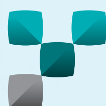

YBS GROUP

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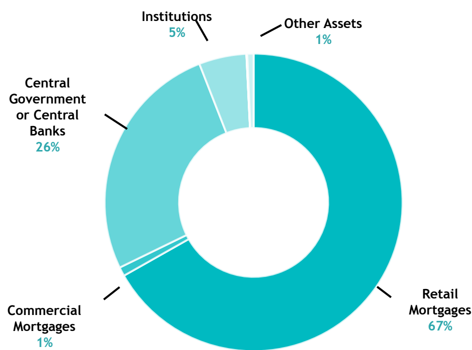
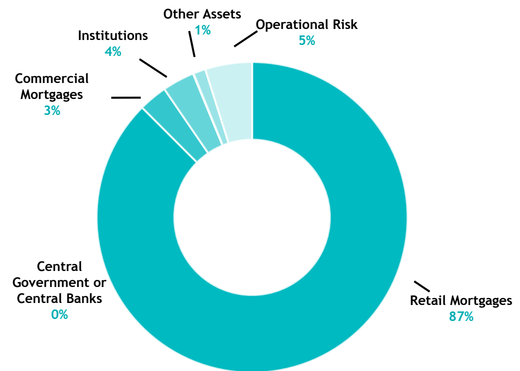
Capital Position at a Glance

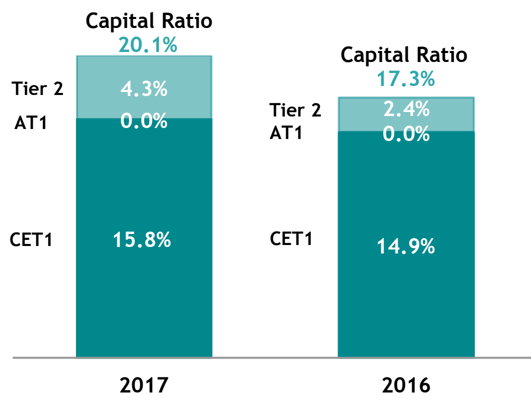
Group Credit Risk Exposures 2017



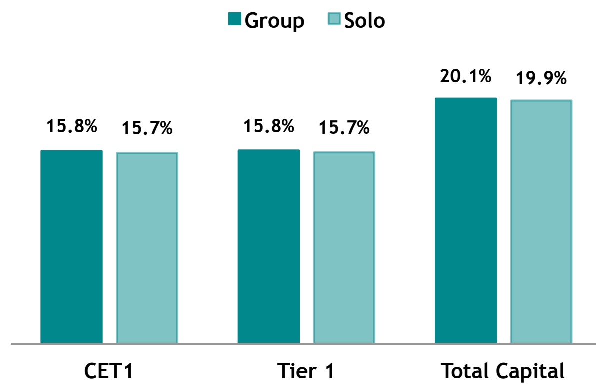
Group Risk Weighted Assets 2017



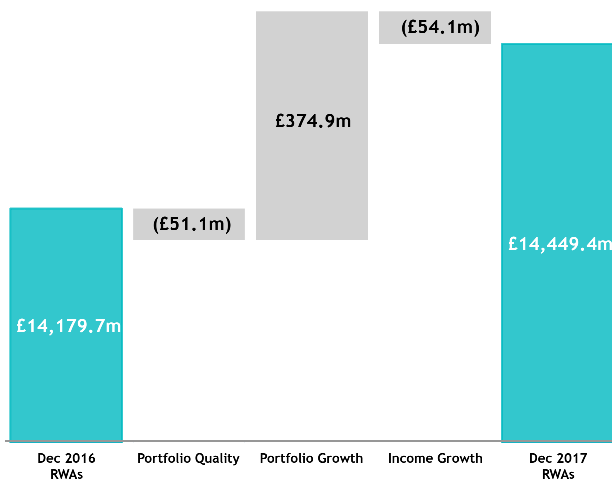
Capital Base



Capital Ratios 2017



Risk Weighted Assets Flow Chart



PRA Leverage Ratio

MREL Leverage Ratio

1 Overview

1.1 Background

This document is prepared under the European Union's Capital Requirements Regulation (CRR) and Capital Requirements Directive (CRD) (together commonly referred to as CRD IV) in place on 31 December 2017.

CRD IV came into force on 1 January 2014 and updates the three "pillars" of the Basel Framework which first came into force on 1 January 2008. Pillar 1 of the standards sets out the minimum capital requirement firms are required to meet for credit, market and operational risk. Under Pillar 2, firms and supervisors have to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1, assess the suitability of Pillar 1 capital requirements and demonstrate their ability to maintain an adequate capital position through a period of stress. Pillar 3 aims to improve market discipline by requiring firms to publish key details of their risks, capital and risk management.

