

As at 31 December 2017	Securities issued	Of which retained	Currency
	£m	£m	
Gosforth Funding 2017-1 plc	1,151.8	406.0	US Dollar, Sterling
Total	1,151.8	406.0	

For all funding raised in currencies other than Sterling, the Group enters into cross-currency derivatives which swap the foreign currency liabilities back to Sterling.

As at 31 December 2018 the total outstanding externally issued securitisation debt was £2,699.0 million (2017: £2,439.3 million) and the total outstanding retained securitisation debt was £3,072.1 million (2017: £2,698.6 million). There were no assets awaiting securitisation at 31 December 2018 (2017: nil).

On 16th January 2018 the group completed the sale of £199.5m class A1b notes from the Gosforth Funding 2017-1 plc transaction. The notes had been retained by the Group when the original transaction completed in September 2017.

The Group utilises the services of two External Credit Assessment Institutions (ECAIs), Moody's and Fitch, to rate the securitisation transactions in issue. The ratings assigned assess the ability of the structure to allow for the timely payment of interest and the ultimate payment of principal of each of the rated notes. As part of the ratings process each of the agencies is committed to ongoing transaction monitoring to ensure that, in their view, the assigned ratings remain an appropriate reflection of the issued notes' credit risk.

Risks inherent in securitised assets

The Group's securitisation programmes are made up of residential mortgages, where credit risk is the primary risk driver to the underlying asset pool. The processes undertaken by the Group to monitor changes in the credit risk of securitised mortgages are the same as unsecuritised mortgages and are described in Appendix 1.

Both the notes in issue and the underlying asset pool are exposed to market risk in the form of interest rate risk. The notes in issue may also be exposed to foreign exchange market risk. In order to mitigate interest rate and market risk to which the securitised assets may be exposed, the Group enters into interest rate swap agreements and cross currency swap agreements.

Liquidity risk arises where insufficient funds are received by the SPVs to service payments to the noteholders as they fall due. The Group is under no obligation to support any losses that may be incurred by the securitisation transactions or holders of the notes issued and does not intend to provide such further support. The parties holding the notes in issue are entitled to obtain payment of the principal and interest only to the extent that the resources of the securitisation transactions are sufficient to support such payment and the holders of the notes have agreed not to seek recourse in any other form.

Securitised exposure

The following table shows the total balance sheet value of loans securitised, the impaired and past due amounts of those loans and the losses recognised during the year.

Table 24: Total and impaired securitised assets

As at 31 December 2018	**Balance sheet value**	**Impaired and past due**	**Losses**
	£m	**£m**	**£m**
Retail mortgages	**6,470.3**	**18.1**	**-**

As at 31 December 2017	Balance sheet value	Impaired and past due	Losses
	£m	£m	£m
Retail mortgages	5,438.5	24.2	-

Purchased securitisations

All investments in securitisation exposures are held within the non-trading book of the Group. Risk-weighted exposures reported for purchased securitised assets at 31 December 2018 are calculated in line with the CRR under the standardised approach.

The following table gives details of the positions in the securitised exposures of other issuers purchased by the Group.

Table 25: Purchased securitisation positions

	2018		2017	
	Exposures	**Risk-weighted assets**	Exposures	Risk-weighted assets
	£m	**£m**	£m	£m
Exposures risk-weighted at 20% (Credit Rating of AA- or higher)	**148.1**	**29.6**	61.7	12.3

Where appropriate, the Group utilises the services of Moody’s, Fitch and Standard and Poor’s to rate purchased positions for risk weight allocation purposes.

During the year, the Group made gains of less than £0.1m on sales and redemptions of purchased securitisations.

10. Pillar 1 capital requirements - counterparty credit risk

Counterparty credit risk is the risk that the counterparty to a transaction could default during the life of the transaction. For the Group, this applies to derivative, central counterparty clearing and asset repurchase (repos) agreements.

Counterparty credit risk is monitored daily and reported to Treasury Risk Committee (TRC) monthly. TRC is a sub-committee of the Risk Management Committee (RMC) and receives monthly updates on counterparty credit risk.

The duration of the derivative and the credit quality of the counterparty are both factored into the internal capital and credit limits for counterparty credit exposures.

A ratings downgrade could result in the Group being required to post additional collateral under derivative CSA contracts.

The Group measures derivative counterparty credit exposure value under the counterparty credit risk mark-to-market method. This exposure value is derived by adding the gross positive fair value of the contract (replacement cost) to the contract's potential future credit exposure, which is derived by applying a standardised multiple based on the contract's residual maturity to the notional value of the contract. Collateral received on these contracts is then deducted to obtain the net exposure.

The exposure of repos is measured by calculating the difference between the value of the asset repo'd and the cash received from the counterparty plus interest accumulated, net of collateral posted or received.

Wrong way risk occurs where exposure to a counterparty is adversely correlated with the credit quality of that counterparty. The Group has no such exposure, as it has no appetite for credit derivative positions which are the key drivers of such a risk.

The table below details non-centrally cleared derivative exposures.

Table 26: Derivative exposures

	2018	2017
	£m	£m
Gross positive fair values of derivative contracts	**92.9**	78.8
Netting with gross negative fair value of derivative contracts	**(5.9)**	(11.5)
Potential future incremental exposure	**60.4**	47.3
Collateral received (deposits from banks)	**(111.7)**	(84.4)
Net derivative exposures	**35.7**	30.2

Total credit risk exposures in relation to counterparty credit risk are shown below.

Table 27: Standardised approach counterparty credit risk exposures

As at 31 December 2018					**Risk Weight**						
Exposure class	**0%**	**2%**	**10%**	**20%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Unrated**	**Total**
Institutions	**-**	**110.2**	**-**	**2.3**	**34.6**	**-**	**-**	**-**	**-**	**-**	**147.1**
Central governments and central banks	**-**	**-**	**90.1**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**90.1**
Other items	**139.7**	**-**	**-**	**19.6**	**111.1**	**-**	**-**	**-**	**-**	**-**	**270.4**
Total exposure	**139.7**	**110.2**	**90.1**	**21.9**	**145.7**	**-**	**-**	**-**	**-**	**-**	**507.6**
Total risk-weighted assets											**83.0**

As at 31 December 2017					Risk Weight						
Exposure class	0%	2%	10%	20%	50%	75%	100%	150%	250%	Unrated	Total
Institutions	-	88.4	-	4.4	25.7	-	-	-	-	-	118.5
Central governments and central banks	-	-	76.0	-	-	-	-	-	-	-	76.0
Other items	316.2	-	-	-	48.1	-	-	-	-	-	364.3
Total exposure	316.2	88.4	76.0	4.4	73.8	-	-	-	-	-	558.8
Total risk-weighted assets											47.1

Table 28: Analysis by contract type

	Exposures		**Risk-weighted assets**	
	2018 £m	2017 £m	**2018 £m**	2017 £m
Interest rate contracts	**120.3**	103.4	**10.1**	8.3
Equity contracts	**-**	1.4	**-**	0.3
Foreign exchange contracts	**116.9**	89.7	**13.4**	14.5
Securities financing transactions (repos)	**270.4**	364.3	**59.5**	24.0
Sub-total	**507.6**	558.8	**83.0**	47.1
Credit valuation adjustment	-	-	**16.6**	10.4
Total	**507.6**	558.8	**99.6**	57.5
Of which central counterparties	**110.2**	88.4	**2.2**	1.8

11. Pillar 1 capital requirements - operational risk

Definition

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

Risk appetite

The Group's operational risk appetite is designed to safeguard the interests of customers, internal and external stakeholders, and shareholders.

Exposures

The principal operational risks to the Group are:

- IT systems, resilience and change risk arising from failure to develop, deliver and maintain effective IT solutions;
- information security risk arising from information leakage, loss or theft;
- external fraud arising from an act of deception or omission;
- cyber risk arising from malicious attacks on the Group via technology, networks and systems;
- service disruption;
- failure of a third party corporate partner or strategic supplier;
- normal business operational risk including transaction processing, information capture and implementation of change; and
- people risk.

Measurement

A variety of measures is used such as scoring of potential risks, considering impact and likelihood, assessing the effectiveness of controls, monitoring of events and losses by size, functional area and internal risk categories. The Group maintains a formal approach to operational risk event escalation. Material events are identified, captured and escalated. The root causes of events are determined and action plans put in place to ensure an optimum level of control. This ensures the Group keeps customers and the business safe, reduces costs, and improves efficiency.

Mitigation

The Group's control environment is regularly reviewed. Reporting on material risks is discussed monthly by Senior Management. Risks are managed through a range of strategies – such as mitigation, transfer (including insurance), and acceptance. Contingency plans are maintained for a range of potential scenarios with regular disaster recovery exercises.

Mitigating actions for the principal risks include:

- Investment in IT infrastructure to ensure continued availability, security and resilience;
- investment in information security capability to protect customers and the Group;
- investing in protection of customer information, including access to key systems and the security, durability and accessibility of critical records;
- a risk-based approach to mitigate the financial crime risks the Group faces, reflecting the current and emerging financial crime risks within the market. The Group has developed a comprehensive financial crime operating model. The Group's fraud awareness programme is a key component of the financial crime control environment; and
- operational resilience measures and recovery planning to ensure an appropriate and consistent approach to the management of continuity risks, including potential interruptions from a range of internal and external incidents or threats.

Monitoring

Monitoring and reporting of operational risk is undertaken at Board and Executive Committees. A combination of systems, monthly reports, oversight and challenge from the Risk function, Internal Audit and assurance teams ensures that key risks are regularly presented and considered by Senior Management.

Key operational risks are appropriately insured, where possible. The insurance programme is monitored and reviewed regularly, with recommendations made to Executive management prior to each renewal.

Operational risk capital requirement

The standardised approach measures the capital requirement as a percentage of the average net interest and non-interest income. The Group adopts this approach, deriving from the three year average of the aggregate risk-weighted income of the underlying business. This requires a firm's activities to be split into a number of defined business lines with a specific risk weight applied to the income of each business line.

At 31 December 2018, as a result of this approach, the Group Pillar 1 capital requirement for operational risk was £69.4 million (2017: £60.5 million) represented by risk-weighted assets of £867.3 million (2017: £755.7 million).

12. Capital requirements - market risk

Definition

Market risk is defined as the risk that the value of, or net income arising from, assets and liabilities changes as a result of interest rate or exchange rate movements. Market risk for the Group arises as a natural consequence of carrying out and supporting core business activities. The Group does not trade or make markets and transacts foreign exchange for limited operational purposes only. As a result, interest rate risk is the only material market risk for the Group.

Risk appetite

The Group has limited risk appetite for exposures to interest rate risk in the banking book (IRRBB), in terms of both potential changes to economic value, and changes to expected net interest income or earnings. Risk appetite limits and metrics are set with reference to stress scenarios using measures described in this section.

Capital requirement

The Group's Pillar 1 market risk capital requirement is limited to its foreign exchange exposure which is immaterial and falls below the de minimis limit within CRD IV. As such it has no Pillar 1 market risk capital requirement. The rest of this section therefore relates to market risk measured through the Group's Pillar 2 add on.

Exposures

Term mismatch risk in the Group's portfolio arises from the different re-pricing characteristics of the Group's assets, liabilities and off-balance sheet exposures. Term mismatch risk arises predominantly from the mismatch between assets and liabilities either maturing or the amount resetting in any given time period, and the investment term of capital and reserves, and the need to stabilise earnings in order to minimise income volatility.

Basis risk arises from possible changes in spreads, between different reference rates, for example, where assets and liabilities reprice at the same time and the scale of rate movement differs. The Group is exposed to Bank Base Rate, LIBOR and SONIA. If the spread between these rates moves adversely, the Group may experience a reduction in income on unhedged exposures.

Pipeline risk arises where new business volumes are higher or lower than forecast, requiring the business to unwind or execute additional hedging at rates unfavourable to those that were expected. Variations in business volume outturn to forecast arise from changes in customer behaviour and relative product competitiveness.

Product optionality risk arises when customer balances reduce more quickly or slowly than anticipated due to economic conditions or customers' responses to changes in interest rates or other economic conditions differing from expectations.

Swap spread risk arises through the hedging of the repricing risk of fixed rate securities (e.g. gilt securities) with derivatives. The yields in securities and swap markets for a given tenor may not change by the same amount as each other. Such differences cause spread risk to arise.

Foreign currency risk arises as a result of having assets, liabilities and derivative items denominated in currencies other than Sterling as a result of banking activities. The Group has minimal exposure to foreign currency risk.

Measurement

The Group quantifies the impact to economic value and earnings arising from a shift to interest rates using stress scenarios. These scenarios examine the interest rate re-pricing gaps, asset and liability interest rate bases and product optionality.

The Group maintains IRRBB management practices in line with applicable regulatory expectations.

Interest rate risk exposure is measured as follows:

- Capital at Risk (CaR) is considered for assets and liabilities in all interest rate risk re-pricing periods. This is expressed as the present value of the negative impact of a sensitivity test on the Group's capital position.
- Earnings at Risk (EaR) is considered for assets and liabilities on the forecast balance sheet over a 12 month period, measuring the adverse change to net interest income from a change in interest rates.

IRRBB is measured considering both positive and negative instantaneous shocks to interest rates. The measurement is enhanced with non-parallel stress scenarios (basis risk), swap spread risk and behavioural volume stresses (pipeline and optionality risk). Both EaR and CaR are controlled by a defined risk appetite limit and supporting metrics.

CaR measurements are based on a 2% parallel stress over the balance sheet horizon, for term mismatch. EaR measurements are based on a 1% parallel stress over a 12 month period. The stress scenarios capture the risk of negative interest rates.

The magnitude of stress used within the Group's internal risk appetite differs from the standardised regulatory stress, based on observed rate movements and internally defined exposure holding periods. In the case of basis risk, the Group uses an internal stress test outcome for CaR and EaR.

The Group has an integrated Asset and Liability Management system which allows it to measure and manage interest rate re-pricing profiles (including behavioural assumptions), perform stress testing and produce forecasts.

Mitigation

The Group uses derivative financial instruments to bring its residual net exposure within risk appetite. The residual net exposure takes account of natural offsets between assets and liabilities.

