VIRGIN MONEY UK

Pillar3 Disclosures 2020

Inside this year's report

Executive summary

1.1 Introduction

This document presents the consolidated Pillar 3 disclosures of Virgin Money UK PLC ('Virgin Money' or 'the Company'), together with its subsidiary undertakings (which comprise 'the Group') as at 30 September 2020. This report should be read in conjunction with the Virgin Money UK PLC Annual Report & 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 numbers presented within this report are on a consolidated basis, with Virgin Money UK PLC numbers shown in the body of the report and CB Group Consolidated numbers shown in Appendix 1.

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 to use our unique combination of resources to deliver our core activities as a bank, aligned to the environment we operate in. As this environment has changed materially, with the impact of COVID-19, we have renewed our strategic priorities, which are distributed through our Personal, Business and Mortgage divisions:

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

Further information on Our Purpose can be found in the Strategic Report within the Group's Annual Report & 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.

COVID-19 continues to have a material impact on the Group's risk profile. Central bank, governmental and regulatory support schemes and policy changes have been introduced to help the Group's customers, which create new operational, conduct, enforceability and financial risks for the Group. The impacts of COVID-19 on each principal risk are detailed in the table overleaf, alongside the mitigation actions.

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.

Principal risk and description	Mitigating actions
Credit risk The risk of loss of principal or interest stemming from a borrower's failure to meet contractual obligations to the Group in accordance with their agreed terms. Credit risk manifests at both a portfolio and transactional level.	• The Group applies detailed lending policies and standards which outline the approach to lending, underwriting, concentration limits and product terms. • Credit risk is managed through risk appetite and risk limits reflected in approved credit policy. • Ongoing monitoring and approval of individual transactions, regular asset quality reviews and independent oversight of credit decisions and portfolios. • Portfolio monitoring techniques cover such areas as product, industry, geographical concentrations and delinquency trends. • Stress test scenarios are regularly prepared to assess the adequacy of the Group's impairment provision and the impact on RWA and capital.
Financial risk Financial risk includes capital risk, funding risk, liquidity risk, market risk, and pension risk, all of which have the ability to impact the financial performance of the Group, if managed improperly.	• Funding and liquidity risk is managed in accordance with Board-approved standards, including the annual Internal Liquidity Adequacy Assessment Process (ILAAP) and strategic and contingency funding plans. • The Group completes an annual International Capital Adequacy Assessment Process (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. • Board-approved risk appetite measures ensure funding and liquidity levels are monitored and managed in accordance with regulatory requirements and in support of the Group's strategy. • Market risks (interest rate and foreign exchange risks) are monitored and managed in line with established policies and allocation of capital.
Model risk The potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.	• The Group has a model risk policy framework in place to manage and mitigate model risk, which encompasses the end to end model life cycle. • The model risk policy standard defines roles and responsibilities in terms of model risk management. • A suitably qualified Independent Model Validation function conducts model validations prior to model implementation, both when a model is changed and on a periodic basis.
Regulatory and compliance risk The risk of failing to comply with relevant laws and regulatory requirements, not keeping regulators informed of relevant issues, not responding effectively to information requests (IR), 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 focused oversight, regular reporting to the Board Risk Committee and ongoing dialogue with regulators.
Conduct risk The risk of undertaking business in a way that is contrary to the interests of customers, resulting in inappropriate customer outcomes or detriment, regulatory censure, redress costs and/or reputational damage.	• 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. • The Group continually assesses evolving conduct regulations, customer expectations, and product and proposition development. • A risk-based assurance framework is in place which monitors compliance with regulation and assesses customer outcomes.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and 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, including themes and remediation action required to prevent reoccurrence. • 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. • A framework is in place to ensure risks from individual changes are managed effectively, in line with the Group's risk appetite, with appropriate second-line oversight.

COVID-19	Future focus
Impacts • Although the impacts on the Group's retail and business credit portfolios are yet to fully manifest, it is clear that credit risk remains heightened, with levels of defaults expected to increase over time, particularly once government support schemes come to an end. **Actions** • The Group has participated in all regulatory and government support schemes with a priority focus on supporting its existing customers through COVID-19. Capital repayment holidays, interest-free overdrafts (for retail customers) and extensions of credit, as well as other flexible supporting measures, continue to be provided and monitored. • Policies, risk appetite, credit decisioning and supporting frameworks have been rebased, reviewed and updated to reflect the changing environment and risk profiles.	• The Group remains focused on the continued and timely support for customers, scanning the horizon and ensuring there is focus on expected events and outcomes given the ever changing external environment. • Group Credit Risk will put in place all necessary measures to ensure readiness for the expected economic downturn and consequent customer support.
Impacts • Changing trends in customers' use of deposits, particularly among businesses, and the impacts of loan payment holidays across mortgage, credit card and unsecured loan portfolios, have affected capital, liquidity and funding forecasting. • The possibility of low or even negative interest rates. **Actions** • Additional monitoring and controls over capital, funding and liquidity risks resulting from COVID-19 have been put in place. The Group has early visibility of movements in RWA or potential impacts to capital from higher credit losses and stands ready to take a range of management actions. • The introduction of the Bank of England's (BoEs) Term Funding Scheme with additional incentives for SMEs (TFSME) provides an alternative source of funding to wholesale markets and is included in the Group's funding plans.	• Our focus will be on managing the balance sheet through the challenging economic environment created by the fallout from COVID-19, as well as manging any uncertainty created by the UK's exit from the EU. This is combined with an ongoing landscape of regulatory change. • Following the cancellation of the 2020 Bank of England (BoE) ACS exercise, we will support and oversee preparations for the Group's first ACS participation in 2021. Alongside significant involvement in assurance work for the Group's Resolvability Assessment Framework. • A sustained period of low or even negative interest rates will create the potential for both adverse operational impacts and for increased pressure on margins. There will be ongoing focus on how to mitigate these effects.
Impacts • The uncertain economic environment has affected all model components including input data, default markers, outputs, model accuracy and performance. • The rapid application of COVID-19 model adjustments has increased the risk that particular implementations contain errors or unexpected outcomes. **Actions** • Model risk oversight remain actively engaged with model owners, carrying out pre-emptive model assessments to recognise and address key model risks and help validate COVID-19 driven adjustments or recalibrations. Further oversight is provided by the Model Governance Committee.	• Model risk management will continue to grow in sophistication and experience in the year ahead. Our oversight processes will be focused where model improvement and model risk mitigation add greatest value. • The Model Risk Oversight team continue to develop understanding of the Group's model portfolio and will continue to closely manage areas of greatest risk. We expect improved understanding of capital and provisioning impacts to model risk, and a stronger connection with operational risk.
Impacts • The Group has deployed multiple new policies and processes to implement government, regulatory and central bank COVID-19 support measures. Additional regulatory and compliance risks are associated with adherence to both COVID-19 specific regulatory guidance and with existing regulation. **Actions** • Additional risk assessments, governance processes and assurance activities have been deployed across the Group to ensure compliance with existing regulation and COVID-19 specific regulatory guidance.	• The Group recognises, and will continue to respond to, regulatory change and associated requirements for systems and processes across the banking industry as a whole. It will seek to comply with all regulations as they evolve, and as customer expectations continue to develop. • The Group will continue its implementations of major regulatory changes, including transition from London Interbank Offered Rate (LIBOR) and Payment Services Directive 2 (PSD2).
Impacts • Decisions are being made at pace in order to protect and support customers. There is the potential of failing to achieve good customer outcomes in this environment and in the future, as relief schemes come to an end. Furthermore, there is an increased risk of failure to recognise and appropriately manage financial difficulties or vulnerabilities. **Actions** • Additional monitoring and controls are in place to mitigate conduct risks arising from the execution of new policies and processes deployed in response to COVID-19.	• The Group remains focused on seeking to ensure that customers remain supported and that current and future customer products and services meet conduct standards and regulators' expectations. • Development will continue in the Group's capabilities to support customers through COVID-19 and vulnerable customer groups more generally, and in response to Financial Conduct Authority (FCA) guidance.
Impacts • Increased remote working, the implementation of new processes and pressure on customer support areas arising from changing customer needs all have the potential to increase the Group's operational risk profile, which could lead to increased errors or delays and subsequent loss. **Actions** • The Group has undertaken ongoing risk assessments for changes to processes and controls made in response to COVID-19, including remote working. Policy exceptions are tracked and additional controls implemented.	• The level and pace of planned change will require continued executive and risk management focus to ensure operational risk stays within appetite. • There will be a need for strong supplier management to safeguard the provision, enablement and delivery of critical processes through third parties.

Principal risk and description	Mitigating actions
Technology risk The risk of loss resulting from inadequate or failed information technology processes. Technology risk includes cybersecurity, IT resilience, information security, data risk and payment risk.	• The Group has a data management framework governing the creation, storage, distribution, usage and retirement of data. • The payment risk framework outlines key scheme rules, regulations and compliance requirements to ensure that payment risk is managed within appetite. • The Board-approved security strategy focuses 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 and Technology Framework. • IT resilience is addressed by a programme of continuous monitoring over the currency of technology estate and disaster recovery. Furthermore, critical end to end business recovery and contingency plans are maintained and tested.
Financial crime risk The risk that the Group's products and services will be used to facilitate financial crime against the Group, its customers or third parties. This includes money laundering, counter terrorist financing, sanctions, fraud and bribery and corruption.	• The Group has an established and evolving financial crime framework providing transparency and structure against which to develop and maintain consistency of approach to identify, manage and mitigate financial crime risk. • The Group continues to monitor existing, new and emerging risks and threats as a result of new laws and regulations, industry trends and economic and environment factors. • The Group operates 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 financial crime. Regular investments are made into the maintenance of these systems and ensure compliance. • Regular oversight of financial crime controls is undertaken to ensure they remain effective and in line with Board-approved risk appetite.
Strategic and enterprise risk The risk of significant loss of earnings or damage arising from decisions or actions that impact the long-term interests of the Group's stakeholders or from an inability to adapt to external developments, including potential execution risk as a result of transformation activity.	• Strategic and enterprise risk is addressed through the Board-approved five-year Strategic and Financial Plan, refreshed during the year to incorporate and address the impacts of COVID-19. • 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 continues to develop and embed its sustainability agenda in managing environmental, climate, social and governance related risks. • Regular oversight activity, with workstreams focused solely on the execution risk of delivering transformation, place customers' interest at the centre of all aspects of change.
People risk The risk of not having sufficiently skilled and motivated colleagues, who are clear on their responsibilities and accountabilities and behave in an ethical way.	• Roles, responsibilities and performance expectations are defined in role profiles and expanded through objective setting and ongoing performance management. The 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.

The key ratios for the Group are presented below.

Table 1: Key ratios

	2020	2019
Common Equity Tier 1 (CET1) ratio	**13.4%**	13.3%
Tier 1 capital ratio	**17.2%**	17.1%
Total capital ratio	**20.2%**	20.1%
CRD IV leverage ratio(1)	**4.8%**	4.3%
Liquidity coverage ratio	**140%**	152%
	£m	£m
RWA	**24,399**	24,046
Total assets	**90,259**	90,999

(1) IFRS 9 transitional capital arrangements have been applied to the CRD IV leverage ratio calculation as at 30 September 2020.

COVID-19	Future focus
Impacts • An increased risk of cyber attacks, due to phishing emails which use a COVID-19 theme, and breaches could have legal, regulatory or privacy implications. • Reliance on the availability of digital banking and remote network access has increased with solutions implemented to address system constraints and safeguard our connections. **Actions** • Additional fraud monitoring is in place and temporary process changes are being continually risk assessed. There continues to be enhanced focus on supplier service level agreements and contingency plans. • A significant amount of work has been undertaken to enable and improve homeworking conditions. System monitoring, incident management and escalation processes are in place with regular oversight performed.	• Ongoing investment in existing platforms across both heritage technology estates will be a key area of focus, in order to maintain resilience until duplication of systems and data centres is removed. • The ability to deliver digital enhancements and growth through online channels will come into focus as we strive to bring innovation and disruption to the banking sector.
Impacts • New policies and processes implemented in response to government, regulatory and central bank relief measures introduce additional fraud and financial crime risks. Support measures have been deployed at speed and there has been an enforced relaxation of certain controls. There is a risk that criminals may take advantage of customer and organisational vulnerabilities created by COVID-19. **Actions** • Additional risk assessments, governance processes and assurance activity has been deployed across the Group to ensure the ongoing balance between customer impacts and support and maintaining fraud loss within risk appetite.	• The Group will continue to develop its capabilities to mitigate financial crime in an external environment where threats continue to evolve and increase. • Investment will continue in the Group's anti-money laundering systems platforms and fraud prevention capabilities supporting customers.
Impacts • COVID-19 has increased the pace of change and unpredictability within the external environment, including in relation to economic conditions, regulation, and culture. There is a risk that the Strategic and Financial Plan does not adequately reflect these changes, or that we respond ineffectively to the cultural and societal changes it has brought about. **Actions** • The Strategic and Financial Plan is being refreshed to respond to the COVID-19 impacts experienced as well as those predicted. • The RMF has been refreshed in line with the new strategy and current risk environment, to ensure it remains fit for purpose now, and in FY21. • The FY21 Risk Appetite Statement (RAS) measures have been prepared alongside the finalisation of the plan, accounting for the risk profile impacts of the initiatives being proposed.	• The Strategic and Financial Plan retains a focus on optimising the Group's efficiency, with emphasis on supporting the change governance framework, to deliver positive outcomes for our customers. • The Group will continue to manage risks associated with COVID-19 and stands ready to execute further customer support arrangements if required. Information on how we have changed our strategic priorities in light of COVID-19 can be found can be found in the Strategic Report within the Group's Annual Report & Accounts
Impacts • An increased risk of colleague illness and absence, in addition to longer-term wellbeing risks, such as mental health impacts, may arise from the tighter restrictions introduced to curb the spread of COVID-19. These factors could increase pressure and reduce skills availability in key areas. **Actions** • The Group follows government advice with colleagues working from home where possible, and social distancing and additional cleaning measures in place to support key workers based in offices and branches. Vulnerable colleagues are being given additional support from our healthcare provider.	• Focus will remain on potential health, safety and wellbeing impacts of working environments implemented in response to COVID-19. • Embedding of Our Purpose continues to be a priority as it leads to better customer service, greater colleague engagement, higher standards of conduct and enhanced business performance. • The Group's Remuneration Committee continues to explore remuneration design to balance incentivisation and motivation with appropriate risk management.

The Group's CET1 ratio has increased from 13.3% to 13.4% as the benefit of IFRS 9 transitional relief and the Group's EEL deduction offset the impairment headwind to capital. The Group also benefited from RWA reductions following EU-approved regulatory changes, which extended the regulatory benefit from the 'SME Supporting Factor' RWA relief to larger exposures.

These changes were partially offset by increased Mortgage RWA due to model updates. Strong Business lending growth in the period had a limited RWA impact due to government guaranteed lending attracting a sovereign risk weight of zero.

The Group continues to maintain a significant buffer to its CRD IV minimum CET1 requirement, with excess CET1 of 3.9%, being a buffer equivalent to £950m.

The Group's leverage ratio is 4.8% which exceeds the CRD IV minimum of 3%. The Group is also subject to the UK leverage ratio framework, which came into force on 1 January 2016 and is relevant to Prudential Regulatory Authority (PRA) regulated banks and building societies with consolidated retail deposits equal to or greater than £50bn. The Group's UK leverage ratio is 4.9%, well in excess of the PRA minimum of 3.25%.

Further details on the Group's capital ratios, RWA and leverage ratio are presented in section 4.

Overview

2.1 Basis of preparation and frequency of disclosures

This document sets out the 2020 Pillar 3 disclosures for the Group, comprising Virgin Money UK PLC (the Company), and its controlled entities, including Clydesdale Bank PLC (the Bank), in accordance with the rules laid out in the Capital Requirements Regulation (CRR) (Part 8).

Disclosures for CB Group consolidated are presented in Appendix 1, which aligns with the requirement from the PRA to report ring-fenced bodies at a sub-consolidated level.

For the year ending 30 September 2020, the Group used the standardised approach for operational risk, market risk and credit valuation adjustment. Mortgage and Business portfolios follow the Advanced IRB (AIRB) and Foundation IRB (FIRB) approaches respectively. The AIRB approach allows internal models for probability of default (PD), loss given default (LGD) and Exposures at Default (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. The Group received approval in March 2020 to move the specialised lending portfolio from the standardised approach to the internal ratings based (IRB) slotting approach. 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, and credit conversion factors, and after IFRS 9 provisions.

The disclosures may therefore differ from similar information in the Group's Annual Report & Accounts for the year ended 30 September 2020, which is 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 2020, the Group's financial year-end, with comparative figures as at 30 September 2019.

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 & Accounts, in accordance with regulatory guidelines. The Group publishes specific information more frequently where it is required under EBA guidelines.

FSMA Part VII transfer of trade and assets from Virgin Money PLC to Clydesdale Bank PLC

On 26 September 2019, at a hearing in the Court of Session in Edinburgh, the Court approved a banking business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The scheme effective date was 21 October 2019, and in accordance with the court approval, on this date the business of Virgin Money PLC was transferred to Clydesdale Bank PLC for a cash consideration of £10m.

Following the transfer, Virgin Money branded products across retail and personal divisions, which were formerly held within Virgin Money PLC, have been transferred to Clydesdale Bank PLC and are being managed alongside Clydesdale Bank branded equivalent products.

No disclosures have been omitted on the basis of 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 3.16 in the Group's Annual Report & Accounts for further information on valuation and key assumptions and methodologies used in valuation;
- separate disclosure of the geographical distribution of 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.

On 24 June 2020, the European Parliament adopted regulation to facilitate lending to households and businesses in the EU in light of COVID-19. This package, known as 'CRR Quick Fix', came into force on 27 June 2020 and made a number of beneficial amendments to the CRR that apply to the Group, including changes to IFRS 9 transitional arrangements, SME Supporting Factors, and leverage ratio calculation. The Group have updated the relevant disclosures to reflect these new guidelines.

2.2 Scope of disclosures

The Pillar 3 disclosures in this document relate to the Group, except for Appendix 1 which contains the disclosures required for CB Consol.

Disclosures have not been prepared on a Virgin Money Holdings (VMH) Consolidated basis as reported in FY19, as although VMH remains a controlled entity, following the FSMA Part VII transfer effective from 21 October 2019, the VMH sub-consolidated group no longer exists under CRR. Under PRA ring-fencing requirements, at 30 September 2020 the ring-fenced sub-group is at CB Group consolidated level.

Overall, there are no material differences between the bases of consolidation of the Group for accounting and prudential purposes. All the Group's subsidiary undertakings are included in the data provided in the Pillar 3 disclosures. During 2018, 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 & Accounts for the year ended 30 September 2020 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 are presented in Appendix 1.

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 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 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 Holdings 2015-1 Limited;

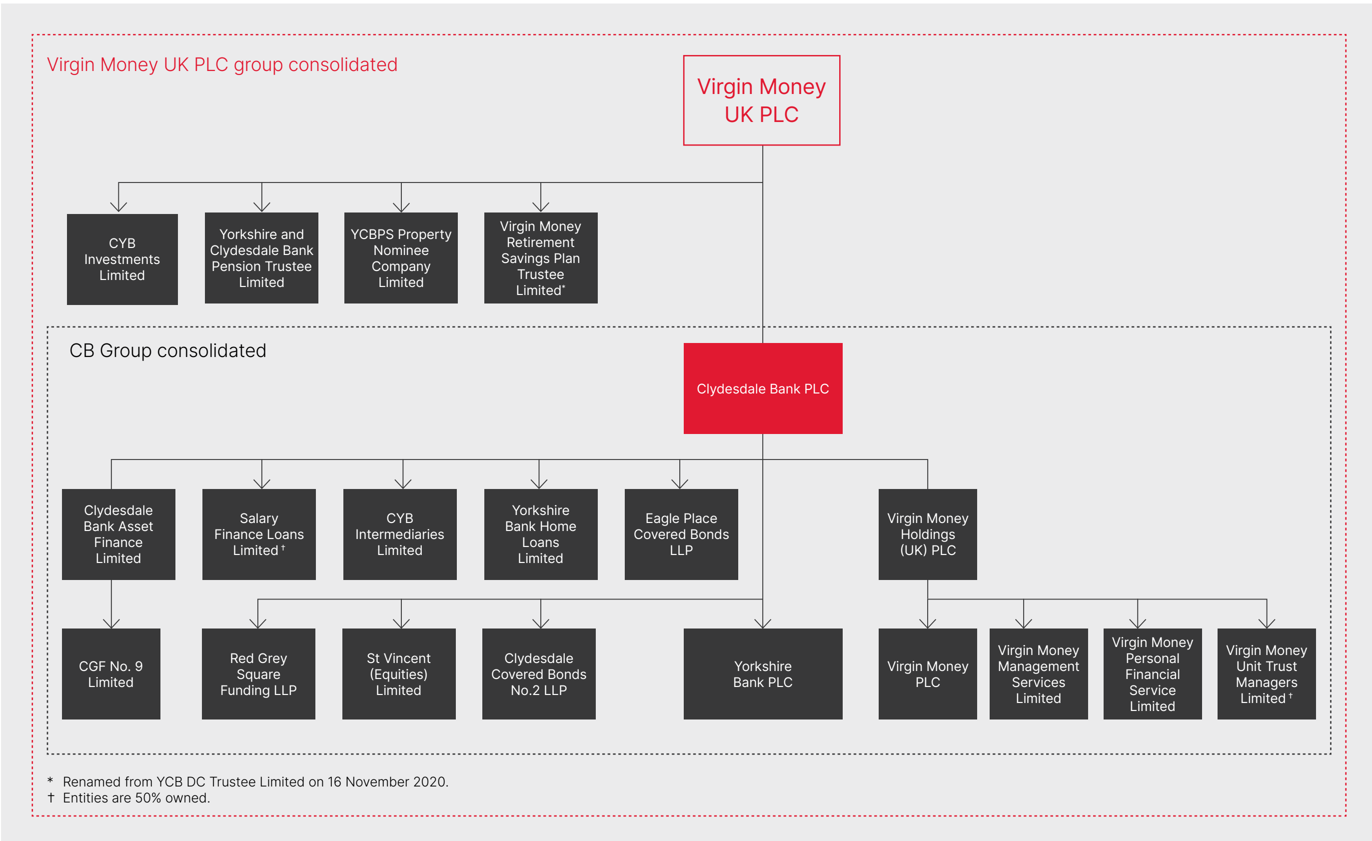
Gosforth Holdings 2016-1 Limited;

Gosforth Holdings 2016-2 Limited;

Gosforth Holdings 2017-1 Limited;

Gosforth Holdings 2018-1 Limited.

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



Overview

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

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 & 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 2020.

The Group received approval in March 2020 to move the specialised lending portfolio from the standardised approach to the IRB slotting approach, meaning the EU CR10 table will now be applicable (see Table 42). This change was first reported to the PRA/EBA in June 2020.

In line with the PRA's supervisory statement (SS2/17) on Remuneration dated April 2017, the Group exceeded the £50bn total assets threshold over the past three average reported period ends and therefore is required to comply with the requirements associated to proportionality level one reporting under Article 450 of the CRR. Additional remuneration tables are included at Appendix 2.

The FY20 Pillar 3 report includes reporting on a foundation, advanced and IRB slotting basis. Where applicable, EBA templates (see section 4) have been voluntarily adopted to ensure disclosures are fully compliant with the CRR. Further templates will be adopted as and when further permissions are received to calculate capital on an IRB basis. It is envisaged the heritage Virgin Money credit card book will move from a standardised approach to an IRB approach in FY21.

Heritage Clydesdale Bank and heritage Virgin Money have separate advanced IRB models for retail mortgages, therefore modelling methodologies and risk profiles are not currently aligned. Consequently, presenting data for these models in a single table is considered inappropriate, and potentially mis-leading. Templates EU CR6 and EU CR9, which disclose information on credit risk exposures by exposure class and by the PD range and back-testing of PD per exposure class, are presented separately for heritage Clydesdale Bank and Virgin Money within the 2020 Pillar 3 report.

