VIRGIN MONEY UK

Pillar 3 Disclosures 2019

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1.1 Introduction

This document presents the consolidated Pillar 3 disclosures of Virgin Money UK PLC ('Virgin Money' or 'the Company'), formerly known as CYBG PLC (the Company was renamed on 30 October 2019), together with its subsidiary undertakings (which comprise 'the Group') as at 30 September 2019. This report should be read in conjunction with the Virgin Money UK PLC Annual Report and Accounts. The analysis presented within the Pillar 3 disclosures provides detail on aspects of the Group's risk profile and, along with detail on the Risk Management Framework (RMF), supports the Group's position as a strongly capitalised firm which employs robust systems and processes in order to assess, manage and mitigate risk.

The acquisition of Virgin Money Holdings (UK) plc occurred in October 2018. The numbers presented within this report are on a consolidated basis and therefore include Virgin Money Holdings (UK) plc data. As the acquisition occurred during the year, comparatives for the Group position as at 30 September 2018 exclude Virgin Money Holdings (UK) plc data and will therefore correspond to the 2018 Pillar 3 disclosures available on the Group's website.

Further information regarding the Pillar 3 disclosures of the Virgin Money Holdings (UK) plc sub-consolidated group (VMH) can be found in Appendix 2.

1.2 Group at a glance

The Group's business model draws on our Purpose of 'making you happier about money' and internal guiding principles, and is aligned to the environment we operate in. It uses our unique combination of resources to deliver our core activities as a bank which are aligned to our strategic priorities and distributed through our Personal, Business and Mortgage divisions:

- **Pioneering growth** – reshaping the balance sheet mix through growth of margin accretive assets and the growth of low-cost relationship deposits;
- **Delighting customers and colleagues** – enhancing the customer experience, encouraging digital adoption and colleagues delivering on Our Purpose;
- **Super straightforward efficiency** – realising integration synergies, digitising and simplifying the business and streamlining the operating model;and
- **Discipline and sustainability** – maintaining a disciplined risk approach, optimising the Group's RWAs and delivering sustainable returns.

Further information on our Purpose can be found in the Strategic Report within the Group's Annual Report and Accounts.

1.3 Summary of risk profile

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

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

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

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

PRINCIPAL RISK CATEGORY	HOW THIS RISK IS MANAGED
Credit risk is the risk of loss of principal or interest stemming from a borrower's failure to meet contracted obligations to the Group in accordance with their agreed terms. Credit risk manifests at both a portfolio and transactional level.	— Ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios. — The Group applies detailed lending policies and standards which outline the approach to lending, underwriting, concentration limits and product terms. — Portfolio monitoring techniques cover such areas as product, industry, geographical concentrations and delinquency trends. — Stress test scenarios are regularly prepared with the outcomes reviewed and relevant actions taken. Outputs will typically include impairment charges, risk-weighted assets (RWA) and write-offs.
Financial risk includes capital risk, funding risk, liquidity risk, market risk, model risk, pension risk and financial risks arising from climate change, all of which have the ability to impact the financial performance of the Group, if improperly managed.	— Funding and liquidity risk is managed in accordance with Board approved standards, including the annual ILAAP, and strategic, funding and contingency funding plans. — The Group completes an annual ICAAP which formally assesses the impact of severe, yet plausible, stress events to ensure that the appropriate level and type of capital underpins the strength of the balance sheet in both normal and stressed conditions. Furthermore, the Group will be participating in the BoE's ACS in 2020. — The Group has a range of pension reforms available to reduce exposure to pension risk if required. — The Group has policies and standards for managing the risks that arise during the change, development, validation, implementation and usage of its models.
Regulatory and compliance risk is the risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to information requests, not meeting regulatory deadlines or obstructing the regulator.	— Clearly defined regulatory and compliance policy statements and standards are in place, supporting both regulatory and customer expectations. — There is ongoing proactive and coordinated engagement with key regulators. — Formal monitoring of compliance is managed through oversight by the Regulatory Management team, regular reporting to the Risk Committee, and regular dialogue with regulators.
Conduct risk is the risk of undertaking business in a way which is contrary to the interests of customers, resulting in inappropriate customer outcomes or detriment, regulatory censure, redress costs and/or reputational damage.	— The Group has an overarching conduct risk framework, with clearly defined policy statements and standards. — There is ongoing reporting and development of conduct risk appetite measures to the Executive Risk Committee and the Board. — Continual assessment of evolving conduct regulations, customer expectations, and product and proposition development. — A risk-based assurance framework has been designed to monitor compliance with regulation and assess customer outcomes.
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events.	— The Group has an established operational risk framework to identify, manage and mitigate operational risks. — Internal and external loss events are categorised using Basel II risk categories to ensure consistent assessment, monitoring and reporting of risks and events. — The Group undertakes regular, forward-looking scenario analysis to gain insight into the stresses the business could be subject to in the event of operational risk events materialising.

EXECUTIVE SUMMARY

PRINCIPAL RISK CATEGORY	HOW THIS RISK IS MANAGED
Financial crime risk is the risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties.	— The Group has an established financial crime framework to support the management, monitoring and mitigation of financial crime risk. — The Group continues to monitor industry, fraudster and customer dynamics within an evolving and volatile risk environment. — The Group implements a framework of risk-based systems and controls to minimise the extent to which its products and services can be used to commit or be subject to fraud. — The Group performs regular reviews of fraud mitigation strategies to ensure they remain effective and in line with Board approved risk appetite.
Strategic and enterprise risk is the risk of significant loss of earnings, or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders, or from an inability to adapt to external developments, including potential execution risk as a result of integration and transformation activity.	— Strategic and enterprise risk is addressed through the Board approved 5 year Strategic and Financial Plan. — The Group considers strategic and enterprise risk as part of ongoing risk reporting and the management of identified strategic risks is allocated to members of the Group's Leadership Team by the CEO. — The Group has a defined sustainability strategy that takes account of both the risks and opportunities in relation to environmental factors, including analysis and management of risks associated with climate change. — Regular oversight activity is undertaken with workstreams focussed solely on the execution risk of delivering integration, placing customers' interests at the centre of all aspects of change.
People risk is the risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities, behaving in an ethical way.	— Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. — The Group's cultural framework has a clearly defined Purpose, with Values and Behaviours that form the foundation of the performance management framework. — The quality and continuity of the Group's leadership is reviewed and assessed through succession planning and talent management activity.
Technology risk is the risk of loss resulting from inadequate or failed information technology processes. It includes cybersecurity, business resilience, information security, physical security, data privacy and payment risk.	— The Group continues to invest in the protection and resilience of its systems, processes, information and data across all three lines of defence, recognising the changing cyber landscape and increased focus on digital capabilities, as well as the changing risk profile of the business. — The Board approved security strategy focusses on the management of cyber risk, exposure and manipulation of confidential data and identity and access management. — These risks are managed by a number of controls that align to the industry recognised National Institute of Standards & Technology (NIST) framework. — The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data. — The Group continues to enhance its privacy framework to ensure data subject rights are managed in line with GDPR. — The payment risk framework outlines key scheme rules, regulations and compliance requirements to ensure that payment risk is managed within appetite.

The key ratios for the Group are presented below.

Table 1: Key ratios

	2019	2018
Common Equity Tier 1 (CET1) ratio	**13.3%**	10.5%
Tier 1 capital ratio	**17.1%**	12.7%
Total capital ratio	**20.1%**	15.9%
Leverage ratio	**4.3%**	5.6%
Modified leverage ratio(1)	**4.9%**	6.5%
Liquidity coverage ratio	**152%**	137%

	£M	£M
RWA	**24,046**	20,102
Total assets	**90,999**	43,456

(1) The Group's leverage ratio on a modified basis, as at 30 September 2019, excluding qualifying central bank claims from the exposure measure in accordance with the policy statement issued by the PRA in October 2017.

The Group's CET1 ratio has increased from 10.5% to 13.3% driven by positive impacts from the receipt of accreditation to use IRB methodology for calculating RWA on mortgage and business exposures and the acquisition of Virgin Money Holdings (UK) plc, both in October 2018. These items increased the CET1 ratio by 3.5% and 1.1% respectively. Their impact was partly offset by exceptional items in the year, in particular charges associated with the acquisition of Virgin Money Holdings (UK) plc, restructuring and legacy conduct issues.

Underlying capital generation post additional AT1 distribution was 77bps (before the net impact of charges associated with the acquisition of Virgin Money Holdings (UK) plc, restructuring and legacy conduct issues). The Group continues to maintain a significant buffer (£0.6bn) to its CRD IV minimum CET1 requirement of 11.0%.

The Group's leverage ratio is 4.3% which exceeds the CRD IV minimum of 3%. The Group is not currently subject to the reporting requirements of the Bank of England's (BoE) UK leverage ratio framework but will be required to comply in the first reporting period after which this threshold is breached, which is 31 December 2019. Under this framework, leverage ratios will be calculated on a modified basis, excluding qualifying central bank claims from the exposure measure in accordance with the policy statement issued by the Prudential Regulation Authority (PRA) in October 2017. The Group's modified leverage ratio is 4.9%, well in excess of the PRA minimum of 3.6% (including 0.35% Counter-Cyclical Leverage Buffer).

Further details on the Group's capital ratios, RWA and leverage ratio are presented in section 4. Disclosures for CB Group Consolidated (CB Consol) and VMH are presented in Appendices 1 and 2 respectively.

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Overview

2.1 Basis of preparation and frequency of disclosures

This document sets out the 2019 Pillar 3 disclosures for the Group, comprising Virgin Money UK PLC (the Company) and its controlled entities including Clydesdale Bank PLC and Virgin Money Holdings (UK) plc in accordance with the rules laid out in the Capital Requirements Regulation (CRR) (Part 8).

For the year ending 30 September 2019, the Group used the standardised approach for operational risk, market risk and credit valuation adjustment. In October 2018, the Group received accreditation to move onto IRB methodology for calculating RWA on mortgage and business exposures. Also in October 2018, the Group acquired Virgin Money Holdings (UK) plc which calculates RWA on mortgages under IRB methodology. Mortgage and business portfolios follow the Advanced IRB (AIRB) and Foundation IRB (FIRB) approaches respectively. The AIRB approach allows internal models for PD, LGD and EAD to be used to calculate RWA values. The FIRB approach allows internal models for PD combined with regulator defined parameters to be used to calculate RWA values. All other portfolios used the standardised approach, which uses standard risk-weighting percentages prescribed within the CRR and PRA implementing rules. The disclosures in this document are based on these approaches.

Throughout the document, unless otherwise specified, credit risk exposures are defined as the aggregate of drawn (on-balance sheet) balances, undrawn (off-balance sheet) commitments and contingent liabilities prior to the application of credit risk mitigation, prior to the application of credit conversion factors and after IFRS 9 provisions.

The disclosures may therefore differ from similar information in the Group's Annual Report and Accounts for the year ended 30 September 2019, which are prepared in accordance with International Financial Reporting Standards (IFRS). The information in these disclosures is prepared in accordance with regulatory requirements and may therefore not be directly comparable with that information.

Unless otherwise stated, all figures are as at 30 September 2019, the Group's financial year-end, with comparative figures for Virgin Money UK PLC and CB Consol as at 30 September 2018.

Comparative figures for VMH are as at 31 December 2018. This represents the reporting period-end of Virgin Money Holdings (UK) plc.

The Group has a policy for complying with Pillar 3 disclosures in line with the European Banking Authority (EBA) guidelines on materiality, proprietary and confidential information, and disclosure frequency. These disclosures are published annually, and concurrently with the Group's Annual Report and Accounts, in accordance with regulatory guidelines. The Group publishes specific information more frequently where it is required under EBA guidelines.

No disclosures have been omitted on the basis of them being regarded as proprietary or confidential.

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

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

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

The IFRS 9 transitional period for the Group commenced on 1 October 2018 and the transitional impacts are therefore reflected within this report.

2.2 Scope of disclosures

The Pillar 3 disclosures in this document relate to the Group, with the exception of Appendices 1 and 2 which contain the disclosures required for CB Consol and VMH respectively. This aligns with the requirement from the PRA to report ring-fenced bodies at a sub-consolidated level. The entities included within the Group, CB Consol and VMH are shown below.

Overall, there are no material differences between the bases of consolidation of the Group for accounting and prudential purposes. All of the Group's subsidiary undertakings are included in the data provided in the Pillar 3 disclosures. During the year, the Group established two joint ventures: Salary Finance Loans Limited (SF Ltd) and Virgin Money Unit Trust Manager Limited (VMUTM Ltd). For regulatory purposes, the Group fully consolidates SF Ltd and for VMUTM Ltd applies a proportional consolidation approach with both joint ventures being accounted for in the consolidated financial statements using the equity method.

Full details of the Group's subsidiaries are provided in note 6.2 of the Group's Annual Report and Accounts for the year ended 30 September 2019 which is available on the Group's website.

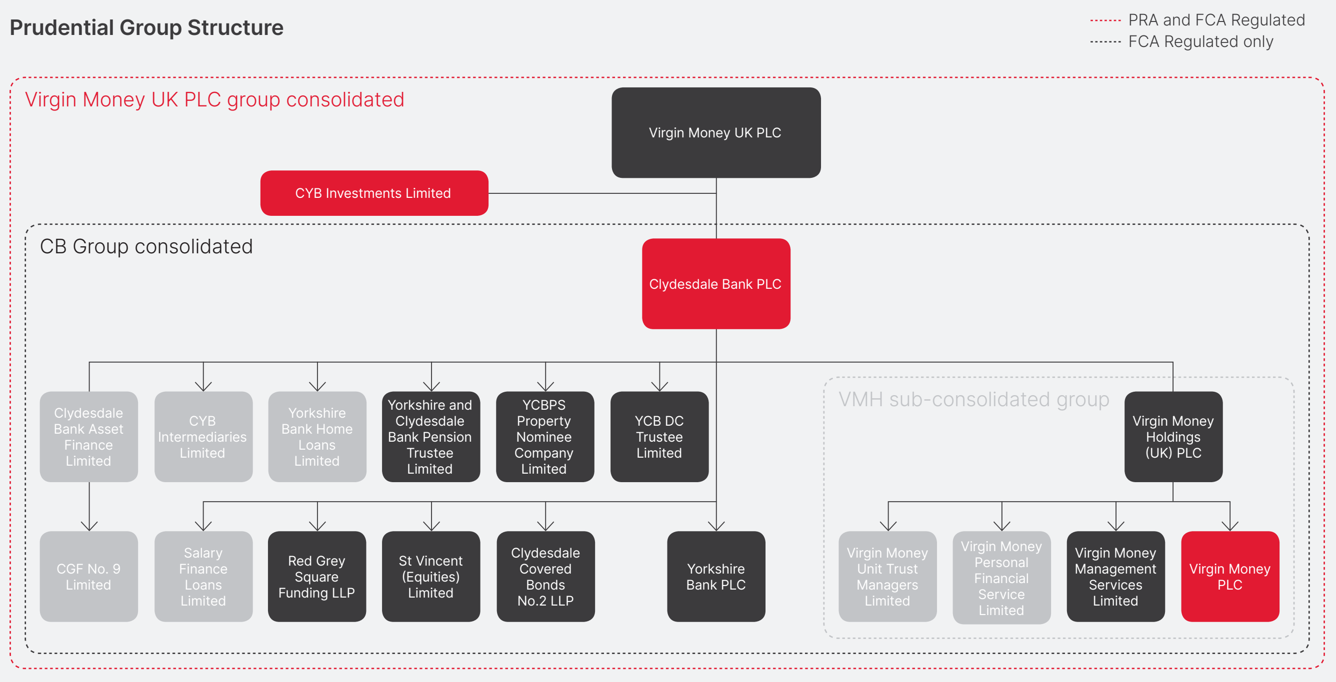
The Group's capital resources are presented in section 4 of this document. Capital resources for CB Consol and VMH are presented in Appendices 1 and 2, respectively.

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

— Lanark Holdings Limited;
— Lanark Trustees Limited;
— Lanark Funding Limited;
— Lanark Master Issuer plc;
— Lannraig Holdings Limited;
— Lannraig Funding Limited;
— Lannraig Master Issuer plc;
— Lannraig Trustees Limited;
— Gosforth Funding 2014-1 plc;
— Gosforth Funding 2015-1 plc;
— Gosforth Funding 2016-1 plc;
— Gosforth Funding 2016-2 plc;
— Gosforth Funding 2017-1 plc;
— Gosforth Funding 2018-1 plc;
— Gosforth Mortgages Trustee 2014-1 Limited;
— Gosforth Mortgages Trustee 2015-1 Limited;
— Gosforth Mortgages Trustee 2016-1 Limited;
— Gosforth Mortgages Trustee 2016-2 Limited;
— Gosforth Mortgages Trustee 2017-1 Limited;
— Gosforth Mortgages Trustee 2018-1 Limited;
— Gosforth Holdings 2014-1 Limited;
— Gosforth Holdings 2015-1 Limited;
— Gosforth Holdings 2016-1 Limited;
— Gosforth Holdings 2016-2 Limited;
— Gosforth Holdings 2017-1 Limited; and
— Gosforth Holdings 2018-1 Limited.

These are not presented in the Prudential Group Structure chart below but form part of CB Consol.

Prudential Group Structure



Dormant and non-trading companies, and entities outwith the prudential consolidation groups have been excluded from the chart.

Overview continued

There are no current or foreseen material practical or legal impediments to the transfer of capital resources or the repayment of liabilities between consolidated entities within the Group, with the exception of assets and liabilities of the Group's securitisation vehicles (including the covered bond vehicle), Salary Finance and Red Grey Square Funding LLP (see notes 5.3 and 6.2 to the financial statements in the Group's Annual Report and Accounts for further details) which are not immediately available to other members of the Group.

2.3 Key matters arising during the year

The following significant events, which had an impact on the Group's capital and risk management, took place during the year ended 30 September 2019.

In October 2018, the Group received accreditation to move onto the IRB methodology for calculating credit risk-weighted assets on mortgage and business exposures. Also in October 2018, the Group acquired all of the voting rights in Virgin Money Holdings (UK) plc by means of a scheme of arrangement under Part 26 of the UK Companies Act 2006 for a purchase consideration of £1.6bn. The acquired entity calculates risk-weighted assets on mortgages under IRB methodology and on all other portfolios under standardised methodology. Since then, the Group has continued to embed IRB into its lending and risk management framework supporting prudent and sustainable growth. This includes the development of full IRB models for the Virgin Money Holdings (UK) plc credit card portfolio, which are due for submission to the PRA in early 2020.

IFRS 9 'Financial Instruments' was adopted by the Group with effect from 1 October 2018. This introduced new requirements for the classification and measurement of financial assets and liabilities and the recognition of impairment of financial assets. 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.

During the year, the Group reassessed the level of provision that was considered appropriate to meet current and future expectations in relation to the mis-selling of PPI policies and concluded that a further charge of £415m was required due to the significant volume of information requests received, mainly from claims management companies ahead of the August 2019 deadline.

During 2019, the Group issued £650m of debt that contributes to its MREL requirements (£400m senior unsecured term funding and £250m subordinated debt). The Group continues to meet interim requirements which, from 1 January 2020 until 31 December 2021, are expected to be 18% of RWA. From 1 January 2022, the Group will be subject to an end state MREL of two times the sum of Pillar 1 and Pillar 2A capital subject to final regulatory guidance.

Post balance sheet events
The FSMA Part VII transfer, the process by which the business of Virgin Money PLC was transferred to Clydesdale Bank PLC, completed on 21 October 2019.

2.4 Review and challenge

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

Reviews by the Board
The effectiveness of the risk management and internal control systems is reviewed regularly by the Risk Committee and the Audit Committee. The Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures. The Audit Committee assists the Board in discharging its responsibilities with regard to external and internal audit activities and controls including reviewing audit reports, internal controls and risk management systems.

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

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

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

Overall assessment
Over the past year, the Group has further enhanced the RMF, strengthening expectations around managing risks relating to vulnerable customers, model risk, ring-fencing and General Data Protection Regulation (GDPR). The control environment remains stable with the 2019 Control Effectiveness Statement providing assurance that controls that require improvement are escalated appropriately and have adequate action plans in place.

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

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

3.1 Risk culture

Personal accountability is at the heart of the Group's risk culture. This is enabled through the risk management accountability model and a formal delegation framework through which colleagues are able to make risk-based decisions. Culture is shaped by many aspects including the Group's Purpose, Values and Behaviours that set a 'Tone from the Top', the Group's and regulatory codes of conduct, operating principles, policy statements and standards, the risk management operating model and an approved articulation of risk appetite that aligns to, and supports, strategic objectives.

The Group strives to instil a culture that enables colleagues to meet the requirements of all relevant rules, regulations, laws, codes and policies and build constructive regulatory relationships. All colleagues are recruited with the core skills, abilities and attitude required to competently carry out their role. They are provided with sufficient training and development to ensure they maintain the required levels of competence underpinned by the Group's Purpose, Values and Behaviours.

Management promote an environment of effective challenge in which decision-making processes stimulate a range of views. Transparency and open dialogue are encouraged, including enabling colleagues to raise concerns when they feel uncomfortable about actions, practices or behaviours.

The Group is customer centric and values open and honest feedback from its customers. This feedback allows colleagues to rectify problems, learn from them and consistently create products and services that meet customer needs in alignment with purpose. The Board and senior management are responsible for taking leadership of risk culture through their actions and words, and pro-actively overseeing and addressing any identified areas of weakness or concern. Internal Audit (IA) provides an independent view of risk culture to the Board's Audit Committee through a risk and control related management awareness assessment assigned to the majority of audits. Following the launch of Our Purpose in 2019, IA is piloting independent deep dives in specific areas of the business, which is complimentary to existing reporting. This will measure alignment between actual and intended culture.

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

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

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

The Risk Appetite Framework sets out the mandatory governance requirements for the creation, management and oversight of the RAS.

The RAS conveys the balance required between risk taking and the commercial and reputational implications of doing so, promoting good customer outcomes and protecting the Group from excessive exposure. The RAS includes qualitative and quantitative limits which inform strategies, targets, policies, procedures and other controls that collectively ensure the Group remains within the Board's approved appetite.

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

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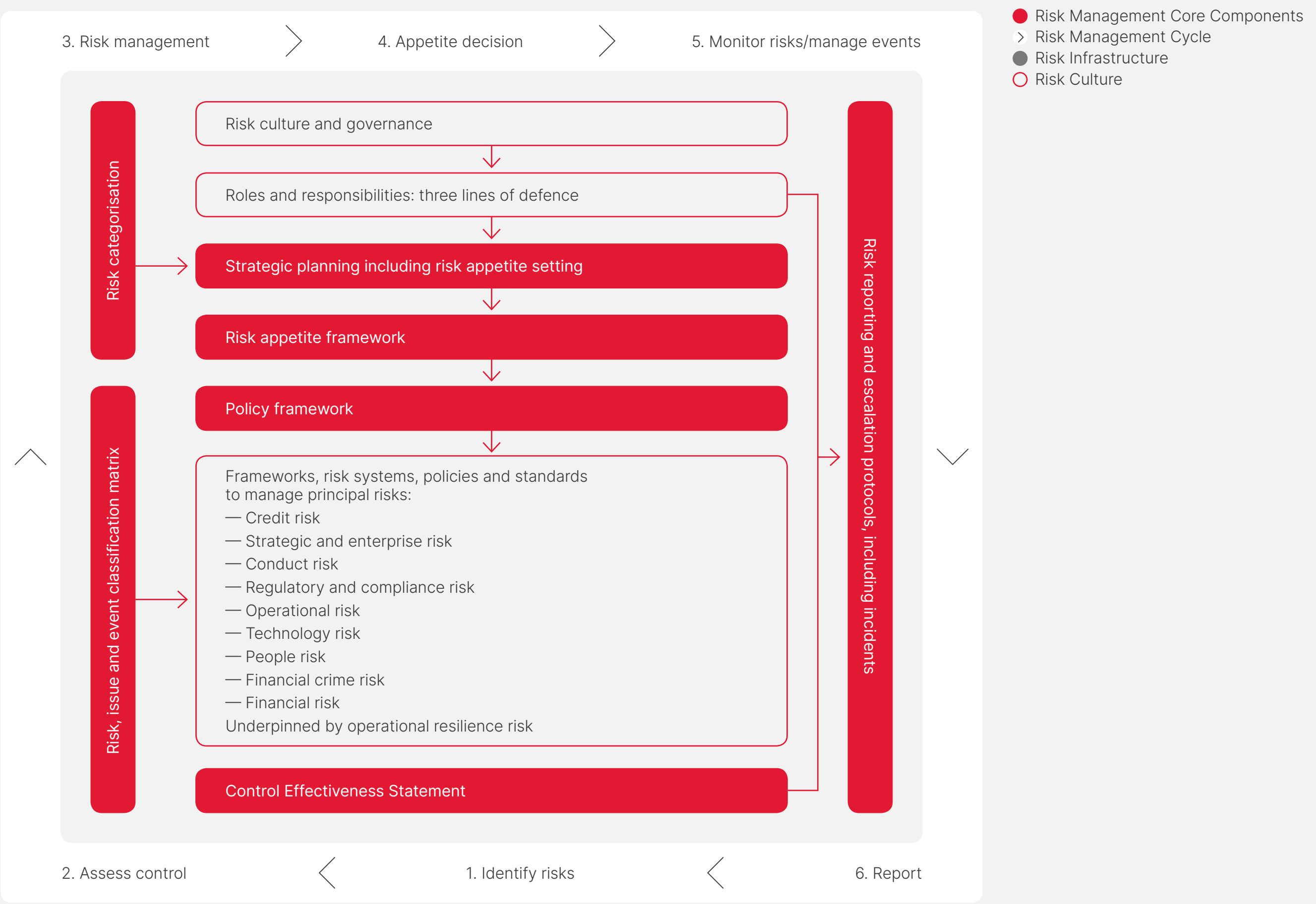
Risk policies and procedures

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

Risk management framework

The RMF aligns to the Group's Purpose by establishing an overarching framework for the identification, measurement, management and reporting of risk in a clear and transparent way. The Group identifies and manages risk using the RMF (see diagram below), which is the totality of systems, structures, policies, processes and people that identify, measure, evaluate, control, mitigate, monitor and report all internal and external sources of material risk.

Risk Management Framework

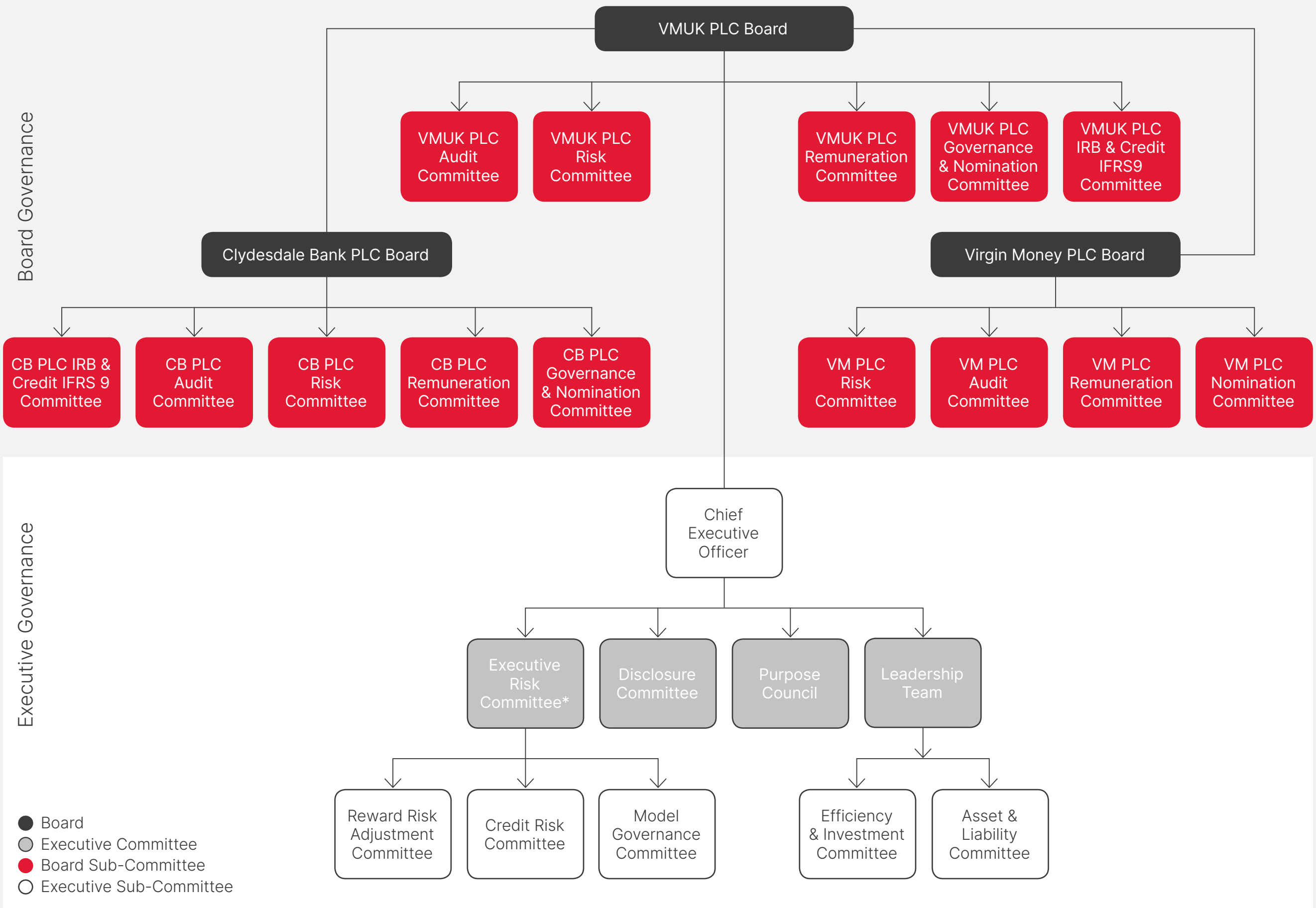


3.2 Risk governance and oversight

The Group has a structured risk governance framework to support the Board's aim of achieving long-term and sustainable growth through the Group's Purpose of 'making you happier about money'. This includes a number of committees with a specific risk management focus, although all committees consider risk matters in accordance with the Group's RMF. The Group's risk governance structure strengthens risk evaluation and management, while also positioning the Group to manage the changing regulatory environment in an efficient and effective manner. Oversight of the risk governance structure is facilitated by the Board.

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

Governance Committee framework



* The Executive Risk Committee has a reporting and escalation line into the relevant Board Risk Committee.

Table 2: Governance committees

During the year, the Group continuously considered the effectiveness of the executive committee governance framework in order to ensure it remains fit for purpose. The following Executive level committees have been established under the authority of the CEO:

COMMITTEES	RISK FOCUS
Executive Leadership Team	The Executive Leadership Team supports the CEO to lead the Group to be a strong, customer-focused bank for its communities, by focusing on four strategic priorities: pioneering growth; delighting customers and colleagues; being straightforward and efficient; and being disciplined and acting in a sustainable manner.
Executive Risk Committee	The Executive Risk Committee supports the CEO in respect of risk and control accountabilities and serves to provide leadership focus on key risk issues, including: — endorsing the RAS for approval by the Board; — overseeing and challenging the enterprise wide risk performance and control environment of the Group and business units, including the effective use of policy, frameworks and tools; — monitoring the status of regulatory relationships, the reputation of the Group in relation to its regulators and the changing state of the regulatory landscape, including the impacts for and readiness of the Group for future changes; — monitoring the strength of risk capability and capacity, including risk training and education plans to ensure an effective risk and control framework; and — reviewing and endorsing risk policies, frameworks and tools for use across the Group.
Disclosure Committee	The Disclosure Committee is responsible for ensuring the Group complies with its continuous disclosure obligations for exchanges on which it has equity and debt securities listed.

The Executive Risk Committee is supported by the following committees:

Credit Risk Committee	The Credit Risk Committee is responsible for ensuring that the Credit RMF and associated policies remain effective. The committee has oversight of the quality, composition and concentrations of the credit risk portfolio and recommends strategies to adjust the portfolio to react to changes in market conditions.
Model Governance Committee	The Model Governance Committee supports the Board in fulfilling its governance responsibilities for material models and rating systems. The committee oversees the integration and ongoing use of models across the Group, specifically considering the fitness for purpose, usability and scalability of models.
Reward Risk Adjustment Committee	The Reward Risk Adjustment Committee is responsible for considering and providing feedback to the Boards' Risk Committee and the Remuneration Committee in relation to risk events which may affect awards of variable pay and therefore ensuring that the Group complies with its regulatory requirements in respect of establishing and maintaining a robust risk adjustment process.

The Executive Leadership Team is supported by the following committees:

Purpose Council(2)	The Purpose Council oversees and manages the factors that are critical to being a purpose-led organisation. The Council maintains focus on agreed objectives, outcomes and benefits, and focuses on removing obstacles in the way of being a purpose-led organisation.
Efficiency and Investment Committee	The Efficiency and Investment Committee is responsible for overseeing the management of sustainable costs across the Group while supporting its growth ambitions, aligned to risk appetite.
Asset and Liability Committee (ALCO)	ALCO is responsible for monitoring the performance of the Group against the Board approved capital and funding plans. The committee focuses on the Group's financial risks including capital, funding, liquidity and interest rate risk to ensure that the Group's activity complies with regulatory and corporate governance requirements and also delivers Group policy objectives. The impact of pension risk on capital is also assessed by ALCO.

(2) The Customer Committee was dissolved on 12 June 2019 and the first meeting of the Purpose Council was held on 28 February 2019.