As defined within the scope of the Group's IRRBB Policy, the Interest Rate Risk Transfer Pricing framework is used for interest rate risk arising from commercial product lines that can be hedged. Treasury is responsible for managing risk and does this through natural offsets of matching assets and liabilities where possible.

Appropriate hedging activity of residual exposures is undertaken, subject to the authorisation and mandate of the Asset and Liability Committee, within the Board approved risk appetite. Certain residual interest rate risks may remain due to differences in basis and profile mismatches arising from customer behaviour.

Where possible, the Group mitigates basis risk by creating natural offsets. When required, the Group uses basis derivatives to maintain the residual exposure within risk appetite.

Monitoring

Interest rate risk is monitored centrally using the measures described above and other key risk indicators. The Asset and Liability Committee and the Risk Management Committee regularly review market risk exposure as part of the wider risk management framework. The Asset and Liability Committee reviews and approves strategies to manage IRRBB.

The following tables show the Capital at Risk and the Earnings at Risk.

Table 29: Capital at Risk[1]

	2018		2017	
	Positive 2% rate shock £m	**Negative 2% rate shock**[2] **£m**	Positive 2% rate shock £m	Negative 2% rate shock[2] £m
Interest rate mismatch risk	**(8.7)**	**29.7**	(6.3)	0.4
Basis risk	**(8.1)**	**(4.5)**	(1.4)	(1.4)
Pipeline risk	**(7.5)**	**(7.6)**	(4.7)	(5.5)
Optionality risk	**(20.9)**	**(8.6)**	(39.8)	(19.0)
Total interest rate risk – Capital at Risk	**(45.2)**	**9.0**	(52.2)	(25.5)

1. Negative values in the table represent an adverse impact.
2. Market rate (BBR, LIBOR and swaps) stresses are subject to a floor of 0%.

Table 30: Earnings at Risk[1]

	2018		2017	
	Positive 1% rate shock £m	**Negative 1% rate shock**[2] **£m**	Positive 1% rate shock £m	Negative 1% rate shock[2] £m
Interest rate mismatch risk	**2.1**	**20.9**	21.3	2.2
Basis risk	**(8.1)**	**(8.1)**	(0.1)	(9.0)
Pipeline risk	**(3.6)**	**(1.8)**	(2.5)	(1.3)
Optionality risk	**(3.1)**	**(0.1)**	(6.3)	(1.6)
Total interest rate risk – Earnings at Risk	**(12.7)**	**10.9**	12.4	(9.7)

1. Negative values in the table represent an adverse impact.
2. Market rate (BBR, LIBOR and swaps) stresses are subject to a floor of 0%.

13. Funding and liquidity risk

Definition

Funding risk is defined as the inability to raise and maintain sufficient cost-effective funding in quality and quantity to support the delivery of the business plan.

Liquidity risk is defined as the inability to accommodate liability maturities and withdrawals, fund asset growth and otherwise meet contractual obligations to make payments as they fall due.

Risk appetite

The Group funds before it lends, and has a clear framework for balance sheet structure in order to control funding, refinancing and liquidity risk. The Group operates an investment strategy for wholesale investments which prioritises liquidity and ensures that the Group holds a liquid asset buffer in excess of both regulatory and internally assessed requirements.

Exposures

Liquidity exposure represents the amount of potential stressed outflows in any future period less expected inflows.

The Group's primary liquidity risk exposure arises through the redemption of retail deposits where customers are permitted to withdraw funds with limited or no notice. Additional exposures exist in relation to pipeline mortgage business, undrawn card balances and wholesale funding.

The Group is exposed to refinancing risk at the point of contractual maturity. The risk arises from both wholesale and retail funding sources.

Measurement

A series of measures is used across the Group to monitor both short and long-term liquidity requirements including ratios, cash outflow triggers, wholesale and retail funding maturity profile, early warning indicators and stress test survival periods. Liquidity risk appetite covers a range of metrics considered key to maintaining a strong liquidity and funding position. Strict criteria and limits are in place to ensure highly liquid marketable securities are available as part of the portfolio of liquid assets.

The measurement framework has two other important components:

- The volume and quality of the Group's liquid asset portfolio is defined through a series of stress tests across a range of time horizons and stress conditions. The Group ensures a liquidity surplus is held during normal market conditions above liquidity stress outflow requirements. Stress cash outflow assumptions have been established for individual liquidity risk drivers across idiosyncratic and market wide stresses.

  Internal and regulatory liquidity requirements are quantified on a daily basis, with holdings assessed against a full suite of liquidity stresses on a weekly basis.

- The Group maintains a Liquidity Contingency Plan which is designed to provide an early warning indicator for liquidity concerns and a list of potential actions to address a liquidity shortfall. As a result, mitigating actions can be taken to avoid a more serious situation developing.

Mitigation

The most material component of the Group's funding and liquidity position is the customer deposit base, which is supplemented by wholesale funding providing a source of stable funding for balance sheet growth. Where funding concentrations exist, for example refinancing at maturity, these are managed within the appropriate internal risk appetite, to control the size of the exposure. Refinancing is planned in advance of maturity with liquidity held to mitigate the potential exposure. Longer term funding is used to manage the Group's strategic liquidity profile in line with limits.

The Group operates a Funds Transfer Pricing (FTP) mechanism which supports customer pricing and the overall Group balance sheet strategy.

FTP makes use of behavioural maturity profiles, taking account of expected customer loan prepayments and the stability of customer deposits. Such behavioural maturity assumptions are subject to formal governance and reviewed periodically.

The ability to deploy assets quickly, either through the repo market or through outright sale, is also an important source of liquidity for the Group. In addition to central bank reserves, the Group holds sizeable balances of high-quality marketable debt securities. Such securities can be sold to provide, or used to secure, additional cash inflows from market counterparties or central bank facilities (Bank of England), should the need arise.

Monitoring

Liquidity is actively monitored by the Group. Reporting is conducted through the Asset and Liability Committee and the Board Risk Committee. In a stress situation the level of monitoring and reporting is increased commensurate with the nature of the stress event.

Daily monitoring and control processes are in place to address internal and regulatory liquidity requirements. The Group monitors a range of market and internal early warning indicators on a daily basis for early signs of liquidity risk in the market or specific to the Group. These are a mixture of quantitative and qualitative measures including daily variation of customer balances, cash outflows, changes in primary liquidity portfolio, credit default swap spreads and changing funding costs.

Table 31: Liquidity coverage ratio (LCR)

	2018	2017
	£m	£m
Liquidity buffer	**5,326.5**	5,136.6
Total net cash outflows	**3,027.5**	2,529.4
Liquidity coverage ratio	**175.9%**	203.1%

During 2018, the Group maintained a strong funding and liquidity position in excess of risk appetite and the short-term liquidity stress metric, the Liquidity Coverage Ratio (LCR). The Group's LCR as at 31 December 2018 was 175.9%, representing a material surplus above the UK regulatory minimum requirement of 100%. The LCR declined from 203.1% driven by higher levels of SME deposits, upcoming repo maturities and wholesale debt payments.

The Group holds sufficient high quality liquid assets to cover a PRA Pillar 2 liquidity buffer which is designed to account for risks not covered in the LCR calculation.

Appendix 1. Advanced Internal Ratings Based (AIRB) approach

Scope of the AIRB permission

The Group's AIRB Waiver Application Pack was approved by the FSA on 1 January 2010 for capital adequacy monitoring and reporting from 1 January 2010 onwards. The scope of this permission covers retail exposures secured by real estate collateral (mortgage portfolio). None of these exposures have an external credit assessment. Asset classes not falling within the scope of the Group's AIRB permission are treated under the standardised approach.

Overview of the AIRB models

The Group's AIRB approach provides risk sensitive modelling to generate an internal estimate for the credit risk capital requirement. The requirements specified by the AIRB approach require the Group to use an internal assessment of the probability of a customer defaulting (PD), the loss given default (LGD) and the exposure at default (EAD). These approaches are subject to regulatory floors in addition to the internal model assessments.

The PD, LGD and EAD of credit risk exposures form the base inputs to the regulatory risk weight calculation used to derive the Pillar 1 risk-weighted assets at an account level. From this, the minimum capital requirements are calculated (being 8% of the RWA), reflecting the credit risk capital required to cover any unexpected losses across the portfolio.

An expected loss (EL) is derived by multiplying the PD, LGD and EAD risk components together, aligning to long run average PDs and downturn LGDs. As such, the EL calculated represents an estimate of the monetary amount the business expects to lose from a customer defaulting within a 12 month outcome window, irrespective of current economic conditions. Where expected losses exceed accounting impairment provisions linked to the underlying credit risk exposures the resultant excess expected loss (EEL) is deducted from CET1 capital.

The Group uses the AIRB model outputs to inform both credit risk management and day-to-day credit related decision making within the business (the Use Test). Application of an AIRB approach requires PRA approval in the form of a waiver permission.

Development and monitoring of AIRB models

The predictive modelling function is responsible for the development and monitoring and use of credit rating models for the AIRB approach. In order to ensure the integrity and independence of these models, the credit risk control function has clearly segregated duties from those responsible for originating exposures. The Credit Risk Committee is the designated committee for oversight and approval of the Group's credit rating models. The Group's independent model validation team provides review and challenge of the credit rating models and is independent from the credit risk control function.

Internal application of the AIRB approach

Scorecards are used to assess customer performance at application and subsequently via behavioural scores. Bureau data is utilised at application and a combination of bureau and internal performance data is used for ongoing behavioural scoring. Behavioural scores are grouped into score ranges and used to assign a point-in-time PD across the portfolio. The point-in-time PDs are transformed through a variable scalar model to derive a long run average (LRA) regulatory PD. The EAD model calculates outstanding drawings available to the customer up to the point of default. The LGD model accounts for recoveries, addressing house price volatility, distressed sale discount, associated costs and time to recovery.

The ratings system uses a through the cycle approach. The models determine long run average PD, downturn LGD and EAD for each segment in order to calculate expected losses and risk-weighted assets. In addition, the models are used to inform risk appetite, influence lending strategy and support determination of the level of impairment provisions.

The rating models group customers into segments differentiated by a number of factors, which include product type, LTV and measures of affordability. For each segment a long run average PD, downturn LGD and EAD are estimated from a combination of recent and historic data. Data covering the period back to the early 1990s is utilised in the derivation of the PD, LGD and EAD. All models incorporate an appropriate level of conservatism to account for uncertainty around model estimates over an economic cycle or in downturn conditions. The adequacy of this conservatism is robustly challenged through the Group's internal governance process.

Analysis of AIRB exposures by exposure class

Table 32: AIRB exposures and risk-weighted assets by exposure class

	2018		2017	
	Exposures £m	**Risk-weighted assets £m**	Exposures £m	Risk-weighted assets £m
Retail AIRB				
Retail exposures secured by real estate collateral				
Buy-to-let	**7,773.6**	**698.8**	6,853.0	758.4
Standard residential lending	**29,997.2**	**3,895.3**	29,244.7	5,032.1
Total	**37,770.8**	**4,594.1**	36,097.7	5,790.5

The following tables detail the Group's exposures for its sole AIRB exposure class of retail exposures secured by real estate collateral. These relate to EAD, and include all on and off-balance sheet exposures. The risk bands are segmented based upon three characteristics: mortgage type (residential buy-to-let and standard residential), borrower type (single or joint) and LTV.

Table 33: AIRB exposures by risk band

As at 31 December 2018

Risk band	LRA PD	Exposure	Downturn LGD	Risk-weighted assets	Risk-weighted assets	Undrawn commitments
	%	£m	%	%	£m	£m
Buy-to-let 1a	**0.44%**	**2,886.5**	**8.27%**	**4.60%**	**132.7**	**146.4**
Buy-to-let 2a	**1.01%**	**1,587.3**	**14.39%**	**15.87%**	**251.9**	**63.3**
Buy-to-let 3a	**1.82%**	**18.9**	**8.57%**	**12.70%**	**2.4**	**3.1**
Buy-to-let 4a	**2.61%**	**28.4**	**8.13%**	**14.43%**	**4.1**	**2.2**
Buy-to-let 1b	**0.80%**	**2,125.6**	**8.28%**	**5.20%**	**110.5**	**124.1**
Buy-to-let 2b	**1.68%**	**1,078.6**	**14.33%**	**17.04%**	**183.8**	**41.8**
Buy-to-let 3b	**3.82%**	**17.7**	**8.73%**	**17.26%**	**3.1**	**3.3**
Buy-to-let 4b	**5.52%**	**26.2**	**7.45%**	**16.96%**	**4.4**	**1.7**
Buy-to-let default	**100.00%**	**4.4**	**11.47%**	**129.83%**	**5.9**	**0.3**
Total buy-to-let	**0.92%**	**7,773.6**			**698.8**	**386.2**
Standard 1a	**0.89%**	**3,930.3**	**5.41%**	**3.35%**	**131.8**	**290.3**
Standard 2a	**0.93%**	**6,956.2**	**8.88%**	**6.51%**	**452.9**	**309.0**
Standard 3a	**1.47%**	**4,360.2**	**12.94%**	**12.65%**	**551.5**	**168.4**
Standard 4a	**1.78%**	**2,820.5**	**16.41%**	**20.52%**	**578.7**	**101.0**
Standard 5a	**2.17%**	**4,262.1**	**19.88%**	**29.50%**	**1,257.1**	**288.7**
Standard 1b	**1.18%**	**1,423.9**	**5.40%**	**3.44%**	**49.0**	**104.0**
Standard 2b	**1.30%**	**2,136.4**	**8.88%**	**6.69%**	**143.0**	**117.5**
Standard 3b	**1.56%**	**1,514.1**	**12.85%**	**9.93%**	**150.5**	**65.7**
Standard 4b	**1.84%**	**1,017.8**	**15.96%**	**14.75%**	**150.1**	**50.2**
Standard 5b	**2.42%**	**1,529.3**	**19.40%**	**23.97%**	**366.6**	**110.9**
Standard default	**100.00%**	**46.4**	**12.49%**	**138.25%**	**64.1**	**3.7**
Total standard	**1.59%**	**29,997.2**			**3,895.3**	**1,609.4**
Total		**37,770.8**			**4,594.1**	**1,995.6**