During the year, the Group participated in the various government backed loan schemes for businesses, including: Bounce Back Loans (BBLs), Coronavirus Business Interruption Scheme (CBILS) and the Coronavirus Large Business Interruption Loan Scheme (CLBILs), in addition to offering payment holidays to both business and retail customers.

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 & Accounts.

Reviews by the Board

The effectiveness of the Group's 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 & 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 Board 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

The Group has further enhanced the RMF over the past year. Model risk has been promoted to a principal risk, recognising the enhanced focus on this area and climate risk has been included as a cross-cutting risk which manifests through the existing principal risk framework; in particular strategic risk, credit risk and operational risk. The control environment remains stable with the 2020 Control Effectiveness Statement providing assurance that controls requiring 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. The Executive Risk Committee held ten meetings during the year.

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

Risk management

3.1 Risk culture

Risk culture is focused on the Group's understanding of the risks it takes, which is key to enabling its strategy to disrupt the status quo.

Personal accountability is at the heart of the Group's risk culture. This is enabled through the risk management accountability model and formal delegation framework which support colleagues to make risk-based decisions. Colleagues are recruited with the core skills, abilities and attitude required to fulfil their role. They are provided with training and development to ensure they maintain and develop the required levels of competence. This supports colleagues in making risk-based decisions and judgements.

Culture is shaped by many aspects including: 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 to build constructive regulatory relationships.

The Group promotes an environment of effective challenge in which decision-making processes stimulate a range of views. Transparency and open dialogue are encouraged, to enable 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 setting and overseeing the Group's risk culture through their actions, words and oversight activities, and for ensuring any identified areas of weakness are addressed.

The Board Risk Committee continually assesses risk culture and Internal Audit provides an independent view of risk culture to the Board Audit Committee through a risk and control-related management awareness assessment assigned to most audits.

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 Group while maintaining independent oversight;
- undertakes ongoing analysis of the environment in which the Group operates to proactively address potential risk issues as they arise; and
- supports commercial decisions and people with appropriate risk processes, systems and controls.

Risk appetite

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

The Risk Appetite Framework (RAF) 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. Information on performance against relevant RAS settings, breaches and trends is reported to the Executive Risk Committee and Board.

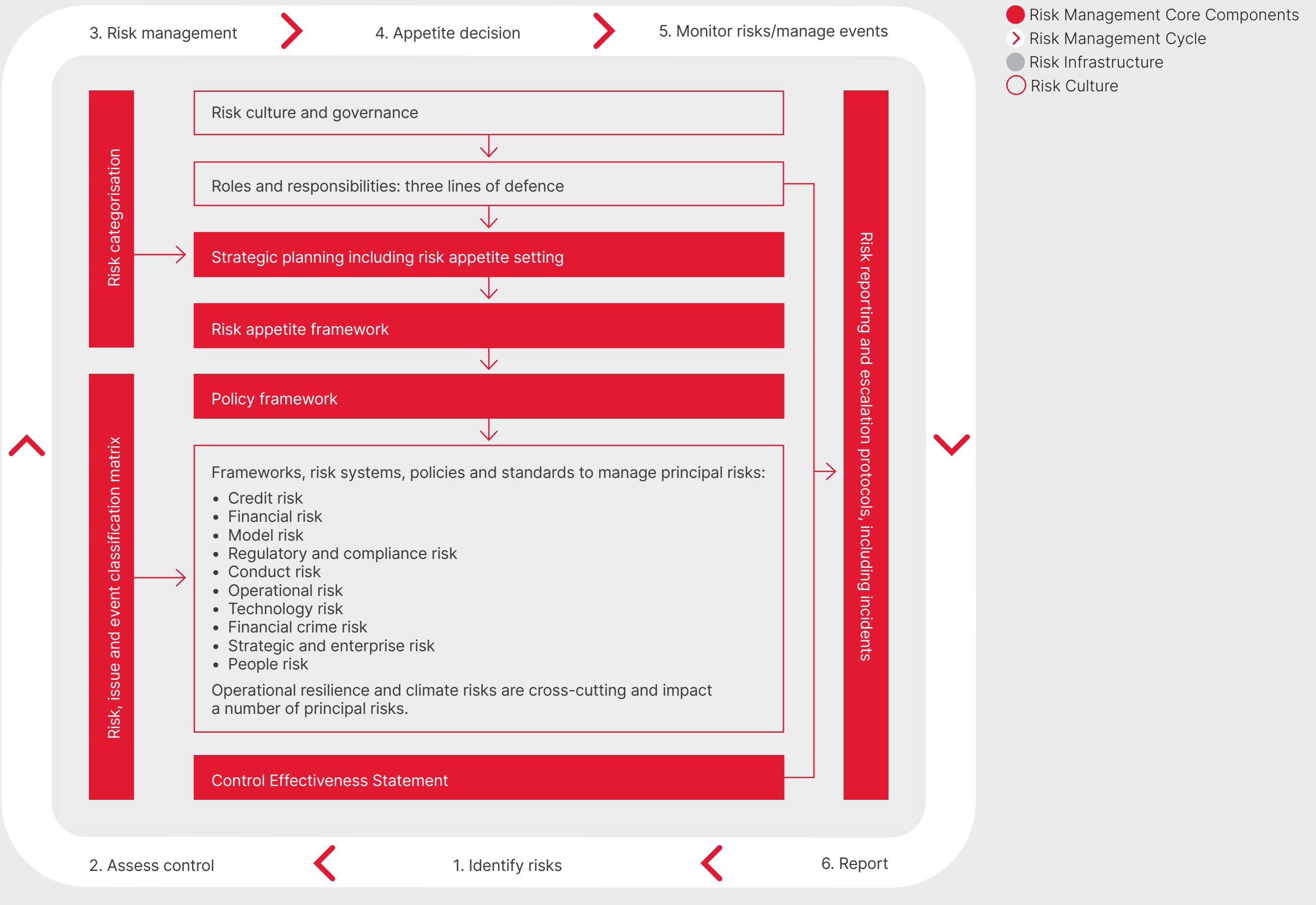
Risk policies and procedures

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

Risk management framework
The Group identifies and manages risk in line with the RMF (see diagram below), which is the totality of systems, structures, policies, processes and people that identifies, measures, evaluates, controls, mitigates, monitors, and reports all internal and external sources of material risk. The RMF aligns to Our Purpose by establishing an overarching framework for the identification, measurement, management and reporting of risk in a clear and transparent way.

Risk Management Framework

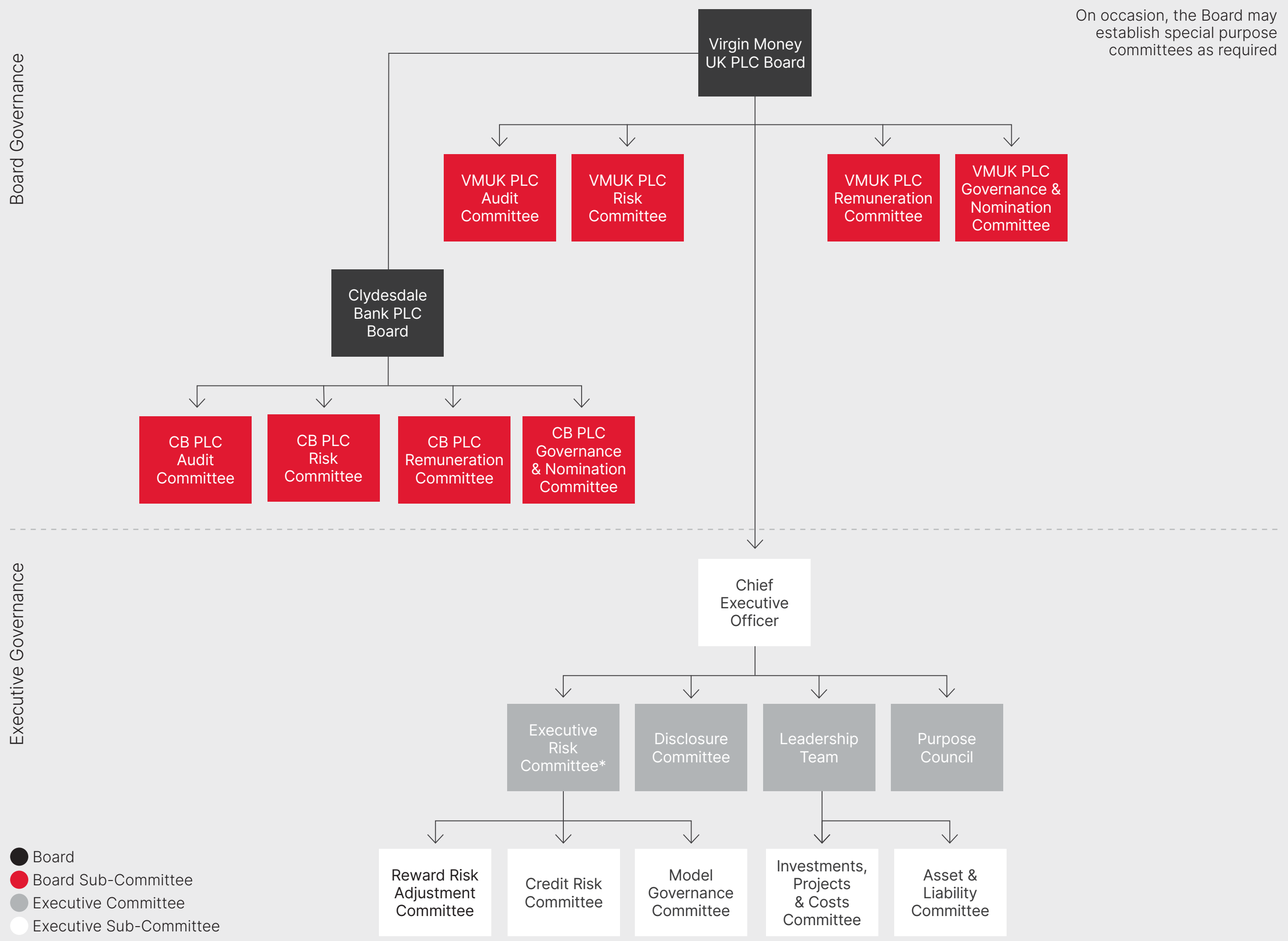


3.2 Risk governance and oversight

The Group has a structured risk governance framework to support the Board of Directors' 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 & 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.

N.B. Virgin Money PLC has a similar Board and Board Committee governance framework to Clydesdale Bank PLC. Virgin Money PLC Board and Board Committees meet as and when required.

Risk management

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.
Purpose Council	The Purpose Council oversees and manages the factors that are critical to be 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.
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 Enterprise Risk Committee and subsequently 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:	
Investments, Projects & Costs Committee[1]	The Investments, Projects and Costs 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)	The Assets and Liability Committee 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 delivers Group policy objectives. The impact of pension risk on capital is also assessed by ALCO.

(1) The Efficiency and Investment Committee was dissolved on 23 October 2019 and the first meeting of the Investments, Projects and Costs Committee was held on 21 November 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(1), 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
David Bennett (Non-Executive)	4
Paul Coby (Non-Executive)	1
David Duffy (Executive)	1
Geeta Gopalan (Non-Executive)	4
Fiona MacLeod (Non-Executive)[2]	2
Darren Pope (Non-Executive)	3
Ian Smith (Executive)[2]	2
Amy Stirling (Non-Executive)	3
Tim Wade (Non-Executive)	3

(1) 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).

(2) Stepped down from the Board on 30 September 2020.

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, experience and contribution of each Director are described within the Governance report in the Group's Annual Report & Accounts.

Board diversity

The Board Diversity and Inclusion Policy (available at: www.virginmoneyukplc.com/corporatesustainability/inclusion) sets out the approach to diversity and inclusion in the composition of the Board and covers, at a high level, the approach to diversity at all levels within Virgin Money.

The Board is committed to ensuring that its membership reflects diversity in the broadest sense and while all Board appointments are made on the basis of individual competence and merit, recruitment of Board members considers diversity of skills, background and personal strengths to provide the range of perspectives, insights and challenge needed to have a positive impact on the quality of decision-making. In reviewing the policy this year, the Board-approved targets to aspire to, and meet the target set by the Hampton Alexander Review to have a minimum of 33% female representation on the Board and to meet the target set by the Parker Review Committee to have at least one Director of colour by 2024 or as soon as possible after that date.

As at 30 September 2020, there were three female Directors on the Board (33%) and one Director of colour. Information on inclusion and gender composition in relation to our wider workforce, including our Extended Leadership Team, can be found in the Group's Annual Report & Accounts. During the year, the Committee and Board tracked progress in both gender diversity and broader inclusion metrics and commitments through the culture dashboard and focused particularly on ethnic minority inclusion and our support for BAME colleagues and customers.

The Group supports the Women in Finance Charter and had a target of 40% women in senior management roles by 2020. We have exceeded this target with female colleagues holding 43% of senior management positions in the top two layers of the Company as at 30 September 2020. 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.

Board consideration of risk matters

The Board discharges some of its responsibilities through, and is supported by, its Committees which provide oversight and make recommendations on the matters delegated to them by the Board. The Board Risk Committee assists the Board in setting the Group's risk appetite and to ensure that the Group maintains an RMF. The Committee also supports the Board by assessing key current and emerging risks and their mitigation, and by leading the development and embedding of a culture that supports risk awareness and the fair treatment of customers. During the period to 30 September 2020, the Committee held seven scheduled meetings, one scheduled joint Audit and Risk Committees meeting and three additional meetings to consider prudential regulatory related matters, the impact of COVID-19 on the business and the review and approval of the Group's Annual Report and Accounts risk disclosures.

The Group Chief Risk Officer presents a report at each Risk Committee that provides a view of the principal and emerging risks faced by the Group and is invited to provide his perspectives on the risk profile of the Group. Subject matter experts are invited to Committee meetings to present on a variety of topics including deep dive analysis on specific risk matters. Updates are provided to the Board following each Committee meeting summarising challenges and key decisions. These updates are supported by the Chief Risk Officer's Report to the Board.

Risk management

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 over the risk management, governance and internal control processes.

2nd Line of Defence

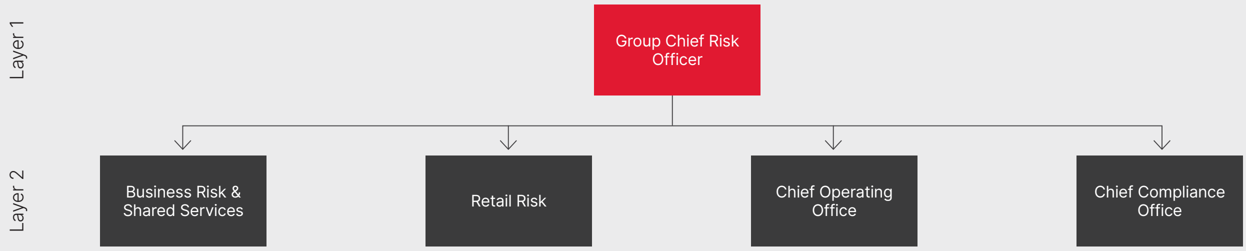
Risk Management designs and owns the Risk Management Strategy, Risk Management Framework, Policy Management Framework and Risk Appetite Statement, monitoring and facilitating the implementation of effective risk management practices across the Group.

1st Line of Defence

Business Units take ownership, responsibility and accountability for directly assessing, controlling and mitigating risks and issues.

The Group's risk management function as at 30 September 2020 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, capital and liquidity planning, and to inform risk appetite, risk mitigation and contingency planning.

The Group undertakes stress testing using specific idiosyncratic scenarios and following the Basel Committee principles which utilise, where appropriate, scenarios provided by the BoE.

The Board and senior management are actively involved in the stress testing process, reviewing, challenging and approving all aspects of stress testing, from the consideration of scenarios to be tested, to the outcomes and mitigating actions. The involvement of the Board and senior management is considered essential for the effective operation of stress testing and the manner in which the results 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.

The BoE's 2020 Annual Cyclical Scenario (ACS) was cancelled as a result of COVID-19, to free up operational capacity and to help lenders to continue to meet the needs of UK households and businesses.

The Group will take part in its inaugural BoE concurrent stress test in 2021 and a significant amount of work has been undertaken to ensure preparedness for all requirements.

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 & Accounts.

COVID-19 impacts on principal risks

COVID-19 impacts are having a variety of implications for individuals, businesses and communities and have increased the Group's risk profile. The measures introduced to support the economy create new operational, conduct, enforceability and financial risks to the Group and these risks are being managed and will be monitored over time. Further information can also be found in the individual principal risk sections.

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 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 strategic 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.

COVID-19 continues to present significant risks to the Group's credit portfolios. However, the Group remained focused on supporting customers and colleagues through the exceptional challenges that have crystallised over the past few months. The FY21 RAS will continue to consider the impact of COVID-19, remaining agile, focused and responsive, to ensure we are addressing new and developing risks in a safe and efficient manner.

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.

Significant credit risk strategies and policies are reviewed and approved annually by the Credit Risk Committee. For complex credit products and services, the Head of Business Risk and Shared Services and Head of Retail Risk, in conjunction with the Credit Risk Committee, provide a policy framework which identifies, quantifies and mitigates risks including, but not limited to, those that have arisen as a result of the impacts of COVID-19. These policies and frameworks are delegated to, and disseminated under, the guidance and control of the Board and Senior Management, with appropriate oversight through governance committees.

Exposures

Credit risk exposures are classified into Mortgage, Personal and Business portfolios. 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 the credit portfolio is monitored and regularly 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 range of statistical models, supported by both internal and external data, to measure credit risk exposures. These models underpin the IRB approval for the mortgage and business portfolios and the standardised approach for the personal portfolios.

The Group's portfolios are subject to regular stress testing. Stress test scenarios are regularly prepared with the outcomes reviewed and relevant actions taken. Outputs will typically include impairment charge, RWA, and write-offs. Management will consider how each stress scenario may impact on different components of the credit portfolio. The primary method applied uses migration matrices, modelling the impact of PD rating migrations and changes in portfolio default rates to changes in macroeconomic factors to obtain a stressed position for the credit portfolios. LGD is stressed based on a range of factors, including property price movements.

Mitigation

The Group maintains a dynamic approach to credit management and takes necessary steps if individual issues are identified or if credit performance has, or is expected, to deteriorate, due to borrower, economic or sector-specific weaknesses.

The mitigation of credit risk within the Group is achieved through approval and monitoring of individual transactions and asset quality, analysis of the performance of the various credit risk portfolios, and independent oversight of credit portfolios across the Group. Portfolio monitoring techniques cover such areas as product, industry or geographic concentrations and delinquency trends.

Risk management

There is regular analysis of the borrower's ability to meet their interest and capital repayment obligations with early support and mitigation steps taken where required. Credit risk mitigation is also supported, in part, by obtaining collateral and corporate and personal guarantees where appropriate.

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, and pension risk. During the year, model risk was removed as a sub-category of financial risk and promoted to principal risk status.

Risk appetite

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. These activities are all undertaken in a manner consistent with the Group's obligations under ring-fencing legislation and prudential rules.

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, the Group's overall funding profile and compliance with the Overall Liquidity Adequacy Rule (OLAR). Board-approved risk 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 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 is considered in the context of potential capital impacts as a result of volatility in the Scheme's valuations.

Capital risk

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

Further information on capital resources is provided in section 4.

Funding and liquidity risk

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

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

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

Market risk

Market risk is the risk of loss associated with adverse changes in the value 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 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 mismatch, or duration, between repricing dates of interest-bearing assets and liabilities;
- basis risk or assets and liabilities repricing to different reference rates, for example, customer asset and liability products repricing against Bank of England base rate and Sterling Overnight Index Average (SONIA); and
- customer optionality, e.g. the right to repay borrowing in advance of contractual maturity dates.

The focus of the Group's activity is to provide high-quality banking services to its customers. These services include the provision of foreign exchange products and derivative products to enable customers to manage risks within their businesses. As a result of these activities, the Group may be exposed to forms of market risk that would arise from movements in the price of these products, however, these risks are not a material component of the Group's risk profile. Controls include the hedging of these products as and when they arise.

Outlook

The BoE continues to assess the appropriateness of a negative official Bank Rate, alongside other monetary policy tools that are available to support the economy and may consider using negative rates, if it is deemed to be more effective in terms of policy objectives over other tools. To be an effective policy tool, the BoE recognises the need for the financial sector to be operationally ready to implement such a policy step in a way that doesn't adversely affect the safety and soundness of firms and is engaging with firms on this matter, including the Group.

This engagement is not indicative that a zero or negative policy rate will be employed, nor is the engagement asking firms to begin taking steps to ensure operational readiness. The BoE has requested information on the impact of a range of outcomes each of which would have different operational considerations and potentially different outcomes in terms of risk, margins and earnings for firms.

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 (the Bank) 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 on 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 is considered in the context of potential capital impacts as a result of volatility in the Scheme's valuations.

Further information on pension risk is provided in note 3.10 of the Group's Annual Report & Accounts.

3.6.3 Model risk

The Group 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 model definition also considers broader aspects within the model environment, which may represent distinct and separable entities or be intrinsically linked to model structures.

The use of models invariably presents model risk, which is defined as the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. The model risk policy standard seeks to manage and mitigate model risk which encompasses the end to end model life cycle covering data (quality and lineage), model development, independent model validation, model governance, model implementation, model usage, model monitoring, model maintenance and model decommissioning.

Model risk increases with greater model complexity, higher uncertainty around 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 for information on the Group's IRB models.

3.6.4 Regulatory and compliance risk

Regulatory and compliance risk is the risk of failing to understand and comply with relevant laws and regulatory requirements; not keeping regulators informed of relevant issues; not responding effectively to information requests nor meeting regulatory deadlines or obstructing the regulator.

Privacy and data protection risks, which may result from non-compliance with data privacy, legal and regulatory obligations, have been transferred to regulatory and compliance risk, from technology risk, as part of this year's RMF refresh.

Risk appetite

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

Mitigation

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 coordinated 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 key regulatory implementations including LIBOR transition and PSD2;
- 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, 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 areas of the control framework underpinning compliance with laws and regulations. In response to COVID-19 and the actions taken by the Group to support its customers during this time, a revised Risk Assurance Plan was created and approved by the Board in April 2020.

3.6.5 Conduct risk

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

Risk management

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

Exposures
The Group remains exposed to conduct risk in the course of its provision of services and products to customers. In addition, the Group's response to COVID-19 has required processes to be introduced and decisions to be made at pace, increasing the potential risk for poor customer outcomes. Any issues identified are promptly addressed and remediation plans are initiated where required.

The Group continues to remediate a small number of legacy conduct issues, including PPI.

Mitigation

The following controls and procedures help to mitigate conduct risk:

- clearly defined conduct risk policy statement (with supporting policy standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of risk appetite measures for conduct risk 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, complaint handling 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 a 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. In response to COVID-19, and the actions taken by the Group to support its customers during this time, a revised risk assurance plan was created and approved by the Board in April 2020.

3.6.6 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 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. The Group strives to deliver operational efficiency in the implementation of its objectives 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.

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.