3.3 The Board and governance

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

Table 3: Directorships held

NAME	TOTAL DIRECTORSHIPS HELD
Clive Adamson (Non-Executive)	4
David Bennett (Non-Executive)	4
Paul Coby (Non-Executive)	1
David Duffy (Executive)	1
Geeta Gopalan (Non-Executive)[4]	4
Adrian Grace (Non-Executive)	2
Fiona MacLeod (Non-Executive)	2
James Pettigrew (Non-Executive)	3
Darren Pope (Non-Executive)[4]	3
Teresa Robson-Capps (Non-Executive)	3
Ian Smith (Executive)	2
Amy Stirling (Non-Executive)[4]	3
Tim Wade (Non-Executive)	4

(3) PRA Rulebook General Organisational Requirements 5.4 (having regard to General Organisational Requirements 5.5 and 5.6) and FCA Handbook Senior Management Arrangements, Systems and Controls (SYSC) 4.3A.5R (having regard to SYSC 4.3A.6R and 4.3A.7R).

(4) Appointed to the Board on 15 October 2018.

Board recruitment

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

— uses open advertising or the services of external advisers to facilitate the search for the Chairman or Non-Executive Director roles;

— considers candidates from different genders and a wide range of backgrounds;

— considers candidates on merit and against objective criteria ensuring that appointees have sufficient time to devote to the position, in light of other potential significant positions; and

— engages from time to time with the Group's major shareholders in future skills requirements and ideas for potential candidates.

The Governance and Nomination Committee reviewed the structure, size and composition of the Board and Board Committees including skills, experience, independence, knowledge and diversity and considered the longer-term succession of Board and Board Committee members relative to tenure, mix and diversity of skills and the Group's strategy, future, challenges and opportunities and reported the outcome and recommendations to the Board.

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

Board diversity

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

The Board remains committed to building strong female representation at all levels within the Group including at Board, executive and senior management levels. The Committee and the Board remains committed to achieving the target it set in 2018 to achieve 33% female representation on the Board by 2020, achieved through the natural cycle of Board renewal. It remains the Board's intention to broaden diversity on the Board beyond gender diversity alone, to reflect the communities in which the Group operates and the diversity of our customers. As at 30 September 2019, there were four female Directors (31%) on the Board, this has risen from three female Directors (27%) as at 30 September 2018. This increase was driven by the appointment of Geeta Gopalan and Amy Stirling on 15 October 2018 (Debbie Crosbie stepped down from the Board on 19 November 2018).

The Group supports the Women in Finance Charter and has a target of 40% women in senior management roles by 2020. We are on track to meet this target with female colleagues holding 38% of senior management positions in the top two layers of the Company as at 30 September 2019. A Culture Dashboard is monitored by the Board which enables the Board to track progress on both gender diversity and broader inclusion metrics and commitments.

3.4 Three Lines of Defence

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

— risk management responsibilities are clearly understood and adhered to by all colleagues when carrying out their day-to-day activities;

— decisions are made with proactive consideration of the potential risk and impact on customers;

— business areas must self-identify and report management issues, which are captured centrally, showing good levels of risk awareness, management remediation, and promoting a strong risk culture ; and

— regular control assessments are undertaken to confirm the effectiveness of the control environment, based on control monitoring and testing, in relation to both the current and emerging risk profile.

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

Three Lines of Defence

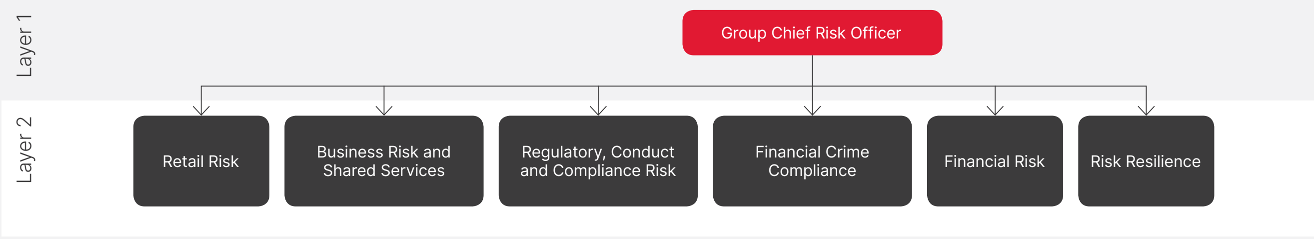
3rd Line of Defence – Internal Audit
Provides independent assurance to the Board and senior management on the operation of the organisation's risk management, governance and internal control frameworks.

2nd Line of Defence – Risk Management
Risk stewards monitor and facilitate the implementation of effective risk management practices across the Group, challenging risk owners and reporting findings independently to the Board. Risk stewards design, set and deploy risk appetite frameworks, statements and policies, challenge operational processes and procedures and advise on compliance with policy and regulation.

1st Line of Defence – Business Owners
Risk owners have ownership, responsibility and accountability for directly assessing, controlling and mitigating risks. They are responsible for identifying, measuring, monitoring, controlling and reporting risks. They must act within Board-approved risk appetite and policy. They design and implement processes and controls to enable them to do that, and all risks and issues should be escalated to the Leadership Team.

The Group's risk management function as at 30 September 2019 is represented below:

Group risk management function



3.5 Stress testing

Stress testing is an important and widely recognised risk management tool, used to assess the vulnerability of financial institutions and identify risks under adverse economic scenarios.

The Group uses stress testing in strategic and capital planning, liquidity plans and to inform risk appetite, risk mitigation and contingency planning. The Group undertakes stress testing following the Basel Committee principles and utilising, where appropriate, scenarios provided by the BoE.

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

Recognising the enlarged size following the acquisition of Virgin Money Holdings (UK) plc, the Group will take part in the BoE's concurrent stress test from 2020.

3.6 Principal risks

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

3.6.1 Credit risk

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

Risk appetite

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

Credit strategies and policies

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

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

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

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

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

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

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

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

For the year ending 30 September 2019, the Group applies the IRB methodology to mortgage and business exposures for regulatory capital. All other exposures are measured under the standardised approach.

In the year to 30 September 2019, the following changes have had a material impact on the Group's credit risk methodology and calculation, and how this is presented within this report:

1. The adoption of IFRS 9 'Financial Instruments' with effect from 1 October 2018; and
2. The acquisition of Virgin Money Holdings (UK) plc on 15 October 2018.

The Group has elected not to restate comparative figures on an IFRS 9 basis as permitted by the standard.

Those 30 September 2018 IAS 39 comparatives not included within this report can be found in the 2018 Annual Report and Accounts which is available on the Group's website.

While the overall policies and methodologies developed by the Group in preparing for its adoption of IFRS 9 on 1 October 2018 have many similarities to those used by Virgin Money Holdings (UK) plc, there are differences in the detail relating to the inputs and processes supporting the expected credit losses (ECL) calculations. The complexity of the underlying data, model-related methodology and inputs means that a single methodology in providing a combined Group ECL view, while under development, is not possible at this time, with each subsidiary retaining its own distinct set of IFRS 9 compliant models.

The Group's statutory impairment charge for the period is £252m, which includes the effect of the acquired assets that are required to be assessed under the staging criteria introduced by IFRS 9, irrespective of the fact that the fair value of the acquired assets incorporated an adjustment for credit risk. The underlying impairment charge of £148m excludes the acquisition accounting impairment impact to aid meaningful period on period comparison.

A number of the Group's key credit metrics are no longer applicable as a result of the change to an IFRS 9 basis of calculating ECLs and have been replaced with metrics appropriate to the revised basis.

3.6.2 Financial risks

Financial risk covers several categories of risk which impact the manner in which the Group can support its customers in a safe and sound manner. They include capital risk, funding risk, liquidity risk, market risk, model risk, pension risk, and financial risks from climate change.

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

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

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

The Group's pension risk appetite is a component of the Group-wide RAS framework for the management of balance sheet risks and considered in the context of potential capital impacts as a result of volatility in the Scheme's valuations.

In delivering its strategic objectives, the Group accepts a level of loss may arise from model error. Implementing key controls ensures that model errors remain within acceptable limits. The explicit consideration of an appetite for model risk is defined and articulated in the Group RAS. Specifically, in the case of model risk, the Board establishes the extent of its willingness, or otherwise, to accept results from using models. Model risk appetite is reported regularly to both the Model Governance Committee (MGC) and the Board.

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

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

Funding and liquidity risk
Funding risk occurs where the Group is unable to raise or maintain funds of sufficient quantity and quality to support the delivery of the business plan or sustain lending commitments. Prudent funding risk management reduces the likelihood of liquidity risks occurring, increases the stability of funding sources, minimises concentration risks and controls future balance sheet growth. Liquidity risk occurs when the Group is unable to meet its current and future financial obligations as they fall due or at acceptable cost.

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

Market risk
Market risk is the risk associated with adverse changes in the economic value, or net interest income of assets and liabilities held by the Group as a result of movements in market factors such as foreign exchange rates, interest rates (duration risk), customer behaviour (optionality risk), and the movement in rate spreads across types of assets or liabilities (basis risk and credit spread risk). The Group's balance sheet is predominantly UK-based and is denominated in GBP, therefore foreign exchange risk is not a material risk for the Group.

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

— the investment of non-interest bearing deposits and equity into interest-bearing assets;

— the mismatch, or duration, between repricing dates of interest-bearing assets and liabilities;

— basis risk, for example, the inability of the pricing 'basis' for customer asset and liability products to be replicated in the financial markets or the risk arising from changing relationships between different interest rate yield curves; and

— customer optionality, e.g. the right to repay borrowing in advance of contract maturity dates.

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

Pension risk
The Group operates a defined benefit pension scheme, the Yorkshire and Clydesdale Bank Pension Scheme (the Scheme). Clydesdale Bank PLC is the Scheme's principal employer and there are no other participating employers. The Scheme was closed to future accrual on 1 August 2017 for most members (a small number of members remain on a defined benefit accruals basis subject to certain conditions).

Defined benefit pension schemes provide a promise to pay members a pre-determined level of income at retirement which is independent of the contributions, investments and returns (the Scheme assets) used to fund these benefit promises (the Scheme liabilities). The operation of a pension scheme gives rise to several risks, e.g. movements in equity valuations, changes in bond yields, life expectancy of scheme members, movements in interest and inflation rates and changes in legislation. The Group also supports a Defined Contribution Scheme however the nature of this type of scheme places the investment and liability risk to the member rather than the Group.

Pension risk is the risk that, at any point in time, the value of the scheme assets is not enough to meet the current or expected future value of the scheme liabilities. This risk will continue to exist until the Scheme is formally wound up, either if all the liabilities are transferred to a third party (for example an insurer) or once all individual member benefits have been honoured.

The Group's pension risk appetite is a component of the Group-wide RAS framework for the management of balance sheet risks and considered in the context of potential capital impacts because of volatility in the Scheme's valuations.

Further information on pension risk is provided in note 3.12 of the Group's Annual Report and Accounts.

Model risk
The Group's definition of a model is a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates.

This extends to calculation methods or systems, calculation mechanisms and frameworks or systems where qualitative judgement is applied to generate quantitative results (e.g. where adjustments are made to address known model limitations).

A model meeting this definition might be used for analysing commercial strategies, informing commercial decisions, identifying and measuring risks, valuing exposures, conducting stress testing, assessing adequacy of capital, measuring compliance with internal limits, maintaining the formal control apparatus of the Group, or meeting financial or regulatory reporting requirements and issuing public disclosures.

The use of models invariably presents model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk increases with greater model complexity, higher uncertainty about inputs and assumptions, broader use, and larger potential impact. If left unmitigated, model risk can lead to poor decision making, misreporting or a failure to identify risks, which in turn could result in financial and reputational losses, as well as having a detrimental impact on customers.

See section 6.11 Internal Ratings Based (IRB) approach for information on the Group's IRB models.

3.6.3 Regulatory, compliance and conduct risk

Regulatory and compliance risk
Regulatory and compliance risk is the risk of failing to understand and comply with relevant laws and regulatory requirements; failing to identify, monitor and respond to changes in the regulatory environment; not keeping regulators informed of relevant issues; not responding effectively to information requests/regulator review findings, not meeting regulatory deadlines or obstructing the regulator. It is also the risk of failure to comply with the wider set of rules, regulations, codes of practice and laws relevant to the Group.

Risk appetite
The Group has no appetite for actions which result in breaches of regulation or for inaction to address systemic process and control failures leading to material non-compliance. Notwithstanding the complexity and volume of the regulatory agenda, the Group will ensure that all mandatory requirements are prioritised with sufficient resources to implement within required timescales in a customer focused manner. The Group will have an open dialogue with colleagues and regulators, escalating all issues they would reasonably expect to be made aware of.

Mitigation measures
The following controls and procedures help to mitigate regulatory and compliance risk:

— a clearly defined Regulatory and Compliance Policy Statement (with supporting Policy Standards) and RAS signed off by the Board;

— ongoing development, maintenance and reporting of risk appetite measures for regulatory and compliance risk to the Executive Risk Committee and the Board;

— maintenance of proactive and co-ordinated engagement with the Group's key regulators;

— continual assessment of evolving regulatory requirements, including regulatory business plans and thematic reviews;

— consideration of regulatory requirements in the context of product and proposition development and associated appropriate governance;

— oversight of regulatory and compliance risks and issues in relevant governance bodies;

— ongoing review and tracking of known regulatory and compliance issues and remediation actions being taken; and

— a risk-based assurance framework has been designed to monitor compliance with regulation and assess customer outcomes.

Monitoring
Regulatory and compliance risk is considered by all three lines of defence as part of their oversight and assurance activities. A risk assurance plan, approved by the Board Risk Committee on an annual basis, independently assesses the control framework underpinning compliance with laws and regulations.

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

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

Exposures
With the FCA's deadline on PPI complaints now passed, there is a significant reduction in uncertainty in determining the quantum of conduct risk-related liabilities with note 3.16 of the Annual Report and Accounts reflecting the Group's current position in relation to redress provisions for PPI, interest rate hedging products (IRHPs) tailored business loans (TBLs), and other smaller historic conduct matters. Nonetheless a degree of uncertainty remains in the final amount required to settle the Group's potential liabilities for these matters. The Group will continue to reassess the adequacy of provisions for these matters and the assumptions underlying the calculations at each reporting date based upon experience and other relevant factors at that time.

Mitigation measures
The following controls and procedures help to mitigate conduct risk:

— a clearly defined Conduct Policy Statement (with supporting Policy Standards) and Risk Appetite Statement signed off by the Board;

— ongoing development, maintenance and reporting of risk appetite measures for conduct to the Executive Risk Committee and the Board;

— consideration of conduct risk in the context of product and proposition development and associated appropriate governance;

— regular management review of end-to-end conduct reporting, centred on core product areas and aligned to relevant businesses;

— oversight of conduct risks and issues in relevant governance bodies;

— analysis of customer experience oriented data, complaints quality and volumes and root causes of complaints discussed in the relevant governance bodies, with actions agreed and tracked by senior stakeholders;

— continuing development and nurture of customer-centric culture aligned to the Group's purpose;

— ongoing review and tracking of known conduct issues and remediation actions being taken; and

— a risk-based assurance framework designed to monitor compliance with regulation and assess customer outcomes.

Monitoring
All three lines of defence consider conduct risk as part of their oversight and assurance activities. A risk assurance plan, approved by the Board Risk Committee on an annual basis, independently assesses the control framework underpinning the Group's conduct risk management to ensure customers are treated fairly and products are designed and sold to meet their needs. The Group also works to ensure that customer expectations are met and complaints are dealt with effectively and fairly.

3.6.4 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is a core component of the RMF and is embedded in day-to-day business activities focused on enabling operational efficiencies. Requirements and responsibilities are set out in the operational risk policy statement and supporting operational risk framework policy standard that seeks to identify, assess, mitigate, monitor, and report the operational risks, events and issues that could impact the achievement of business objectives or Impact core business processes.

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

Risk appetite
The Group is prepared to tolerate a level of operational risk exposure within agreed thresholds and limits. A level of resilience risk from internal and external events is tolerated, however, immediate steps are taken to minimise customer disruption through recovery within defined timelines. Operational risks arise from day-to-day business activities, which may result in direct or indirect losses and could adversely impact the Group's financial performance, levels of customer care or reputation. In achieving its strategic objectives, the Group strives to deliver operational efficiency and accepts that a level of loss may arise from operational failure. Implementing key controls and monitoring ensures that operational risks are managed, and losses remain within acceptable limits.

Further information on operational risk can be found in section 7.

3.6.5 Financial crime risk

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

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

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

Anti-money laundering – The Group applies a risk-based approach customer model which sets out the types of customer it has no risk appetite to onboard, as well as customers with whom the Group is prohibited from entering into or maintaining a customer relationship. All other customers shall be subject to controls commensurate with their risk.

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

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

Exposures
Financial crime risk is inherent in doing business in the financial services industry and may arise from failure to:

- meet legal and regulatory requirements; and
- maintain effective systems and controls to prevent the risk that the Group might be used to further financial crime.

The Group continues to review the external environment for any change in regulatory or legislative direction, taking action as appropriate.

Mitigation measures
The Group adopts a risk-based approach to financial crime. Risk assessments against the four financial crime policy standards take place on an annual basis. Over and above these assessments, regular oversight of higher-risk activities takes place as part of the formal risk assurance plan and embedded activity takes place throughout the year. Key performance metrics relative to critical financial crime systems are kept under review to ensure ongoing effectiveness. Training completion and compliance is subject to annual oversight.

Monitoring
The Financial Crime Risk team is responsible for the control framework, strategy, governance, standard setting, oversight, training and reporting to the competent authorities and governance committees/Board.

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

3.6.6 Technology risk

Technology risk is defined as the risk of loss resulting from inadequate or failed information technology processes through strategy, design, build or run components and internally or externally provided services.

Exposures

The Group's exposure to technology risk is materially impacted through the need to embrace new technology. Technology risk is comprised of the following risk categories:

RISK CATEGORY	
Cyber and information security risk	The risks arising from inadequate internal and external information and cybersecurity, where failures impact the confidentiality, integrity and availability of electronic data through our systems and processes. This more broadly considers the risks and controls associated with cybersecurity where the Group has recognised significant escalation of external cyber threats, regulatory penalty and resilience need. **How this risk is managed** – the Group continues to enhance and invest in the control environment, recognising the changing cyber landscape and the increased focus on digital capabilities, as well as the changing risk profile of the business. All three lines of defence possess skilled resource in this discipline to protect the Group.
Physical security risk	The risk to the safety and protection of colleagues, customers and physical assets arising from unauthorised access to buildings, theft, robbery, intimidation, blackmail, sabotage, terrorism and other physical security risks. **How this risk is managed** – physical and personal security standards are managed by the Group's Chief Information Security and Resilience Officer (CISRO). Controls are in place to protect the Group's physical assets, as well as the security of colleagues and customers.
IT resilience risk	IT resilience is the ability of the Group to quickly adapt to disruptions while maintaining continuous operations on key and critical processes, safeguarding technology and all associated assets in the face of adverse events, shocks and chronic or incremental changes. IT resilience risk includes the risks associated with technology, suppliers, property and staff. The Group recognises the significant regulatory focus on resilience as the market becomes more reliant on mobile and online banking and developments in cloud solutions, artificial intelligence and machine learning. **How this risk is managed** – IT resilience sits within the Resilience Framework with underlying risk metrics reported to Executive Committees and Board. The Group is well placed to respond to new regulations and standards in resilience and develops technology with resilience inbuilt as a principle. A programme of continuous ongoing monitoring and disaster recovery testing helps to minimise the likelihood of system failure, however, in preparation for an outage the Group also maintains and tests critical end-to-end business recovery and contingency plans. The Group aims to develop and advance its frameworks and controls in line with developments in cloud technology and the advanced use of our data.
Data risk	Data underpins decision making at all levels of the organisation. Poor quality data can lead to loss, customer disruption, non-compliance with GDPR (for example, in relation to data minimisation, data accuracy and the Group's ability to respond adequately when data subject rights are exercised) and unnecessary rework. Data therefore needs to be controlled to the appropriate standards throughout its life cycle and be made available for re-use where appropriate. **How this risk is managed** – the Group has a Data Management Framework governing the creation, storage, distribution, usage and retirement of data, which is aligned with GDPR requirements. Quality is attested to by each business area against three attributes: completeness, accuracy and appropriateness. Oversight is well established within Technology, Risk and Audit.

RISK CATEGORY	
Privacy risk	Privacy risk may result from non-compliance with data privacy legal and regulatory obligations, either through lack of awareness, incorrect assessment, or inadequate compliance. The risk is crystallised when personal data is put at risk, or individuals' data rights are compromised, due to process or cultural failure in the Group's role as data controller. When crystallised, privacy risk can result in harm to customers, significant financial impacts, operational disruption, litigation, damage to reputation, loss of trust and/or regulatory censure. **How this risk is managed** – the Group continues to enhance its Privacy Risk Framework to ensure privacy by design and by default and ensure data subject rights are managed efficiently and in line with GDPR. The Group has created a Data Protection Office within Risk to independently oversee compliance reporting to the Board Risk Committee and relevant governance forums. A culture of compliance is encouraged through a robust Data Privacy Policy and enhanced staff training to those areas handling and processing data on the Group's behalf.
Payment risk	Significant development has occurred within open banking and payment services regulation which will continue over the next 12-18 months. There is the risk that financial transactions are not conducted per the instructions and parameters of our customers, payment/trading/clearing/settlement schemes or business requirements. This includes payment delays, inaccuracies, duplicates, failures or rejections as well as system-based restrictions and errors. **How this risk is managed** – Payment Risk Framework outlines key scheme rules, regulations and compliance requirements alongside the risk-based approach to assurance oversight, control testing and change management to ensure that payment risk is managed within appetite and impact to customers across the Group is minimised. All lines of defence are actively involved in changes being made in this dynamically changing environment. As such the Group continues to invest in its payment services capability and the Payment Risk team is a vital component of technology risk.

Monitoring

Business units are responsible for the day-to-day management of technology risk, with oversight from the Risk Management function, and independent assurance activities undertaken by Internal Audit. The Group conducts a series of planned independent assurances, deep dives, change assurance activities and continuous monitoring.

3.6.7 Strategic and enterprise risk

Strategic and enterprise risk is the risk of significant loss, loss of earnings or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments. Strategic risk can arise if the Group designs or implements an inappropriate strategic plan, designs an appropriate plan but fails to implement it or implements the strategic plan as intended, and from failing to take account of a change in external circumstance.

This includes the potential for increased execution risk as a result of integration and transformation activity, alongside the requirement to maintain focus on the core operations of the business. There is the risk that significant programme of change results on increased costs, delayed benefit realisation and customer harm.

Strategic risk includes an inability to respond effectively to cultural, structural and regulatory change; failure to establish and execute a compelling digital strategy or increase organisational capability in support of this; being an inefficient, high cost, uninspiring or uncompetitive provider of product and service; or failing to respond to climate change risks in our direct and indirect operations.

Enterprise risk includes managing and implementing effective governance, reporting and maintaining external relations to promote the brand and support the Group's ability to successfully achieve strategic goals.

EXECUTIVE SUMMARY
RISK MANAGEMENT
CAPITAL RESOURCES
CAPITAL REQUIREMENTS
FUNDING AND LIQUIDITY RISK
SECURITISATION
ASSET ENCUMBRANCE
APPENDICES

Mitigation

The Group will maintain a register of sectors that give rise to heightened levels of environmental / climate, social and governance related risks. The Group will maintain an approach to these risks where sectors can be prohibited or where additional due diligence is required before exposures may be approved. In assessing sectors,the Group will consider the potential impact from transition risks arising from changing legislation and societal views.

Providing a significantly more accurate understanding of the Group's risks through enhanced risk data to track risk levels, concentrations and take better risk-based decisions will also mitigate strategic and enterprise risk.

The Risk function undertakes regular risk oversight activity with workstreams focussed solely on the execution risk of delivering integration, placing customers' interest at the centre of all aspects of change.

Monitoring

A range of financial and non-financial metrics, including RoTE, lending growth, customer acquisition and retention, NIM and others, are key performance indicators used to monitor performance relative to strategic objectives. They are monitored against the financial plan by the Group's Board and Executive Leadership Team, who react to deviations from targets and modify strategy accordingly. Furthermore, a number of macroeconomic Tier 1 RAS Early Warning Indicators (EWIs) were established during 2019. Whilst the Group is unable to influence these metrics explicitly, they are included in order to provide sight of possible portfolio deterioration ahead of specific internally focussed metrics.

3.6.8 People risk

People risk is defined as the risk of not having sufficiently skilled and motivated colleagues who are clear on their responsibilities and accountabilities and who behave in an ethical way. This could lead to inappropriate decision making that is detrimental to customers, other colleagues or our shareholders and could ultimately lead to regulatory sanction.

Our drive to foster a culture which engages and encourages our people to deliver customer-focused outcomes with a clear set of supporting values and behaviours is an important step in mitigating people risk.

Risk appetite

While the organisational structure changes being implemented to support the integration of Virgin Money Holdings (UK) plc will drive an inherent increase in people risk, the combined Group will provide a catalyst for cultural transformation, which aims to create a high-performing, purpose-driven, customer-centric organisation, where colleagues have accountability and responsibility, alongside appropriate reward structures.

The Group will not accept a material increase in risk as a result of colleagues not conducting themselves in the manner expected, nor will the Group act in a manner that may affect the health and well-being of colleagues. The Group will not take intentional action that may impact on its ambition to build an inclusive culture and will continue to embed activities that support the required cultural change.

Exposures

People risk is inherent in the day-to-day operation of the business and is controlled through a set of values, behaviours and policies.

Measurement

The Group has a range of Tier 1 and Tier 2 risk appetite metrics in place which help to measure and report people risk.

The Group's operational controls are designed to mitigate the risks associated throughout each element of the colleague life cycle. Group-wide systems provide tools and online guidance to all colleagues to support them in discharging their accountabilities.

Mitigation

People risk is mitigated in three core ways:

— managing people risk across the Group: The changing internal and external environment raises challenges relative to the Group's ability to manage people risk, as part of the overall business strategy. The transformation of the banking industry is changing the demand for skills, particularly in relation to technology, information security, serving customers digitally and responding to market developments. The Group's operating controls are effective in managing these risks and there is a focus on the Group's ability to plan and predict resource needs during this period of cost challenges and increased use of technology. The Group's integration evolution will have implications for colleagues and will create an increased level of people risk during periods of uncertainty. Therefore, material structural changes will follow organisational design principles, the Senior Manager and Certification Framework and have appropriate governance;

— managing the people management framework: Controls are deployed effectively by people leaders and senior management in the day-to-day management of people risk. People risk indicators are constantly reviewed to determine if any systemic issues exist and to agree appropriate remediation. These include health and well-being, succession and conduct; and

— the role of the HR function: HR partners support the Executive Leadership Team and provide broader support to all colleagues regarding all matters impacting the colleague life cycle which runs from recruitment to leaving the Group. The Group has a three-tier model incorporating: ourPeople (web-based); HR Services, supported by specialist teams like Reward; Organisational Development; Payroll; and Case Management; and finally, full business partnering to the Executive Leadership Team.

Monitoring

People risks are monitored and reported through Executive and Board Level Committees. IA is piloting independent deep dives in specific areas of the business, which is complimentary to existing reporting. This will measure alignment between actual and intended culture.

CAPITAL RESOURCES

4.1 Own funds

The table below shows the composition of the Group's regulatory capital position as at 30 September 2019 on a CRD IV basis. The table includes 2018 comparatives prepared on the same basis. The table follows the disclosure format required by the EBA Implementing Technical Standard on Disclosure for Own Funds, with only items applicable to the Group being shown.

The capital resources of CB Consol and VMH are presented in Appendices 1 and 2 respectively.

Table 4: Capital composition

AS AT 30 SEPTEMBER		2019 £M	2018 £M
	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		
1	Capital instruments and the related share premium accounts	**146**	89
1a	*Of which: ordinary shares*	**143**	89
1b	*Of which: share premium*	**3**	–
2	Retained earnings	**4,365**	2,860
3	Accumulated other comprehensive income (and other reserves)	**10**	(30)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**(20)**	(10)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**4,501**	2,909
	COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS		
7	Additional value adjustments	**(5)**	(3)
8	Intangible assets	**(512)**	(412)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	**(146)**	(99)
11	Fair value reserves related to gains or losses on cash flow hedges	**26**	39
12	Negative amounts resulting from the calculation of expected loss amounts	**(88)**	–
15	Defined benefit pension fund assets	**(257)**	(138)
25a	Losses and distributions for the current financial year (negative amount)	**(315)**	(183)
28	**Total regulatory adjustments to Common Equity Tier 1**	**(1,297)**	(796)
29	**Common Equity Tier 1 capital**	**3,204**	2,113
	ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS		
30	Capital instruments and the related share premium accounts	**915**	450
31	*Of which: classified as equity under applicable accounting standards*	**915**	450
36	**Additional Tier 1 capital before regulatory adjustments**	**915**	450
44	**Additional Tier 1 capital**	**915**	450
45	**Tier 1 capital**	**4,119**	2,563
	TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS		
46	Capital instruments and the related share premium accounts	**721**	474
50	Credit risk adjustments	**–**	152
51	Tier 2 capital before regulatory adjustment	**721**	626
58	Tier 2 capital	**721**	626
59	**Total capital**	**4,840**	3,189
60	**Total risk-weighted assets**	**24,046**	20,102

024 CAPITAL RESOURCES

AS AT 30 SEPTEMBER		2019 £M	2018 £M
	Capital ratios		
61	Common Equity Tier 1	**13.3%**	10.5%
62	Tier 1	**17.1%**	12.7%
63	Total capital	**20.1%**	15.9%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	**8.0%**	6.9%
65	*Of which: capital conservation buffer requirement*	**2.5%**	1.9%
66	*Of which: countercyclical buffer requirement*	**1.0%**	0.5%
67	*Of which: systemic risk buffer requirement*	**0.0%**	0.0%
67a	*Of which: Global Systemically Important Institution or Other Systemically Important Institution buffer*	**0.0%**	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**8.8%**	6.0%
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**0**	152
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	**77**	228

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

Tier 1 capital
Tier 1 capital comprises:

— ordinary shares;

— share premium;

— retained earnings;

— accumulated other comprehensive income (and other reserves);

— AT1 instruments; and

— adjustments as set out by the regulatory requirements governing capital resources.

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

Additional details of the perpetual capital notes are included in Appendix 4 and note 4.1 to the Group's Annual Report and Accounts for the year ended 30 September 2019.

Tier 2 capital
Tier 2 capital comprises:

— subordinated loan debt;

— eligible collective impairment allowances; and

— adjustments as set out by the regulatory requirements governing capital resources.

Subordinated loan debt is unsecured and ranks below the claims of all depositors and other ordinary creditors. Additional details of the subordinated notes are included in Appendix 4 and in note 3.14 to the Group's Annual Report and Accounts for the year ended 30 September 2019.

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

Full terms and conditions for the Group's marketed debt securities are available on the Group's website.

4.2 Movements in capital

As highlighted in section 1.3, the Group's CET1 ratio has increased from 10.5% to 13.3% in the year to 30 September 2019. This is driven by the positive impact from the receipt of accreditation to use IRB methodology for calculating risk-weighted assets on mortgage and business exposures and the acquisition of Virgin Money Holdings (UK) plc, partly offset by exceptional items in the year.

Over the period, there were also increases in AT1 and Tier 2 capital. The Group issued an additional £250m of Tier 2 capital in December 2018 in the form of Fixed Rate Reset 10 non-call 5-year Subordinated Notes. An additional £250m of AT1 capital was issued in March 2019 in the form of Fixed Rate Reset Perpetual non-call 5-year Subordinated Contingent Convertible Notes.

Table 5: Capital flow statement

	2019 £M	2018 £M
COMMON EQUITY TIER 1 CAPITAL		
Common Equity Tier 1 capital at 1 October	**2,113**	2,437
Share capital: ordinary share new issuance	**–**	1
Share premium	**3**	–
Retained earnings and other reserves	**22**	(34)
Prudent valuation adjustment	**(2)**	1
Acquisition of Virgin Money Holdings (UK) plc	**1,567**	–
Intangible assets	**(100)**	(73)
Deferred tax assets relying on future profitability	**(47)**	(71)
Negative amounts resulting from the calculation of expected loss amounts	**(88)**	–
Defined benefit pension fund assets	**(119)**	(3)
Fair value reserves related to gains or losses on cash flow hedges	**(13)**	38
Losses for the current financial year	**(132)**	(183)
Total Common Equity Tier 1 capital	**3,204**	2,113
TIER 1 CAPITAL		
Tier 1 capital at 1 October	**450**	450
Capital instruments issued: Additional Tier 1	**465**	–
	915	450
Total Tier 1 capital	**4,119**	2,563
TIER 2 CAPITAL		
Tier 2 capital at 1 October	**626**	627
Capital instruments issued: Subordinated debt	**247**	–
Credit risk adjustments	**(152)**	(2)
Other movements	**–**	1
Total Tier 2 Capital	**721**	626
Total capital at 30 September	**4,840**	3,189

Several deductions and prudential regulatory adjustments are applied in calculating regulatory capital under CRD IV.