As at 31 December 2017

Risk band	LRA PD	Exposure	Downturn LGD	Risk-weighted assets	Risk-weighted assets	Undrawn commitments
	%	£m	%	%	£m	£m
Buy-to-let 1a	0.45%	2,449.5	8.27%	5.35%	131.0	152.0
Buy-to-let 2a	1.01%	1,540.8	14.57%	17.73%	273.2	46.1
Buy-to-let 3a	1.80%	20.7	8.38%	16.18%	3.3	3.1
Buy-to-let 4a	2.73%	31.8	8.36%	19.75%	6.3	2.6
Buy-to-let 1b	0.80%	1,733.5	8.22%	6.54%	113.3	116.6
Buy-to-let 2b	1.70%	1,025.6	14.41%	21.09%	216.3	37.1
Buy-to-let 3b	3.66%	18.6	8.73%	22.68%	4.2	2.8
Buy-to-let 4b	5.55%	29.6	7.74%	24.84%	7.3	2.3
Buy-to-let default	100%	2.9	10.25%	116.06%	3.5	0.2
Total buy-to-let	0.94%	6,853.0			758.4	362.8
Standard 1a	0.88%	3,929.1	5.46%	5.85%	230.0	288.0
Standard 2a	0.94%	7,280.0	9.04%	9.63%	701.2	328.4
Standard 3a	1.48%	4,467.9	12.97%	18.07%	807.1	222.9
Standard 4a	1.78%	2,833.6	16.70%	27.39%	776.1	126.4
Standard 5a	2.17%	3,407.9	19.54%	36.64%	1,248.7	180.5
Standard 1b	1.19%	1,410.7	5.49%	6.68%	94.2	111.2
Standard 2b	1.30%	2,180.8	8.93%	10.87%	237.0	132.2
Standard 3b	1.55%	1,524.6	12.80%	16.95%	258.5	91.3
Standard 4b	1.83%	955.9	15.93%	23.01%	220.0	64.3
Standard 5b	2.41%	1,208.4	18.97%	33.67%	406.8	75.7
Standard default	100%	45.8	10.16%	114.59%	52.5	4.1
Total standard	1.55%	29,244.7			5,032.1	1,625.0
Total		36,097.7			5,790.5	1,987.8

Movements in AIRB risk-weighted assets

Table 34: Risk-weighted assets flow statements of credit risk exposures under AIRB

	Risk-weighted assets amounts	Capital requirements
	£m	£m
Risk-weighted assets as at 1 January 2018	**5,790.5**	**463.2**
Asset size	**768.3**	**61.5**
Asset quality	**(297.0)**	**(23.8)**
Model updates	**(1,667.7)**	**(133.4)**
Risk-weighted assets as at 31 December 2018	**4,594.1**	**367.5**

In the table above, asset size is defined as changes in book size and composition (including the origination of new business and maturing loans).

Asset quality is defined as changes in the assessed quality of the institution's assets due to changes in borrower risk, such as rating grade migration or similar effects.

The Group's mortgage portfolio exposure increased during 2018 which resulted in an increase in risk-weighted assets of £768.3m. This has been offset by a reduction in risk-weighted assets of £297.0m associated with an improvement in asset quality caused by increased property values linked to growth in HPI.

During 2018, the Group carried out a re-segmentation of the mortgage AIRB models, resulting in a £1.7bn reduction in mortgage risk-weighted assets. This model change was approved by the PRA in June 2018.

AIRB model performance – regulatory expected loss versus accounting actual loss

Risk and capital management practices are informed and evaluated by analysis of credit loss experience and the quantitative assessment of portfolio behaviour. This analysis includes a comparison of the expected loss (EL) calculated by the AIRB risk rating models (regulatory EL) with the impairment allowance reported within financial statements (accounting ECL).

It is important to consider the difference in definition and scope of regulatory EL with measures of impairment under IFRS 9 when comparing these metrics. Examples of such differences are summarised below:

- Regulatory EL is based on long run estimates of PD over a one year outcome horizon, determined via statistical analysis of historical default experience. Accounting ECL is calculated under two different approaches. For accounts with no sign of significant increase in credit risk, these are assigned to stage 1 and their accounting ECL is calculated using a point-in-time PD approach over a one year outcome horizon. For accounts with a significant increase in credit risk, these are assigned to stage 2 and adopt an estimate of losses based on the PD over the lifetime of the loan. For accounts that are already defaulted, these are assigned to stage 3 and are assigned a PD of 100%;
- Regulatory EL uses the economic downturn calibration of the LGD component of the capital models. Accounting ECL is measured using a lifetime estimate of loss with future house price movements incorporated into the forward-looking loss estimate; and
- Regulatory EL and accounting ECL are both based on estimates of EAD and therefore incorporate expected future drawings of committed credit lines. Accounting EAD includes future payment amortisation, whereby regulatory EAD does not.

The following table shows the regulatory EL measure, compared with impairment provision by AIRB exposure class.

Table 35: AIRB expected loss and impairment provision

As at 31 December 2018	**Regulatory expected loss**	**Impairment provision**
	£m	**£m**
Retail exposures secured by real estate collateral	**53.9**	**13.8**

As at 31 December 2017	Regulatory expected loss	Impairment provision
	£m	£m
Retail exposures secured by real estate collateral	59.0	12.1

AIRB model performance

Back-testing methodologies are applied to assess model performance. Results from these exercises have shown that models continue to perform satisfactorily. During 2018, the majority of modelled outcomes have been higher than actual outcomes and evidence an appropriately prudent calibration. The PD and LGD values are outputs from the Group's point-in-time calibrations. The PD back-testing process compares the model estimate to the total number of defaulted accounts emerging in the year from the not in default population at 1 January 2018. The actual LGD value is calculated from recorded losses following repossession and subsequent sale of the property during the year. In addition, the actual LGD value is augmented with the latest LGD estimate for those defaulted accounts which are still in the workout process at the end of the period. The EAD ratio is calculated by comparing the exposure of new defaults with the EAD estimate 12 months prior to defaulting. Where the estimated EAD is greater than the actual exposure at the point of default, the ratio will be greater than one.

The following table shows the estimated and actual PD and LGD as well as the ratio of estimated to actual EAD by AIRB exposure class.

Table 36: AIRB model performance

	PD of total portfolio		**LGD of defaulted assets**		**EAD of defaulted assets**
As at 31 December 2018	**Estimated[1]**	**Actual[2]**	**Estimated[3]**	**Actual[4]**	**Ratio of estimated to actual**
Retail exposures secured by real estate collateral	**0.23%**	**0.21%**	**1.00%**	**0.97%**	**1.04**

	PD of total portfolio		LGD of defaulted assets		EAD of defaulted assets
As at 31 December 2017	Estimated[1]	Actual[2]	Estimated[3]	Actual[4]	Ratio of estimated to actual
Retail exposures secured by real estate collateral	0.42%	0.32%	3.11%	3.83%	1.03

1 This estimate is the output from the Group's point-in-time model as at 1 January 2018 (comparative 1 January 2017) and is based on the total number of accounts not in default.

2 Actual default is calculated as the total of emergent defaults during 2018 (comparative 2017) measured as a proportion of the total number of accounts not in default at 1 January 2018 (comparative 1 January 2017).

3 This estimate is the exposure-weighted output from the Group's point-in-time model as at 1 January 2018 (comparative 1 January 2017) and is based on the total default population at that time.

4 This value is calculated from accounts in default at 1 January 2018 (comparative 1 January 2017). The observed loss is defined as the loss following repossession and subsequent sale of the property within the year. This value uses the latest LGD estimate to determine the percentage of loss for those defaulted accounts which are still in the workout process at the end of the period.

The continued growth of the Group's mortgage portfolio has not been at the expense of asset quality. Mortgage asset quality has been maintained – arrears rates have fallen over the year and the indexed LTV of the book has remained relatively static, increasing from 55.8% to 56.2%.

Observed default rates remain lower than the point-in-time calibrations and levels of defaults and subsequent repossessions in the portfolio remain low.

Appendix 2. EBA own funds template

The following table shows the make-up of own funds of the Group and Virgin Money plc in the format prescribed in Regulation (EU) 1423/2013. Any blank cells in the template have been removed from this disclosure.

Table 37: Own funds disclosure template

As at 31 December 2018		**Virgin Money Holdings (UK) plc regulated group**	**Virgin Money plc**
		£m	**£m**
	Common Equity Tier 1 capital: instruments and reserves		
1	Capital instruments and the related share premium accounts	**655.9**	**1,400.0**
2	Retained earnings	**831.8**	**221.7**
3	Accumulated other comprehensive income (and other reserves)	**(16.4)**	**(0.2)**
6	Common Equity Tier 1 capital before regulatory adjustments	**1,471.3**	**1,621.5**
	Common Equity Tier 1 capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	**(2.3)**	**(2.3)**
8	Intangible assets (net of related tax liability) (negative amount)	**(107.9)**	**(107.9)**
11	Fair value reserves related to gains or losses on cash flow hedges	**14.5**	**-**
12	Negative amounts resulting from the calculation of expected loss amounts	**(40.1)**	**(40.1)**
28	Total regulatory adjustments to Common Equity Tier 1	**(135.8)**	**(150.3)**
29	Common Equity Tier 1 capital	**1,335.5**	**1,471.2**
	Additional Tier 1 capital: instruments		
30	Capital instruments and the related share premium accounts	**384.1**	**230.0**
31	of which: classified as equity under applicable accounting standards	**384.1**	**230.0**
36	Additional Tier 1 capital before regulatory adjustments	**384.1**	**230.0**
44	Additional Tier 1 capital	**384.1**	**230.0**
45	Tier 1 capital	**1,719.6**	**1,701.2**
	Tier 2 capital: instruments and provisions		
58	Tier 2 capital	**-**	**-**
59	Total capital	**1,719.6**	**1,701.2**
60	Total risk-weighted assets	**8,469.4**	**8,394.1**

	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	**15.8%**	**17.5%**
62	Tier 1 (as a percentage of total risk exposure amount)	**20.3%**	**20.3%**
63	Total capital (as a percentage of total risk exposure amount)	**20.3%**	**20.3%**
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	**7.4%**	**7.4%**
65	of which: capital conservation buffer requirement	**1.9%**	**1.9%**
66	of which: countercyclical buffer requirement	**1.0%**	**1.0%**
67	of which: systemic risk buffer requirement	**0%**	**0%**
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	**0%**	**0%**
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**11.3%**	**13.0%**
	Applicable caps on the inclusion of provisions in Tier 2 (T2)		
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	**2.9**	**-**
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38(3) are met)	**21.9**	**21.1**
	Applicable caps on the inclusion of provisions in Tier 2 (T2)		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**-**	**-**
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	**35.2**	**35.0**

Appendix 3. Capital instrument key features

Table 38: Capital instruments' main features template

1	Issuer	**Virgin Money Holdings (UK) plc**	**Virgin Money Holdings (UK) plc**	**Virgin Money Holdings (UK) plc**
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	**Private Placement**	**XS1090191864**	**XS1516312409**
3	Governing law(s) of the instrument	**English**	**English**	**English**
	Regulatory treatment			
4	Transitional CRR rules	**Common Equity Tier 1**	**AT1**	**AT1**
5	Post-transitional CRR rules	**Common Equity Tier 1**	**AT1**	**AT1**
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	**Consolidated**	**Consolidated**	**Consolidated**
7	Instrument type (types to be specified by each jurisdiction)	**Ordinary shares**	**AT1**	**AT1**
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	**£655.9m comprising nominal and premium**	**£156.5m**	**£227.6m**
9	Nominal amount of instrument (£)	**£44,607**	**£160,000,000**	**£230,000,000**
9a	Issue price (£)	**0.0001**	**100.00**	**100.00**
9b	Redemption price (£)	**n/a**	**100.00**	**100.00**
10	Accounting classification	**Shareholders' equity**	**Shareholders' equity**	**Shareholders' equity**
11	Original date of issuance	**18 Nov 2014: £44,160 19 Dec 2014: £33 12 Nov 2015: £178 8 Mar 2016: £95 15 Dec 2016: £28 27 Mar 2018: £50 17 July 2018: £63**	**31 July 2014**	**10 November 2016**
12	Perpetual or dated	**Perpetual**	**Perpetual**	**Perpetual**
13	Original maturity date	**No maturity**	**n/a**	**n/a**
14	Issuer call subject to prior supervisory approval	**No**	**Yes**	**Yes**
15	Optional call date, contingent call dates and redemption amount	**n/a**	**31 July 2019 at par or at any time upon a Tax Event or a Capital Disqualification Event (full exclusion) at par**	**10 November 2021 at par or at any time upon a Tax Event or a Capital Disqualification Event (whole or any part) at par**
16	Subsequent call dates, if applicable	**n/a**	**Following the First Call date any Interest Payment Date thereafter: 31 January, 30 April, 31 July and 31 October**	**Following the First Call date any Interest Payment Date thereafter: 10 May and 10 November**
	Coupons / dividends			
17	Fixed or floating dividend/coupon	**Floating**	**Fixed**	**Fixed**
18	Coupon rate and any related index	**n/a**	**7.875%**	**8.75%**
19	Existence of a dividend stopper	**No**	**No**	**No**
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	**Fully discretionary**	**Fully discretionary**	**Fully discretionary**
20 b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	**Fully discretionary**	**Fully discretionary**	**Fully discretionary**
21	Existence of step up or other incentive to redeem	**No**	**No**	**No**
22	Non-cumulative or cumulative	**Non-cumulative**	**Non-cumulative**	**Non-cumulative**
23	Convertible or non-convertible	**Non-convertible**	**Convertible**	**Convertible**
24	If convertible, conversion trigger(s)	**n/a**	**Group's Common Equity Tier 1 ratio falls below 7%**	**Group's Common Equity Tier 1 ratio falls below 7%**
25	If convertible, fully or partially	**n/a**	**Always Fully**	**Always Fully**