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

3.6.7 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 by the need to enhance digital capabilities, integrate two technology estates and rely on remote working. 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 within our systems and processes. Continued focus is being placed on risks and controls associated with cybersecurity where the Group has recognised significant escalation of external cyberthreats, regulatory penalty and resilience need, heavily influenced by COVID-19 and changing operating environment. *How this risk is managed* – Our Chief Information Security & Resilience Officer (CISRO) is responsible for ensuring robust cyber and information security policies and controls are in place and operating effectively. The Group continues to enhance and invest in the control environment, recognising the changing cyber-landscape and the increased focus on digital capabilities and reliance on homeworking, 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 CISRO. Controls are in place to protect the Group's physical assets, as well as the security of colleagues and customers. Appropriate protection and security protocols are in place across the Group and we continue to leverage partners where specialised expertise is required.
IT resilience risk	IT resilience is the ability of the Group to quickly adapt to disruptions while maintaining continuous operations on critical processes, safeguarding technology and all associated assets in the face of adverse events, short-term shocks, chronic disruptions or incremental changes. The Group recognises the significant regulatory focus on resilience as the market becomes more reliant on mobile and online banking, increased remote working as a result of COVID-19, and the use of third-party and cloud solutions. The Group faces increased risk as a result of running two technology estates concurrently, though plans to integrate and reduce this risk are in place. *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 monitoring of the currency of both technology estates alongside disaster recovery testing helps to minimise the likelihood of system failure. In preparation for an outage, the Group also maintains and tests critical end to end business recovery and contingency plans. All three lines of defence possess skilled resource in this discipline to protect the Group.
Payment risk	The payments industry is planning for significant changes to infrastructure and processing protocols over the next 12-24 months brought on by the implementation of ISO20022, Real-Time Gross Settlement Renewal and New Payments Architecture, with the Group challenged to maintain the resilience of service during these implementations. 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* – The 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 three lines of defence are actively involved in changes being made in this changing environment. As such, the Group continues to invest in its payment services capability.
Data risk[1]	Data underpins decision-making at all levels of the organisation. Poor-quality data can lead to loss, customer disruption, non-compliance with GDPR 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, aligned with GDPR requirements. Quality is attested to by each business area against completeness, accuracy and appropriateness. Oversight is well established within all three lines of defence.

(1) The privacy and data protection risk category was transferred to regulatory and compliance risk as part of this year's RMF refresh.

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 activities.

Risk management

3.6.8 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.

Risk appetite

Financial crime risk is measured and reported against a defined suite of metrics within the Group RAS. In particular:

Anti-money laundering and counter terrorist financing

The Group applies a risk-based approach 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.

Sanctions and embargoes

The Group has no appetite for non-compliance with the legal and regulatory obligations relating to sanctions and embargoes.

Bribery and corruption

The Group does not tolerate the direct or indirect offer, payment, solicitation or acceptance of bribes in any form.

External fraud

The Group accepts that an element of fraud loss is a cost of doing business. Fraud risk appetite is set annually by the Board, practically applied using the fraud policy standard and expressed in financial terms via the annual fraud loss plan. The application of fraud risk management framework balances genuine customer impacts alongside the operational overhead of applying fraud controls to achieve fraud loss within budget and risk appetite.

Internal fraud

The Group has no appetite for internal fraud.

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 for further financial crime.

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

Measurement

All financial crime standards are reflected in the Group policy and standards and financial crime prevention manual, the content of which is provided by financial crime risk and updated as appropriate. Financial crime related risk appetite metrics are monitored and reported to the Board on a monthly basis.

Mitigation

The Group adopts a risk-based approach to financial crime and the following controls and procedures support mitigation:

- a clearly defined financial crime risk policy statement (with supporting policy standards) and RAS signed off by the Board;
- ongoing development, maintenance and reporting of risk appetite measures for financial crime and fraud risk to the Executive Risk Committee and the Board;
- key performance metrics relative to critical financial crime systems are kept under review and presented through governance to ensure ongoing effectiveness;
- consideration of financial crime and fraud risk in the context of product and proposition development and associated appropriate governance;
- continuing to progress with key implementations such as push payment fraud and confirmation of payee;
- ongoing assessment of evolving regulatory policy requirements and ensuring the Group responds accordingly, including the 5th Anti-Money Laundering Directive;
- regular oversight and review of systems, controls and higher risk activities and customers takes place as part of a formal oversight plan.

Monitoring

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

Screening for politically exposed persons and customer transaction monitoring is carried out by Financial Crime Operations. 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.

3.6.9 Strategic and enterprise risk

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. 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, failing to take account of a change in external circumstance.

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.

Mitigation

The Group undertakes thorough and regular monitoring of emerging and crystallised strategic risks, including developments in the external geo-political environment, to ensure it is best placed to pro-actively respond to changes as and when required. Robust contingency plans are in place to ensure the impact of any changes on strategic initiatives is captured.

The Group continues to develop and embed its sustainability agenda in response to shareholder and societal sentiment. This includes increased due diligence activity in relation to the lending decisions being undertaken, and social interaction to promote inclusion and diversity in the communities in which the Group operates.

The Risk function undertakes regular risk oversight activity, placing customers' interests at the centre of all aspects of change. This includes workstreams focused solely on the execution risk of transformation. The strategic planning process for the FY21 investment slate was overseen by the Risk function to ensure a balanced portfolio within the funding available.

Monitoring
A range of financial and non-financial metrics, including RoTE, lending growth, customer acquisition, NIM, and others, are key performance indicators used to monitor performance relative to strategic objectives. They are continually monitored against the Financial Plan by the Group's Board and Executive Leadership Team, who react to deviations from targets and modify strategy accordingly. While the Group is unable to influence these metrics explicitly, they are included in order to provide sight of possible portfolio deterioration ahead of specific internal focused metrics.

3.6.10 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, colleagues or shareholders and could ultimately lead to regulatory sanction.

The Group's drive to foster a culture which engages and encourages colleagues to deliver customer-focused outcomes with a clear set of supporting Values and Behaviours is an important step in mitigating people risk.

Risk appetite
COVID-19 has presented a range of people risks and a changing external environment which impacts health, safety and wellbeing. These include safety in the workplace, resource gaps, employee relations and working from home for extended periods.

The Group's priority in dealing with the exceptional challenges is to ensure the safety of and provision of support for colleagues, including adherence with the government's physical and health measures.

The Group will not accept a material increase in risk as a result of colleagues not conducting themselves in the manner expected, nor does the Group act in a manner that may affect the health and wellbeing 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 Purpose, Values, Behaviours and policies and embedded through our people practices.

Measurement
The Group has a range of Tier 1 and Tier 2 RAS 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 transformation 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 wellbeing, succession and conduct.
- *The role of the HR function:* HR partners support the Executive Leadership Team and provide broader support to 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, case management; and full business partnering for the Executive Leadership Team.

Monitoring
People risks including culture are monitored and reported through Executive and Board Committees. Internal Audit will carry out independent deep dives in specific areas of the business, to complement existing reporting and 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 2020 and 30 September 2019 on a CRD IV 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 are presented in Appendix 1.

Table 4: Capital composition

As at 30 September		2020 £m	2019 £m
	Common Equity Tier 1 capital: Instruments and reserves		
1	Capital instruments and the related share premium accounts	**147**	146
1a	*Of which: ordinary shares*	**144**	143
1b	*Of which: share premium*	**3**	3
2	Retained earnings	**4,133**	4,248
3	Accumulated other comprehensive income (and other reserves)	**(43)**	10
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**(21)**	(20)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**4,216**	4,384
	Common Equity Tier 1 capital: regulatory adjustments		
7	Additional value adjustments	**(6)**	(5)
8	Intangible assets	**(488)**	(512)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	**(151)**	(146)
11	Fair value reserves related to gains or losses on cash flow hedges	**80**	26
12	Negative amounts resulting from the calculation of excess expected losses	**–**	(88)
15	Defined benefit pension fund assets	**(470)**	(257)
25a	Losses and distributions for the current financial year	**(220)**	(298)
	Adjustment under IFRS9 transitional arrangement	**310**	100
28	**Total regulatory adjustments to Common Equity Tier 1**	**(945)**	(1,180)
29	**Common Equity Tier 1 capital**	**3,271**	3,204
	Additional Tier 1 capital: Instruments		
30	Capital instruments and the related share premium accounts	**915**	915
31	*Of which: classified as equity under applicable accounting standards*	**915**	915
36	**Additional Tier 1 capital before regulatory adjustments**	**915**	915
44	**Additional Tier 1 capital**	**915**	915
45	**Tier 1 capital**	**4,186**	4,119
	Tier 2 capital: Instruments and provisions		
46	Capital instruments and the related share premium accounts	**749**	721
51	Tier 2 capital before regulatory adjustment	**749**	721
58	Tier 2 capital	**749**	721
59	**Total capital**	**4,935**	4,840
60	**Total risk-weighted assets**	**24,399**	24,046

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Table 4: Capital composition (continued)

As at 30 September		2020	2019
	Capital ratios and buffers (%)		
61	Common Equity Tier 1	**13.4%**	13.3%
62	Tier 1	**17.2%**	17.1%
63	Total capital	**20.2%**	20.1%
64	Institution specific buffer requirement(1)	**7.0%**	8.0%
65	*Of which: capital conservation buffer requirement*	**2.5%**	2.5%
66	*Of which: countercyclical buffer requirement*	**0.0%**	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)	**8.9%**	8.8%
	Applicable caps on the inclusion of provisions in Tier 2 (£m)		
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	**73**	77
79	Cap for inclusion of credit risk adjustments in Tier 2 under internal ratings-based approach	**95**	91

(1) 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.

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);
- Additional Tier 1 (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 FVOCI reserve.

Additional details of the perpetual capital notes are included in Appendix 4 and note 4.1 to the Group's Annual Report & Accounts for the year ended 30 September 2020.

Tier 2 capital

Tier 2 capital comprises:

- subordinated loan debt; 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 3 and in note 3.12 to the Group's Annual Report & Accounts for the year ended 30 September 2020.

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

Capital resources

4.2 Movements in capital

The Group's CET1 ratio has increased from 13.3% to 13.4% in the year to 30 September 2020. This was driven by the benefit of IFRS 9 transitional relief and the Group's EEL deduction offsetting the impairment headwind to capital. The Group also benefited from RWA reductions following EU-approved regulatory changes, which extended the regulatory benefit from the 'SME Supporting Factor' RWA relief to larger exposures.

Over the period, there were also increases in Tier 2 capital. The Group issued an additional £475m of Tier 2 capital in September 2020 in the form of Fixed Rate Reset Callable Tier 2 Notes due 2030. In addition, during the year the Group purchased £445m of Fixed Reset Callable Subordinated Tier 2 Notes due 2026.

Table 5: Capital flow statement[1]

	2020 £m	2019 £m
Common Equity Tier 1 capital[2]		
Common Equity Tier 1 capital at 1 October	**3,204**	2,113
Share capital and share premium	**1**	3
Retained earnings and other reserves (including special purpose entities)	**(92)**	(210)
Prudent valuation adjustment	**(1)**	(2)
Acquisition of Virgin Money Holdings (UK) plc	**–**	1,567
Intangible assets	**24**	(100)
Deferred tax assets relying on future profitability	**(4)**	(47)
Negative amounts resulting from the calculation of excess expected losses	**88**	(88)
Defined benefit pension fund assets	**(213)**	(119)
Fair value reserves related to gains or losses on cash flow hedges	**54**	(13)
IFRS 9 transitional relief	**210**	100
Total Common Equity Tier 1 capital	**3,271**	3,204
Tier 1 capital		
Tier 1 capital at 1 October	**915**	450
Share capital repurchased: perpetual non-cumulative preference shares	**–**	465
Total AT1 capital at 30 September	**915**	915
Total Tier 1 capital	**4,186**	4,119
Tier 2 capital		
Tier 2 capital at 1 October	**721**	626
Capital instruments issued: subordinated debt	**472**	–
Capital instruments purchased: subordinated debt	**(444)**	247
Credit risk adjustments[3]	**–**	(152)
Total Tier 2 capital	**749**	721
Total capital at 30 September	**4,935**	4,840

(1) The table shows the capital position on a CRD IV 'fully loaded' basis and transitional IFRS 9 basis.

(2) CET1 capital is comprised of shares issued and related share premium, retained earnings and other reserves less specified regulatory adjustments.

(3) The transition to IFRS 9 reporting has removed the requirement for Tier 2 credit risk adjustments.

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 2020, IAS 19 valuation was a surplus of £723m (30 September 2019: £396m surplus) resulting in the movement of £213m which is net of tax;
- deferred tax assets relying on future profitability: at 30 September 2019, £146m was deducted from CET1 capital and this increased to £151m at 30 September 2020;
- intangible assets: at 30 September 2019, £512m was deducted from CET1 capital and this decreased to £488m as at 30 September 2020;
- cash flow hedge reserve: this has increased during the year from £26m to £80m; and
- IFRS 9 transitional relief increased from £100m at 30 September 2019 to £310m at 30 September 2020, accounting for the £210m movement. This was driven by the package of 'Quick Fix' amendments which applied from 27 June 2020, and provided additional relief for relevant provisions raised, with a CET1 add-back percentage of 100% from 1 January 2020 and throughout 2021, reducing to 75% in 2022, 50% in 2023 and 25% in 2024.

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: IFRS 9-FL – Comparison of institutions' own funds and capital and leverage ratios

		A	C	E
		30 September 2020	31 March 2020	30 September 2019
	Available capital (£m)			
1	Common Equity Tier 1 (CET1) capital	3,271	3,261	3,204
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	2,961	3,114	3,104
3	Tier 1 capital	4,186	4,176	4,119
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3,876	4,029	4,019
5	Total capital	4,935	4,903	4,840
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4,720	4,756	4,740
	Risk-weighted assets (£m)			
7	Total risk-weighted assets	24,399	25,173	24,046
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	24,246	25,074	23,983
	Capital ratios (%)			
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.4%	13.0%	13.3%
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	12.2%	12.4%	12.9%
11	Tier 1 (as a percentage of risk exposure amount)	17.2%	16.6%	17.1%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.0%	16.1%	16.8%
13	Total capital (as a percentage of risk exposure amount)	20.2%	19.5%	20.1%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.5%	19.0%	19.8%
	Leverage ratio			
15	Leverage ratio total exposure measure (£m)	86,490	94,452	94,744
16	Leverage ratio (%)	4.8%	4.4%	4.3%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied (%)	4.5%	4.3%	4.2%

Capital resources

4.3 Reconciliation of statutory equity to regulatory capital

Table 7: Reconciliation of statutory equity to regulatory capital

As at 30 September	2020 £m	2019 £m
Statutory total equity	**4,932**	5,021
Less pension regulatory adjustments	**(470)**	(257)
Less additional value adjustment	**(6)**	(5)
Less intangible assets	**(488)**	(512)
Less deferred tax assets relying on future profitability	**(151)**	(146)
IFRS 9 transitional adjustment	**310**	100
Expected Loss	**–**	(88)
Less cash flow hedge	**80**	26
Additional Tier 1 foreseeable dividend	**(21)**	(20)
Regulatory Tier 1 capital	**4,186**	4,119
Statutory Tier 2 subordinated debt	**749**	722
Add unamortised hedge on issuance	**–**	(1)
Regulatory Tier 2 subordinated debt	**749**	721

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

		2020 £m	2019 £m
1	Total assets as per published financial statements	**90,259**	90,999
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	**81**	(35)
5	Adjustments for securities financing transactions (SFTs)	**2,072**	1,934
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**2,892**	2,728
EU-6b	Adjustment for exposures excluded from the leverage ratio exposure measure(1)	**(8,088)**	–
7	Other adjustments	**(725)**	(882)
8	**Total leverage ratio exposure**	**86,490**	94,744

(1) In accordance with Article 429 (14) of Regulation (EU) No 575/2013.

Table 9: LRCom – Leverage ratio common disclosure

		2020 £m	2019 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**89,940**	90,633
2	(Asset amounts deducted in determining Tier 1 capital)	**(725)**	(882)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**89,215**	89,751
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**179**	324
5	Add-on amounts for potential future exposure (PFE) associated with all derivatives transactions (mark-to-method and mark-to-market method)	**313**	344
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(93)**	(337)
11	**Total derivative exposures**	**399**	331
	Securities financing transaction exposures		
14	Counterparty credit risk exposure for Securities Financing Transaction (SFT) assets	**2,072**	1,934
16	**Total securities financing transaction exposures**	**2,072**	1,934
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**16,781**	15,247
18	(Adjustments for conversion to credit equivalent amounts)	**(13,889)**	(12,519)
19	**Other off-balance sheet exposures**	**2,892**	2,728
	Capital and total exposures		
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on- and off-balance sheet))	**(8,088)**	–
20	Tier 1 capital	**4,186**	4,119
21	**Total leverage ratio exposures**	**86,490**	94,744
	Leverage ratio		
22	Leverage ratio	**4.8%**	4.3%
	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

Capital resources

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

		2020 £m	2019 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), *of which:*	**81,852**	90,633
EU-3	Banking book exposures, *of which:*	**81,852**	90,633
EU-4	Covered bonds	**1,442**	1,415
EU-5	Exposures treated as sovereigns	**3,864**	12,922
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities NOT treated as sovereigns	**169**	125
EU-7	Institutions	**894**	1,240
EU-8	Secured by mortgages of immovable properties	**61,269**	63,648
EU-9	Retail exposures	**5,318**	5,208
EU-10	Corporate	**5,316**	4,021
EU-11	Exposures in default	**593**	552
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**2,987**	1,502

The Group's leverage ratio is 4.8% (2019: 4.3%), which exceeds the CRD IV minimum of 3%.

The UK leverage ratio framework results in an increase in the leverage ratio from 4.8% under CRD IV to 4.9% on the PRA modified basis. This is above the PRA's minimum requirement of 3.25%.

On 4 May 2020, the PRA published a modification by consent for banks subject to the UK Leverage Ratio Part of the PRA Rulebook to exclude loans under the Bounce Back Loan scheme from the leverage ratio total exposure measure. Bounce back loans have therefore been excluded from the UK leverage exposure value used in the leverage ratio calculation.

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 in Appendix 1.

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 the FCA, which are implemented through the CRD IV CRR regulatory framework. Pillar 1 capital requirements for the year ended 30 September 2020 are calculated in respect of credit risk, operational risk, market risk, counterparty credit risk and credit valuation adjustments. The capital requirements for retail mortgages are calculated using an AIRB approach, business portfolios use a FIRB approach and the specialised lending portfolio uses a slotting IRB approach. All other requirements are calculated using the standardised approach.

Although the Group obtained IRB accreditation for certain portfolios in October 2018, the PRA has since released a final policy statement outlining its approach to implementing definition of default in line with EBA guidelines. Further to this, there are recommended changes to both PD and LGD model components relating directly to the calculation of risk-weighted capital requirements. In July 2020 the PRA announced their timeline to evaluate UK bank's approach to the change in the definition of default calculation. Implementation for residential mortgage portfolios is now likely to be in 2021 and by 1 January 2022 for all other exposure classes, subject to PRA approval.

A rigorous approach is taken to assessing risks that are not adequately covered by Pillar 1, including interest rate risk and pension risk. The Group also undertakes analysis of a range of stress scenarios to test the impact on capital arising from severe yet plausible scenarios. These approaches to capital are thoroughly documented in the Group's ICAAP which is subject to review, challenge and approval by the Board.

The Group IRB portfolio and framework looks at the customer and business PD along with loss severity (EAD and LGD). The outputs are used in the calculation of RWA, EL and IFRS 9. However, the IRB parameters and rating assessments are actively embedded in the following day-to-day processes:

- Credit approval – IRB models and parameters are used to assess the customer risk and IRB outputs are used to inform cut-off models that drive the lending decisions;
- Pricing – IRB outputs and estimates are used in the assessment of new products and portfolio pricing reviews;
- Risk appetite – IRB parameters are included and models are analysed to inform the risk capacity and appetite; and
- Asset quality – IRB parameters are monitored to understand the product and segment performance of the Group's portfolios.

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.

Regulatory capital developments

Capital Requirements Directive V (CRD V) and Capital Requirements Regulation II (CRR II)

On 16 July 2020, Her Majesty's Treasury (HMT) issued a consultation on aspects of CRD V that must be implemented before the end of the transition period for the UK leaving the EU. Items being consulted on include macro- prudential tools (O-SII buffer, Systemic Risk Buffer), holding companies and equal pay framework and enforcement. On 15 October 2020, HMT published a summary of responses to the consultation and laid draft legislation in Parliament.

On 31 July 2020, the PRA issued CP12/20 'CRD V' which set out proposed changes to the PRA's rules, supervisory statements and statements of policy to meet the objectives of CRD V.

This consultation was focused on Pillar 2, remuneration, intermediate parent undertakings, governance, and third-country branch reporting.

On 20 October 2020, the PRA issued CP17/20 'CRD V: Further implementation'. This consultation is focused on: the approval and supervision of holding companies; measures to enhance supervisory requirements for Interest rate risk in the banking book (IRRBB); revisions to the capital buffers framework; amendments to the definition of the maximum distributable amount that constrains a firm's distributions when it uses its capital buffers; and clarifying the quality of capital required to meet Pillar 2. It also covers CRR measures in respect of the process through which variable capital requirements may be applied to firms' real estate exposures, and the methods that may be used for prudential consolidation.

Based on the CRD V and CRR II requirements published in the EU Official Journal and the subsequent HMT/PRA releases, the Group does not anticipate a material impact on capital ratios.

Basel III revisions

The Basel Committee published its final reforms to the Basel III framework in December 2017. The amendments include changes to the standardised approaches to credit and operational risks and the introduction of a new RWA output floor. The reforms are subject to a transition period from 2023 to 2028.

Capital requirements

IRB approach to UK Mortgage Risk Weights

In September 2020, the PRA issued Consultation Paper 14/20 'Internal Ratings Based UK mortgage risk weights: Managing deficiencies in model risk capture'. The proposals help address the PRA's view of prudential risks from "inappropriately low" IRB UK mortgage risk weights with the aim of:

- reducing the difference in standardised approach (SA) and IRB mortgage risk weights for current UK mortgages;
- placing a limit on future divergence; and
- reducing the variability of mortgage risk weights between those firms on the IRB approach for given levels of mortgage LTVs.

Key proposals from this are the introduction of the following floors:

- an individual mortgage risk weight of at least 7%; and
- an exposure-weighted average risk weight of at least 10% for an IRB UK mortgage portfolio.

Following consultation, the PRA's final policy is expected to take effect from 1 January 2022.

COVID-19 regulatory capital developments

There have been a number of regulatory capital developments in the UK and Europe in response to COVID-19. Key items relevant to the Group are set out below.

Government backed loan schemes

During the year, the Group participated in the various government backed loan schemes for businesses, in addition to offering payment holidays to both business and retail customers. Details are provided in the credit risk section of the Group's Annual Report & Accounts.

Revised timelines

In order to provide operational capacity for banks to respond to the immediate financial stability priorities resulting from the impact of COVID-19, both the PRA and Basel communicated revised timelines across key regulatory initiatives. The implementation of the Basel III revisions has been delayed by one year to 1 January 2023 which includes revisions to: the standardised approach to credit risk; IRB approach; operational risk framework, market risk framework; Pillar 3 disclosures and the introduction of output floors.

In addition, the PRA advised that the proposals in Consultation Paper 21/19 'Credit risk: Probability of Default and Loss Given Default estimation' will be delayed by one year to 1 January 2022 and the hybrid IRB models will also be delayed until the same date.

On 26 March 2020, the PRA wrote to the Chief Executive Officers of UK banks setting out guidance in respect of:

- consistent and robust IFRS 9 accounting and the regulatory definition of default;
- the treatment of borrowers who breach covenants due to COVID-19; and
- the regulatory capital treatment of IFRS 9.

The PRA has subsequently provided a number of updates to banks in this regard as the COVID-19 situation evolves.

CRR 'Quick Fix' package

On 24 June 2020, the European Parliament adopted regulation to facilitate lending to households and businesses in the EU in light of COVID-19. This package, known as the 'CRR Quick Fix', came into force on 27 June 2020 and made a number of beneficial amendments to the CRR that apply to the Group, such as IFRS 9 transitional arrangements and SME Supporting Factors.

On 14 October 2020, the EBA published its final draft Regulatory Technical Standards (RTS) specifying the prudential treatment of software assets. The RTS replaces the current upfront full deduction with a simple approach based on a prudential amortisation of software assets calibrated over a period of maximum three years. The RTS will become effective on the day following its publication in the Official Journal of the European Union.

Minimum requirement for own funds and eligible liabilities (MREL)

In June 2018, the BoE published its updated approach to setting a MREL. MREL is subject to phased implementation and will be fully implemented from 1 January 2022, at which time the Group's indicative MREL is expected to be two times the sum of its Pillar 1 and Pillar 2A capital requirements, subject to final regulatory guidance. During the transitional period from 1 January 2020 until 31 December 2021, the Group is subject to an interim MREL of 18% of RWA.

During 2020, the Group issued £0.9bn of debt that contributes to its MREL (£450m senior unsecured term funding and £475m subordinated debt). Combined with previous issuances made over the last few years, the Group's MREL ratio of 28.4% comfortably exceeds its interim MREL and is in line with its expected end-state MREL.

