Charter Court Financial Services Group Plc

PILLAR 3 DISCLOSURES

31 December 2018

Contents

1. Introduction and Key Regulatory Metrics

1.1 Overview

The Capital Requirements Directive ("CRD") and the Capital Requirements Regulation ("CRR"), collectively referred to as CRD IV, which came into effect on 1 January 2014 is the framework for implementing Basel III in the European Union (the Basel Framework).

The Basel capital framework consists of three 'Pillars'. Pillar 1 sets out the minimum capital firms are required to hold for credit, market and operational risk. Under Pillar 2, firms and supervisors have to assess whether a firm should hold additional capital against risks not covered in Pillar 1.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures, risk assessment processes and remuneration approach.

1.2 Scope and Basis of Disclosure

The Pillar 3 Disclosure has been prepared on a consolidated basis by Charter Court Financial Services Group Plc ("CCFSG"). CCFSG is subject to consolidated regulatory supervision by the Prudential Regulation Authority ("the PRA") due to Charter Court Financial Services Limited ("the Bank") being a regulated entity (PRA firm reference number 494549) which is together "The Group".

There are no differences between the basis of consolidation for the Group's financial reporting, statutory accounting or prudential purposes. All the Group's subsidiary undertakings are included within the Pillar 3 Disclosure.

Disclosures in this document relate to the Group, with the exception of Section 7 and Appendices 1 and 2 which contain disclosures required by the Bank as a solo entity.

Where relevant disclosures are available in other published financial statements, the Group will indicate where those disclosures can be found.

Pillar 3 Disclosures will be prepared and published on an annual basis, or more frequently in line with the European Banking Authority ("EBA") guidelines, or if there is a material change to the previously disclosed data or information.

This document has been prepared in order to disclose the information laid down in Part Eight of the CRR. Disclosures include information on remuneration, risk management, objectives, policies, and the governance arrangements of the Group. Information is disclosed on how the Group and Bank calculate capital requirements, along with leverage ratio, encumbrance levels and liquidity coverage in accordance with CRD IV.

This disclosure does not constitute any form of contemporary or forward looking record or opinion of the Group.

1.3 Pillar 3 Disclosure Policy

The Group has established a policy for Pillar 3 Disclosures to ensure the Group is compliant with the disclosure requirements prescribed within Part Eight of the CRR. The policy sets out the internal controls and procedures to be applied when assessing the appropriateness of disclosures.

This document should be read in conjunction with the Group's Annual Report and Accounts for the year ended 31 December 2018 ("ARA") available at www.chartercourtfs.co.uk, which contain a complete list of subsidiaries included within the accounting and prudential consolidation (see Note 52 of the ARA).

1.4 Verification

The Pillar 3 Disclosures have been subject to review, internal verification and sign off. The disclosures have been attested in writing by the management body of the Group.

These disclosures have not been externally audited. However, certain information has been extracted from the ARA, which is subject to external audit. Other Information has been sourced from the Internal Capital Adequacy Assessment document ("ICAAP"), the Internal Liquidity Adequacy Assessment document ("ILAAP"), Residential Mortgage Backed Securities ("RMBS") Prospectuses and Investor Reports, Payroll Files, Remuneration Committee reports, and the Group's Common Reporting ("COREP") returns.

1.5 Non-Material, Proprietary or Confidential Information

The Group has not sought any exemption from its disclosure requirements on the basis of materiality or on the basis of proprietary or confidential information.

1.6 Management Approval and Declaration

The Group is exposed to credit, liquidity and interest rate risk which arise through mortgage lending and banking activities. Risks are managed in strict accordance with Board approved risk appetites, and through credit policies and mortgage arrears management. The Group holds management capital buffers above the minimum regulatory capital requirements. Key metrics can be found in Section 1.7.

The Group has an established independent risk management function, which includes the liquidity risk oversight function. The Group has adequate risk management and liquidity management systems in place with regard to its profile and strategy. Further information on the Group's risk management framework is provided in Section 2. Further information on liquidity management can be found in Section 7.

The Board Audit Committee ("BAC") has approved the above statement and declaration.

1.7 Key Regulatory Metrics

Key ratios and metrics in relation to the Group are detailed below along with the Liquidity Coverage Ratio ("LCR") for the Bank. Key ratios have been prepared using the transitional arrangements for IFRS 9. The impact of capital with and without the transitional arrangement can be found in Section 3.3.

Key Metrics	2018 £m	2017 £m
Total Risk Weighted Assets	2,697.7	2,118.9
Capital Resources Requirement - Pillar 1[1]	215.8	169.5
Capital Resource		
CET 1	423.2	331.4
Tier 2	-	0.5
Total Capital	**423.2**	**331.9**
Key Ratios		
Common Equity Tier 1 Capital Ratio	15.7%	15.6%
Total Tier 1 Capital Ratio	15.7%	15.6%
Total Capital Ratio	15.7%	15.7%
Total Capital Requirement[2]	285.4	219.7
CET 1 Available To Meet Buffers	7.7%	7.6%
Asset Encumbrance Ratio Group[3]	35.9%	28.7%
Asset Encumbrance Ratio Bank[3]	28.0%	25.4%
Liquidity Coverage Ratio Bank[3]	184.7%	222.3%

1 At 8% of RWAs.

2 Total Capital Requirement refers to the firm specific amount of capital a firm must maintain, excluding regulatory capital buffers.

3 Liquidity ratios are average values over the period. Asset encumbrance ratios are calculated using the median values in accordance with reporting standards issued by the EBA.

1.8 Relevant Changes and Developments

International Financial Reporting Standard ("IFRS") 9

IFRS 9 Financial Instruments is effective for the Group's consolidated financial statements for the year ending 31 December 2018, changing the classification and measurement of financial assets and introducing a new impairment model for financial instruments which requires entities to recognise expected credit losses based on unbiased forward-looking information. The new impairment model replaces the incurred loss model which only recognises impairment if there is objective evidence that a loss is already incurred and measures the loss at the most probable outcome under IAS 39 'Financial Instruments: recognition and measurement'. Further Information can be found in Note 3 of the ARA.

Due to the impact on CET 1 Capital, a five year transitional arrangement has been agreed, allowing firms to "phase in" the Day 1 capital impact. During the five year transitional period, percentages of 'new' impairment provisions recognised as a result of IFRS 9 adoption will be added back to CET1 capital. The Group has elected to apply the transitional rules. The impact of capital with and without the transitional arrangement can be found in Section 3.3.

Capital Buffers

Institutions are required to comply with the requirements for a Countercyclical Capital Buffer ("CCyB"). The Group has assessed its CCyB requirement as 0% up until the 27th June 2018 when it increased to 0.5% following an announcement by the Bank of England Financial Policy Committee. A further increase was applied from 28th November 2018 to 1%.

The Capital Conservation Buffer ("CCoB") ensures that banks build up capital buffers in order to absorb losses without breaching minimum capital requirements. The CCoB was set at 0.625% in 2016 and will reach 2.5% by 2019. As at 31st December 2018 the applicable rate is 1.875%

Further information on capital buffers can be found in Section 4.

Securitisation Framework – Simple, Transparent and Standardised Securitisation ("STS")

The new securitisation regulation comes into effect 1 January 2019, with the pivotal changes coming in the form of a new regulatory standard for securitisations (STS), as well as amended capital holding requirements for banks and other institutions.

The new regulation allows for grandfathering of deals completed prior to the start of 2019, up until the start of 2020. All deals completed from January 2019 will be subject to the regulation. STS rated deals will get favourable risk weighting treatment, while older deals that do not adopt the STS label will be subject to harsher risk weights for those invested in them from 2020.

There is significant increase in data requirements associated with new deals under the new regulation. Work has been carried out during 2018 and the Group is in a position to comply with the new regulation.

European Market Infrastructure Regulation ("EMIR")

As of 21 June 2019 European Market Infrastructure Regulation ("EMIR") regulation comes into force which requires the majority of vanilla derivatives to be cleared via a Central Clearing Counterparty. This will impact the Group and work is on schedule to ensure the Group is compliant with this regulation ahead of the deadline.

LIBOR ("London Interbank Offered Rate") Replacement

Following the Financial Conduct Authority ("FCA") announcement in 2017 that after 2021 it would no longer persuade or compel banks to submit the rates required to calculate LIBOR, the Group has conducted a review of its current and residual (post 2021) LIBOR linked customer and counterparty contractual arrangements. This has identified potential outcomes for LIBOR alternatives should the index cease to exist

Further to the above, the Group has commenced a multi work-stream project to transition lending and funding new business, hedging strategy, and certain counterparty exposures away from LIBOR.

Interest Rate Risk in the Banking Book ("IRRBB")

In July 2018 the EBA issued revised guidelines on the management of interest rate risk from non-trading book activities, also referred to as IRRBB, which comes into effect from 2019. The EBA has provided guidance on the introduction of systems that are to be implemented by institutions for the identification, evaluation and management of IRRBB. Guidance on the internal governance framework in relation to the management of IRRBB is also covered.

The Group have established an Interest Rate Risk in the Banking Book Working Group ("IRRBBWG") to support the Assets and Liabilities Committee ("ALCO") in all matters pertaining to IRRBB including compliance with EBA reporting standards.

2. Risk Management

2.1 Approach to Risk Management

The Board is responsible for the Group's overall business model and ensuring an effective risk management framework is in place as articulated through business objectives, corporate strategy and risk appetites. The Board discharges its responsibilities for risk management to the executive team which is overseen by the Board Risk Committee ("BRC"). The executive team is supported by the executive risk management committee and working groups as described in section 2.2.

Risk Management Framework

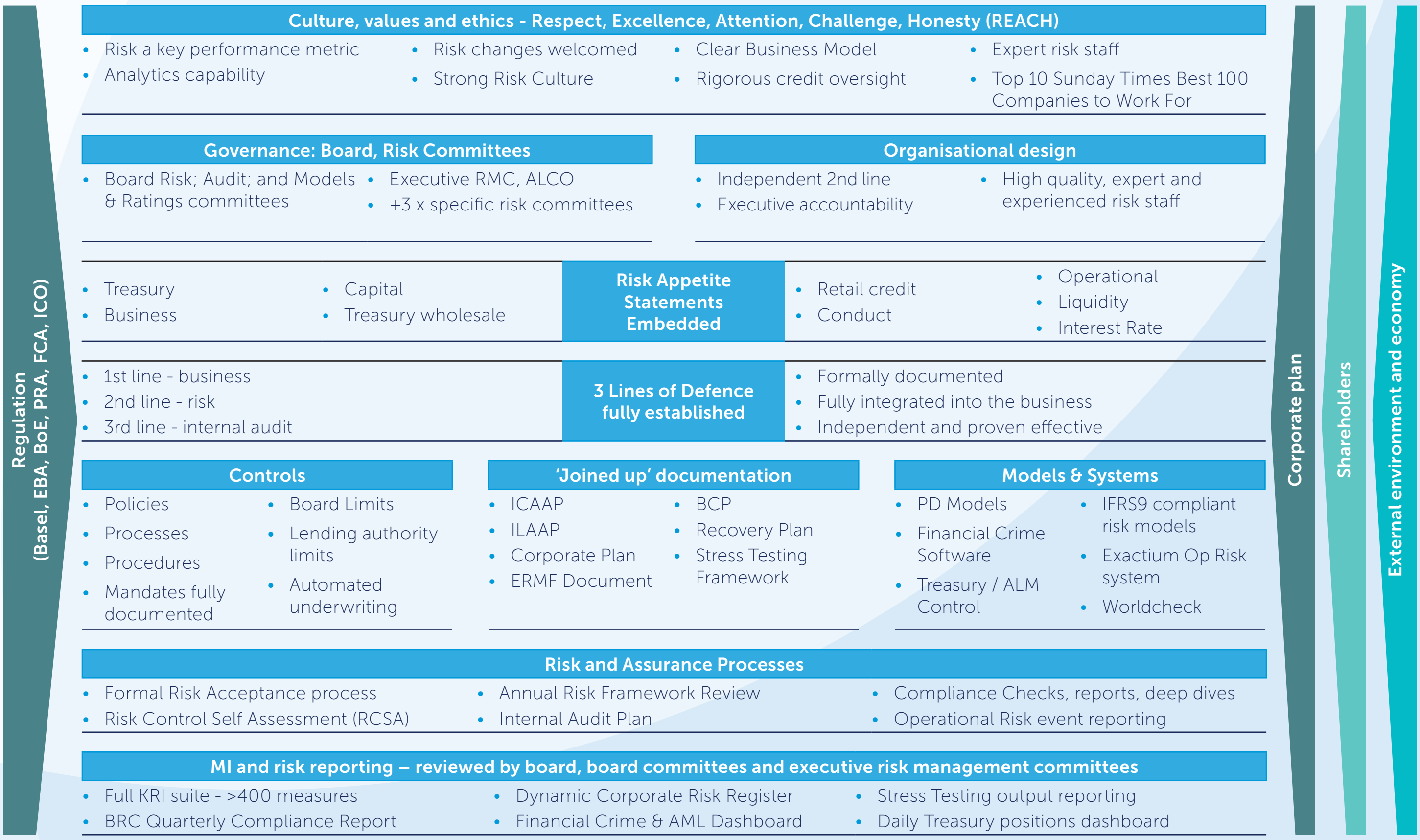
The Group has developed a comprehensive risk appetite framework which adopts the Financial Stability Board's principles and is fully embedded and operationalised across the business.

Based on the business and financial plan, this framework enables the Board to set and own risk appetite and the associated appetite limits which are underpinned by a suite of policies against which the independent risk management function monitors and reports business performance and adherence.

Ongoing dynamic monitoring, control and reporting of risk management performance against a Key Risk Indicator ("KRI") framework is fully embedded, overseen and reviewed by the relevant executive risk committees, as well as the Board Risk Committee and the Board.

The Board is responsible for continually ensuring that an effective risk management framework is in place. The executive team, overseen by board risk committee and supported by the executive risk management committee and individual risk committees and risk working groups ensures that there is an ongoing focus on effective risk management to facilitate strong support for compliance with policies, business performance, new initiatives and change.

The Group's Enterprise Risk Management Framework ("ERMF") sets out the various risk management components to provide an overarching view.



The key elements of the Group's approach to risk management are documented within the ERMF. Overall, the ERMF comprises core elements being; risk appetite, governance and committees, Three Lines of Defence organisation, risk policies, risk register, risk processes and infrastructure, risk data, management information and reporting. The ERMF is maintained by the Chief Risk Officer ("CRO") and reviewed annually by the BRC.

Key risks are identified and monitored by the CRO and the senior risk management team using a Corporate Risk Register ("CoRR"). The CoRR is a central tool in the 'top down' risk management process used in the following ways:

- The CoRR is considered quarterly by the BRC and monthly by the CRO;
- The CRO presents a monthly Risk Summary to the Bank Board giving the view of risk across the business against each of the risk categories identified in the CoRR; and
- The CoRR is used as the basis of risk assessment for key new initiatives, such as material outsourcing arrangements and change projects.

Three Lines of Defence Organisation

The Group has adopted a 'three lines of defence' organisational design and operating model to underpin the risk management approach, in line with best practice financial services risk management.

This model aims to ensure at least three stages of oversight to protect customers and the Group from risks, any control weaknesses and to ensure that the Group operates within the Board's risk appetite and is compliant from a regulatory and internal policy perspective.