The most significant of these are:

- defined benefit pension fund assets: the IAS 19 valuation of defined benefit pension schemes is included in accounting reserves, but the rules do not permit this to count as regulatory capital and it is deducted. At 30 September 2019, IAS 19 valuation was a surplus of £396m (30 September 2018: £212m) resulting in the movement of £119m which is net of tax;
- deferred tax assets relying on future profitability: at 30 September 2018, £99m was deducted from CET1 capital and this increased to £146m at 30 September 2019, resulting in the £47m movement;
- intangible assets: at 30 September 2018, £412m was deducted from CET1 capital and this increased to £512m as at 30 September 2019. Increases in the value of computer software and other IT development which has been capitalised accounts for £89m of the movement, and goodwill (which arose from the acquisition of Virgin Money Holdings (UK) plc) accounts for the remaining £11m;
- cash flow hedge reserve: this has decreased during the year from £39m to £26m; and
- IRB shortfall of credit risk adjustments to expected losses: the £88m (30 September 2018: £nil) represents an adjustment to reflect any IRB shortfall of credit risk adjustments to expected losses. This is a new regulatory adjustment arising from IRB accreditation.

The following table shows the capital, RWA and leverage positions with and without the application of transitional arrangements for IFRS 9 or analogous ECLs.

Table 6: IFRS9-FL – Comparison of institutions' own funds and capital and leverage ratios

		2019			
		QUANTITATIVE			
		A	B	C	D
		30 SEPTEMBER 2019	30 JUNE 2019	31 MARCH 2019	31 DECEMBER 2018
	Available capital (amounts)				
1	Common Equity Tier 1 (CET1) capital	**3,204**	3,478	3,460	3,424
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**3,104**	3,430	3,420	3,394
3	Tier 1 capital	**4,119**	4,371	4,437	4,183
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4,019**	4,323	4,397	4,153
5	Total capital	**4,840**	5,128	5,220	4,914
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4,740**	5,080	5,180	4,884
	Risk-weighted assets (amounts)				
7	Total risk-weighted assets	**24,046**	23,889	23,864	23,669
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**23,983**	23,828	23,809	23,605
	Capital ratios				
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	**13.3%**	14.6%	14.5%	14.5%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**12.9%**	14.4%	14.4%	14.4%
11	Tier 1 (as a percentage of risk exposure amount)	**17.1%**	18.3%	18.6%	17.7%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**16.8%**	18.1%	18.5%	17.6%
13	Total capital (as a percentage of risk exposure amount)	**20.1%**	21.5%	21.9%	20.8%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**19.8%**	21.3%	21.8%	20.7%
	Leverage ratio				
15	Leverage ratio total exposure measure	**94,744**	94,772	93,916	92,264
16	Leverage ratio	**4.3%**	4.6%	4.7%	4.5%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4.2%**	4.6%	4.7%	4.5%

4.3 Reconciliation of statutory equity to regulatory capital

Table 7: Reconciliation of statutory equity to regulatory capital

AS AT 30 SEPTEMBER	2019 £M	2018 £M
Statutory total equity	**5,021**	3,186
Less pension regulatory adjustments	**(257)**	(138)
Less additional value adjustment	**(5)**	(3)
Less intangible assets	**(512)**	(412)
Less deferred tax assets relying on future profitability	**(146)**	(99)
IFRS 9 transitional adjustment	**100**	–
Expected loss	**(88)**	–
Less cash flow hedge	**26**	39
Additional Tier 1 foreseeable dividend	**(20)**	(10)
Regulatory Tier 1 capital	**4,119**	2,563
Statutory Tier 2 subordinated debt	**722**	472
Add unamortised hedge on issuance	**(1)**	2
Regulatory Tier 2 subordinated debt	**721**	474

4.4 Leverage ratio

Management of excessive leverage

The leverage ratio is monitored against a Board approved RAS, with the responsibility for managing the ratio delegated to ALCO, which monitors it monthly. The Group's capital risk policy standard provides the framework for how capital is managed within the Group and one of its objectives is to ensure that excessive leverage is not taken.

The leverage ratio is the ratio of Tier 1 capital to total exposures. Exposures are defined as the total on- and off-balance sheet exposures, after the application of credit conversion factors. This follows the definition given in the Delegated Act amending CRR article 429, and includes deductions applied to Tier 1 capital.

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

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

		2019 £M	2018 £M
1	Total assets as per published financial statements	**90,999**	43,456
4	Adjustments for derivative financial instruments	**(35)**	(134)
5	Adjustments for securities financing transactions (SFTs)	**1,934**	1,468
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**2,728**	1,763
7	Other adjustments	**(882)**	(613)
8	**Total leverage ratio exposure**	**94,744**	45,940

Table 9: LRCom: Leverage ratio common disclosure

		2019 £M	2018 £M
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**90,633**	43,194
2	(Asset amounts deducted in determining Tier 1 capital)	**(882)**	(613)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**89,751**	42,581
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**324**	226
5	Add-on amounts for potential future exposure (PFE) associated with *all* derivatives transactions (mark-to-market method)	**344**	208
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(337)**	(306)
11	**Total derivative exposures**	**331**	128
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**–**	4,525
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**–**	(3,057)
14	Counterparty credit risk exposure for SFT assets[(5)]	**1,934**	–
16	**Total securities financing transaction exposures**	**1,934**	1,468
	OTHER OFF-BALANCE SHEET EXPOSURES		
17	Off-balance sheet exposures at gross notional amount	**15,247**	7,135
18	(Adjustments for conversion to credit equivalent amounts)	**(12,519)**	(5,372)
19	**Other off-balance sheet exposures**	**2,728**	1,763
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on-and-off balance sheet)		
20	Tier 1 capital	**4,119**	2,563
21	**Total leverage ratio exposures**	**94,744**	45,940
	LEVERAGE RATIO		
22	Leverage ratio	**4.3%**	5.6%
	Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	**Transitional**	Fully phased in

(5) During the year, heritage Clydesdale Bank PLC Repurchase (Repo) Transactions were allocated from the credit risk tables to the counterparty credit risk tables.

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

		2019 £M	2018 £M
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**90,633**	43,194
EU-3	Banking book exposures, of which:	**90,633**	43,194
EU-4	Covered bonds	**1,415**	615
EU-5	Exposures treated as sovereigns	**12,922**	6,990
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities NOT treated as sovereigns	**125**	240
EU-7	Institutions	**1,240**	616
EU-8	Secured by mortgages of immovable properties	**63,648**	27,759
EU-9	Retail exposures	**5,208**	1,420
EU-10	Corporate	**4,021**	3,651
EU-11	Exposures in default	**552**	460
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**1,502**	1,443

The Group's leverage ratio is 4.3% which exceeds the CRD IV minimum of 3%, applicable from 2018. The movement in the year has been driven by the impacts of the acquisition on Virgin Money Holdings (UK) plc and exceptional items which have occurred during the year.

The UK leverage ratio framework results in an increase in the leverage ratio from 4.3% under CRD IV to 4.9% on the PRA modified basis due to the Group's significant exposure to central banks within its liquid asset portfolio and Note cover. This is above the PRA's minimum requirement of 3.6% including a Counter-Cyclical Leverage Buffer of 0.35%.

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

Leverage ratios are disclosed for CB Consol and VMH in Appendices 1 and 2 respectively.

030 CAPITAL REQUIREMENTS

5.1 Capital management

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

Measurement

The Group manages capital in accordance with prudential rules issued by the PRA and Financial Conduct Authority (FCA), which implemented CRD IV legislation with effect from 1 January 2014. The Group's approach to Pillar 1 for the year ended 30 September 2019 was to use IRB models for its mortgage and business lending portfolios and the standardised approach to calculating all other RWA.

There are also some risks which are not adequately covered by the Pillar 1 requirements (e.g. interest rate risk and pension obligation risk). These risks are captured within the Group's Pillar 2A requirements. Pillar 2A capital requirements are determined as part of the ICAAP process and subsequently agreed by the PRA through their Capital Supervisory Review & Evaluation Process. The PRA set these additional minimum requirements through the issuance of an institution-specific Total Capital Requirement (TCR) which was applicable at 30 September 2019.

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

Capital buffers

The regulatory capital buffer framework is intended to ensure firms maintain enough capital above their regulatory minimum to withstand periods of stress. The UK is implementing the provisions on capital buffers outlined in the Capital Requirements Directive to create combined capital buffers including a Capital Conservation Buffer (CCB); a Countercyclical Capital Buffer (CCyB); a Global Systemically Important Institution Buffer; and a Systemic Risk Buffer (SRB). In the UK, the transitional period for the CCB has ended and is set at 2.50%, effective from 1 January 2019.

The CCyB has been effective from 1 May 2014 and is dependent upon the BoE view of credit conditions in the economy. The CCyB was 1.0% of RWAs at 30 September 2019 (0.5% at 30 September 2018).

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

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

Minimum requirement for own funds and eligible liabilities

In November 2016, the BoE provided additional information on how MREL will be applied to firms that are subject to the use of resolution tools that the BoE would employ in the event of a firm entering resolution. From 1 January 2022, those firms, which include the Group, will be required to hold both their going concern requirements together with additional MREL of an amount equal to those going concern requirements. The BoE has not yet advised the Group's Final MREL requirements. From 1 January 2020 until 31 December 2021 the Group expects that it will be required to hold 18% of risk-weighted assets in the form of MREL. From 1 January 2022, the Group continues to expect that it will be subject to an end state MREL of two times Pillar 1 and Pillar 2A capital.

During 2018, the Group issued its second unsecured bond that, in addition to the Group's capital base, will contribute to meeting MREL requirements. This activity firmly established the Group's name in the unsecured market with investors. The second bond took total outstanding issuance to £0.8bn which remains the case as at 30 September 2019.

Monitoring

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

5.2 Minimum capital requirement

To determine minimum capital requirements under the CRD IV Framework, the Group has applied the IRB approach to its mortgage and business portfolios and the standardised approach to measure credit risk for all other portfolios and operational risk. Under this approach the Group calculates its Pillar 1 capital requirement based on 8% of total RWAs. This covers credit risk, operational risk, counterparty credit risk and CVA. The table below sets out the risk-weighted assets and Pillar 1 capital requirements of the Group.

Table 11: EU OV1 – Overview of risk-weighted assets

		RWAS		MINIMUM CAPITAL REQUIREMENTS
		2019 £M	2018 £M	2019 £M
1	Credit risk (excluding CCR)	**20,825**	17,876	**1,666**
2	*Of which: the standardised approach*	**5,721**	17,876	**457**
4	*Of which: the advanced IRB (AIRB) approach*	**15,104**	–	**1,209**
6	CCR	**383**	343	**30**
7	*Of which: mark-to-market*	**191**	125	**15**
12	*Of which: CVA*	**192**	218	**15**
23	Operational risk	**2,606**	1,655	**209**
25	*Of which: standardised approach*	**2,606**	1,655	**209**
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**232**	228	**19**
29	**Total**	**24,046**	20,102	**1,924**

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

Table 12: Capital requirements

	AS AT 30 SEPTEMBER 2019	
MINIMUM REQUIREMENTS	CET1	TOTAL CAPITAL
Pillar 1[(6)]	**4.5%**	**8.0%**
Pillar 2A	**3.0%**	**5.3%**
	7.5%	**13.3%**
Capital conservation buffer	**2.5%**	**2.5%**
UK countercyclical capital buffer[(7)]	**1.0%**	**1.0%**
Total (excluding PRA buffer)[(8)]	**11.0%**	**16.8%**

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

(7) The UK CCyB may be set between 0% and 2.5%. On 28 November 2018, the UK CCyB increased from 0.5% to 1.0%, At its October 2019 meeting the FPC maintained the UK CCyB rate at 1% noting the underlying vulnerabilities (excluding Brexit) that can amplify economic shocks have not changed materially since the November 2018 Financial Stability Report and remain at a standard level overall in the UK. .

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

The countercyclical capital buffer is an additional requirement, introduced by CRD IV, to the overall capital requirement of the Group. The tables below disclose relevant information for the calculation of the Group's countercyclical capital buffer as at 30 September 2019 in line with EBA/RTS/2014/17. As permitted by the Regulatory Technical Standards (RTS), as the Group's relevant foreign credit exposures are below 2% of aggregate risk-weighted exposures the Group has chosen to allocate these to the UK.

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

	2019											
	GENERAL CREDIT EXPOSURES		TRADING BOOK EXPOSURES		SECURITISATION EXPOSURES		OWN FUNDS REQUIREMENTS					
	EXPOSURE VALUE FOR SA 010	EXPOSURE VALUE FOR IRB 020	SUM OF LONG AND SHORT POSITIONS OF TRADING BOOK EXPOSURES FOR SA 030	VALUE OF TRADING BOOK EXPOSURES FOR INTERNAL MODELS 040	EXPOSURE VALUE FOR SA 050	EXPOSURE VALUE FOR IRB 060	OF WHICH GENERAL CREDIT EXPOSURES 070	OF WHICH TRADING BOOK EXPOSURES 080	OF WHICH SECURITIS-ATION EXPOSURES 090	TOTAL 100	OWN FUNDS REQUIRE-MENTS WEIGHTS 110	COUNTER-CYCLICAL CAPITAL BUFFER RATES 120
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	%
010 Breakdown by country:												
UK	**8,852**	**72,654**	**–**	**–**	**–**	**–**	**1,669**	**–**	**–**	**1,669**	**1.00**	**1.0%**
020 **Total**	**8,852**	**72,654**	**–**	**–**	**–**	**–**	**1,669**	**–**	**–**	**1,669**	**1.00**	**1.0%**

	2018											
	GENERAL CREDIT EXPOSURES		TRADING BOOK EXPOSURES		SECURITISATION EXPOSURES		OWN FUNDS REQUIREMENTS					
	EXPOSURE VALUE FOR SA 010	EXPOSURE VALUE FOR IRB 020	SUM OF LONG AND SHORT POSITIONS OF TRADING BOOK EXPOSURES FOR SA 030	VALUE OF TRADING BOOK EXPOSURES FOR INTERNAL MODELS 040	EXPOSURE VALUE FOR SA 050	EXPOSURE VALUE FOR IRB 060	OF WHICH GENERAL CREDIT EXPOSURES 070	OF WHICH TRADING BOOK EXPOSURES 080	OF WHICH SECURITIS-ATION EXPOSURES 090	TOTAL 100	OWN FUNDS REQUIRE-MENTS WEIGHTS 110	COUNTER-CYCLICAL CAPITAL BUFFER RATES 120
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	%
010 Breakdown by country:												
UK	35,988	–	–	–	–	–	1,485	–	–	1,485	1.00	0.5%
020 **Total**	35,988	–	–	–	–	–	1,485	–	–	1,485	1.00	0.5%

Table 14: Amount of institution-specific countercyclical capital buffer

		2019 £M
010	**Total risk exposure amount**	**24,046**
020	Institution-specific countercyclical capital buffer rate	**1.0%**
030	Institution-specific countercyclical capital buffer requirement	**240**

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

Credit risk

6.1 Credit risk exposure: analysis by exposure class

Credit risk is the risk that a borrower or counterparty fails to pay the interest or capital due on a loan or other financial instrument. As at 30 September 2019, the total credit risk exposures of the Group amounted to £104.9bn (2018: £54.1bn). The overall capital requirement for credit risk has increased by 16% from £1,449m in 2018 to £1,685m in 2019. Following consideration of reporting approaches arising from the acquisition of Virgin Money Holdings (UK) plc, repurchase (repo) transactions have been reallocated from the credit risk tables to the counterparty credit risk tables. (This reallocation has not been applied retrospectively to the prior year numbers). At 30 September 2018, repos totalled £4.5bn exposure, £3bn collateral and £2.3bn EAD with £nil RWA against the Central governments or central banks standardised exposure class.

The table below shows movements in credit risk RWA from 1 October 2018 to 30 September 2019.

Table 15: EU CR8 – RWA flow statements of credit risk exposures

		2019			
		A	B		
		IRB RWA AMOUNTS	IRB CAPITAL REQUIREMENTS	SA RWA AMOUNTS	SA CAPITAL REQUIREMENTS
1	**RWAs as at the end of the previous reporting period**	**–**	**–**	**18,104**	**1,449**
2	Asset size	**958**	**77**	**478**	**38**
3	Asset quality	**(291)**	**(23)**	**(8)**	**(1)**
4	Model updates	**(396)**	**(32)**	**–**	**–**
5	Methodology and policy	**250**	**20**	**–**	**–**
6	Acquisitions and disposals	**4,330**	**346**	**2,870**	**230**
7	IRB accreditation	**10,247**	**821**	**(15,592)**	**(1,248)**
8	Other	**6**	**–**	**101**	**8**
9	**RWAs as at the end of the reporting period**	**15,104**	**1,209**	**5,953**	**476**

In October 2018, the Group received IRB accreditation from the PRA for its mortgage and business lending portfolios. This impact can be seen within the IRB accreditation line above.

Formal FIRB accreditation for the business portfolios was received in October 2018 for a suite of re-calibrated models which were implemented during November, which resulted in a model impact of £170m increase, as seen in the model updates line above. Since this implementation, no additional model changes have occurred. The differential is predominantly in relation to the retail mortgage quarterly PD model recalibrations.

Methodology and processing enhancements implemented prior to formal IRB reporting are captured within the methodology and policy line above.

In October 2018, the Group acquired Virgin Money Holdings (UK) plc, which calculates risk-weighted assets on mortgages under IRB methodology and all other portfolios under the standardised methodology. This impact can be seen within the Acquisitions and disposals line above.

Credit risk continued

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

The exposure amounts disclosed are pre-application of credit risk mitigation and pre-application of credit conversion factors, unless otherwise stated. This contrasts with the exposures disclosed within the Risk Report in the Group's Annual Report and Accounts for the year ended 30 September 2019, which are disclosed pre-application of credit risk mitigation and post-application of credit conversion factors.

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

		2019			
		A	B		
		NET VALUE OF EXPOSURES AT THE END OF THE PERIOD £M	AVERAGE NET EXPOSURES OVER THE PERIOD £M	RISK-WEIGHTED ASSETS £M	MINIMUM CAPITAL REQUIREMENTS £M
3	Corporates	9,326	9,110	6,258	501
5	*Of which: SMEs*	7,480	7,375	4,783	383
6	Retail	62,968	63,483	8,846	708
7	*Secured by real estate property*	62,968	63,483	8,846	708
9	*Non-SMEs*	62,968	63,483	8,846	708
15	**Total IRB approach**	72,294	72,593	15,104	1,209
16	Central governments or central banks	11,664	11,484	9	1
17	Regional governments or local authorities	377	358	13	1
18	Public sector entities	426	344	5	–
19	Multilateral development banks	1,034	933	–	–
21	Institutions	956	1,127	195	16
22	Corporates	482	488	347	28
23	*Of which: SMEs*	230	226	174	14
24	Retail	14,319	13,287	3,993	319
26	Secured by mortgages on immovable property	1,058	1,006	498	40
27	*Of which: SMEs*	675	668	394	31
28	Exposures in default	56	55	59	5
	Of which: SMEs	5	9	6	–
29	Items associated with particularly high risk	11	36	11	1
	Of which: SMEs	11	36	11	1
30	Covered bonds	1,415	1,342	141	11
32	Collective investments undertakings	1	1	1	–
33	Equity exposures	9	9	11	1
34	Other exposures	754	782	670	53
35	**Total standardised approach**	32,562	31,252	5,953	476
36	**Total**	104,856	103,845	21,057	1,685

		2018			
		A	B		
		NET VALUE OF EXPOSURES AT THE END OF THE PERIOD £M	AVERAGE NET EXPOSURES OVER THE PERIOD £M	RISK-WEIGHTED ASSETS £M	MINIMUM CAPITAL REQUIREMENTS £M
3	Corporates	–	–	–	–
5	*Of which: SMEs*	–	–	–	–
6	Retail	–	–	–	–
7	*Secured by real estate property*	–	–	–	–
9	*Non-SMEs*	–	–	–	–
15	**Total IRB approach**	–	–	–	–
16	Central governments or central banks	11,365	10,615	1	–
17	Regional governments or local authorities	335	434	12	1
18	Public sector entities	195	188	2	–
19	Multilateral development banks	155	180	–	–
20	International organisations	–	–	–	–
21	Institutions	639	677	136	11
22	Corporates	6,145	6,441	3,956	316
23	*Of which: SMEs*	4,312	4,160	2,697	216
24	Retail	4,263	4,337	1,124	90
25	*Of which: SMEs*	–	–	–	–
26	Secured by mortgages on immovable property	29,213	28,922	11,708	938
27	*Of which: SMEs*	3,728	3,735	2,838	227
28	Exposures in default	476	496	562	45
	Of which: SMEs	191	192	267	21
29	Items associated with particularly high risk	38	49	49	4
	Of which: SMEs	38	29	49	4
30	Covered bonds	615	570	61	5
32	Collective investments undertakings	1	1	1	–
33	Equity exposures	4	4	5	–
34	Other exposures	715	636	487	39
35	**Total standardised approach**	54,159	53,550	18,104	1,449
36	**Total**	54,159	53,550	18,104	1,449

The items included in Other exposures that attract a capital charge include items in the course of collection, fixed assets, prepayments, other debtors and deferred tax assets which have not been deducted.

RWAs have increased over the period reflecting the acquisition of Virgin Money Holdings (UK) plc and the ongoing success of the Group in supporting customers with mortgage lending and core business growth. The management of RWAs is subject to ongoing activities to optimise the use of capital.

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

Credit risk continued

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

		2019										
		GOVERNMENT ADMIN-ISTRATION & DEFENCE £M	AGRICULTURE, FORESTRY, FISHING & MINING £M	FINANCIAL INVESTMENT & INSURANCE £M	REAL ESTATE – CONSTRUC-TION £M	MANU-FACTURING £M	PERSONAL LENDING £M	REAL ESTATE – MORTGAGE £M	WHOLE-SALE AND RETAIL TRADE £M	ALL OTHER BUSINESS £M	NON-CUSTOMER ASSETS £M	TOTAL £M
3	Corporates	–	1,960	185	204	1,428	–	–	1,318	4,231	–	**9,326**
4	Retail	–	–	–	–	–	–	62,968	–	–	–	**62,968**
6	**Total IRB approach**	–	1,960	185	204	1,428	–	62,968	1,318	4,231	–	**72,294**
7	Central governments or central banks	2,943	–	8,721	–	–	–	–	–	–	–	**11,664**
8	Regional governments or local authorities	377	–	–	–	–	–	–	–	–	–	**377**
9	Public sector entities	408	–	–	–	–	–	–	–	18	–	**426**
10	Multilateral development banks	–	–	1,034	–	–	–	–	–	–	–	**1,034**
11	Institutions	–	–	956	–	–	–	–	–	–	–	**956**
13	Corporates	–	9	23	13	9	–	–	17	411	–	**482**
14	Retail	–	–	–	–	–	14,319	–	–	–	–	**14,319**
15	Secured by mortgages on immovable property	–	2	5	–	–	–	3	2	1,046	–	**1,058**
16	Exposures in default	–	–	–	–	–	46	–	–	10	–	**56**
17	Items associated with particularly high risk	–	–	–	–	–	–	–	–	11	–	**11**
18	Covered bonds	–	–	1,415	–	–	–	–	–	–	–	**1,415**
20	Collective investments undertakings	–	–	–	–	–	–	–	–	1	–	**1**
21	Equity exposures	–	–	–	–	–	–	–	–	9	–	**9**
22	Other exposures	93	–	251	–	–	–	–	–	–	410	**754**
23	**Total standardised approach**	3,821	11	12,405	13	9	14,365	3	19	1,506	410	**32,562**
24	**Total**	3,821	1,971	12,590	217	1,437	14,365	62,971	1,337	5,737	410	**104,856**
	Of which: SMEs	–	1,815	135	165	966	–	–	1,040	4,280	–	**8,401**

		2018										
		GOVERNMENT ADMIN-ISTRATION & DEFENCE £M	AGRICULTURE, FORESTRY, FISHING & MINING £M	FINANCIAL INVESTMENT & INSURANCE £M	REAL ESTATE – CONSTRUC-TION £M	MANU-FACTURING £M	PERSONAL LENDING £M	REAL ESTATE – MORTGAGE £M	WHOLE-SALE AND RETAIL TRADE £M	ALL OTHER BUSINESS £M	NON-CUSTOMER ASSETS £M	TOTAL £M
3	Corporates	–	–	–	–	–	–	–	–	–	–	–
4	Retail	–	–	–	–	–	–	–	–	–	–	–
6	**Total IRB approach**	–	–	–	–	–	–	–	–	–	–	–
7	Central governments or central banks	1,920	–	9,441	–	–	–	–	–	4	–	11,365
8	Regional governments or local authorities	335	–	–	–	–	–	–	–	–	–	335
9	Public sector entities	180	–	–	–	–	–	–	–	15	–	195
10	Multilateral development banks	–	–	155	–	–	–	–	–	–	–	155
11	Institutions	–	–	639	–	–	–	–	–	–	–	639
12	Corporates	–	565	169	204	1,258	–	–	987	2,962	–	6,145
14	Retail	–	–	–	–	–	2,997	1,266	–	–	–	4,263
15	Secured by mortgages on immovable property	–	1,308	29	38	197	–	24,991	326	2,324	–	29,213
16	Exposures in default	–	104	–	4	6	20	249	12	81	–	476
17	Items associated with particularly high risk	–	–	–	–	–	–	–	–	38	–	38
18	Covered bonds	–	–	615	–	–	–	–	–	–	–	615
20	Collective investments undertakings	–	–	–	–	–	–	–	–	1	–	1
21	Equity exposures	–	–	–	–	–	–	–	–	4	–	4
22	Other exposures	91	–	371	–	–	–	1	36	–	216	715
23	**Total standardised approach**	2,526	1,977	11,419	246	1,461	3,017	26,507	1,361	5,429	216	54,159
	Total	2,526	1,977	11,419	246	1,461	3,017	26,507	1,361	5,429	216	54,159
	Of which: SMEs	–	1,833	166	165	1,025	–	–	1,043	4,037	–	8,269

Credit risk continued

6.2 Credit risk exposure: analysis by residual maturity

Table 18: EU CRB-E – Maturity of exposures

		2019					
		A	B	C	D	E	F
		NET EXPOSURE VALUE					
		ON DEMAND £M	<= 1 YEAR £M	> 1 YEAR <= 5 YEARS £M	> 5 YEARS £M	NO STATED MATURITY £M	TOTAL £M
3	Corporates	–	3,869	4,247	1,210	–	**9,326**
4	Retail	–	990	2,178	59,800	–	**62,968**
6	**Total IRB approach**	–	4,859	6,425	61,010	–	**72,294**
7	Central governments or central banks	–	9,220	75	922	1,447	**11,664**
8	Regional governments or local authorities	–	360	6	11	–	**377**
9	Public sector entities	–	115	146	165	–	**426**
10	Multilateral development banks	–	89	709	236	–	**1,034**
11	International organisations	–	–	–	–	–	**–**
12	Institutions	–	110	410	30	406	**956**
13	Corporates	–	163	231	88	–	**482**
14	Retail	–	13,377	793	149	–	**14,319**
15	Secured by mortgages on immovable property	–	186	554	318	–	**1,058**
16	Exposures in default	–	44	11	1	–	**56**
17	Items associated with particularly high risk	–	4	7	–	–	**11**
18	Covered bonds	–	186	859	370	–	**1,415**
20	Collective investments undertakings	–	–	1	–	–	**1**
21	Equity exposures	–	2	6	1	–	**9**
22	Other exposures	–	–	–	–	754	**754**
23	**Total standardised approach**	**–**	**23,856**	**3,808**	**2,291**	**2,607**	**32,562**
24	**Total**	**–**	**28,715**	**10,233**	**63,301**	**2,607**	**104,856**

		2018					
		A	B	C	D	E	F
		NET EXPOSURE VALUE					
		ON DEMAND £M	<= 1 YEAR £M	> 1 YEAR <= 5 YEARS £M	> 5 YEARS £M	NO STATED MATURITY £M	TOTAL £M
3	Corporates	–	–	–	–	–	–
4	Retail	–	–	–	–	–	–
6	**Total IRB approach**						
7	Central governments or central banks	–	6,005	3,385	595	1,380	11,365
8	Regional governments or local authorities	–	324	–	11	–	335
9	Public sector entities	–	51	129	15	–	195
10	Multilateral development banks	–	50	105	–	–	155
11	International organisations	–	–	–	–	–	–
12	Institutions	–	89	10	2	538	639
13	Corporates	–	3,210	2,406	529	–	6,145
14	Retail	–	3,274	634	355	–	4,263
15	Secured by mortgages on immovable property	–	1,242	3,326	24,645	–	29,213
16	Exposures in default	–	102	111	263	–	476
17	Items associated with particularly high risk	–	20	18	–	–	38
18	Covered bonds	–	20	395	200	–	615
20	Collective investments undertakings	–	–	1	–	–	1
21	Equity exposures	–	–	3	1	–	4
22	Other exposures	–	–	–	–	715	715
23	**Total standardised approach**	–	14,387	10,523	26,616	2,633	54,159
24	**Total**	–	14,387	10,523	26,616	2,633	54,159

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

Credit risk continued

6.3 Credit risk exposure: analysis by geography

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

		2019			2018		
		A	M	N	A	M	N
		UK £M	OTHER GEOGRAPHICAL AREAS £M	TOTAL £M	UK £M	OTHER GEOGRAPHICAL AREAS £M	TOTAL £M
3	Corporates	**9,314**	**12**	**9,326**	–	–	–
4	Retail	**62,876**	**92**	**62,968**	–	–	–
6	**Total IRB approach**	**72,190**	**104**	**72,294**	–	–	–
7	Central governments or central banks	**11,538**	**126**	**11,664**	11,345	20	11,365
8	Regional governments or local authorities	**377**	**–**	**377**	335	–	335
9	Public sector entities	**114**	**312**	**426**	51	144	195
10	Multilateral development banks	**–**	**1,034**	**1,034**	–	155	155
12	Institutions	**597**	**359**	**956**	639	–	639
13	Corporates	**481**	**1**	**482**	6,134	11	6,145
14	Retail	**14,312**	**7**	**14,319**	4,255	8	4,263
15	Secured by mortgages on immovable property	**1,002**	**56**	**1,058**	29,129	84	29,213
16	Exposures in default	**56**	**–**	**56**	476	–	476
17	Items associated with particularly high risk	**11**	**–**	**11**	38	–	38
18	Covered bonds	**1,415**	**–**	**1,415**	615	–	615
20	Collective investments undertakings	**1**	**–**	**1**	1	–	1
21	Equity exposures	**9**	**–**	**9**	4	–	4
22	Other exposures	**754**	**–**	**754**	715	–	715
23	**Total standardised approach**	**30,667**	**1,895**	**32,562**	53,737	422	54,159
24	**Total**	**102,857**	**1,999**	**104,856**	53,737	422	54,159

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

6.4 Credit risk exposure: analysis by industry or counterparty type

Table 20: CR1-B – Credit quality of exposures by industry or counterparty types

		2019					
		ORIGINAL VALUE					
		A	B	C	E	F	G
		GROSS CARRYING VALUES OF					NET VALUES
		DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENTS[9]	ACCUMULATED WRITE-OFFS	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD	
1	Government administration and defence	–	3,821	–	–	–	3,821
2	Agriculture, forestry, fishing and mining	60	1,932	21	7	2	1,971
3	Financial investment and insurance	–	12,592	2	–	(2)	12,590
4	Real estate – construction	2	218	3	1	1	217
5	Manufacturing	43	1,418	24	2	7	1,437
6	Personal lending	66	14,408	109	9	116	14,365
7	Real estate – mortgage	346	62,669	44	3	4	62,971
8	Wholesale and retail trade	10	1,346	19	4	5	1,337
9	All other business	148	5,663	74	16	10	5,737
10	Non-customer assets	–	410	–	–	–	410
11	**Total**	675	104,477	296	42	143	104,856

		2018					
		ORIGINAL VALUE					
		A	B	C	E	F	G
		GROSS CARRYING VALUES OF					NET VALUES
		DEFAULTED EXPOSURES	NON-DEFAULTED EXPOSURES	SPECIFIC CREDIT RISK ADJUSTMENTS[9]	ACCUMULATED WRITE-OFFS	CREDIT RISK ADJUSTMENT CHARGES OF THE PERIOD	
1	Government administration and defence	–	2,526	–	–	–	2,526
2	Agriculture, forestry, fishing and mining	107	1,873	3	–	(3)	1,977
3	Financial investment and insurance	–	11,419	–	–	–	11,419
4	Real estate – construction	5	242	1	–	1	246
5	Manufacturing	7	1,455	1	7	7	1,461
6	Personal lending	21	2,996	–	30	21	3,017
7	Real estate – mortgage	260	26,259	12	2	1	26,507
8	Wholesale and retail trade	14	1,348	1	2	–	1,361
9	All other business	103	5,348	22	25	13	5,429
10	Non-customer assets	–	216	–	–	–	216
11	**Total**	517	53,682	40	66	40	54,159

(9) Fair value and net present value are excluded from specific credit risk adjustments above and they have been updated for the IFRS9 transitional relief impact.

Credit risk continued

6.5 Impaired lending and provisions

6.5.1 Definition

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:

CLASSIFICATION	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 and classified as stage 3.

6.5.2 Managing impaired exposures and impairment provisions

Provisioning policy and adequacy reviews
The Group's impairment provisions are calculated in line with the requirements of 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 2019 Virgin Money UK Annual Report and Accounts. Following the adoption of IFRS 9 all provisions have been classed as specific credit risk adjustments.

Reporting
The formal reporting of impaired lending, provisions and associated relevant asset quality metrics and trends are completed on a monthly basis and distributed to the appropriate portfolio managers, Senior Managers, Executive Committees, Risk Committee and Board. The Group reviews, at least bi-annually, its provision reserves against actual experience to identify whether its policies have resulted in over or under provisioning across the economic cycle. The responsibility for the review rests with the Risk function which reports its findings and recommendations to the Risk Committee, and the Board.