This means future MREL issuance is focused on building a prudent management buffer over the expected end-state MREL.

Monitoring

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

5.2 Minimum capital requirements

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 RWA. This covers credit risk, operational risk, counterparty credit risk and Credit Value Adjustment (CVA). The table below sets out the risk-weighted assets and Pillar 1 capital requirements of the Group.

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

		RWA		Minimum capital requirements
		2020 £m	2019 £m	2020 £m
1	Credit risk (excluding CCR)	**21,181**	20,825	**1,695**
2	*Of which: the standardised approach*	**5,335**	5,721	**427**
3	*Of which: the FIRB approach*[1]	**6,362**	6,258	**509**
4	*Of which: the AIRB approach*	**9,484**	8,846	**759**
6	Counterparty Credit Risk (CCR)	**354**	383	**28**
7	*Of which: mark-to-market*	**179**	191	**14**
12	*Of which: CVA*	**175**	192	**14**
23	Operational risk	**2,557**	2,606	**205**
25	*Of which: standardised approach*	**2,557**	2,606	**205**
27	Amounts below the thresholds for deduction (subject to 250% risk weight)	**307**	232	**25**
29	**Total**	**24,399**	24,046	**1,953**

(1) Business exposures are reported under the FIRB approach. Following approval received in March 2020, specialised lending exposures moved from the standardised approach to an IRB slotting basis and this is also reported under the FIRB approach.

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

Table 12: Capital requirements

	As at 30 September 2020	
MINIMUM REQUIREMENTS	CET1	Total capital
Pillar 1[1]	**4.5%**	**8.0%**
Pillar 2A[2]	**2.5%**	**4.4%**
Total capital requirement	**7.0%**	**12.4%**
Capital conservation buffer	**2.5%**	**2.5%**
UK countercyclical capital buffer	**0.0%**	**0.0%**
Total (excluding PRA buffer)[3]	**9.5%**	**14.9%**

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

(2) On 7 May 2020, the PRA announced that Pillar 2A capital requirements for banks would be converted from an RWA percentage to a fixed amount. This change was made on the basis that the PRA does not believe that RWA are a good approximation for the evolution of the risks captured in Pillar 2A in a stress.

(3) The Group may be subject to a PRA buffer as set by the PRA but is not permitted to disclose the level of any buffer. A PRA buffer can consist of two components:

— a risk management and governance buffer that is set as a scalar of the Pillar 1 and Pillar 2A requirements; and

— a buffer relating to the results of the BoE stress tests.

The Group continues to maintain a significant buffer to its CRD IV minimum CET1 requirement, with excess CET1 of £950m or 3.9% RWA.

The Group's total capital Pillar 2A requirement has reduced from 5.3% at September 2019 to 4.4% at September 2020 following revisions made by the PRA during the year.

The regulatory capital buffer framework is intended to ensure firms maintain a sufficient amount of capital above their regulatory minimum in order to withstand periods of stress. The UK has implemented the provisions on capital buffers outlined in the CRD to create combined capital buffers including a Capital Conservation Buffer (CCB), a Countercyclical Capital Buffer (CCyB), a Global Systemically Important Institution G-SII Buffer, and a Systemic Risk Buffer (SRB) for ring-fenced banks. The Group's capital planning process considers the impact of all relevant capital buffers.

The UK CCyB is dependent upon the BoE's view of credit conditions in the economy and may be set between 0% and 2.5%. On 11 March 2020, as part of a package of measures to support the economy from the impact of COVID-19, the FPC announced a reduction in the UK CCyB to 0% with immediate effect. The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

The Group does not currently meet the criteria for designation as a systemically important institution or the threshold for systemic risk, as such is not subject to a G-SII or SRB.

Capital requirements

Table 13: Geographical distribution of credit exposures relevant for the calculation of the CCyB

		2020											
		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
Breakdown by country:		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 securiti-sation 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	Weighting	%
010	UK	**8,449**	**72,151**	**–**	**–**	**–**	**–**	**1,709**	**–**	**–**	**1,709**	**1.00**	**0.0%**
020	**Total**	**8,449**	**72,151**	**–**	**–**	**–**	**–**	**1,709**	**–**	**–**	**1,709**	**1.00**	**0.0%**

		2019											
		General credit exposures		Trading book exposures		Securitisation exposures		Own funds requirements					
Breakdown by country:		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 securiti-sation 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	Weighting	%
010	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%

Table 14: Amount of institution-specific CCyB

		2020 £m
010	**Total risk exposure amount**	**24,399**
020	Institution-specific countercyclical capital buffer rate	**0%**
030	Institution-specific countercyclical capital buffer requirement	**–**

		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

Credit risk

6.1 Credit risk exposures 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 2020, the total credit risk exposures of the Group amounted to £104,935m (2019: £104,641m).

Gross loans and advances to customers at 30 September 2020 totalled £72,925m (2019: £73,246m), with the decrease of £0.3bn reflecting the Group's focus on supporting existing customers, muted demand for new borrowing and the impact of changing customer behaviours as lending was paid down more rapidly.

The overall capital requirement for credit risk has increased by 2.1% from £1,685m in 2019 to £1,720m in 2020.

During the year, the Group participated in the various government backed loan schemes for businesses, in addition to offering payment holidays across business, personal and mortgage divisions. Details on the government backed loan schemes and payment holidays which the Group has offered during the year are shown in the credit risk section of the Group's Annual Report & Accounts.

The table below shows movements in credit risk RWA from 1 October 2019 to 30 September 2020.

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

		2020			
		A	B		
		IRB RWA amounts £m	IRB capital requirement £m	SA RWA amounts £m	SA capital requirement £m
1	**RWA as at the end of the previous reporting period**	**15,104**	**1,209**	**5,953**	**476**
2	Asset size	**(48)**	**(4)**	**187**	**15**
3	Asset quality	**464**	**37**	**(65)**	**(5)**
4	Model updates[1]	**149**	**12**	**–**	**–**
5	Methodology and policy	**(287)**	**(23)**	**(48)**	**(4)**
7	IRB accreditation	**457**	**36**	**(473)**	**(38)**
8	Other	**7**	**1**	**88**	**8**
9	**RWA as at the end of the reporting period**	**15,846**	**1,268**	**5,642**	**452**

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

Methodology and policy movements have been driven primarily by SME Supporting Factor changes, which were implemented by the CRR Quick Fix package and took effect from 27 June 2020, resulting in a £695m reduction in RWA, £20m of which was standardised related.

The other material change impacting methodology and policy movements was the inclusion of a new mortgage LGD model, approved by the regulator and deployed into the heritage Virgin Money rating system in March 2020. This resulted in an uplift of £511m in RWA, reflecting increased risk sensitivity and improved downturn estimation.

Of the remaining reduction of £151m, £94m relates to the recognition of eligible collateral in relation to the asset finance and invoice finance portfolios, following approval by the PRA; and a further £68m reduction due to a change in the credit conversion factor applied to personal current accounts and business credit cards.

IRB accreditation movements were driven by PRA approval received in March 2020 to move the specialised lending portfolio from the standardised approach to IRB slotting, which was first reported in June 2020.

Credit risk

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 & Accounts for the year ended 30 September 2020, 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

		2020			
		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	11,190	10,394	6,362	509
4	*Of which: Specialised lending*	592	300	439	439
5	*Of which: SMEs*	7,923	7,745	4,072	326
6	Retail	61,548	62,037	9,484	759
7	*Secured by real estate property*	61,548	62,037	9,484	759
9	*Non-SMEs*	61,548	62,037	9,484	759
15	**Total IRB approach**	72,738	72,431	15,846	1,268
16	Central governments or central banks	11,168	11,085	–	–
17	Regional governments or local authorities	418	384	13	1
18	Public sector entities	502	465	5	–
19	Multilateral development banks	1,268	1,180	–	–
21	Institutions	905	796	186	15
22	Corporates	496	506	210	17
23	*Of which: SMEs*	122	173	81	6
24	Retail	15,098	15,053	4,090	327
26	Secured by mortgages on immovable property	620	843	144	12
27	*Of which: SMEs*	279	505	64	5
28	Exposures in default	60	72	62	5
	Of which: SMEs	1	5	1	–
29	Items associated with particularly high risk	–	10	–	–
	Of which: SMEs	–	9	–	–
30	Covered bonds	1,442	1,473	144	12
32	Collective investments undertakings	–	–	–	–
33	Equity exposures	13	10	14	1
34	Other exposures	746	905	774	62
35	**Total standardised approach**	32,736	32,782	5,642	452
36	**Total**	105,474	105,213	21,488	1,720

		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
4	*Of which: Specialised lending*	–	–	–	–
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

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.

RWA have decreased over the period reflecting the application of EU-approved regulatory changes introduced to help combat the economic impacts of COVID-19.

Strong business lending growth in the period had a limited RWA impact due to the government guaranteed element attracting a sovereign risk weight of zero. The management of RWA is subject to ongoing activities to optimise the use of capital.

Credit risk

The table below shows credit risk exposure by customer industry classification, including small and medium-sized enterprises (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 is based on the customer industry identifier used for credit risk purposes and may differ from classifications used for other external reports.

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

		2020										
		Government admin-istration & defence £m	Agriculture, forestry, fishing & mining £m	Financial investment & insurance £m	Real estate – con-struction £m	Manufac-turing £m	Personal lending £m	Real estate – mortgage £m	Wholesale and retail trade £m	All other business £m	Non-customer assets £m	Total £m
3	Corporates	–	**2,028**	**157**	**314**	**1,531**	–	–	**1,506**	**5,654**	–	**11,190**
4	Retail	–	–	–	–	–	–	**61,548**	–	–	–	**61,548**
6	**Total IRB approach**	–	**2,028**	**157**	**314**	**1,531**	–	**61,548**	**1,506**	**5,654**	–	**72,738**
7	Central governments or central banks	**2,211**	–	**8,957**	–	–	–	–	–	–	–	**11,168**
8	Regional governments or local authorities	**418**	–	–	–	–	–	–	–	–	–	**418**
9	Public sector entities	**483**	–	–	–	–	–	–	–	**19**	–	**502**
10	Multilateral development banks	–	–	**1,268**	–	–	–	–	–	–	–	**1,268**
12	Institutions	–	–	**905**	–	–	–	–	–	–	–	**905**
13	Corporates	–	**11**	**26**	**31**	**19**	–	–	**29**	**380**	–	**496**
14	Retail	–	–	–	–	–	**15,098**	–	–	–	–	**15,098**
15	Secured by mortgages on immovable property	–	**1**	**2**	–	–	–	**5**	**1**	**611**	–	**620**
16	Exposures in default	–	–	–	–	–	**58**	–	–	**2**	–	**60**
17	Items associated with particularly high risk	–	–	–	–	–	–	–	–	–	–	–
18	Covered bonds	–	–	**1,442**	–	–	–	–	–	–	–	**1,442**
20	Collective investments undertakings	–	–	–	–	–	–	–	–	–	–	–
21	Equity exposures	–	–	–	–	–	–	–	–	**13**	–	**13**
22	Other exposures	**123**	–	**148**	–	–	–	–	–	–	**475**	**746**
23	**Total standardised approach**	**3,235**	**12**	**12,748**	**31**	**19**	**15,156**	**5**	**30**	**1,025**	**475**	**32,736**
24	**Total**	**3,235**	**2,040**	**12,905**	**345**	**1,550**	**15,156**	**61,553**	**1,536**	**6,679**	**475**	**105,474**
	Of which: SMEs	–	**1,845**	**111**	**184**	**951**	–	–	**1,121**	**4,111**	–	**8,323**

		2019										
		Government admin-istration & defence £m	Agriculture, forestry, fishing & mining £m	Financial investment & insurance £m	Real estate – con-struction £m	Manufac-turing £m	Personal lending £m	Real estate – mortgage £m	Wholesale 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
12	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

Credit risk

6.2 Credit risk exposure: Analysis by residual maturity

Table 18: EU CRB-E – Maturity of exposures

		2020					
		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	–	4,167	5,226	1,797	–	11,190
4	Retail	–	943	2,271	58,334	–	61,548
6	**Total IRB approach**	–	5,110	7,497	60,131	–	72,738
7	Central governments or central banks	–	9,459	115	1,339	255	11,168
8	Regional governments or local authorities	–	405	3	10	–	418
9	Public sector entities	–	116	116	270	–	502
10	Multilateral development banks	–	–	140	1,128	–	1,268
12	Institutions	–	153	–	193	559	905
13	Corporates	–	124	114	258	–	496
14	Retail	–	14,217	753	128	–	15,098
15	Secured by mortgages on immovable property	–	74	305	241	–	620
16	Exposures in default	–	53	5	2	–	60
17	Items associated with particularly high risk	–	–	–	–	–	–
18	Covered bonds	–	140	993	309	–	1,442
20	Collective investments undertakings	–	–	–	–	–	–
21	Equity exposures	–	–	13	–	–	13
22	Other exposures	–	–	–	–	746	746
23	**Total standardised approach**	–	24,741	2,557	3,878	1,560	32,736
24	**Total**	–	29,851	10,054	64,009	1,560	105,474

		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
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

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

6.3 Credit risk exposure analysis by geography

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

		2020			2019		
		A	M	N	A	M	N
		UK £m	Other geographical areas £m	Total £m	UK £m	Other geographical areas £m	Total £m
3	Corporates	**11,134**	**56**	**11,190**	9,314	12	9,326
4	Retail	**61,455**	**93**	**61,548**	62,876	92	62,968
6	**Total IRB approach**	**72,589**	**149**	**72,738**	72,190	104	72,294
7	Central governments or central banks	**11,053**	**115**	**11,168**	11,538	126	11,664
8	Regional governments or local authorities	**418**	**–**	**418**	377	–	377
9	Public sector entities	**116**	**386**	**502**	114	312	426
10	Multilateral development banks	**–**	**1,268**	**1,268**	–	1,034	1,034
12	Institutions	**905**	**–**	**905**	597	359	956
13	Corporates	**496**	**–**	**496**	481	1	482
14	Retail	**15,089**	**9**	**15,098**	14,312	7	14,319
15	Secured by mortgages on immovable property	**620**	**–**	**620**	1,002	56	1,058
16	Exposures in default	**60**	**–**	**60**	56	–	56
17	Items associated with particularly high risk	**–**	**–**	**–**	11	–	11
18	Covered bonds	**1,442**	**–**	**1,442**	1,415	–	1,415
20	Collective investments undertakings	**–**	**–**	**–**	1	–	1
21	Equity exposures	**13**	**–**	**13**	9	–	9
22	Other exposures	**746**	**–**	**746**	754	–	754
23	**Total standardised approach**	**30,958**	**1,778**	**32,736**	30,667	1,895	32,562
24	**Total**	**103,547**	**1,927**	**105,474**	102,857	1,999	104,856

Credit risk exposures arising on lending outside of the UK 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.

Table 20: EU CR1-A – Credit quality of exposures by exposure class and instrument

		2020						
		A	B	C	D	E	F	G
		Gross carrying values of						
		Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment[1] £m	General credit risk adjustment £m	Accumulated write-offs in the period £m	Credit risk adjustment charges of the period £m	Net values (a+b-c-d) £m
3	Corporates	**290**	**11,190**	**290**	**–**	**21**	**179**	**11,190**
4	*Of which: Specialised lending*	**30**	**599**	**37**	**–**	**–**	**36**	**592**
5	*Of which: SMEs*	**114**	**7,994**	**185**	**–**	**5**	**89**	**7,923**
6	*Retail*	**392**	**61,285**	**129**	**–**	**3**	**95**	**61,548**
7	*Secured by real estate property*	**392**	**61,285**	**129**	**–**	**3**	**95**	**61,548**
9	*Non-SMEs*	**392**	**61,285**	**129**	**–**	**–**	**95**	**61,548**
15	**Total IRB approach**	**682**	**72,475**	**419**	**–**	**24**	**274**	**72,738**
16	Central governments or central banks	**–**	**11,168**	**–**	**–**	**–**	**–**	**11,168**
17	Regional governments or local authorities	**–**	**418**	**–**	**–**	**–**	**–**	**418**
18	Public sector entities	**–**	**502**	**–**	**–**	**–**	**–**	**502**
19	Multilateral development banks	**–**	**1,268**	**–**	**–**	**–**	**–**	**1,268**
21	Institutions	**–**	**906**	**1**	**–**	**–**	**1**	**905**
22	Corporates	**–**	**499**	**3**	**–**	**–**	**1**	**496**
23	*Of which: SMEs*	**–**	**123**	**1**	**–**	**–**	**–**	**122**
24	Retail	**–**	**15,182**	**84**	**–**	**34**	**221**	**15,098**
26	Secured by mortgages on immovable property	**–**	**620**	**–**	**–**	**–**	**(1)**	**620**
27	*Of which: SMEs*	**–**	**279**	**–**	**–**	**–**	**(1)**	**279**
28	Exposures in default	**68**	**–**	**8**	**–**	**2**	**–**	**60**
	Of which: SMEs	**1**	**–**	**–**	**–**	**–**	**–**	**1**
29	Items associated with particularly high risk	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	Of which: SMEs	**–**	**–**	**–**	**–**	**–**	**–**	**–**
30	Covered bonds	**–**	**1,442**	**–**	**–**	**–**	**–**	**1,442**
32	Claims in the form of CIU	**–**	**–**	**–**	**–**	**–**	**–**	**–**
33	Equity exposures	**–**	**13**	**–**	**–**	**–**	**–**	**13**
34	Other exposures	**–**	**746**	**–**	**–**	**–**	**–**	**746**
35	***Total Standardised approach***	**68**	**32,764**	**96**	**–**	**36**	**222**	**32,736**
36	**Total**	**750**	**105,239**	**515**	**–**	**60**	**496**	**105,474**
37	*Of which: Loans*	**750**	**98,604**	**515**	**–**	**60**	**496**	**98,839**
38	*Of which: Debt securities*	**–**	**5,350**	**–**	**–**	**–**	**–**	**5,350**
39	*Of which: Off balance sheet exposures*	**42**	**16,767**	**56**	**–**	**–**	**–**	**16,753**

(1) Fair Values and NPV values are excluded from specific credit risk adjustments column and they have been updated for the IFRS9 Transitional Relief impact.

Credit risk

		2019						
		A	B	C	D	E	F	G
		Gross carrying values of						
		Defaulted exposures £m	Non-defaulted exposures £m	Specific credit risk adjustment[1] £m	General credit risk adjustment £m	Accumulated write-offs in the period £m	Credit risk adjustment charges of the period £m	Net values (a+b-c-d) £m
3	Corporates	251	9,210	135	–	26	35	9,326
4	*Of which: Specialised lending*	–	–	–	–	–	–	–
5	*Of which: SMEs*	151	7,428	98	–	17	16	7,481
6	*Retail*	346	62,665	43	–	3	4	62,968
7	*Secured by real estate property*	346	62,665	43	–	3	4	62,968
9	*Non-SMEs*	346	62,665	43	–	3	1	62,968
15	**Total IRB approach**	597	71,875	178	–	29	39	72,294
16	Central governments or central banks	–	11,664	–	–	–	(1)	11,664
17	Regional governments or local authorities	–	377	–	–	–	–	377
18	Public sector entities	–	426	–	–	–	(3)	426
19	Multilateral development banks	–	1,034	–	–	–	–	1,034
21	Institutions	–	956	–	–	–	–	956
22	Corporates	–	485	3	–	1	(3)	482
23	*Of which: SMEs*	–	231	1	–	–	(1)	230
24	Retail	–	14,408	89	–	9	116	14,319
26	Secured by mortgages on immovable property	–	1,061	3	–	–	(5)	1,058
27	*Of which: SMEs*	–	677	2	–	–	–	675
28	Exposures in default	78	–	22	–	2	–	56
	Of which: SMEs	6	–	1	–	1	–	5
29	Items associated with particularly high risk	–	11	–	–	–	–	11
	Of which: SMEs	–	11	–	–	–	–	11
30	Covered bonds	–	1,415	–	–	–	–	1,415
32	Claims in the form of CIU	–	1	–	–	–	–	1
33	Equity exposures	–	9	–	–	–	–	9
34	Other exposures	–	754	–	–	–	–	754
35	***Total Standardised approach***	78	32,601	117	–	12	104	32,562
36	**Total**	675	104,476	295	–	41	143	104,856
37	*Of which: Loans*	674	99,277	290	–	42	56	99,661
38	*Of which: Debt securities*	–	2,716	–	–	–	–	2,716
39	*Of which: Off balance sheet exposures*	24	13,804	24	–	–	–	13,804

(1) Fair Values and NPV values are excluded from specific credit risk adjustments column and they have been updated for the IFRS9 Transitional Relief impact.

The Group increased its credit provisions during the year in response to the deteriorating economic outlook, which was primarily driven by restrictions which were put in place to combat the spread of COVID-19. This is evidenced by the increase in columns C and F in the above table year on year. The Group has increased portfolio provision coverage in anticipation of the continued uncertainty over the shape and timing of the economic recovery, recognising also that credit losses are likely to increase.

6.4 Credit risk exposures analysis by industry or counterparty type

Table 21: EU CR1-B – Credit quality of exposures by industry or counterparty types

		2020					
		Original value					
		A	B	C	E	F	G
		Gross carrying values of					
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments(1)	Accumulated write-offs in the period	Credit risk adjustment charges of the period	Net values
1	Government administration and defence	**–**	**3,235**	**–**	**–**	**–**	**3,235**
2	Agriculture, forestry, fishing and mining	**36**	**2,043**	**39**	**–**	**13**	**2,040**
3	Financial investment and insurance	**1**	**12,907**	**3**	**–**	**–**	**12,905**
4	Real estate – construction	**2**	**350**	**7**	**–**	**3**	**345**
5	Manufacturing	**63**	**1,528**	**41**	**1**	**21**	**1,550**
6	Personal lending	**65**	**15,183**	**92**	**34**	**221**	**15,156**
7	Real estate – mortgage	**392**	**61,290**	**129**	**3**	**95**	**61,553**
8	Wholesale and retail trade	**39**	**1,541**	**44**	**1**	**25**	**1,536**
9	All other business	**152**	**6,688**	**161**	**22**	**118**	**6,679**
10	Non-customer assets	**–**	**475**	**–**	**–**	**–**	**475**
11	**Total**	**750**	**105,240**	**516**	**61**	**496**	**105,474**

		2019					
		Original value					
		A	B	C	E	F	G
		Gross carrying values of					
		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustments(1)	Accumulated write-offs in the period	Credit risk adjustment charges of the period	Net values
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

(1) Fair Values and NPV values are excluded from specific credit risk adjustments column and they have been updated for the IFRS9 Transitional Relief impact.

Credit risk

6.5 Impaired lending provisions

6.5.1 Definition

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 and to calculate the level of Expected Credit Losses (ECL). This is supplemented by management judgement in the form of PMAs where necessary.

Under IFRS 9, loans are categorised into stages as per the below criteria:

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.

The impairment provisions recognised during the year reflect the Group's best estimate of the level of provisions required for future credit losses, as calibrated under prudent weighted economic scenarios with expert credit risk judgement overlays applied.

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 2020 Virgin Money UK Annual Report & Accounts. Following the adoption of IFRS 9 for 2019 reporting, all provisions are classed as specific credit risk adjustments.

Reporting

The formal reporting of impaired lending, provisions and associated relevant asset quality metrics and trends is 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 & Accounts.

6.6 Analysis of past due advances to customers

The Group's impairment provisions held on credit exposures increased by £373m to £735m as at 30 September 2020, primarily due to the Group's reassessment of the impact of COVID-19 on future expected credit losses. This results from the impact of adopting more pessimistic forward looking multiple macro-economic scenarios, with higher probability weights being applied to a worsening economic outlook.

Applying these revised economic scenarios to credit impairment models has increased the level of ECL across all portfolios. In addition, judgemental overlays have been applied to the mortgage and personal portfolios to reflect additional risks posed by the economic impacts of COVID-19.