First line of defence

The first line of defence is provided by the operational business lines and staff, which include customer facing roles, those that are responsible for product development and distribution, and management of the finances of the business. Day-to-day risk management and compliance with policies and processes is primarily the responsibility of all managers and staff. Management has a responsibility to understand how risks impact their area of the business and to support and ensure adherence to controls.

Each business line is responsible for measuring, assessing and controlling risks through the day-to-day activities of the business, within the framework set by the risk function. As such, each business line is responsible for ensuring that there is a comprehensive suite of processes and procedures that guide the operations of the business in accordance with risk appetite. A risk control self-assessment ("RCSA") framework, owned centrally by the risk management function but used proactively throughout the business is fully operational in all business areas and embedded into day-to-day operations. Associated outputs and management information are reviewed monthly by the Operational Risk Management Committee.

Second line of defence

The second line of defence is provided by the risk management function, which provides independent oversight to ensure adherence to policies and regulation, challenges managers and staff effectively of their performance of risk and compliance management and provides risk-orientated advice and guidance as necessary.

Third line of defence

The third line of defence is provided by the Group's internal audit function, which is responsible for independently reviewing the effectiveness of the risk management structure and adherence to processes – both from first and second line perspectives.

The internal audit function provides independent assurance to the Audit Committee and the Board in relation to adherence by the Group to internal systems and controls, procedures and policies and second line risk oversight.

The internal audit function is outsourced, currently to KPMG LLP ("KPMG").

Further information on the Group's risk management can be found in the Risk Management section within the Strategic Report of the ARA.

Principal Risks

This section describes material existing and emerging risks which the Board believes could materially impact delivery of the Corporate Plan. The material existing risks are considered generic to UK financial services firms operating in the current environment. As a result of uncertainty due to Brexit and the impact on operational risk because of greater staff numbers, premises and the ongoing cyber-crime threat, all risks are deemed to have increased in the last twelve months and are expected to remain volatile until the political and economic situation becomes clearer.

Business Risk

Perhaps the biggest risk to the Group and other financial services firms is business risk emanating from adverse macro-economic conditions as a result of an unfavourable outcome of Britain's exit from the European Union.

Risk	Monitoring & Control	Emerging Risks
Business risk The risk that Charter Court's business plan is not delivered due to selection and actioning of strategy, and/or a lack of responsiveness to changes in the internal or external environments.	• Quarterly financial re-forecasts undertaken (including revised capital and liquidity stress scenarios to support financial re-forecast). • CRO provides a quarterly economic environment report to Board Risk Committee with updated Corporate Risk Register and list of 'top and emerging' risks. • Managing risk is intrinsically linked to the corporate planning and stress testing processes. • Regular provision of consolidated business performance and risk reporting data to the Board Risk Committee and the Board.	• Changes in the UK Economy and its mortgages and savings markets. • Increased competition from incumbents and new entrants. • Decision to leave the EU. • Potential for a property price bubble in parts of London and the South East. • New technological innovations in mortgages and savings markets. • New regulation or regulatory guidance impacting the operation of the mortgages and savings markets.

Risk appetite

The Group only offers mortgages in the UK and does not currently have an appetite for extending activities into other business or geographic areas.

Operational Risk		
Expansion of the Group and growth in employee numbers and premises coupled with ever-increasing cyber and IT risks bring a higher operational risk profile which requires greater monitoring and control.		
Risk	**Monitoring & Control**	**Emerging Risks**
Operational risk The risk of loss resulting from inadequate or failed internal processes, human factors or external events where the root cause is not due to credit or market risks. It includes information technology, information security, change management, outsourcing, tax, legal, people and financial control risks.	• Use of policies and procedures, recruitment and training, change management procedures, managerial oversight and a Risk Control Self-Assessment process. • Maintenance of three lines of defence. • Internal audit programme developed to focus on key risk areas. • RCSA framework established within first line of defence. • ICAAP with detailed analysis of operational risk losses. • Reinforced IT resource due to cyber-crime threat and invested in: cyber-crime detection software, expanded penetration testing / reporting and external monitoring tools. • Attempted attacks or suspicious activity reported to Board Risk Committee with research undertaken to understand tactics.	• Increase of financial crime, fraud and cybercrime in the financial services industry. • Poor service delivery by third party supplier and reputational damage, as well as financial losses and reduced ability to raise retail deposits.
Risk appetite The Group has a very low appetite for operational risk and has a policy and control environment which aims to restrict losses arising from operational risk breaches across the business in any financial year.		

<table>
<tr><td colspan="3">Credit and Counterparty Credit Risk

Although all retail credit risk exposure is secured by UK property, there remains the possibility of increased credit losses from increased defaults and lower house price values as a result of an economic downturn as referred to under ‘business risk’.
Additionally, there could be related stress amongst European banks and investment firms to which the Group has wholesale treasury counterparty exposures, albeit funds are placed with only the highest rated entities.</td></tr>
<tr><th>Risk</th><th>Monitoring & Control</th><th>Emerging Risks</th></tr>
<tr><td>Credit risk
The risk of financial loss arising from the failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.</td><td>Retail Credit Risk
• Monthly reviews by Credit Management Committee (overseen by Executive Risk Management and Board Risk Committees).
• Continuous monitoring of actual exposure.
• The Group’s origination process consists of prescriptive, automated filtering of decisions and robust manual underwriting assessment.
• Significant levels of both first and second line quality assurance work undertaken to ensure credit risk is in accordance with risk appetite and prevailing policies.
• Receipt of monthly Experian feed enables tracking of customers’ wider financial circumstances beyond the CCFS mortgage conduct.
• Dedicated Financial Crime team to ensure deterrence of and protection from fraud and money laundering risks.
• CRO reviews all cases with an exposure above £750,000 (monthly).

Wholesale Credit Risk
• Treasury team assesses the level of credit risk from holdings with individual counterparties with limits set for each counterparty.
• Exposure overseen by ALCO.
• Cash balances held at central banks and other highly rated banks.
• Treasury counterparties subject to Board approval and must meet minimum external credit ratings.
• Exposures to single counterparties monitored on an ongoing basis (overseen weekly by Prudential Risk).</td><td>• Potential for a property price bubble in parts of London and the South East.
• Increased competitor activity and tightening of margins leading to pressure to widen criteria.
• Ongoing political uncertainty in the UK – including the pending exit from the European Union.
• Increasing levels of unsecured borrowing.</td></tr>
<tr><td colspan="3">Risk appetite
Credit risk arises from the Group’s financial assets consisting of investments in debt securities, customer loans and receivables, derivative financial instruments, trade and other receivables and cash and cash equivalents and comprises:
Retail Credit Risk - The Group has set an overall lifetime loss limit on its mortgage portfolio, although in practice, it aims to operate well within that limit. The Group aims to maintain a balanced portfolio and avoid excess concentration risk in any particular geographic area.
Wholesale Credit Risk – this is incorporated within the Financial Risk Management Policy and accommodates the Group’s cash balance holdings at central banks and investments in high quality assets, such as residential mortgage-backed securities, which meet minimum rating requirements. The total investments in the RMBS of any one counterparty is subject to a limit based on the counterparty’s credit rating and individual investments must have a minimum credit rating. RMBS investments are normally held to maturity.</td></tr>
</table>

Treasury Risk

Treasury risk arises from a range of varying risk types as summarised below. Uncertainty in the markets as a result of stressed conditions arising from Brexit could result in such risks becoming higher or more volatile.

The majority of Treasury Wholesale Credit exposure is to the Bank of England, although the Group also has exposures to wholesale counterparties through Correspondent Banking relationships and through derivatives transacted to hedge interest rate risk. Derivatives are transacted only with the highest rated counterparties and are subject to ISDA and CSA agreements. Wholesale credit risk exposures associated with derivatives are virtually eliminated through regular exchange of collateral which is monitored by the appropriate risk committees.

Cash exposures within securitisation structures are managed in line with prescriptive investment criteria and, again, only placed with highly rated institutions or AAA rated liquidity funds.

Monitoring of the ongoing creditworthiness of counterparties is performed regularly and independently by the risk function using market information including credit ratings, equity prices, Credit default swap ("CDS") spreads etc. The impact of any deterioration on credit profile and its impact is routinely considered. Management information on Wholesale Credit exposures is presented to ALCO, Board Risk Committee and the Board.

Risk	Monitoring & Control	Emerging Risks
Treasury risk, comprising: **Liquidity risk** - the risk that the Group does not have sufficient liquid resources to meet its financial obligations as they fall due. **Funding risk** - the adverse impact of higher funding costs and/or lack of available funds on the Group's cash flow. **Interest rate risk** - the risk that movement in interest rates adversely impacts net interest income and capital if inadequate hedging of interest rate risk is in place. **Basis risk** - when financing an asset with a liability which re-prices from a different interest rate reference point, such as BBR and LIBOR. **Wholesale credit risk** – as described under credit risk above.	• Liquidity and funding risks managed by Treasury in line with Group policies, risk appetites, and regulatory guidance. • Liquidity, funding, interest rate and market risks overseen monthly by Assets and Liabilities and Board Risk committees. • ILBR established for its operational level of required liquidity, ILBR is a stronger measure than the industry standard Liquidity Coverage Ratio measure. • Frequent stress testing performed. • Annual ILAAP conducted and approved by the Board. • Interest rate risk managed by maintaining floating rate liabilities and matching those with floating rate assets, and hedging fixed rate assets and liabilities through the use of interest rate swaps and interest rate options (caps) purchased from large financial institutions with strong credit ratings.	• Impact of the closure of the Term Funding Scheme. • Potential adverse impact of Brexit (and Structural Reform) on the UK. • Increased competition in mortgages and savings market. • Ongoing regulatory change (e.g. to the PRA's Pillar 2 liquidity framework). • Impact of Open Banking and technological innovation on customer behaviour. • Volatility of securitisation markets due to Brexit uncertainty.

Risk appetite

The Group's Liquidity Risk Appetite Statement is consistent with the PRA's Overall Liquidity Adequacy Rule.

The credit and market risk of assets in the High Quality Liquid Asset ("HQLA") buffer is minimal as the assets are limited to balances with the Bank of England or short-dated government debt securities.

The Group aims to hold sufficient quantity and quality of liquid assets to ensure that all liabilities will be met when they fall due under normal market conditions and under the most severe of CCFS' liquidity stress tests.

The Group does not seek to take interest rate positions and is exposed to interest rate risk only as a consequence of the provision of its financial services products. Interest rate risk is managed to ensure that the level of risk from shifts in the yield curve does not exceed a maximum percentage of capital resources or that earnings at risk do not exceed a specified percentage of projected earnings and CET1 capital in the following 12 months. The use of derivatives is designed to reduce this risk.

Regulatory Risk The Group monitors closely changes in the regulatory landscape and prioritises compliance with prudential and conduct risk requirements, reporting and control standards.		
Risk	**Monitoring & Control**	**Emerging Risks**
Regulatory risk, comprising: **Conduct risk** Arises from a failure to treat customers fairly or the failure to deliver an appropriate outcome for them. **Prudential risk** Arises from a failure to maintain sufficient levels of capital and liquidity and includes the potential impact a firm could have on the financial system, its proximity to failure and the context in which the firm operates.	• Established frameworks supported by policies and standards in key areas. • Regular horizon scanning for regulatory change and seeks to ensure it is prepared. • Engages proactively with the PRA and FCA, and undertakes impact analyses to gauge the effect of regulatory changes. • Compliance monitored by the compliance and prudential risk teams. • Regulatory risk matters reported to ALCO, Operational Risk Management and Conduct Risk Management Committees, and overseen by the Risk Management Committee and the Board Risk Committee.	• Impact of General Data Protection Regulation ("GDPR"). • Increasing focus of the FCA on Vulnerable Customers, mortgage prisoners, price discrimination and unfair contract terms. • Ongoing impact of the FCA reviews of Outsourcing, Second Charge Lending and Retail Banking Business Models. • Developments from the BCBS particularly in relation to changes in risk weightings and associated regulatory capital requirements. • Uncertainty of achieving an IRB approach waiver from the PRA.
Risk appetite The Group has a very low appetite for conduct risk breaches and a policy which aims to restrict losses arising from conduct risk breaches across the business in any financial year. The Group's approach is to treat all customers fairly, whether or not the individual product is regulated by the FCA, in order to maintain a reputation as a fair financial services provider consistent with the statutory objectives of the FCA. The Group aims to hold sufficient quantity and quality of liquid assets to ensure that all liabilities will be met when they fall due under normal market conditions and under the most severe of Charter Court's liquidity stress tests. The Group seeks to maintain an appropriate level of capital above the minimum Individual Capital Guidance set by the PRA plus an agreed Capital Planning Buffer.		

Further information on principle risks and risk factors can be found in the Risk Management section within the Strategic Report of the ARA.

2.2 Corporate Governance

Board of Directors

The Group is headed by a Board of Directors which meets regularly and directs and controls the Group. There is a clear division of responsibility which ensures a balance of power and authority between the Chairman, who controls and directs the Group's board meetings and the Chief Executive Officer, who carries responsibility for running the Group's business.

The Board of Directors is responsible for promoting the highest standards of corporate governance across the Group. The Board ensures the long-term success of the Group, sets the values and culture of the organisation, agrees the strategic objectives and establishes a relationship with the shareholders.

The Board is collectively responsible for leading and controlling the Group and for the management and conduct of the Group's business, strategy and development. The Board is also responsible for ensuring the Group has an appropriate system of internal controls and risk management (including financial, operational and compliance controls) and for reviewing the effectiveness of these controls. In addition, the Board approves changes to the capital, corporate and or management structure of the Group. Ultimately, the Board is accountable to shareholders for creating and delivering sustainable value by ensuring that management not only delivers on short-term objectives but promotes the long-term growth of the Group.

The Senior Management team support the Chief Executive in implementing the strategic objectives set by the Board and do so within the internal control systems established by the Board.

There are a number of committees at the executive level which support the CEO in his decision-making process such as the Risk Management Committee, Credit Management Committee, Operational Risk Committee and the Assets and Liabilities Committee. Further information on executive committees can be found further on in this Section.

The Board consists of both executive and non-executive directors which are detailed below, along with the number of other principal directorships held by each member. Further biographical information on the Board of Directors can be found under the Board of Directors within the Corporate Governance section of the ARA.

Name	Role	Position	Number of Other Directorships Held
Sir Malcolm Williamson	Chairman	Non-Executive	2
Philip Jenks	Deputy Chairman	Non-Executive	1
Noël Harwerth	Senior Independent Director	Non-Executive	4
Ian Ward	Independent Director	Non-Executive	3
Tim Brooke	Independent Director	Non-Executive	5
Rajan Kapoor	Independent Director	Non-Executive	1
Ian Lonergan	Chief Executive Officer	Executive	0
Sebastien Maloney	Chief Financial Officer	Executive	0
Peter Elcock	Chief Risk Officer	Executive	1

Charter Court
Financial Services Group plc

Governance Framework

The chart below provides an overview of the governance structure of the Group.

Board Audit Committee ("BAC")

Committee members

The BAC is composed of independent Non-Executive Directors:

Rajan Kapoor – Chairman

Tim Brooke

Ian Ward

The Committees meets at least four times annually. The Group empowers the Audit Committees to oversee, review and advise the relevant Boards on the adequacy and effectiveness of the framework of internal control, ensuring that appropriate levels of external and internal audit are maintained.