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

6.6 Analysis of past due advances to customers

As at 30 September 2019, past due but not impaired exposures in respect of loans and advances to customers amounted to £965m (2018: £564m). The increase is primarily due to the impact of the acquisition of Virgin Money Holdings (UK) plc portfolios (£338m as at September 2019).

Tables 21-23 have been prepared in accordance with FINREP regulations.

Table 21 below provides an ageing analysis of accounting on-balance sheet past-due exposures regardless of their impairment status.

Table 21: EU CR1-D – Ageing of past-due exposures

		2019					
		A	B	C	D	E	F
		GROSS CARRYING VALUES					
		≤ 30 DAYS £M	> 30 DAYS ≤ 60 DAYS £M	> 60 DAYS ≤ 90 DAYS £M	> 90 DAYS ≤ 180 DAYS £M	> 180 DAYS ≤ 1 YEAR £M	> 1 YEAR £M
1	Loans	**414**	**142**	**66**	**123**	**102**	**118**
2	Debt securities	**–**	**–**	**–**	**–**	**–**	**–**
3	**Total exposures**	**414**	**142**	**66**	**123**	**102**	**118**

		2018					
		A	B	C	D	E	F
		GROSS CARRYING VALUES					
		≤ 30 DAYS £M	> 30 DAYS ≤ 60 DAYS £M	> 60 DAYS ≤ 90 DAYS £M	> 90 DAYS ≤ 180 DAYS £M	> 180 DAYS ≤ 1 YEAR £M	> 1 YEAR £M
1	Loans	293	62	38	61	52	58
2	Debt securities	–	–	–	–	–	–
3	**Total exposures**	293	62	38	61	52	58

Credit risk continued

Table 22 below provides an overview of non-performing and forborne exposures.

Table 22: EU CR1-E – Non-performing and forborne exposures

	2019												
	A	B	C	D	E	F	G	H	I	J	K	L	M
	GROSS CARRYING AMOUNT OF PERFORMING AND NON-PERFORMING EXPOSURES							ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
				OF WHICH NON-PERFORMING				ON PERFORMING EXPOSURES		ON NON-PERFORMING EXPOSURES			
	£M	OF WHICH PERFORMING BUT PAST DUE > 30 DAYS AND <= 90 DAYS £M	OF WHICH PERFORMING FORBORNE £M	£M	OF WHICH DEFAULTED £M	OF WHICH IMPAIRED £M	OF WHICH FORBORNE £M		OF WHICH FORBORNE £M		OF WHICH FORBORNE £M	ON NON-PERFORMING EXPOSURES £M	OF WHICH FORBORNE EXPOSURES £M
10 Debt securities	**2,352**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
20 Loans and advances	**81,458**	**129**	**790**	**810**	**685**	**773**	**439**	**(340)**	**(27)**	**(116)**	**(54)**	**302**	**10**
30 Off-balance sheet exposures	**15,271**	**–**	**17**	**27**	**27**	**–**	**8**	**–**	**–**	**–**	**–**	**–**	**–**

	2018												
	A	B	C	D	E	F	G	H	I	J	K	L	M
	GROSS CARRYING AMOUNT OF PERFORMING AND NON-PERFORMING EXPOSURES							ACCUMULATED IMPAIRMENT AND PROVISIONS AND NEGATIVE FAIR VALUE ADJUSTMENTS DUE TO CREDIT RISK				COLLATERALS AND FINANCIAL GUARANTEES RECEIVED	
				OF WHICH NON-PERFORMING				ON PERFORMING EXPOSURES		ON NON-PERFORMING EXPOSURES			
	£M	OF WHICH PERFORMING BUT PAST DUE > 30 DAYS AND <= 90 DAYS £M	OF WHICH PERFORMING FORBORNE £M	£M	OF WHICH DEFAULTED £M	OF WHICH IMPAIRED £M	OF WHICH FORBORNE £M		OF WHICH FORBORNE £M		OF WHICH FORBORNE £M	ON NON-PERFORMING EXPOSURES £M	OF WHICH FORBORNE EXPOSURES £M
10 Debt securities	1,553	–	–	–	–	–	–	–	–	–	–	–	–
20 Loans and advances	40,502	86	648	404	404	125	301	(159)	(29)	(44)	(26)	316	248
30 Off-balance sheet exposures	7,135	–	29	16	16	–	1	–	–	–	–	–	–

Table 23 below provides an overview of the changes in the stock of general and specific credit risk adjustments.

Table 23: EU CR2-A – Changes in the stock of general and specific credit risk adjustments

		A	B	A	B
		2019 £M	2019 £M	2018 £M	2018 £M
		ACCUMULATED SPECIFIC CREDIT RISK ADJUSTMENT	ACCUMULATED GENERAL CREDIT RISK ADJUSTMENT	ACCUMULATED SPECIFIC CREDIT RISK ADJUSTMENT	ACCUMULATED GENERAL CREDIT RISK ADJUSTMENT
1	**Opening balance**	**43**	**152**	56	154
	Adoption of IFRS9				
	Less: removal of IAS 39 collective provision	**–**	**(152)**	–	–
	Add: introduction of a 12-month ECL calculation	**53**	**–**	–	–
	Add: introduction of a lifetime ECL calculation	**121**	**–**	–	–
	Add: undrawn balances	**5**	**–**	–	–
	Add: multiple economic scenarios	**2**	**–**	–	–
	Increases due to origination and acquisition	**144**	**–**	–	–
	Decreases due to derecognition	**(52)**	**–**	–	–
	Changes due to change in credit risk (net)	**228**	**–**	–	–
	Changes due to update in the institution's methodology for estimation (net)	**(7)**	**–**	–	–
	Decrease in allowance account due to write-offs	**(166)**	**–**	–	–
2	Increases due to amounts set aside for estimated loan losses during the period	**–**	**–**	–	41
4	Decreases due to amounts taken against accumulated credit risk adjustments	**–**	**–**	(68)	–
5	Transfers between credit risk adjustments	**–**	**–**	43	(43)
8	Other adjustments[10]	**(9)**	**–**	12	–
9	**Closing balance**	**362**	**–**	43	152

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

An analysis of the changes in the stock of default impaired loans is provided in Table 24 below.

Table 24: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

		A	A
		2019 £M	2018 £M
		GROSS CARRYING VALUE DEFAULTED EXPOSURES	GROSS CARRYING VALUE DEFAULTED EXPOSURES
1	**Opening balance**	**125**	179
2	Loans and debt securities that have defaulted or impaired since the last reporting period	**179**	40
3	Returned to non-defaulted status	**(16)**	(55)
4	Amounts written-off	**(98)**	(39)
5	Other changes[11]	**617**	–
6	**Closing balance**	**807**	125

(11) Other changes includes the transition in definition from IAS39 definition of default, shown in the opening balance, to IFRS9 Stage 3 Credit Impaired closing balance.

Credit risk continued

6.7 Analysis by industry sector

Table 25: IFRS 9 impairment provisions held on credit exposures by allocation and industry

	2019			
	STAGE 1 £M	STAGE 2 £M	STAGE 3 £M	TOTAL £M
Agriculture, forestry, fishing and mining	1.8	14.2	5.2	21.2
Asset and lease financing	0.8	1.1	0.2	2.1
Financial, investment and insurance	0.5	1.5	0.1	2.1
Instalment loans to individuals and other personal lending (including credit cards)	53.0	86.8	35.4	175.2
Manufacturing	2.7	15.3	4.9	22.9
Other commercial and industrial	13.7	38.7	42.6	95.0
Real estate – construction	0.5	2.0	1.6	4.1
Real estate – mortgage	5.9	8.5	25.1	39.5
Total	78.9	168.1	115.1	362.1

6.8 Analysis by geography

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

6.9 Use of External Credit Assessment Institutions (ECAIs)

The Group makes limited use of credit assessments by ECAIs in assigning risk weights to credit risk exposures under the standardised and FIRB approaches. This typically applies in the case of certain Central government, Central bank and Institution exposures. The appropriate risk weight to apply to the credit risk exposure is determined by assigning the exposure to the relevant credit quality step under CRR Part 3, Title II, Chapter 2 (Standardised Credit Risk), based on the EBA's mapping of credit assessments to credit quality steps. Where appropriate, the Group makes use of credit assessments provided by Moody's, Standard & Poor's and Fitch.

6.10 Credit risk mitigation

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

6.10.1 Collateral held as security and other credit enhancements

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

— specific charges over defined assets of the counterparty;

— a floating charge over all assets and undertakings of an entity;

— specific or interlocking guarantees; and

— loan agreements which include affirmative and negative covenants and, in some instances, guarantees of counterparty obligations.

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

It is the Group's policy to dispose of repossessed properties with the proceeds used to reduce or repay the outstanding balance. In general, the Group does not occupy repossessed properties for its own business use. The LTV ratio of mortgage lending, coupled with the relationship of the debt to customers' income, is key to the credit quality of these loans.

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

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

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

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

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

— Credit Risk Committee (CRC): The CRC ensures that the credit RMF and associated policies remain effective. The Committee has oversight of the quality, composition and concentrations of the credit risk portfolio and considers strategies to adjust the portfolio to react to changes in market conditions.

— RAS measures: Measures are monitored monthly and reviewed bi-annually, at a minimum, to ensure that they accurately reflect the Group's risk appetite, strategy and concerns relative to the wider macro environment. All measures are subject to extensive engagement with the Executive Leadership Team and the Board and are subject to endorsement from executive governance committees prior to Board approval. Regulatory engagement is also scheduled as appropriate.

— Risk concentration: Concentration of risk is managed by client/counterparty, product, geographical region and industry sector. In addition, single name exposure limits exist to control exposures to a single entity/counterparty. Concentrations are also considered through the RAS process focusing particularly on comparing the portfolio against market benchmarks.

— Single large exposure excesses: All excesses are reported to the Transactional Credit Committee (TCC) and Head of Business Risk and Shared Services. Any exposure which continues or is expected to continue beyond 30 days will also be submitted to the TCC with proposals to correct the exposure within an agreed period, not to exceed 12 months.

Credit risk continued

6.10.2 Derivatives

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

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

6.10.3 Analysis of credit risk mitigation techniques

Table 26 shows the use of credit risk mitigation techniques broken down by exposure class. The exposure amount within this table is disclosed after, where applicable, on- or off-balance sheet netting. Exposures secured represent the carrying amount of the exposure, irrespective of the level of collateralisation. Exposures unsecured represents the carrying amount of exposures with no security or collateral attached.

The Group applies detailed lending policies and standards which outline the approach to lending, underwriting, concentration limits and product terms. See the Credit Risk section of the Risk Report in the Group's Annual Report and Accounts for further information on credit risk mitigation techniques.

Table 26: EU CR3 – CRM techniques – overview

	2019				
	A	B	C	D	E
EXPOSURE CLASSES	EXPOSURES UNSECURED – CARRYING AMOUNT £M	EXPOSURES TO BE SECURED £M	EXPOSURES SECURED BY COLLATERAL £M	EXPOSURES SECURED BY FINANCIAL GUARANTEES £M	EXPOSURES SECURED BY CREDIT DERIVATIVES £M
Corporates	5,271	3,986	3,986	–	–
Retail	–	62,968	62,968	–	–
Total IRB approach	5,271	66,954	66,954	–	–
Central governments or central banks	11,664	–	–	–	–
Regional governments or local authorities	267	–	–	–	–
Public sector entities	426	–	–	–	–
Multilateral development banks	1,034	–	–	–	–
Institutions	956	–	–	–	–
Corporates	392	90	84	6	–
Retail	14,319	–	–	–	–
Secured by mortgages on immovable property	–	1,058	1,058	–	–
Exposures in default	48	8	8	–	–
Items associated with particularly high risk	3	8	8	–	–
Covered bonds	1,415	–	–	–	–
Collective investments undertakings	1	–	–	–	–
Equity exposures	9	–	–	–	–
Other exposures	754	–	–	–	–
Total standardised approach	31,288	1,164	1,158	6	–
Total exposures	36,599	68,118	68,112	6	–
Of which: Loans	31,358	68,118	68,112	6	–
Of which: Debt securities	2,716	–	–	–	–
Of which: Defaulted	144	442	442	–	–
Of which: SMEs	3,769	4,596	4,601	–	–

EXPOSURE CLASSES	A EXPOSURES UNSECURED – CARRYING AMOUNT £M	B EXPOSURES TO BE SECURED £M	C EXPOSURES SECURED BY COLLATERAL £M	D EXPOSURES SECURED BY FINANCIAL GUARANTEES £M	E EXPOSURES SECURED BY CREDIT DERIVATIVES £M
	2018				
Corporates	–	–	–	–	–
Retail	–	–	–	–	–
Total IRB approach	–	–	–	–	–
Central governments or central banks	6,840	4,525	4,525	–	–
Regional governments or local authorities	252	–	–	–	–
Public sector entities	195	–	–	–	–
Multilateral development banks	155	–	–	–	–
Institutions	639	–	–	–	–
Corporates	5,407	663	646	17	–
Retail	4,075	188	188	–	–
Secured by mortgages on immovable property	–	29,213	29,213	–	–
Exposures in default	75	401	401	–	–
Items associated with particularly high risk	10	28	28	–	–
Covered bonds	615	–	–	–	–
Collective investments undertakings	1	–	–	–	–
Equity exposures	4	–	–	–	–
Other exposures	715	–	–	–	–
Total standardised approach	18,983	35,018	35,001	17	–
Total exposures	18,983	35,018	35,001	17	–
Of which: Loans(12)	14,955	35,018	35,001	17	–
Of which: Debt securities(12)	1,543	–	–	–	–
Of which: Defaulted(12)	75	401	401	–	–
Of which: SMEs(12)	3,749	4,477	4,477	–	–

(12) Prior year comparatives have been restated to reflect the current approach to align treatment of non-lending assets for the combined Group.

Credit risk continued

Table 27 shows a breakdown of exposures under the standardised approach pre-and-post application of credit conversion factors (CCF) and credit risk mitigation (CRM) but after, where applicable, on- or off-balance sheet netting. For retail exposures secured by mortgages the protection effect of mortgage collateral is intrinsically part of the definition of the original exposure class. Note the figures for 2018 have been restated due to the introduction of balance-sheet netting.

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

		2019					
		A	B	C	D	E	F
		EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWAS AND RWA DENSITY	
		ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	RWAS	RWA DENSITY[13]
	EXPOSURE CLASSES	£M	£M	£M	£M	£M	%
1	Central governments or central banks	**11,576**	**88**	**11,576**	**87**	**9**	**0%**
2	Regional government or local authority	**15**	**252**	**15**	**50**	**13**	**20%**
3	Public sector entities	**312**	**114**	**312**	**23**	**5**	**2%**
4	Multilateral development banks	**1,034**	**–**	**1,034**	**–**	**–**	**0%**
6	Institutions	**938**	**18**	**944**	**10**	**195**	**20%**
7	Corporates	**324**	**158**	**315**	**51**	**347**	**95%**
8	Retail	**5,254**	**9,065**	**5,254**	**70**	**3,993**	**75%**
9	Secured by mortgages on immovable property	**694**	**364**	**694**	**181**	**498**	**57%**
10	Exposures in default	**54**	**2**	**55**	**–**	**59**	**107%**
11	Items associated with particularly high risk	**4**	**7**	**4**	**4**	**11**	**138%**
12	Covered bonds	**1,415**	**–**	**1,415**	**–**	**141**	**10%**
14	Claims in the form of CIU	**1**	**–**	**1**	**–**	**1**	**100%**
15	Equity exposures	**9**	**–**	**9**	**–**	**11**	**122%**
16	Other items	**754**	**–**	**754**	**–**	**670**	**89%**
17	**Total**	**22,384**	**10,068**	**22,382**	**476**	**5,953**	**26%**

		2018					
		A	B	C	D	E	F
		EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWAS AND RWA DENSITY	
		ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	ON-BALANCE SHEET AMOUNT	OFF-BALANCE SHEET AMOUNT	RWAS	RWA DENSITY[13]
	EXPOSURE CLASSES	£M	£M	£M	£M	£M	%
1	Central governments or central banks	11,360	5	9,103	1	1	0%
2	Regional government or local authority	12	240	12	48	12	20%
3	Public sector entities	145	50	145	10	2	1%
4	Multilateral development banks	155	–	155	–	–	0%
6	Institutions	617	22	631	14	136	21%
7	Corporates	3,576	2,494	3,536	659	3,956	94%
8	Retail	1,425	2,838	1,425	74	1,124	75%
9	Secured by mortgages on immovable property	27,754	1,459	27,754	668	11,708	41%
10	Exposures in default	460	16	460	5	562	121%
11	Items associated with particularly high risk	28	10	28	4	49	153%
12	Covered bonds	615	–	615	–	61	10%
14	Claims in the form of CIU	1	–	1	–	1	100%
15	Equity exposures	4	–	4	–	5	125%
16	Other items	715	–	715	–	487	68%
17	**Total**	46,867	7,134	44,584	1,483	18,104	39%

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

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

Table 28: EU CR5 – Standardised approach

	2019																
EXPOSURE CLASSES	0% £M	2% £M	4% £M	10% £M	20% £M	35% £M	50% £M	70% £M	75% £M	100% £M	150% £M	250% £M	370% £M	1,250% £M	OTHERS £M	TOTAL £M	OF WHICH UNRATED[13] £M
1 Central governments or central banks	11,576	–	–	87	–	–	–	–	–	–	–	–	–	–	–	11,663	–
2 Regional government or local authorities	–	–	–	–	65	–	–	–	–	–	–	–	–	–	–	65	65
3 Public sector entities	312	–	–	–	23	–	–	–	–	–	–	–	–	–	–	335	335
4 Multilateral development banks	1,034	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,034	1,034
6 Institutions	–	–	–	–	944	–	7	–	–	3	–	–	–	–	–	954	93
7 Corporates	–	–	–	–	–	–	–	–	–	366	–	–	–	–	–	366	366
8 Retail	–	–	–	–	–	–	–	–	5,324	–	–	–	–	–	–	5,324	5,324
9 Secured by mortgages on immovable property	–	–	–	–	–	511	–	–	–	364	–	–	–	–	–	875	875
10 Exposures in default	–	–	–	–	–	–	–	–	–	46	9	–	–	–	–	55	55
11 Higher-risk categories	–	–	–	–	–	–	–	–	–	–	8	–	–	–	–	8	8
12 Covered bonds	–	–	–	1,415	–	–	–	–	–	–	–	–	–	–	–	1,415	–
14 Collective investment undertakings	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	1	1
15 Equity	–	–	–	–	–	–	–	–	–	8	–	1	–	–	–	9	9
16 Other items	249	–	–	–	–	–	–	–	–	395	–	110	–	–	–	754	415
17 **Total**	13,171	–	–	1,502	1,032	511	7	–	5,324	1,183	17	111	–	–	–	22,858	8,580

Credit risk continued

	2018																
EXPOSURE CLASSES	0% £M	2% £M	4% £M	10% £M	20% £M	35% £M	50% £M	70% £M	75% £M	100% £M	150% £M	250% £M	370% £M	1,250% £M	OTHERS £M	TOTAL £M	OF WHICH UNRATED(14) £M
1 Central governments or central banks	9,103	–	–	–	–	–	–	–	–	1	–	–	–	–	–	9,104	–
2 Regional government or local authorities	–	–	–	–	60	–	–	–	–	–	–	–	–	–	–	60	60
3 Public sector entities	143	–	–	–	12	–	–	–	–	–	–	–	–	–	–	155	155
4 Multilateral development banks	155	–	–	–	–	–	–	–	–	–	–	–	–	–	–	155	155
6 Institutions	–	–	–	–	626	–	17	–	–	2	–	–	–	–	–	645	71
7 Corporates	–	–	–	–	–	–	4	–	–	4,191	–	–	–	–	–	4,195	4,191
8 Retail	–	–	–	–	–	–	–	–	1,499	–	–	–	–	–	–	1,499	1,499
9 Secured by mortgages on immovable property	–	–	–	–	–	25,188	–	–	–	3,234	–	–	–	–	–	28,422	28,422
10 Exposures in default	–	–	–	–	–	–	–	–	–	270	195	–	–	–	–	465	465
11 Higher-risk categories	–	–	–	–	–	–	–	–	–	–	32	–	–	–	–	32	32
12 Covered bonds	–	–	–	615	–	–	–	–	–	–	–	–	–	–	–	615	–
13 Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14 Collective investment undertakings	–	–	–	–	–	–	–	–	–	1	–	–	–	–	–	1	1
15 Equity	–	–	–	–	–	–	–	–	–	3	–	1	–	–	–	4	4
16 Other items	365	–	–	–	–	–	–	–	–	259	–	91	–	–	–	715	259
17 **Total**	9,766	–	–	615	698	25,188	21	–	1,499	7,961	227	92	–	–	–	46,067	35,314

(14) Exposures are classed as 'rated' only where an ECAI rating has been used to derive the risk weight. Where a rating is unavailable, or where the risk weight has been determined by application of specific CRR provisions, exposures have been classed as unrated.

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

6.11 Internal Ratings Based (IRB) approach

6.11.1 IRB Permissions

IRB accreditation from the PRA for the Group's Clydesdale Bank PLC heritage mortgage and business portfolios was received in October 2018. Also in October 2018, the Group acquired Virgin Money Holdings (UK) plc, which calculates risk-weighted assets on mortgages using IRB methodology.

IRB accreditation would have resulted in mortgage RWAs of £4.5bn as at 30 September 2018, reflecting a £4.5bn reduction from £9.0bn under the standardised approach. The PD models are subject to quarterly realignments, however, the impacts have not required PRA notification given they remain within materiality thresholds.

Formal FIRB accreditation for the business portfolios was received in October 2018 for a suite of re-calibrated models which were implemented during November, resulting in a £170m model impact. Since this implementation, no additional model changes have occurred.

This would have resulted in business RWAs of £6.6bn at September 2018, reflecting a £0.8bn decrease compared to £7.4bn at September 2018 under the standardised approach.

The PRA has now released a final policy statement outlining its approach to implementing definition of default in line with EBA regulations. Further to this, there are recommended changes to both PD and LGD model components relating directly to the calculation of risk-weighted capital requirements for residential mortgage portfolios. These changes are required to be implemented by 31st December 2020, subject to PRA approval, and work is ongoing to align the current offering to these updated requirements.

6.11.2 Internal Ratings Scales

Where appropriate, the Group makes use of credit assessments provided by Moody's. The rating scale for business customers is included in table 29 below.

Table 29: Internal Rating Scale for Business Customers

ECRS GRADE	LOWER PD BOUND	UPPER PD BOUND	ASSIGNED PDS FOR THE CREDIT RISK ENGINE	PD MAPPING FOR MOODY'S
1	0.000%	0.020%	0.030%	Aaa, Aa1
2	0.021%	0.030%	0.030%	Aa2, Aa3
3	0.031%	0.050%	0.043%	A1
4	0.051%	0.080%	0.068%	A2
5	0.081%	0.110%	0.096%	
6	0.111%	0.140%	0.125%	A3
7	0.141%	0.180%	0.161%	
8	0.181%	0.240%	0.212%	Baa1
9	0.241%	0.330%	0.283%	Baa2
10	0.331%	0.440%	0.378%	
11	0.441%	0.550%	0.490%	Baa3
12	0.551%	0.690%	0.617%	
13	0.691%	0.870%	0.777%	Ba1
14	0.871%	1.170%	1.008%	
15	1.171%	1.560%	1.346%	Ba2
16	1.561%	2.020%	1.771%	Ba3
17	2.021%	2.610%	2.295%	
18	2.611%	3.720%	3.160%	B1
19	3.721%	5.010%	4.380%	
20	5.011%	6.890%	5.720%	B2
21	6.891%	10.550%	8.300%	B3
22	10.551%	15.910%	13.400%	
23	15.911%	99.999%	23.426%	Caa1
98	100.000%	100.000%	100.000%	Caa2
99	100.000%	100.000%	100.000%	Caa3

It should be noted that only the business portfolio rating scale is used to map ECAI ratings.

Credit risk continued

Table 30: Internal Rating Scale for Retail Customers
For Retail customers, the eCRS Grade 23 is further split into three grades as per the below table.

ECRS GRADE	LOWER PD BOUND	UPPER PD BOUND	ASSIGNED PDS FOR THE CREDIT RISK ENGINE	PD MAPPING FOR MOODY'S
23	15.911%	34.220%	23.426%	–
24	34.221%	61.240%	50.000%	–
25	61.241%	100.000%	75.000%	–

Note Tables 29 and 30 relate to Clydesdale Bank PLC risk grades only. Information on Virgin Money Holdings (UK) plc risk grades can be found in Table 37.

Other Uses of Internal Ratings
The outputs of the IRB models are used to calculate regulatory capital and are also used with appropriate adjustments internally for the following:

— as quantification of likelihood of default within portfolio and segment level Management Information including the setting of risk appetite and capital management;

— a key component in the calculation of product pricing and return on equity;

— as input into Stress Testing for both internal and regulatory calculations; and

— COREP (Common Reporting regulatory) templates.

6.11.3 Rating System Controls

Governance
IRB model governance is overseen by the relevant designated Committee Model Governance Committee and supported by the technical Credit Models Forum (CMF). These governance committees include participation from model developers, model users, product functions, Credit Risk and the independent review teams. Model materiality is assessed in line with agreed thresholds and determines the level of oversight required.

A detailed credit risk framework includes minimum standards for development data preparation, model structure, development methodologies, model approval, implementation of the models and model monitoring including performance thresholds. The framework assesses the models against internal policies and regulatory standards to ensure appropriate risk management standards.

The IRB models are subject to regular monitoring and mandatory annual validations. Statistical tests are performed to assess ongoing performance of the models including assessment of efficiency and stability and comparison of expected performance against observed model outputs to determine model accuracy. Reviews are conducted and material issues highlighted are presented to local management, governance committees and Executive leadership.

Independent Validation
A team of independent specialists conducts independent review of new models and annual review of existing models. This team is actively involved in the ongoing independent challenge of information presented to Committees as part of the governance process.

Annual review of existing IRB models includes assessment of model performance, regulatory compliance and ongoing fit to the portfolio.

Independent review of new models includes:

— reviewing statistical models used in development;

— testing model assumptions and highlighting any risks observed:

— conducting independent verification of the outputs;

— completing assessment of alternative techniques; and

— reviewing appropriateness of model conservatism.

The IVU will document any material issues and the required remedial actions. This will include an assessment of the magnitude of the required actions and an appropriate timescale for completion. Any conflicts between the IVU and the modelling functions will be escalated as per the governance process highlighted above.

Issue / Action Management
Model issues identified during the validation of new models, annual validation, or ongoing governance processes will result in detailed action plans that may include actions such as model enhancements, recalibration, re-weights or full redeployment.

Internal Audit
The IA team is independent of Credit Risk management including the modelling teams and the IVU. IA is responsible for the assurance of the controls, assumptions and regulatory compliance of the models with any material gaps escalated to the Board and actions plans agreed with the modelling functions or the IVU.

6.11.4 Description of Ratings Processes

Corporate IRB PD modelling approach
There are six IRB models covering Corporates. These models are segmented based on one or more of exposure, turnover, and sector. The models take the form of scorecards utilising qualitative questions and, where available, quantitative metrics, to determine an overall score which is converted into a PD estimate.

Assignment to Retail or Non-Retail asset classes is determined in accordance with CRR Article 147 for exposure classification. Assignment to individual models is performed based on the product and collateral type or for Non-Retail exposures on industry or exposure size.

Assignment rules for Non-Retail exposures ensure that exposures/transactions are assigned to the following key Non-Retail model segments:

a) Corporate – The Group has developed PD models for this exposure class. Within corporate, large exposures with available financial accounts are further assigned to Mid-Market and SME models primarily based on turnover with the smaller exposures. Large exposure without financial accounts and smaller exposures that are non-trading are assigned to the Limited Financial Input Non-Trade model. The remaining small exposures are assigned to the small business model.

b) Real Estate – The Group has developed PD models for this exposure class for the purposes of internal credit approval, pricing and provisioning. Within CRE PD models, exposures are further assigned to developer, large-investor and small-investor categories based on type of transaction and exposure size. These models are not used for capital calculations as the CRE exposure class is currently treated as standardised.

c) Agriculture – The Group has developed two IRB PD models for this exposure class. Within agriculture, exposures are further assigned to large-agriculture or small agriculture based on exposure size.

d) Non-Bank Financial Institution / Sovereign / Banks / Universities / Housing Associations / Project Finance: These exposures are planned to remain on Permanent Partial Use under Article 150 of the CRR.

Obligor financial characteristics are input into a system based spreading tool for business customers and into a spreadsheet based spreading tool for agricultural customers (except for the Q&A models which use manual inputs) which automates the process of loading data into eCRS (rating system for Non-Retail customers) based on pre-defined rules.

The eCRS then generates a rating for the obligor which is reviewed and assessed by a separate case officer. The rating criteria (obligor characteristics) are clearly defined as inputs into the eCRS and the key definitions are embedded within the rating system. The definitions of rating grades are also available to all rating system users and these are mapped to PD values. This documentation enables users to have a consistent understanding of rating grades and risk profiles and allows them to consistently assign obligors to appropriate grades or pools through the rating system.

The Group uses the same rating system across businesses, departments and geographic locations for Non-Retail exposures, with appropriate underlying models for specific exposure types.

All rating assignments for the Non-Retail models are reviewed and refreshed at an annual basis, or more frequently, where there is an expected change in the obligor's risk profile. This ensures that an appropriate review of rating assignments is undertaken on a periodic basis.

All data inputs into Non-Retail models are subject to three layers of vetting:

1. Financial data is input by a centralised independent team and subject to validation checks such as inputs balancing. The data is then subjected to "objective" checks that are run automatically, including checks that identify incompleteness and/or invalid values. Standard checks such as "valid input type" (e.g. non-negative values, non-numeric values, date to be past etc.) are automatically applied. Data is also checked for reasonableness if within the expected ranges. The values cannot be processed further if this check identifies any issues that need to be remediated before moving forward.

Credit risk continued

2. A staff member (senior Relationship Manager or credit officer) with appropriate experience and knowledge of the customer checks the financial inputs and undertakes plausibility checks of a more subjective nature, which take account of the characteristics of the obligor and the transaction. Any issues identified are discussed and remediated with the relevant person who made the entry into the system.
3. Separate independent sample checks are carried out to ensure accuracy, completeness and appropriateness of the data and periodic monitoring to ensure the models remain relevant to the portfolios. Data inputs are both manually reviewed on input and reviewed during development and monitoring. Max financial ratios/inputs do have established and expected rates and they are incorporated within eCRS for user review. The variable transformation for model development includes a formal review of the distribution of these variables.

On a monthly basis, the Group's modelling team conducts a systematic analysis of model performance and stability. The Group also regularly performs model "back testing," reviewing and updating model specification as appropriate. Model outputs are compared with model outcomes as part for the monthly monitoring processes. Model performance reports are submitted to the relevant governance committees for discussion and/or escalation.

Key metrics such as predictive power, accuracy and robustness are assessed and documented as part of the model build; and assessed on an ongoing basis.

The IRB PD models were recalibrated in 2018 and independently validated by the IVU. All relevant models have been through a full annual re-validation to account for the enhancements to the definition of default.

These validations involve the IVU independently replicating calculations, data extraction methods and data exclusions, assessing key performance metrics and assessing regulatory compliance. For the Targeted Positive Assurance level reviews, the IVU produced performance metrics from first principles.

Retail Mortgages IRB PD modelling approach
The Group uses bespoke models to calculate IRB capital requirements in relation to its mortgage portfolios. The models are used to estimate PDs for residential, BTL and CAM products. In line with existing approved permissions, two distinct sets of credit models are used for heritage Virgin Money Holdings (UK) plc and heritage Clydesdale Bank PLC, and two distinct definitions of default are in place. The heritage Virgin Money Holdings (UK) plc permission uses a 180 days past due definition while the heritage Clydesdale Bank PLC permission is on a 90 days past due basis. The models follow a consistent methodology for LGD and EAD estimation. However, there is a distinction between the rating systems used to estimate PD for heritage Virgin Money Holdings (UK) plc portfolios (Through the Cycle) and Clydesdale Bank PLC portfolios (Point in Time). The Point in Time approach includes an additional conservative buffer.

The PDs for both heritages are derived from scorecards that use a variety of internal customer behaviour and external bureau information. For newly originated accounts, PDs are assigned with respect to the customer's application score. Subsequently, behavioural scores are used.

The PDs are then adjusted, depending on the heritage, using the following approaches:

Through the Cycle (TTC) – 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.

Point in Time (PiT) – A point in time ratings approach is used as a base for risk estimation, with a conservative PD adjustment adopted for regulatory long run average. This approach has been selected to mitigate against the historical data constraints across a representative mix of good and bad years (as required by PRA Supervisory Statement SS11/13), inclusive of the UK mortgage downturn of the early 1990s. This conservative adjustment has then been further considered to understand if it is likely to be sufficient across the whole cycle through a range of back casting and estimation processes, including future stressed scenarios.

The Group is cognisant of PRA policy statement PS 13/17 which outlines that an alternate approach for long run estimation will be required. In response to this, the Group are currently developing 'Hybrid' models which will be consistent across both heritages. These models are expected to be approved and implemented by the end of 2020, in line with the regulator deadline.

A mandatory quarterly realignment framework has been established to maintain the alignment of modelled estimates with observed performance, with implications on both capital and IFRS9 ECL understood. Approval is sought at senior committee with PRA notification as required depending on the materiality of impacts.

All mortgage models are subject to monthly model monitoring by the Credit Risk team as the first line, with presentation to the relevant Committees, as set out in the Governance section.