Although there has been a significant increase in provision coverage levels across all portfolios, the Group has not yet seen any material deterioration in asset quality measures, with arrears default levels remaining low, and forbearance levels static. This is due to a combination of customers support measures, controlled risk appetite and a continued focus on responsible lending decisions.

Customer support measures include participating in government backed loan schemes and offering payment holidays, in addition to other temporary support measures such as furlough and HMRC payment deferrals. Further information can be found on page 129 of the credit risk section in the Group's Annual Report & Accounts.

The EBA published guidelines on the disclosure of non-performing and forborne exposures in December 2018 which introduced ten additional reporting templates. The Group has a gross NPL ratio which is less than 5%, therefore six of the ten templates are not applicable. Furthermore, Template 9 – 'Collateral obtained by taking possession and execution processes' is not applicable as the Group does not hold any collateral obtained by taking possession.

These guidelines apply from 31 December 2019, therefore tables 22, 23 and 24 are therefore disclosed for the first time in 2020.

Tables 22-27 have been prepared in accordance with FINREP regulations.

Table 26 provides an ageing analysis of accounting on-balance sheet past-due exposures regardless of their impairment status.

Table 25 provides an overview of the changes in the stock of specific credit risk adjustments.

Table 22: Credit quality of performing and non-performing exposures by past due days

		2020											
		Gross carrying amount/nominal amount											
		Performing exposures			Non-performing exposures								
		£m	Not past due or past due ≤ 30 days £m	Past due > 30 days ≤ 90 days £m	£m	Unlikely to pay that are not past due or are past due ≤ 90 days £m	Past due > 90 days ≤ 180 days £m	Past due > 180 days ≤ 1 year £m	Past due > 1 year ≤ 2 year £m s	Past due > 2 years ≤ 5 years £m	Past due > 5 years ≤ 7 years £m	Past due > 7 years £m	Of which defaulted £m
		A	B	C	D	E	F	G	H	I	J	K	L
1	**Loans and advances**	**75,177**	**75,027**	**150**	**978**	**625**	**111**	**102**	**74**	**55**	**5**	**6**	**907**
2	Central banks	**2,639**	**2,639**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3	General governments	**3**	**3**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4	Credit institutions	**351**	**351**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5	Other financial corporations	**330**	**330**	**–**	**1**	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**1**
6	Non-financial corporations	**7,552**	**7,534**	**18**	**270**	**242**	**3**	**4**	**10**	**10**	**1**	**–**	**270**
7	*Of which: SMEs*	**5,801**	**5,785**	**16**	**128**	**117**	**2**	**4**	**5**	**–**	**–**	**–**	**128**
8	Households	**64,302**	**64,170**	**132**	**707**	**383**	**108**	**97**	**64**	**45**	**4**	**6**	**636**
9	**Debt securities**	**5,080**	**5,080**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
10	Central banks	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
11	General governments	**1,762**	**1,762**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
12	Credit institutions	**3,318**	**3,318**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
13	Other financial corporations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
14	Non-financial corporations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
15	**Off-balance sheet exposures**	**16,741**			**49**								**49**
16	Central banks	**–**			**–**								**–**
17	General governments	**367**			**–**								**–**
18	Credit institutions	**10**			**–**								**–**
19	Other financial corporations	**–**			**–**								**–**
20	Non-financial corporations	**3,224**			**34**								**34**
21	Households	**13,140**			**15**								**15**
22	**Total**	**96,998**	**80,107**	**150**	**1,027**	**625**	**111**	**102**	**74**	**55**	**5**	**6**	**956**

Credit risk

Table 23: Performing and non-performing exposures and related provisions

		2020														
		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O
		Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions							Collateral and financial guarantees received	
		Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions			Accu-mulated partial write-off £m	On per-forming exposures £m	On non-per-forming exposures £m
		£m	Of which stage 1 £m	Of which stage 2 £m	£m	Of which stage 2 £m	Of which stage 3 £m	£m	Of which stage 1 £m	Of which stage 2 £m	£m	Of which stage 2 £m	Of which stage 3 £m			
1	**Loans and advances**	75,177	62,428	12,749	978	115	863	(597)	(138)	(459)	(141)	(6)	(135)	–	63,053	678
2	Central banks	2,639	2,639	–	–	–	–	–	–	–	–	–	–	–	–	–
3	General governments	3	3	–	–	–	–	–	–	–	–	–	–	–	–	–
4	Credit institutions	351	351	–	–	–	–	–	–	–	–	–	–	–	–	–
5	Other financial corporations	330	330	37	1	–	1	(2)	(1)	(1)	–	–	–	–	55	1
6	Non-financial corporations	7,552	4,269	3,283	270	21	249	(218)	(49)	(169)	(69)	–	(69)	–	4,482	98
7	*Of which: SMEs*	5,801	2,844	2,957	128	–	128	(136)	(25)	(110)	(26)	–	(26)	–	3,460	75
8	Households	64,302	54,873	9,429	707	94	613	(377)	(88)	(289)	(72)	(6)	(66)	–	58,516	579
9	**Debt securities**	5,080	5,080	–	–	–	–	–	–	–	–	–	–	–	–	–
10	Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
11	General governments	1,762	1,762	–	–	–	–	–	–	–	–	–	–	–	–	–
12	Credit institutions	3,318	3,318	–	–	–	–	–	–	–	–	–	–	–	–	–
13	Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
14	Non-financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15	**Off-balance sheet exposures**	16,741	15,075	1,666	49	–	49	–	–	–	–			–	–	–
16	Central banks	–	–	–	–	–	–	–	–	–	–			–	–	–
17	General governments	367	361	6	–	–	–	–	–	–	–			–	–	–
18	Credit institutions	10	8	2	–	–	–	–	–	–	–			–	–	–
19	Other financial corporations	–	–	–	–	–	–	–	–	–	–			–	–	–
20	Non-financial corporations	3,224	1,959	1,264	34	–	34	–	–	–	–			–	–	–
21	Households	13,140	12,747	393	15	–	15	–	–	–	–			–	–	–
22	**Total**	96,998	82,583	14,415	1,027	115	912	(597)	(138)	(459)	(141)	(6)	(135)	–	63,053	678

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Table 24: Credit quality of forborne exposures

		2020							
		A	B	C	D	E	F	G	H
		Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne						
				Of which: defaulted	Of which: impaired	On performing forborne exposures	On non-performing forborne exposures		Of which: collateral and financial guarantees received on non-performing exposures with forbearance measures
		£m	£m	£m	£m	£m	£m	£m	£m
1	Loans and advances	**624**	**543**	**447**	**481**	**(33)**	**(69)**	**530**	**263**
2	*Central banks*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
3	*General governments*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
4	*Credit institutions*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
5	*Other financial corporations*	**–**	**1**	**1**	**1**	**–**	**–**	**–**	**–**
6	*Non-financial corporations*	**301**	**205**	**205**	**198**	**(21)**	**(52)**	**199**	**54**
7	*Households*	**323**	**337**	**241**	**282**	**(12)**	**(17)**	**331**	**209**
8	Debt Securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
9	Loan commitments given	**44**	**14**	**14**	**14**	**–**	**–**	**–**	**–**
10	**Total**	**668**	**557**	**461**	**495**	**(33)**	**(69)**	**530**	**263**

Credit risk

Table 25: EU CR2-A – Changes in the stock of general and specific credit risk adjustments

	A	B	A	B
	2020 £m	2020 £m	2019 £m	2019 £m
	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**362**	**–**	43	152
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	**103**	**–**	144	–
Decreases due to derecognition	**(53)**	**–**	(52)	–
Changes due to change in credit risk (net)	**393**	**–**	228	–
Changes due to modifications without derecognition (net)	**4**	**–**	–	–
Changes due to update in the institution's methodology for estimation (net)	**14**	**–**	(7)	–
Decrease in allowance account due to write-offs	**(106)**	**–**	(166)	–
Other adjustments[1]	**18**	**–**	(9)	–
Closing balance	**735**	**–**	362	–
Recoveries of previously written-off amounts recorded directly to the statement of profit or loss	**(26)**	**–**	–	–
Amounts written-off directly to the statement of profit or loss	**84**	**–**	–	–
Gains or losses on derecognition of debt instruments	**(37)**	**–**	–	–

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

Table 26: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

		A	A
		2020 £m	2019 £m
		Gross carrying value defaulted exposures	Gross carrying value defaulted exposures
1	**Opening balance**	**807**	125
2	Loans and debt securities that have defaulted or impaired since the last reporting period	**384**	179
3	Returned to non-defaulted status	**(93)**	(16)
4	Amounts written-off	**(158)**	(98)
5	Other changes	**(78)**	617
6	**Closing balance**	**862**	807

6.7 Analysis by industry sector

Table 27: IFRS 9 impairment provisions held on credit exposures by allocation and industry

	2020			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Agriculture, forestry, fishing and mining	**5.8**	**22.6**	**6.6**	**35.0**
Asset and lease financing	**1.8**	**4.8**	**7.6**	**14.2**
Financial, investment and insurance	**0.7**	**1.4**	**0.1**	**2.2**
Instalment loans to individuals and other personal lending (including credit cards)	**70.3**	**193.6**	**37.4**	**301.3**
Manufacturing	**4.7**	**33.0**	**6.1**	**43.8**
Other commercial and industrial	**37.9**	**109.3**	**52.9**	**200.1**
Real estate – construction	**0.9**	**5.0**	**1.3**	**7.2**
Real estate – mortgage	**14.0**	**95.3**	**22.1**	**131.4**
Total	**136.1**	**465.0**	**134.1**	**735.2**

	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.

6.10 Credit risk mitigation

Credit risk is managed in accordance with lending policies, the Group's risk appetite and the RMF. Lending policies and performance against risk appetite are reviewed regularly.

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 Loan-to-Value (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 on mortgage lending and means of mitigating loss in the event of the default 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.

Credit risk

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). All commercial property collateral is subject to an independent, professional valuation when taken and thereafter subject to periodic review in accordance with policy requirements.

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 provides asset backed lending in the form of asset and receivables finance. Security for these exposures is held in the form of direct recourse to the underlying asset financed.

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: 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, or where specific action is merited for example RAS was amended at pace in response to COVID-19. Regular review ensures that the measures accurately reflect the Group's risk appetite, strategy and concerns relative to the wider macro environment. All measures are subject to extensive engagement with the Executive Leadership Team and the Board and are subject to endorsement from executive governance committees prior to Board approval. Regulatory engagement is also scheduled as appropriate.
- Risk concentration: Concentration of risk is managed by counterparty, product, geographical region and industry sector. In addition, single name exposure limits exist to control exposures to a single 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 and the Chief Credit Officer. Any exposure which continues or is expected to continue beyond 30 days will also be submitted to the Committee with proposals to correct the exposure within an agreed period, not to exceed 12 months.

6.10.2 Derivatives

The Group maintains control limits on net open derivative positions. At any one time, 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, 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 28 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 & Accounts for further information on credit risk mitigation techniques.

Table 28: EU CR3 – CRM techniques – overview

	2020				
	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	6,040	5,075	4,077	998	–
Retail	–	61,548	61,548	–	–
Total IRB approach	6,040	66,623	65,625	998	–
Central governments or central banks	11,168	–	–	–	–
Regional governments or local authorities	263	–	–	–	–
Public sector entities	501	–	–	–	–
Multilateral development banks	1,268	–	–	–	–
Institutions	904	–	–	–	–
Corporates	300	196	25	170	–
Retail	15,098	–	–	–	–
Secured by mortgages on immovable property	–	620	620	–	–
Exposures in default	59	1	–	1	–
Items associated with particularly high risk	–	–	–	–	–
Covered bonds	1,442	–	–	–	–
Collective investments undertakings	–	–	–	–	–
Equity exposures	13	–	–	–	–
Other exposures	746	–	–	–	–
Total standardised approach	31,762	817	645	171	–
Total exposures	37,802	67,440	66,270	1,169	–
Of which: Loans	31,169	67,439	66,271	1,169	–
Of which: Debt securities	5,350	–	–	–	–
Of which: Defaulted	211	447	442	5	–
Of which: SMEs	3,563	4,721	4,206	532	–

Credit risk

Exposure classes	2019 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
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	36,559	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	–	–

Lending backed by government guarantees in response to COVID-19 can be seen within the 'Exposures secured by financial guarantees' column above.

Following PRA approval during the year, the Group moved to recognise asset finance and invoice finance collateral, being other physical collateral and receivables respectively, as being eligible collateral from a credit risk mitigation perspective in relation to the FIRB approach, which is captured within the 'exposures secured by collateral' column above.

Table 29 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.

Table 29: EU CR4 – Standardised approach – credit risk exposure and CRM effects

		2020					
		A	B	C	D	E	F
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA 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	RWA £m	RWA density[1] %
1	Central governments or central banks	**11,167**	**1**	**12,264**	**–**	**–**	**0.0%**
2	Regional government or local authority	**14**	**249**	**14**	**50**	**13**	**20.3%**
3	Public sector entities	**385**	**116**	**385**	**23**	**5**	**1.2%**
4	Multilateral development banks	**1,268**	**–**	**1,268**	**–**	**–**	**0.0%**
6	Institutions	**894**	**10**	**894**	**3**	**186**	**20.7%**
7	Corporates	**382**	**114**	**212**	**21**	**210**	**90.1%**
8	Retail	**5,431**	**9,667**	**5,431**	**22**	**4,090**	**75.0%**
9	Secured by mortgages on immovable property	**247**	**373**	**247**	**186**	**144**	**33.3%**
10	Exposures in default	**58**	**2**	**58**	**–**	**62**	**106.9%**
11	Items associated with particularly high risk	**–**	**–**	**–**	**–**	**–**	**N/A**
12	Covered bonds	**1,442**	**–**	**1,442**	**–**	**144**	**10.0%**
14	Claims in the form of CIU	**–**	**–**	**–**	**–**	**–**	**N/A**
15	Equity exposures	**13**	**–**	**13**	**–**	**14**	**107.7%**
16	Other items	**746**	**–**	**746**	**–**	**774**	**103.8%**
17	**Total**	**22,047**	**10,532**	**22,974**	**305**	**5,642**	**24.24%**

		2019					
		A	B	C	D	E	F
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA 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	RWA £m	RWA density[1] %
1	Central governments or central banks	11,576	88	11,576	87	9	0.1%
2	Regional government or local authority	15	252	15	50	13	20.0%
3	Public sector entities	312	114	312	23	5	1.5%
4	Multilateral development banks	1,034	–	1,034	–	–	0.0%
6	Institutions	938	18	944	10	195	20.4%
7	Corporates	324	158	315	51	347	94.8%
8	Retail	5,254	9,065	5,254	70	3,993	75.0%
9	Secured by mortgages on immovable property	694	364	694	181	498	56.9%
10	Exposures in default	54	2	55	–	59	107.3%
11	Items associated with particularly high risk	4	7	4	4	11	137.5%
12	Covered bonds	1,415	–	1,415	–	141	10.0%
14	Claims in the form of CIU	1	–	1	–	1	100.0%
15	Equity exposures	9	–	9	–	11	122.2%
16	Other items	754	–	754	–	670	88.9%
17	**Total**	22,384	10,068	22,382	476	5,953	26.04%

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

Credit risk

Table 30 shows a breakdown of exposures post-CCF and post-CRM. Risk-weight categories do not reflect where the SME supporting factor has been applied. Explanations on key movements in exposure classes during the year are shown in section 6.1.

Table 30: EU CR5 – Standardised approach – exposures by asset classes and risk weights

	2020																	
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	Deducted £m	Total £m	Of which unrated £m
1 Central governments or central banks	12,264	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	12,264	–
2 Regional government or local authorities		–	–	–	64	–	–	–	–	–	–	–	–	–	–	–	64	64
3 Public sector entities	385	–	–	–	23	–	–	–	–	–	–	–	–	–	–	–	408	408
4 Multilateral development banks	1,268	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,268	1,268
6 Institutions	–	–	–	–	878	–	19	–	–	–	–	–	–	–	–	–	897	74
7 Corporates	–	–	–	–	–	–	1	–	–	232	–	–	–	–	–	–	233	232
8 Retail	–	–	–	–	–	–	–	–	5,453	–	–	–	–	–	–	–	5,453	5,453
9 Secured by mortgages on immovable property	–	–	–	–	–	414	–	–	–	19	–	–	–	–	–	–	433	433
10 Exposures in default	–	–	–	–	–	–	–	–	–	49	9	–	–	–	–	–	58	58
11 Higher-risk categories	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
12 Covered bonds	–	–	–	1,442	–	–	–	–	–	–	–	–	–	–	–	–	1,442	–
14 Collective investment undertakings	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
15 Equity	–	–	–	–	–	–	–	–	–	13	–	–	–	–	–	–	13	13
16 Other items	149	–	–	–	9	–	–	–	–	465	–	123	–	–	–	–	746	250
17 **Total**	14,066	–	–	1,442	974	414	20	–	5,453	778	9	123	–	–	–	–	23,279	8,254

	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	Deducted £m	Total £m	Of which unrated £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

Risk-weight categories do not reflect where the SME supporting factor has been applied.

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.

6.11 Internal Ratings Based approach

6.11.1 IRB permissions

Capital requirements for retail mortgages are calculated using an AIRB approach while the business portfolios use a FIRB approach.

Formal approval to use the IRB Slotting Approach for the Group's Income Producing Real Estate portfolio was received in March 2020 and was implemented in June 2020. This resulted in business RWA of £457m at June 2020, reflecting a £66m decrease compared to £524m at May 2020 under the standardised approach. Of the £66m decrease, £49m was attributable to the CRR2 'Quick Fix' changes in relation to the new blended SME Supporting Factor with the remaining £17m being attributable to the change in capital calculation approach.

All other requirements are calculated using 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 1 January 2021 for mortgages and 1 January 2022 for all other portfolios, 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 31 below.

Table 31: Internal rating scale for business customers

Grade	Lower PD bound	Upper PD bound	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

Table 32: Internal rating scale for retail customers

For Retail customers, the eCRS Grade 23 is further split into three grades as per the table below.

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 31 and 32 relate to Clydesdale Bank PLC risk grades only. Information on Virgin Money Holdings (UK) plc risk grades can be found in Table 39.

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 Technical Forum (CMTF). 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 Team.

Independent validation

A team of independent specialists conducts an independent review of new models and an 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 appropriateness 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.

Model Risk Oversight (MRO) 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 MRO 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, reweights or full redeployment.

Internal Audit

The Internal Audit team is independent of credit risk management including the modelling teams and the MRO. Internal Audit 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 MRO.

6.11.4 Description of ratings processes

Corporate IRB PD modelling approach

There are six IRB models used to calculate the capital requirements for the Corporate portfolio. 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.
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.

Credit risk

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 of 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 MRO. All relevant models have been through a full annual revalidation to account for the enhancements to the definition of default.

These validations involve the MRO 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, Buy-to-Let (BTL) and Current Account Mortgage (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 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. 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 2021, 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 IFRS 9 ECL understood. Approval is sought at senior committee level 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
Commercial Real Estate (CRE) exposures are rated using the IRB Slotting approach following permission from the PRA in March 2020.

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. There is a small element of Corporate exposures which continue to be captured under the Standardised Approach under PPU per CRR Article 150(1)(c).

Retail mortgage IRB EAD modelling approach
Fixed Term Mortgages (Residential and BTL) have a fixed amortising repayment schedule whereas the CAM portfolio (which is specific to heritage Clydesdale Bank PLC) 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 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 2020, so default periods cover September to September (e.g. 2019–2020 is the period 30 September 2019 to 30 September 2020). 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.

Retail mortgages IRB LGD modelling approach

Table 33: Customer default rate

	2019–2020			2018–2019			2017–2018		
	Customers	Defaults	Rate	Customers	Defaults	Rate	Customers	Defaults	Rate
Large Corporate	521	17	3.3%	508	13	2.6%	484	11	2.3%
SME	10,832	215	2.0%	11,187	223	2.0%	11,790	209	1.8%
Specialised Lending	711	17	2.4%	949	20	2.1%	1,088	20	1.8%
Total	12,064	249	2.1%	12,644	256	2.0%	13,362	240	1.8%

There has been little change in the customer level default rates for the SME portfolios and overall business portfolio over the past few years. There has been an increase in defaults of the SME portfolio, which is likely to be related to the economic impacts of COVID-19, as there have been more defaults in the four months since March 2020 than in the eight months before this. There has also 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 (2.4% to 1.8%) being the result of three fewer defaults.

Credit risk

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

The exposure amounts in these tables are disclosed after, where applicable, on- or off-balance sheet netting. The Group does not have any credit derivatives.

	2020											
	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 obligators	Average LGD	Average maturity	RWA	RWA density[1]	EL	Value adjustments and provisions
Retail mortgages												
0.00 to <0.15	**1,054**	**481**	**102.2%**	**1,570**	**0.12%**	**13,927**	**13.74%**	**–**	**57**	**3.6%**	**–**	
0.15 to <0.25	**3,677**	**293**	**102.1%**	**4,065**	**0.19%**	**34,564**	**12.48%**	**–**	**210**	**5.2%**	**1**	
0.25 to <0.50	**10,639**	**441**	**102.1%**	**11,342**	**0.36%**	**55,851**	**15.72%**	**–**	**1,188**	**10.5%**	**6**	
0.50 to <0.75	**2,130**	**56**	**102.1%**	**2,238**	**0.62%**	**9,936**	**18.48%**	**–**	**397**	**17.7%**	**2**	
0.75 to <2.50	**4,596**	**106**	**102.3%**	**4,805**	**1.32%**	**23,159**	**17.60%**	**–**	**1,294**	**26.9%**	**11**	
2.50 to <10.00	**841**	**14**	**102.2%**	**875**	**4.67%**	**5,755**	**17.24%**	**–**	**501**	**57.3%**	**7**	
10.00 to <100.00	**159**	**4**	**100.0%**	**166**	**34.99%**	**1,175**	**16.56%**	**–**	**145**	**87.2%**	**10**	
100.00 (Default)	**319**	**7**	**0.0%**	**326**	**100.00%**	**2,528**	**19.40%**	**–**	**728**	**223.6%**	**8**	
Subtotal	**23,415**	**1,402**	**102.1%**	**25,387**	**2.18%**	**146,895**	**15.78%**	**–**	**4,520**	**17.8%**	**45**	**74**

	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 obligators	Average LGD	Average maturity	RWA	RWA density[1]	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	100.0%	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

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

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

	2020											
	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 obligators	Average LGD	Average maturity	RWA	RWA density[1]	EL	Value adjustments and provisions
Retail mortgages												
0.00 to <0.15	**2,800**	**571**	**100.0%**	**3,419**	**0.11%**	**22,324**	**10.25%**	**–**	**96**	**2.8%**	**–**	
0.15 to <0.25	**5,650**	**329**	**100.0%**	**6,051**	**0.19%**	**40,279**	**13.55%**	**–**	**341**	**5.6%**	**1**	
0.25 to <0.50	**14,332**	**366**	**100.0%**	**14,859**	**0.36%**	**92,867**	**10.69%**	**–**	**1,052**	**7.1%**	**6**	
0.50 to <0.75	**3,531**	**90**	**100.0%**	**3,662**	**0.66%**	**22,637**	**12.72%**	**–**	**471**	**12.9%**	**3**	
0.75 to <2.50	**7,061**	**314**	**100.0%**	**7,467**	**1.11%**	**49,107**	**18.52%**	**–**	**1,891**	**25.3%**	**15**	
2.50 to <10.00	**1,078**	**22**	**100.0%**	**1,114**	**4.48%**	**8,609**	**16.73%**	**–**	**571**	**51.3%**	**8**	
10.00 to <100.00	**638**	**13**	**100.0%**	**659**	**31.14%**	**5,283**	**13.73%**	**–**	**474**	**72.0%**	**25**	
100.00 (Default)	**65**	**1**	**100.0%**	**66**	**100.00%**	**550**	**10.04%**	**–**	**68**	**102.5%**	**4**	
Subtotal	**35,155**	**1,706**	**100.0%**	**37,297**	**1.53%**	**241,656**	**13.12%**	**–**	**4,964**	**13.3%**	**62**	**55**

	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 obligators	Average LGD	Average maturity	RWA	RWA density[1]	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