26	If convertible, conversion rate	**n/a**	**£2.91**	**£2.46**
27	If convertible, mandatory or optional conversion	**n/a**	**Mandatory**	**Mandatory**
28	If convertible, specify instrument type convertible into	**n/a**	**Common Equity Tier 1**	**Common Equity Tier 1**
29	If convertible, specify issuer of instrument it converts into	**n/a**	**CYBG PLC**	**CYBG PLC**
30	Write-down features	**No**	**No**	**No**
31 - 34	If write-down, write-down trigger(s), full/partial, PWD/TWD	**n/a**	**n/a**	**n/a**
32	If write-down, full or partial	**n/a**	**n/a**	**n/a**
33	If write-down, permanent or temporary	**n/a**	**n/a**	**n/a**
34	If temporary write-down, description of write-up mechanism	**n/a**	**n/a**	**n/a**
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	**AT1**	**n/a**	**n/a**
36	Non-compliant transitioned features	**No**	**No**	**No**
37	If yes, specify non-compliant features	**n/a**	**n/a**	**n/a**

1	Issuer	**Virgin Money plc**	**Virgin Money plc**
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	**Private Placement**	**n/a**
3	Governing law(s) of the instrument	**English**	**English**
	Regulatory treatment		
4	Transitional CRR rules	**Common Equity Tier 1**	**AT1**
5	Post-transitional CRR rules	**Common Equity Tier 1**	**AT1**
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	**Solo & Consolidated**	**Solo & Consolidated**
7	Instrument type (types to be specified by each jurisdiction)	**Ordinary shares**	**AT1**
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	**£1,400.0m**	**£230.0m**
9	Nominal amount of instrument (£)	**£1,400,000,000**	**£230,000,000**
9a	Issue price (£)	**1.00**	**100.00**
9b	Redemption price (£)	**n/a**	**100.00**
10	Accounting classification	**Shareholders' equity**	**Shareholders' equity**
11	Original date of issuance	**3 July 2009**	**10 November 2016**
12	Perpetual or dated	**Perpetual**	**Perpetual**
13	Original maturity date	**No maturity**	**n/a**
14	Issuer call subject to prior supervisory approval	**No**	**Yes**
15	Optional call date, contingent call dates and redemption amount	**n/a**	**10 November 2021 at par or at any time upon a Tax Event or a Capital Disqualification Event (whole or any part) at par**
16	Subsequent call dates, if applicable	**n/a**	**Following the First Call date any Interest Payment Date thereafter: 10 May and 10 November**
	Coupons / dividends		
17	Fixed or floating dividend/coupon	**Floating**	**Fixed**
18	Coupon rate and any related index	**n/a**	**8.75%**

19	Existence of a dividend stopper	**No**	**No**
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	**Fully discretionary**	**Fully discretionary**
20 b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	**Fully discretionary**	**Fully discretionary**
21	Existence of step up or other incentive to redeem	**No**	**No**
22	Non-cumulative or cumulative	**Non-cumulative**	**Non-cumulative**
23	Convertible or non-convertible	**Non-convertible**	**Non-convertible**
24	If convertible, conversion trigger(s)	**n/a**	**n/a**
25	If convertible, fully or partially	**n/a**	**n/a**
26	If convertible, conversion rate	**n/a**	**n/a**
27	If convertible, mandatory or optional conversion	**n/a**	**n/a**
28	If convertible, specify instrument type convertible into	**n/a**	**n/a**
29	If convertible, specify issuer of instrument it converts into	**n/a**	**n/a**
30	Write-down features	**No**	**Yes**
31 - 34	If write-down, write-down trigger(s), full/partial, PWD/TWD	**n/a**	**Group's or Virgin Money plc CET1 ratio falls below 7%**
32	If write-down, full or partial	**n/a**	**Full**
33	If write-down, permanent or temporary	**n/a**	**Permanent**
34	If temporary write-down, description of write-up mechanism	**n/a**	**n/a**
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	**n/a**	**MTN**
36	Non-compliant transitioned features	**No**	**No**
37	If yes, specify non-compliant features	**n/a**	**n/a**

Appendix 4. Disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical buffer

The countercyclical buffer is an additional requirement introduced by CRD IV, calculated by applying a weighted average of country countercyclical buffer rates (based on the geographical distribution of relevant exposures) to the overall capital requirement of the Group. The following tables disclose information relevant for the calculation of the countercyclical buffer as at 31 December 2018 in accordance with Regulation (EU) 2015/1555.

Table 39: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer – consolidated group

	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
As at 31 December 2018	**Exposure value for standardised approach**	**Exposure value for IRB**	**Sum of long and short positions of trading book exposures for standardised approach**	**Value of trading book exposures for internal models**	**Exposure value for standardised approach**	**Exposure value for IRB**	**Of which: general credit exposures**	**Of which: trading book exposures**	**Of which: sec'n exposures**	**Total**	**Own funds req'ts weights**	**Counter-cyclical capital buffer rate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**	**%**
Breakdown by country:												
UK	**4,105.8**	**37,770.8**	**-**	**-**	**148.1**	**-**	**585.8**	**-**	**2.4**	**588.2**	**100.0%**	**1.0%**
Total	**4,105.8**	**37,770.8**	**-**	**-**	**148.1**	**-**	**585.8**	**-**	**2.4**	**588.2**	**100.0%**	**1.0%**

Credit exposures relevant to the calculation of the countercyclical buffer consist of exposures to retail lending (including mortgages and credit cards), covered bonds, securitisation exposures and other assets. All other exposures are excluded.

In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% of the Group's aggregate risk-weighted exposures, all exposures have been allocated to the UK.

Table 40: Amount of institution specific countercyclical capital buffer – consolidated group

Total risk exposure amount	**£8,469.4m**
Institution specific countercyclical buffer rate	**1.0%**
Institution specific countercyclical buffer requirement	**£84.7m**

Table 41: Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer – Virgin Money plc

As at 31 December 2018	General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
	Exposure value for standardised approach	**Exposure value for IRB**	**Sum of long and short positions of trading book exposures for standardised approach**	**Value of trading book exposures for internal models**	**Exposure value for standardised approach**	**Exposure value for IRB**	**Of which: general credit exposures**	**Of which: trading book exposures**	**Of which: sec'n exposures**	**Total**	**Own funds req'ts weights**	**Counter-cyclical capital buffer rate**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**%**	**%**
Breakdown by country:												
UK	**4,098.6**	**37,770.8**	**-**	**-**	**148.1**	**-**	**587.5**	**-**	**2.4**	**589.9**	**100.0%**	**1.0%**
Total	**4,098.6**	**37,770.8**	**-**	**-**	**148.1**	**-**	**587.5**	**-**	**2.4**	**589.9**	**100.0%**	**1.0%**

Credit exposures relevant to the calculation of the countercyclical buffer consist of exposures to retail lending (including mortgages and credit cards), covered bonds, securitisation exposures and other assets. All other exposures are excluded.

In accordance with Regulation (EU) 1152/2014, as foreign credit exposures represent less than 2% of the Virgin Money plc's aggregate risk-weighted exposures, all exposures have been allocated to the UK.

Table 42: Amount of institution specific countercyclical capital buffer – Virgin Money plc

Total risk exposure amount	**£8,394.1**
Institution specific countercyclical buffer rate	**1.0%**
Institution specific countercyclical buffer requirement	**£83.9m**

Appendix 5. Analysis of leverage ratio

The following tables show the Group and Virgin Money plc detailed leverage ratio disclosures made in accordance with the Commission Implementing Regulation (EU) 2016/200. Any blank cells in the template have been removed from this disclosure. These disclosures show leverage ratio after applying the IFRS 9 transitional adjustments introduced in 2018. The leverage ratio before these adjustments is shown in Appendix 9.

Table 43: Summary reconciliation of accounting assets and leverage ratio exposures

As at 31 December 2018		**Virgin Money Holdings (UK) plc regulated group £m**	**Virgin Money plc £m**
1	Total assets as per published financial statements	**45,116.4**	**44,790.9**
2	Adjustments for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**(0.4)**	**294.3**
4	Adjustment for derivative financial instruments	**52.7**	**53.0**
5	Adjustments for securities financing transactions (SFTs)	**270.4**	**270.4**
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**885.5**	**885.5**
EU-6a	Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013	**-**	**(0.2)**
7	Other adjustments	**(93.4)**	**(108.0)**
8	**Total leverage ratio exposure**	**46,231.2**	**46,185.9**

Table 44: Leverage ratio common disclosures

As at 31 December 2018		**£m**	**£m**
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**45,065.3**	**45,020.4**
2	Asset amounts deducted in determining Tier 1 capital	**(135.9)**	**(136.0)**
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**44,929.4**	**44,884.4**
Derivative exposures			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**116.4**	**115.8**
5	Add on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**147.8**	**147.8**
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(118.3)**	**(118.0)**
11	**Total derivative exposures**	**145.9**	**145.6**
Securities financing transaction exposures			
14	Counterparty credit risk exposure for SFT assets	**270.4**	**270.4**
16	**Total securities financing transaction exposures**	**270.4**	**270.4**
Other off-balance sheet exposures			
17	Off-balance sheet exposures at gross notional amount	**7,483.5**	**7,483.5**
18	Adjustments for conversion to credit equivalent amounts	**(6,598.0)**	**(6,598.0)**
19	**Other off-balance sheet exposures**	**885.5**	**885.5**
Capital and total exposures			
20	**Tier 1 capital**	**1,719.6**	**1,701.2**
21	**Total leverage ratio exposures**	**46,231.2**	**46,185.9**
Leverage ratio			
22	**Leverage ratio**	**3.7%**	**3.7%**
Choice on transitional arrangements and amount of derecognised fiduciary items			
EU-23	Choice on transitional arrangements for the definition of the capital measure		**Transitional**

Table 45: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

		CRR leverage ratio exposures	
		Virgin Money Holdings (UK) plc	**Virgin Money plc**
As at 31 December 2018		**(Consolidated)**	**(Solo)**
		£m	**£m**
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures), of which:	**45,065.3**	**45,020.4**
EU-3	Banking book exposures, of which:	**45,065.3**	**45,020.4**
EU-4	Covered bonds	**616.9**	**616.9**
EU-5	Exposures treated as sovereigns	**4,822.4**	**4,822.4**
EU-7	Institutions	**588.9**	**551.2**
EU-8	Secured by mortgages of immovable properties	**35,290.9**	**35,290.9**
EU-9	Retail exposures	**3,280.2**	**3,280.2**
EU-11	Exposures in default	**26.4**	**26.4**
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**439.6**	**432.4**

Table 46: Disclosure on qualitative items

1	**Description of the processes used to manage the risk of excessive leverage**
Leverage is actively managed with the leverage ratio being a key factor in the Group's planning processes and stress analysis. A longer-term forecast of the Group's leverage position, based upon the strategic plan, is produced at least annually. Shorter term forecasts are more frequently undertaken to understand and respond to variations in the Group's actual performance against plan.	
2	**Description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers**
The main factor impacting the leverage ratio during 2018 was increased total assets arising from the increased lending activities of the Group, offset by increased retained earnings.	

Appendix 6. Analysis of encumbered assets

The following tables show the Group analysis of encumbered assets in accordance with the EBA Guidelines on disclosure of encumbered and unencumbered assets (Delegated Regulation (EU) 2017/2295). Any blank cells in these templates have been removed from this disclosure.

Table 47: Asset encumbrance – encumbered and unencumbered assets

As at 31 December 2018	Carrying amount of encumbered assets	Of which notionally eligible EHQLA and HQLA	Fair value of encumbered assets	Of which notionally eligible EHQLA and HQLA	Carrying amount of unencumbered assets	Of which EHQLA and HQLA	Fair value of unencumbered assets	Of which EHQLA and HQLA
	£m	£m	£m	£m	£m	£m	£m	£m
Assets of the reporting institution	**13,570.5**	**475.0**	**n/a**	**n/a**	**31,135.5**	**5,344.6**	**n/a**	**n/a**
Equity instruments	**-**	**-**	**n/a**	**n/a**	**3.7**	**-**	**n/a**	**n/a**
Debt securities	**312.3**	**312.3**	**312.3**	**312.3**	**1,574.1**	**1,568.8**	**1,574.1**	**1,568.8**
of which: covered bond	**-**	**-**	**-**	**-**	**558.5**	**558.5**	**558.5**	**558.5**
of which: asset-backed securities	**-**	**-**	**-**	**-**	**147.5**	**142.2**	**147.5**	**142.2**
of which: issued by general governments	**300.3**	**300.3**	**300.3**	**300.3**	**348.3**	**348.3**	**348.3**	**348.3**
of which: issued by financial corporations	**6.0**	**6.0**	**6.0**	**6.0**	**1,225.7**	**1,220.4**	**1,225.7**	**1,220.4**
of which: issued by non-financial corporations	**-**	**-**	**n/a**	**n/a**	**-**	**-**	**n/a**	**n/a**
Other assets	**13,236.0**	**162.7**	**n/a**	**n/a**	**29,431.2**	**3,919.2**	**n/a**	**n/a**

Table 48: Asset encumbrance – collateral received

As at 31 December 2018	Fair value of encumbered collateral received or own debt securities held	Of which notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	Of which notionally eligible EHQLA and HQLA
	£m	£m	£m	£m
Collateral received by the reporting institution	**-**	**-**	**-**	**-**
Own securities issued other than own covered bond or asset-backed securities	**-**	**-**	**-**	**-**
Own covered bond and asset-backed securities issued and not yet pledged	**-**	**-**	**1,499.9**	**-**
Total assets, collateral received and own debt securities issued	**13,570.5**	**475.0**	**-**	**-**

Table 49: Asset encumbrance – sources of encumbrance

As at 31 December 2018	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
	£m	£m
Carrying amount of selected financial liabilities	**10,068.7**	**12,766.0**

Asset encumbrance – Information on importance of encumbrance

The same regulatory consolidation scope is applicable to asset encumbrance and liquidity disclosures. Further detail on the regulatory consolidation scope is given in section 3. Asset values reported in the tables above are median values, based on the end of period values for each of the four quarters in the year. An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

The principal sources of encumbrance for the group include assets pledged as collateral for repurchase agreements, derivatives, securitisation and the TFS. In addition, encumbrance arises from collateral requirements for central bank operations and on cash reserves and securities supporting secured funding structures. The Group has not identified any transferred financial assets.

Any excess collateral provided above the minimum collateral required is deemed unencumbered unless it cannot be freely withdrawn. No assets are encumbered through transactions between entities of the Group.