Amongst other responsibilities, it oversees the work and considers the reports of the outsourced internal audit function, overseeing the implementation of its recommendations where appropriate, and giving due consideration to the effectiveness of internal controls and compliance checks. The BAC monitors and reviews:

- Reviews the accounting policies and the external financial reports including the annual and interim accounts;
- Monitors the internal control environment including internal financial controls;

- Considers the adequacy, effectiveness and the scope of internal and external audit and monitors their independence and objectivity; and
- Review and monitor the Group's whistleblowing policy.

Further information on the BAC can be found in the Audit Committee Report within the Corporate Governance section of the ARA.

Board Risk Committee ("BRC")

Committee members

The BRC is composed of Independent Non-Executive Directors:

Tim Brooke – Chairman

Ian Ward

Philip Jenks

Noël Harwerth

Rajan Kapoor

The Group Boards empower the BRC to:

- Oversee, understand and review on behalf of each Board the risk profile and advise on current risk exposures and future risk strategy, including recommending the risk appetite. This includes challenging management's understanding and management of risk, especially related to strategy and major initiatives, and ensuring suitable risk management techniques and disciplines are applied;
- Review the capital and liquidity plans to ensure that capital held supports the risk profile of the business and meets current capital adequacy and future solvency requirements, and that liquidity is held in sufficient quantity and quality to support future liquidity requirements;
- Oversee and ensure the robustness and adequacy of the ICAAP and ILAAP, ensure relevant risk management disciplines are embedded in planning and decision making, and issues are escalated to the Boards or actions taken as appropriate;
- Oversee the implementation of a culture that emphasises and demonstrates the benefits of a risk-based approach to internal control and management of the business, and encourage greater awareness of risk management at all levels; and
- Review and report to the Board on the risk management framework, anticipating changes in business conditions and operations.

The BRC has met five times during 2018.

Further information on the BRC can be found in the Risk Committee Report within the Corporate Governance Section of the ARA.

Other Board Committees

Further information on all other board committees can be found within the Corporate Governance section of the ARA.

Executive Directors

The Chief Executive Officer, supported by the Chief Financial Officer and Chief Risk Officer, is responsible for carrying out the management of the conduct of the whole business, the allocation of responsibilities, and for the development and maintenance of the business model.

The Chief Financial Officer, supported by the Finance team, is responsible for management of financial resources, the production and integrity of financial information and regulatory reporting, management of the allocation and maintenance of capital, funding and liquidity, treasury management systems, and for managing the internal stress-tests and ensuring the accuracy and timeliness of information provided to the PRA and other regulatory bodies for the purposes of stress-testing.

The Chief Risk Officer, supported by the Risk, Legal and Compliance teams, is responsible for overall management of risk controls, including the setting and managing of risk exposures, reporting in relation to risk management arrangements, for policies and procedures for countering financial crime risk, for assessing the adequacy and effectiveness of policies and procedures designed to detect any risk of failure by the Group to comply with its obligations under the regulatory system, the Recovery Plan and Resolution Pack, and overseeing internal processes regarding their governance.

Executive Committees

The Chief Executive Officer has established four executive committees as follows:

Risk Management Committee ("RMC")

Established to review management recommendations on operational, credit and conduct risk management, including proposed strategies, frameworks and policies prior to recommending to the BRC, and to monitor, evaluate and address significant risk matters on a day to day basis. Other committee's reporting into RMC are as follows;

Credit Management Committee ("CMC")

Established to develop and provide oversight of the risk management framework for controlling credit risks arising from on-going residential lending activities, and administer credit-related policies.

Operational Risk Management Committee ("ORMC")

Established to review on behalf of the Executive and Senior Management, management's recommendations on operational risk management matters, including proposed strategies, frameworks, risk events, risk acceptance proposals and policies, prior to approval by the RMC, BRC or Board (as appropriate). The committee also supports the Chief Risk Officer in monitoring, evaluating and addressing significant matters relating to operational risk on a day to day basis, and promote the Groups agreed culture and values.

Conduct Risk Management Committee ("CRMC")

Established to oversee on behalf of the Executive and Senior Management, management's recommendations on conduct risk management, including proposed strategies, frameworks and policies prior to approval by the RMC, BRC or Board (as appropriate). The committee supports the Chief Risk Officer in monitoring, evaluating and addressing significant matters relating to conduct risk on a day to day basis and promotes the Group's agreed compliance culture and values.

Assets and Liabilities Committee ("ALCO")

Established to develop a strategy for financial risk management, implement financial risk management controls, monitor financial performance within agreed parameters and report on the status and prioritisation of financial risk management issues.

ALCO's duties focus on maximising net interest income whilst operating within agreed Group Board approved appetites for credit risk, liquidity risk, interest rate risk and capital. Other working groups reporting into ALCO are detailed as follows;

Capital Working Group ("CWG")

Established to support ALCO in all matters pertaining to capital management and focuses on the capital position of the Group by assessing capital requirements against capital resources. CWG includes representatives from Risk and Finance and an open invitation to the CRO and Chief Financial Officer ("CFO"). The CWG plays an important part in conducting the Group's ICAAP.

Liquidity Working Group ("LWG")

Established to support ALCO in all matters pertaining to Liquidity Management and focuses on the liquidity position of the Bank remaining at all time within the Board's liquidity risk appetite by assessing liquidity requirements against liquidity resources. The LWG plays an important role in conducting the Group's ILAAP.

Interest Rate Risk in the Banking Book Working Group ("IRRBBWG")

Established to support ALCO in all matters pertaining to Interest Rate Risk in the Banking Book and focuses on the interest rate risk at all time within Board's risk appetite by assessing interest rate risk against Board approved limits.

Product Management Committee ("PMC")

Established to develop, approve and implement product and pricing strategies, and monitor conduct risk as it relates to lending and savings products and pricing.

Change Management Committee ("ChMC")

Established to develop, approve and implement material change projects.

2.3 Management Body Recruitment and Diversity

The Nomination Committee is responsible for making recommendations to the Board regarding the appointment of new Directors. Such recommendations are provided taking into account the structure and composition of the Board having regard to the balance of skills, Board diversity, knowledge and experience.

The Nomination Committee reviewed the Board composition in March 2018 and whilst the Board is considered sufficiently diversified with an appropriate balance of skills and experience, it is an important part of the Committee's role to ensure there is effective succession planning at both Board and executive levels. Early in the year the Board commissioned Korn Ferry, an external executive search and leadership consulting firm, to conduct an independent review to assist in compiling a matrix of key skills and attributes that the Board members should bring to the boardroom. The process was conducted by a way of interviews with each of the Board members and external benchmarking exercise. The Board has appointed Korn Ferry to recommend candidates for a non-executive positions.

The Nomination Committee carried out an assessment of the skills and diversity the Board requires going forward.

In 2018, one of the Group's key priorities was to improve diversity and inclusion across the Group. The Groups policy is to treat all employees fairly, equally and with respect, regardless of whether they work part-time or full-time, irrespective of origin, nationality, disability, sexual orientation or gender.

In line with the Group's commitment to promoting diversity across all levels of our organisation, on 2 January 2018, the Group became a signatory to the HM Treasury's Women in Finance Charter. As such, the Group has set out specific targets with respect to gender diversity and put in place arrangements needed to support their delivery. The Group is aware that representation of women on the Board currently falls short of the Hampton-Alexander guidelines and is working hard to address this.

Further disclosures in relation to diversity and recruitment of the management body along with their actual knowledge, skills and expertise can be found under the Corporate Responsibility section within the Strategic Report and in the Nomination Committee report within the Corporate Governance section of the ARA. Further biographical information on the Directors can be found under the Board of Directors in the Corporate Governance section of the ARA.

2.4 Risk Reporting and Management Systems

The Group has developed a suite of detailed management information reports to support the business.

There has also been a move towards a two tier governance structure at Board and Executive levels which receive more concise summary information dashboards, developed in support of these requirements.

The Group uses a stratified approach to reporting risks through its governance structure. A suite of Key Risk Indicators and measures have been embedded through the committee structure to provide information around past and planned performance and the external environment in which Group operates. Through this process key risks are allocated a red, amber or green ("RAG") indicator according to pre-specified criteria which are then monitored and reported through to the relevant committees. Where appropriate there is an escalation process to ensure the relevant notification occurs outside of the regular meeting schedule.

ALCO, BRC and Board, the key governance committees overseeing Capital Management and the ICAAP are supported by the ORMC and the CWG.

This governance structure provides frequent reviews of the Group's risk positions and financial resources including the review of the Group's current and forecast liquidity and capital position ensuring that they remain within the Board risk appetite. Risk, as the Second line of defence, is represented throughout this structure and provides independent assurance of the reporting and risk management activities.

3. Capital Resources and Adequacy

Charter Court
Financial Services Group plc

3.1 Capital Composition and Reconciliation to Equity

The following table sets out the composition of regulatory capital at 31 December.

Capital Composition	2018 £m	2017 £m
Share Capital	2.4	2.4
Share Premium	19.0	19.0
Retained Earnings	429.3	313.6
Own Shares	(0.4)	-
Proposed Final Dividend	(23.6)	-
Regulatory Adjustments to CET1:		
Intangible Fixed Asset	(2.6)	(1.4)
Deferred Tax Asset	(2.5)	(2.2)
Additional Value Adjustment ("AVA")	(0.0)	n/a
IFRS 9 Transitional Adjustment	1.6	n/a
Common Equity Tier 1 Capital	**423.2**	**331.4**
General Credit Risk Adjustments	-	0.5
Total Tier 2 Capital	**-**	**0.5**
Total Capital	**423.2**	**331.9**

The following table sets out the reconciliation of the Group's total equity and regulatory capital.

Reconciliation of Regulatory Capital to Equity	2018 £m	2017 £m
Regulatory Total Capital	423.2	331.9
General Credit Risk Adjustments	-	(0.5)
IFRS 9 Transitional Adjustment	(1.6)	n/a
AVA Adjustment	0.0	n/a
Intangible Fixed Asset Deduction	2.6	-
Deferred Tax Asset Deduction	2.5	1.4
Proposed Final Dividend	23.6	2.2
Total Equity	**450.3**	**335.0**

Tier 1 Capital

The Group's Tier 1 capital consists of issued ordinary share capital, share premium, retained earnings and own shares. The Tier 1 capital has been reduced by the proposed Final Dividend. Further information on Share Capital, Share Premium, Retained Earnings and Own Shares can be found in Notes 33, 34, 35 and 37 to the financial statements of the Group's ARA.

In accordance with the CRR, adjustments are made to CET1 for: intangible fixed assets and deferred tax assets per CRR Article 36, Additional Value Adjustments per CRR Article 34 and IFRS 9 transitional arrangement per CRR article 473(a).

Tier 2 Capital

The Group no longer recognises any Tier 2 Capital. In previous years the Group's Tier 2 Capital consisted of general credit risk adjustments. The general credit risk adjustments were recognised subject to the cap of 1.25% of RWAs imposed under Article 62 of the CRR. Due to the introduction of IFRS 9 on 1st January 2018, all of the Group's credit risk adjustments are now captured and reported as specific provisions therefore the Group does not have any general credit adjustments that could be considered as Tier 2 Capital.

Changes in Tier 1 Capital

On 15 October 2018, the Group issued 190,000 shares at par, £1,900, to the Group's Employee Benefit Trust to satisfy the free share awards under the Performance Share Plan. All employees of the Group (other than the Executive team) who were employed and had not given notice as at 30 September 2017, were awarded ordinary shares worth between £250 to £2,000 per individual, depending on length of service, for nil consideration. The award vested on 4 October 2018, the first anniversary of the date of grant, subject to the employee being employed on the vesting date but was not subject to any performance conditions or holding period. The Group paid a dividend during the vesting period and each award was increased by an amount equal to the aggregate value of the dividend. Further information on share based payments can be found in Note 38 of the ARA.

At 31 December 2018, the Employee Benefit Trust held 157,626 ordinary shares with a nominal value of £1,576.26 and a market value of £394,065. The shares purchased by the Employee Benefit Trust were acquired from employees exercising their free share awards under the Performance Share Plan.

On 1 January 2018, IFRS 9 became effective for banks and building societies. The Group has elected to apply the IFRS 9 transitional add back to CET1. A Day 1 adjustment of £0.7m was debited directly to reserves. Further information relating to the transitional add back can be found in Section 3.3 and Section 6.2.

The introduction of IFRS 9 required the Group to classify and measure financial assets according to the business model within which they are managed and their contractual cash flow characteristics. After review, the Group concluded that no change in classification or measurement were required with the exception of a purchased portfolio of mortgage assets the Group holds that may generate cash flows other than payments of principal and interest. Under IAS 39 the portfolio was carried at amortised cost, under IFRS 9, the same portfolio is now carried at Fair Value through Profit and Loss ("FVTPL"). The Group holds financial assets at FVTPL which requires a CET 1 AVA as prescribed in Article 34 of the CRR.

2018 retained profits have driven the increase in retained earnings of £121m.

3.2 Capital Requirements

Template EU OV1 – Overview of RWAs.

At 31 December:

Exposure Class	£m	£m	£m
	RWAs		Minimum Capital Requirements 2018[1]
	2018	2017	
Credit Risk – Standardised Approach	**2,475.4**	**1,992.5**	**198.0**
Central Government or Central Bank	-	-	-
Institutions	29.9	22.9	2.4
Retail	17.7	4.0	1.4
Secured by Mortgages on Immovable Property	2,345.0	1,903.7	187.6
Exposures in Default	15.5	5.5	1.2
Items Associated with Particularly High Risk	59.4	50.7	4.8
Other Exposures	7.9	5.7	0.6
Counterparty Credit Risk	**13.2**	**8.9**	**1.0**
Mark to Market Derivatives	7.9	5.9	0.6
Credit Value Adjustments ("CVA")	5.3	3.0	0.4
Securitisation Exposures in the Banking Book – Standardised Approach ("SA")	**24.6**	**15.7**	**2.0**
Operational Risk – Basic Indicator Approach ("BIA")	**184.5**	**101.8**	**14.8**
Total	**2,697.7**	**2,118.9**	**215.8**

[1]Minimum Capital is Pillar 1 at 8% of RWAs.

3.3 Capital Metrics With and Without IFRS 9 Transitional Arrangement

On 1 January 2018, IFRS 9 became effective for banks and building societies. The application of IFRS 9 could lead to a sudden significant increase in expected credit provisions and consequently a decrease in CET1 capital. As a result, a five year transitional arrangement has been agreed, allowing firms to "phase in" the Day 1 capital impact. During the five year transitional period, percentages of 'new' impairment provisions recognised as a result of IFRS 9 adoption will be added back to CET1 capital. The Group has elected to apply the transitional arrangement, however the impact on capital metrics with and without the arrangement are minimal as detailed below.

Available Capital (Amounts)	2018 - £m
Common Equity Tier 1 (CET1) Capital	423.2
Common Equity Tier 1 (CET1) Capital without transitional arrangement	421.6
Tier 1 Capital	423.2
Tier 1 Capital without transitional arrangement	421.6
Total Capital	423.2
Total Capital without transitional arrangement	421.6
Risk Weighted Asset (Amounts)	
Total Risk Weighted Assets	2,697.7
Total Risk Weighted Assets without transitional arrangement	2,696.7
Capital Ratios	
Common Equity Tier 1 (as % of RWA)	15.7%
Common Equity Tier 1 (as % of RWA) without transitional arrangement	15.7%
Tier 1 (as % of RWA)	15.7%
Tier 1 (as % of RWA) without transitional arrangement	15.7%
Total Capital (as % of RWA)	15.7%
Total Capital (as % of RWA) without transitional arrangement	15.7%
Leverage Ratio	
Leverage Ratio total exposure measure	7,901.1
Leverage Ratio	5.4%
Leverage Ratio without transitional arrangement	5.3%

3.4 Capital Management Framework

The Group's capital resources and capital requirements use the CRD IV framework as implemented locally by the PRA. The Group uses the Standardised Approach to assess Credit Risk and Market Risk and uses the Basic Indicator Approach for Operational Risk.