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

Credit risk

Table 36: EU CR6 – IRB approach – Credit risk exposures by class and PD range: Corporate – SME

	2020											
	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 obligators	Average LGD	Average maturity	RWA	RWA density[(1)]	EL	Value adjustments and provisions
Corporate – SME												
0.00 to <0.15	**79**	**64**	**69.6%**	**114**	**0.11%**	**170**	**40.80%**	**850**	**20**	**17.7%**	**–**	
0.15 to <0.25	**195**	**174**	**67.0%**	**297**	**0.20%**	**671**	**39.56%**	**868**	**70**	**23.5%**	**–**	
0.25 to <0.50	**798**	**433**	**68.0%**	**1,055**	**0.38%**	**1,707**	**39.32%**	**923**	**369**	**35.0%**	**1**	
0.50 to <0.75	**386**	**142**	**64.2%**	**465**	**0.62%**	**655**	**38.26%**	**875**	**197**	**42.4%**	**1**	
0.75 to <2.50	**3,333**	**1,023**	**67.9%**	**3,771**	**1.50%**	**6,414**	**40.01%**	**1,016**	**2,426**	**64.4%**	**23**	
2.50 to <10.00	**902**	**297**	**65.3%**	**1,009**	**4.62%**	**2,069**	**40.37%**	**878**	**839**	**83.1%**	**19**	
10.00 to <100.00	**107**	**23**	**72.8%**	**115**	**18.76%**	**203**	**40.49%**	**715**	**151**	**131.3%**	**9**	
100.00 (Default)	**105**	**9**	**62.7%**	**108**	**100.00%**	**168**	**41.04%**	**895**	**–**	**0.0%**	**44**	
Subtotal	**5,905**	**2,165**	**67.3%**	**6,934**	**3.40%**	**12,057**	**39.52%**	**916**	**4,072**	**58.7%**	**97**	**185**

	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 obligators	Average LGD	Average maturity	RWA	RWA density[(1)]	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

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

Table 37: EU CR6 – IRB approach – Credit risk exposures by class and PD range: Corporate – Other

	2020											
	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 obligators	Average LGD	Average maturity	RWA	RWA density[1]	EL	Value adjustments and provisions
Corporate – Other												
0.00 to <0.15	**3**	**76**	**70.0%**	**69**	**0.10%**	**30**	**36.20%**	**799**	**17**	**24.3%**	**–**	
0.15 to <0.25	**60**	**66**	**73.0%**	**115**	**0.20%**	**18**	**41.94%**	**871**	**49**	**42.7%**	**–**	
0.25 to <0.50	**224**	**174**	**56.2%**	**321**	**0.42%**	**47**	**43.80%**	**976**	**217**	**67.6%**	**1**	
0.50 to <0.75	**96**	**64**	**56.5%**	**132**	**0.62%**	**26**	**44.18%**	**994**	**108**	**82.0%**	**–**	
0.75 to <2.50	**976**	**426**	**58.9%**	**847**	**1.82%**	**8,775**	**43.54%**	**1,311**	**964**	**113.9%**	**6**	
2.50 to <10.00	**164**	**101**	**69.8%**	**236**	**4.19%**	**147**	**43.13%**	**889**	**337**	**142.6%**	**4**	
10.00 to <100.00	**102**	**30**	**69.4%**	**63**	**23.33%**	**1,492**	**44.24%**	**1,350**	**158**	**249.8%**	**6**	
100.00 (Default)	**122**	**23**	**37.6%**	**130**	**100.00%**	**123**	**42.66%**	**839**	**–**	**0.0%**	**55**	
Subtotal	**1,747**	**960**	**61.1%**	**1,913**	**7.86%**	**10,658**	**42.85%**	**992**	**1,850**	**96.7%**	**72**	**69**

	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 obligators	Average LGD	Average maturity	RWA	RWA density[1]	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	24.43%	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

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

The main driver for the increase in number of obligors year on year is the take-up of government-backed lending schemes which were introduced to help support businesses through the depressed economic environment caused primarily by societal restrictions put in place to help curb the spread of COVID-19.

It should be noted, however, that the majority of government-backed lending does not currently go through any FIRB model and, as such, these exposures are assigned average eCRS ratings. Furthermore, the majority of government backed lending is underwritten by sovereign guarantees and therefore risk-weighted as central government exposures under the standardised approach.

Credit risk

Table 38: EU CR9 – Backtesting of PD per exposure class: CB Mortgages

	2020						
	B	C	D	E	F	G	H
			Number of obligors				
Retail mortgages	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
PD range							
0.030% ≤ PD ≤ 0.050%	**0.04%**	**0.04%**	**4,943**	**1,903**	**3**	**–**	**0.041%**
0.050% < PD ≤ 0.080%	**0.07%**	**0.07%**	**2,227**	**2,104**	**3**	**–**	**0.209%**
0.080% < PD ≤ 0.110%	**0.10%**	**0.10%**	**7,630**	**1,466**	**10**	**–**	**0.074%**
0.110% < PD ≤ 0.140%	**0.13%**	**0.13%**	**11,532**	**8,452**	**18**	**2**	**0.159%**
0.140% < PD ≤ 0.180%	**0.16%**	**0.16%**	**11,269**	**14,787**	**18**	**–**	**0.178%**
0.180% < PD ≤ 0.240%	**0.21%**	**0.21%**	**24,842**	**19,777**	**51**	**1**	**0.230%**
0.240% < PD ≤ 0.330%	**0.28%**	**0.28%**	**19,965**	**25,716**	**60**	**–**	**0.279%**
0.330% < PD ≤ 0.440%	**0.38%**	**0.38%**	**18,217**	**17,498**	**56**	**1**	**0.305%**
0.440% < PD ≤ 0.550%	**0.49%**	**0.49%**	**13,634**	**12,637**	**37**	**–**	**0.302%**
0.550% < PD ≤ 0.690%	**0.62%**	**0.62%**	**7,575**	**9,936**	**33**	**–**	**0.377%**
0.690% < PD ≤ 0.870%	**0.78%**	**0.78%**	**6,513**	**5,794**	**37**	**1**	**0.519%**
0.870% < PD ≤ 1.170%	**1.01%**	**1.01%**	**5,821**	**5,972**	**47**	**–**	**0.558%**
1.170% < PD ≤ 1.560%	**1.35%**	**1.35%**	**4,681**	**4,251**	**29**	**–**	**0.750%**
1.560% < PD ≤ 2.020%	**1.77%**	**1.77%**	**4,223**	**3,238**	**45**	**–**	**1.026%**
2.020% < PD ≤ 2.610%	**2.21%**	**2.22%**	**3,813**	**3,904**	**51**	**3**	**1.180%**
2.610% < PD ≤ 3.720%	**3.16%**	**3.16%**	**2,309**	**2,118**	**68**	**1**	**2.088%**
3.720% < PD ≤ 5.010%	**4.38%**	**4.38%**	**1,878**	**1,743**	**43**	**–**	**3.136%**
5.010% < PD ≤ 6.890%	**5.72%**	**5.72%**	**1,493**	**1,258**	**55**	**–**	**4.748%**
6.890% < PD ≤ 10.550%	**8.30%**	**8.30%**	**864**	**636**	**57**	**–**	**6.937%**
10.550% < PD ≤ 15.910%	**13.40%**	**13.40%**	**343**	**254**	**27**	**–**	**10.998%**
15.910% < PD ≤ 34.220%	**23.43%**	**23.43%**	**667**	**429**	**116**	**–**	**26.082%**
34.220% < PD ≤ 61.240%	**50.00%**	**50.00%**	**503**	**352**	**168**	**–**	**38.881%**
61.240% < PD ≤ 99.999%	**75.00%**	**75.00%**	**213**	**140**	**137**	**–**	**56.027%**
Defaulted (PD = 100%)	**100.00%**	**100.00%**	**2,516**	**2,530**	**–**	**–**	**–**
Subtotal	**0.91%**	**0.92%**	**157,671**	**146,895**	**1,169**	**9**	**0.693%**

Retail mortgages	B	C	D	E	F	G	H
	2019						
			Number of obligors				
	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
PD range							
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%	50.00%	50.00%	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

Table 39: EU CR9 – Backtesting of PD per exposure class: VM Mortgages

	2020						
	B	C	D	E	F	G	H
			Number of obligors				
	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
PD range							
0.000% ≤ PD ≤ 0.170%	**0.12%**	**0.12%**	**19,480**	**25,951**	**10**	**–**	**0.031%**
0.170% < PD ≤ 0.190%	**0.19%**	**0.19%**	**36,653**	**25,754**	**4**	**1**	**0.006%**
0.190% < PD ≤ 0.460%	**0.31%**	**0.31%**	**77,130**	**89,127**	**9**	**–**	**0.058%**
0.460% < PD ≤ 0.510%	**0.47%**	**0.47%**	**5,700**	**14,638**	**1**	**–**	**0.043%**
0.510% < PD ≤ 0.570%	**0.52%**	**0.52%**	**30,342**	**3,550**	**6**	**–**	**0.103%**
0.570% < PD ≤ 0.960%	**0.81%**	**0.81%**	**34,805**	**45,734**	**11**	**–**	**0.070%**
0.960% < PD ≤ 1.020%	**0.98%**	**0.98%**	**5,338**	**6,001**	**6**	**–**	**0.072%**
1.020% < PD ≤ 3.250%	**1.83%**	**1.82%**	**23,024**	**20,295**	**24**	**–**	**0.155%**
3.250% < PD ≤ 3.940%	**3.70%**	**3.69%**	**1,695**	**1,945**	**8**	**–**	**0.310%**
3.940% < PD ≤ 7.780%	**5.42%**	**5.40%**	**1,186**	**1,415**	**4**	**–**	**0.566%**
7.780% < PD ≤ 16.200%	**11.12%**	**11.06%**	**2,921**	**3,141**	**38**	**–**	**1.117%**
16.200% < PD ≤ 20.830%	**18.81%**	**18.84%**	**833**	**1,225**	**16**	**–**	**1.497%**
20.830% < PD ≤ 40.880%	**29.23%**	**28.99%**	**1,255**	**893**	**44**	**–**	**2.888%**
40.880% < PD ≤ 66.880%	**50.00%**	**49.37%**	**386**	**653**	**38**	**–**	**7.711%**
66.880% < PD ≤ 88.940%	**79.25%**	**78.84%**	**602**	**595**	**189**	**–**	**17.465%**
88.940% < PD ≤ 99.999%	**92.93%**	**93.00%**	**276**	**189**	**115**	**–**	**29.870%**
Default	**100.00%**	**100.00%**	**492**	**550**	**–**	**–**	**–**
Subtotal	**1.33%**	**1.55%**	**242,118**	**241,656**	**523**	**1**	**0.189%**

	2019						
	B	C	D	E	F	G	H
			Number of obligors				
	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
PD range							
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	0.178%

Table 40: EU CR9 – Backtesting of PD per exposure class: (FIRB) Corporate – Other

	2020						
	B	C	D	E	F	G	H
			Number of obligors				
Corporate – Other	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
PD range							
0.030% ≤ PD ≤ 0.050%	**0.04%**	**0.04%**	**1**	**1**	**–**	**–**	**0.000%**
0.050% < PD ≤ 0.080%	**0.00%**	**0.00%**	**2**	**–**	**–**	**–**	**0.000%**
0.080% < PD ≤ 0.110%	**0.10%**	**0.10%**	**17**	**25**	**–**	**–**	**0.000%**
0.110% < PD ≤ 0.140%	**0.13%**	**0.13%**	**9**	**4**	**–**	**–**	**0.000%**
0.140% < PD ≤ 0.180%	**0.16%**	**0.16%**	**10**	**9**	**–**	**–**	**0.000%**
0.180% < PD ≤ 0.240%	**0.21%**	**0.21%**	**7**	**9**	**–**	**–**	**0.000%**
0.240% < PD ≤ 0.330%	**0.28%**	**0.28%**	**12**	**5**	**–**	**–**	**0.000%**
0.330% < PD ≤ 0.440%	**0.38%**	**0.38%**	**18**	**15**	**–**	**–**	**0.000%**
0.440% < PD ≤ 0.550%	**0.49%**	**0.49%**	**42**	**26**	**–**	**–**	**0.000%**
0.550% < PD ≤ 0.690%	**0.62%**	**0.62%**	**28**	**25**	**–**	**–**	**0.000%**
0.690% < PD ≤ 0.870%	**0.78%**	**0.78%**	**22**	**27**	**–**	**–**	**0.000%**
0.870% < PD ≤ 1.170%	**1.01%**	**1.01%**	**48**	**57**	**–**	**–**	**0.000%**
1.170% < PD ≤ 1.560%	**1.35%**	**1.35%**	**68**	**42**	**1**	**–**	**2.457%**
1.560% < PD ≤ 2.020%	**1.77%**	**1.77%**	**56**	**56**	**3**	**–**	**3.053%**
2.020% < PD ≤ 2.610%	**2.30%**	**2.30%**	**158**	**159**	**3**	**–**	**0.476%**
2.610% < PD ≤ 3.720%	**3.16%**	**3.16%**	**32**	**46**	**–**	**–**	**3.404%**
3.720% < PD ≤ 5.010%	**4.38%**	**4.38%**	**29**	**35**	**–**	**–**	**0.392%**
5.010% < PD ≤ 6.890%	**5.72%**	**5.72%**	**21**	**14**	**4**	**–**	**12.787%**
6.890% < PD ≤ 10.550%	**8.30%**	**8.30%**	**3**	**3**	**–**	**–**	**10.667%**
10.550% < PD ≤ 15.910%	**13.40%**	**13.40%**	**–**	**3**	**–**	**–**	**0.000%**
15.910% < PD ≤ 99.999%	**23.43%**	**23.43%**	**40**	**168**	**2**	**–**	**25.608%**
Defaulted (PD = 100%)	**–**	**–**	**87**	**106**	**–**	**–**	**–**
Subtotal	**2.23%**	**6.89%**	**710**	**835**	**13**	**–**	**2.215%**

Credit risk

Corporate – Other	B	C	D	E	F	G	H
	2019						
			Number of obligors				
	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
PD range							
0.030% ≤ PD ≤ 0.050%	0.04%	0.04%	2	1	–	–	0.000%
0.050% < PD ≤ 0.080%	0.07%	0.07%	11	2	–	–	0.000%
0.080% < PD ≤ 0.110%	0.10%	0.10%	16	17	–	–	0.000%
0.110% < PD ≤ 0.140%	0.13%	0.13%	10	9	–	–	0.000%
0.140% < PD ≤ 0.180%	0.16%	0.16%	16	10	–	–	0.000%
0.180% < PD ≤ 0.240%	0.21%	0.21%	11	7	–	–	0.000%
0.240% < PD ≤ 0.330%	0.28%	0.28%	24	12	–	–	0.000%
0.330% < PD ≤ 0.440%	0.38%	0.38%	24	18	–	–	1.333%
0.440% < PD ≤ 0.550%	0.49%	0.49%	10	42	–	–	0.000%
0.550% < PD ≤ 0.690%	0.62%	0.62%	31	28	–	–	0.000%
0.690% < PD ≤ 0.870%	0.78%	0.78%	34	22	1	–	0.000%
0.870% < PD ≤ 1.170%	1.01%	1.01%	42	48	–	–	0.000%
1.170% < PD ≤ 1.560%	1.35%	1.35%	74	68	1	–	2.167%
1.560% < PD ≤ 2.020%	1.77%	1.77%	46	56	–	–	2.000%
2.020% < PD ≤ 2.610%	2.30%	2.30%	51	158	1	–	0.345%
2.610% < PD ≤ 3.720%	3.16%	3.16%	60	32	6	–	3.967%
3.720% < PD ≤ 5.010%	4.38%	4.38%	25	29	–	–	1.345%
5.010% < PD ≤ 6.890%	5.72%	5.72%	18	21	2	–	9.891%
6.890% < PD ≤ 10.550%	8.30%	8.30%	8	3	1	–	10.667%
10.550% < PD ≤ 15.910%	0.00%	0.00%	2	–	–	–	0.000%
15.910% < PD ≤ 99.999%	23.43%	23.43%	101	40	5	–	22.280%
Defaulted (PD = 100%)	100.00%	100.00%	21	87	–	–	–
Subtotal	1.41%	3.18%	637	710	17	–	3.811%

Lending under government backed schemes has been excluded from the above tables as this lending does not currently go through FIRB models. Including this lending could materially distort the default rates in future years, which would not be in line with the intention of these tables.

Table 41: EU CR9 – Backtesting of PD per exposure class: (FIRB) Corporate – SME

	2020						
	B	C	D	E	F	G	H
			Number of obligors				
(FIRB) Corporate – SME	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
PD range							
0.030% ≤ PD ≤ 0.050%	**0.00%**	**0.00%**	**–**	**–**	**–**	**–**	**0.000%**
0.050% < PD ≤ 0.080%	**0.07%**	**0.07%**	**13**	**6**	**–**	**–**	**0.000%**
0.080% < PD ≤ 0.110%	**0.10%**	**0.10%**	**31**	**35**	**1**	**–**	**0.571%**
0.110% < PD ≤ 0.140%	**0.13%**	**0.13%**	**132**	**118**	**1**	**–**	**0.148%**
0.140% < PD ≤ 0.180%	**0.16%**	**0.16%**	**262**	**216**	**1**	**–**	**0.191%**
0.180% < PD ≤ 0.240%	**0.21%**	**0.21%**	**424**	**433**	**1**	**–**	**0.048%**
0.240% < PD ≤ 0.330%	**0.28%**	**0.28%**	**532**	**560**	**–**	**–**	**0.186%**
0.330% < PD ≤ 0.440%	**0.38%**	**0.38%**	**544**	**552**	**2**	**–**	**0.326%**
0.440% < PD ≤ 0.550%	**0.49%**	**0.49%**	**535**	**525**	**3**	**–**	**0.279%**
0.550% < PD ≤ 0.690%	**0.62%**	**0.62%**	**665**	**610**	**5**	**–**	**0.431%**
0.690% < PD ≤ 0.870%	**0.78%**	**0.78%**	**958**	**912**	**6**	**–**	**0.421%**
0.870% < PD ≤ 1.170%	**1.01%**	**1.01%**	**1,266**	**1,175**	**11**	**–**	**0.629%**
1.170% < PD ≤ 1.560%	**1.35%**	**1.35%**	**1,431**	**1,434**	**13**	**–**	**0.839%**
1.560% < PD ≤ 2.020%	**1.77%**	**1.77%**	**1,180**	**1,085**	**19**	**–**	**1.368%**
2.020% < PD ≤ 2.610%	**2.30%**	**2.30%**	**959**	**959**	**15**	**–**	**1.571%**
2.610% < PD ≤ 3.720%	**3.16%**	**3.16%**	**801**	**721**	**19**	**–**	**3.036%**
3.720% < PD ≤ 5.010%	**4.38%**	**4.38%**	**441**	**407**	**13**	**–**	**4.779%**
5.010% < PD ≤ 6.890%	**5.72%**	**5.72%**	**356**	**342**	**16**	**–**	**6.119%**
6.890% < PD ≤ 10.550%	**8.30%**	**8.30%**	**210**	**235**	**19**	**–**	**13.404%**
10.550% < PD ≤ 15.910%	**13.40%**	**13.40%**	**86**	**66**	**16**	**–**	**18.711%**
15.910% < PD ≤ 99.999%	**23.43%**	**23.43%**	**78**	**95**	**26**	**–**	**26.038%**
Defaulted (PD = 100%)	**–**	**–**	**179**	**163**	**–**	**–**	**–**
Subtotal	**1.94%**	**1.92%**	**11,083**	**10,649**	**187**	**–**	**1.740%**

Credit risk

(FIRB) Corporate – SME	2019						
	B	C	D	E	F	G	H
			Number of obligors				
	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
PD range							
0.030% ≤ PD ≤ 0.050%	0.00%	0.00%	1	–	–	–	0.000%
0.050% < PD ≤ 0.080%	0.07%	0.07%	18	13	–	–	0.000%
0.080% < PD ≤ 0.110%	0.10%	0.10%	42	31	–	–	0.000%
0.110% < PD ≤ 0.140%	0.13%	0.13%	101	132	–	–	0.000%
0.140% < PD ≤ 0.180%	0.16%	0.16%	260	262	–	–	0.116%
0.180% < PD ≤ 0.240%	0.21%	0.21%	450	424	–	–	0.000%
0.240% < PD ≤ 0.330%	0.28%	0.28%	541	532	1	–	0.222%
0.330% < PD ≤ 0.440%	0.38%	0.38%	574	544	3	–	0.373%
0.440% < PD ≤ 0.550%	0.49%	0.49%	602	535	3	–	0.315%
0.550% < PD ≤ 0.690%	0.62%	0.62%	681	665	2	–	0.285%
0.690% < PD ≤ 0.870%	0.78%	0.78%	1,069	958	9	–	0.336%
0.870% < PD ≤ 1.170%	1.01%	1.01%	1,439	1,266	10	–	0.576%
1.170% < PD ≤ 1.560%	1.35%	1.35%	1,468	1,431	18	–	0.767%
1.560% < PD ≤ 2.020%	1.77%	1.77%	1,114	1,180	11	–	1.255%
2.020% < PD ≤ 2.610%	2.30%	2.30%	871	959	21	–	1.553%
2.610% < PD ≤ 3.720%	3.16%	3.16%	802	801	30	–	2.971%
3.720% < PD ≤ 5.010%	4.38%	4.38%	468	441	25	–	4.863%
5.010% < PD ≤ 6.890%	5.72%	5.72%	333	356	22	–	6.504%
6.890% < PD ≤ 10.550%	8.30%	8.30%	190	210	27	–	15.632%
10.550% < PD ≤ 15.910%	13.40%	13.40%	77	86	11	–	18.479%
15.910% < PD ≤ 99.999%	23.43%	23.43%	79	78	27	–	27.490%
Defaulted (PD = 100%)	100.00%	100.00%	263	179	–	–	–
Subtotal	1.84%	1.89%	11,443	11,083	220	–	1.735%

Lending under government backed schemes has been excluded from the above tables as this lending does not currently go through FIRB models. Including this lending could materially distort the default rates in future years, which would not be in line with the intention of these tables.

Table 42: EU CR10 – IRB specialised lending and equity exposures under the simple risk-weighted approach

IRB accreditation for specialised lending exposures was received in March 2020, with first formal submission in June 2020. EU CR10 is therefore reported for the first time.

Specialised lending: Project finance (Slotting approach)

		2020					
		On-balance sheet exposure	Off-balance sheet exposure	Risk weight	Exposure value	Risk-weighted exposure amount	Expected loss amount
Regulatory categories	Remaining maturity	A	B	C	D	E	F
Strong	< 2.5 years	–	–	50%	–	–	–
	≥ 2.5 years	1	–	70%	1	–	–
Good	< 2.5 years	220	15	70%	243	142	1
	≥ 2.5 years	217	18	90%	239	183	2
Satisfactory	< 2.5 years	42	2	115%	47	43	1
	≥ 2.5 years	46	–	115%	46	41	1
Weak	< 2.5 years	7	–	250%	9	18	1
	≥ 2.5 years	6	–	250%	6	12	1
Default	< 2.5 years	11	–	0%	21	–	11
	≥ 2.5 years	6	–	0%	8	–	4
Total	< 2.5 years	280	17		320	203	14
	≥ 2.5 years	276	18		300	236	8

Operational risk

7.1 Approach to monitoring and mitigating exposures

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 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 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 category	
Change risk	The risk associated with the 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 shareholder expectations at Group 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; the potential cessation of specific activities; the risk of personally identifiable information or Group sensitive data being exposed or exploited; and 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 the Risk function, 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

Material operational risk events are identified, reviewed and escalated in line with criteria set out in the RMF. Root cause analysis is undertaken, with action plans are implemented.

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. Due to the nature of risk events, losses can take time to crystallise and therefore may be restated for prior or subsequent financial years.

7.3 Operational risk RWA and capital requirement

While the highest volume of losses was recorded under the Basel II category of 'External Fraud', the highest net losses for the year relate to 'Damage to Physical Assets'. This category is used for natural disasters, so therefore includes losses directly attributable to COVID-19, which were aggregated under one event.