The discriminative power and accuracy of the models is measured over time and any breaches against defined triggers are investigated and actioned. The second-line IVU reviews and challenges the first-line's assessment through its annual review process, as set out in the model validation standards.

Model performance is validated in terms of (a) model discriminatory power and (b) model accuracy (by testing alignment of model outputs against outcomes. Further stability of the models is validated by assessing the stability of the model variables over time using metrics such as Population Stability Index (PSI).

The data used in the rating systems covers a long history of account and customer level information along with bureau information from Credit Reference agencies. The model developments have used a long history of internal information which are subject to well established controls from a data capture and data quality perspective.

Specialised Lending
Exposures are rated using the Standardised Approach. The Group is seeking permission to follow the regulatory Slotting approach as defined in CRR Article 153.

Corporate LGD and EAD modelling approach
Corporate exposures are rated using the FIRB approach, and therefore use the LGDs and CCFs specified in the CRR.

Retail Mortgage IRB EAD modelling approach
Fixed Term Mortgages (Residential and Buy-to Let (BTL)) have a fixed amortising repayment schedule whereas the current account mortgage (CAM) portfolio consists of revolving overdrafts, secured by residential property.

1. Fixed Term Mortgages are modelled directly based on balance adjusted for payment approach, including interest, charges accrued and payments made.
2. The CAM portfolio is modelled using a Conversion Factor (CF) approach to convert any undrawn exposure into predicted drawn exposure.

The regulatory EAD converts the underlying EAD using conservative assumptions to adjust for a downturn estimation, for example, no / reduced payments or increased use of headroom.

Retail Mortgages IRB LGD modelling approach
The Group has developed bespoke LGD models which follow a structured approach in line with industry practice.
The methodology reflects the operational process to recover debt based on three key modelled components:

— time to repossession and sale;

— probability of possession; and

— shortfall after the property sale.

The regulatory LGD converts the underlying LGD using conservative assumptions to adjust for a downturn estimation. The primary factors in this include a reduction in house prices, increased discount rates and shortfall resulting in increased time to sale, increased possession rate and shortfall or forced sale discount.

The mortgage LGD model is currently being redeveloped in line with EBA regulations (specifically (EBA/GL/2017/16) and (EBA/GL/2019/03) for implementation by the end of 2020.

Drivers of Losses
Data is as of 30 September 2019 so default periods cover September to September (e.g. 2018 – 2019 is the period 30 September 2018 to 30 September 2019). Customer numbers are taken from the start of the period and defaults include any customers that default over the 12-month period. Customers in default at the start of the period are excluded from both the customer count and the default count.

Table 31: Customer Default Rate

	2018 – 2019			2017 – 2018			2016 – 2017		
	CUSTOMERS	DEFAULTS	RATE	CUSTOMERS	DEFAULTS	RATE	CUSTOMERS	DEFAULTS	RATE
Large Corporate	508	13	2.6%	484	11	2.3%	509	14	2.8%
SME	11,187	223	2.0%	11,790	209	1.8%	12,479	264	2.1%
Total	11,695	236	2.0%	12,274	220	1.8%	12,988	278	2.1%

There has been little change in the customer level default rates for the SME portfolios and overall business portfolio over the last few years. There has been some change in the default rate of the Large Corporate portfolio but this is due to low volumes of both customers and defaults with the most recent change (2.3% to 2.6%) being the result of only 2 additional defaults.

Credit risk continued

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

Table 32: EU CR6 – IRB approach – Credit risk exposures by class and PD range – CB Mortgages

	2019											
	A	B	C	D	E	F	G	H	I	J	K	L
PD SCALE	ORIGINAL ON-BALANCE SHEET GROSS EXPOSURES	OFF-BALANCE SHEET EXPOSURES PRE-CCF	AVERAGE CCF	EAD POST-CRM AND POST-CCF	AVERAGE PD	NUMBER OF OBLIGORS	AVERAGE LGD	AVERAGE MATURITY	RWAS	RWA DENSITY[15]	EL	VALUE ADJUSTMENTS AND PROVISIONS
Retail mortgages												
0.00 to <0.15	2,425	821	102.1%	3,319	0.11%	26,334	14.89%	–	116	3.5%	–	
0.15 to <0.25	4,668	294	102.2%	5,080	0.20%	36,111	12.90%	–	275	5.4%	1	
0.25 to <0.50	9,881	208	102.2%	10,331	0.37%	51,816	16.02%	–	1,125	10.9%	6	
0.50 to <0.75	1,605	58	102.1%	1,702	0.62%	7,575	19.11%	–	312	18.4%	2	
0.75 to <2.50	4,765	87	102.1%	4,963	1.30%	25,051	17.94%	–	1,362	27.4%	11	
2.50 to <10.00	801	14	102.4%	833	4.77%	6,544	17.60%	–	494	59.3%	7	
10.00 to <100.00	225	4	102.3%	233	36.42%	1,726	15.94%	–	196	83.9%	14	
100.00 (Default)	283	7	100%	290	100.0%	2,514	21.06%	–	679	234.4%	10	
Subtotal	**24,653**	**1,493**	**102.1%**	**26,751**	**2.03%**	**157,671**	**15.94%**	**–**	**4,559**	**17.0%**	**51**	**29**

Table 33: EU CR6 – IRB approach – Credit risk exposures by class and PD range – VM Mortgages

	2019											
	A	B	C	D	E	F	G	H	I	J	K	L
PD SCALE	ORIGINAL ON-BALANCE SHEET GROSS EXPOSURES	OFF-BALANCE SHEET EXPOSURES PRE-CCF	AVERAGE CCF	EAD POST-CRM AND POST-CCF	AVERAGE PD	NUMBER OF OBLIGORS	AVERAGE LGD	AVERAGE MATURITY	RWAS	RWA DENSITY[15]	EL	VALUE ADJUSTMENTS AND PROVISIONS
Retail mortgages												
0.00 to <0.15	2,598	163	100.0%	2,794	0.12%	18,484	9.35%	–	73	2.6%	–	
0.15 to <0.25	8,636	294	100.0%	9,035	0.20%	61,300	8.41%	–	321	3.6%	2	
0.25 to <0.50	10,325	245	100.0%	10,690	0.35%	59,179	10.29%	–	706	6.6%	4	
0.50 to <0.75	8,267	149	100.0%	8,523	0.63%	55,895	15.77%	–	1,318	15.5%	9	
0.75 to <2.50	3,755	294	100.0%	4,104	1.26%	30,016	12.65%	–	798	19.5%	7	
2.50 to <10.00	1,453	34	100.0%	1,507	3.77%	11,718	14.43%	–	620	41.1%	8	
10.00 to <100.00	589	10	100.0%	608	32.72%	5,034	12.22%	–	373	61.4%	21	
100.00 (Default)	55	1	100.0%	55	100.0%	492	12.66%	–	79	141.9%	3	
Subtotal	**35,678**	**1,190**	**100.0%**	**37,316**	**1.51%**	**242,118**	**11.48%**	**–**	**4,288**	**11.5%**	**54**	**15**

Table 34: EU CR6 – IRB approach – Credit risk exposures by class and PD range – Corporate

	2019											
	A	B	C	D	E	F	G	H	I	J	K	L
PD SCALE	ORIGINAL ON-BALANCE SHEET GROSS EXPOSURES	OFF-BALANCE SHEET EXPOSURES PRE-CCF	AVERAGE CCF	EAD POST-CRM AND POST-CCF	AVERAGE PD	NUMBER OF OBLIGORS	AVERAGE LGD	AVERAGE MATURITY	RWAS	RWA DENSITY[15]	EL	VALUE ADJUSTMENTS AND PROVISIONS
Corporate SME												
0.00 to <0.15	75	76	68.0%	130	0.11%	176	41.50%	831	28	21.4%	–	
0.15 to <0.25	235	187	70.5%	367	0.19%	686	40.73%	939	112	30.4%	–	
0.25 to <0.50	752	376	67.7%	1,015	0.39%	1,611	39.42%	891	405	39.9%	2	
0.50 to <0.75	356	125	71.1%	447	0.62%	665	39.14%	1,100	250	55.9%	1	
0.75 to <2.50	3,108	910	66.6%	3,734	1.50%	5,794	40.34%	995	2,852	76.4%	23	
2.50 to <10.00	843	259	67.9%	1,021	4.48%	1,808	41.33%	853	1,008	98.7%	19	
10.00 to <100.00	77	12	70.6%	86	18.60%	164	40.55%	710	129	150.5%	6	
100.00 (Default)	145	6	75.0%	150	100.0%	179	40.65%	776	–	0.0%	61	
Subtotal	**5,591**	**1,951**	**67.7%**	**6,950**	**3.95%**	**11,083**	**40.32%**	**952**	**4,784**	**68.8%**	**112**	**99**

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

Table 35: EU CR6 – IRB approach – Credit risk exposures by class and PD range – Corporate Other

	2019											
	A	B	C	D	E	F	G	H	I	J	K	L
PD SCALE	ORIGINAL ON-BALANCE SHEET GROSS EXPOSURES	OFF-BALANCE SHEET EXPOSURES PRE-CCF	AVERAGE CCF	EAD POST -CRM AND POST-CCF	AVERAGE PD	NUMBER OF OBLIGORS	AVERAGE LGD	AVERAGE MATURITY	RWAS	RWA DENSITY	EL	VALUE ADJUSTMENTS AND PROVISIONS
Corporate Other												
0.00 to <0.15	**7**	**72**	**74.0%**	**69**	**0.11%**	**29**	**39.27%**	**597**	**16**	**23.6%**	**–**	
0.15 to <0.25	**39**	**29**	**73.6%**	**67**	**0.20%**	**17**	**40.09%**	**1,063**	**32**	**47.9%**	**–**	
0.25 to <0.50	**362**	**199**	**58.1%**	**480**	**0.41%**	**72**	**44.03%**	**982**	**325**	**67.7%**	**1**	
0.50 to <0.75	**22**	**12**	**29.9%**	**26**	**0.62%**	**28**	**43.23%**	**976**	**21**	**79.3%**	**–**	
0.75 to <2.50	**535**	**306**	**65.5%**	**746**	**1.60%**	**352**	**43.93%**	**1,060**	**858**	**114.9%**	**5**	
2.50 to <10.00	**96**	**62**	**72.6%**	**145**	**4.03%**	**85**	**42.58%**	**1,014**	**208**	**143.4%**	**2**	
10.00 to <100.00	**4**	**3**	**72.7%**	**7**	**23.43%**	**40**	**43.37%**	**805**	**16**	**246.6%**	**1**	
100.00 (Default)	**91**	**10**	**73.5%**	**98**	**100.0%**	**87**	**42.52%**	**796**	**–**	**0.0%**	**42**	
Subtotal	**1,156**	**693**	**64.7%**	**1,638**	**7.29%**	**710**	**43.39%**	**996**	**1,476**	**90.1%**	**51**	**37**

Table 36: EU CR9 – Backtesting of PD per exposure class – CB Mortgages

2019									
A	B	C	D	E	F		G	H	I
					NUMBER OF OBLIGORS				
EXPOSURE CLASS	PD RANGE	EXTERNAL RATING EQUIVALENT	WEIGHTED AVERAGE PD	ARITHMETIC AVERAGE PD BY OBLIGORS	END OF PREVIOUS YEAR	END OF THE YEAR	DEFAULTED OBLIGORS IN THE YEAR	OF WHICH NEW OBLIGORS	AVERAGE HISTORICAL ANNUAL DEFAULT RATE
Retail mortgages	0.030% ≤ PD ≤ 0.050%		**0.03%**	**0.03%**	**6,759**	**4,943**	**3**	**–**	**0.04%**
	0.050% < PD ≤ 0.080%		**0.07%**	**0.07%**	**4,736**	**2,227**	**5**	**6**	**0.18%**
	0.080% < PD ≤ 0.110%		**0.10%**	**0.10%**	**6,498**	**7,630**	**10**	**–**	**0.08%**
	0.110% < PD ≤ 0.140%		**0.13%**	**0.13%**	**7,143**	**11,532**	**7**	**1**	**0.15%**
	0.140% < PD ≤ 0.180%		**0.16%**	**0.16%**	**17,895**	**11,269**	**25**	**3**	**0.19%**
	0.180% < PD ≤ 0.240%		**0.21%**	**0.21%**	**20,836**	**24,842**	**28**	**3**	**0.21%**
	0.240% < PD ≤ 0.330%		**0.28%**	**0.28%**	**18,824**	**19,965**	**48**	**4**	**0.27%**
	0.330% < PD ≤ 0.440%		**0.38%**	**0.38%**	**19,454**	**18,217**	**47**	**3**	**0.30%**
	0.440% < PD ≤ 0.550%		**0.49%**	**0.49%**	**11,872**	**13,634**	**32**	**1**	**0.32%**
	0.550% < PD ≤ 0.690%		**0.62%**	**0.62%**	**10,736**	**7,575**	**39**	**1**	**0.41%**
	0.690% < PD ≤ 0.870%		**0.78%**	**0.78%**	**6,986**	**6,513**	**34**	**3**	**0.52%**
	0.870% < PD ≤ 1.170%		**1.01%**	**1.01%**	**6,799**	**5,821**	**36**	**5**	**0.48%**
	1.170% < PD ≤ 1.560%		**1.35%**	**1.35%**	**5,666**	**4,681**	**43**	**3**	**0.77%**
	1.560% < PD ≤ 2.020%		**1.77%**	**1.77%**	**4,242**	**4,223**	**39**	**5**	**0.89%**
	2.020% < PD ≤ 2.610%		**2.24%**	**2.23%**	**4,729**	**3,813**	**48**	**4**	**1.14%**
	2.610% < PD ≤ 3.720%		**3.16%**	**3.16%**	**3,035**	**2,309**	**53**	**17**	**1.77%**
	3.720% < PD ≤ 5.010%		**4.38%**	**4.38%**	**1,682**	**1,878**	**59**	**3**	**3.43%**
	5.010% < PD ≤ 6.890%		**5.72%**	**5.72%**	**1,919**	**1,493**	**77**	**–**	**4.36%**
	6.890% < PD ≤ 10.550%		**8.30%**	**8.30%**	**853**	**864**	**32**	**12**	**6.37%**
	10.550% < PD ≤ 15.910%		**13.40%**	**13.40%**	**405**	**343**	**39**	**–**	**11.60%**
	15.910% < PD ≤ 34.220%		**23.43%**	**23.43%**	**682**	**667**	**116**	**1**	**27.34%**
	34.220% < PD ≤ 61.240%		**50.0%**	**50.0%**	**428**	**503**	**148**	**1**	**38.97%**
	61.240% < PD ≤ 99.999%		**75.00%**	**75.00%**	**224**	**213**	**128**	**–**	**50.39%**
	Defaulted (PD = 100%)		**100.00%**	**100.00%**	**2,436**	**2,516**	**–**	**–**	**–**
	Subtotal		**0.95%**	**1.03%%**	**164,839**	**157,671**	**1,096**	**76**	**0.69%**

Credit risk continued

Table 37: EU CR9 – Backtesting of PD per exposure class – VM Mortgages

A	B	C	D	E	F		G	H	I
					NUMBER OF OBLIGORS				
EXPOSURE CLASS	PD RANGE	EXTERNAL RATING EQUIVALENT	WEIGHTED AVERAGE PD	ARITHMETIC AVERAGE PD BY OBLIGORS	END OF PREVIOUS YEAR	END OF THE YEAR	DEFAULTED OBLIGORS IN THE YEAR	OF WHICH NEW OBLIGORS	AVERAGE HISTORICAL ANNUAL DEFAULT RATE
			2019						
Retail mortgages	0.000% < PD ≤ 0.170%		0.12%	0.12%	22,626	19,480	8	–	0.019%
	0.170% < PD ≤ 0.190%		0.18%	0.18%	10,647	36,653	–	–	0.000%
	0.190% < PD ≤ 0.460%		0.31%	0.30%	92,960	77,130	17	–	0.061%
	0.460% < PD ≤ 0.510%		0.49%	0.49%	28,948	5,700	7	1	0.050%
	0.510% < PD ≤ 0.570%		0.55%	0.55%	–	30,342	–	–	0.131%
	0.570% < PD ≤ 0.960%		0.73%	0.73%	56,229	34,805	13	–	0.068%
	0.960% < PD ≤ 1.020%		1.02%	1.02%	2,715	5,338	1	–	0.062%
	1.020% < PD ≤ 3.250%		1.99%	2.02%	17,160	23,024	37	–	0.166%
	3.250% < PD ≤ 3.940%		3.44%	3.44%	29	1,695	–	–	0.294%
	3.940% < PD ≤ 7.780%		5.12%	5.11%	2,501	1,186	17	–	0.604%
	7.780% < PD ≤ 16.200%		10.35%	10.42%	2,694	2,921	43	–	1.163%
	16.200% < PD ≤ 20.830%		18.03%	17.80%	259	833	8	–	1.445%
	20.830% < PD ≤ 40.880%		30.70%	31.08%	1,073	1,255	37	–	3.840%
	40.880% < PD ≤ 66.880%		53.42%	52.78%	366	386	48	–	7.562%
	66.880% < PD ≤ 88.940%		79.02%	79.38%	695	602	166	–	14.362%
	88.940% < PD ≤ 99.999%		92.57%	93.25%	355	276	130	–	27.546%
	Default		100.00%	100.00%	450	492	–	–	–
	Subtotal		1.27%	1.52%	239,707	242,118	532	1	

Table 38: EU CR9 – Backtesting of PD per exposure class – (FIRB) Corporate Other

A	B	C	D	E	F		G	H	I
					NUMBER OF OBLIGORS				
EXPOSURE CLASS	PD RANGE	EXTERNAL RATING EQUIVALENT	WEIGHTED AVERAGE PD	ARITHMETIC AVERAGE PD BY OBLIGORS	END OF PREVIOUS YEAR	END OF THE YEAR	DEFAULTED OBLIGORS IN THE YEAR	OF WHICH NEW OBLIGORS	AVERAGE HISTORICAL ANNUAL DEFAULT RATE
			2019						
Corporate Other	0.030% ≤ PD ≤ 0.050%		0.0430%	0.0430%	2	1	0	0	0.0000%
	0.050% < PD ≤ 0.080%		0.0680%	0.0680%	11	2	0	0	0.0000%
	0.080% < PD ≤ 0.110%		0.0960%	0.0960%	16	17	0	0	0.0000%
	0.110% < PD ≤ 0.140%		0.1250%	0.1250%	10	9	0	0	0.0000%
	0.140% < PD ≤ 0.180%		0.1610%	0.1610%	16	10	0	0	0.0000%
	0.180% < PD ≤ 0.240%		0.2119%	0.2120%	11	7	0	0	0.0000%
	0.240% < PD ≤ 0.330%		0.2830%	0.2830%	24	12	0	0	0.0000%
	0.330% < PD ≤ 0.440%		0.3780%	0.3780%	24	18	0	0	1.3333%
	0.440% < PD ≤ 0.550%		0.4900%	0.4900%	10	42	0	0	0.0000%
	0.550% < PD ≤ 0.690%		0.6169%	0.6170%	31	28	0	0	0.0000%
	0.690% < PD ≤ 0.870%		0.7770%	0.7770%	34	22	1	0	0.0000%
	0.870% < PD ≤ 1.170%		1.0079%	1.0080%	42	48	0	0	0.0000%
	1.170% < PD ≤ 1.560%		1.3459%	1.3460%	74	68	1	0	2.1673%
	1.560% < PD ≤ 2.020%		1.7710%	1.7710%	46	56	0	0	2.0000%
	2.020% < PD ≤ 2.610%		2.2950%	2.2950%	51	158	1	0	0.3448%
	2.610% < PD ≤ 3.720%		3.1599%	3.1600%	60	32	6	0	3.9674%
	3.720% < PD ≤ 5.010%		4.3800%	4.3800%	25	29	0	0	1.3445%
	5.010% < PD ≤ 6.890%		5.7199%	5.7200%	18	21	2	0	9.8909%
	6.890% < PD ≤ 10.550%		8.3000%	8.3000%	8	3	1	0	10.6667%
	10.550% < PD ≤ 15.910%		0.0000%	0.0000%	2	0	0	0	0.0000%
	15.910% < PD ≤ 99.999%		23.4260%	23.4260%	101	40	5	0	22.2797%
	Defaulted (PD = 100%)		100.00%	100.00%	21	87	–	–	–
	Subtotal		1.4077%	3.1831%	637	710	17	0	3.8107%

Table 39: EU CR9 – Backtesting of PD per exposure class – (FIRB) Corporate SME

2019									
A	B	C	D	E	F		G	H	I
					NUMBER OF OBLIGORS				
EXPOSURE CLASS	PD RANGE	EXTERNAL RATING EQUIVALENT	WEIGHTED AVERAGE PD	ARITHMETIC AVERAGE PD BY OBLIGORS	END OF PREVIOUS YEAR	END OF THE YEAR	DEFAULTED OBLIGORS IN THE YEAR	OF WHICH NEW OBLIGORS	AVERAGE HISTORICAL ANNUAL DEFAULT RATE
(FIRB) Corporate – SME	0.030% ≤ PD ≤ 0.050%		**0.0000%**	**0.0000%**	**1**	**0**	**0**	**0**	**0.0000%**
	0.050% < PD ≤ 0.080%		**0.0680%**	**0.0680%**	**18**	**13**	**0**	**0**	**0.0000%**
	0.080% < PD ≤ 0.110%		**0.0959%**	**0.0960%**	**42**	**31**	**0**	**0**	**0.0000%**
	0.110% < PD ≤ 0.140%		**0.1250%**	**0.1250%**	**101**	**132**	**0**	**0**	**0.0000%**
	0.140% < PD ≤ 0.180%		**0.1610%**	**0.1610%**	**260**	**262**	**0**	**0**	**0.1159%**
	0.180% < PD ≤ 0.240%		**0.2120%**	**0.2120%**	**450**	**424**	**0**	**0**	**0.0000%**
	0.240% < PD ≤ 0.330%		**0.2830%**	**0.2830%**	**541**	**532**	**1**	**0**	**0.2215%**
	0.330% < PD ≤ 0.440%		**0.3780%**	**0.3780%**	**574**	**544**	**3**	**0**	**0.3732%**
	0.440% < PD ≤ 0.550%		**0.4900%**	**0.4900%**	**602**	**535**	**3**	**0**	**0.3146%**
	0.550% < PD ≤ 0.690%		**0.6169%**	**0.6170%**	**681**	**665**	**2**	**0**	**0.2851%**
	0.690% < PD ≤ 0.870%		**0.7770%**	**0.7770%**	**1,069**	**958**	**9**	**0**	**0.3358%**
	0.870% < PD ≤ 1.170%		**1.0079%**	**1.0080%**	**1,439**	**1,264**	**10**	**0**	**0.5758%**
	1.170% < PD ≤ 1.560%		**1.3460%**	**1.3460%**	**1,468**	**1,431**	**18**	**0**	**0.7669%**
	1.560% < PD ≤ 2.020%		**1.7710%**	**1.7710%**	**1,114**	**1,180**	**11**	**0**	**1.2548%**
	2.020% < PD ≤ 2.610%		**2.2950%**	**2.2950%**	**871**	**959**	**21**	**0**	**1.5531%**
	2.610% < PD ≤ 3.720%		**3.1600%**	**3.1600%**	**802**	**801**	**30**	**0**	**2.9710%**
	3.720% < PD ≤ 5.010%		**4.3800%**	**4.3800%**	**468**	**441**	**25**	**0**	**4.8628%**
	5.010% < PD ≤ 6.890%		**5.7200%**	**5.7200%**	**333**	**356**	**22**	**0**	**6.5038%**
	6.890% < PD ≤ 10.550%		**8.3000%**	**8.3000%**	**190**	**210**	**27**	**0**	**15.6315%**
	10.550% < PD ≤ 15.910%		**13.3999%**	**13.4000%**	**77**	**86**	**11**	**0**	**18.4786%**
	15.910% < PD ≤ 99.999%		**23.4259%**	**23.4260%**	**79**	**78**	**27**	**0**	**27.4904%**
	Defaulted (PD = 100%)		**100.00%**	**100.00%**	**263**	**179**	**–**	**–**	**–**
	Subtotal		**1.8390%**	**1.8931%**	**11,443**	**11,081**	**220**	**0**	**1.7345%**

Operational risk

7.1 Approach to monitoring and mitigating exposures

The Group's exposure to operational risk is impacted through the need to engage with innovative, dynamic third parties; deliver new products and services; and make effective use of reliable data in a changing external environment to deliver on the Group's strategic objectives. Alongside ongoing risk and control monitoring, operational risk oversight is focused on the areas outlined below:

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

Technology risk is a component of operational risk although it is categorised as a standalone principal risk type within the Group's RMF. See section 3.6.6 for further information on technology risk.

Risk category	
Change risk	The risks associated with a failure to execute and deliver change that could result in an inability to meet our strategic objectives, including failing to meet our customer, regulator, colleague, or shareholders' expectations, at a Group level and local management level. **How this risk is managed** – the Group maintains a centralised view of change to ensure that the risks of individual changes are managed effectively and that change is prioritised to minimise the overall risks to the organisation in line with risk appetite.
Third-party risk	The risks associated with ensuring the Group's outsourced and offshoring arrangements are controlled effectively, including the risk of failure to service existing and new customers, and the potential cessation of specific activities, or the risk of personally identifiable information or Group sensitive data being exposed or exploited, or the risk of financial, reputational and regulatory censure if the third party enters into any illegal or unethical activities. **How this risk is managed** – the Group continues to strengthen its third-party management framework and oversight, and ensures that the procurement of service providers adheres to these requirements. Ongoing performance management and assurance is undertaken to ensure that supplier relationships are controlled effectively.

Stress testing

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

7.2 Measurement

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

7.3 Operational risk RWAs and Capital Requirement

The capital requirement calculated under the standardised approach at 30 September 2019 was £209m (2018: £132m).

The table below shows movements in RWAs for operational risk from 1 October 2018 to 30 September 2019.

Table 40: Operational risk RWAs

Operational risk RWAs	£M
As at 1 October 2018	1,655
Movement	951
As at 30 September 2019	**2,606**

On 15 October 2018, the Group acquired Virgin Money Holdings (UK) plc. This acquisition, alongside underlying business growth, has increased revenues and therefore the Group's RWAs for operational risk over the last three years, compared to the three years prior to 30 September 2017. The Group recognises the limitations of the standardised approach and applies a more granular, firm specific assessment as part of Pillar 2.

Counterparty credit risk

8.1 Definition

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

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

8.2 Internal capital and limits

Counterparty credit limits for derivatives are approved and assigned by an appropriately authorised Delegated Commitment Authority (DCA). Limits are based on the credit quality of the counterparty and the appetite for the projected maximum potential future exposure of anticipated derivative transactions.

They also reflect the nature of the relevant documentation, including whether or not the transaction is subject to regular exchange of margin. Credit exposures for each transaction are measured as the current mark-to-market value and the potential credit exposure which is an estimate of possible future changes in mark-to-market value. Limit excesses, whether they are active or passive, are subject to formal approval by a DCA holder.

8.3 Securing collateral and reserves

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

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

8.4 Wrong-way risk

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

8.5 Downgrade impact

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

8.6 Exposures

Counterparty credit risk exposures are first measured using the mark-to-market method and subsequently risk-weighted under the standardised approach. The Group calculates a CVA on external derivative transactions with financial counterparties. The Group has no exposures to credit derivatives as at 30 September 2019 (2018: £Nil).

Counterparty credit risk continued

8.7 Counterparty credit risk exposures

Counterparty credit risk exposures are first measured using the mark-to-market method and subsequently risk-weighted under the standardised approach. The Group calculates a CVA on external derivative transactions with financial counterparties. The Group has no exposures to credit derivatives as at 30 September 2019 (30 September 2018: £nil). As discussed at section 6.1, during the year, heritage Clydesdale Bank PLC Repurchase (Repo) Transactions were allocated from the credit risk tables to the counterparty credit risk tables.

Table 41: EU CCR1 – Analysis of CCR exposure by approach

		2019						
		A	B	C	D	E	F	G
		NOTIONAL £M	REPLACEMENT COST/ CURRENT MARKET VALUE £M	POTENTIAL FUTURE CREDIT EXPOSURE £M	EEPE £M	MULTIPLIER £M	EAD POST-CRM £M	RWAS £M
1	Mark-to-market		**366**	**449**			**580**	**158**
9	Financial collateral comprehensive method (for SFTs)						**2,959**	**33**
11	**Total**							**191**

		2018						
		A	B	C	D	E	F	G
		NOTIONAL £M	REPLACEMENT COST/ CURRENT MARKET VALUE £M	POTENTIAL FUTURE CREDIT EXPOSURE £M	EEPE £M	MULTIPLIER £M	EAD POST-CRM £M	RWAS £M
1	Mark-to-market		262	303			433	125
9	Financial collateral comprehensive method (for SFTs)							
11	**Total**							125

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

Table 42: EU CCR2 – CVA capital charge

		2019		2018	
		A	B	A	B
		EXPOSURE VALUE £M	RWAS £M	EXPOSURE VALUE £M	RWAS £M
4	All portfolios subject to the standardised method	**429**	**192**	344	218
5	**Total subject to the CVA capital charge**	**429**	**192**	344	218

Table 43: EU CCR8 – Exposures to central counterparties (CCPs)

		2019		2018	
		A	B	A	B
		EAD POST-CRM £M	RWAS £M	EAD POST-CRM £M	RWAS £M
1	**Exposures to QCCPs (total)**		**2**		1
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); *of which*	**88**	**2**	49	1
3	(i) OTC derivatives	**88**	**2**	49	1
7	Segregated initial margin	**–**		44	

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

Table 44: EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

	2019													
	EXPOSURE CLASSES	0% £M	2% £M	4% £M	10% £M	20% £M	50% £M	70% £M	75% £M	100% £M	150% £M	OTHERS £M	TOTAL £M	OF WHICH UNRATED £M
1	Central governments or central banks	**2,893**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,893**	**–**
2	Regional government or local authorities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3	Public sector entities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4	Multilateral development banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5	International organisations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
6	Institutions	**–**	**88**	**–**	**–**	**397**	**103**	**–**	**–**	**–**	**–**	**–**	**588**	**–**
7	Corporates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**58**	**–**	**–**	**58**	**58**
8	Retail	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
9	Institutions and corporates with a short-term credit assessment	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
10	Other items	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
11	**Total**	**2,893**	**88**	**–**	**–**	**397**	**103**	**–**	**–**	**58**	**–**	**–**	**3,539**	**58**

	2018													
	EXPOSURE CLASSES	0% £M	2% £M	4% £M	10% £M	20% £M	50% £M	70% £M	75% £M	100% £M	150% £M	OTHERS £M	TOTAL £M	OF WHICH UNRATED £M
1	Central governments or central banks	–	–	–	–	–	–	–	–	–	–	–	–	–
2	Regional government or local authorities	–	–	–	–	–	–	–	–	–	–	–	–	–
3	Public sector entities	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Multilateral development banks	–	–	–	–	–	–	–	–	–	–	–	–	–
5	International organisations	–	–	–	–	–	–	–	–	–	–	–	–	–
6	Institutions	–	49	–	–	294	49	–	–	–	–	–	392	–
7	Corporates	–	–	–	–	–	–	–	–	41	–	–	41	41
8	Retail	–	–	–	–	–	–	–	–	–	–	–	–	–
9	Institutions and corporates with a short-term credit assessment	–	–	–	–	–	–	–	–	–	–	–	–	–
10	Other items	–	–	–	–	–	–	–	–	–	–	–	–	–
11	**Total**	–	49	–	–	294	49	–	–	41	–	–	433	41

Counterparty credit risk continued

Table 45 below shows the impact of netting and collateral held on counterparty credit risk exposures

Table 45: EU CCR5-A – Impact of netting and collateral held on exposure values[16].

		2019				
		A	B	C	D	E
		GROSS POSITIVE FAIR VALUE OR NET CARRYING AMOUNT £M	NETTING BENEFITS £M	NETTED CURRENT CREDIT EXPOSURE £M	COLLATERAL HELD £M	NET CREDIT EXPOSURE £M
1	Derivatives	**815**	**202**	**613**	**33**	**580**
2	SFTs	**7,072**	**–**	**7,072**	**4,113**	**2,959**
3	**Total**	**7,887**	**202**	**7,685**	**4,146**	**3,539**

		2018				
		A	B	C	D	E
		GROSS POSITIVE FAIR VALUE OR NET CARRYING AMOUNT £M	NETTING BENEFITS £M	NETTED CURRENT CREDIT EXPOSURE £M	COLLATERAL HELD £M	NET CREDIT EXPOSURE £M
1	Derivatives	565	95	470	37	433
2	SFTs	–	–	–	–	–
3	**Total**	565	95	470	37	433

(16) Prior year exposures have been restated to reflect net carrying amounts in line with the EBA's Pillar 3 guidance, along with a presentational change to reflect all values as positive amounts.

Market risk

9.1 Market risk

Market risk is the risk associated with adverse changes in the economic value, or net interest income, of assets and liabilities held by the Group as a result of movements in market factors such as foreign exchange risk, interest rates (duration risk), customer behaviour (optionality risk), and the movement in rate spreads across types of assets or liabilities (basis risk and credit spread risk). The Group's balance sheet is predominantly UK based and is denominated in GBP, therefore foreign exchange risk is not a major part of the Group's risk profile.