Over-collateralisation is used to provide credit enhancement to securitisation transactions. At 31 December 2018, £322.8m of assets are encumbered as a result of over-collateralisation of notes issued to external noteholders. The Group does not have any significant foreign currency exposures.

“Other assets” mainly comprises loans and advances to customers. Certain assets included in the "Other Assets" category, although classed as unencumbered, are deemed not available for encumbrance in the normal course of business due to the nature of these assets. These include tangible assets, intangible assets, derivatives, deferred tax assets and other non-financial assets.

At 31 December 2018, the Group has retained £3,077.0m of asset-backed securities, of which £1,757.3m have been pledged to secure other transactions. The carrying amount of assets underlying these securities is £3,444.5m, of which £1,967.1m are encumbered.

During 2018, both the value and proportion of encumbered assets increased due primarily to using the TFS to support increased lending. This was partly offset by a reduction in the use of the FLS. Encumbrance arising from securitisation transactions remained stable with one new securitisation transaction in the year.

Appendix 7. Group remuneration disclosures

Approach to remuneration

Virgin Money's Group Remuneration Policy is designed to support the delivery of the Group's long term corporate strategy in a manner that is compliant with the Prudential Regulation Authority's Remuneration Code (the Code). The Group Remuneration Policy is based on principles which are applicable to all employees within the Group and in particular the principle that the remuneration framework should support the delivery of the Group's wider strategic goals. The Policy supports Virgin Money's aim of building a bank that makes everyone better off by motivating colleagues to secure the long term success of the business. The Group ensures its approach to remuneration, and in particular variable pay, is aligned with clear risk principles which aim to drive sustainable growth, with absolutely no reward for inappropriate risk taking.

Material Risk Takers

The Remuneration Code and European Regulatory Technical Standards require the Group to identify 'Material Risk Takers'. Material Risk Takers are deemed to have, or potentially have, a material impact on the risk profile of the Group or a significant entity within the Group. The Material Risk Taker population in 2018 totalled 84.

The remuneration for these colleagues is governed under the Group Remuneration Policy.

The Remuneration Committee

The Remuneration Committee (the Committee) is responsible for determining and recommending to the Board a Group Remuneration Policy that aligns with the Group's risk principles and is consistent with the Group's corporate strategy. The Committee undertakes periodic reviews of the Remuneration Policy (at least annually) to ensure continued compliance and alignment with the Remuneration Code.

The Group has a clear governance structure, with the Committee reviewing all reward decisions for Executive Directors, members of the Executive Committee, senior risk and compliance officers and any other Material Risk Takers or high earners.

During 2018, the Remuneration Committee took external advice from Deloitte, the Committee's independent consultants in relation to Directors' remuneration. Deloitte are members of the Remuneration Consultants Group and comply with the professional body's code of conduct. This supports the Remuneration Committee's view that the advice received was objective and independent.

Design characteristics of the remuneration system

The Group regularly reviews its approach to senior remuneration to ensure the overall package is fair, competitive and supportive of the Group's strategy. The Group ensures it remains competitive in the financial services market through regular market reviews. The Group's remuneration strategy aims to motivate individual out-performance against objectives. Risk considerations are a material factor in the determination of pay.

Remuneration is delivered in a proportion of fixed and variable components. The variable elements are subject to appropriate limits (capped at 2:1 variable to fixed ratio) as approved by shareholders. Variable pay awards for senior colleagues and Material Risk Takers are subject to deferral in line with the Code to promote longer term risk awareness.

Base salary

All Material Risk Takers receive salaries (except for Non-Executive Directors who receive fees), determined to reflect the role of the individual, taking account of responsibilities and experience. Base salaries are reviewed annually, taking into account individual performance and market information.

Fixed Allowance

A fixed allowance, delivered in cash and / or shares on a monthly basis, is paid to certain senior executives. The Fixed Allowance ensures that total fixed remuneration is commensurate with role and provides a competitive reward package in line with regulatory requirements and with an appropriate balance of fixed and variable remuneration.

Annual Bonus and Deferred Bonus Share Plan

All Material Risk Takers (excluding Non-Executive Directors and third party consultants) are eligible to be considered for an annual bonus. Annual bonuses are discretionary and are based on Group and individual performance within the year. The determination of measures and their weighting are set annually and awards are determined by the Remuneration Committee at the end of the financial year. The annual bonus opportunity is based on performance against key financial measures determined at the beginning of each financial year as well as performance against non-financial measures.

In line with regulatory requirements a proportion of any bonus is deferred (as per the 'deferral and vesting' section below). The mechanism for making the bonus deferral is the Deferred Bonus Share Plan (DBSP). Deferral levels are set at the time of award and in line with regulatory requirements (see below).

Long-term incentives

The Group's Long Term Incentive Plan (LTIP), awarded to certain senior colleagues, is designed to align colleagues with the long-term interests of the Group and reward delivery of the Group's strategy and growth.

Performance conditions are normally tested over a period of three financial years and, subject to the achievement of any performance conditions, awards will vest according to timetables designed to comply with regulatory requirements. The performance conditions will be aligned to the Group's long term strategy.

Deferral and vesting

Variable pay deferral levels are set at the time of award and in line with regulatory requirements. For 2018, this means that for Material Risk Takers receiving a variable pay award that exceeds 33% of total pay:

- at least 40% of total variable pay is deferred;
- at least 50% of variable pay is paid in shares; and
- vested shares are subject to retention periods.

The ultimate release of deferred amounts is governed by a robust risk assessment framework. Both clawback and malus provisions can be applied by the Committee both during and after any relevant performance period to adjust (including to nil) any variable pay awarded, paid or deferred. A performance adjustment may include, but is not limited to:

- reducing an employee's bonus outcome for the current year;
- reducing the amount of any unvested deferred variable remuneration (including LTIP awards) to which an employee is entitled;
- requiring the repayment on demand of any cash and share awards received at any time during the seven year period after the date of the awards; and
- requiring a bonus which has been awarded but not yet paid to be forfeited.

In the case of firm-wide adjustment, measures may also include:

- reducing the overall annual bonus pool; and/or
- reducing overall unvested/unpaid awards.

The following non-exhaustive list outlines the circumstances in which malus and/or clawback measures will be triggered:

- where an employee has participated in or was responsible for conduct which resulted in significant losses to the firm, as determined by the Remuneration Committee;
- where an employee has significantly failed to meet appropriate standards of fitness and propriety, taking into account their seniority, experience, remuneration and level of responsibility;
- where the firm or the relevant business unit has suffered a material downturn in financial performance;
- where the firm or the relevant business unit has suffered a material failure of risk management;
- where the firm has reasonable evidence of fraud or material dishonesty by the employee;
- where the firm becomes aware of any material wrongdoing on the part of the employee that would have resulted in the relevant award not being made had it known about such material wrongdoing at the time the relevant award was made;

- where the firm becomes aware of a material error in assessing the employee's performance against the relevant performance conditions at the time that the award was made; and
- the employee has acted in any manner which in the opinion of the Remuneration Committee has brought or is likely to bring the firm into material disrepute or is materially adverse to the interests of the firm.

The above principles apply to all variable pay for all Virgin Money Material Risk Takers.

The Committee has discretion, in exceptional circumstances, to amend targets, measures, or number of shares under award if an event happens (for example, a major transaction or capital raising) that, in the opinion of the Committee, causes the original targets or measures to be no longer appropriate or such adjustment to be reasonable. The Committee also has the discretion to reduce the vesting level of any award if it deems that the outcome is not consistent with performance delivered.

Link between pay and performance and the performance criteria used

The Group's approach to reward is to ensure that all elements of pay are aligned with the long-term interests of the Group and a prudent approach to risk management while being sufficiently competitive to attract, retain and motivate the most talented individuals in the financial services sector.

Colleagues are appraised annually for their entire role, the behaviours they exhibit, the achievement of the objectives they are set and their competencies. This holistic appraisal drives variable pay awards and any future pay increases.

For variable pay, performance is measured against financial and non-financial targets (functional where appropriate). The financial scorecard is the same for all senior executives thus ensuring a Group oriented view on performance and risk. Non-financial performance metrics include effective risk management.

The following metrics and criteria were used by the Committee to determine the size of the overall variable remuneration pool:

- the Committee considered the key financial performance measures, including profit before tax, and other non-financial measures;
- the Committee reviewed underlying business performance against the corporate scorecard to ensure that the outcomes are appropriate;
- the Chief Risk Officer provided the Committee (via the Board Risk Committee) with an independent risk assessment report to consider whether and to what extent the variable remuneration pool should be subject to risk adjustment; and
- the Chief Financial Officer and the People Director also provided the Committee with an assessment of financial and individual performance to identify any significant instances when the operation of the malus provisions might be appropriate.

Remuneration for Material Risk Takers

The following table displays the 2018 fixed and variable remuneration for Virgin Money's Material Risk Taker population. This is broken down between Senior Management and Other Material Risk Takers. The data has not been broken down by business area due to size and scale of some operations.

Fixed and variable remuneration

Table 50: Remuneration of Material Risk Takers

2018

	Senior Management	Material Risk Takers	Total
Number of Material Risk Takers	**21**	**63**	**84**
Remuneration of Material Risk Takers[1,2]	**£m**	**£m**	**£m**
Total fixed	**3.0**	**12.4**	**15.4**
Total variable	**3.5**	**10.8**	**14.3**
Total remuneration	**6.5**	**23.3**	**29.7**

1 Numbers within this table have been rounded to the nearest £0.1m

2 Values for 2018 LTIP awards are based on the face value of awards.

Appendix 8. Virgin Money plc Pillar 3 disclosures

Virgin Money plc capital resources

In accordance with Article 13 of the CRR, this Appendix sets out the reduced Pillar 3 disclosures of Virgin Money plc (the Company, in this Appendix 8), the significant subsidiary of the Virgin Money Group. The Company's capital is managed in the same way as the Group. For a discussion of capital management, the ICAAP process and Pillar 2 capital for the Company, see pages 11 to 16 in the main body of this report.

Table 51: Virgin Money plc capital resources

	2018 £m	2017 £m
Common Equity Tier 1		
Share capital	**1,400.0**	1,400.0
Other equity instruments	**230.0**	230.0
Other reserves	**(0.2)**	4.5
Retained earnings	**168.5**	244.7
Total equity per balance sheet	**1,798.3**	1,879.2
Regulatory capital adjustments		
Net assets of SPVs[1]	**12.9**	19.1
Foreseeable distribution on Additional Tier 1 securities[2]	**(2.1)**	(2.1)
Other equity instruments[3]	**(230.0)**	(230.0)
Additional valuation adjustment[4]	**(2.3)**	(1.2)
Intangible assets[5]	**(107.9)**	(128.4)
Excess of expected loss over impairment[6]	**(40.1)**	(46.9)
Deferred tax on tax losses carried forward (after consolidation of SPVs)[7]	**-**	(0.6)
IFRS 9 transitional adjustments[8]	**42.4**	-
Common Equity Tier 1 capital	**1,471.2**	1,489.1
Additional Tier 1 securities	**230.0**	230.0
Total Tier 1 capital	**1,701.2**	1,719.1
Tier 2 capital		
General credit risk adjustments	**-**	14.3
Total Tier 2 capital	**-**	14.3
Total own funds	**1,701.2**	1,733.4
Pillar 1 risk-weighted assets		
Retail mortgages	**4,594.1**	5,790.5
Unsecured lending	**2,486.5**	2,282.9
Wholesale	**193.0**	103.7
Other assets	**201.8**	172.5
Counterparty credit risk	**88.3**	46.4
Credit valuation adjustments	**18.0**	9.9
Operational risk	**812.4**	687.5
Total risk-weighted assets	**8,394.1**	9,093.4
Common Equity Tier 1 ratio	**17.5%**	16.4%
Tier 1 ratio	**20.3%**	18.9%
Total capital ratio	**20.3%**	19.1%

1. Net assets/liabilities of SPVs are included within regulatory capital.
2. Foreseeable distributions on AT1 securities as at 31 December 2018 are deducted from CET1 capital under CRD IV.
3. Other equity instruments have been excluded from CET1 capital but instead make up Additional Tier 1 capital.
4. Under CRD IV, an additional valuation adjustment is applied in relation to the prudent valuation of all assets measured at fair value.
5. Intangible assets are required to be deducted from capital resources for regulatory purposes.
6. The excess of regulatory expected losses calculated under the AIRB approach over accounting provisions are deducted from CET1 capital.
7. Deferred tax on tax losses carried forward (after consolidation of SPVs) are deducted from CET1 capital. Other deferred tax balances arising from temporary differences are below the threshold for deduction and are risk-weighted at 250%.
8. The IFRS 9 transitional adjustments apply for 5 years following IFRS 9's introduction. Capital resources are increased by a proportion of the total day one provision increase plus the same proportion increase in Stage 1 and Stage2 provisions since day one. In 2018 this proportion is 95%.

Please see Appendix 2 for the CRD IV disclosure template as published by the EBA in Implementing Technical Standard 2013/01.

Table 52: Virgin Money plc movements in capital resources

	Common Equity Tier 1	Additional Tier 1	Tier 2 capital	Total
	£m	£m	£m	£m
At 31 December 2017	**1,489.1**	**230.0**	**14.3**	**1,733.4**
Changes on adoption of IFRS 9 at 1 January 2018	**(33.6)**	**-**	**-**	**(33.6)**
IFRS 9 transitional adjustments	**31.9**	**-**	**-**	**31.9**
Movement in available-for-sale reserve	**(4.6)**	**-**	**-**	**(4.6)**
Revaluation reserve financial instruments at fair value through other comprehensive income	**4.6**	**-**	**-**	**4.6**
Movement in general provisions	**-**	**-**	**(14.3)**	**(14.3)**
At 1 January 2018	**1,487.4**	**230.0**	**-**	**1,717.4**
Movements in retained earnings	**(42.6)**	**-**	**-**	**(42.6)**
Movement in additional valuation adjustment	**(1.1)**	**-**	**-**	**(1.1)**
Movement in revaluation reserve financial instruments at fair value through other comprehensive income	**(4.7)**	**-**	**-**	**(4.7)**
AT1 coupons accrued at previous year end	**2.1**	**-**	**-**	**2.1**
AT1 coupons accrued at this year end	**(2.1)**	**-**	**-**	**(2.1)**
Movement in net assets of SPVs	**(6.2)**	**-**	**-**	**(6.2)**
Movement in intangible assets	**20.5**	**-**	**-**	**20.5**
Movement in excess of expected loss over impairment	**6.8**	**-**	**-**	**6.8**
Movement in deferred tax on tax losses carried forward	**0.6**	**-**	**-**	**0.6**
IFRS9 transitional adjustments	**10.5**			**10.5**
At 31 December 2018	**1,471.2**	**230.0**	**-**	**1,701.2**

The increase in capital resources is driven by the increase in retained earnings and the net reduction in intangible asset deduction. The day one impact of IFRS 9 reserves has been more than offset by the transitional arrangements which provide relief against day one and subsequent IFRS 9 movements.