Table 43: Operational risk RWA

Operational risk RWA	£m
As at 1 October 2019	2,606
Movement	(49)
As at 30 September 2020	**2,557**

The Group recognises the limitations of the standardised approach and applies a more granular, firm specific assessment as part of Pillar 2.

The reduction in RWA for operational risk is due to the decrease in revenue generated by the Group over the last three years, compared to the three years prior to 30 September 2019.

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 repurchase agreement (repo) transactions give rise to credit exposures to counterparties. 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 section describes the Group's approach to managing CCR concerning financial instruments, including derivatives and repurchase agreements.

8.2 Internal capital 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 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 2020 (2019: £Nil).

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 2020 (30 September 2019: £Nil).

Counterparty credit risk

Table 44: EU CCR1 – Analysis of CCR exposure by approach

		2020						
		A	B	C	D	E	F	G
		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
		£m	£m	£m	£m	£m	£m	£m
1	Mark-to-market		**288**	**503**			**492**	**142**
9	Financial collateral comprehensive method (for SFTs)						**3,398**	**37**
11	**Total**							**179**

		2019						
		A	B	C	D	E	F	G
		Notional	Replacement cost/current market value	Potential future credit exposure	EEPE	Multiplier	EAD post CRM	RWA
		£m	£m	£m	£m	£m	£m	£m
1	Mark-to-market		366	449			580	158
9	Financial collateral comprehensive method (for SFTs)						2,959	33
11	**Total**							191

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 45: EU CCR2 – CVA capital charge

		2020		2019	
		A	B	A	B
		EAD post-CRM £m	RWA £m	EAD post-CRM £m	RWA £m
4	All portfolios subject to the standardised method	**319**	**175**	429	192
5	**Total subject to the CVA capital charge**	**319**	**175**	429	192

Table 46: EU CCR8 – Exposures to central counterparties (CCPs)

		2020		2019	
		A	B	A	B
		EAD post-CRM £m	RWA £m	EAD post-CRM £m	RWA £m
1	Exposures to QCCPs (total)	**102**	**2**	88	2
2	Exposures for trades at QCCPs (excluding initial margin and default)	**102**	**2**	88	2
3	*Of which: OTC derivatives*	**102**	**2**	88	2

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

Table 47: EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk weights

		2020												
	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	**3,323**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,323**	**–**
6	Institutions	**–**	**102**	**–**	**–**	**303**	**91**	**–**	**–**	**–**	**–**	**–**	**496**	**–**
7	Corporates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**71**	**–**	**–**	**71**	**71**
11	**Total**	**3,323**	**102**	**–**	**–**	**303**	**91**	**–**	**–**	**71**	**–**	**–**	**3,890**	**71**

		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	–
6	Institutions	–	88	–	–	397	103	–	–	–	–	–	588	–
7	Corporates	–	–	–	–	–	–	–	–	58	–	–	58	58
11	**Total**	2,893	88	–	–	397	103	–	–	58	–	–	3,539	58

Counterparty credit risk

The table below shows the impact of netting and collateral held on counterparty credit risk exposures

Table 48: EU CCR5-A – Impact of netting and collateral held on exposure values

		2020				
		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	**791**	**190**	**601**	**109**	**492**
2	SFTs	**9,102**	**–**	**9,102**	**5,704**	**3,398**
4	**Total**	**9,893**	**190**	**9,703**	**5,813**	**3,890**

		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
4	**Total**	7,887	202	7,685	4,146	3,539

Market risk

9.1 Definition

Market risk is the risk of loss associated with adverse changes in the value 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 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 mismatch, or duration, between repricing dates of interest-bearing assets and liabilities;
- basis risk or assets and liabilities repricing to different reference rates, for example, customer asset and liability products repricing against BoE base rate and SONIA; and
- customer optionality, e.g. the right to repay borrowing in advance of contractual maturity dates.

The focus of the Group's activity is to provide high-quality banking services to its customers. These services include the provision of foreign exchange products and derivative products to enable customers to manage risks within their businesses. As a result of these activities, the Group may be exposed to forms of market risk that would arise from movements in price on these products, however, these risks are not a major part of the Group's risk profile. Controls include the hedging of these products as and when they arise.

Measurement

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), Net Interest Income (NII), earnings at risk (EaR), economic value of equity (EVE), interest rate risk stress testing, and scenario analysis.
The key features of the internal interest rate risk management model are:

- basis point sensitivity analysis is performed daily and compares the potential impact of a one basis point (0.01%) change on the present value of all future cash flows;
- NII sensitivity assesses changes to earnings over a 12-month time horizon as a result of interest rate movements and changes to customer behaviour;
- VaR is measured on a statistical basis using a 99% confidence level based on daily rate movements over a two-year history set with a one-day holding period;
- EVE is measured in line with EBA guidance with all eight of the proposed EBA rate shocks assessed on a quarterly basis, including customer optionality stresses. Reporting is performed both including and excluding equity;
- 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;
- assumptions covering the behavioural life of products and customer behaviour for optionality are reviewed and approved by ALCO; and
- credit spread risk in the banking book is assessed through VaR applied to the Group's liquid asset buffer portfolio. It is measured at a 99% confidence level based on daily spread movements over a 10-year history set with a three-month holding period. Asset swap spread risk is assessed through VaR applied to the Group's liquid asset buffer portfolio.

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

Mitigation

Market risks are overseen by ALCO with delegation for day-to-day management given to Treasury. Treasury uses a number of techniques and products to manage market risks including interest rate swaps, cash flow netting and foreign exchange. Basis risk may be 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 3.6. 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 risks 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 year as a result of the highly probable cash flows no longer being expected to occur. The fair value of derivatives is disclosed in note 3.6.

Market risk

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 Financial Risk team which is independent of the Treasury function. The Board and Executive Risk Committee, through ALCO's oversight, monitor risk to ensure it remains within approved policy limits and Board requirements.

Table 49: Value at Risk

	Duration risk		Credit spread[2]	
12 months to 30 September	2020 £m	2019[1] £m	2020 £m	2019 £m
As at 30 September	**2**	2	**49**	19
Average value during the year	**2**	2	**36**	23
Minimum value during the year	**1**	–	**23**	19
Maximum value during the year	**2**	2	**49**	26

(1) 2019 duration risk VaR restated from a three-month to a one-day holding period, to align to 2020 internal risk methodology.

(2) The history set for credit spread VaR was increased from two years to 10 years from 1 March 2020, under internal methodology driving the year-on-year increase. The average figures for 2020 include five months over a two-year history and seven months over a 10-year history.

Funding and liquidity risk

10.1 Definition

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

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

Measurement

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; asset encumbrance; and readiness of mitigating actions.

The Group's 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.

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

Liquidity is actively monitored by the Group. Reporting is conducted through ALCO and the Executive Risk Committee. In a stress situation or in adverse conditions, the level of monitoring and reporting is increased commensurate with the nature of the stress event, as demonstrated in response to COVID-19.

Monitoring and control processes are in place against 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 indicators cover a mixture of quantitative and qualitative measures including daily variation of customer balances, measurement against stress requirements and monitoring of the macroeconomic environment.

Mitigation

The Group holds a portfolio of 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 (SMF). 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 funding sources. These funding programmes are a source of strength for the Group and leverage the Group's high-quality mortgage book as collateral for secured funding.

As a participant in the BoE SMF, the Group has access to funding via the Term Funding Scheme (TFS). Following its launch in April 2020, the Group has also been able to access additional funding from TFSME, which was established to provide cost-effective funds to banks to support additional lending to the real economy, and incentivise lending to SMEs during a period of economic disruption caused by COVID-19.

The funding plan includes an assessment of the Group's capacity for raising funds from its primary sources, thereby mitigating funding risk. Refinancing risks are carefully managed and are subject to controls overseen by ALCO. The Group's funding plan includes embedded TFS and TFSME repayment profiles designed to manage refinancing risk.

The Group recovery 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, assesses capacity, details the action required, allocates the key tasks to individuals, provides a time frame and defines a management committee to manage the action plan.

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

Table 50: EU LIQ1 – Liquidity coverage ratio

		2020 £m	2019 £m
21	Liquidity buffer	**10,675**	11,243
22	Total net cash outflows	**7,609**	7,409
23	Liquidity coverage ratio (%)	**140%**	152%

The Group's liquidity continues to comfortably exceed the Group's regulatory minimum and internal risk appetite, with a liquidity coverage ratio of 140% as at 30 September 2020 (2019: 152%).

Securitisation

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 a 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 inter-company 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(1), interest rate swap provider(1) 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 & 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 and daily compounded SONIA linked interest due in respect of the SPV's 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.

(1) Clydesdale Bank PLC is the interest rate swap provider in respect of fixed, tracker and SVR loans for the Gosforth Funding entities and SVR loans for Lannraig Funding Ltd and a bank account provider for the Lanark, Lannraig and Gosforth entities.

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 14 issuances from Lanark. An external credit rating assessment is provided and monitored by Moody's.

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 January 2020 with the issuance of 250m USD-denominated and 800m GBP-denominated floating rate notes as part of Lanark 2020-1. 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. 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 of ten Gosforth transactions. The assets incorporated in these structures consist only of owner-occupied residential mortgages. External credit assessment is provided by Moody's who rate the securitisation transactions.

Table 51: Outstanding notes

At 30 September 2020, the outstanding notes are:

	2020			
Issuer	Class A notes £m	Class M notes £m	Class Z notes £m	Total retained position £m
Lanark Master Issuer	**3,905**	**–**	**852**	**2,009**
Lannraig Master Issuer	**609**	**–**	**156**	**766**
Gosforth 2014-1[1]	**–**	**–**	**–**	**–**
Gosforth 2015-1[1]	**–**	**–**	**–**	**–**
Gosforth 2016-1	**792**	**62**	**93**	**660**
Gosforth 2016-2[1]	**–**	**–**	**–**	**–**
Gosforth 2017-1	**565**	**46**	**98**	**177**
Gosforth 2018-1	**910**	**50**	**100**	**624**

	2019			
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

(1) As at 30 September 2020, transactions have matured.

Securitisation

Table 52: On-balance sheet securitised exposures
As at 30 September 2020, on-balance sheet securitised exposures are:

	2020	
Issuer	Mortgage asset pool £m	Impaired and 90 days past due £m
Lanark Master Issuer	**5,686**	**6.8**
Lannraig Master Issuer	**860**	**2.5**
Gosforth 2014-1[1]	–	–
Gosforth 2015-1[1]	–	–
Gosforth 2016-1	**1,141**	**1.0**
Gosforth 2016-2[1]	–	–
Gosforth 2017-1	**910**	**0.6**
Gosforth 2018-1	**1,227**	**0.9**

	2019	
Issuer	Mortgage asset pool £m	Impaired and 90 days past due £m
Lanark Master Issuer	5,009	4
Lannraig Master Issuer	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	–

(1) As at 30 September 2020, transactions have matured.

The SPVs are fully consolidated in the Group's Annual Report & 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 3.12 of the Group's Annual Report & Accounts. The notes are initially recognised at fair value, being the issue proceeds net of transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method. To avoid grossing up the balance sheet, the retained Class A, Z and M (Gosforth) notes, and the equivalent deemed loan, together with the related income, expenditure and cashflows, are not recognised in the Group's Annual Report & 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 Cash and debt securities

Repo transactions

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 consideration. 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.

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 BoE. 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

Non-interest bearing deposits lodged with the BoE 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 BoE 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.

Operational Continuity in Resolution (OCIR)

The Group is required to calculate and segregate sufficient funds to meet the costs of critical services in the event that the Group enters resolution. As such, a volume of securities are held in a segregated HSBC custody account and are treated as encumbered to the level required to meet OCIR requirements.

12.3 Loans and advances

The Group has five structured funding programmes: three securitisation structures as outlined in section 11 and two regulated covered bond 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/LLPs also hold cash balances in segregated bank accounts with external counterparties. The use of these balances is restricted to specific entities and these balances are therefore considered by the Group to be encumbered.

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

Asset encumbrance

12.4 Encumbered assets

The amounts disclosed in Tables 53, 54 and 55 below are median values for the financial year 2020 calculated using quarterly data.

Tables 53-55 are populated in line with EBA RTS and as such differ from the disclosures contained in the Group's Annual Report & Accounts as at 30 September 2020. 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 53 shows encumbered and unencumbered assets in carrying amount and fair value by broad category of asset type.

Table 54 shows collateral received by the Group.

Table 55 shows the carrying amount of encumbered assets/collateral received and associated liabilities.

Table 53: Fair value of encumbered assets (Template A)

		2020							
		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	**24,110**	**3,628**			**66,122**	**10,336**		
030	Equity instruments	**–**	**–**			**8**	**–**		
040	Debt securities	**717**	**717**	**717**	**717**	**4,229**	**4,180**	**4,229**	**4,180**
050	*Of which: covered bonds*	**–**	**–**	**–**	**–**	**1,461**	**1,442**	**1,461**	**1,442**
060	*Of which: asset-backed securities*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
070	*Of which: issued by general governments*	**717**	**717**	**717**	**717**	**949**	**916**	**949**	**916**
080	*Of which: issued by financial corporations*	**–**		**–**	**–**	**3,238**	**1,764**	**3,238**	**1,764**
120	Other assets(1)	**23,416**	**2,893**			**61,872**	**6,156**		

		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(1)	28,635	2,932			57,564	7,514		

(1) 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. Other assets also include assets which are deemed unavailable for encumbrance, such as intangible assets and goodwill.

Table 54: Received collateral (Template B)

Template B		2020: Fair value of encumbered collateral received or own debt securities issued	2020: Fair value of encumbered collateral received or own debt securities issued – Of which: notionally eligible EHQLA and HQLA	2020: Fair value of collateral received or own debt securities issued available for encumbrance	2020: Fair value of collateral received or own debt securities issued available for encumbrance – Of which: EHQLA and HQLA
		010	030	040	060
		£m	£m	£m	£m
130	Collateral received by the reporting institution	**–**	**–**	**64**	**64**
160	Debt securities	**–**	**–**	**–**	**–**
190	*Of which: issued by general governments*	**–**	**–**	**–**	**–**
230	Other collateral received	**–**	**–**	**52**	**52**
241	Own covered bonds and asset-backed securities issued and not yet pledged			**3,744**	**–**
250	Total assets, collateral received and own debt securities issued	**24,110**	**3,628**		

Template B		2019: Fair value of encumbered collateral received or own debt securities issued	2019: Fair value of encumbered collateral received or own debt securities issued – Of which: notionally eligible EHQLA and HQLA	2019: Fair value of collateral received or own debt securities issued available for encumbrance	2019: Fair value of collateral received or own debt securities issued available for encumbrance – Of which: EHQLA and HQLA
		010	030	040	060
		£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		

Table 55: Encumbered assets/collateral received and associated liabilities (Template C)

		2020: Matching liabilities, contingent liabilities or securities lent	2020: Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	2019: Matching liabilities, contingent liabilities or securities lent	2019: 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	**12,983**	**21,157**	17,361	25,393

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, RWA and total capital are also closely aligned.

Table 56: Capital composition

As at 30 September		2020 £m	2019 £m
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	**2,792**	2,792
1a	*Of which: ordinary shares*	**1,243**	1,029
1b	*Of which: share premium*	**1,549**	1,763
2	Retained earnings	**1,865**	1,933
3	Accumulated other comprehensive income (and other reserves)	**(69)**	(13)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	**(21)**	(20)
6	**Common Equity Tier 1 capital before regulatory adjustments**	**4,567**	4,692
Common Equity Tier 1 capital: regulatory adjustments			
7	Additional value adjustments	**(6)**	(5)
8	Intangible assets	**(488)**	(512)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences	**(215)**	(250)
11	Fair value reserves related to gains or losses on cash flow hedges	**80**	25
12	Negative amounts resulting from the calculation of expected loss amounts	**–**	(88)
15	Defined benefit pension fund assets	**(470)**	(257)
25a	Losses for the current financial year	**(270)**	(243)
	Adjustment under IFRS 9 transitional arrangements	**310**	100
28	**Total regulatory adjustments to Common Equity Tier 1**	**(1,059)**	(1,230)
29	**Common Equity Tier 1 capital**	**3,508**	3,462
Additional Tier 1 capital: instruments			
30	Capital instruments and the related share premium accounts	**672**	672
31	*Of which: classified as equity under applicable accounting standards*	**672**	672
36	Additional Tier 1 capital before regulatory adjustments	**672**	672
44	Additional Tier 1 capital	**672**	672
45	**Tier 1 capital**	**4,180**	4,134
Tier 2 capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	**749**	723
50	Credit risk adjustments	**749**	–
51	**Tier 2 capital before regulatory adjustment**	**749**	723
58	**Tier 2 capital**	**749**	723
59	**Total capital**	**4,929**	4,857
60	**Total risk-weighted assets**	**24,384**	24,046
Capital ratios and buffers			
61	Common Equity Tier 1	**14.4%**	14.4%
62	Tier 1	**17.1%**	17.2%
63	Total capital	**20.2%**	20.2%
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)	**7.0%**	8.0%
65	*Of which: capital conservation buffer requirement*	**2.5%**	2.5%
66	*Of which: countercyclical buffer requirement*	**0.0%**	1.0%
68	**Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)**	**9.9%**	9.9%
Applicable caps on the inclusion of provisions in Tier 2			
77	Cap on inclusion of credit risk adjustments in Tier 2 under standardised approach	**72**	77
79	Cap for inclusion of credit risk adjustments in Tier 2 under internal ratings-based approach	**95**	91

Appendix 1: Disclosures for CB Group consolidated

CB Consol CET1 ratio at 30 September 2020 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 2020.

Table 57: Capital flow statement[1]

	2020 £m	2019 £m
Common Equity Tier 1 capital		
Common Equity Tier 1 capital at 1 October	**3,462**	2,149
Retained earnings and other reserves	**(152)**	25
Prudent valuation adjustment	**(1)**	(2)
Intangible assets	**24**	(100)
Acquisition of Virgin Money Holdings (UK) plc	**–**	1,567
IRB shortfall of credit risk adjustments to expected losses	**88**	(88)
Deferred tax assets relying on future profitability	**35**	(58)
Defined benefit pension fund assets	**(213)**	(119)
Fair value reserves related to gains or losses on cash flow hedges	**55**	(12)
IFRS 9 transitional relief	**210**	100
Total Common Equity Tier 1 capital	**3,508**	3,462
Additional Tier 1 capital		
AT1 capital at 1 October	**672**	425
Share capital issued: AT1	**–**	247
Total AT1 capital at 30 September	**672**	672
Total Tier 1 capital	**4,180**	4,134
Tier 2 capital		
Tier 2 capital at 1 October	**723**	629
Capital instruments repurchased: subordinated debt redemption	**(446)**	–
Capital instruments issued: subordinated debt	**472**	247
Credit risk adjustments[2]	**–**	(152)
Other movements	**–**	(1)
Total Tier 2 capital	**749**	723
Total capital at 30 September	**4,929**	4,857

(1) The table shows the capital position on a CRD IV 'fully loaded' basis and transitional IFRS 9 basis.

(2) The transition to IFRS 9 reporting has removed the requirement for Tier 2 credit risk adjustments.

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; and
- adjustments as set out by the regulatory requirements governing capital resources.

Table 58: IFRS 9-FL – Comparison of institutions' own funds and capital and leverage ratios

		2020 Quantitative		2019
		A	C	E
		30 September 2020	31 March 2020	30 September 2019
Available capital (amounts)				
1	Common Equity Tier 1 (CET1) capital	**3,508**	**3,514**	**3,462**
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**3,198**	**3,367**	**3,362**
3	Tier 1 capital	**4,180**	**4,186**	**4,134**
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**3,870**	**4,039**	**4,034**
5	Total capital	**4,929**	**4,914**	**4,857**
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4,714**	**4,767**	**4,757**
Risk-weighted assets (amounts)				
7	Total risk-weighted assets	**24,384**	**25,171**	**24,046**
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**24,231**	**25,072**	**23,983**
Capital ratios				
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	**14.4%**	**14.0%**	**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	**13.2%**	**13.4%**	**14.0%**
11	Tier 1 (as a percentage of risk exposure amount)	**17.1%**	**16.6%**	**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	**16.0%**	**16.1%**	
13	Total capital (as a percentage of risk exposure amount)	**20.2%**	**19.5%**	**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	**19.5%**	**19.0%**	**19.8%**
Leverage ratio				
15	Leverage ratio total exposure measure	**86,475**	**94,444**	**94,742**
16	Leverage ratio	**4.8%**	**4.4%**	**4.4%**
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	**4.5%**	**4.3%**	**4.3%**

Appendix 1: Disclosures for CB Group consolidated

The table 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 59: Reconciliation of statutory equity to regulatory capital

	2020 £m	2019 £m
Statutory total equity	**4,990**	5,141
Less pension regulatory adjustments	**(470)**	(257)
Less additional value adjustment	**(6)**	(5)
Less intangible assets	**(488)**	(512)
Less deferred tax asset relying on future profitability	**(215)**	(250)
Less cash flow hedge	**80**	25
IFRS 9 transitional adjustment	**310**	100
Excess expected losses	**–**	(88)
Additional Tier 1 foreseeable dividend	**(21)**	(20)
Regulatory Tier 1 capital	**4,180**	4,134
Statutory Tier 2 subordinated debt	**749**	723
Regulatory Tier 2 subordinated debt	**749**	723

Table 60: LRSum – Summary reconciliation of accounting assets and leverage ratio exposures

		2020 £m	2019 £m
1	Total assets as per published financial statements	**90,307**	91,101
4	Adjustments for derivative financial instruments	**81**	(35)
5	Adjustments for securities financing transactions	**2,072**	1,934
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	**2,892**	2,728
EU-6B	Adjustment for exposures excluded from the leverage ratio exposure measure[1]	**(8,088)**	–
7	Other adjustments	**(789)**	(986)
8	**Total leverage ratio exposure**	**86,475**	94,742

(1) In accordance with Article 429 (14) of Regulation (EU) No 575/2013

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 61: LRCom – Leverage ratio common disclosure

		2020 £m	2019 £m
	On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	**89,989**	90,735
2	(Asset amounts deducted in determining Tier 1 capital)	**(789)**	(986)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**89,200**	89,749
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	**179**	324
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	**313**	344
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	**(93)**	(337)
11	**Total derivative exposures**	**399**	331
	Securities financing transaction exposures		
14	Counterparty credit risk exposure for SFT assets	**2,072**	1,934
16	**Total securities financing transaction exposures**	**2,072**	1,934
	Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	**16,781**	15,247
18	(Adjustments for conversion to credit equivalent amounts)	**(13,889)**	(12,519)
19	**Other off-balance sheet exposures**	**2,892**	2,728
	Capital and total exposures		
EU-19b	(Exposures exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off-balance sheet))	**(8,088)**	–
20	Tier 1 capital	**4,180**	4,134
21	**Total leverage ratio exposures**	**86,475**	94,742
	Leverage ratio		
22	Leverage ratio	**4.8%**	4.4%
	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 62: LRSpl – Split-up of on-balance sheet exposures

		2020 £m	2019 £m
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**81,901**	90,735
EU-3	Banking book exposures, of which:	**81,901**	90,735
EU-4	Covered bonds	**1,442**	1,415
EU-5	Exposures treated as sovereigns	**3,858**	12,919
EU-6	Exposures to regional governments, multilateral development banks, international organisations and public sector entities NOT treated as sovereigns	**169**	125
EU-7	Institutions	**895**	1,251
EU-8	Secured by mortgages of immovable properties	**61,269**	63,646
EU-9	Retail exposures	**5,318**	5,208
EU-10	Corporate	**5,316**	4,023
EU-11	Exposures in default	**593**	552
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	**3,041**	1,596

Appendix 1: Disclosures for CB Group consolidated

The following table shows CB Consol's capital resources requirement under Pillar 1 as at 30 September 2020.