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

— the investment of non-interest bearing deposits and equity into interest-bearing assets;

— the mismatch, or duration, between repricing dates of interest-bearing assets and liabilities;

— basis risk, for example, the inability of the pricing 'basis' for customer asset and liability products to be replicated in the financial markets or the risk arising from changing relationships between different interest rate yield curves; and

— customer optionality, e.g. the right to repay borrowing in advance of contract maturity dates.

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

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

— the use of basis point sensitivity analysis;

— VaR and EaR are measured on a statistical basis: 99% confidence level with appropriate holding periods depending on varying risk types;

— triggers for reporting deterioration in EVE in line with EBA guidelines;

— historical simulation approach utilising instantaneous interest rate shocks including parallel rate movements and twists in the yield curve to explore risks around exposures to movements in short- or long-term interest rates;

— static balance sheet (i.e. any new business is assumed to be matched, hedged or subject to immediate repricing);

— investment term for capital is modelled with a benchmark term agreed by ALCO;

— investment term for core non-interest bearing assets and liabilities is modelled on a behavioural basis with a benchmark term agreed by ALCO; and

— assumptions covering the behavioural life of products and customer behaviour for optionality are reviewed and approved by ALCO.

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

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

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

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

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

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

Table 46: Interest rate risk

	2019		2018	
As at 30 September	200BP PARALLEL INCREASE £M	200BP PARALLEL DECREASE £M	200BP PARALLEL INCREASE £M	200BP PARALLEL DECREASE £M
Change in economic value	**-24**	**18**	-3	4

Note: If it was assumed that rates are floored at zero, the impact of the downward rate shock as at 30 September 2019 would be £17m. Treasury monitor basis point sensitivity of economic value on a daily basis, and all other limits no less frequently than monthly.

068 FUNDING AND LIQUIDITY RISK

10.1 Funding and liquidity

Funding risk occurs where the Group is unable to raise or maintain funds of sufficient quantity and quality to support the delivery of the business plan or sustain lending commitments. Prudent funding risk management reduces the likelihood of liquidity risks occurring, increases the stability of funding sources, minimises concentration risks and controls future balance sheet growth. Liquidity risk occurs when the Group is unable to meet its current and future financial obligations as they fall due or at acceptable cost.

Risk assessment
Liquidity risk exposures are subject to assessment under both regulatory and internal requirements. 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 high-quality liquid asset requirement is quantified as the outflow of funds under a series of stress scenarios less the impact of inflows from assets. Stress cash outflow assumptions have been established for individual liquidity risk drivers across idiosyncratic and market wide stresses. Liquidity within the Group is managed in accordance with the ILAAP, which is approved by the Board.

The Group funding plan establishes an acceptable level of funding risk which is approved by the Board and is consistent with risk appetite and the Group's strategic objectives. The development of the Group's funding plan is informed by the requirements of the Group's financial risk policy standards. A series of metrics is used across the Group to measure risk exposures, including funding ratios, limits to concentration risk and maximum levels of encumbrance.

The Treasury function is responsible for the development and execution of strategy subject to oversight from the Risk Management function. In relation to funding and liquidity risk, the primary management committee is ALCO. The Group continues to maintain its strong funding and liquidity position and seeks to achieve an appropriate balance between profitability, liquidity risk and capital optimisation.

Monitoring
Funding and liquidity risks are subject to a range of measures contained within the Group's RAS and a series of limits agreed by ALCO. These measures provide a short-and long-term view of risks under both normal and stressed conditions. The measures focus on: cash outflows and inflows under stress; concentration risks; refinancing risks and readiness of mitigating actions.

Liquidity is actively monitored by the Group. Reporting is conducted through ALCO and the Executive Risk Committee. In a stress situation, the level of monitoring and reporting would be increased commensurate with the nature of the stress event.

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 routine 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, measurement against stress requirements and monitoring of the macro economic environment.

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

The Group has several sources of funding which are well diversified in terms of the type of instrument and product, counterparty, term structure and market. In addition to customer funding, wholesale funding is used to support balance sheet growth, lengthen the contractual tenor of funding and diversify sources of funding. These funding programmes are a source of strength for the Group and leverage the Group's high-quality mortgage book as a source of collateral for secured funding. The funding plan includes an assessment of the Group's capacity for raising funds from its primary sources, mitigating funding risk. Refinancing risks are carefully managed and are subject to controls overseen by ALCO. The Group's funding plan includes an embedded Term Funding Scheme repayment profile designed to manage refinancing risk.

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

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

Table 47: EU LIQ1 – Liquidity coverage ratio

		2019 £M	2018 £M
21	Liquidity buffer	**11,243**	5,355
22	Total net cash outflows	**7,409**	3,916
23	Liquidity coverage ratio (%)	**152%**	137%

The Group's liquidity continues to comfortably exceed our regulatory minimum and internal risk appetite, with a liquidity coverage ratio of 152% as at 30 September 2019 (2018: 137%).

11.1 Objectives and roles in relation to securitisation activity

The Group has established three Residential Mortgage Backed Security (RMBS) securitisation programmes (Lanark, Lannraig and Gosforth) which provide the Group with term funding via public debt capital markets and contingent liquidity. The structures facilitate the issuance of multiple series of notes which can have differently rated tranches, tenors and repayment features tailored specifically to investor preferences. The master trust structures (Lanark and Lannraig) each have a series of notes supported by the same pool of mortgage assets that can be replenished, subject to eligibility criteria, as the trust reduces in size due to prepayments. The Gosforth structure has several special purpose vehicles (SPVs) each consisting of a separate pool of securitised mortgage loans, which can be replenished, subject to eligibility criteria. The Group's securitisation vehicles are SPVs which legally isolate the mortgage assets beyond the reach of the Group and its creditors in a bankruptcy, winding-up or receivership event.

Each master trust structure comprises three SPVs:

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

Each Gosforth structure comprises two SPVs:

- Mortgages Trustee: the purpose of which is to acquire mortgage assets and their related security from Virgin Money plc and hold such mortgage assets and their related security on trust. Some of the mortgages were originated by Landmark Mortgages Limited (formerly NRAM plc and Northern Rock (Asset Management) plc) and subsequently transferred to Virgin Money plc.
- Funding: the purpose of which is to purchase a beneficial share in the trust property, using the proceeds from the issuance of RMBS notes.

11.2 Roles

The Group's roles in the securitisation programmes are sponsor, originator, servicer, cash manager, bank account provider(16), asset swap provider(16) and transaction account provider. The obligations in these roles are outlined in the transaction documents in accordance with market practice and regulatory requirements.

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

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

11.3 Associated risks

The Group has not sought to obtain regulatory capital relief from securitisation as significant risk transfer is not achieved. Capital is therefore calculated in accordance with the underlying risk weighting on the balance sheet. Both the notes in issue and the underlying asset pool are exposed to market risk in the form of interest rate risk. The principal risks within the securitised transformation are:

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

The Group retains the credit risk associated with the mortgage assets as these remain on-balance sheet. The risk to the noteholders is mitigated by credit enhancement provided by subordination by junior classes of note and reserve funds.

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

11.4 Issuer and retained positions

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

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

Credit enhancement for the securitisation structures is provided by subordinated Class Z Variable Funding Notes (Z VFN) representing specific reserves and excess spread. The Group retains the Class Z VFN in the form of amortising notes. The Group utilised the Lanark programme in February 2019 with the issuance of 325m USD-denominated and 350m GBP-denominated floating rate notes as part of Lanark 2019-1, and in June 2019 with the issuance of 250m USD-denominated and 300m GBP-denominated floating rate notes as part of Lanark 2019-2. All currency notes were swapped back to GBP.

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

In January 2010, the Group issued the first ten Gosforth transactions. The assets incorporated in these structures consist only of residential mortgages. External credit assessment is provided by Moody's and Fitch who rate the securitisation transactions.

Table 48: Outstanding notes
At 30 September 2019, the outstanding notes are:

ISSUER	CLASS A NOTES (£M)	CLASS M NOTES (£M)	CLASS Z NOTES (£M)	TOTAL RETAINED POSITION (£M)
Lanark Master Issuer	3,827	–	770	1,546
Lannraig Master Issuer	682	–	156	838
Gosforth 2014-1	247	56	82	234
Gosforth 2015-1	490	56	84	466
Gosforth 2016-1	893	62	93	725
Gosforth 2016-2	470	41	68	529
Gosforth 2017-1	710	46	96	179
Gosforth 2018-1	1,117	50	100	637

Table 49: On-balance sheet exposures
As at 30 September 2019, on-balance sheet securitised exposures are:

ISSUER	MORTGAGE ASSET POOL (£M)	IMPAIRED AND 90 DAYS PAST DUE (£M)
Lanark Trustee Ltd	5,009	4
Lannraig Trustee Ltd	1,032	4
Gosforth 2014-1	372	–
Gosforth 2015-1	707	–
Gosforth 2016-1	1,142	–
Gosforth 2016-2	701	–
Gosforth 2017-1	934	–
Gosforth 2018-1	1,353	–

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

The Group does not have any synthetic securitisations outstanding or any re-securitisations.

11.5 Securitisation accounting policies

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

The externally held Class A Notes are disclosed in note 3.14 of the Group's Annual Report and Accounts. The Notes are initially recognised at fair value, being the issue proceeds next of transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method. To avoid grossing up the balance sheet, the retained Class A and Z Notes, and the equivalent deemed loan, together with the related income, expenditure and cashflows, are not recognised in the Group's Annual Report and Accounts.

ASSET ENCUMBRANCE

12.1 Overview

The term encumbrance is used to denote those assets on a bank's balance sheet which have been pledged as security, collateral or legally ring-fenced in some other way which prevents the firm from being able to transfer, pledge, sell or otherwise use/dispose of these assets. These disclosures are based on the EBA RTS on disclosure of encumbered and unencumbered assets (EBA/RTS/2017/03).

12.2 Debt securities

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

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

12.3 Loans and advances

The Group has five structured funding programmes: three securitisation structures as outlined in section 11 and two RCB programmes, also backed by residential mortgages. Term funding issuance from these platforms results in a portion of the Group's mortgage assets becoming encumbered.

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

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

These balances are, therefore, considered by the Group to be encumbered.

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

Note cover

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

Cash ratio deposit

CRD are non-interest bearing deposits lodged with the Bank of England by eligible institutions (i.e. banks and building societies), who have reported average eligible liabilities of over £600m over a calculation period. The level of each institution's Cash Ratio Deposit is calculated twice-yearly in May and November. A ratio is calculated by the Bank of England based on Gilt yield data.

This is then applied to the institution's average eligible liabilities over the previous six end-of-calendar months, in excess of £600m, to calculate the required Cash Ratio Deposit. Due to the permanent nature of the Cash Ratio Deposit, the requirement is considered to be an encumbered asset.

Margin

As noted above, a repo transaction involves the pledge of marketable securities in exchange for receiving a deposit. During the period of the repo, the market value of the securities pledged fluctuates while the value of the underlying cash deposit remains fixed.

To account for the fluctuations in the market value of the securities, additional cash ('margin') is passed between the parties. Cash margin paid out by the Group in respect of repo transactions is treated as encumbered.

Likewise, where the Group has entered into a derivative transaction with another market counterparty, the market value of the derivative fluctuates with changes in market rates.

In addition, Initial Margin may be required by market counterparties in respect of executing centrally cleared derivatives. In both examples, margin is passed between the parties, either in the form of cash or other securities. Margin paid out by the Group in respect of derivative transactions is treated as encumbered.

Payment system collateral

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

ASSET ENCUMBRANCE

During FY19 the Group was a direct member of Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET2). This is facilitated via an account held with the Dutch Central Bank which is funded as and when required to meet payments. The balance of this account is, therefore, treated as encumbered by the Group.

Assets not available for encumbrance

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

12.4 Encumbered assets

The amounts disclosed in Tables 50, 51 and 52 below are median values for the financial year 2019 calculated using quarterly data.

Tables 50-52 are populated in line with EBA RTS and as such differ from the disclosures contained in the Group's Annual Report and Accounts as at 30 September 2019. Volatility in the level of encumbered assets is not significant and the use of monthly data is not expected to result in materially different information relative to the data below. Table 50 shows encumbered and unencumbered assets in carrying amount and fair value by broad category of asset type. Table 51 shows collateral received by the Group. Table 52 shows the carrying amount of encumbered assets/collateral received and associated liabilities.

Table 50: Fair value of encumbered assets (Template A)

		2019							
		CARRYING AMOUNT OF ENCUMBERED ASSETS		FAIR VALUE OF ENCUMBERED ASSETS		CARRYING AMOUNT OF UNENCUMBERED ASSETS		FAIR VALUE OF UNENCUMBERED ASSETS	
			OF WHICH NOTIONALLY ELIGIBLE EHQLA AND HQLA		OF WHICH NOTIONALLY ELIGIBLE EHQLA AND HQLA		OF WHICH EHQLA AND HQLA		OF WHICH EHQLA AND HQLA
		010	030	040	050	060	080	090	100
	Template A	£M	£M	£M	£M	£M	£M	£M	£M
010	Assets of the reporting institutions	**29,072**	**3,432**			**60,893**	**11,075**		
030	Equity instruments	**–**	**–**			**7**	**–**		
040	Debt securities	**540**	**540**	**540**	**540**	**3,416**	**3,390**	**3,416**	**3,390**
050	*Of which: covered bonds*	**1**	**1**	**1**	**1**	**1,344**	**1,314**	**1,344**	**1,314**
060	*Of which: asset-backed securities*	**–**	**–**	**–**	**–**	**56**	**56**	**56**	**56**
070	*Of which: issued by general governments*	**537**	**537**	**537**	**537**	**780**	**704**	**780**	**704**
080	*Of which: issued by financial corporations*	**3**	**3**	**3**	**3**	**2,746**	**1,413**	**2,746**	**1,413**
120	Other assets	**28,635**	**2,932**			**57,564**	**7,514**		

		2018							
		CARRYING AMOUNT OF ENCUMBERED ASSETS		FAIR VALUE OF ENCUMBERED ASSETS		CARRYING AMOUNT OF UNENCUMBERED ASSETS		FAIR VALUE OF UNENCUMBERED ASSETS	
			OF WHICH NOTIONALLY ELIGIBLE EHQLA AND HQLA		OF WHICH NOTIONALLY ELIGIBLE EHQLA AND HQLA		OF WHICH EHQLA AND HQLA		OF WHICH EHQLA AND HQLA
		010	030	040	050	060	080	090	100
	Template A	£M	£M	£M	£M	£M	£M	£M	£M
010	Assets of the reporting institutions	13,452				28,962			
030	Equity instruments	–				3			
040	Debt securities	128		128		1,373		1,373	
050	*Of which: covered bonds*	–		–		574		574	
060	*Of which: asset-backed securities*	–		–		–		–	
070	*Of which: issued by general governments*	84		84		412		412	
080	*Of which: issued by financial corporations*	25		25		919		919	
120	Other assets[18]	13,324				27,537			

(18) In line with the EBA's RTS on asset encumbrance disclosures, Other assets is now presented including cash on hand, loans on demand and loans and advances. 2018 data has been presented consistent with this requirement for reference. Other assets also include assets which are deemed unavailable for encumbrance such as intangible assets and goodwill.

Table 51: Received collateral (Template B)

		2019			
		FAIR VALUE OF ENCUMBERED COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED		FAIR VALUE OF COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED AVAILABLE FOR ENCUMBRANCE	
			OF WHICH NOTIONALLY ELIGIBLE EHQLA AND HQLA		OF WHICH EHQLA AND HQLA
		010	030	040	060
	Template B	£M	£M	£M	£M
130	**Collateral received by the reporting institution**	**6**	**6**	**321**	**306**
160	Debt securities	**6**	**6**	**299**	**280**
190	*Of which: issued by general governments*	**6**	**6**	**299**	**280**
230	Other collateral received	**–**	**–**	**28**	**28**
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			**3,121**	**–**
250	**Total assets, collateral received and own debt securities issued**	**29,094**	**3,454**		

		2018			
		FAIR VALUE OF ENCUMBERED COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED		FAIR VALUE OF COLLATERAL RECEIVED OR OWN DEBT SECURITIES ISSUED AVAILABLE FOR ENCUMBRANCE	
			OF WHICH NOTIONALLY ELIGIBLE EHQLA AND HQLA		OF WHICH EHQLA AND HQLA
		010	030	040	060
	Template B	£M	£M	£M	£M
130	Collateral received by the reporting institution	–		29	
160	Debt securities	–		–	
190	*Of which: issued by general governments*	–		–	
230	Other collateral received	–		29	
241	**Own covered bonds and asset-backed securities issued and not yet pledged**			1,685	
250	**Total assets, collateral received and own debt securities issued**	13,452			

Table 52: Encumbered assets/collateral received and associated liabilities (Template C)

		2019		2018	
		MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED	MATCHING LIABILITIES, CONTINGENT LIABILITIES OR SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN COVERED BONDS AND ABSS ENCUMBERED
		010	030	010	030
		£M	£M	£M	£M
010	Carrying amount of selected financial liabilities	**17,361**	**25,393**	6,505	10,527

APPENDICES

APPENDIX 1: DISCLOSURES FOR CB GROUP CONSOLIDATED

The following tables present the disclosures required for CB Consol. Due to the fact that the structures of the Group and CB Consol are very closely aligned, RWAs and total capital are also closely aligned.

Table 53: Capital composition

As at 30 September		2019 £M	2018 £M
	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		
1	Capital instruments and the related share premium accounts	**2,792**	1,013
1a	*Of which: ordinary shares*	**1,029**	1,013
1b	*Of which: share premium*	**1,763**	–
2	Retained earnings	**2,053**	2,157
3	Accumulated other comprehensive income (and other reserves)	**(13)**	(28)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**(20)**	(10)
6	Common Equity Tier 1 capital before regulatory adjustments	**4,812**	3,132
	COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS		
7	Additional value adjustments	**(5)**	(3)
8	Intangible assets	**(512)**	(412)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	**(250)**	(192)
11	Fair value reserves related to gains or losses on cash flow hedges	**25**	37
12	Negative amounts resulting from the calculation of expected loss amounts	**(88)**	–
15	Defined benefit pension fund assets	**(257)**	(138)
25a	Losses for the current financial year (negative amount)	**(263)**	(276)
28	**Total regulatory adjustments to Common Equity Tier 1**	**(1,350)**	(984)
29	**Common Equity Tier 1 capital**	**3,462**	2,148
	ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS		
30	Capital instruments and the related share premium accounts	**672**	425
31	*Of which: classified as equity under applicable accounting standards*	**672**	425
36	Additional Tier 1 capital before regulatory adjustments	**672**	425
45	**Tier 1 capital**	**4,134**	2,573
	TIER 2 CAPITAL: INSTRUMENTS AND PROVISIONS		
46	Capital instruments and the related share premium accounts	**723**	477
50	Credit risk adjustments	**–**	152
51	**Tier 2 capital before regulatory adjustment**	**723**	629
58	**Tier 2 capital**	**723**	629
59	**Total capital**	**4,857**	3,202
60	**Total risk-weighted assets**	**24,046**	20,117
	CAPITAL RATIOS AND BUFFERS		
61	Common Equity Tier 1	**14.4%**	10.7%
62	Tier 1	**17.2%**	12.8%
63	Total capital	**20.2%**	15.9%
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	**8.0%**	6.9%
65	*Of which: capital conservation buffer requirement*	**2.5%**	1.9%
66	*Of which: countercyclical buffer requirement*	**1.0%**	0.5%
67	*Of which: systemic risk buffer requirement*	**0.0%**	0.0%
67a	*Of which: Global Systemically Important Institution or Other Systemically Important Institution buffer*	**0.0%**	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**9.9%**	6.2%
	APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2		
76	Credit risk adjustments included in Tier 2 in respect of exposures subject to standardised approach (prior to the application of the cap)	**–**	152
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	**77**	228

CB Consol CET1 ratio at 30 September 2019 is 14.4%, with the movement driven by similar factors as those driving the movement in the Group ratio. The table below shows the movements in CB Consol's capital during 2019.

Table 54: Capital flow statement

	2019 £M	2018 £M
COMMON EQUITY TIER 1 CAPITAL		
Common Equity Tier 1 capital at 1 October	**2,149**	2,440
Share capital: ordinary share new issuance	**–**	511
Retained earnings and other reserves	**112**	(741)
Prudent valuation adjustment	**(2)**	1
Intangible assets	**(100)**	(73)
Acquisition of Virgin Money Holdings (UK) plc	**1,567**	–
IRB shortfall of credit risk adjustments to expected losses	**(88)**	–
Deferred tax assets relying on future profitability	**(58)**	(82)
Defined benefit pension fund assets	**(119)**	(3)
Fair value reserves related to gains or losses on cash flow hedges	**(12)**	38
Losses for the current financial year	**13**	57
Total Common Equity Tier 1 capital	**3,462**	2,148
Tier 1 capital	**425**	425
Capital instruments issued: Additional Tier 1	**247**	–
	672	425
Total Tier 1 capital	**4,134**	2,573
Tier 2 capital		
Tier 2 capital at 1 October	**629**	630
Capital instruments repurchased: Subordinated debt redemption	**247**	–
Credit risk adjustments	**(152)**	(2)
Other movements	**(1)**	1
Total Tier 2 capital	**723**	629
Total capital at 30 September	**4,857**	3,202

Tier 1 Capital

Tier 1 capital comprises:

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

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

Tier 2 Capital

Tier 2 capital comprises:

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

APPENDIX 1: DISCLOSURES FOR CB GROUP CONSOLIDATED

Table 55: IFRS9-FL Comparison of institutions' own funds and capital and leverage ratios

	2019	
	QUANTITATIVE TEMPLATE	
		A
		30 SEPTEMBER 2019
	AVAILABLE CAPITAL (AMOUNTS)	
1	Common Equity Tier 1 (CET1) capital	**3,462**
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**3,362**
3	Tier 1 capital	**4,134**
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4,034**
5	Total capital	**4,857**
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4,757**
	RISK-WEIGHTED ASSETS (AMOUNTS)	
7	Total risk-weighted assets	**24,046**
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**23,983**
	CAPITAL RATIOS	
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	**14.4%**
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**14.0%**
11	Tier 1 (as a percentage of risk exposure amount)	**17.2%**
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**16.8%**
13	Total capital (as a percentage of risk exposure amount)	**20.2%**
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**19.8%**
	LEVERAGE RATIO	
15	Leverage ratio total exposure measure	**94,742**
16	Leverage ratio	**4.4%**
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4.3%**

Table 56 below shows the reconciliation of statutory equity to regulatory capital for CB Consol. Movements in the capital position are driven by similar factors which impact the Group position, as shown at section 4.2.

Table 56: Reconciliation of statutory equity to regulatory capital

	2019 £M	2018 £M
Statutory total equity	**5,141**	3,291
Less pension regulatory adjustments	**(257)**	(138)
Less additional value adjustment	**(5)**	(3)
Less intangible assets	**(512)**	(412)
Less deferred tax asset relying on future profitability	**(250)**	(192)
Less cash flow hedge	**25**	37
IFRS 9 transitional adjustment	**100**	–
Expected loss	**(88)**	–
Additional Tier 1 foreseeable dividend	**(20)**	(10)
Regulatory Tier 1 capital	**4,134**	2,573
Statutory Tier 2 subordinated debt	**723**	477
Regulatory Tier 2 subordinated debt	**723**	477

Table 57: LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		2019 £M	2018 £M
1	Total assets as per published financial statements[19]	**91,101**	43,583
4	Adjustments for derivative financial instruments	**(35)**	(134)
5	Adjustments for securities financing transactions	**1,934**	1,468
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**2,728**	1,763
7	Other adjustments	**(986)**	(708)
8	**Total leverage ratio exposure**	**94,742**	45,972

(19) Published financial statements not prepared on this basis.

The leverage ratio for CB Consol is calculated on a basis consistent with that of the Group. See section 4.4 Leverage Ratio for further details on processes used to manage the risk of excessive leverage and a description of factors which have impacted the leverage ratio during the period.

Table 58: LRCom: Leverage ratio common disclosure

		2019 £M	2018 £M
	ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**90,735**	43,321
2	(Asset amounts deducted in determining Tier 1 capital)	**(986)**	(708)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**89,749**	42,613
	DERIVATIVE EXPOSURES		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	**324**	226
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	**344**	208
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(337)**	(306)
11	**Total derivative exposures**	**331**	128
	SECURITIES FINANCING TRANSACTION EXPOSURES		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	**-**	4,525
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	**-**	(3,057)
14	Counterparty credit risk exposures for SFT assets [20]	**1,934**	-
16	**Total securities financing transaction exposures**	**1,934**	1,468
	OTHER OFF-BALANCE SHEET EXPOSURES		
17	Off-balance sheet exposures at gross notional amount	**15,247**	7,135
18	(Adjustments for conversion to credit equivalent amounts)	**(12,519)**	(5,372)
19	Other off-balance sheet exposures	**2,728**	1,763
20	Tier 1 capital	**4,134**	2,573
21	**Total leverage ratio exposures**	**94,742**	45,972
	LEVERAGE RATIO		
22	Leverage ratio	**4.4%**	5.6%
	CHOICE ON TRANSITIONAL ARRANGEMENTS AND AMOUNT OF DERECOGNISED FIDUCIARY ITEMS		
EU-23	Choice on transitional arrangements for the definition of the capital measure	**Transitional**	Fully phased in

(20) During the year, heritage Clydesdale Bank PLC repurchase (Repo) transactions were allocated from credit risk tables to the counterparty credit risk tables.

Table 59: LRSpl: Split-up of on-balance sheet exposures

		2019 £M	2018 £M
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), *of which:*	**90,735**	43,321
EU-3	Banking book exposures, *of which:*	**90,735**	43,321
EU-4	Covered bonds	**1,415**	615
EU-5	Exposures treated as sovereigns	**12,919**	6,991
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities NOT treated as sovereigns	**125**	240
EU-7	Institutions	**1,251**	616
EU-8	Secured by mortgages of immovable properties	**63,646**	27,759
EU-9	Retail exposures	**5,208**	1,420
EU-10	Corporate	**4,023**	3,651
EU-11	Exposures in default	**552**	460
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**1,596**	1,569

The following table shows CB Consol's capital resources requirement under Pillar 1 as at 30 September 2019.

Table 60: Pillar 1 Capital requirements

	2019		2018	
Pillar 1 capital requirements	RWA £M	CAPITAL £M	RWA £M	CAPITAL £M
Corporates	**6,258**	**501**	–	–
Retail	**8,846**	**708**	–	–
Total IRB approach	**15,104**	**1,209**	–	–
Central governments or central banks	**9**	**1**	1	–
Regional government or local authority	**13**	**1**	12	1
Public sector entities	**5**	**–**	2	–
Institutions	**206**	**16**	136	11
Corporates	**349**	**28**	3,956	316
Retail	**3,993**	**319**	1,124	90
Secured by mortgages on immovable property	**496**	**40**	11,708	938
Exposures in default	**59**	**5**	562	45
Exposures associated with particularly high risk	**11**	**1**	49	4
Covered bonds	**141**	**11**	61	5
Claims in the form of CIU	**–**	**–**	1	–
Equity exposures	**5**	**–**	5	–
Other items	**651**	**54**	487	39
Total standardised approach	**5,938**	**476**	18,104	1,449
Total credit risk	**21,042**	**1,685**	18,104	1,449
Counterparty credit risk	**191**	**15**	125	10
Credit valuation adjustment	**192**	**15**	218	17
Operational risk	**2,621**	**209**	1,670	134
Total Pillar 1 capital requirements	**24,046**	**1,924**	20,117	1,610

APPENDIX 2: DISCLOSURES FOR VMH SUB-CONSOLIDATED

The following tables present the disclosures required for VMH. The 2018 comparative position for VMH is 31 December 2018, which represents the entity's reporting period-end.

Table 61: Capital composition

As at 30 September		2019 £M	2018 £M
	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		
1	Capital instruments and the related share premium accounts	**886**	656
1a	*Of which: ordinary shares*	**886**	656
2	Retained earnings	**624**	832
3	Accumulated other comprehensive income (and other reserves)	**(20)**	(16)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**131**	–
6	**Common Equity Tier 1 capital before regulatory adjustments**	**1,621**	1,472
	COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS		
7	Additional value adjustments	**(2)**	(2)
8	Intangible assets	**(99)**	(108)
11	Fair value reserves related to gains or losses on cash flow hedges	**25**	14
12	Negative amounts resulting from the calculation of expected loss amounts	**(38)**	(40)
28	**Total regulatory adjustments to Common Equity Tier 1**	**(114)**	(136)
29	**Common Equity Tier 1 capital**	**1,507**	1,336
	ADDITIONAL TIER 1 CAPITAL: INSTRUMENTS		
30	Capital instruments and the related share premium accounts	**247**	384
31	*Of which: classified as equity under applicable accounting standards*	**247**	384
36	Additional Tier 1 capital before regulatory adjustments	**247**	384
44	Additional Tier 1 capital	**247**	384
45	Tier 1 capital	**1,754**	1,720
59	**Total capital**	**1,754**	1,720
60	**Total risk-weighted assets**	**8,502**	8,469
	CAPITAL RATIOS		
61	Common Equity Tier 1	**17.7%**	15.8%
62	Tier 1	**20.6%**	20.3%
63	Total capital	**20.6%**	20.3%
64	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	**8.0%**	7.4%
65	*Of which: capital conservation buffer requirement*	**2.5%**	1.9%
66	*Of which: countercyclical buffer requirement*	**1.0%**	1.0%
67	*Of which: systemic risk buffer requirement*	**0.0%**	0.0%
67a	*Of which: Global Systemically Important Institution or Other Systemically Important Institution buffer*	**0.0%**	0.0%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	**13.2%**	11.3%
	APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2		
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	**40**	35

Table 62: Capital flow statement

	2019 £M	2018 £M
Common Equity Tier 1 capital		
Common Equity Tier 1 capital at 1 January	**1,336**	1,263
Share capital: ordinary share new issuance	**230**	1
Retained earnings and other reserves	**107**	39
Prudent valuation adjustment	**–**	(1)
Intangible assets	**9**	21
Movement in deferred tax on tax losses carried forward	**–**	1
Movement in fair value through other comprehensive income revaluation reserve	**8**	(7)
Total distributions on ordinary shares paid during the year	**(216)**	–
Add back distributions on ordinary shares paid during the year accrued at previous year-end	**26**	28
Distributions on ordinary shares accrued during the year	**–**	(26)
AT1 coupons accrued at previous year-end	**4**	4
AT1 coupons accrued at this year-end	**(11)**	(4)
Movement in excess of expected loss over impairment	**2**	7
IFRS 9 transitional relief	**12**	10
Total common equity tier 1 capital	**1,507**	1,336
Tier 1 capital		
Tier 1 capital at 1 January	**384**	384
Additional AT1	**247**	–
Called AT1	**(156)**	–
Transferred AT1	**(228)**	–
Total Tier 1 capital	**1,754**	1,720
Tier 2 capital		
Tier 2 capital at 1 January	**–**	14
Credit risk adjustments	**–**	(14)
Total Tier 2 capital	**–**	–
Total capital at 30 September	**1,754**	1,720

The increase in capital resources is driven by the increase in retained earnings and new capital issuances (both ordinary shares and AT1), offset by the redemption and transfer of AT1 notes and additional distributions, mainly in the form of ordinary dividends.

APPENDIX 2: DISCLOSURES FOR VMH SUB-CONSOLIDATED

Table 63: IFRS9-FL Comparison of institutions' own funds and capital and leverage ratios

		30 SEPTEMBER 2019	31 DECEMBER 2018
	AVAILABLE CAPITAL (AMOUNTS)		
1	Common Equity Tier 1 (CET1) capital	**1,507**	1,336
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,452**	1,293
3	Tier 1 capital	**1,754**	1,720
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,699**	1,677
5	Total capital	**1,754**	1,720
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**1,699**	1,677
	RISK-WEIGHTED ASSETS (AMOUNTS)		
7	Total risk-weighted assets	**8,502**	8,469
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**8,459**	8,435
	CAPITAL RATIOS		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	**17.7%**	15.8%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**17.2%**	15.3%
11	Tier 1 (as a percentage of risk exposure amount)	**20.6%**	20.3%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**20.1%**	19.9%
13	Total capital (as a percentage of risk exposure amount)	**20.6%**	20.3%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**20.1%**	19.9%
	LEVERAGE RATIO		
15	Leverage ratio total exposure measure	**47,178**	46,231
16	Leverage ratio	**3.7%**	3.7%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**3.6%**	3.6%

Table 64 below shows the reconciliation of statutory equity to regulatory capital for VMH. Movements in the capital position are driven by similar factors which impact the Group position, as shown at section 4.2.

Table 64: Reconciliation of statutory equity to regulatory capital

	2019 £M	2018 £M
Statutory total equity	**1,824**	1,843
Less additional value adjustment	**(2)**	(2)
Less intangible assets	**(99)**	(108)
Less excess expected loss over impairment	**(38)**	(40)
Less cash flow hedge	**25**	14
IFRS 9 transitional adjustment	**55**	43
Additional Tier 1 foreseeable dividend	**(11)**	(30)
Regulatory Tier 1 capital	**1,754**	1,720

Table 65: LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		2019 £M	2018 £M
1	Total assets as per published financial statements[(21)]	**46,279**	45,116
2	Adjustments for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	**1**	–
4	Adjustments for derivative financial instruments	**65**	53
5	Adjustments for securities financing transactions	**62**	270
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**957**	886
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	**(126)**	–
7	Other adjustments	**(60)**	(94)
8	**Total leverage ratio exposure**	**47,178**	46,231

(21) As at 30 September 2019 published financial statements are not prepared.