As part of the ICAAP a Pillar 2 assessment of risks not covered by the minimum 8% Pillar 1 capital requirement is undertaken. Following the annual SREP visit and review of the ICAAP the PRA confirms the Group and Bank's Total Capital Requirement ("TCR"), which specifies the level of regulatory capital which the Group is required to maintain relative to its risk weighted assets. The Group's TCR can be found in Section 1.7.

The Group has established the CWG which is a sub-committee of ALCO. CWG supports the committee in all matters pertaining to capital management and focuses on the capital position of the Group by assessing capital requirements against capital resources on both a current and forward looking basis. The future regulatory capital requirements are also considered as part of the Group's forecasting and strategic planning process.

4. Regulatory Capital Buffers

4.1 CRD IV Combined Buffer Requirement

The CRD IV combined buffer requirement is made up of the following:

- Capital Conservation Buffer
- Institution Specific Countercyclical Buffer
- Systemic Risk Buffer
- Systemically Important Institution Buffer
- Global Systemically Important Buffer
- Other Systemically Important Institution Buffer

The only buffers applicable to the Group as at 31 December 2018 are detailed below. The Group does not meet the definition of a Systemic, Global or Other Systemically Important Institution. The Systemic Risk buffer applies to large building societies and ring-fenced bodies therefore is not in scope for the Group.

The CCoB is phased in up to 2019. During the transitional period the existing PRA supervisory buffers will be assessed to ensure there is no duplication in capital required to cover the same risks.

4.2 Capital Conservation Buffer ("CCoB")

The CCoB ensures that banks build up capital buffers in order to absorb losses without breaching minimum capital requirements. The CCoB was set at 0.625% in 2016 and will reach 2.5% by 2019. As at 31st December 2018 the applicable rate is 1.875%.

4.3 Capital Countercyclical Buffer ("CCyB")

Institutions are required to comply with the requirements for a CCyB referred to in Title VII, Chapter 4 of the CRD. The Group has assessed its CCyB requirement as 0% up until the 27th June 2018 when it increased to 0.5% following an announcement by the Bank of England Financial Policy Committee. A further increase was applied from 28 November 2018 to 1%. No further increases to the CCyB have been announced by the Financial Policy Committee. These rates are applicable to the United Kingdom only.

4.4 Geographical Distribution of Credit Exposures

Geographical distribution of credit exposures 'relevant for the calculation' of the CCyB at 31 December 2018 are set out below:

	General Credit Exposure	Securitisation Exposures	Own Funds Requirements				
	£m	£m	£m	£m	£m		
Breakdown by Country	Exposure Value for SA	Exposure Value for SA	Of which: General Credit Exposures	Of which: Securitisation Exposures	Total	Own Funds Requirements Weights	Countercyclical Capital Buffer Rate
United Kingdom	6,786.6	123.0	195.6	2.0	197.6	1.00	1.0%
Total	**6,786.6**	**123.0**	**195.6**	**2.0**	**197.6**	**1.00**	**1.0%**

At 31 December 2017:

	General Credit Exposure	Securitisation Exposures	Own Funds Requirements				
	£m	£m	£m	£m	£m		
Breakdown by Country	Exposure Value for SA	Exposure Value for SA	Of which: General Credit Exposures	Of which: Securitisation Exposures	Total	Own Funds Requirements Weights	Countercyclical Capital Buffer Rate
United Kingdom	5,920.5	78.4	157.6	1.3	158.8	1.00	0%
Total	**5,920.5**	**78.4**	**157.6**	**1.3**	**158.8**	**1.00**	**0%**

4.5 Institution Specific Countercyclical Capital Buffer

Amount of Institution specific CCyB as at 31 December 2018 are set out below:

Institution Specific Countercyclical Buffer	2018
Total Risk Exposure Amount	£2,697.7m
Institution Specific Countercyclical Capital Buffer Rate (%)	1%
Institution Specific Countercyclical Capital Buffer Requirement	£27.0

At 31 December 2017:

Institution Specific Countercyclical Buffer	2017
Total Risk Exposure Amount[1]	£2,118.9m
Institution Specific Countercyclical Capital Buffer Rate (%)	0%
Institution Specific Countercyclical Capital Buffer Requirement	£nil

[1] Total risk exposure amount for 2017 restated to reflect total risk weighted assets

5.1 Counterparty Credit Risk

Counterparty Credit Risk is the risk of failure of a counterparty to fulfil its contractual obligations by failing to pay. Counterparty Credit Risk arises from treasury operations in the management of interest rate risk.

Market Risk arising from the origination of fixed rate retail assets and liabilities is managed through interest rate derivative contracts. The Group trades in Over the Counter ("OTC") derivative contracts under the terms of bilateral International Swaps and Derivatives Association ("ISDAs"). The ISDA arrangements in place provide for the netting of valuations and settlements due across all transactions covered by the contract. Under the terms of the ISDAs and Credit Support Annexes ("CSA"), the Group will receive collateral for net exposures and post collateral for net liability positions. Collateral exchanges are normally in the form of cash.

None of the Group's derivatives are currently centrally cleared. However as of 21 June 2019 EMIR requirements come into force which requires the majority of vanilla derivatives to be cleared via a Central Clearing Counterparty. This will impact the Group and work is on schedule to ensure the Group are compliant with this regulation ahead of the deadline.

Interest rate risk relating to securitised assets is managed through bilateral interest rate swap agreements entered in to by Group Special Purpose Vehicle ("SPVs") that are not subject to margining but have rating triggers that require the swap counterparties to be replaced in the event of multiple notch rating downgrades.

The Group has a defined appetite for Wholesale Counterparty Risk. The minimum required Long Term counterparty rating is A-/ A3, as determined by at least two of Moody's, Fitch and Standard and Poor's. The minimum Short Term counterparty rating is P-2/A-2/F2 as rated by each of Moody's, Fitch and Standard and Poor's. Limits to maximum allowable exposures to single counterparties are specified in the Bank Financial Risk Management Policy and are relative to total regulatory capital. This risk is considered to be inherently low from a capital perspective due to the quality of the counterparties the Group will do business with and the conservative limits that are in place

The Group is not a rated institution, therefore the risk of a downgrade in its own rating is not assessed.

The CRR defines counterparty credit risk calculated in accordance with Part Three, Title II, and Chapter 6. The Group's derivatives are calculated using the mark to market method referred to in this part.

5.2 Derivatives

Template CCR-1 – Analysis of CCP exposure.

At 31st December 2018:

	£m	£m	£m	£m
	Replacement Cost	Potential Future Credit Exposure	Exposure at Default post CRM	RWAs
Mark to Market	1.9	14.1	16.0	7.9

At 31 December 2017:

	£m	£m	£m	£m
	Replacement Cost	Potential Future Credit Exposure	Exposure at Default post CRM	RWAs
Mark to Market	1.4	10.3	11.8	5.9

Template CCR2 – CVA capital charge.

At 31st December 2018:

	£m	£m
	Exposure Value	**RWA**
Standardised Method	16.0	5.3

At 31 December 2017:

	£m	£m
	Exposure Value	**RWA**
Standardised Method	11.8	3.0

Template CCR6 – Credit derivative exposures

The Group does not hold credit derivatives, therefore this template is not reported.

6. Credit Risk

6.1 Credit Risk

Credit risk reflects the risk of loss because of failure of customers to fulfil their contractual obligations and arises from the failure or poor performance of credit management techniques and processes resulting in exposure to customer defaults and loss.

The Group is exposed to Credit Risk from the following areas of business activity:

Loans to Customers

- Residential First Lien Mortgage Lending;
- Buy-To-Let ("BTL") First Lien Mortgage Lending;
- Secured Second Lien Lending; and
- First and Second Lien Bridging Finance.

Residential and BTL Credit Risk exposures consist of securitised and unsecuritised exposures. Except where significant risk transfer and accounting derecognition has been achieved. Credit risk is assessed for regulatory purposes under the Standardised Approach against the underlying risk exposures as if the securitisation had not taken place.

Further information on the Group's lending activites can be found in the Business Review section within the Strategic Report of the ARA.

Treasury Operations

Exposures from Treasury Operations comprise of balances due from Financial Institutions representing cash balances, derivatives, and Held to Maturity ("HTM") liquid assets.

For institutional exposures under the Standardised Approach where the use of external ratings are used to calculate risk weightings, the Group uses ECAI's published by Fitch, Standard and Poor's and Moody's. Where credit rating agencies report different ratings which are not equivalent, as per Article 138(f) CRR, where more than two credit assessments are available, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.

The ECAI's are used for the following exposures classes:

a) Exposures to Central Banks

b) Exposures to Institutions

c) Items representing Securitised Positions

Exposures calculated under Part Three, Title III Chapter 2 shall be reported under credit risk. This would include cash balances with Institutions. Exposures calculated under Part Three, Title III, Chapter 5 shall be reported under securitisation positions. This would include RMBS Securitised Exposures. Exposures calculated under Part Three, Title III, Chapter 6 shall be reported under counterparty credit risk. This would include derivative exposures to Institutions.

6.2 Credit Risk – Past Due and Impaired

Key Definitions

	Definition
Past Due	A loan is defined as past due when the borrower fails to make a payment under the contractual terms of the loan agreement.
Impaired	A loan is defined as impaired if the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.
Default or Non-Performing	A loan is defined as in Default or Non-Performing when it meets one or more of the following criteria: • The borrower is more than 90 days past due on their contractual payments • The borrower is less than 90 days past due on their contractual payments but is judged unlikely to pay.
Performing	A loan is defined as Performing when it does not meet the criteria of a Non-Performing loan.

Methods Used for Credit Risk Adjustments

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its financial instruments that are not measured at Fair Value Through Profit and Loss ("FVTPL").

Expected credit losses are determined by projecting the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default ("LGD") for each future month and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This calculates an expected credit loss for each future month, which is then discounted back using the original effective interest rate to the reporting date and summed. This calculation is undertaken for a number of the selected economic scenarios and probability weighted to produce the final loss allowance.

The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Group recognises expected credit losses from default events expected within 12 months of the reporting date if credit risk has not significantly increased since initial recognition (Stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (Stage 2) or which are credit impaired (Stage 3).

Determining whether a significant increase in credit risk since initial recognition has occurred

When determining whether the risk of default has increased significantly since initial recognition, the Group considers both quantitative and qualitative information and analysis based on the Group's historical experience, early warning indicators and expert credit risk assessment. The Group identifies early warnings through considering movements in the customers credit file and through the outcomes of customer contact. In addition, the Group considers that significant increase in credit risk occurs when the borrower is more than 30 days past due on their contractual payments.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

Forward-looking information

The Group's calculation of expected credit losses incorporates the use of internal and external forward-looking information and key economic variables impacting credit risk and expected credit losses for each portfolio available as of each period end. This information is used to develop a base economic scenario and other possible scenarios that are weighted according to management judgement of each scenario's likelihood.

Further information on impairment can be found in Note 5 of the ARA.

Reconciliation of Changes in Credit Risk Adjustments

The table below shows the transitional adjustment from the impairment provision under IAS 39 to the impairment provision under IFRS 9.

	£m
Total impairment provisions at 31 December 2017 (under IAS 39)	1.0
IFRS 9 adjustment to opening provision for loan impairments	0.7
Total impairment provisions at 1 January 2018 (under IFRS 9)	**1.7**
Comprising of:	
Stage 1	0.9
Stage 2	0.4
Stage 3	0.4
Total	**1.7**

A reconciliation in the changes of provisions for the Group as at 31 December 2018 are as follows:

Reconciliation in Change of Provision	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Opening Balance	0.9	0.4	0.4	1.7
Sale of loans	(0.2)	-	-	(0.2)
Charge for the period	-	0.4	0.2	0.6
Brexit overlay	0.6	0.7	0.2	1.5
Closing Balance	**1.3**	**1.5**	**0.8**	**3.6**

Information relating to the Group's loans in forbearance can be found in the Risk Management Section of the Group's ARA.

6.3 Definition of Gross and Net Exposure

The Group uses the Standardised Approach to determine regulatory capital requirements for credit risk exposures. There are no accounting off sets or credit risk mitigation applied.

	Definition
Gross Exposure	For on-balance sheets items the gross exposure is the gross carrying value (accounting value) before credit risk adjustments. For off-balance-sheet items, the gross exposure is the gross carrying value. (Nominal value) gross of any Conversion Factor ("CF") applicable in accordance with CRR Article 111.
Net Exposure	For on-balance sheets items the net exposure value is the gross carrying value (accounting value) less credit risk adjustments. For off-balance-sheet items, the net exposure value is the gross carrying value (Nominal value) less specific credit risk adjustments and gross of any CF applicable in accordance with CRR Article 111.

6.4 Total and Average Amount of Exposures

Template CRB-B – Total and average amount of net exposures gross of CF

Average exposures are calculated over four reporting quarters. At 31 December 2018:

Exposure Class	£m Net Value of Exposures at the End of the Period	£m Average Net Exposures Over the Period
Central Governments or Central Banks	832.2	835.3
Institutions	149.4	158.0
Retail	39.7	24.0
Secured By Mortgages on Immovable Property	7,139.3	6,470.2
Of which: Securitised	*1,230.5*	*1,218.8*
Exposures in Default	15.6	9.8
Of which: Securitised	*5.2*	*3.8*
Items Associated with Particularly High Risk	46.3	42.1
Other Exposures	7.9	5.7
Credit Risk - Standardised Approach	**8,230.4**	**7,545.1**

At 31 December 2017:

Exposure Class	£m Net Value of Exposures at the End of the Period	£m Average Net Exposures Over the Period
Central Governments or Central Banks	852.4	704.9
Institutions	114.6	100.1
Retail	6.1	6.6
Secured By Mortgages on Immovable Property	5,863.9	5,238.2
Of which: Securitised	*1,007.7*	*914.2*
Exposures in Default	5.5	4.7
Of which: Securitised	*2.5*	*1.9*
Items Associated with Particularly High Risk	39.2	40.8
Other Exposures	5.7	4.8
Credit Risk - Standardised Approach	**6,887.4**	**6,100.1**

6.5 Geographic Distribution of Credit Exposures

Template CRB-C – Geographical breakdown of net exposures gross of CF

At 31 December 2018:

Exposure Class	£m United Kingdom	£m Ireland	£m United States	£m Germany	£m Luxembourg	£m Total
Central Governments or Central Banks	832.2	-	-	-	-	832.2
Institutions	83.0	16.6	28.3	15.3	6.2	149.4
Retail	39.7	-	-	-	-	39.7
Secured By Mortgages on Immovable Property	7,139.3	-	-	-	-	7,139.3
Of which: Securitised	*1,230.5*	*-*	*-*	*-*	*-*	*1,230.5*
Exposures in Default	15.6	-	-	-	-	15.6
Of which: Securitised	*5.2*	*-*	*-*	*-*	*-*	*5.2*
Items Associated with Particularly High Risk	46.3	-	-	-	-	46.3
Other Exposures	7.9	-	-	-	-	7.9
Credit Risk - Standardised Approach	**8,164.0**	**16.6**	**28.3**	**15.3**	**6.2**	**8,230.4**

At 31 December 2017:

Exposure Class	£m United Kingdom	£m Ireland	£m United States	£m Germany	£m Luxembourg	£m Total
Central Governments or Central Banks	852.4	-	-	-	-	852.4
Institutions	46.4	19.3	19.5	16.0	13.4	114.6
Retail	6.1	-	-	-	-	6.1
Secured By Mortgages on Immovable Property	5,863.9	-	-	-	-	5,863.9
Of which: Securitised	*1,007.7*	*-*	*-*	*-*	*-*	*1,007.7*
Exposures in Default	5.5	-	-	-	-	5.5
Of which: Securitised	*2.5*	*-*	*-*	*-*	*-*	*2.5*
Items Associated with Particularly High Risk	39.2	-	-	-	-	39.2
Other Exposures	5.7	-	-	-	-	5.7
Credit Risk - Standardised Approach	**6,819.2**	**19.3**	**19.5**	**16.0**	**13.4**	**6,887.4**

Table has been restated to disclose exposures gross of CF.