1.2 Basis and Frequency of Disclosures

This disclosure document has been prepared by the Yorkshire Building Society Group ("the Group") in accordance with the requirements of Pillar 3 set out in Articles 431-455 of the CRR. The Group has adopted the Pillar 1 standardised approach to credit risk, counterparty credit risk and operational risk and does not use any internal models or advanced methods. The Group is also subject to Pillars 2 and 3. The rules are enforced in the UK by the Prudential Regulation Authority (PRA).

This document is produced in accordance with the Group's Pillar 3 Disclosure Policy which is reviewed on an annual basis.

Unless otherwise stated, all figures are as at 31 December 2017, the Group's financial year-end. This document is produced annually and is published at the same time as the Group's Annual Report and Accounts.

1.3 Scope

Yorkshire Building Society (YBS) is a European Economic Area (EEA) parent institution that is regulated in the UK by the PRA and Financial Conduct Authority (FCA). CRD IV therefore applies to YBS and its subsidiary undertakings.

Consolidation of the Group position for regulatory capital purposes (the "Capital Group") is similar to the statutory consolidated Group position produced for the Annual Report and Accounts but differs in the following respects:

- One Group company, Yorkshire Key Services Limited, is no longer trading and is outside of the scope of CRD IV and is therefore not consolidated for capital purposes due to the non-financial nature of its activities, but is fully consolidated in the Annual Report and Accounts, excluding the Capital Management Note which reports on the Capital Group basis. The Group's investment in Yorkshire Key Services is neither deducted nor consolidated on grounds of materiality but is risk weighted.
- Some definitions of assets and capital differ between the regulatory capital adequacy rules under CRD IV and the statutory accounting requirements under International Financial Reporting Standards (IFRS); Table 2 gives a detailed reconciliation of statutory accounting capital values to regulatory capital values. The Group will be applying IFRS9 from 1 January 2018. Further details of this can be found in Note 1 to the Annual Report and Accounts.

There are no restrictions or impediments to the movement of capital between legal entities within the Capital Group, and there is no material capital surplus or deficit relating to Group legal entities that do not form part of the Capital Group.

Under CRD IV, YBS as a legal entity must also meet an individual (solo) consolidated capital requirement. In this area, YBS has made use of provisions laid down in CRD IV to provide capital resources and requirements to the PRA under an individual (solo) consolidated basis. Individual (solo) consolidation enables both the intra-group exposures and investments of YBS in its subsidiaries within the Solo-consolidated Group to be eliminated when calculating capital requirements and the reserves of such subsidiaries to be aggregated with the parent when calculating capital resources.

The Group entities included under Solo-consolidation in 2017 were:

- Yorkshire Building Society
- Accord Mortgages Limited
- Norwich & Peterborough (LBS) Limited

Further details of the Group's principal subsidiary undertakings are included in Note 10 to the Annual Report and Accounts.

1.4 Location and Verification

These disclosures have been reviewed by the Group's Audit Committee on behalf of the Group's Board and are published on the Group's corporate website (www.ybs.co.uk) at the same time as the Group's Annual Report and Accounts. The disclosures are not subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the Group's Annual Report and Accounts.

1.5 Regulatory Developments

Following the introduction of CRD IV in 2014, there have been a number of regulatory changes as CRD IV becomes fully implemented. The following changes have had an impact on the Group in 2017:

- The PRA released a policy statement '*UK leverage ratio: treatment of claims on central banks*' (PS21/17) in October 2017 increasing the minimum leverage ratio to 3.25% and allowing the exclusion from the calculation of the leverage exposure those assets constituting claims on central banks, where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity. The leverage ratio remains in force for the UK's largest institutions; with the policy statement applying to PRA regulated banks and building societies with retail deposits equal to or greater than £50bn; as such, the Group is currently not within the scope of this policy statement. The Bank of England's Financial Policy Committee (FPC) will be reviewing the leverage ratio framework in 2018.
- The Basel Committee on Banking Supervision (BCBS) released *'Basel III: Finalising post-crisis reforms to the Basel III framework'* in December 2017, with these revised standards taking effect from January 2022, and phased in over five years. The reforms include the following elements; revisions to the standardised and internal ratings based approach for credit risk, revisions to the credit valuation adjustment (CVA) framework, a revised standardised approach for operational risk, revisions to the leverage ratio and leverage buffer and an aggregate output floor to ensure banks' risk weighted assets (RWAs) calculated by internal models are not lower than 72.5% of RWAs calculated on the standardised approach.

- In December 2017, the PRA released a policy statement on *'Pillar 2A capital requirements and disclosure'* (PS30/17), updating the existing capital terminology with the term Total Capital Requirement (TCR), this being equal to the sum of Pillar 1 and Pillar 2A capital requirements. The policy highlighted that firms should disclose their TCR or, where a Pillar 2A capital requirement has not yet been set, total Pillar 1 and Pillar 2A guidance.
- The Group is required to hold a Countercyclical Buffer; although this is currently 0%. The FPC announced in its June 2017 Financial Stability Report that this will be increasing to 0.5% in June 2018 and in its November 2017 Financial Stability Report that this will be further increasing to 1% in November 2018.