The leverage ratio for VMH is calculated on a basis consistent with that of the Group. See section 4.4 Leverage Ratio for further details on processes used to manage the risk of excessive leverage and a description of factors which have impacted the leverage ratio during the period.

Table 66: LRCom: Leverage ratio common disclosure

		2019 £M	2018 £M
	ON-BALANCE SHEET EXPOSURES (EXCLUDING DERIVATIVES AND SFTS)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**46,166**	45,065
2	(Asset amounts deducted in determining Tier 1 capital)	**(60)**	(136)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**46,106**	44,929
	DERIVATIVE EXPOSURES		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**82**	116
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**122**	148
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(25)**	(118)
11	**Total derivative exposures**	**179**	146
	SECURITIES FINANCING TRANSACTION EXPOSURES		
14	Counterparty credit risk exposure for SFT assets	**62**	270
16	**Total securities financing transaction exposures**	**62**	270
	OTHER OFF-BALANCE SHEET EXPOSURES		
17	Off-balance sheet exposures at gross notional amount	**8,431**	7,484
18	(Adjustments for conversion to credit equivalent amounts)	**(7,474)**	(6,598)
19	Other off-balance sheet exposures	**957**	886
EU-19a	Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013	**(126)**	–
20	Tier 1 capital	**1,754**	1,720
21	**Total leverage ratio exposures**	**47,178**	46,231
	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**	Transitional

Table 67: LRSpl: Split-up of on-balance sheet exposures

		2019 £M	2018 £M
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), *of which:*	**46,141**	45,065
EU-3	Banking book exposures, *of which:*	**46,141**	45,065
EU-4	Covered bonds	**657**	617
EU-5	Exposures treated as sovereigns	**4,943**	4,822
EU-7	Institutions	**707**	589
EU-8	Secured by mortgages of immovable properties	**35,766**	35,291
EU-9	Retail exposures	**3,724**	3,280
EU-11	Exposures in default	**74**	26
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**270**	440

Table 68: EU OV1 – Overview of risk-weighted assets

		RWAS		MINIMUM CAPITAL REQUIREMENTS
		2019 £M	2018 £M	2019 £M
1	Credit risk (excluding CRR)	**7,455**	**7,413**	597
2	Of which the standardised approach	**3,168**	**2,819**	254
4	Of which the AIRB approach	**4,287**	**4,594**	343
6	CCR	**53**	**105**	4
7	Of which mark to market	**22**	**19**	2
9	Of which the standardised approach	**–**	**69**	–
12	Of which CVA	**31**	**17**	2
14	Securitisation exposures in the banking book (after the cap)	**–**	**30**	–
18	Of which standardised approach	**–**	**30**	–
23	Operational risk	**950**	**867**	76
25	Of which standardised approach	**950**	**867**	76
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**44**	**54**	3
29	**Total**	**8,502**	**8,469**	680

VMH follows the same policies as the Group in regard to the use of on and off-balance sheet netting, collateral valuation and management, types of collateral used in credit risk mitigation, types of guarantor and credit derivative counterparties used, including any assessments made over their creditworthiness and information about market or credit risk concentrations.

See section 6 for information on Group policies and processes. Refer to table 16 in section 6 for a summary of the Group's RWA and capital requirements under Pillar 1.

Table 69: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

2019

	General credit exposures: Exposure value for SA 10	General credit exposures: Exposures value for IRB 20	Trading book exposures: Sum of long and short positions of trading book exposures for SA 30	Trading book exposures: Value of trading book exposures for internal models 40	Securitisation exposures: Exposure value for SA 50	Securitisation exposures: Exposures value for IRB 60	Own funds requirements: Of which general credit exposures 70	Own funds requirements: Of which trading book exposures 80	Own funds requirements: Of which securitisation exposures 90	Own funds requirements: Total 100	Own funds requirements weights 110	Countercyclical capital buffer rates 120
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	%
Breakdown by country:												
UK	**11,910**	**37,316**					**589**			**589**	**1.00**	**1.0%**
Total	**11,910**	**37,316**					**589**			**589**	**1.00**	**1.0%**

2018

	General credit exposures: Exposure value for SA 10	General credit exposures: Exposures value for IRB 20	Trading book exposures: Sum of long and short positions of trading book exposures for SA 30	Trading book exposures: Value of trading book exposures for internal models 40	Securitisation exposures: Exposure value for SA 50	Securitisation exposures: Exposures value for IRB 60	Own funds requirements: Of which general credit exposures 70	Own funds requirements: Of which trading book exposures 80	Own funds requirements: Of which securitisation exposures 90	Own funds requirements: Total 100	Own funds requirements weights 110	Countercyclical capital buffer rates 120
	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	£M	%
Breakdown by country:												
UK	4,106	37,771	–	–	148	–	586	–	2	588	1.00	1.0%
Total	4,106	37,771	–	–	148	–	586	–	2	588	1.00	1.0%

Table 70: Amount of institution-specific countercyclical capital buffer

Row		2019 £M
010	Total risk exposure amount	**8,502**
020	Institution-specific countercyclical capital buffer rate	**1.0%**
030	Institution-specific countercyclical capital buffer requirement	**85**

Row		2018 £M
010	Total risk exposure amount	8,469
020	Institution-specific countercyclical capital buffer rate	1.0%
030	Institution-specific countercyclical capital buffer requirement	85

Table 71: EU CR8 – RWA flow statements of credit risk exposures under the IRB approach

		2019 A IRB RWA amounts	2019 B IRB capital requirements	2019 SA RWA amounts	2019 SA capital requirements
1	**RWAs as at the end of the previous reporting period**	**4,594**	**368**	**3,875**	**233**
2	Asset size	**174**	**13**	**362**	**22**
3	Asset quality	**(231)**	**(18)**	**–**	**–**
4	Model updates	**(254)**	**(20)**	**–**	**–**
8	Other	**4**	**–**	**(22)**	**(1)**
9	**RWAs as at the end of the reporting period**	**4,287**	**343**	**4,215**	**254**

Prior year VMH credit risk exposures have been restated to be in line with the EBA's Pillar 3 guidance, being the total of on- and off-balance sheet exposures less any specific expected credit loss provisions.

Table 72: EU CRB-B – Total and average net amount of exposures

		2019			
		A	B		
		NET VALUE OF EXPOSURES AT THE END OF THE PERIOD £M	AVERAGE NET EXPOSURES OVER THE PERIOD £M	RISK-WEIGHTED ASSETS £M	MINIMUM CAPITAL REQUIREMENTS £M
6	Retail	**36,853**	**36,961**	**4,287**	**343**
7	*Of which: secured by real estate property*	**36,853**	**36,961**	**4,287**	**343**
15	**Total IRB approach**	**36,853**	**36,961**	**4,287**	**343**
16	Central governments or central banks	**4,134**	**4,210**	**9**	**1**
18	Public sector entities	**73**	**58**	**–**	**–**
19	Multilateral development banks	**823**	**754**	**–**	**–**
21	Institutions	**429**	**580**	**86**	**7**
24	Retail	**11,051**	**10,165**	**2,828**	**226**
28	Exposures in default	**31**	**29**	**31**	**3**
30	Covered bonds	**657**	**635**	**66**	**5**
33	Equity exposures	**2**	**3**	**3**	**0**
34	Other exposures	**170**	**182**	**189**	**15**
35	**Total standardised approach**	**17,370**	**16,616**	**3,212**	**257**
36	**Total**	**54,223**	**53,577**	**7,499**	**600**

		2018			
		A	B		
		NET VALUE OF EXPOSURES AT THE END OF THE PERIOD £M	AVERAGE NET EXPOSURES OVER THE PERIOD £M	RISK-WEIGHTED ASSETS £M	MINIMUM CAPITAL REQUIREMENTS £M
6	Retail	36,905	36,117	4,594	367
7	*Of which: secured by real estate property*	36,905	36,117	4,594	367
15	**Total IRB approach**	36,905	36,117	4,594	367
16	Central governments or central banks	4,304	4,829	–	–
18	Public sector entities	15	4	–	–
19	Multilateral development banks	593	469	–	–
21	Institutions	546	426	111	9
24	Retail	9,188	8,541	2,460	197
28	Exposures in default	26	22	26	2
30	Covered bonds	617	542	62	5
33	Equity exposures	7	4	11	1
34	Other exposures	176	180	204	16
35	**Total standardised approach**	15,472	15,017	2,874	230
36	**Total**	52,377	51,134	7,468	597

Table 73: EU CRB-D – Concentration of exposures by industry

	2019										
	GOVERNMENT ADMINISTRATION & DEFENCE £M	AGRICULTURE, FORESTRY, FISHING & MINING £M	FINANCIAL INVESTMENT & INSURANCE £M	REAL ESTATE – CONSTRUCTION £M	MANUFACTURING £M	PERSONAL LENDING £M	REAL ESTATE – MORTGAGE £M	WHOLESALE AND RETAIL TRADE £M	ALL OTHER BUSINESS £M	NON-CUSTOMER ASSETS £M	TOTAL £M
4 Retail	–	–	–	–	–	–	36,853	–	–	–	36,853
6 **Total IRB approach**	–	–	–	–	–	–	36,853				36,853
7 Central governments or central banks	462	–	3,672	–	–	–	–	–	–	–	4,134
9 Public sector entities	73	–	–	–	–	–	–	–	–	–	73
10 Multilateral development banks	–	–	823	–	–	–	–	–	–	–	823
12 Institutions			429	–	–	–	–	–	–	–	429
14 Retail	–	–	–	–	–	11,051	–	–	–	–	11,051
16 Exposures in default	–	–	–	–	–	31	–	–	–	–	31
18 Covered bonds	–	–	657	–	–	–	–	–	–	–	657
21 Equity exposures	–	–	–	–	–	–	–	–	2	–	2
22 Other exposures	–	–	–	–	–	–	–	–	–	170	170
23 **Total standardised approach**	535	–	5,581	–	–	11,082	–	–	2	170	17,370
24 **Total**	535	–	5,581	–		11,082	36,853	–	2	170	54,223
Of which: SMEs	–	–	–	–	–	–	–	–	–	–	–

	2018										
	GOVERNMENT ADMINISTRATION & DEFENCE £M	AGRICULTURE, FORESTRY, FISHING & MINING £M	FINANCIAL INVESTMENT & INSURANCE £M	REAL ESTATE – CONSTRUCTION £M	MANUFACTURING £M	PERSONAL LENDING £M	REAL ESTATE – MORTGAGE £M	WHOLESALE AND RETAIL TRADE £M	ALL OTHER BUSINESS £M	NON-CUSTOMER ASSETS £M	TOTAL £M
4 Retail	–	–	–	–	–	–	36,905	–	–	–	36,905
6 **Total IRB approach**	–	–	–	–	–	–	36,905	–	–	–	36,905
7 Central governments or central banks	835	–	3,469	–	–	–	–	–	–	–	4,304
9 Public sector entities	15	–	–	–	–	–	–	–	–	–	15
10 Multilateral development banks	–	–	593	–	–	–	–	–	–	–	593
12 Institutions	–	–	546	–	–	–	–	–	–	–	546
14 Retail	–	–	–	–	–	9,188	–	–	–	–	9,188
16 Exposures in default	–	–	–	–	–	26	–	–	–	–	26
18 Covered bonds	–	-	617	–	–	–	–	–	–	–	617
21 Equity exposures	–	–	–	–	–	–	–	–	7	–	7
22 Other exposures	–	–	–	–	–	–	–	–	-	176	176
23 **Total standardised approach**	850	-	5,225	–	–	9,214	-	–	7	176	15,472
24 **Total**	850	-	5,225	–	–	9,214	36,905	–	7	176	52,377
Of which: SMEs	–	–	–	–	–	–	–	–	–	–	–

Table 74: EU CRB-E – Maturity of exposures

		2019 A ON DEMAND £M	2019 B <= 1 YEAR £M	2019 C > 1 YEAR <= 5 YEARS £M	2019 D > 5 YEARS £M	2019 E NO STATED MATURITY £M	2019 F TOTAL £M
4	Retail	–	129	988	35,736	–	36,853
6	**Total IRB approach**	–	129	988	35,736	–	36,853
7	Central governments or central banks	–	3,878	–	256	–	4,134
9	Public sector entities	–	–	31	42	–	73
10	Multilateral development banks	–	25	600	198	–	823
12	Institutions	–	–	400	29	–	429
14	Retail	–	11,051	–	–	–	11,051
16	Exposures in default	–	31	–	–	–	31
18	Covered bonds	–	109	398	150	–	657
21	Equity exposures	–	2	–	–	–	2
22	Other exposures	–	–	–	–	170	170
23	**Total standardised approach**	–	15,096	1,429	675	170	17,370
24	**Total**	–	15,225	2,417	36,411	170	54,223

		2018 A ON DEMAND £M	2018 B <= 1 YEAR £M	2018 C > 1 YEAR <= 5 YEARS £M	2018 D > 5 YEARS £M	2018 E NO STATED MATURITY £M	2018 F TOTAL £M
4	Retail	–	145	974	35,786	–	36,905
6	**Total IRB approach**	–	145	974	35,786	–	36,905
7	Central governments or central banks	–	3,987	–	317	–	4,304
9	Public sector entities	–	–	15	–	–	15
10	Multilateral development banks	–	25	396	172	–	593
12	Institutions	–	498	20	28	–	546
14	Retail	–	9,188	–	–	–	9,188
16	Exposures in default	–	26	–	–	–	26
18	Covered bonds	–	11	345	261	–	617
21	Equity exposures	–	7	–	–	–	7
22	Other exposures	–	176	–	–	–	176
23	**Total standardised approach**	–	13,918	776	778	–	15,472
24	**Total**	–	14,063	1,750	36,564	–	52,377

Table 75: EU CRB-C – Geographical breakdown of exposures

		2019			2018		
		A	M	N	A	M	N
		UK £M	OTHER GEOGRAPHICAL AREAS £M	TOTAL £M	UK £M	OTHER GEOGRAPHICAL AREAS £M	TOTAL £M
4	Retail	**36,790**	**63**	**36,853**	36,842	63	36,905
6	**Total IRB approach**	**36,790**	**63**	**36,853**	36,842	63	36,905
7	Central governments or central banks	**4,084**	**50**	**4,134**	4,231	73	4,304
9	Public sector entities	**–**	**73**	**73**	–	15	15
10	Multilateral development banks	**–**	**823**	**823**	–	593	593
12	Institutions	**70**	**359**	**429**	110	436	546
14	Retail	**11,051**	**–**	**11,051**	9,188	–	9,188
16	Exposures in default	**31**	**–**	**31**	26	–	26
18	Covered bonds	**657**	**–**	**657**	617	–	617
21	Equity exposures	**2**	**–**	**2**	5	2	7
22	Other exposures	**170**	**–**	**170**	176	–	176
23	**Total standardised approach**	**16,065**	**1,305**	**17,370**	14,353	1,119	15,472
24	**Total**	**52,855**	**1,368**	**54,223**	51,195	1,182	52,377

Under IAS39 loans were classified under specific credit risk classifications, including past due and impaired. Following the introduction of IFRS 9, loan categorisations have changed. Further information can be found in section 6.5.

Table 76: Analysis of retail credit risk exposures by IFRS 9 allocation and total provisions

2019					
AS AT 30 SEPTEMBER 2019	STAGE 1 £M	STAGE 2 £M	STAGE 3 £M	TOTAL £M	SPECIFIC IMPAIRMENT PROVISIONS
Retail mortgages	**33,666**	**1,876**	**136**	**35,678**	**15**
Credit cards	**3,409**	**432**	**45**	**3,886**	**140**
Total	**37,075**	**2,308**	**181**	**39,564**	**155**

2018					
AS AT 31 DECEMBER 2018	STAGE 1 £M	STAGE 2 £M	STAGE 3 £M	TOTAL £M	SPECIFIC IMPAIRMENT PROVISIONS
Retail mortgages	33,400	1,812	132	35,344	14
Credit cards	2,950	387	42	3,379	114
Total	36,350	2,199	174	38,723	128

Table 77: Analysis of movements in impairment provisions

2019			
	RETAIL MORTGAGES £M	CREDIT CARDS £M	TOTAL £M
Impairment provision movement			
At 1 January 2019	**14**	**115**	**129**
Increase in provision during year	**1**	**25**	**26**
Amounts written-off during year	**–**	**–**	**–**
At 30 September 2019	**15**	**140**	**155**

Table 78: EU CR3 – CRM techniques – overview

	2019				
	A	B	C	D	E
Exposure classes	EXPOSURES UNSECURED – CARRYING AMOUNT £M	EXPOSURES TO BE SECURED £M	EXPOSURES SECURED BY COLLATERAL £M	EXPOSURES SECURED BY FINANCIAL GUARANTEES £M	EXPOSURES SECURED BY CREDIT DERIVATIVES £M
Retail	**–**	**36,853**	**36,853**	**–**	**–**
Total IRB approach	**–**	**36,853**	**36,853**	**–**	**–**
Central governments or central banks	**4,134**	**–**	**–**	**–**	**–**
Public sector entities	**73**	**–**	**–**	**–**	**–**
Multilateral development banks	**823**	**–**	**–**	**–**	**–**
Institutions	**429**	**–**	**–**	**–**	**–**
Retail	**11,051**	**–**	**–**	**–**	**–**
Exposures in default	**31**	**–**	**–**	**–**	**–**
Covered bonds	**657**	**–**	**–**	**–**	**–**
Equity exposures	**2**	**–**	**–**	**–**	**–**
Other exposures	**170**	**–**	**–**	**–**	**–**
Total standardised approach	**17,370**	**–**	**–**	**–**	**–**
Total exposures	**17,370**	**36,853**	**36,853**	**–**	**–**
Of which: Loans	**16,821**	**36,853**	**36,853**	**–**	**–**
Of which: Debt securities	**376**	**–**	**–**	**–**	**–**
Of which: Defaulted	**31**	**55**	**55**	**–**	**–**

	2018				
	A	B	C	D	E
Exposure classes	EXPOSURES UNSECURED – CARRYING AMOUNT £M	EXPOSURES TO BE SECURED £M	EXPOSURES SECURED BY COLLATERAL £M	EXPOSURES SECURED BY FINANCIAL GUARANTEES £M	EXPOSURES SECURED BY CREDIT DERIVATIVES £M
Retail	–	36,905	36,905	–	–
Total IRB approach	–	36,905	36,905	–	–
Central governments or central banks	4,304	-	-	–	–
Public sector entities	15	–	–	–	–
Multilateral development banks	593	–	–	–	–
Institutions	546	–	–	–	–
Retail	9,188	-	-	–	–
Exposures in default	26	-	-	–	–
Covered bonds	617	–	–	–	–
Equity exposures	7	–	–	–	–
Other exposures	176	–	–	–	–
Total standardised approach	15,472	-	-	-	–
Total exposures	15,472	36,905	36,905	-	–
Of which: Loans	14,623	36,905	36,905	-	–
Of which: Debt securities	666	–	–	–	–
Of which: Defaulted	26	51	51	–	–

Table 79: EU CR4 – Standardised approach – credit risk exposure and CRM effects

		2019					
		A	B	C	D	E	F
		EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWAS AND RWA DENSITY	
	EXPOSURE CLASSES	ON-BALANCE SHEET AMOUNT £M	OFF-BALANCE SHEET AMOUNT £M	ON-BALANCE SHEET AMOUNT £M	OFF-BALANCE SHEET AMOUNT £M	RWAS £M	RWA DENSITY[22] %
1	Central governments or central banks	**4,047**	**87**	**4,047**	**87**	**9**	**0%**
3	Public sector entities	**73**	**–**	**73**	**–**	**–**	**0%**
4	Multilateral development banks	**823**	**–**	**823**	**–**	**–**	**0%**
6	Institutions	**429**	**–**	**429**	**–**	**86**	**20%**
8	Retail	**3,770**	**7,281**	**3,770**	**–**	**2,828**	**75%**
10	Exposures in default	**31**	**–**	**31**	**–**	**31**	**100%**
12	Covered bonds	**657**	**–**	**657**	**–**	**66**	**10%**
15	Equity exposures	**2**	**–**	**2**	**–**	**3**	**147%**
16	Other items	**170**	**–**	**170**	**–**	**189**	**111%**
17	**Total**	**10,002**	**7,368**	**10,002**	**87**	**3,212**	**32%**

		2018					
		A	B	C	D	E	F
		EXPOSURES BEFORE CCF AND CRM		EXPOSURES POST-CCF AND CRM		RWAS AND RWA DENSITY	
	EXPOSURE CLASSES	ON-BALANCE SHEET AMOUNT £M	OFF-BALANCE SHEET AMOUNT £M	ON-BALANCE SHEET AMOUNT £M	OFF-BALANCE SHEET AMOUNT £M	RWAS £M	RWA DENSITY[22] %
1	Central governments or central banks	4,214	90	4,214	90	–	0%
3	Public sector entities	15	–	15	–	–	0%
4	Multilateral development banks	593	–	593	–	–	0%
6	Institutions	546	–	546	–	111	20%
8	Retail	3,280	5,908	3,280	–	2,460	75%
10	Exposures in default	26	–	26	–	26	100%
12	Covered bonds	617	–	617	–	62	10%
15	Equity exposures	7	–	7	–	11	166%
16	Other items	176	–	176	–	204	116%
17	**Total**	9,474	5,998	9,474	90	2,874	30%

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

APPENDIX 3: REMUNERATION DISCLOSURES

Group remuneration disclosures

Approach to remuneration

The Group's approach to remuneration is designed to support the delivery of the long-term corporate strategy in a manner that is compliant with the PRA's Remuneration Code (the Code). The Group's remuneration philosophy is based on principles which are applicable to all employees within the Group; in particular that the remuneration framework should support the delivery of the Group's wider strategic goals by motivating colleagues to contribute towards 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 2019 totalled 190.

The following groups of individuals have been identified as meeting the criteria for Material Risk Takers:

- Senior Management, Executive Directors, members of the Executive Leadership Team Committee;
- Non-Executive Directors; and
- other colleagues whose activities could have an impact on the Group's risk profile, including those that are highly remunerated.

The remuneration for these colleagues is governed under the Remuneration Policy for all colleagues and overseen by the Group Remuneration Committee.

The Remuneration Committee

The Group has a clear governance structure with the Group Remuneration Committee (the Committee) responsible for:

- determining and recommending to the Board a Group Remuneration Policy that is aligned to the Group's strategy risk appetite, culture, values and long-term interests and that provides a structured and balanced remuneration package for all colleagues, including all Executive Directors; and
- implementing the remuneration arrangements for Material Risk Takers (whilst having oversight of remuneration issues, and regard for remuneration scales and structure, across the Group).

The Committee undertakes periodic reviews of the Remuneration Policy (at least annually) to ensure continued compliance and alignment with the Remuneration Code.

The Committee Chair and Committee members are appointed by the Board on the recommendation of the Board Governance and Nomination Committee. The Committee comprises of at least three members all of whom are to be independent Non-Executive Directors of the Company. Committee members shall collectively have appropriate remuneration, regulatory and industry knowledge, expertise and professional experience, to ensure that the remuneration structure is aligned with the risk and capital profile of the Group.

The Committee members during the year were:

- Adrian Grace (Chair);
- David Bennett;
- Fiona Macleod (appointed 5 November 2018); and
- Jim Pettigrew.

The Committee meets at least four times a year and at such other times as the Committee Chair or any member of the Committee may request. During the financial year the Committee held five scheduled meetings and five additional meetings.

The Committee's Charter, updated in May 2019, can be found on the Group's website.

During 2019, the Remuneration Committee took external advice from PwC, the Committee's independent remuneration consultants. PwC 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.

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 market information.

Group remuneration disclosures continued

Fixed Allowance

A fixed allowance, normally delivered in cash or shares on a monthly basis, is paid to a limited number of 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 Awards

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 performance within the year. A personal performance element is also incorporated for senior colleagues including Executive Directors and the Leadership Team. The determination of measures and their weighting is 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 may be deferred (as per the 'deferral and vesting' section below). The mechanisms for making the bonus deferral are the Deferred Equity Plan (DEP) and the Deferred Bonus Share Plan (DBSP). Deferral levels are set at the time of award and in line with regulatory requirements (see below) taking account of total variable remuneration awarded for the financial year.

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 2019, 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 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.

Malus may be applied where:

— there is evidence of colleague misbehaviour, misconduct or material error;

— a colleague participated in conduct which resulted in losses for the Group or they failed to meet appropriate standards;

— any material failure of risk management at a Group, business area, division or business unit level;

— the financial results at a Group, division or business unit level are restated;

— the financial results for a given year do not support the level of variable remuneration awarded; and/or

— there are any other circumstances where the Committee consider adjustments should be made. The Committee is supported in this by the Board Risk Committees and the Group Risk function.

Clawback may be applicable where there is reasonable evidence of colleague misbehaviour or material error, or there is material failure of risk management at a Group, business area, division or business unit level.

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

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 high-calibre colleagues.

Variable pay is based on the principle that when the Group performs well all colleagues will share in this success. This team-based approach to variable pay ensures that everyone is rewarded for the contribution they make to the business. Colleagues are motivated to work together to deliver on the Group's strategic goals in a way that is underpinned by the Group's Purpose, values and behaviours.

The following 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, including net promoter scores for customers and engagement scores for colleagues;

— 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 HR 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.

In addition to the committee's review of ex-ante and ex-post risks that impact on the level of the bonus pool and the application of malus and clawback as outlined above, individual bonus awards are also subject to meeting all compliance requirements and awards can be reduced to nil where these are not met, or where colleagues are subject to disciplinary action.

The following table displays the 2019 fixed and variable remuneration for the Group's Material Risk Taker population. This is broken down between Senior Management and Other Material Risk Takers.

Table 80 – Aggregate remuneration by business area

Aggregate remuneration by business area	BANKING	INDEPENDENT CONTROL FUNCTIONS	CORPORATE FUNCTIONS	TOTAL
Number of MRTs	51	93	46	190
Total fixed remuneration (£m)	7.3	16.9	8.1	32.3
Total remuneration (£m)	10.2	32	12.3	54.5

Table 81 – Fixed and variable remuneration of Material Risk Takers

	VIRGIN MONEY UK PLC			CB CONSOL			VMH		
	SENIOR MANAGEMENT	MATERIAL RISK TAKERS	TOTAL[25]	SENIOR MANAGEMENT	MATERIAL RISK TAKERS	TOTAL	SENIOR MANAGEMENT	MATERIAL RISK TAKERS	TOTAL
NUMBER OF MATERIAL RISK TAKERS	26	164	190	19	125	144	22	53	75
Remuneration of Material Risk Takers[23]	£M	£M	£M	£M	£M	£M	£M	£M	£M
Total fixed	8.9	23.4	32.3	7.7	17.0	24.7	1.2	6.4	7.6
Total variable[24]	10.6	11.6	22.2	10.0	8.7	18.7	0.6	2.9	3.5
Total remuneration	19.5	35.0	54.5	17.7	25.7	43.4	1.8	9.3	11.1

(23) Numbers within this table have been rounded to the nearest £0.1m.
(24) Values for 2019 LTIP awards are based on the face value of awards.
(25) A number of individuals have been identified as MRTs for both CB Consol and VMH during the period. Therefore, the sum of CB Consol and VMH does not equal the total number for Virgin Money UK PLC.

APPENDIX 4: MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Main features of regulatory capital instruments for Virgin Money UK PLC.

1	Issuer	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC
2	ISIN	GB00BD6GN030	XS1346644799	XS1959441640	XS1516312409	XS1346646901	XS1921970668
3	Governing law	English	English	English	English	English	English
REGULATORY TREATMENT							
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2
6	Eligible at Group or Bank	Virgin Money UK PLC Group	Virgin Money UK PLC Group	Virgin Money UK PLC Group	Virgin Money UK PLC Group	Virgin Money UK PLC Group	Virgin Money UK PLC Group
7	Instrument type (type to be specified by each jurisdiction)	Ordinary Shares	Additional Tier 1 – Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes	Additional Tier 1 – Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes	Additional Tier 1 – Fixed Rate Reset Perpetual Subordinated Contingent Convertible Notes	Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026	Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2028
8	Regulatory capital value	143,448,571	449,658,000	247,333,489	217,802,403	474,551,600	246,383,559
9	Nominal value (£)	143,448,571	450,000,000	250,000,000	230,000,000	475,000,000	250,000,000
9a	Issue price (£)	143,448,571	449,658,000	248,125,000	230,000,000	473,318,500	248,732,500
9b	Redemption price (£)	143,448,571	450.000.000	250,000,000	230,000,000	475,000,000	250,000,000
10	Accounting classification	Equity	Equity	Equity	Equity	Liability – amortised cost	Liability – amortised cost
11	Original date of issue	Various	8 February 2016	13 March 2019	10 November 2016	8 February 2016	14 December 2018
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	10-year non-call 5-years	10-year non-call 5-years
13	Original maturity date	n/a	n/a	n/a	n/a	9th February 2026	9th February 2026
14	Issuer call subject to prior supervisory approval	n/a	Yes	Yes	Yes	Yes	Yes
15	First call date	n/a	8th December 2022	8th June 2024	10th November 2021	8th February 2021	14th December 2023
16	Subsequent call dates	n/a	Any distribution payment date thereafter	Each fifth anniversary date thereafter	Each interest payment date thereafter	Each interest payment date thereafter	n/a

	COUPONS/DIVIDENDS						
17	Fixed or floating dividend/coupon	n/a	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	n/a	8%	9.25%	8.75%	5%	7.88%
19	Existence of a dividend stopper	n/a	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
21	Existence of step-up or other incentive to redeem	n/a	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	n/a	n/a
23	Convertible or non-convertible	n/a	Equity Conversion	Equity Conversion	Equity Conversion	Non-convertible	Non-convertible
24	If convertible, conversion triggers	n/a	Virgin Money UK PLC CET1 ratio falls below 7%	Virgin Money UK PLC CET1 ratio falls below 7%	Virgin Money UK PLC CET1 ratio falls below 7%	n/a	n/a
25	If convertible, fully or partially	n/a	Fully	Fully	Fully	n/a	n/a
26	If convertible, conversion rate	n/a	119p	119p	246p	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	Mandatory	Mandatory	Mandatory	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	Ordinary Shares	Ordinary Shares	Ordinary Shares	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	Virgin Money UK PLC	Virgin Money UK PLC	Virgin Money UK PLC	n/a	n/a
30	Write-down feature	n/a	No	No	No	Statutory bail-in by UK resolution authority at point of non-viability	Statutory bail-in by UK resolution authority at point of non-viability
31	If write-down, trigger(s)	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a
35	Instrument type immediately senior	n/a	Tier 2	Tier 2	Tier 2	Senior Unsecured	Senior Unsecured
36	Non-compliant transitioned features	n/a	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a

APPENDIX 4: MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Main features of regulatory capital instruments for Clydesdale Bank PLC

1	Issuer	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC	Clydesdale Bank PLC
2	ISIN	n/a	n/a	n/a	n/a	n/a
3	Governing law	English	English	English	English	English
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2
6	Eligible at Group or Bank	Clydesdale Bank PLC Solo and CB Group Consolidated	Clydesdale Bank PLC Solo and CB Group Consolidated	Clydesdale Bank PLC Solo and CB Group Consolidated	Clydesdale Bank PLC Solo and CB Group Consolidated	Clydesdale Bank PLC Solo and CB Group Consolidated
7	Instrument type (type to be specified by each jurisdiction)	Ordinary Shares	Additional Tier 1 – Fixed Rate Reset Perpetual Subordinated Permanent Write-Down Notes	Additional Tier 1 – Fixed Rate Reset Perpetual Subordinated Permanent Write-Down Notes	Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2026	Fixed Rate Reset Callable Subordinated Tier 2 Notes due 2028
8	Regulatory capital value	1,029,396,761	425,431,130	247,333,489	476,332,533	246,383,999
9	Nominal value (£)	1,029,396,761	450,000,000	250,000,000	475,000,000	250,000,000
9a	Issue price (£)	1,029,396,761	425,431,130	248,125,000	479,998,226	248,732,500
9b	Redemption price (£)	1,029,396,761	450,000,000	250,000,000	475,000,000	250,000,000
10	Accounting classification	Equity	Equity	Equity	Liability – amortised cost	Liability – amortised cost
11	Original date of issue	Various	8 February 2016	13 March 2019	8 February 2016	14 December 2018
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	10-year non call 5-years	10-year non call 5-years
13	Original maturity date	n/a	n/a	n/a	9th February 2026	14th December 2028
14	Issuer call subject to prior supervisory approval	n/a	Yes	Yes	Yes	Yes
15	First call date	n/a	8 December 2022	8 June 2024	8 February 2021	14 December 2023
16	Subsequent call dates	n/a	Any distribution payment date thereafter	Each fifth anniversary thereafter	Any interest payment date thereafter	n/a
17	Fixed or floating dividend/coupon	n/a	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	n/a	8%	9.25%	5%	7.88%
19	Existence of a dividend stopper	n/a	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory

21	Existence of step up or other incentive to redeem	n/a	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	n/a	n/a
23	Convertible or non-convertible	n/a	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a
30	Write-down feature	n/a	Yes	Yes	Statutory bail-in by UK resolution authority at point of non-viability	Statutory bail-in by UK resolution authority at point of non-viability
31	If write-down, trigger(s)	n/a	Virgin Money UK PLC CET1 ratio or CB Group CET1 ratio falls below 7%	Virgin Money UK PLC CET1 ratio or CB Group CET1 ratio falls below 7%	n/a	n/a
32	If write-down, full or partial	n/a	Full	Full	n/a	n/a
33	If write-down, permanent or temporary	n/a	Permanent	Permanent	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a
35	Instrument type immediately senior	n/a	Tier 2	Tier 2	Senior Unsecured	Senior Unsecured
36	Non-compliant transitioned features	n/a	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a

APPENDIX 4: MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

Main features of Regulatory Capital Instruments: Virgin Money Holdings (UK) plc

1	Issuer	Virgin Money Holdings (UK) plc	Virgin Money Holdings (UK) plc
2	ISIN	n/a	n/a
3	Governing law	English	English
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1
6	Eligible at Group or Bank	Virgin Money Holdings (UK) plc	Virgin Money Holdings (UK) plc
7	Instrument type (type to be specified by each jurisdiction)	Ordinary Shares	Additional Tier 1 – Fixed Rate Reset Perpetual Subordinated Permanent Write Down Notes
8	Regulatory capital value	230,044,726	247,333,489
9	Nominal value (£)	230,044,726	250,000,000
9a	Issue price (£)		248,125,000
9b	Redemption price (£)		250,000,000
10	Accounting classification	Equity	Equity
11	Original date of issue	Various	13th March 2019
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	n/a	n/a
14	Issuer call subject to prior supervisory approval	n/a	Yes
15	First call date	n/a	8th June 2024
16	Subsequent call dates	n/a	Each fifth anniversary thereafter
	Coupons / dividends		
17	Fixed or floating dividend/coupon	n/a	Fixed
18	Coupon rate and any related index	n/a	9.25%
19	Existence of a dividend stopper	n/a	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	n/a	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	n/a	Non-convertible
24	If convertible, conversion triggers	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 feature	n/a	Yes
31	If write-down, trigger(s)	n/a	Virgin Money UK PLC Group CET1 ratio or Virgin Money Holdings (UK) plc Group 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	Instrument type immediately senior	n/a	Tier 2
36	Non-compliant transitioned features	n/a	No
37	If yes, specify non-compliant features	n/a	n/a

APPENDIX 5: CRR MAPPING TO REPORTS

The following tables display the compliance by Virgin Money UK PLC to the disclosure requirements of Part Eight of the CRR for FY 2019 reporting.