6.6 Exposures by Counterparty Type

Template CRB-D Concentration of net exposures by counterparty types gross of CF

At 31 December 2018:

Exposure Class	£m Central Banks	£m Credit Institutions	£m Financial Corporations	£m Non – Financial Corporations	£m Households	£m Other	£m Total
Central Government or Central Banks	832.2	-	-	-	-	-	832.2
Institutions	-	129.5	19.9	-	-	-	149.4
Retail	-	-	-	2.8	36.9	-	39.7
Secured By Mortgages on Immovable Property	-	-	-	1,424.3	5,715.0	-	7,139.3
Of which: Securitised	*-*	*-*	*-*	*333.0*	*897.5*	*-*	*1,230.5*
Exposures in Default	-	-	-	0.1	15.5	-	15.6
Of which: Securitised	*-*	*-*	*-*	*-*	*5.2*	*-*	*5.2*
Items Associated with Particularly High Risk	-	-	-	13.4	32.9	-	46.3
Other Exposures	-	-	-	-	-	7.9	7.9
Credit Risk - Standardised Approach	**832.2**	**129.5**	**19.9**	**1,440.6**	**5,800.3**	**7.9**	**8,230.4**

At 31 December 2017:

Exposure Class	£m Central Banks	£m Credit Institutions	£m Financial Corporations	£m Non – Financial Corporations	£m Households	£m Other	£m Total
Central Government or Central Banks	852.4	-	-	-	-	-	852.4
Institutions	-	86.6	28.0	-	-	-	114.6
Retail	-	-	-	0.7	5.4	-	6.1
Secured By Mortgages on Immovable Property	-	-	-	685.3	5,178.6	-	5,863.9
Of which: Securitised	*-*	*-*	*-*	*35.1*	*972.6*	*-*	*1,007.7*
Exposures in Default	-	-	-	0.0	5.5	-	5.5
Of which: Securitised	*-*	*-*	*-*	*-*	*2.5*	*-*	*2.5*
Items Associated with Particularly High Risk	-	-	-	7.7	31.5	-	39.2
Other Exposures	-	-	-	-	-	5.7	5.7
Credit Risk - Standardised Approach	**852.4**	**86.6**	**28.0**	**693.7**	**5,221.0**	**5.7**	**6,887.4**

Table has been restated to disclose exposures gross of CF.

6.7 Maturity Profile

Template CRB-E – Maturity of net exposures gross of CF

At 31 December 2018:

Exposure Class	£m On Demand	£m <= 1 year	£m >1 year <=5 years	£m >5 years	£m No Stated Maturity	£m Total
Central Governments or Central Banks	824.0	-	-	-	8.2	832.2
Institutions	149.4	-	-	-	-	149.4
Retail	-	21.8	0.3	17.6	-	39.7
Secured by Mortgages on Immovable Property	-	751.9	37.5	6,349.9	-	7,139.3
Of which: Securitised	*-*	*0.9*	*13.0*	*1,216.6*	*-*	*1,230.5*
Exposures in Default	-	1.0	0.0	14.6	-	15.6
Of which: Securitised	*-*	*-*	*-*	*5.2*	*-*	*5.2*
Items Associated with Particularly High Risk	-	40.6	5.7	-	-	46.3
Other Exposures	-	-	-	-	7.9	7.9
Credit Risk - Standardised Approach	**973.4**	**815.3**	**43.5**	**6,382.1**	**16.1**	**8,230.4**

At 31 December 2017:

Exposure Class	£m On Demand	£m <= 1 year	£m >1 year <=5 years	£m >5 years	£m No Stated Maturity	£m Total
Central Governments or Central Banks	847.9	-	-	-	4.5	852.4
Institutions	114.6	-	-	-	-	114.6
Retail	-	5.1	0.1	-	0.9	6.1
Secured by Mortgages on Immovable Property	-	203.2	31.0	5,081.6	548.1	5,863.9
Of which: Securitised	*-*	*0.2*	*12.4*	*995.2*	*-*	*1,007.8*
Exposures in Default	-	0.8	0.0	4.7	-	5.5
Of which: Securitised	*-*	*-*	*-*	*2.5*	*-*	*2.5*
Items Associated with Particularly High Risk	-	26.9	5.5	-	6.8	39.2
Other Exposures	-	-	-	-	5.7	5.7
Credit Risk - Standardised Approach	**962.5**	**236.0**	**36.6**	**5,086.3**	**566.0**	**6,887.4**

Table has been restated to disclose exposures gross of CF.

6.8 Credit Quality of Exposures

Template CR1-A Credit quality of exposures by exposure class gross of CF

At 31 December 2018:

	£m	£m	£m	£m	£m	£m
	Gross Carrying Values of					
Exposure Class	Defaulted Exposures	Non-Defaulted Exposures	Stage 1 Credit Risk Adjustment	Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	Net Value
Central Government or Central Banks	-	832.2	-	-	-	832.2
Institutions	-	149.4	-	-	-	149.4
Retail	-	40.0	0.2	0.1	-	39.7
Secured By Mortgages on Immovable Property	-	7,140.5	0.5	0.7	-	7,139.3
Of which: SME	*-*	*1,424.4*	*0.1*	*0.0*	*-*	*1,424.3*
Of which: Securitised	*-*	*1,230.6*	*0.0*	*0.1*	*-*	*1,230.5*
Exposures in Default	16.0	-	-	-	0.4	15.6
Of which: Securitised	*5.3*	*-*	*-*	*-*	*0.1*	*5.2*
Items Associated with Particularly High Risk	0.5	45.8	0.0	0.0	0.0	46.3
Other Exposures	-	7.9	-	-	-	7.9
Total Credit Risk Standardised Approach	**16.5**	**8,215.8**	**0.7**	**0.8**	**0.4**	**8,230.4**
Of which: Loans	16.5	7,226.3	0.7	0.8	0.4	7,240.9
Of which: Debt Securities	-	-	-	-	-	-
Of which: Off Balance Sheet Exposures	-	577.8	0.1	-	-	577.7

Credit Risk Adjustment values reflect IFRS9 transitional rules.

At 31 December 2017:

Exposure Class	Gross Carrying Values of Defaulted Exposures £m	Gross Carrying Values of Non-Defaulted Exposures £m	Specific Credit Risk Adjustment £m	General Credit Risk Adjustment £m	Net Value £m
Central Government or Central Banks	-	852.4	-	-	852.4
Institutions	-	114.6	-	-	114.6
Retail	-	6.1	-	0.0	6.1
Secured By Mortgages on Immovable Property	-	5,863.9	0.0	0.5	5,863.4
Of which: SME	*-*	*668.3*	*-*	*0.0*	*668.3*
Of which: Securitised	*-*	*1,007.7*	*-*	*0.2*	*1007.5*
Exposures in Default	6.0	-	0.5	-	5.5
Of which: Securitised	*2.6*	*-*	*0.0*	*-*	*2.6*
Items Associated with Particularly High Risk	0.4	38.8	0.0	0.0	39.2
Other Exposures	-	5.7	-	-	5.7
Total Credit Risk Standardised Approach	**6.4**	**6,881.5**	**0.5**	**0.5**	**6,886.9**
Of which: Loans	6.4	5,908.9	0.5	0.5	5,914.3
Of which: Debt Securities	-	-	-	-	0.0
Of which: Off Balance Sheet Exposures	-	555.8	-	-	555.8

6.9 Credit Exposures by Counterparty Type

Template CR1-B – Credit quality of exposures by counterparty type gross of CF

At 31 December 2018:

	£m	£m	£m	£m	£m	£m
	Gross Carrying Values of					
Counterparty Type	Defaulted Exposures	Non-Defaulted Exposures	Stage 1 Credit Risk Adjustment	Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	Net Value
Central Banks	-	832.2	-	-	-	832.2
Credit Institutions	-	129.5	-	-	-	129.5
Financial Corporations	-	19.9	-	-	-	19.9
Non – Financial Corporations	0.1	1,440.6	0.1	0.0	0.0	1,440.6
Households	16.4	5,785.7	0.6	0.8	0.4	5,800.3
Other	-	7.9	-	-	-	7.9
Credit Risk - Standardised Approach	**16.5**	**8,215.8**	**0.7**	**0.8**	**0.4**	**8,230.4**

At 31 December 2017:

	£m	£m	£m	£m	£m
	Gross Carrying Values of				
Counterparty Type	Defaulted Exposures	Non-Defaulted Exposures	Specific Credit Risk Adjustment	General Credit Risk Adjustment	Net Value
Central Banks	-	852.4	-	-	852.4
Credit Institutions	-	86.6	-	-	86.6
Financial Corporations	-	28.0	-	-	28.0
Non – Financial Corporations	0.0	676.6	-	0.0	676.6
Households	6.4	5,232.2	0.5	0.5	5,237.6
Other	-	5.7	-	-	5.7
Credit Risk - Standardised Approach	**6.4**	**6,881.5**	**0.5**	**0.5**	**6,886.9**

6.10 Credit Exposures by Geographical Location

Template CR1-C – Credit quality of exposures by geography gross of CF

At 31 December 2018:

Geographical Area	£m Gross Carrying Values of Defaulted Exposures	£m Non-Defaulted Exposures	£m Stage 1 Credit Risk Adjustment	£m Stage 2 Credit Risk Adjustment	£m Stage 3 Credit Risk Adjustment	£m Net Value
United Kingdom	16.5	8,149.4	0.7	0.8	0.4	8,164.0
Ireland	-	16.6	0.0	0.0	0.0	16.6
United States	-	28.3	0.0	0.0	0.0	28.3
Germany	-	15.3	0.0	0.0	0.0	15.3
Luxembourg	-	6.2	0.0	0.0	0.0	6.2
Total	**16.5**	**8,215.8**	**0.7**	**0.8**	**0.4**	**8,230.4**

At 31 December 2017:

Geographical Area	£m Gross Carrying Values of Defaulted Exposures	£m Non-Defaulted Exposures	£m Specific Credit Risk Adjustment	£m General Credit Risk Adjustment	£m Net Value
United Kingdom	6.4	6,813.3	0.5	0.5	6,818.7
Ireland	-	19.3	-	-	19.3
United States	-	19.5	-	-	19.5
Germany	-	16.0	-	-	16.0
Luxembourg	-	13.4	-	-	13.4
Total	**6.4**	**6,881.5**	**0.5**	**0.5**	**6,886.9**

6.11 Ageing of Past Due Exposures

Template CR1-D – Ageing of past due gross exposures

The table below details financial instruments that are past due broken down by the number of days past their contractual due date. Loans which are 1 month in arrears are reported in <=30 days past due bucket.

At 31 December 2018:

2018	£m	£m	£m	£m	£m	£m	£m
	Gross Carry Values						
	<= 30 Days	> 30 Days <= 60 Days	> 60 Days <= 90 Days	>90 Days <= 180 Days	>180 Days <= 1 Year	>1 Year	Total
Loans at Amortised Cost	51.5	16.2	7.1	9.5	4.0	0.7	89.0
Loans at FVTPL	0.8	0.1	0.0	0.0	0.2	0.4	1.5
Debt Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Exposures	**52.3**	**16.3**	**7.1**	**9.5**	**4.2**	**1.1**	**90.5**

At 31 December 2017:

2017	£m	£m	£m	£m	£m	£m	£m
	Gross Carry Values						
	<= 30 Days	> 30 Days <= 60 Days	> 60 Days <= 90 Days	>90 Days <= 180 Days	>180 Days <= 1 Year	>1 Year	Total
Loans at Amortised Cost	33.3	7.0	4.6	4.1	0.6	0.1	49.7
Loans at FVTPL	0.8	0.1	0.0	0.0	0.2	0.4	1.5
Debt Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Exposures	**34.1**	**7.1**	**4.6**	**4.1**	**0.8**	**0.5**	**51.2**

6.12 Credit Risk With and Without CF

CR4 - Standardised approach – Credit risk exposure gross and net of CF

At 31 December 2018:

2018	£m		£m		£m	
	Exposures before CF		Exposures after CF		RWA and RWA Density	
Exposure Class	On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWAs	RWA Density
Central governments or central banks	832.2	-	832.2	-	0.0	0%
Institutions	149.4	-	149.4	-	29.9	20%
Retail	19.6	20.1	19.6	4.0	17.7	75%
Secured by mortgages on immovable property	6,590.0	549.3	6,590.0	109.8	2,344.9	35%
Of which: Securitised	*1,230.5*	*-*	*1,230.5*	*-*	*430.7*	*35%*
Exposures in Default	15.6	-	15.6	-	15.6	100%
Of which: Securitised	*0.6*	*-*	*0.6*	*-*	*0.6*	*103%*
Items associated with particularly high risk	37.9	8.4	37.9	1.7	59.4	150%
Other Exposures	7.9	-	7.9		7.9	100%
Credit Risk - Standardised Approach	**7652.6**	**577.8**	**7652.6**	**115.5**	**2475.4**	**31.9%**

At 31 December 2017:

2017	Exposures before CF		Exposures after CF		RWA and RWA Density	
Exposure Class	On-Balance Sheet	Off-Balance Sheet	On-Balance Sheet	Off-Balance Sheet	RWAs	RWA Density
Central governments or central banks	852.4	-	852.4	-	0.0	0%
Institutions	114.6	-	114.6	-	22.9	20%
Retail	5.2	0.9	5.2	0.2	4.0	75%
Secured by mortgages on immovable property	5,315.8	548.1	5,315.8	109.6	1,903.7	35%
Of which: Securitised	*1,007.7*	*-*	*1,007.7*	*-*	*352.9*	*35%*
Exposures in Default	5.5	-	5.5	-	5.5	100%
Of which: Securitised	*2.5*	*-*	*2.5*	*-*	*2.5*	*100%*
Items associated with particularly high risk	32.4	6.8	32.4	1.4	50.7	150%
Other Exposures	5.7	-	5.7	-	5.7	100%
Credit Risk - Standardised Approach	**6,331.6**	**555.8**	**6,331.6**	**111.2**	**1992.5**	**30.9%**

Template CR3 – Standardised approach – CCR exposures by regulatory portfolio and risk

The Group does not use Credit Risk Mitigation techniques therefore does not report this template.