Capital securities

Virgin Money plc issued Additional Tier 1 securities of £230.0 million to Virgin Money Holdings (UK) plc in November 2016, which have a discretionary coupon of 8.75% per annum.

The main features of these securities can be found in Appendix 3. The full terms and conditions of the AT1 notes are equivalent to those issued by Virgin Money Holdings (UK) plc on 10 November 2016, with the exception that notes are not convertible, but are written off if a trigger event occurs.

Virgin Money plc Pillar 1 capital requirements

Company risk-weighted assets and Pillar 1 capital requirements

As described on pages 11 to 12 the Pillar 1 capital requirements of the Company are made up of credit risk, counterparty credit risk (including credit valuation adjustment) and operational risk elements.

The following table sets out the risk-weighted assets and Pillar 1 capital requirements of the Company.

Table 53: Virgin Money plc risk-weighted assets and capital requirements

As at 31 December 2018	**Risk-weighted assets**		**Pillar 1 capital requirements**
	2018	2017	**2018**
	£m	£m	**£m**
Credit risk (excluding counterparty credit risk)	**7,392.9**	8,312.8	**591.4**
Of which the standardised approach	***2,798.8***	*2,522.3*	***223.9***
Of which the AIRB approach	***4,594.1***	*5,790.5*	***367.5***
Counterparty credit risk	**106.4**	56.3	**8.5**
Of which mark-to-market	***19.9***	*14.6*	***1.6***
Of which the standardised approach	***68.5***	*31.8*	***5.5***
Of which CVA	***18.0***	*9.9*	***1.4***
Securitisation exposures in banking book (standardised approach)	**29.6**	12.3	**2.4**
Operational risk (standardised approach)	**812.4**	687.5	**65.0**
Amounts below the thresholds for deduction (subject to 250% risk weight)	**52.8**	24.5	**4.2**
Total	**8,394.1**	9,093.4	**671.5**

In the table above, amounts below the thresholds for deduction relate to deferred tax assets that do not relate to tax losses carried forward. As the value of these assets is below the CRR threshold, they are not deducted from own funds, but instead are risk-weighted at 250%. In tables 55 to 58 these exposures have been included within the 'other assets' category.

Risk-weighted assets movement

The following table sets out the movements in the Company's credit risk-weighted assets split between book size, model changes and other movements.

Table 54: Virgin Money plc risk-weighted assets movement

Risk-weighted assets	**AIRB (mortgages)**	**Standardised (credit cards)**	**Other standardised assets[1]**	**Credit valuation adjustment**	**Operational risk**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
At 1 January 2018	**5,790.5**	**2,282.9**	**322.6**	**9.9**	**687.5**	**9,093.4**
Change in book size	**768.3**	**216.4**	**-**	**-**	**-**	**984.7**
Model updates	**(1,667.7)**	**-**	**-**	**-**	**-**	**(1,667.7)**
Other movements	**(297.0)**	**(12.8)**	**160.5**	**8.1**	**124.9**	**(16.3)**
At 31 December 2018	**4,594.1**	**2,486.5**	**483.1**	**18.0**	**812.4**	**8,394.1**

1 This includes non-CVA counterparty credit risk.

Movements in the AIRB mortgage risk-weighted assets are described in table 34 in Appendix 1. Movements in other standardised assets reflect changes in the wholesale asset portfolio and deferred tax.

Operational risk is calculated using the standardised approach, based on the average Company income over the past three years. The year-on-year increase reflects the increasing income from 2015 to 2017.

Virgin Money plc credit risk

For the purposes of these disclosures, credit exposure for the AIRB portfolios refers to the calculated EAD. The EAD calculation includes amounts where customers have contractual rights to draw down further balances and estimates of interest accruals to the point of default.

The following table sets out the exposures for the various types of asset held by the Company at 31 December, and the average exposures during the year.

Table 55: Virgin Money plc credit risk exposures, risk weights and average exposures

As at 31 December 2018	**Exposure[1]**	**Risk-weighted assets**	**Minimum capital requirement**	**Average risk weight**	**Average exposure in period**
	£m	**£m**	**£m**	**%**	**£m**
AIRB					
Retail exposures secured by real estate collateral	**37,770.8**	**4,594.1**	**367.5**	**12.2**	**36,984.1**
Standardised					
Credit cards and other retail exposures	**3,280.2**	**2,460.1**	**196.8**	**75.0**	**3,179.7**
Exposures in default	**26.4**	**26.4**	**2.1**	**100.0**	**22.3**
Central governments and central banks	**4,214.3**	**-**	**-**	**-**	**4,681.1**
Public sector entities	**14.9**	**-**	**-**	**-**	**3.7**
Multilateral development banks	**593.1**	**-**	**-**	**-**	**469.4**
Institutions	**508.2**	**101.7**	**8.1**	**20.0**	**382.2**
Covered bonds	**616.9**	**61.7**	**4.9**	**10.0**	**541.5**
Equities	**3.6**	**3.6**	**0.3**	**100.0**	**3.5**
Other assets	**171.5**	**198.1**	**15.8**	**115.5**	**194.2**
Total standardised	**9,429.1**	**2,851.6**	**228.0**	**30.2**	**9,477.6**
Total	**47,199.9**	**7,445.7**	**595.5**	**15.8**	**46,461.7**

As at 31 December 2017	Exposure[1]	Risk-weighted assets	Minimum capital requirement	Average risk weight	Average exposure in period
	£m	£m	£m	%	£m
AIRB					
Retail exposures secured by real estate collateral	36,097.6	5,790.5	463.2	16.0	35,019.1
Standardised					
Credit cards and other retail exposures	3,022.1	2,266.5	181.3	75.0	2,829.3
Exposures in default	16.4	16.4	1.3	100.0	14.5
Central governments and central banks	2,931.7	-	-	-	2,797.3
Multilateral development banks	234.1	-	-	-	192.6
Institutions	252.7	51.6	4.1	20.4	404.3
Covered bonds	396.5	39.7	3.2	10.0	406.6
Equities	3.1	3.1	0.2	100.0	5.5
Other assets	247.4	169.5	13.6	68.5	247.1
Total standardised	7,104.0	2,546.8	203.7	35.9	6,897.2
Total	43,201.6	8,337.3	666.9	19.3	41,916.3

1. Exposures are stated net of specific credit risk adjustments and before credit risk mitigation.

Credit risk exposure by industry or counterparty type

The tables below give details of the distribution of exposures by industry or counterparty type.

Table 56: Virgin Money plc credit risk exposures by industry or counterparty type

As at 31 December 2018	**Lending – individuals**	**Financial/ Sovereign**	**Other assets**	**Total**
	£m	**£m**	**£m**	**£m**
AIRB				
Retail exposures secured by real estate collateral	**37,770.8**	**-**	**-**	**37,770.8**
Standardised				
Credit cards and other retail exposures	**3,280.2**	**-**	**-**	**3,280.2**
Exposures in default	**26.4**	**-**	**-**	**26.4**
Central governments and central banks	**-**	**4,214.3**	**-**	**4,214.3**
Public sector entities	**-**	**14.9**	**-**	**14.9**
Multilateral development banks	**-**	**593.1**	**-**	**593.1**
Institutions	**-**	**508.2**	**-**	**508.2**
Covered bonds	**-**	**616.9**	**-**	**616.9**
Equities	**-**	**-**	**3.6**	**3.6**
Other assets	**-**	**-**	**171.5**	**171.5**
Total	**41,077.4**	**5,947.4**	**175.1**	**47,199.9**

As at 31 December 2017	Lending – individuals	Financial/ Sovereign	Other assets	Total
	£m	£m	£m	£m
AIRB				
Retail exposures secured by real estate collateral	36,097.6	-	-	36,097.6
Standardised				
Credit cards and other retail exposures	3,022.1	-	-	3,022.1
Exposures in default	16.4	-	-	16.4
Central governments and central banks	-	2,931.7	-	2,931.7
Multilateral development banks	-	234.1	-	234.1
Institutions	-	252.7	-	252.7
Covered bonds	-	396.5	-	396.5
Equities	-	-	3.1	3.1
Other assets	-	-	247.4	247.4
Total	39,136.1	3,815.0	250.5	43,201.6

Credit risk exposure by geographical area

The tables below give details of the geographical distribution of exposures.

Table 57: Virgin Money plc credit risk exposures by geographical area

As at 31 December 2018	**UK**	**Europe**	**Rest of the world**	**Total**
	£m	**£m**	**£m**	**£m**
AIRB				
Retail exposures secured by real estate collateral	**37,770.8**	**-**	**-**	**37,770.8**
Standardised				
Credit cards and other retail exposures	**3,280.2**	**-**	**-**	**3,280.2**
Exposures in default	**26.4**	**-**	**-**	**26.4**
Central governments and central banks	**4,214.3**	**-**	**-**	**4,214.3**
Public sector entities	**-**	**14.9**	**-**	**14.9**
Multilateral development banks	**-**	**301.0**	**292.1**	**593.1**
Institutions	**71.8**	**145.1**	**291.3**	**508.2**
Covered bonds	**616.9**	**-**	**-**	**616.9**
Equities	**3.6**	**-**	**-**	**3.6**
Other	**171.5**	**-**	**-**	**171.5**
Total	**46,155.5**	**461.0**	**583.4**	**47,199.9**

As at 31 December 2017	UK	Europe	Rest of the world	Total
	£m	£m	£m	£m
AIRB				
Retail exposures secured by real estate collateral	36,097.6	-	-	36,097.6
Standardised				
Credit cards and other retail exposures	3,022.1	-	-	3,022.1
Exposures in default	16.4	-	-	16.4
Central governments and central banks	2,931.7	-	-	2,931.7
Multilateral development banks	-	121.8	112.3	234.1
Institutions	37.0	16.1	199.6	252.7
Covered bonds	396.5	-	-	396.5
Equities	1.7	-	1.4	3.1
Other assets	247.4	-	-	247.4
Total	42,750.4	137.9	313.3	43,201.6

Credit risk exposure by residual maturity

The following tables give details of the contractual residual maturities of exposures.

Table 58: Virgin Money plc credit risk exposures by residual maturity

	Residual maturity			
As at 31 December 2018	**< 1 year**	**1-5 years**	**> 5 years**	**Total**
	£m	**£m**	**£m**	**£m**
AIRB				
Retail exposures secured by real estate collateral	**148.7**	**996.3**	**36,625.8**	**37,770.8**
Standardised				
Credit cards and other retail exposures	**3,280.2**	**-**	**-**	**3,280.2**
Exposures in default	**26.4**	**-**	**-**	**26.4**
Central governments and central banks	**3,597.8**	**299.2**	**317.3**	**4,214.3**
Public sector entities	**-**	**14.9**	**-**	**14.9**
Multilateral development banks	**25.0**	**395.7**	**172.4**	**593.1**
Institutions	**459.9**	**20.0**	**28.3**	**508.2**
Covered bonds	**10.5**	**344.8**	**261.6**	**616.9**
Equities	**3.6**	**-**	**-**	**3.6**
Other assets	**171.5**	**-**	**-**	**171.5**
Total	**7,723.6**	**2,070.9**	**37,405.4**	**47,199.9**

	Residual maturity			
As at 31 December 2017	< 1 year	1-5 years	> 5 years	Total
	£m	£m	£m	£m
AIRB				
Retail exposures secured by real estate collateral	150.4	959.3	34,987.9	36,097.6
Standardised				
Credit cards and other retail exposures	3,022.1	-	-	3,022.1
Exposures in default	16.4	-	-	16.4
Central governments and central banks	2,724.4	-	207.3	2,931.7
Multilateral development banks	-	132.9	101.2	234.1
Institutions	252.7	-	-	252.7
Covered bonds	28.9	182.1	185.5	396.5
Equities	3.1	-	-	3.1
Other assets	247.4	-	-	247.4
Total	6,445.4	1,274.3	35,481.9	43,201.6

Impairment provisioning

All Group provisions arise from the Company, so for a discussion of credit impairment for the Company see page 29 in the main body of the narrative. Tables showing the IFRS 9 classification of exposures by exposure class, the levels of provisions against them and the movements in those provisions are shown in the Group section of these disclosures within tables 21 and 22.

Virgin Money plc remuneration disclosures

There is a Group-wide remuneration policy that applies to all colleagues, and so for the individual Company disclosures please see Appendix 7.

Appendix 9. IFRS 9 transitional arrangements

The following table shows a comparison of capital resources, requirements and ratios with and without the application of transitional arrangements for IFRS 9. Only transitional arrangements arising from the implementation of IFRS 9 are considered in this template

Table 59: IFRS 9 transitional arrangements

As at 31 December 2018		**Virgin Money Holdings (UK) plc regulated group**	**Virgin Money plc**
		£m	**£m**
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	**1,335.5**	**1,471.2**
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 had not been applied	**1,293.1**	**1,428.8**
3	Tier 1 capital	**1,719.6**	**1,701.2**
4	Tier 1 capital as if IFRS 9 had not been applied	**1,677.2**	**1,658.8**
5	Total capital	**1,719.6**	**1,701.2**
6	Total capital as if IFRS 9 had not been applied	**1,677.2**	**1,658.8**
	Risk-weighted assets (amounts)		
7	Total risk-weighted assets	**8,469.4**	**8,394.1**
8	Total risk-weighted assets as if IFRS 9 had not been applied	**8,435.4**	**8,360.1**
	Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	**15.8%**	**17.5%**
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 had not been applied	**15.3%**	**17.1%**
11	Tier 1 (as a percentage of risk exposure amount)	**20.3%**	**20.3%**
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 had not been applied	**19.9%**	**19.8%**
13	Total capital (as a percentage of risk exposure amount)	**20.3%**	**20.3%**
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 had not been applied	**19.9%**	**19.8%**
	Leverage ratio		
15	Leverage ratio total exposure measure	**46,231.2**	**46,185.9**
16	Leverage ratio	**3.7%**	**3.7%**
17	Leverage ratio as if IFRS 9 had not been applied	**3.6%**	**3.6%**

Appendix 10. Supplementary information – analysis of directorships

The following table shows the number of directorships held by the members of the management body of Virgin Money plc.