CRR	DESCRIPTION	COMPLIANCE
SCOPE OF DISCLOSURE REQUIREMENTS		
431(1)	Requirement to publish Pillar 3 disclosures	Virgin Money UK PLC publishes Pillar 3 disclosures
431(2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information	Pillar 3 – 7.0 Operational Risk
431(3)	Institution must have a policy covering frequency of disclosures, their verification, comprehensiveness and appropriateness	The Virgin Money UK PLC Pillar 3 disclosure policy is included in the External Reporting Policy Standard.
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 – 2.1 Basis of preparation and frequency of disclosures
432(2)	Institutions may omit information that is proprietary or confidential if certain conditions are met	Virgin Money UK PLC does not omit any information on the grounds that it may be proprietary or confidential
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 Section 2.1 Basis of preparation and frequency of disclosures
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 Virgin Money UK PLC 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 – 1.3 Summary of risk profile; Risk management, 3.1 Risk culture, 3.6 Principal risks
435(1)(b)	Structure and organisation of the risk management function	Pillar 3 – 3.1 Risk culture, 3.2 Risk governance and oversight, 3.4 Three Lines of Defence
435(1)(c)	Risk reporting and measurement systems	Pillar 3 – 3.2 Risk governance and oversight
435(1)(d)	Hedging and mitigating risk – policies and processes	Pillar 3 – 3.6 Principal risks
435(1)(e)	A declaration of adequacy of risk management arrangements approved by the Board	Pillar 3 – 2.4 Review and challenge
435(1)(f)	Concise risk statement approved by the Board	Pillar 3 – 1.3 Summary of risk profile
435(2)	Disclose information on:	
435(2)(a)	Number of directorships held by Board members	Pillar 3 – 3.3 The Board and governance
435(2)(b)	Recruitment policy for selection of Board members, their actual knowledge, skills and expertise	Pillar 3 – 3.3 The Board and governance
435(2)(c)	Policy on diversity of Board membership and results against targets	Pillar 3 – 3.3 The Board and governance
435(2)(d)	Disclosure of whether a dedicated risk committee is in place and number of meetings in the year	Pillar 3 – 3.2 Risk governance and oversight, table 2 Governance Committees
435(2)(e)	Description of information flow on risk to Board	Pillar 3 – 3.2 Risk governance and oversight

APPENDIX 5: CRR MAPPING TO REPORTS

CRR	DESCRIPTION	COMPLIANCE
SCOPE OF APPLICATION		
436(a)	Name of institution	Pillar 3 – 1.1 Introduction, 2.1 Basis of preparation and frequency of disclosures
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 – 2.2 Scope of disclosures
436(c)	Impediments to transfer of own funds between parent and subsidiaries	Pillar 3 – 2.2 Scope of disclosures
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	Pillar 3 – 2.2 Scope of disclosure. Clydesdale Bank PLC holds permission to use the individual consolidation method from the PRA under CRR Article 9.
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	Virgin Money UK PLC – Pillar 3 – 4.1 Own funds, table 4 Capital composition, table 7 Reconciliation of statutory equity to regulatory capital; CB Consol – Pillar 3 – Appendix 1, table 53 Capital composition, table 56 Reconciliation of statutory equity to regulatory capital; VMH – Pillar 3 – Appendix 2, table 61 Capital composition, table 64 Reconciliation of statutory equity to regulatory capital;
437(1)(b)	A description of the main features of the CET1, AT1 and Tier 2 instruments issued by the institution	Group, CB Consol, VMH – Pillar 3 – Appendix 4 Main Features of Regulatory Capital Instruments
437(1)(c)	The full terms and conditions of all CET1, AT1 and Tier 2 instruments	Virgin Money UK PLC – Pillar 3 – 4.1 Own funds; Virgin Money UK PLC, CB Consol, VMH – separately disclosed on Group website: www.virginmoney.com
437(1)(d)	Disclosure of the nature and amounts of the prudential filters and deductions made against own funds and items not deducted	Virgin Money UK PLC – Pillar 3 – 4.1 Own funds, table 4 Capital composition; Virgin Money UK PLC – Pillar 3 – 4.2 Movements in capital, table 5 Capital flow statement; CB Consol – Pillar 3 – Appendix 1, table 53 capital composition, table 54 Capital flow statement; VMH – Pillar 3 – Appendix 2, table 61 capital composition, table 62 Capital flow statement
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	Pillar 3 – 4.1 Own funds, table 4 Capital composition; CB Consol – Pillar 3 – Appendix 1, table 53 Capital composition; VMH – Pillar 3 – Appendix 2, table 61 Capital composition;
437(1)(f)	An explanation where institutions disclose capital ratios calculated using elements of own funds determined on a different basis	Not applicable

CRR	DESCRIPTION	COMPLIANCE
CAPITAL REQUIREMENTS		
438(a)	Summary of institution's approach to assessing adequacy of capital levels	Pillar 3 – 5.1 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 – Table 11 EU OV1 – Overview of risk-weighted assets, table 16 EU CRB-B – Total and average net amount of exposures; CB Consol – table 60 Pillar 1 capital requirements; VMH – table 68 EU OV1 Overview of risk-weighted assets.
438(d)	Capital requirements for each IRB approach credit risk exposure class	Pillar 3 – table 11 EU OV1 – Overview of risk-weighted assets, table 16 EU CRB – B – Total and average net amount of exposures, table 15 EU CR8 – RWA flow statements of credit risk exposures; CB Consol table 60 Pillar 1 capital requirements; VMH – table 68 EU OV1 Overview of risk-weighted assets.
438(e)	Capital requirements for market risk or settlement risk	Not applicable
438(f)	Capital requirements for operational risk	Pillar 3 – table 11 EU OV1 – Overview of risk-weighted assets; CB Consol – table 60 Pillar 1 capital requirements; VMH – table 68 EU OV1 Overview of risk-weighted assets.
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 – 8.2 Internal capital and credit limits
439(b)	Discussion of policies for securing collateral and establishing credit reserves	Pillar 3 – 8.3 Securing collateral and reserves
439(c)	Discussion of management or wrong-way risk exposures	Pillar 3 – 8.4 Wrong-way risk
439(d)	Discussion of collateral to be provided (outflows) in the event of a ratings downgrade	Pillar 3 – 8.5 Downgrade impact
439(e)	Derivation of net derivative credit exposure	Pillar 3 – table 41 EU CCR1 – Analysis of CCR exposure by approach, table 42 EU CCR2 – CVA capital charge, table 43 EU CCR8 – Exposures to central counterparties (CCPs), table 45 EU CCR5-A – Impact of netting and collateral held on exposure values
439(f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods	Pillar 3 – table 41 EU CCR1 – Analysis of CCR exposure by approach, table 42 EU CCR2 – CVA capital charge
439(g)	Notional value of credit derivative hedges and current credit exposure by type of exposure	Pillar 3 – 8.6 Exposures
439(h)	Notional value of credit derivative transactions	Pillar 3 – 8.6 Exposures
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 – 5.2 Minimum capital requirement, table 13 Geographical distribution of credit exposures; VMH – table 69 – Geographical distribution of credit exposures.
440(1)(b)	Amount of the institution-specific countercyclical capital buffer	Pillar 3 – 5.2 Minimum capital requirement, table 14 Amount of institution-specific countercyclical capital buffer; VMH – table 70 – Amount of institution-specific countercyclical capital buffer.
INDICATORS OF GLOBAL SYSTEMIC IMPORTANCE		
441(1)	Disclosures of the indicators of global systemic importance	Not applicable

APPENDIX 5: CRR MAPPING TO REPORTS

CRR	DESCRIPTION	COMPLIANCE
CREDIT RISK ADJUSTMENTS		
442(a)	Disclosure of institution's definitions of past due and impaired	Pillar 3 – 6.5.1 Definition
442(b)	Approaches for calculating specific and general credit risk adjustments	Pillar 3 – 6.5.1 Definition, 6.5.2 Managing impaired exposures and impairment provisions
442(c)	Disclosure of pre-CRM EAD by exposure class	Pillar 3 – Table 16 EU CRB-B – Total and average net amount of exposures; VMH – Table 72 EU CRB-B – Total and average net amount of exposures.
442(d)	Disclosure of pre-CRM EAD by geography and exposure class	Pillar 3 – Table 19 EU CRB-C – Geographical breakdown of exposures; VMH – Table 75 EU CRB-C – Geographical breakdown of exposures.
442(e)	Disclosure of pre-CRM EAD by industry and exposure class	Pillar 3 – Table 17 EU CRB-D – Concentration of exposures by industry; VMH – Table 73 EU CRB-D – Concentration of exposures by industry.
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class	Pillar 3 – Table 18 EU CRB-E – Maturity of exposures; VMH – Table 74 EU CRB-E – Maturity of exposures;
442(g)	Breakdown of impaired, past due, specific and general credit risk adjustments and impairment charges for the period	Pillar 3 – Table 20 EU CR1-B – Credit quality of exposures by industry or counterparty types and table 22 EU CR1-E – Non-performing and forborne exposures. VMH –
442(h)	Impaired, past due exposures, by geographical area and amounts of specific and general impairment for each geographical area	Pillar 3 – 6.8 Analysis by geography.
442(i)	Reconciliation of changes in specific and general credit risk adjustments for impaired exposures	Pillar 3 – 6.5.1 Definition, table 22 EU CR1-E – Non-performing and forborne exposures and table 23 EU CR2-A – Changes in the stock of general and specific credit risk adjustments;
442 (end note)	Specific credit risk adjustments recorded to income statement are disclosed separately	Pillar 3 – Table 23 EU CR2-A – Changes in the stock of general and specific credit risk adjustments
UNENCUMBERED ASSETS		
443	Disclosures on unencumbered assets	Pillar 3 – Section 12.0 Asset Encumbrance
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 – 6.9 Use of External Credit Assessment Institutions (ECAIs)
444(b)	Exposure classes associated with each ECAI	Pillar 3 – 6.9 Use of External Credit Assessment Institutions (ECAIs)
444(c)	Description of the process used to transfer credit assessments to non-trading book items	Not applicable
444(d)	Mapping of external rating to Credit Quality Steps (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 – Table 27 EU CR4 – Standardised approach – credit risk exposure and CRM effects, table 28 EU CR5 – Standardised approach, table 44 EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk
EXPOSURE TO MARKET RISK		
445	Disclosure of position risk, large exposures exceeding limits, FX settlement and commodities risk	Not applicable

CRR	DESCRIPTION	COMPLIANCE
OPERATIONAL RISK		
446	Scope of approaches used to calculate operational risk.	Pillar 3 – Table 11 EU OV1 – Overview of risk weighted assets and Section 7.0 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 – 2.1 Basis of preparation and frequency of disclosures Omitted on grounds of materiality
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 – 2.1 Basis of preparation and frequency of disclosures Omitted on grounds of materiality
447(c)	The types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios and other exposures	Pillar 3 – 2.1 Basis of preparation and frequency of disclosures Omitted on grounds of materiality
447(d)	Realised gains or losses arising from sales and liquidations in the period	Pillar 3 – 2.1 Basis of preparation and frequency of disclosures Omitted on grounds of materiality
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 – 2.1 Basis of preparation and frequency of disclosures Omitted on grounds of materiality
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	Pillar 3 – Section 9.0 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	Pillar 3 – 9.4 Monitoring, table 46 Interest rate risk
EXPOSURE TO SECURITISATION POSITIONS		
449(a)	Objectives in relation to securitisation activity	Pillar 3 – 11.1 Objectives and roles in relation to securitisation activity
449(b)	Nature of other risks in securitised assets, including liquidity	Pillar 3 – 11.3 Associated risks
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 – 11.2 Roles
449(e)	Indication of the extent of involvement in roles	Pillar 3 – 11.2 Roles
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 – 11.3 Associated risks and 11.4 Issuer and retained positions.
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 – 11.3 Associated risks
449(i)	Types of securitisation special purchase entities used to securitise third-party exposures as a sponsor	Pillar 3 – 11.1 Objectives and roles in relation to securitisation activity
449(j)	Summary of accounting policies for securitisations, including:	
449(j)(i)	Whether the transactions are treated as sales or financings	Pillar 3 – 11.1 Objectives and roles in relation to securitisation activity
449(j)(ii)	The recognition of gains on sales	Not applicable
449(j)(iii)	Methods, key assumptions, inputs and changes from the previous period in valuing securitisation positions	Pillar 3 – 11.5 Securitisation accounting policies
449(j)(iv)	The treatment of synthetic securitisations	Pillar 3 – 11.4 Issuer and retained positions
449(j)(v)	How assets awaiting securitisation are valued, and whether they are recorded as trading or non-trading	Not applicable
449(j)(vi)	Policies for recognising liabilities on the balance sheet for arrangements that could require the institution to provide financial support	Pillar 3 – 11.2 Roles

APPENDIX 5: CRR MAPPING TO REPORTS

CRR	DESCRIPTION	COMPLIANCE
449(k)	Names of ECAIs used for securitisation and type	Pillar 3 – 11.3 Associated risks and 11.4 Issuer and retained positions
449(l)	Full description of Internal Assessment Approach	Not applicable
449(m)	Explanation of significant changes in quantitative disclosure	Pillar 3 – 11.4 Issuer and retained positions
449(n)	As appropriate, separately for the banking and trading book securitisation exposures:	
449(n)(i)	Amount of outstanding exposures securitised	Pillar 3 – Table 48 Outstanding notes
449(n)(ii)	On-balance sheet securitisation retained or purchased, and off-balance sheet exposures	Pillar 3 – Table 49 On-balance sheet exposures
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 including the amount of exposures securitised and recognised gains or losses on sales	Pillar 3 – 11.4 Issuer and retained positions, table 48 Outstanding notes
449(o)	Banking and trading book securitisations	
449(o)(i)	Retained and purchased positions and associated capital requirements, broken down by risk-weight bands	Not applicable
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 – 11.4 Issuer and retained positions, table 49 On-balance sheet exposures
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	Appendix 3
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 – Virgin Money UK PLC – Table 8 LRSum: Summary reconciliation of accounting assets and leverage ratio exposures, table 9 LRCom: Leverage ratio common disclosure, table 10 LRSpl: Split-up of on-balance sheet exposures; CB Consol – Table 57 LRSum: Summary reconciliation of accounting assets and leverage ratio exposures, table 58 LRCom: Leverage ratio common disclosure, table 59 LRSpl: Split-up of on-balance sheet exposures; VMH – Table 65 LRSum: Summary reconciliation of accounting assets and leverage ratio exposures, table 66 LRCom: Leverage ratio common disclosure, table 67 LRSpl: Split-up of on-balance sheet exposures;
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 – 4.4 Leverage ratio

CRR	DESCRIPTION	COMPLIANCE
USE OF THE IRB APPROACH TO CREDIT RISK		
452(a)	Permission for use of the IRB approach from the competent authority	Pillar 3 – 6.11 Internal Ratings Based (IRB) approach
452(b)	Explanation of:	
452(b)(i)	The structure of internal ratings scales	Pillar 3 – 6.11 Internal Ratings Based (IRB) approach
452(b)(ii)	Use of internal ratings for purposes other than capital requirement calculations	Pillar 3 – 6.11 Internal Ratings Based (IRB) approach
452(b)(iii)	Management and recognition of credit risk mitigation	Pillar 3 – 6.11 Internal Ratings Based (IRB) approach
452(b)(iv)	Controls around rating systems	Pillar 3 – 6.11 Internal Ratings Based (IRB) approach
452(c)	Description of ratings processes for each IRB asset class provided separately	Pillar 3 – 6.11 Internal Ratings Based (IRB) approach
452(d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB	Pillar 3 – Table 16 EU CRB-B – Total and average net amount of exposures
452(e-f)	Total exposure, separating loans and undrawn exposures where applicable and exposure-weighted average risk weight	Pillar 3 – Table 32 EU CR6 – IRB approach – Credit risk exposures by class and PD range (CB mortgages), table 33 EU CR6 – IRB approach – Credit risk exposures by class and PD range (VM mortgages), table 34 EU CR6 – IRB approach – Credit risk exposures by class and PD range (Corporate) and table 35 EU CR6 – IRB approach – Credit risk exposures by class and PD range (Corporate other).
452(g)	Actual specific risk adjustments for the period and explanation of changes	Pillar 3 – Table 32 EU CR6 – IRB approach – Credit risk exposures by class and PD range (CB mortgages), table 33 EU CR6 – IRB approach – Credit risk exposures by class and PD range (VM mortgages), table 34 EU CR6 – IRB approach – Credit risk exposures by class and PD range (Corporate)and table 35 EU CR6 – IRB approach – Credit risk exposures by class and PD range (Corporate other).
452(h)	Commentary of drivers of losses in preceding period	Pillar 3 – 6.11 Internal Ratings Based (IRB) approach
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 –Table 36 EU CR9 – Backtesting of PD per exposure class (CB Mortgages), Table 37 EU CR9 – Backtesting of PD per exposure class (VM Mortgages), table 38 EU CR9 – Backtesting of PD per exposure class – (FIRB) Corporate Other and table 39 EU CR9 – Backtesting of PD per exposure class – (FIRB) Corporate SME.
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 – 6.10 Credit risk mitigation
453(b)	How collateral valuation is managed	Pillar 3 – 6.10.1 Collateral held as security and other credit enhancements
453(c)	Description of types of collateral used	Pillar 3 – 6.10.1 Collateral held as security and other credit enhancements
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	Pillar 3 – 6.10.1 Collateral held as security and other credit enhancements
453(f)	For exposures under either the standardised or IRB approach, disclose the exposure value covered by eligible collateral	Pillar 3 – Table 26 EU CR3 – CRM techniques – overview and table 27 EU CR4 – Standardised approach – credit risk exposure and CRM effects; VMH – Table 78 EU CR3 – CRM techniques – overview and table 79 EU CR4 – Standardised approach – credit risk exposure and CRM effects.
453(g)	Exposures covered by guarantees or credit derivatives	Pillar 3 – Table 26 EU CR3 – CRM techniques – overview and table 27 EU CR4 – Standardised approach – credit risk exposure and CRM effects; VMH – Table 78 EU CR3 – CRM techniques – overview and table 79 EU CR4 – Standardised approach – credit risk exposure and CRM effects.
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
USE OF INTERNAL MARKET RISK MODELS		
455	Disclosures relating to the use of Internal Market Risk Models	Not applicable

APPENDIX 6: TABLES

APPENDIX 7: GLOSSARY

Advanced Internal Ratings Based **(AIRB)** approach	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.
arrears	A customer is in arrears when they fail to adhere to their contractual payment obligations resulting in an outstanding loan that is unpaid or overdue.
Backing assets	Backing assets relate to obligations to place collateral with the BoE as part of the regulations that allow certain firms, including Clydesdale Bank PLC, to issue Scottish bank notes.
B	The Group's digital application suite, offering Retail customers money management.
Basel II	The capital adequacy framework issued by the BCBS in June 2004.
Basel III	Reforms issued by the BCBS in December 2017 with subsequent revisions.
Basis points **(bps)**	One-hundredth of a percent (0.01%); meaning that 100 basis points are equal to 1%. This term is commonly used in describing interest rate movements.
Capital buffers	Capital conservation buffer – A buffer set for all banks that can be used to absorb losses while avoiding breaching minimum requirements. It is designed to ensure that banks build up capital outside periods of stress which can be drawn down as losses are incurred. Systemic risk buffer – A buffer set for ring-fenced banks and large building societies to reduce their probability of failure or distress. It is commensurate with the greater cost that their failure or distress would have for the UK economy. Firms with total assets less than £175 billion are subject to a 0% SRB. Countercyclical capital buffer – A capital buffer to ensure eligible firms have a sufficient capital base to absorb losses in stressed periods. The CCyB aims to ensure that banking sector capital requirements take account of the macroeconomic financial environment in which banks operate. It enables the Bank of England's Financial Policy Committee to adjust the resilience of the banking system to the changing scale of risk the system faces over time. PRA buffer – A buffer set using supervisory judgement informed by the impact of stress scenarios on a firm's capital requirements and resources, and taking account where appropriate of other factors including leverage, systemic importance and weaknesses in firms' risk management and governance. This is set on a firm-specific basis. Firms are not permitted to disclose if a PRA buffer has been applied.
Capital conservation buffer **(CCB)**	Refer to 'Capital buffers'.
Capital Requirements Directive IV **(CRD IV)**	European legislation to implement Basel III. It replaces earlier European capital requirements directives with a revised package consisting of a new Capital Requirements Directive and a new Capital Requirements Regulation. CRD IV sets out capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also 'Basel III'.
Carrying value/carrying amount	The value of an asset or a liability in the balance sheet based on either amortised cost or fair value principals.
Cash ratio deposit	Non-interest bearing deposits lodged with the Bank of England (BoE) by eligible institutions.
CB Group Consolidated **(CB Consol)**	Prudential sub-consolidation group of Clydesdale Bank PLC.
Collective impairment provision	Impairment assessment on a collective basis for homogeneous groups of loans that are not considered individually significant and to cover losses which have been incurred but have not yet been identified on loans subject to individual investment.
Collective investment undertakings **(CIU)**	Collective investment scheme allowed to operate freely throughout the EU on the basis of a single authorisation from one member state.

Collateral	The assets of a borrower that are used as security against a loan facility.
Combined group	CYBG, now Virgin Money UK PLC, and its controlled entities following the acquisition of Virgin Money Holdings (UK) plc.
Common Equity Tier 1 **(CET1)** capital	The highest quality form of regulatory capital that comprises total shareholders' equity and related non-controlling interests, less goodwill and intangible assets and certain other regulatory adjustments.
Common Equity Tier 1 **(CET1)** ratio	CET1 capital divided by RWAs at a given date.
Company/CYBG	CYBG PLC up until 31 October 2019 and thereafter Virgin Money UK PLC.
Countercyclical capital buffer **(CCyB)**	Refer to 'Capital buffers'.
Counterparty	The other party that participates in a financial transaction, with every transaction requiring a counterparty in order for the transaction to complete.
Counterparty credit risk **(CCR)**	Counterparty credit risk is the risk that a counterparty to a transaction may default before the final settlement of the transaction's cash flows. This risk concerns financial instruments, including derivatives and repurchase agreements.
coverage ratio	Impairment allowance as at the period end shown as a percentage of gross loans and advances as at the period end.
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.
CRD IV	European legislation to implement Basel III. It replaces earlier European capital requirements directives with a revised package consisting of a new Capital Requirements Directive and a new Capital Requirements Regulation. CRD IV sets out capital and liquidity requirements for European banks and harmonises the European framework for bank supervision. See also Basel III.
Credit conversion factor **(CCF)**	Credit conversion factors are used in determining the exposure at default in relation to a credit risk exposure. The CCF is an estimate of the proportion of undrawn and off-balance sheet commitments expected to be drawn down at the point of default.
Credit quality steps	A credit quality assessment scale as set out in CRD IV.
Credit risk mitigation **(CRM)**	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set-off or netting.
Credit Valuation Adjustment **(CVA)**	These are adjustments to the valuation of financial instruments held at fair value to reflect the credit worthiness of the counterparty.
Default	A customer is in default when either they are more than 90 DPD on a credit obligation to the Group, or are considered unlikely to pay their credit obligations in full without recourse to actions such as realisation of security (if held).
Delinquency	See arrears.
derivative	A financial instrument that is a contract or agreement whose value is related to the value of an underlying instrument, reference rate or index.
Earnings at risk **(EaR)**	A measure of the quantity by which net interest income might change in the event of an adverse change in interest rates.
EBA Implementing Technical Standard on Disclosure for Own Funds	Commission Implementing Regulation (EU) No 1423/2013 of 20 December 2013 laying down implementing technical standards with regard to disclosure of own funds requirements for institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

APPENDIX 7: GLOSSARY

EBA/RTS/2014/17	EBA Final draft Regulatory Technical Standards on disclosure of information in relation to the compliance of institutions with the requirement for a countercyclical capital buffer under Article 440 of Regulation (EU) No 575/2013.
Encumbered assets	Assets that have been pledged as security, collateral or legally 'ring-fenced' in some other way which prevents those assets being transferred, pledged, sold or otherwise disposed.
Expected Loss (EL)	Regulatory expected loss represents the anticipated loss, in the event of default, on a credit risk exposure modelled under the AIRB approach. Expected loss is determined by multiplying the associated PD, LGD and EAD.
Exposure	A claim, contingent claim or position which carries a risk of financial loss.
Exposure At Default **(EAD)**	An estimate of the amount expected to be owed on a credit risk exposure at the time of default.
External Credit Assessment Institutions **(ECAIs)**	ECAIs include external credit rating agencies such as Moody's, Fitch, and S&P.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions.
Financial Conduct Authority **(FCA)**	Conduct regulator for all financial services firms and financial markets in the UK and the prudential regulator for a minority of those firms.
Group	Virgin Money UK PLC and its controlled entities.
IFRS 9	The new financial instrument accounting standard which was adopted by the Group with effect from 1 October 2018.
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 in the banking book **(IRRBB)**	IRRBB arises from changes in interest rates that may impact the Group's financial condition in terms of earnings (net interest income) or economic value of the balance sheet.
Internal Capital Adequacy Assessment Process **(ICAAP)**	The Group's assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
Internal Liquidity Adequacy Assessment Process **(ILAAP)**	The Group's assessment and management of balance sheet risks relating to funding and liquidity.
Internal ratings-based approach **(IRB)**	A method of calculating credit risk capital requirements using internal, rather than supervisory, estimates of risk parameters.
Leverage ratio	This is a regulatory standard ratio proposed by the Basel III as a supplementary measure to the risk-based capital requirements. It is intended to constrain the build-up of excess leverage in the banking sector and is calculated by dividing Tier 1 capital resources by a defined measure of on and off-balance sheet items plus derivatives.
Liquidity risk	Liquidity risk is the risk that the Group is unable to meet its current and future financial obligations as they fall due at acceptable cost.
Long-run average Probability of Default **(PD)**	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.

Minimum requirement for own funds and eligible liabilities (MREL)	MREL is a minimum requirement for institutions to maintain equity and eligible debt liabilities, to help ensure that when an institution fails the resolution authority can use these financial resources to absorb losses and recapitalise the continuing business. The BoE set out its approach to setting banks' MREL in November 2016.
Net interest income	The amount of interest received or receivable on assets, net of interest paid or payable on liabilities.
net promoter score **(NPS)**	This is an externally collated customer loyalty metric that measures loyalty between a provider, who in this context is the Group, and a consumer.
Overall liquidity adequacy rule **(olar)**	An FCA and PRA rule that firms must at all times maintain liquidity resources which are adequate both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. This is included in the Group's risk appetite and subject to approval by the Board as part of the ILAAP.
personal lending	Lending to individuals rather than institutions and excludes mortgage lending which is reported separately.
Pillar 1	The quantitative elements of the Basel III framework including the minimum regulatory capital requirements for credit, operational and market risks.
Pillar 2	The qualitative expectations of the Basel III framework to be met through the supervisory review process. This includes the ICAAP, governance process and the supervisory review and evaluation process.
Pillar 3	The final pillar of the Basel III framework which aims to encourage market discipline by improving the information made available to the market. This pillar sets out disclosure requirements for banks on their capital, risk exposures and risk assessment processes.
Prudential Regulation Authority **(PRA)**	Entity of the Bank of England responsible for the prudential regulation and supervision of around banks, building societies, credit unions, insurers and major investment firms.
PRA Buffer	Refer to 'Capital buffers'.
Regulatory capital	The capital which banks hold, determined in accordance with rules established by the relevant regulatory bodies.
Repurchase **(repo)** agreement	A short-term funding agreement that allows a borrower to create a collateralised loan by selling a financial asset to a lender. As part of the agreement, the borrower commits to repurchase the security at a date in the future repaying the proceeds of the loan. For the counterparty (buying the security and agreeing to sell in the future) it is a reverse repurchase agreement or a reverse repo.
Residential mortgage-backed securities (RMBS)	Securities that represent interests in groups or pools of underlying mortgages. Investors in these securities have the right to cash received from future mortgage payments (interest and principal).
Ring-fenced body **(RFB)**	A banking entity subject to the PRA's regulation to separate banks' retail banking activities from their wholesale and investment banking activities.
Risk appetite	The level and types of risk the Group is willing to assume within the boundaries of its risk capacity to achieve its strategic objectives.
Risk-weighted assets **(RWA)**	On and off-balance sheet assets of the Group are allocated a risk-weighting based on the amount of capital required to support the asset.
Risk management framework **(RMF)**	The Group identifies and manages risk using the RMF which is the totality of systems, structures, policies, processes and people that identify, measure, evaluate, control, mitigate, monitor and report all internal and external sources of material risk.

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The Scheme	Yorkshire and Clydesdale Bank Defined Benefit Pension Scheme.
Securities financing transaction **(SFT)**	Repurchase transactions, securities or commodities lending or borrowing transactions or other capital market-driven transactions.
Securitisation	The practice of pooling similar types of contractual debt and packaging the cash flows from the financial asset into securities that can be sold to institutional investors in debt capital markets. It provides the Group with a source of secured funding that can achieve a reduction in funding costs by offering typically 'AAA' rated securities secured by the underlying financial asset.
Standardised approach **(SA)**	In relation to credit risk, a method for calculating credit risk capital requirements using ECAI ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.
Stress testing	The term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the own funds or liquidity which a bank holds.
Systemic risk buffer **(SRB)**	Refer to 'Capital buffers'.
Tier 1 capital	A measure of a bank's financial strength defined by CRD IV. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, subject to deductions.
Tier 1 capital ratio	Tier 1 capital as a percentage of risk-weighted assets.
Tier 2 capital	A component of regulatory capital, including qualifying subordinated debt, eligible collective impairment provisions and other Tier 2 securities as defined by CRD IV.
Write-off	Where the outstanding balance or shortfall from sale of property is deemed irrecoverable. Assets written off will be deducted from the balance sheet.

APPENDIX 8: ABBREVIATIONS

AIRB	Advanced Internal Ratings Based
ALCO	Asset and Liability Committee
ARA	Annual Report and Accounts
AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
bps	Basis points
CAM	Current account mortgage
CCB	Capital conservation buffer
CF	Conversion Factor
CCF	Credit Conversion Factor
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1 capital
CIU	Collective Investment Undertaking
CRD IV	Capital Requirements Directive
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
DTA	Deferred Tax Assets
EaR	Earnings at Risk
EBA	European Banking Authority
EHQLA	Extremely High Quality Liquid Assets
FCA	Financial Conduct Authority
FIRB	Foundation Internal Ratings Based
GIC	Guaranteed Investment Contract
G-SII	Global Systemically Important Institutions
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Internal Liquidity Adequacy Assessment Process
IRB	Internal ratings-based approach
IRRBB	Interest Rate Risk in Banking Book
ITS	Implementing Technical Standards
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Inter-Bank Offered Rate
LTV	Loan To Value
MREL	Minimum Requirements for own funds and Eligible Liabilities
O-SII	Other Systemically Important Institutions
PD	Probability of Default
PRA	Prudential Regulation Authority.
QCCPs	Qualifying Central Counterparties
RAS	Risk Appetite Statement
RCB	Regulated Covered Bond
Repo	Repurchase agreement
RFB	Ring-Fenced Body
RMBS	Residential Mortgage-Backed Securities
RMF	Risk Management Framework
RTS	Regulatory Technical Standards
RWA	Risk-Weighted Assets
SA	Standardised Approach
SFT	Securities Financing Transaction
SME	Small and Medium-Sized Enterprise
SPV	Special Purpose Vehicle
SRB	Systemic Risk Buffer
VFN	Variable Funding Note
VMH	Virgin Money Holdings Sub-consolidated Group
VM plc	Virgin Money plc
VMUK	Virgin Money UK PLC

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