7. Liquidity Risk

7.1 Liquidity Risk

Liquidity Risk is a component of Treasury Risk, one of the Principal Risk areas described in Section 2, and is specifically the risk that the Group does not have sufficient liquid resources to meet its financial obligations as they fall due.

7.2 Liquidity Risk Management

Liquidity Risk is managed within the Group's comprehensive risk appetite framework which adopts the Financial Stability Board's principles. Based on the business and financial plan, this framework informs risk capacity, sets risk appetite and the associated limits for the key risks. Risk appetite limits for the key risks are set and underpinned by a suite of policies against which the independent risk management function monitors and reports business performance and adherence.

Ongoing dynamic monitoring, control and reporting of risk management performance against a Key Risk Indicator ("KRI") framework is fully embedded, overseen and reviewed by a number of executive risk committees as well as the BRC and the Board.

7.3 Liquidity Coverage Requirement ("LCR")

CCFS as a Credit Institution is required to comply with CRD IV including the CRR liquidity risk management framework. Since CCFS received its banking permissions in 2015 it has complied with CRD IV Liquidity Coverage Requirements ("LCR") and Liquidity/Funding Reporting Requirements (ALMM and NSFR) on a solo basis. However, it is noted that the CRR requires group reporting for LCR when a Credit Institution is part of a Group containing one or more Institutions or Financial Institutions subject to certain materiality thresholds. The Group is assessing the need to extend LCR reporting to the consolidated position of CCFS going forward based on the lending and investment in mortgage assets and activities conducted by other entities within the Group.

Notwithstanding the review of future consolidated liquidity regulatory reporting requirements, transactions are only undertaken with Board approval where Non-Bank Group entities are not exposed to liquidity risk through structured finance arrangements. This is achieved through term funding of mortgage assets with RMBS and capital. Accordingly "Group" liquidity risk remains a feature of the Bank's balance sheet and trading activities only.

7.4 Risk Appetite Statements

In support of its Corporate Risk Appetite statement, the Board's Liquidity Risk Appetite Statement is as follows:

CCFS will hold a sufficient quantity and quality of liquid assets with a view to ensuring that:

- All liabilities will be met when they fall due under normal market conditions.
- The Bank will meet all regulatory liquidity requirements at all times.
- The Bank will survive the Internal Liquidity Buffer Requirement stress for a period of 60 days.
- The Bank and the Group have access to sufficient contingent liquidity resources to survive CCFS's combined liquidity stress test for a period of 90 days.

The Board's Liquidity Risk Appetite Statement is consistent with the PRA's Overall Liquidity Adequacy Rule ('OLAR') that:

"a firm must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due".

The PRA have confirmed comprehensive stress testing is vital to ensure compliance with OLAR and that the duration and types of stresses the firm aims to survive must be clearly articulated in risk appetite statements.

The Internal Liquidity Buffer Requirement ("ILBR") is calibrated to ensure liquid assets are held on balance sheet which exceed 60 day net outflows without recourse to management actions. It is the ILBR eligible assets that form the liquid resources referred to in the OLAR statement above and stress testing is conducted to validate that ILBR ensures that there are no significant risks that liabilities cannot be met as they fall due.

Over and above ILBR, recourse to contingent liquidity is maintained to survive 90 days under a severe but plausible stress after consideration of reasonable management actions.

Risk appetite statements are implemented through policies and procedures which are regularly reviewed for ongoing appropriateness.

7.5 Monitoring and Reporting

To comply with the Board's Liquidity Risk Appetite Statement, CCFS measures LCR and ILBR on a daily basis. NSFR is measured on a monthly basis and comprehensive liquidity stress testing is conducted on a quarterly basis, in conjunction with the planning cycle, and will effectively measure that the forecast balance sheet positons continue to survive the combined stress over a rolling period of one year.

To provide the Board with ongoing comfort that OLAR is being maintained point-in-time, forward looking liquidity risk exposures and compliance with risk appetite statements are monitored daily by Treasury, weekly by the Liquidity Working Group and by ALCO on a monthly basis. These reviews are undertaken by first and second line risk management through various reports and KRIs. Summary liquidity KRIs are also presented to the Board at its scheduled meetings. On a Quarterly basis the Corporate Risk Register ('CoRR') together with a summary KRI dashboard and broader trading and market environment information pack are reviewed by Board Risk Committee.

7.6 Internal Liquidity Adequacy Assessment Process

Consistent with the approach to LCR, the requirement to carry out an Internal Liquidity Assessment ("ILAAP") set out in the ILAA rules is applied to CCFS on a solo basis.

The purpose of the ILAAP is to examine the Bank's liquidity risk management framework with regard to its ability to:

- Identify, measure, manage and control liquidity and funding risks; and
- Comply with the Overall Liquidity Adequacy Rule ("OLAR").

The ILAAP is conducted on an annual basis and is subject to BRC challenge with respect to risk appetites, Pillar 2 liquidity risk assessment, stress testing framework and reasonable management actions under stress. The documented ILAAP findings are Board approved.

7.7 Structure and Organisation of the Liquidity Management Function

The day to day management of liquidity risk is performed within Treasury under the Head of Treasury. This function is supported by Treasury Front Office, Middle Office and Back Office and a Prudential Risk function providing second line oversight.

Each area of Treasury operations has separate reporting lines beneath the CFO to ensure independence and segregation of duties.

7.8 Liquidity Risk Reporting and Management Systems

The Group utilises FIS Quantum and Ambit Focus software applications as its core Treasury Management Systems. The Quantum risk management system is used for deal capture, pricing, accruals, and wholesale credit position monitoring and product revaluations. Ambit Focus is a dedicated asset and liability management system primarily utilised for liquidity risk management and interest rate risk management.

7.9 Policies for Hedging and Monitoring Effectiveness of Hedges

To manage the interest rate risk in the balance sheet, the Group offsets on-balance sheet assets (and off-balance sheet mortgage offers) and liabilities to the greatest extent possible and, where required, uses interest rate swaps to offset residual risks. The resulting swap portfolio may give rise to collateral requirements driven by market movements in interest rates. The Bank measures and holds specific liquidity for this risk as part of its ILBR calibration.

7.10 Liquidity Quantitative Measures

LCR measures relate to the Bank only. LCR metrics are average values over the period calculated in accordance with EBA guidance. The LCR includes HQLA held to cover Pillar 2 risks.

LCR metrics for the year ended 31 December are as follows:

Liquidity Coverage Ratio[1]	2018 £m	2017 £m
Liquidity Buffer	814.4	674.2
Total Net Cash Outflows	443.7	311.5
Liquidity Coverage Ratio%[1]	184.7%	222.3%

[1] Liquidity ratios are average values over the period in accordance with standards issued by the EBA.

8. Interest Rate Risk in the Banking Book

8.1 Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book ("IRRBB"), including Basis Risk, is the risk of losses arising from changes in interest rates for banking book items. The Group is exposed to IRRBB arising from Duration Risk, Basis Risk and Optionality Risk.

The Group takes a prudent view of prepayments during fixed rate periods in its hedging assumptions and assumes earliest call date for non-maturing deposits.

The Group is not exposed to wrong way risk.

8.2 Managing Interest Rate Risk in the Banking Book

The overall risk appetite for IRRBB in the banking book is expressed as a percentage of Group CET1 market capital at risk from a 2% parallel shift in the yield.

The Group monitors and maintains limits for net interest income at risk from a 0.5% shift in the yield curve over a 12 month time horizon combined with a dislocation of funding rate indexes. An analysis of Interest Rate Sensitivity can be found in the Risk Management section of the ARA.

Interest Rate Risk in the Banking Book Working Group ("IRRBBWG")

The Interest Rate Risk in the Banking Book Working Group (IRRBBWG) is a management level sub-committee that reports through to ALCO, who is ultimately responsible for managing IRRBB. The Group meets on a monthly basis, however IRRBB is monitored on a daily basis.

9. Leverage

9.1 Leverage Ratio

The Group calculates its Leverage Ratio as its Tier 1 Capital divided by the sum of its total exposures and expresses the result as a percentage in accordance with Article 429 of the CRR. The Leverage Ratio is calculated at month end dates and no adjustments to Tier 1 Capital, as permitted through the derogations under Chapter 1 and 2 of the CRR, are applied.

LRSum: Summary reconciliation of assets and leverage ratio exposures

Reconciliation of Accounting Assets and Leverage Ratio Exposures	2018 £m	2017 £m
Tier 1 Capital	423.2	331.4
Total Assets per the Group Statement of Financial Position	7,786.5	6,424.4
Derivative Exposure Items	(1.4)	(0.2)
Off Balance Sheet Exposures	115.5	111.2
Other Adjustments	6.5	(2.4)
Leverage Ratio Exposures	**7,907.1**	**6,533.0**

LRCom: Leverage ratio common disclosures

Leverage Ratio Common Disclosures	2018 £m	2017 £m
On balance Sheet Items	7,780.7	6,413.6
(Asset Amounts Deducted in Determining Tier 1 Capital)	(5.1)	(3.6)
Total on Balance Sheet Exposures	7,775.6	6,410.0
Replacement Cost Associated with all Derivatives	1.9	1.5
Add on Amounts Potential Future Exposure	14.1	10.3
Total Derivative Exposure	16.0	11.8
Other Off Balance Sheet Exposures Notional	577.8	555.8
(Adjustments for Conversion)	(462.3)	(444.6)
Other Off Balance Sheet	115.5	111.2
Tier 1 Capital	**423.2**	**331.4**
Total Leverage Ratio Exposures	**7,907.1**	**6,533.0**
Leverage Ratio	**5.4%**	**5.1%**
Choice of Transitional Arrangements For The Definition of The Capital Measure	**Fully**	**Fully**

LRSpl: Split- up of on balance sheet exposures (excluding derivatives, SFT, and exempted exposures)

An analysis of Group on balance sheet exposures is set out below:

Split of On Balance Sheet Exposures	2018 £m	2017 £m
Banking Book Exposures:		
Exposures Treated as Sovereigns	832.2	852.4
Institutions	149.4	114.6
Secured By Mortgages on Immovable Property	6,590.0	5,315.8
Exposures In Default	15.6	5.5
Retail Exposures	19.6	5.2
Other Exposures	168.8	116.5
Total	**7,775.6**	**6,410.0**

The Group does not have a trading book.

9.2 Managing Excessive Leverage

As a supplementary measure to the risk-based capital requirements, the Basel III framework introduced a simple, non-risk based leverage ratio. The Basel Committee on Banking Supervision ("Basel") has advised that it was implementing a minimum leverage measure of 3% based on a Tier 1 definition of capital with planned effect from 1 January 2018. The PRA has however established its own minimum requirement of 3.25% but only for firms with more than £50bn of deposits.

The Group Board recognises that leverage is important for firms below the PRA threshold and at 31 December 2018 it has a leverage ratio of 5.4% (2017: 5.1%). The Group plans capital to be in excess of the 3.25% minimum requirement throughout its forecast horizon. Furthermore, it monitors its leverage ratio relative to its regulatory requirements, as well as its peer group and the broader sector in which it operates.

9.3 Factors That Have Impacted the Leverage Ratio During the Period

Derivative exposure values are calculated in accordance with the Mark-to-Market Method and applicable rules set out in the CRR. Deferred Tax and Intangibles are excluded from Total Exposures as they are deducted directly from Tier 1 Capital.

Off Balance Sheet Exposures represent commitments to provide credit which are not unconditionally cancellable. Leverage Ratio Exposure values for off balance sheet items are determined after applying a CF to the nominal value of the items.

The Group aims to have, and does have a significantly higher Leverage Ratio than the PRA minimum requirement of 3.25% for larger institutions. The following items have impacted the Group's Leverage Ratio in 2018:

- Increase in Reserves of £120.8m; and
- Increase in Assets to £7.8 bn from £6.5 bn.

10. Asset Encumbrance

10.1 Template A – Encumbered and Unencumbered Assets

The following disclosures are provided in accordance with Article 443 of the CRR "Unencumbered Assets" following guidance issued by the European Banking Authority on "disclosures of encumbered and unencumbered assets" in 2017.

At 31 December 2018:

2018		£m Carrying Amount of Encumbered Assets		£m Fair Value of Encumbered Assets		£m Carrying Amount of Unencumbered Assets		£m Fair Value of Unencumbered Assets	
			Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the Reporting Institution	2,506.2	-	-	-	4,480.5	827.5	-	-
030	Equity Instruments	-	-	-	-	-	-	-	-
040	Debt Securities	-	-	-	-	97.6	-	97.6	-
060	Of which: Asset Backed Securities	-	-	-	-	97.6	-	97.6	-
120	Other Assets	2,506.2	-	-	-	4,382.0	797.6	-	-

At 31 December 2017:

2017		£m Carrying Amount of Encumbered Assets		£m Fair Value of Encumbered Assets		£m Carrying Amount of Unencumbered Assets		£m Fair Value of Unencumbered Assets	
			Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the Reporting Institution	1,602.3	-	-	-	3,986.6	688.8	-	-
030	Equity Instruments	-	-	-	-	-	-	-	-
040	Debt Securities	-	-	-	-	135.9	-	136.7	-
060	Of which: Asset Backed Securities	-	-	-	-	135.9	-	136.7	-
120	Other Assets	1,602.3	-	-	-	3,829.5	688.8	-	-

10.2 Template B – Collateral Received

The Group have not received collateral during 2017 or 2018 therefore have not disclosed Template B - Collateral Received.

10.3 Template C – Sources of encumbrance

At 31 December 2018:

2018		£m Matching Liabilities, Contingent Liabilites or Securities Lent	£m Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and ABSs Encumbered
		010	030
010	Carrying Amount of Selected Financial Liabilities	1,559.4	2,479.8

At 31 December 2017:

2017		£m Matching Liabilities, Contingent Liabilites or Securities Lent	£m Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and ABSs Encumbered
		010	030
010	Carrying Amount of Selected Financial Liabilities	1,281.2	1,572.8

10.4 Template D – Accompanying Narrative Information

The Group encumbers its balance sheet through the securitisation of mortgage assets which are not derecognised from its balance sheet. In addition the Bank encumbers assets by pledging collateral with the Bank of England to access long term funding through the Term Funding Scheme ("TFS") and short term funding through Bank of England sale and repurchase agreements. Whole loan portfolios and securities pledged to the Bank of England are subject to haircuts reflecting the underlying credit quality and liquidity of the collateral which creates a level of over collateralisation.

The Group's encumbrance levels have increased since 2017, which is driven by the utilisation of the Term Funding Scheme offered by the Bank of England. The Scheme was introduced in 2016 to provide funding to banks at rates close to the bank base rate, which would subsequently encourage lending at a cost effective source of funding.

Further Securitisations have contributed to the increase in encumbrance levels. For further information on Securitisation activity within the year refer to Section 11.5.

Items included in other unencumbered assets that would not be available for encumbrance would include Intangibles, Other Fixed Assets, including Property and Equipment, and Derivative Assets.

Only the Bank is subject to encumbrance restrictions. The Bank maintains an overall level of asset encumbrance percentage below a PRA maximum expectation of 30%.

Asset encumbrance is calculated using the median values. The median is calculated as the annual median of the end-of-period values for each of the four quarters in the year, and are determined by interpolation.

Bank only Asset Emcumbrance disclosures are included at Appendix 2.