Table 63: Pillar 1 Capital requirements

	2020		2019	
	RWA £m	Capital £m	RWA £m	Capital £m
Corporates	**6,361**	**509**	6,258	501
Retail	**9,484**	**759**	8,846	708
Total IRB approach	**15,845**	**1,268**	15,104	1,209
Central governments or central banks	**–**	**–**	9	1
Regional government or local authority	**13**	**1**	13	1
Public sector entities	**5**	**–**	5	–
Institutions	**186**	**15**	206	16
Corporates	**213**	**17**	349	28
Retail	**4,089**	**327**	3,993	319
Secured by mortgages on immovable property	**144**	**12**	496	40
Exposures in default	**62**	**5**	59	5
Exposures associated with particularly high risk	**–**	**–**	11	1
Covered bonds	**144**	**12**	141	11
Equity exposures	**3**	**–**	5	–
Other items	**759**	**61**	651	54
Total standardised approach	**5,618**	**450**	5,938	476
Total credit risk	**21,463**	**1,718**	21,042	1,685
Counterparty credit risk	**179**	**14**	191	15
Credit valuation adjustment	**175**	**14**	192	15
Operational risk	**2,567**	**205**	2,621	209
Total Pillar 1 capital requirements	**24,384**	**1,951**	24,046	1,924

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

Appendix 2: 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 Prudential Regulation Authority'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 particularly 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 2020 totalled 195.

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 (while 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's 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 until 1 May 2020)
- David Bennett
- Fiona Macleod
- Jim Pettigrew (until 5 May 2020)
- Darren Pope (Member from 3 February 2020 and Chair from 2 May 2020)
- Geeta Gopalan (from 1 July 2020)
- Tim Wade (from 1 July 2020)
- Paul Coby (from 1 July 2020)

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 eight scheduled meetings and two additional meetings.

The Committee's Charter is regularly reviewed and is on the Group website.

During 2020, 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.

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 are set annually and aligned to delivery of the Group's strategy. 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.

Appendix 2: Group remuneration disclosures

In line with regulatory requirements a proportion of any bonus may be deferred (as per the 'deferral and vesting' section below). The mechanism for making the bonus deferral is the VMUK Deferred Equity Plan. 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 2020, this means that for Material Risk Takers receiving a variable pay award that exceeds 33% of total pay or total remuneration that exceeds £500,000:

- 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 (or ten years in the case of individuals holding a PRA Senior Manager Function role and where an investigation has commenced); 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, material error;
- where 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;
- if the financial results at a Group, division or business unit level are restated;
- if the financial results for a given year do not support the level of variable remuneration awarded;
- or any other circumstances where the Committee consider adjustments should be made. The Committee is supported in this by the Board Risk Committee and the VMUK 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.

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.

Remuneration for Material Risk Takers for 2020

The following tables set out remuneration disclosures for individuals identified as MRTs. Disclosures are presented at Group level only as there are no differences between the Material Risk Taker population of the Group and CB Group consolidated.

Table 64: Aggregate remuneration by business area

	2020			
Aggregate remuneration by business area	Banking	Independent control functions	Corporate functions	Total
Number of MRTs	**58**	**95**	**42**	**195**
Total fixed remuneration (£m)	**7.6**	**15.7**	**7.0**	**30.3**
Total variable (£m)	**1.2**	**8.8**	**1.7**	**11.7**
Total remuneration (£m)[1]	**8.8**	**24.5**	**8.7**	**42.0**

(1) Remuneration numbers within this table have been rounded to the nearest £0.1m.

Table 65: Fixed and variable remuneration of Material Risk Takers

	2020		
	Senior management	Material Risk Takers	Total
Number of Material Risk Takers	**25**	**170**	**195**
Total fixed remuneration[1]	**8.2**	**22.1**	**30.3**
Variable remuneration (cash)	**–**	**0.1**	**0.1**
Variable remuneration (shares)	**–**	**–**	**–**
Deferred remuneration (cash)	**–**	**–**	**–**
Deferred remuneration (shares)	**–**	**–**	**–**
Long-term incentive (shares)	**8.2**	**3.4**	**11.6**
Total variable remuneration[2]	**8.2**	**3.5**	**11.7**
Total remuneration	**16.4**	**25.6**	**42.0**

(1) Remuneration numbers within this table have been rounded to the nearest £0.1m.
(2) Values for 2020 LTIP awards are based on the face value of awards.

Appendix 2: Group remuneration disclosures

Table 66: Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff)

	2020		
	A	B	C
	Senior Management	Other MRTs	Total
Commencement awards	–	–	–
No. of beneficiaries	–	1	1
Termination awards[1]	**1.0**	**2.9**	**3.9**
No. of beneficiaries	**2**	**25**	**27**
Highest award to single beneficiary[1]	**0.8**	–	–

(1) Remuneration numbers within this table have been rounded to the nearest £0.1m.

Table 67: Deferred remuneration

		2020		
		A	B	C
Deferred and retained remuneration[1]		Senior Management (£m)	Other MRTs (£m)	Total (£m)
1	**Deferred remuneration at 1 October 2019**	**14.7**	**7.9**	**22.6**
2	Awarded in the year	**11.1**	**7.1**	**18.2**
3	Performance adjustment in the year	–	–	–
4	Forfeited in the year	**(1.3)**	**(1.1)**	**(2.4)**
5	Paid in the year	**(3.5)**	**(2.6)**	**(6.1)**
6	Deferred Remuneration at 30 September 2020	**21.0**	**11.3**	**32.3**
7	*Of which: vested*	**20.0**	**11.2**	**31.2**
8	*Of which: unvested*	**1.0**	**0.1**	**1.1**

(1) Remuneration numbers within this table have been rounded to the nearest £0.1m.

Table 68: Remuneration of 1 million EUR or more per year

		2020		
		A	B	C
	EUR	Senior Management	Other MRTs	Total
1	More than €4,000,000	–	–	–
2	€3,500,000 – €4,000,000	–	–	–
3	€3,000,000 – €3,500,000	**1**	–	**1**
4	€2,500,000 – €3,000,000	–	–	–
5	€2,000,000 – €2,500,000	–	–	–
6	€1,500,000 – €2,000,000	–	–	–
7	€1,000,000 – €1,500,000	**7**	–	**7**

Appendix 3: Main features of regulatory capital instruments – Virgin Money UK PLC

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	Virgin Money UK PLC
2	ISIN	GB00BD6GN030	XS1346644799	XS1959441640	XS1516312409	XS1346646901	XS1921970668	XS2227898421
2a	Public/Private Placement	Public	Public	Public	Public	Public	Private	Public
3	Governing law	English	English	English	English	English	English	English
3a	Contractual recognition of write-down and conversion powers of resolution authorities	n/a	No	No	No	No	No	No
	Regulatory treatment							
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	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	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	Virgin Money UK PLC Group
7	Instrument type (type to be specified by each jurisdiction)	Ordinary Shares	Other Equity Instruments	Other Equity Instruments	Other Equity Instruments	Dated Subordinated Debt	Dated Subordinated Debt	Dated Subordinated Debt
8	Regulatory capital value	GBP 143,857,477	GBP 449,658,000	GBP 247,241,321	GBP 217,941,063	GBP 30,400,824	GBP 247,251,839	GBP 471,531,908
9	Nominal value (£)	GBP 143,857,477	GBP 450,000,000	GBP 250,000,000	GBP 230,000,000	GBP 30,408,000	GBP 250,000,000	GBP 475,000,000
9a	Issue Price (£)	100%	99.924%	100%	100%	99.646%	99.493%	99.840%
9b	Redemption Price (£)	100%	100%	100%	100%	100%	100%	100%
10	Accounting classification	Shareholder's Equity	Shareholder's Equity	Shareholder's Equity	Shareholder's Equity	Liability – amortised cost	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	11 September 2020
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	n/a	n/a	n/a	n/a	9 February 2026	14 December 2028	11 December 2030
14	Issuer call subject prior to supervisory approval	n/a	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	n/a	Optional Call Date = 8 December 2022 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 8 June 2024 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 10 November 2021 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 8 February 2021 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 14 December 2023 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = Any date from (and including) 11 September 2025 to (and including) 11 December 2025 Reg Call = Yes Tax Call = Yes Redemption Price = 100%
16	Subsequent call dates	n/a	Any interest payment date thereafter	Each fifth anniversary thereafter	Any interest payment date thereafter	Any interest payment date thereafter	n/a	n/a

Appendix 3: Main features of regulatory capital instruments – Virgin Money UK PLC

	Coupons/Dividends							
17	Fixed or floating dividend/coupon	n/a	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	n/a	8.00% per annum until 8 December 2022. Resets to a fixed rate equal to the 5-year Mid-Swap Rate + 625bps, if not called	9.25% per annum until 8 June 2024. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 830.7bps, if not called	8.75% per annum until 10 November 2021. Resets to a fixed rate equal to the 5-year Mid-Swap Rate + 793bps, if not called	5.00% per annum until 8 February 2021. Resets to a fixed rate equal to the 5-year Mid-Swap Rate + 351.6bps, if not called	7.875% per annum until 14 December 2023. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 712.8bps, if not called	5.125% per annum until 11 December 2025. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 525bps, if not called
19	Existence of a dividend stopper	n/a	No	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	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory
21	Existence of step-up or other incentive to redeem	n/a	No	No	No	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	n/a	n/a	n/a
23	Convertible or non-convertible	Non-convertible	Convertible	Convertible	Convertible	Convertible	Convertible	Convertible
24	If convertible, conversion triggers	n/a	Contractual, if Virgin Money UK PLC Group's CET1 ratio falls below 7% Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability	Contractual, if Virgin Money UK PLC Group's CET1 ratio falls below 7% Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability	Contractual, if Virgin Money UK PLC Group's CET1 ratio falls below 7% Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability
25	If convertible, fully or partially	n/a	Fully	Fully	Fully	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	119p	119p	246p	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	Mandatory	Mandatory	Mandatory	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	Common Equity Tier 1	Common Equity Tier 1	Common Equity Tier 1	n/a	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	n/a
30	Write-down feature	No	Yes	Yes	Yes	Yes	Yes	Yes
31	If write-down, trigger(s)	n/a	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability

32	If write-down, full or partial	n/a	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	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a	n/a
34a	Type of subordination	Statutory	Contractual and Structural	Contractual and Structural	Contractual and Structural	Contractual and Structural	Contractual and Structural	Contractual and Structural
34b	Ranking	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
35	Instrument type immediately senior	Additional Tier 1	Tier 2	Tier 2	Tier 2	Senior Unsecured	Senior Unsecured	Senior Unsecured
36	Non-compliant transitioned features	No	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Appendix 4: Main features of regulatory capital instruments – Clydesdale Bank PLC

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	Clydesdale Bank PLC
2	ISIN	n/a	n/a	n/a	n/a	n/a	n/a
2a	Public/Private Placement	Private	Private	Private	Private	Private	Private
3	Governing law	English	English	English	English	English	English
3a	Contractual recognition of write down and conversion powers of resolution authorities	n/a	No	No	No	No	No
	Regulatory treatment						
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	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	Clydesdale Bank PLC Solo and CB Group Consolidated
7	Instrument type (type to be specified by each jurisdiction)	Ordinary Shares	Other Equity Instruments	Other Equity Instruments	Dated Subordinated Debt	Dated Subordinated Debt	Dated Subordinated Debt
8	Regulatory capital value	GBP 1,243,153,827	GBP 425,431,130	GBP 247,241,321	GBP 30,434,658	GBP 247,251,839	GBP 471,526,177
9	Nominal value (£)	GBP 1,243,153,827	GBP 450,000,000	GBP 250,000,000	GBP 30,408,000	GBP 250,000,000	GBP 475,000,000
9a	Issue Price (£)	100%	94.450%	100%	101.052%	99.493%	99.840%
9b	Redemption Price (£)	100%	100%	100%	100%	100%	100%
10	Accounting classification	Equity	Equity	Equity	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issue	Various	8 February 2016	13 March 2019	8 February 2016	14 December 2018	11 September 2020
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated	Dated	Dated
13	Original maturity date	n/a	n/a	n/a	9 February 2026	14 December 2028	11 December 2030
14	Issuer call subject prior to supervisory approval	n/a	Yes	Yes	Yes	Yes	Yes
15	First call date	n/a	Optional Call Date = 8 December 2022 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 8 June 2024 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 8 February 2021 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = 14 December 2023 Reg Call = Yes Tax Call = Yes Redemption Price = 100%	Optional Call Date = Any date from (and including) 11 September 2025 to (and including) 11 December 2025 Reg Call = Yes Tax Call = Yes Redemption Price = 100%
16	Subsequent call dates	n/a	Any interest payment date thereafter	Each fifth anniversary thereafter	Any interest payment date thereafter	n/a	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	8.00% per annum until 8 December 2022. Resets to a fixed rate equal to the 5-year Mid-Swap Rate + 625bps, if not called	9.25% per annum until 8 June 2024. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 830.7bps, if not called	5.00% per annum until 8 February 2021. Resets to a fixed rate equal to the 5-year Mid-Swap Rate + 351.6bps, if not called	7.875% per annum until 14 December 2023. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 712.8bps, if not called	5.125% per annum until 11 December 2025. Resets to a fixed rate equal to the 5-year Benchmark Gilt Rate + 525bps, if not called
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	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Mandatory	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	n/a	n/a	n/a
23	Convertible or non-convertible	Non-convertible	Convertible	Convertible	Convertible	Convertible	Convertible
24	If convertible, conversion triggers	n/a	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability	Statutory conversion or bail-in by the UK Resolution Authority, at point of non-viability
25	If convertible, fully or partially	n/a	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	n/a
27	If convertible, mandatory or optional conversion	n/a	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	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a	n/a
30	Write-down feature	No	Yes	Yes	Yes	Yes	Yes
31	If write-down, trigger(s)	n/a	Contractual, if Virgin Money UK PLC Group's CET1 ratio or CB Group's CET1 ratio falls below 7% Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability	Contractual, if Virgin Money UK PLC Group's CET1 ratio or CB Group's CET1 ratio falls below 7% Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability	Statutory write-down or bail-in by the UK Resolution Authority at point of non-viability
32	If write-down, full or partial	n/a	Fully	Fully	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	Permanent	Permanent	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
34a	Type of subordination	Statutory	Contractual	Contractual	Contractual	Contractual	Contractual
34b	Ranking	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2	Tier 2	Tier 2
35	Instrument type immediately senior	Additional Tier 1	Tier 2	Tier 2	Senior Unsecured	Senior Unsecured	Senior Unsecured
36	Non-compliant transitioned features	No	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 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 FY20 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 - 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)	The scope and nature of 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 – 2.4 Review and challenge, 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

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 56 Capital composition, Table 59 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	Virgin Money UK PLC - Pillar 3 – Appendix 3, CB Consol - 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 – separately disclosed on Group website: www.virginmoneyukplc.com
437(1)(d)	Disclosure of the nature and amounts of the prudential filters, 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 56 Capital composition, Table 57 Capital flow statement
437(1)(e)	A description of all restrictions applied to 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 56 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

Appendix 5: CRR mapping to reports

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 63 Pillar 1 capital requirements
438(d)	Capital requirements for each IRB approach to credit risk exposure classes	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 63 Pillar 1 capital requirements
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 63 Pillar 1 Capital requirements
438 (end note)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk-weight approach	Pillar 3 - Table 42 EU CR10 - IRB specialised lending and equity exposures under the simple risk-weighted approach.

CRR	Description	Compliance
Exposures to counterparty credit risk (CCR)		
439(a)	Discussion 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 policies for 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 44 EU CCR1 – Analysis of CCR exposure by approach, Table 45 EU CCR2 – CVA capital charge, Table 46 EU CCR8 – Exposures to central counterparties (CCPs), Table 48 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 44 EU CCR1 – Analysis of CCR exposure by approach, Table 45 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

CRR	Description	Compliance
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
440(1)(b)	Amount of the institution-specific countercyclical capital buffer	Pillar 3 – 5.2 Minimum capital requirement, Table 14 Amount of institution-specific CCyB

CRR	Description	Compliance
Indicators of global systemic importance		
441(1)	Disclosures of the indicators of global systemic importance	Not applicable

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
442(d)	Disclosure of pre-CRM EAD by geography and exposure class	Pillar 3 – Table 19 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
442(f)	Disclosure of pre-CRM EAD by residual maturity and exposure class	Pillar 3 – Table 18 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 21 EU CR1-B - Credit quality of exposures by industry or counterparty types
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 23 Performing and non-performing exposures and related provisions and Table 25 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 25 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 29 EU CR4 – Standardised approach – credit risk exposure and CRM effects, Table 30 EU CR5 – Standardised approach – exposures by asset classes and risk weights, Table 47 EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk weights
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX settlement	Not applicable
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.

Appendix 5: CRR mapping to reports

CRR	Description	Compliance
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)	Cumulative 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 – 9.0 Monitoring, Table 49 Value at 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:	Pillar 3 – 11.1 Objectives and roles in relation to securitisation activity
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

Executive summary
Risk management
Capital resources
Capital requirements
Funding and liquidity risk
Securitisation
Asset encumbrance
Appendices

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 51 Outstanding notes
449(n)(ii)	On-balance sheet securitisation retained or purchased, and off-balance sheet exposures	Pillar 3 – Table 52 On-balance sheet securitised 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 51 Outstanding notes
449(o)	Banking and trading book securitisations	Pillar 3 – 11.0 Securitisation
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 52 On-balance sheet securitised 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 60 LRSum – Summary reconciliation of accounting assets and leverage ratio exposures, Table 61 LRCom – Leverage ratio common disclosure, Table 62 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

Appendix 5: CRR mapping to reports

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, Tables 34 - 37 IRB approach - credit risk exposures by class and PD range
452(e-f)	Total exposure, separating loans and undrawn exposures where applicable and exposure-weighted average risk weight	Pillar 3 – Table 34 EU CR6 – IRB approach – Credit risk exposures by class and PD range: CB Mortgages, Table 35 EU CR6 – IRB approach – Credit risk exposures by class and PD range: VM Mortgages, Table 36 EU CR6 – IRB approach – Credit risk exposures by class and PD range: Corporate – SME and Table 37 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 34 EU CR6 – IRB approach – Credit risk exposures by class and PD range: CB Mortgages, Table 35 EU CR6 – IRB approach – Credit risk exposures by class and PD range: VM Mortgages, Table 36 EU CR6 – IRB approach – Credit risk exposures by class and PD range: Corporate – SME and Table 37 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 38 EU CR9 – Backtesting of PD per exposure class: CB Mortgages, Table 39 EU CR9 – Backtesting of PD per exposure class: VM Mortgages, Table 40 EU CR9 – Backtesting of PD per exposure class: (FIRB) Corporate – Other and Table 41 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 28 EU CR3 – CRM techniques – overview and Table 29 EU CR4 – Standardised approach – credit risk exposure and CRM effects
453(g)	Exposures covered by guarantees or credit derivatives	Pillar 3 – Table 28 EU CR3 – CRM techniques – overview and Table 29 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 6: Tables

Appendix 7: Glossary

Term	Definition
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.
Bank	Clydesdale Bank PLC.
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.
Bounce back loan scheme **(BBLS)**	A scheme implemented by the UK Government to provide financial support to businesses across the UK that are losing revenue, and seeing their cashflow disrupted as a result of COVID-19, and that can benefit from £50,000 or less in finance.
Capital buffers	Capital conservation buffer – A buffer set for all banks that can be used to absorb losses while avoiding breaching minimum requirements. It is designed to ensure that banks build up capital outside periods of stress which can be drawn down as losses are incurred. Systemic risk buffer – A buffer set for ring-fenced banks and large building societies to reduce their probability of failure or distress. It is commensurate with the greater cost that their failure or distress would have for the UK economy. Firms with total assets less than £175bn are subject to a 0% SRB. Countercyclical capital buffer – A capital buffer to ensure eligible firms have a sufficient capital base to absorb losses in stressed periods. The CCyB aims to ensure that banking sector capital requirements take account of the macroeconomic financial environment in which banks operate. It enables the Bank of England's Financial Policy Committee to adjust the resilience of the banking system to the changing scale of risk the system faces over time. PRA buffer – A buffer set using supervisory judgement informed by the impact of stress scenarios on a firm's capital requirements and resources and taking account, where appropriate, of other factors including leverage, systemic importance and weaknesses in firms' risk management and governance. This is set on a firm-specific basis. 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 BoE by eligible institutions.
CB Group Consolidated **(CB Consol)**	Prudential sub-consolidation group of Clydesdale Bank PLC.
Collateral	The assets of a borrower that are used as security against a loan facility.
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.
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 RWA at a given date.
Company	CYBG PLC up until 31 October 2019 and thereafter Virgin Money UK PLC.

Appendix 7: Glossary

Term	Definition
Coronavirus business interruption loan scheme **(CBILS)**	A scheme implemented by the UK Government to provide financial support to smaller businesses across the UK that are losing revenue, and seeing their cashflow disrupted, as a result of COVID-19.
Coronavirus large business interruption loan scheme **(CLBILS)**	A scheme implemented by the UK Government to provide financial support to mid-sized and larger businesses across the UK that are suffering disruption to their cashflow due to lost or deferred revenues as a result of COVID-19.
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.
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 adjustment/credit valuation adjustment	An adjustment to the valuation of financial instruments held at fair value to reflect the creditworthiness of the counterparty.
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.
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.

Term	Definition
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.
Forbearance	The term generally applied to the facilities provided or changes to facilities provided to assist borrowers, who are experiencing, or are about to experience, a period of financial stress.
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 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.
Loss given default **(LGD)**	The estimate of the loss that the Group will suffer if the customer defaults (incorporating the effect of any collateral held).
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 **(NII)**	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 always 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.

Appendix 7: Glossary

Term	Definition
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.
Probability of default **(PD)**	The probability that a customer will default over either the next 12 months or lifetime of the account.
Prudential Regulation Authority **(PRA)**	Entity of the BoE responsible for the prudential regulation and supervision of 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.
Sale and repurchase agreement **('repo')**	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.
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.
Value at Risk **(VaR)**	A measure of the loss that could occur on risk positions as a result of adverse movements in market risk factors (e.g. rates, prices, volatilities) over a specified time horizon and to a given level of confidence.
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

ACS	Annual Cyclical Scenarios
AIRB	Advanced Internal-Ratings Based
ALCO	Asset and Liability Committee
AT1	Additional Tier 1
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
bps	Basis points
BTL	Buy-to-Let
CAM	Current account mortgage
CCB	Capital conservation buffer
CCF	Credit Conversion Factor
CCPs	Central Counterparties
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CET1	Common Equity Tier 1 capital
CISRO	Chief Information Security and Resilience Officer
CIU	Collective Investment Undertaking
CRD IV	Capital Requirements Directive
CRM	Credit risk mitigation
CRR	Capital Requirements Regulation
CVA	Credit Valuation Adjustment
EaD	Exposures at Default
EaR	Earnings at Risk
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Losses
EHQLA	Extremely High Quality Liquid Assets
EVE	Economic Value of Equity
FCA	Financial Conduct Authority
FIRB	Foundation Internal-Ratings Based
G-SII	Global Systemically Important Institutions
HMT	Her Majesty's Treasury
HQLA	High-Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy
IRB	Internal ratings-based approach
IRRBB	Interest Rate Risk in Banking Book
ISDA	International Swaps and Derivatives Association
LGD	Loss Given Default
LIBOR	London Inter-Bank Offered Rate
LTIP	Long Term Incentive Plan
LTV	Loan To Value
MREL	Minimum Requirements for own funds and Eligible Liabilities
NII	Net interest income
OCIR	Operational continuity in resolution
O-SII	Other Systemically Important Institutions
PD	Probability of Default
PFE	Potential future exposure
PRA	Prudential Regulation Authority
PSD2	Payment Services Directive II
QCCPs	Qualifying Central Counterparties
RAS	Risk Appetite Statement
Repo	Repurchase agreement
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
SMF	Sterling Monetary Framework
SONIA	Sterling Overnight Index Average
SPV	Special Purpose Vehicle
SRB	Systemic Risk Buffer
SYSC	Systems and Controls
TFSME	Term Funding Scheme with additional incentives for SME's
VAR	Value at Risk
VFN	Variable Funding Note
VMH	Virgin Money Holdings
VMUK	Virgin Money UK PLC

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