Table 60: Analysis of directors as at 31 December 2018

	Number of directorships
James Pettigrew (Non-Executive)	**4**
David Duffy (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 (Non-Executive)	**4**
Darren Pope (Non-Executive)	**2**
Amy Stirling (Non-Executive)	**3**

In the table above, in line with the CRD IV rules, multiple directorships within the same Group are treated as a single role and directorships with bodies that do not predominantly pursue commercial objectives are also excluded.

Further details of the Directors and other members of the management body of the Group can be found on pages 50 to 59 of the 2018 CYBG PLC Annual Report and Accounts.

Appendix 11. CRR mapping

The following table shows how the Group has complied with the disclosure requirements of Part Eight of the CRR this year.

Table 61: CRR Mapping

CRR Ref	High level summary	Compliance Reference
Scope of disclosure requirements		
431(1)	Requirement to publish Pillar 3 disclosures	Virgin Money Group publishes Pillar 3 disclosures
431(2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information	Not applicable
431(3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness Institution must also have policies for assessing whether their disclosures convey their risk profile comprehensively to market participants	Pillar 3 – page 3 (Risk profile disclosure)
431(4)	Explanation of ratings decisions on request	Not applicable
Non-material, proprietary and confidential information		
432(1)	Institutions may omit information that is not material if certain conditions are respected	Pillar 3 – page 3 (Basis of preparation) – Not applicable
432(2)	Institutions may omit information that is proprietary or confidential if certain conditions are met	Pillar 3 – page 3 (Basis of preparation) - Not applicable
432(3)	Where 432(2) applies this must be stated in the disclosures, and more general information must be disclosed	Not applicable
432(4)	Use of 431(1), (2) or (3) is without prejudice to scope of liability for failure to disclose material information	Not applicable
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum and more frequently if necessary	Pillar 3 – page 3 (Frequency, media and location)
Means of disclosure		
434(1)	To include all disclosures in one appropriate medium, or provide clear cross-references	All required disclosures are published on the VM Investor Relations website. This table provides clear cross referencing to all disclosures.
434(2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate	All cross references to the ARA are signposted within this table and throughout the Pillar 3 document.
Risk management objectives and policies		
435(1)	Disclose information on:	
435(1)(a)	The strategies and processes to manage risks	Pillar 3 – page 9 (Risk management) – summary ARA – pages 12-51 (Risk Report)
435(1)(b)	Structure and organisation of the risk management function	ARA – pages 12-13 (Risk Report)
435(1)(c)	Risk reporting and measurement systems	ARA – pages 12-51 (Risk Report)
435(1)(d)	Hedging and mitigating risk – policies and processes	ARA – pages 12-51 (Risk Report)
435(1)(e)	A declaration of adequacy of risk management arrangements approved by the Board	Pillar 3 – page 10 (Risk disclosure statement)
435(1)(f)	Concise risk statement approved by the Board	Pillar 3 – page 2 (Key ratios)
435(2)	Disclose information on:	
435(2)(a)	Number of directorships held by Board members	Pillar 3 – page 69 (Appendix 10: Analysis of Directorships)
435(2)(b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise	CYBG PLC ARA – pages 68-71 (Governance and Nomination Committee Report)
435(2)(c)	Policy on diversity of Board membership and results against targets	Investor Relations site: https://uk.virginmoney.com/virgin/investor-relations/diversity-policy/
435(2)(d)	Disclosure of whether a dedicated risk committee is in place and number of meetings in the year	ARA – page 12 (Risk Report, Risk decision making and reporting)
435(2)(e)	Description of information flow on risk to Board	ARA – page 12

Scope of application		
436(a)	Name of institution	Pillar 3 – page 2 (Introduction)
436(b)	Difference in basis of consolidation for accounting and prudential purposes, describing entities that are fully consolidated, proportionally consolidated, deducted from own funds or neither consolidated nor deducted.	Pillar 3 – page 5 (Regulatory Consolidation)
436(c)	Impediments to transfer of own funds between subsidiaries	Pillar 3 – page 5 (Regulatory Consolidation)
436(d)	Capital shortfalls in any subsidiaries outside the scope of consolidation	Not applicable
436(e)	Making use of articles on derogations from (a) prudential requirements or (b) liquidity requirements for individual subsidiaries or entities	Not applicable
Own funds		
437(1)	Disclose the following information regarding own funds:	
437(1)(a)	A full reconciliation of CET1 items, AT1 items, Tier 2 items and filters and deductions applied to own funds of the institution and the balance sheet in the audited financial statements of the institution	Group – Pillar 3 – page 17 (table 7: Group capital resources) and page 46 (Appendix 2: EBA own funds table) VMplc – Pillar 3 – page 61 (table 51: Group capital resources) and page 46 (Appendix 2: EBA own funds table)
437(1)(b)	A description of the main features of the CET1, AT1 and Tier 2 instruments issued by the institution	Group and VMplc – Pillar 3 – pages 48-50 (Appendix 3)
437(1)(c)	The full terms and conditions of all CET1, AT1 and Tier 2 instruments	Group and VMplc – separately disclosed on Group website: https://uk.virginmoney.com/virgin/investor-relations/
437(1)(d)	Disclosure of the nature and amounts of the prudential filters and deductions made against own funds and items not deducted	Group – Pillar 3 – page 17 (table 7: Group capital resources) and page 46 (Appendix 2: EBA own funds template) VMplc – Pillar 3 – page 61 (table 51: Group capital resources) and page 46 (Appendix 2: EBA own funds template)
437(1)(e)	A description of all restrictions applied to the calculation of own funds in accordance with this regulation and the instruments, prudential filters and deductions to which those restrictions apply	Not applicable
437(1)(f)	An explanation where institutions disclose capital ratios calculated using elements of own funds determined on a different basis	Not applicable
437(2)	EBA shall develop draft implementing technical standards to specify uniform templates for disclosure	Not applicable – EBA responsibility
Capital requirements		
438(a)	Summary of institution's approach to assessing adequacy of capital levels	Pillar 3 – page 16 (Capital management)
438(b)	Result of ICAAP on demand from authorities	Not applicable
438(c)	Capital requirements for each standardised approach credit risk exposure class	Pillar 3 – Group - page 22 (table 12), VMplc - page 64 (table 55)
438(d)	Capital requirements for each IRB approach credit risk exposure class	Pillar 3 – Group - page 22 (table 12), VMplc - page 64 (table 55)
438(e)	Capital requirements for market risk or settlement risk	Pillar 3 – Group - page 19 (table 9), VMplc - page 63 (table 53), settlement not applicable
438(f)	Capital requirements for operational risk	Pillar 3 – Group - page 19 (table 9), VMplc – page 63 (table 53)
438(end note)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach	Not applicable
Exposure to counterparty credit risk (CCR)		
439(a)	Description of process to assign internal capital and credit limits to CCR exposures	Pillar 3 – pages 32-33 (Pillar 1 capital requirements – counterparty credit risk)
439(b)	Discussion of policies for securing collateral and establishing credit reserves	Pillar 3 – page 32 (Pillar 1 capital requirements – counterparty credit risk)
439(c)	Discussion of policies with respect to wrong-way risk exposures	Not applicable
439(d)	Discussion of collateral to be provided (outflows) in the event of a ratings downgrade	Pillar 3 – page 32 (Pillar 1 capital requirements – counterparty credit risk)

439(e)	Derivation of net derivative credit exposure	Pillar 3 – page 32 (Pillar 1 capital requirements – counterparty credit risk, table 26)
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Pillar 3 – page 33 (Pillar 1 capital requirements – counterparty credit risk, table 27 and table 28)
439(g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	Not applicable
439(h)	Notional value of credit derivative transactions	Not applicable
439(i)	Estimate of alpha, if applicable	Not applicable
Capital buffers		
440(1)(a)	Geographical distribution of relevant credit exposures for calculation of countercyclical buffer	Pillar 3 – pages 51-52 (Appendix 4), Group – page 51 (table 39), VMplc – page 52 (table 41)
440(1)(b)	Amount of the institution specific countercyclical capital buffer	Pillar 3 – pages 51-52 (Appendix 4), Group – page 51 (table 40), VMplc – page 52 (table 42)
Indicators of global systemic importance		
441(1)	Disclosures of the indicators of global systemic importance	Not applicable
Credit risk adjustments		
442(a)	Disclosure of institution's definitions of past due and impaired	Pillar 3 – page 29 (Credit risk impairments)
442(b)	Approaches for calculating specific and general credit risk adjustments	Pillar 3 – page 29 (Impairment provisioning)
442(c)	Disclosure of pre-CRM EAD by exposure class	Pillar 3 – page 22 (table 12)
442(d)	Disclosure of pre-CRM EAD by geography and exposure class	Pillar 3 – page 24 (table 14)
442(e)	Disclosure of pre-CRM EAD by industry and exposure class	Pillar 3 – page 23 (table 13)
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class	Pillar 3 – page 25 (table 15)
442(g)	Breakdown of impaired, past due, specific and general credit risk adjustments and impairment charges for the period	Pillar 3 – page 29 (table 22)
442(h)	Impaired, past due exposures, by geographical area and amounts of specific and general impairment for each geographical area	Pillar 3 – page 29 (table 21) All impaired and past due exposures are located in the UK
442(i)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures	Pillar 3 – page 29 (table 22)
442(end note)	Specific credit risk adjustments recorded to income statement are disclosed separately	All specific credit risk adjustments are recorded to the income statement
Unencumbered assets		
443	Disclosures on unencumbered assets	Pillar 3 – pages 55-56 (Appendix 6)
Use of ECAIs		
444(a)	Names of the ECAIs used in the calculation of standardised approach risk-weighted assets and reasons for any changes	Pillar 3 – page 26
444(b)	Exposure classes associated with each ECAI	Pillar 3 – page 26
444(c)	Description of the process used to transfer credit assessments to non-trading book items	Pillar 3 – page 26
444(d)	Mapping of external rating to CQS	Not applicable – the Group complies with the standard association published on the EBA website
444(e)	Exposure value pre and post-credit risk mitigation by CQS	Pillar 3 – page 27 (table 18)
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX settlement and commodities risk	The Group has no Pillar 1 exposure to market risk – Pillar 3 – page 36 (Capital requirements – market risk)
Operational risk		
446	Scope of approaches used to calculate operational risk.	Pillar 3 – pages 34-35 (Pillar 1 capital requirements – operational risk)
Exposure in equities not included in the trading book		
447(a)	Differentiation of exposures based on objectives and an overview of accounting techniques and valuation methodologies	Pillar 3 – page 25 (Exposures in equities) No changes in practices affecting valuation were made in the year

447(b)	The balance sheet value, the fair value and, for those exchange-traded, a comparison to the market price where it is materially different from the market value	Pillar 3 – page 25 (table 16) No equities are exchange traded
447(c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios and other exposures	Not applicable
447(d)	Realised gains or losses arising from sales and liquidations in the period	Pillar 3 – page 25 (Exposures in equities)
447(e)	Total unrealised gains or losses, the total latent revaluation gains or losses and any of those amounts included in the original or additional own funds	Pillar 3 – page 25 (Exposures in equities)
Exposure to interest rate risk on positions not included in the trading book		
448(a)	Nature of the interest rate risk and the key assumptions and frequency of measurement of the interest rate risk	ARA – pages 45-47 (Market risk)
448(b)	Variation in earnings, or economic value or other measures used by the institution from upward and downward rate shocks, by currency	ARA – pages 45-47 (Market risk)
Exposure to securitisation positions		
449(a)	Objectives in relation to securitisation activity	Pillar 3 – page 30 (Pillar 1 capital requirements – credit risk – securitisation)
449(b)	Nature of other risks in securitised assets, including liquidity	Pillar 3 – page 30 (Risks inherent in securitised assets)
449(c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets	Not applicable
449(d)	The roles played by the institution in the securitisation process	Pillar 3 – page 30 (Originated securitisations)
449(e)	Indication of the extent of involvement in roles	Pillar 3 – page 30 (Originated securitisations)
449(f)	Processes in place to monitor changes in credit and market risks of securitisation exposures and how the processes differ for re-securitisation exposures	Pillar 3 – page 30 (Risks inherent in securitised assets)
449(g)	Description of the institution's policies on hedging and unfunded protection and identification of material hedge counterparties	Not applicable
449(h)	Approaches to the calculation of risk-weighted assets for securitisations mapped to types of exposures	Pillar 3 – page 30 (Originated securitisations), page 31 (Purchased securitisations)
449(i)	Types of securitisation special purchase entities used to securitise third-party exposures as a sponsor	Pillar 3 – page 6 (table 3: Special purpose vehicles)
449(j)	Summary of accounting policies for securitisations, including:	ARA – page 77 (note 1.8) and page 93 (note 3.7)
449(j)(i)	Whether the transactions are treated as sales or financings	ARA – page 93 (note 3.7)
449(j)(ii)	The recognition of gains on sales	ARA – page 93 (note 3.7)
449(j)(iii)	Methods, key assumptions, inputs and changes from the previous period in valuing securitisation positions	ARA – page 77 (note 1.8(u))
449(j)(iv)	The treatment of synthetic securitisations	Not applicable – no synthetic securitisations
449(j)(v)	How assets awaiting securitisation are valued, and whether they are recorded as trading or non-trading	Not applicable – no assets awaiting securitisation
449(j)(vi)	Policies for recognising liabilities on the balance sheet for arrangements that could require the institution to provide financial support	Not applicable – no such arrangements can arise with the Group's securitisation agreements.
449(k)	Names of the ECAIs used for securitisations and the types of exposure for which each agency is used	Pillar 3 – page 30 (Securitisation programmes and activity)
449(l)	Full description of Internal Assessment Approach	Not applicable
449(m)	Explanation of significant changes in quantitative disclosure	No significant changes
449(n)	As appropriate, separately for the banking and trading book securitisation exposures:	
449(n)(i)	Amount of outstanding exposures securitised	Pillar 3 – page 30 (Originated securitisations)
449(n)(ii)	On-balance sheet securitisation retained or purchased, and off balance sheet exposures	Pillar 3 – page 30 (table 23), page 31 (table 24) (Purchased securitisations)
449(n)(iii)	Amount of assets awaiting securitisation	Not applicable
449(n)(iv)	Early amortisation treatment, aggregate drawn exposures, capital requirements	Not applicable
449(n)(v)	Deducted or 1,250%-weighted securitisation positions	Not applicable