11. Securitisations Exposures

11.1 Objectives and Role in Relation to Securitisation Activity

CCFSG actively utilises securitisation to achieve four key objectives:

- Provide long term funding to its balance sheet, diversifying its funding mix and increasing the weighted average life of its liabilities;
- Accelerate organic capital generation through the sale of residual positions;
- Provide contingent capital generation optionality by structuring its funding trades in such a way as to enable the future sale of residual positions resulting in the derecognition of the underlying assets; and
- Generate retained bonds to utilise as collateral for commercial and central bank sale and repurchase transactions.

Separately, CCFS acts in the capacity of investor through the purchase of Senior and Second Pay third party RMBS bonds (in each case being credit step 1, with a minimum ECAI rating of AA (or equivalent)) for liquidity and investment purposes.

Entities within the Group perform the roles of sponsor, originator, servicer and risk retention holder within the securitisation process. A Group entity will perform all of the above mentioned roles in each of eleven transactions completed by the Group up to December 2018. The Group has to date used Fitch Ratings, Moody's and Standard and Poor's to rate its securitisations, with two of these three used on each transaction. The Group does not use particular agencies for particular transactions (all of which, for the avoidance of doubt, are RMBS transactions involving the securitisation of own originated UK residential and buy-to-let mortgages).

11.2 Risk Weighting and Accounting policies

Where the Group, being the originating institution has not transferred significant credit risk it shall calculate risk weighted exposure amounts as if they had not been securitised in accordance with Article 245.2 of the CRR.

Exposures calculated under Part Three, Title III, Chapter 5 shall be reported under Securitisation Positions. This would include RMBS Securitised Exposures. The Group use ECAI's published by Fitch, Standard and Poor's and Moody's. Where credit rating agencies report different ratings which are not equivalent, as per Article 138 (f) CRR, where more than two credit assessments are available, the two assessments generating the two lowest risk weights shall be referred to. If the two lowest risk weights are different, the higher risk weight shall be assigned. If the two lowest risk weights are the same, that risk weight shall be assigned.

The Group does not run a trading book, therefore it does not typically need to value its securitisation positions, other than for assessing the liquidity value of any senior retained position for Central Bank repo purposes; a proxy for which is provided by the Bank of England.

Note 5 to the financial statements within the ARA details the Group's accounting policies in relation to securitisation activity. Relevant information can be found under consolidation, classification, derecognition of financial assets and cash and cash equivalent. A full list of the Securitisations consolidated into the Group can be found in note 52 to the financial statements within the ARA.

To date, mortgage assets held prior to securitisation are held in the non-trading book. The Group has no exposure to synthetic securitisations or to synthetic securitisation positions. The Group does not provide hedging, contingent liquidity or other contingent financial support to its securitised assets, and thus does not have any such liabilities to recognise.

11.3 Risks Associated with Securitised Assets

As an issuer of RMBS transactions, the main risk faced by the Group is market risk at execution. The Group manages this risk by maintaining a diversified set of funding options, and typically only utilises the capital markets when they are relatively strong. Once a deal has closed, the Group maintains a contingent exposure to breaches in representations and warranties given at the closing of each transaction. To 2018 year end, of the 18,619 mortgages publically securitised, it has had to repurchase four loans as a result of a breach of warranty.

As a holder of third party RMBS positions, the Group minimises liquidity risk and accounting volatility by holding such positions, and accordingly accounting for such positions, to maturity. As it has only purchased CRR compliant bonds at credit step 1, underlying credit risk is minimal. Nonetheless, it retains downgrade risk (being the risk that bonds will get downgraded below credit step 1, increasing the Group's capital requirements). The Group stresses for this risk within its Pillar 2b capital framework. To date, none of the bonds within its liquidity or investment portfolio have been downgraded.

Securitised exposures that the Group continues to recognise will typically maintain a subordinated 'first loss' piece, with all other positions sold to third party investors. The Group will then recognise the mortgage assets (rather than the RMBS positions) on its balance sheet, on a look through basis for capital purposes. In some circumstances CCFS Treasury will retain all or a part of the senior AAA rated positions for liquidity purposes.

Third party bonds acquired are all post crisis UK RMBS issued under the CRD IV risk retention regime. At the year end, all third party bonds held by CCFS were rated AAA by at least two rating agencies.

The Group has not engaged in any resecuritisation activity and has no intention of doing so.

11.4 Risk Management

Positions in third party RMBS bonds are routinely monitored to ensure performance of underlying assets remains acceptable. They are annually stress tested through the ICAAP, for the purposes of determining Pillar 2a and 2b capital requirements.

Any changes to credit ratings are picked up in real time through the regular scanning of rating agency press releases. Month end positions are reported to ALCO.

From a liquidity standpoint, all third party bonds held at the 2018 year end are Bank of England Type B or Type C eligible collateral, and are pre-placed with the Bank of England. As a result of this, the Group receives an implied mark on each such bond from the Bank of England, which is monitored daily through treasury reporting. The Group does not operate a trading book, and these positions are held to maturity.

The Group does not utilise hedging or unfunded protection to mitigate the risks of retained securitisation exposures, other than hedging the underlying mortgage assets for interest rate risk in the ordinary course of business. It does not have any resecuritisation exposures.

11.5 Securitisation Activity

The Group does not have a trading book therefore all activity relates to the banking book. The Group's securitisations are traditional cash, pass through transactions. The Group has not engaged in any form of synthetic securitisation or resecuritisation. Entities within the Group act as sponsor, originator and servicer for all on balance sheet securitisations. There are no transactions where the Group acts only as sponsor.

Highlights

- Three securitisation transactions concluded with a combined value of £906.1 million (2017: £597.3 million).
- Sale of economic interest in two securitisations resulting in an aggregate gain of £36.4 million (2017: £17.7 million).
- Second warehouse facility successfully closed, providing £250.0 million of additional contingent total senior funding to the Group.

Further information relating to securitisation activity can be found in Wholesale Funding under the Business Review section within the Strategic Report of the ARA. Information relating to the derecognition of Securitised financial assets can be found in Note 6 of the ARA.

11.6 Securitisation Positions

The Group utilises market standard bankruptcy remote special purpose vehicles for its securitisation transactions. The RMBS issuing Securitisation Special Purpose Entities ("SSPE") to which the Group was the seller or originator are listed below:

Public Securitisations

						Outstanding Loan Notes - 31st December 2018 - £m				%Held/Retained						
SSPE	Deal Type	Close Date	1st Call Date	Legal Final Maturity	Original Securitised Amount	Senior	Mezzazine	Junior	Uncollateralised	Senior	Mezzazine	Junior	Uncollateralised	Risk Transfer Status	Exposure Values £m	Group RWAs £m
Precise Mortgage Funding 2014-1 Plc*	RMBS	22/07/2014	12/06/2019	12/09/2047	234.9	10.9	30.4	4.9	6.9	3.9%	13.8%	100.0%	100.0%	No	44.6	16.1
Precise Mortgage Funding 2014-2 Plc*	RMBS	25/11/2014	12/12/2019	12/12/2047	229.9	20.8	35.5	4.8	6.8	6.3%	26.8%	100.0%	100.0%	No	59.2	20.9
Precise Mortgage Funding 2015-1 Plc	RMBS	10/03/2015	12/06/2020	12/03/2048	205.5	25.7	33.7	4.3	6.0	0.0%	0.0%	100.0%	100.0%	No	62.1	22.2
Precise Mortgage Funding 2015-2B Plc	RMBS	22/07/2015	12/06/2020	12/06/2048	224.2	54.5	42.6	1.2	-	0.0%	0.0%	0.0%	0.0%	Yes	97.2	-
Precise Mortgage Funding 2015-3R Plc	RMBS	06/12/2015	16/12/2020	16/11/2050	517.8	176.6	27.9	60.1	0.0	100.0%	100.0%	100.0%	0.0%	No	257.3	92.2
Precise Mortgage Funding 2017-1B Plc	RMBS	28/04/2017	12/03/2022	12/03/2054	300.0	229.1	43.2	4.8	-	0.0%	0.0%	0.0%	0.0%	Yes	275.3	-
Charter Mortgages Funding 2017-1 Plc	RMBS	27/07/2017	12/09/2021	12/06/2054	297.3	151.0	34.2	3.0		0.0%	0.0%	0.0%	0.0%	Yes	181.8	-
Precise Mortgage Funding 2018-1B Plc	RMBS	24/01/2018	12/12/2021	14/12/2054	246.1	202.1	23.4	-	3.9	0.0%	0.0%	0.0%	0.0%	No	223.4	78.2
Precise Mortgage Funding 2018-2B Plc	RMBS	20/03/2018	20/03/2023	12/03/2055	374.5	311.5	35.6	-	8.3	0.0%	0.0%	0.0%	0.0%	No	340.5	119.2
Charter Mortgage Funding 2018-1 Plc	RMBS	08/06/2018	12/03/2023	12/06/2055	285.5	240.5	24.3	-	9.7	0.0%	0.0%	0.0%	0.0%	Yes	260.5	-

Other Securitisations

SSPE	Deal Type	Close Date	1st Call Date	Legal Final Maturity	Original Securitised Amount	Outstanding Loan Notes - 31st December 2018 - £m Senior	Mezzazine	Junior	Uncollateralised	%Held/Retained Senior	Mezzazine	Junior	Uncollateralised	Risk Transfer Status	Exposure Values £m	Group RWAs £m
CML Warehouse Number 1 Limited	Warehouse	01/12/2017	08/09/2019		107.0	233.8	0.0	16.2	7.8	0.0%	0.0%	100%	100%	No	248.7	87.1

*These securitisations had a prefund, subject to a second tranche of loans being added in.

11.7 Capital Requirements

Template EU OV1 – Overview of RWAs

An overview of net exposure values, Risk Weighted Assets ("RWAs") and Pillar 1 requirements for the Group associated with securitised assets and securitised positions as at 31 December are as follows:

Exposure Class	£m RWAs 2018	£m RWAs 2017	£m Minimum Capital Requirements 2018
Credit Risk – Standardised Approach	**435.8**	**355.4**	**34.9**
Secured by Mortgages on Immovable Property - Securitised	430.7	352.9	34.5
Exposures in Default - Securitised	5.1	2.5	0.4
Securitisation Exposures in the Banking Book - SA	**24.6**	**15.7**	**2.0**
Total	**460.4**	**371.1**	**36.9**

11.8 Credit Quality of Exposures

Template CR1-A Credit quality of exposures by exposure class gross of CF

At 31 December 2018:

Exposure Class	£m Gross Carrying Values of Defaulted Exposures	£m Gross Carrying Values of Non-Defaulted Exposures	£m Stage 1 Credit Risk Adjustment	£m Stage 2 Credit Risk Adjustment	Stage 3 Credit Risk Adjustment	£m Net Values
Secured By Mortgages on Immovable Property – Securitised	-	1,230.6	0.0	0.1	-	1,230.5
Of which SME - Securitised	*-*	*333.0*	*0.0*	*0.0*	*-*	*333.0*
Exposures in Default - Securitised	5.3	-	-	-	0.1	5.2
Securitisation Positions	-	123.0	0.0	-	-	123.0
Total	**5.3**	**1,353.6**	**0.0**	**0.1**	**0.1**	**1,358.7**
Of which: Loans	5.3	1,230.6	0.0	0.1	0.1	1,235.7
Of which: Debt Securities	-	123.0	0.0	-	-	123.0

At 31 December 2017:

Exposure Class	£m Gross Carrying Values of Defaulted Exposures	£m Gross Carrying Values of Non-Defaulted Exposures	£m Specific Credit Risk Adjustment	£m General Credit Risk Adjustment	£m Net Values
Secured By Mortgages on Immovable Property – Securitised	-	1,007.7	-	0.2	1,007.5
Of which: SME - Securitised	*-*	*35.1*	*-*	*-*	*35.1*
Exposures in Default - Securitised	2.6	-	0.1	-	2.5
Securitisation Positions	-	78.4	-	-	78.4
Total	**2.6**	**1,086.1**	**0.1**	**0.2**	**1,088.4**
Of which: Loans	2.6	1,007.7	0.1	0.2	1,010.0
Of which: Debt Securities	-	78.4	-	-	78.4

12. Remuneration

12.1 Remuneration Policy and Practices

Identification of Code Staff

The Remuneration Code (the "Code") sets out certain requirements and principles in relation to remuneration. Firms that fall within the scope of the Code must establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management proportionately depending on the size, internal organisation and the nature, the scope and the complexity of the activity of the company.

A firm must maintain a record of its Code Staff (being those staff whose professional activities have a material impact on the firm's risk profile) and take reasonable steps to ensure Code Staff understand the implications of their status.

The disclosure requirements of Pillar 3 are defined by CRR Article 450 and the Prudential Regulation Authority ("PRA") supervisory statement SS2/17 "Remuneration". As the Bank falls within proportionality level three, the disclosure provides proportionate information for remuneration received by Code Staff for the year ending 31 December 2018.

Approach to Remuneration

The Group complies with the requirements and principles of the Code. Remuneration policies are designed to comply with the Code and the Group is committed to adhering to the principles of the Code in respect of Code Staff. Remuneration policies reflect the Company's culture and support the delivery of its business strategy, whilst promoting sound and effective risk management and the long term interests of the Group.

The overall aim of remuneration policies is to attract, motivate and retain individuals of high quality who can deliver sustained performance consistent with strategic goals, appropriate risk management and to reward those individuals for enhancing value.

Decision making process for determining the Remuneration Policy

In line with the Code, decisions relating to remuneration are overseen by the Remuneration Committee.

Remuneration Committee

The Committee has responsibility for determining the overall remuneration policies and practices within the Group, taking into account applicable laws, regulations and the principles of good governance. The primary focus of the Committee during the year ending 31 December 2018 was as follows:

- setting the remuneration policy for all Executive Directors, the Chairman, and all employees who are designated as Code Staff under the PRA and/or the Financial Conduct Authority ("FCA") Remuneration Codes;
- approving their remuneration packages and service contracts;
- reviewing the ongoing appropriateness and relevance of the remuneration policy;
- reviewing and approving the overall remuneration spend (fixed and variable) to ensure that evidence exists to demonstrate that awards have been adjusted where appropriate for risk and will not limit the ability to strengthen the capital base;
- approving the design of, and determining targets for, all performance-related incentive plans operated by the Group and approving the total annual payments made under such plans; and
- reviewing the design of all share incentive plans for approval by the Board and shareholders. For any such plans, the Committee determines each year whether awards will be made and, if so, the overall amount of such awards, the individual awards to Executive Directors and Code Staff and the performance targets to be used.

Composition of the Committee

During the year ending 2018, the Committee consisted of four members and was constituted in a way that enabled it to exercise its independent judgment and demonstrate its ability to make decisions which were consistent with effective risk management and the current and future financial interests of the Group. All members of the Committee were independent Non-Executive Directors. The members of the Committee at 31 December 2018 were:

Ian Ward	Chairman of the Remuneration Committee
Noel Harwerth	Senior Independent Director
Tim Brooke	Non-Executive Director
Rajan Kapoor	Non-Executive Director

Within its terms of reference the Committee is obliged to arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board. The Committee's terms of reference were last reviewed, updated and adopted by the Board of Directors in September 2018.

The Committee meets as circumstances require, but at least two times a year to enable responsibilities to be discharged. During the year ending 31 December 2018, the Committee met five times.