449(n)(vi)	Securitisation activity of the current period including the amount of exposures securitised and recognised gains or losses on sales	Pillar 3 – page 30 (Originated securitisations), page 31 (Purchased securitisations)
449(o)	Banking and trading book securitisations	All securitisations are in the banking book
449(o)(i)	Retained and purchased positions and associated capital requirements, broken down by risk weight bands	Retained positions are not risk-weighted separately Pillar 3 – page 31 (Purchased securitisations)
449(o)(ii)	Retained and purchased re-securitisation positions before and after hedging and insurance, exposure to financial guarantors broken down by guarantor creditworthiness	Not applicable
449(p)	Impaired assets and recognised losses related to banking book securitisations by exposure type	Pillar 3 – page 31 (table 24: total and impaired securitised assets)
449(q)	Exposure and capital requirements for trading book securitisations	Not applicable
449(r)	Whether the institution has provided non-contractual financial support to securitisation vehicles	Not applicable
Remuneration disclosures		
450	Remuneration	Pillar 3 – pages 57-60 (Appendix 7)
Leverage		
451(1)(a),(b),(c)	Leverage ratio and breakdown of total exposure measure including reconciliation to financial statements and derecognised fiduciary items	Pillar 3 – pages 53-54 (Appendix 5)
451(1)(d),(e)	Description of the processes used to manage the risk of excessive leverage and factors that impacted the leverage ratio during the year	Pillar 3 – page 54 (table 46)
Use of the IRB approach to credit risk		
452(a)	Permission for use of the IRB approach from the competent authority	Pillar 3 – page 40 (Scope of the AIRB permission)
452(b)	Explanation of:	
452(b)(i)	The structure of internal ratings scales	Pillar 3 – page 40 (Internal application of the AIRB approach)
452(b)(ii)	Use of internal ratings for purposes other than capital requirement calculations	Pillar 3 – page 40 (Overview of the AIRB models)
452(b)(iii)	Management and recognition of credit risk mitigation	Pillar 3 – page 40 (Internal application of the AIRB approach)
452(b)(iv)	Controls around rating systems	Pillar 3 – page 40 (Development and monitoring of AIRB models)
452(c)	Description of ratings processes for each IRB asset class provided separately	Pillar 3 – page 40 (Internal application of the AIRB approach)
452(d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB	Pillar 3 – page 41 (Analysis of AIRB exposures by exposures class)
452(e)-(f)	For each exposure class, disclosed by obligor grade, total exposure, separating loans and undrawn exposures where applicable and exposure-weighted average risk weight	Pillar 3 – pages 42-43 (table 33: AIRB exposures by risk band) model performance – regulated expected loss versus accounting actual loss)
452(g)	Actual specific risk adjustments for the period and explanation of changes	Pillar 3 – page 44 (table 35: AIRB expected loss and impairment provision)
452(h)	Commentary of drivers of losses in preceding period	Pillar 3 – page 45 (AIRB model performance)
452(i)	Estimates against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period	Pillar 3 – page 45 (AIRB model performance)
452(j)	Where applicable, PD and LGD by each country where the institution operates	Not applicable
Use of credit risk mitigation techniques		
453(a)	Use of on and off balance sheet netting	Pillar 3 – pages 27-28 (Collateral for secured retail and wholesale exposures) ARA – page 30 (Offsetting of financial assets and liabilities)
453(b)	How collateral valuation is managed	Pillar 3 – pages 27-28 (Collateral for secured retail and wholesale exposures)
453(c)	Description of types of collateral used	Pillar 3 – pages 27-28 (Collateral for secured retail and wholesale exposures)
453(d)	Types of guarantor and credit derivative counterparty and their creditworthiness	Not applicable
453(e)	Disclosure of market or credit risk concentrations within risk mitigation exposures	ARA – pages 16-17 (Credit risk – mitigation)

453(f)	For exposures under either the standardised or Foundation IRB approach, disclose the exposure value covered by eligible collateral	Not applicable
453(g)	Exposures covered by guarantees or credit derivatives	Not applicable
Use of the Advanced Measurement Approaches to Operational Risk		
454	Description of the use of insurance or other risk transfer mechanisms to mitigate operational risk	Not applicable, the Group does not use Advanced Measurement Approaches to operational risk
Use of Internal Market Risk Models		
455	Disclosures relating to the use of Internal Market Risk Models	Not applicable, the Group does not use Internal Market Risk Models

Glossary

Advanced Internal Rating Based (AIRB) approach	A CRD IV approach for measuring exposure to retail credit risks. The method of calculating credit risk capital requirements uses internal PD, LGD and EAD models. AIRB approaches may only be used with PRA permission.
Additional Tier 1 capital (AT1)	AT1 capital instruments are non-cumulative perpetual securities that contain a specific provision to write down the security or convert it to equity, should the CET1 ratio fall below a specified trigger limit.
Basel III	Global regulatory standard on Bank Capital Adequacy, Stress Testing and Market and Liquidity Risk proposed by the Basel Committee on Banking Supervision in 2010. See also **CRD IV**.
Business risk	Any risk to a firm arising from changes in its business, including the risk that the firm may not be able to execute its business plan and strategy. It also includes risk arising from a firm's remuneration policy.
Capital at Risk (CaR)	Approach set out for the quantification of interest rate risk expressed as the impact to the present value of the Group's capital under interest rate sensitivity analysis.
Company	Virgin Money Holdings (UK) plc. In Appendix 8, Virgin Money plc.
Conduct risk	The risk that the Group's operating model, culture or actions result in unfair outcomes for customers.
Common Equity Tier 1 capital (CET1)	The highest form of regulatory capital under Basel III that comprises common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.
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.
CET 1 ratio	CET 1 capital expressed as a percentage of total risk-weighted assets.
CRD IV	In June 2013, the European Commission published legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) which form the CRD IV package. The package implements the Basel III proposals in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. The rules are implemented in the UK via the PRA policy statement PS7/13 and came into force from 1 January 2014, with certain sections subject to transitional phase in.
Credit concentration risk	The risk of losses arising, due to concentrations of exposures from imperfect diversification. This imperfect diversification can arise from the small size of a portfolio, a large number of exposures to specific obligors (single name concentration), or from imperfect diversification with respect to economic sectors or geographical regions.
Credit underestimation risk	A firm's capital requirements for credit risk are determined in accordance with Pillar 1 of the Capital Requirements Regulation (CRR). However, the PRA believes that there are asset classes for which the standardised approach (SA) underestimates the risk (e.g. zero risk-weighted sovereigns or standardised risk weights for unsecured retail lending). A credit risk assessment as part of the Pillar 2 review of capital adequacy is therefore required.
Credit valuation adjustment (CVA)	These are adjustments to the fair values of derivative assets to reflect the credit worthiness of the counterparty.
CYBG	CYBG PLC, ultimate parent company
Earnings at Risk (EaR)	Approach set out for the quantification of interest rate risk expressed as the impact to forecast net interest income under interest rate sensitivity analysis.
Expected loss	Regulatory expected loss represents the anticipated loss, in the event of a default, on a credit risk exposure modelled under the AIRB approach. Expected loss is determined by multiplying the associated PD, LGD and EAD.
Exposure at default (EAD)	An estimate of the amount expected to be owed by a customer at the time of a customer's default.

Forbearance	Forbearance takes place when a concession is made on the contractual terms of a loan in response to borrowers' financial difficulties or for where the contractual terms have been cancelled for credit cards. Forbearance options are determined by assessing the customer's personal circumstances.
Funding for Lending Scheme (FLS)	The Bank of England launched the Funding for Lending scheme in 2012 to allow banks and building societies to borrow from the Bank of England at cheaper than market rates for up to four years.
Funding risk	The inability to raise and maintain sufficient funding in quality and quantity to support the delivery of the business plan.
Group	Virgin Money Holdings (UK) plc
IFRS 9 Stage 1	A loan that is not credit-impaired on initial recognition and has not experienced a significant increase in credit risk.
IFRS 9 Stage 2	If a significant increase in credit risk has occurred since initial recognition, the loan is moved to stage 2, but is not yet deemed to be credit-impaired.
IFRS 9 Stage 3	If the loan is credit-impaired it is moved to stage 3. All expired term, material fraud and operational risk loans are classified as credit-impaired.
Interest rate risk	The risk of a reduction in the present value of the current balance sheet or earnings as a result of an adverse movement in interest rates.
Interest rate risk in the banking book (IRRBB)	The risk of a reduction in the present value of the current balance sheet or earnings as a result of an adverse movement in interest rates arising as a consequence of carrying out and supporting core business activities.
Internal capital adequacy assessment process (ICAAP)	The part of the Pillar 2 assessment to be undertaken by an institution. The ICAAP allows institutions to assess the level of capital that adequately supports all relevant current and future risks in their business. In undertaking an ICAAP, an institution should be able to ensure that it has appropriate processes in place to ensure compliance with CRD IV.
Leverage ratio	Total Tier 1 capital expressed as a percentage of Total assets (adjusted in accordance with CRD IV).
Liquidity coverage ratio (LCR)	Stock of high quality liquid assets as a percentage of expected net cash outflows over the following 30 days according to CRD IV requirements.
Liquidity risk	The inability to accommodate liability maturities and withdrawals, fund asset growth, and otherwise meet the Group's contractual obligations to make payments as they fall due.
Long run average probability of default	An estimate of the likelihood of a borrower defaulting on their credit obligations over a forward looking 12 month period, with the estimates based on default experience across a full economic cycle rather than current economic conditions.
Loss Given Default (LGD)	A parameter used to estimate the difference between EAD and the net amount of the expected recovery expressed as a percentage of EAD.
Operational risk	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It also includes legal risk.
Pillar 1	The part of CRD IV that sets out the process by which regulatory capital requirements should be calculated for credit, market and operational risk.
Pillar 2	The part of CRD IV that ensures institutions hold adequate capital to support the relevant risks in their business. It also encourages institutions to develop and use enhanced risk management techniques in monitoring and managing their risks.
Pillar 3	The part of CRD IV that sets out the information institutions must disclose in relation to their risks, the amount of capital required to absorb them, and their approach to risk management. The aim is to strengthen market discipline.
Probability of Default (PD)	The probability of a customer defaulting over a defined outcome period. Default occurs where a borrower has missed 6 months of mortgage repayments or 3 months of credit card repayments, or the borrower is deemed to be unlikely to repay their loan. The outcome period varies for assessment of capital requirements and for assessment of provisions.
Repurchase Agreements (Repos)	A form of short-term funding where one party sells a financial asset to another party with an agreement to repurchase at a specific price and date. From the seller's perspective such agreements are repurchase agreements (repos) and from the buyer's reverse repurchase agreements (reverse repos).

Ring-fenced body	The Financial Services (Banking Reform) Act 2013 introduces a ring-fence for UK retail banks from 2019, with the aim of separating core banking services critical to individuals and small and medium-sized enterprises from wholesale and investment banking services.
Risk appetite	The risk appetite sets limits on the amount and type of risk that the Group is willing to accept or tolerate in order to meet its strategic objectives.
Risk-weighted assets (RWAs)	A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with PRA rules and are used to assess capital requirements and adequacy under Pillar 1.
Securitisation	Securitisation is a process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities through an SPV.
Sovereign exposures	Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned.
Standardised approach	In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings of obligators (where available) and supervisory risk weights. In relation to operational risk, a method of calculating the operational risk capital requirement by the application of a supervisory defined percentage charge to the gross income of specified business lines.
Term Funding Scheme	The Bank of England launched the Term Funding Scheme in 2016 to allow banks and building societies to borrow from the Bank of England at rates close to Bank Base Rate.
Tier 1 capital	A measure of institutions' financial strength defined by the PRA. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, but is subject to deductions including in respect of material holdings in financial companies.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 capital	A further component of regulatory capital defined by the PRA for the Group. It comprises eligible collective assessed impairment allowances under CRD IV.
Write off	Mortgages may be written off where the outstanding balance or shortfall from sale of property is deemed irrecoverable. Assets written off will be deducted from the balance sheet.

Abbreviations

AIRB Advanced Internal Ratings Based

ARA Annual report and accounts

AT1 Additional Tier 1

BBR Bank base rate

CaR Capital at risk

CET1 Common Equity Tier 1

CCR Counterparty credit risk

CRD Capital Requirements Directive

CRR Capital Requirements Regulation

CSA Credit support annex

CVA Credit valuation adjustment

EAD Exposure at default

EaR Earnings at risk

EBA European Banking Authority

ECAI External credit assessment institution

EHQLA Extremely high quality liquid assets

EL Expected loss

FCA Financial Conduct Authority

FLS Funding for Lending Scheme

FPC Financial Policy Committee

HPI House Price Index

HQLA High quality liquid assets

ICAAP Internal Capital Adequacy Assessment Process

IFRS International Financial Reporting Standard

IRRBB Interest rate risk in the banking book

ISDA International Swaps and Derivatives Association

LCR Liquidity coverage ratio

LGD Loss given default

LIBOR London Inter-Bank Offered Rate

LRA Long run average

LTIP Long Term Incentive Plan

LTV Loan to value

MDB Multilateral development bank

MREL Minimum requirements for own funds and eligible liabilities

PD Probability of default

PRA Prudential Regulation Authority

RMBS Residential mortgage backed securities

RWA Risk-weighted assets

SME Small or medium sized enterprise

SPV Special purpose vehicle

SONIA Sterling Overnight Index Average

TFS Term Funding Scheme

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