Role of Relevant Stakeholders

Only members of the Committee have the right to attend and vote at Committee meetings. However, other individuals (such as the Chief Executive Officer and the Director of HR and Central Operations) are invited to attend meetings when appropriate or necessary but are excluded from discussions relating to their own remuneration arrangements. The Committee may request the attendance of any executive or other individual as deemed appropriate to facilitate the review of remuneration recommendations and policy design to ensure that remuneration practices are consistent with effective risk management and appropriate financial measures.

The Committee may take external professional advice as appropriate. During the year ending 31 December 2018, the Committee obtained external remuneration advice from New Bridge Street.

12.2 The Link between Pay and Performance

During the year ending 2018, variable remuneration awards for Code Staff were awarded by the Committee in a manner which promoted sound risk management, did not encourage excessive risk taking and promoted the long term interests of the Group.

The Group aligned its remuneration policy to be consistent with and promote effective risk management by adopting the following principles:

- a rigorous governance structure was in place to promote sound and effective risk management which did not encourage risk taking that exceeded the Group's level of tolerated risk;
- performance assessment measures for all Code Staff included both financial and non-financial objectives and were weighted towards non-financial measures to ensure that any variable remuneration awards did not undermine effective risk management;
- the design, structure and performance assessment measures for Code Staff were reviewed and agreed by the Chief Risk Officer to ensure it reflected the Group's risk appetite and profile, that any current and future risks were considered and that any risk adjustment techniques were validated and assessed;
- the design, structure and performance assessment measures for Code Staff were reviewed and agreed by the Chief Financial Officer to ensure that it was based on appropriate measures of profit; and
- Variable remuneration awards for Code Staff were at the discretion of the Committee and were subject to overall company and individual performance.

Remuneration decisions for all Code staff were reviewed by the Committee and recommended to the Board for approval. All remuneration decisions for non-Code Staff were approved by a member of the senior management team and HR before implementation.

12.3 Aggregate Quantitative Information on Remuneration for Code Staff

During the year ending 31 December 2018, there were a total of 15 Code Staff. This includes all Executive Directors, Non-Executive Directors and other staff performing selected roles, in control and central functions, which have a significant influence on the firm's risk profile.

The following table shows the aggregate quantitative remuneration for Code Staff during the year ending 31 December 2018. The Group only operates a retail banking book.

Aggregate Quantitative Information on Remuneration for Code Staff.

Business Unit	Retail Banking £m			
	Executive	Non Executive	Non Executive Code Staff	Total
Total Remuneration	3,380	775	2,503	6,658
Number of Code Staff	**3**	**6**	**6**	**15**

* Total remuneration includes fixed remuneration (base salary, fees, employer pension contributions and other fixed allowances) and variable remuneration awarded in the performance year.

Charter Court Financial Services Group plc

This section sets out the Pillar 3 disclosures of the Bank.

The differences between the Bank and the Group relate to securitised asset portfolios that have been derecognised from the Bank's balance sheet but not the Group's for prudential and financial reporting purposes.

1.1 Capital Composition and Reconciliation to Equity

The following table sets out the composition of regulatory capital at 31 December:

Capital Composition	2018 £m	2017 £m
Share Capital	2.9	2.9
Share Premium	41.7	18.0
Retained Earnings	382.4	269.7
Regulatory Adjustments to CET1:		
Intangible Fixed Asset	(2.6)	(1.4)
AVA	(0.9)	-
IFRS 9 Transitional Adjustment	1.5	-
Common Equity Tier 1 Capital	**425.0**	**289.2**
General Credit Risk Adjustments	-	0.5
Total Tier 2 Capital	**-**	**0.5**
Total Capital	**425.0**	**289.7**

The following table sets out the reconciliation of the Bank's total equity and regulatory capital.

Reconciliation of Regulatory Capital to Equity	2018 £m	2017 £m
Regulatory Total Capital	425.0	289.7
General Credit Risk Adjustments	-	(0.5)
IFRS 9 Transitional Adjustments	(1.5)	-
AVA	0.9	-
Intangible Fixed Asset Deduction	2.6	1.4
Total Equity	**427.0**	**290.6**

1.2 Capital Requirement

Template EU OV1 – Overview of RWAs

At 31 December:

Exposure Class	£m RWAs 2018	£m RWAs 2017	£m Minimum Capital Requirements
Credit Risk – Standardised Approach	**2,159.4**	**1,812.0**	**172.7**
Central Government or Central Banks	-	-	-
Institutions	11.9	8.0	1.0
Retail	17.7	4.0	1.4
Secured by Mortgages on Immovable Property	2,050.4	1,739.2	164.0
Exposures in Default	14.6	5.4	1.2
Items Associated with Particularly High Risk	59.4	50.6	4.7
Other Exposures	5.4	4.8	0.4
Counterparty Credit Risk	**11.8**	**7.7**	**0.9**
Mark to Market Derivatives	7.0	5.0	0.5
CVA Risk	4.8	2.7	0.4
Securitisation Exposures in the Banking Book - SA	**24.6**	**15.7**	**2.0**
Operational Risk – BIA	**176.9**	**99.2**	**14.2**
Total	**2,372.7**	**1,934.6**	**189.8**

1.3 Capital Metrics With and Without IFRS 9 Transitional Arrangement

The Banks capital metrics with and without the transitional arrangement are detailed below:

Available Capital (Amounts)	2018 - £m
Common Equity Tier 1 (CET1) Capital	425.0
Common Equity Tier 1 (CET1) Capital without transitional arrangement	423.6
Tier 1 Capital	425.0
Tier 1 Capital without transitional arrangement	423.6
Total Capital	425.0
Total Capital without transitional arrangement	423.6
Risk Weighted Asset Amounts (Amounts)	
Total Risk Weighted Assets	2,372.7
Total Risk Weighted Assets without transitional arrangement	2371.8
Capital Ratios	
Common Equity Tier 1 (as % of RWA)	17.9%
Common Equity Tier 1 (as % of RWA) without transitional arrangement	17.9%
Tier 1 (as % of RWA)	17.9%
Tier 1 (as % of RWA) without transitional arrangement	17.9%
Total Capital (as % of RWA)	17.9%
Total Capital (as % of RWA) without transitional arrangement	17.9%
Leverage Ratio	
Leverage ratio total exposure measure	6,970.6
Leverage ratio	6.1%
Leverage ratio without transitional arrangement	6.1%

1.4 LRSum: Summary reconciliation of assets and leverage ratio exposures

Reconciliation of Accounting Assets and Leverage Ratio Exposures	2018 £m	2017 £m
Tier 1 Capital	425.0	289.2
Total Assets per the Bank Statement of Financial Position	6,871.3	5,926.1
Derivative Exposure Items	(3.0)	(1.5)
Off Balance Sheet Exposures	115.6	111.2
Other Adjustment	(13.4)	(49.9)
Leverage Ratio Exposures	**6,970.5**	**5,985.9**

1.5 LRCom: Leverage ratio common disclosures

Leverage Ratio Common Disclosures	2018 £m	2017 £m
On Balance Sheet Items	6,843.5	5,866.1
(Asset Amounts Deducted in Determining Tier 1 Capital)	(2.6)	(1.4)
Total on Balance Sheet Exposures	6,840.9	5,864.7
Replacement Cost Associated with all Derivatives	1.5	1.0
Add on Amounts Potential Future Exposure	12.5	9.0
Total Derivative Exposure	14.0	10.0
Other Off Balance Sheet Exposures Notional	577.8	555.8
(Adjustments for Conversion)	(462.2)	(444.6)
Other Off Balance Sheet	115.6	111.2
Tier 1 Capital	**425.0**	**289.2**
Total Leverage Ratio Exposures	**6,970.5**	**5,985.9**
Leverage Ratio	**6.1%**	**4.8%**
Choice of Transitional Arrangements for the Definition of the Capital Measure	**Fully**	**Fully**

1.6 LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFT and exempted exposures)

Split of On Balance Sheet Exposures	2018 £m	2017 £m
Banking Book Exposures:		
Exposures treated as Sovereigns	832.2	852.4
Institutions	59.6	39.9
Secured By Mortgages on Immovable Property	5,748.6	4,846.3
Exposures In Default	14.7	5.4
Retail Exposures	19.6	5.2
Other Exposures	166.2	115.5
Total Exposure	**6,840.9**	**5,864.7**

The Bank does not have a trading book.

Charter Court
Financial Services Group plc

2.1 Template A – Encumbered and Unencumbered Assets

The following disclosures are provided in accordance with Article 443 of the CRR "Unencumbered Assets" following guidance issued by the European Banking Authority on "disclosures of encumbered and unencumbered assets" in March 2017.

At 31 December 2018:

2018		£m Carrying Amount of Encumbered Assets		£m Fair Value of Encumbered Assets		£m Carrying Amount of Unencumbered Assets		£m Fair Value of Unencumbered Assets	
			Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the Reporting Institution	1,709.0	-			4,397.0	827.5		
030	Equity Instruments	-	-	-	-	-	-	-	-
040	Debt Securities	-	-	-	-	113.9	-	97.6	-
060	Of which: Asset Backed Securities	-	-	-	-	113.9	-	97.6	-
120	Other Assets	1,709.0	-			4,279.4	797.6		

At 31 December 2017:

2017		£m Carrying Amount of Encumbered Assets		£m Fair Value of Encumbered Assets		£m Carrying Amount of Unencumbered Assets		£m Fair Value of Unencumbered Assets	
			Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA		Of which notionally eligible EHQLA and HQLA
		010	030	040	050	060	080	090	100
010	Assets of the Reporting Institution	1,347.6	-	-	-	3,962.7	688.8	-	-
030	Equity Instruments	–	–	–	–	-	–	–	–
040	Debt Securities	–	–	–	–	145.5	-	137.2	-
060	Of which: Asset Backed Securities	–	–	–	–	145.5	-	137.2	-
120	Other Assets	1,347.6	-	-	-	3,796.0	688.8	-	-

2.2 Template B – Collateral Received

The Group have not received collateral during 2017 or 2018 therefore have not disclosed Template B - Collateral Received.

2.3 Template C – Sources of encumbrance

At 31 December 2018:

2018		£m Matching Liabilities, Contingent Liabilites or Securities Lent	£m Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and ABSs Encumbered
		010	030
010	Carrying Amount of Selected Financial Liabilities	1,310.4	1,697.3

At 31 December 2017:

2017		£m Matching Liabilities, Contingent Liabilites or Securities Lent	£m Assets, Collateral Received and Own Debt Securities Issued other than Covered Bonds and ABSs Encumbered
		010	030
010	Carrying Amount of Selected Financial Liabilities	1,088.2	1,335.2

Charter Court Financial Services Group plc

	Capital Instruments Main Features	Tier 1
1	Issuer	Charter Court Financial Services Group plc
2	Unique Identifier (eg CUSIP ISIN Bloomberg identifier for private placement)	(ISIN: GB00BD822578; SEDOL BD82257)
3	Governing laws of the instrument	English law
	Regulatory Treatment	
4	Transitional CRR Rules	CET1
5	Post Transitional CRR Rules	CET1
6	Eligible at solo/(sub-)consolidated / solo & (sub-) consolidated	Consolidated
7	Instrument type	Common Equity
8	Amount recognised in regulatory capital	£21.4m
9	Nominal amount of instrument	£0.01
9a	Issue price	£2.30
9b	Redemption price	Not Applicable
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	28 September 2017 - 230,434,767 Ordinary Shares issued
		4 October 2017 - 8,695,652 Ordinary Shares issued
		4 October 2018 – 190,000 Ordinary Shares issued
12	Perpeptual or dated	Perpetual
13	Original maturity date	Not Applicable
14	Issuer call subject to prior supervisory approval	No
15	Optional call date contingent call dates and redemption amount	No
16	Subsequent call dates if applicable	Not Applicable

	Coupons/Dividends	Tier 1
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	Not Applicable
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive redeem	No
22	Noncumulative or cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Convertable
24	If convertible specify issuer of instrument converts into	Not Applicable
25	Write down features	No
26	If write down, write down trigger	Not Applicable
27	If write down full or partial	Not Applicable
28	if write down permanent or temporary	Not Applicable
29	if temporary write down description of write down mechanism	Not Applicable
30	Position in subordination hierarchy in liquidation	All liabilities
31	Non-compliant transitioned features	No
32	If yes specify non-compliant features	Not applicable

ALCO	Assets and Liabilities Committee
ALMM	Additional Liquidity Monitoring Metrics
AML	Anti-Money Laundering
ARA	Annual Report and Accounts
AVA	Additional Value Adjustment
BAC	Board's Audit Committee
Basel	Basel Committee on Banking Supervision
Basic Indicator Approach (BIA)	Is a set of operational risk measurement techniques specified by BCBS and detailed in the CRR IV, used to calculate Capital required for Operational Risk
BCBS	Basel Committee on Banking Supervision
BoE	Bank of England
BRC	Board Risk Committee
BTL	Buy-To-Let
CCoB	Capital Conservation Buffer
CCFSG	Charter Court Financial Services Group Plc
CCyB	Countercyclical Buffer
CET1	Common Equity Tier 1
CF	Conversion Factor
ChMC	Change Management Committee
CMC	Credit Management Committee
COREP	Common Reporting
CoRR	Corporate Risk Register
CRR	Capital Requirements Regulation
CRD	Capital Requirements Directive also known as CRD IV (being the 4th update of the Basel Directives)
CRMC	Conduct Risk Management Committee
CWG	Capital Working Group
EAD	Exposure at Default
EBA	European Banking Authority
ECAI	External Credit Assessment Institution
EMIR	European Market Infrastructure Regulation
ERMF	Enterprise Risk Management Framework
FCA	Financial Conduct Authority
FSB	Financial Stability Board
FVTPL	Fair Value Through Profit and Loss
HTM	Held-To-Maturity
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book

IRRBBWG	Interest Rate Risk in the Banking Book Working Group
ISDA	International Swaps and Derivatives Association
KRI	Key Risk Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LWG	Liquidity Working Group
OLAR	Overall Liquidity Adequacy Rule
ORMC	Operational Risk Management Committee
ORWG	Operational Risk Working Group
OTC	Over The Counter
PD	Probability of Default
Pillar 1	The part of the Basel framework that sets outs the rules that govern the calculation of minimum capital requirements for credit, market and operational risks
Pillar 2	As part of the ICAAP and SREP, firms and supervisors are required to identify and assess whether a firm should hold additional capital to cover any firm specific risks that are not adequately covered by Pillar 1
Pillar 3	Pillar 3 complements Pillar 1 and Pillar 2. Pillar 3 seeks to promote market discipline through regulatory disclosure requirements. Pillar 3 Disclosures allow market participants to access key pieces of information on a firms capital resource, capital adequacy, risk exposures, risk assessment process and remuneration approach
PMC	Product Management Committee
PRA	The Prudential Regulation Authority
RAF	Risk Appetite Framework
RAG	Red, Amber or Green Indicator
RMBS	Residential Mortgage Backed Security
RMC	Risk Management Committee
RWA	Risk Weighted Assets
SRB	Systemic Risk Buffer
SREP	Supervisory Review and Evaluation Process
Standardised Approach (SA)	Refers to a set of credit risk measurement techniques specified by BCBS and detailed in the CRR for the calculation of Risk Weighted Assets (RWA's) for Pillar 1
TCR	Total Capital Requirement
STS	Simple, Transparent and Standardised Securitisation
TFS	Term Funding Scheme
The Bank	Charter Court Financial Services Limited
The Code	The Remuneration Code
TMS	Treasury Management Systems

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