1.6 Recent Developments

The Group successfully issued a £300m Tier 2 capital instrument in September 2017, which increased Tier 2 capital resources to £613.7m as at 31 December 2017. This contributed to the total capital ratio increasing by over 200bps.

Final Minimum Requirement for Eligible Liabilities (MREL) rules have been agreed by the PRA. The Group will have a transitional requirement of 18% of Risk Weighted Assets (RWAs) from 1 January 2020 plus applicable buffers. End-state requirements will apply from 1 January 2022, when the Group will be subject to holding the higher of: twice the Pillar 1 + Pillar 2A capital requirement or twice the minimum leverage requirement, plus applicable buffers. The Group's plans incorporate compliance with MREL, this includes external capital issuance. The Group is following developments on the legislation required (by the end on 2018) to allow senior non-preferred to be issued. Further details of the Group's progress towards meeting MREL requirements can be found in section 3.3.4.

The Group anticipates receiving IRB permission from the PRA, by the time the end-state MREL rules are implemented, at which point the MREL leverage requirement is expected to be the Group's binding constraint.

The Group exercised its option to repay the 11⅜% Notes (Tier 2 subordinated liabilities) early in November 2017. Further details of the Group's capital instruments can be found in Appendix 3 of this document and Note 29 to the Annual Report and Accounts.

Securitisation positions (including resecuritisations) that are unrated or have low external ratings can be risk weighted at 1,250% or deducted from CET1 capital under CRD IV. The policy used by the Group is to deduct this from CET1 capital. Due to the remaining balance being repaid during the year, there is no longer an exposure requiring this treatment and therefore no CET1 deductions.

In January 2018 (following a Periodic Summary Meeting), the PRA confirmed the Group's revised Pillar 2A requirement as 0.63% of RWAs compared to 2.3% of RWA as at 31 December 2017.

2 Risk Management

2.1 Risk Management

The activities of financial institutions inevitably involves a degree of risk taking, so the Group's ability to properly identify, measure, monitor and report risk is critical to its soundness and its ability to provide value and fair outcomes to its membership and customers. The Group's risk management framework and governance structures are intended to provide appropriate and comprehensive monitoring, control and ongoing management of the major risks to which the Group is exposed. These are fully set out in the Strategic Report and the Risk Management Report in the Annual Report and Accounts.

3 Capital Management

3.1 Capital Management Overview

The Group's management of its capital is based on a number of key principles:

- The Group will at all times ensure it holds sufficient capital, of the right quality and stability, to ensure financial sustainability and the security of members' deposits, to support its strategic objectives, to retain the confidence of key external stakeholders and to fulfil its regulatory requirements to maintain a buffer to protect against unexpected losses.
- The Group will seek to utilise its capital resources in an appropriate manner to ensure that the risk / reward balance is optimised and that the Group obtains a suitable return where capital is utilised. This includes seeking to align its regulatory capital needs with its risk capital needs by means of pursuing an application for the IRB approach to calculation of its capital requirements.
- The Group will, as far as possible, seek to ensure an appropriate and efficient mix of capital is available commensurate with its risk profile and strategic ambitions.

The Group considers both risk based capital requirements and non-risk based leverage requirements when determining the Group's capital strategy and has adopted a range of performance metrics over and above the regulatory minimum as the Group's risk appetite.

Summarised regulatory capital positions and forecasts (including forecasts under stress scenarios) are reported to the Board and to the Executive Risk Committee (ERC). Specific capital management reports are presented to the appropriate executive risk and management committees.

Regulatory capital covers the following risks across the Capital Group:

- Pillar 1 risks (i.e. credit risk, counterparty credit risk and operational risk). The minimum capital requirement is calculated using regulatory-prescribed risk weightings. The Group has adopted the standardised approach to both credit and operational risk in order to calculate the Pillar 1 minimum capital requirement.
- Pillar 2A risks (i.e. all other material risks for which the Group does not require the provision of regulatory capital under Pillar 1). Each material risk that the Group has identified outside the scope of Pillar 1 (e.g. pension obligation risk, interest rate risk, concentration risk) has undergone considered and vigorous stress testing to calculate an economic value for each of the material risks across the Group where capital is an appropriate mitigant, and are documented in the Internal Capital Adequacy Assessment Process (ICAAP) document (see section 3.4.3 below). The Group is disclosing its total Pillar 1 and Pillar 2A guidance capital requirements (see section 3.3.2 below).
- Capital Conservation Buffer. The Group calculates a Capital Conservation Buffer (CCB), which is a level of buffer capital held as a percentage of RWAs as specified in CRD IV, totalling 1.25% throughout 2017; this was set at 0.625% from 1 January 2016 and will continue to increase annually in increments of 0.625% until it reaches 2.5% on 1 January 2019.
- PRA Buffer. The Group may need to hold an additional capital requirement (in addition to the Pillar 1 and Pillar 2A amounts above) representing the amount by which the Group's capital surplus would reduce in a "severe but plausible" stress scenario over the Group's planning horizon. This additional requirement is known as the PRA buffer and does not form part of the overall regulatory minimum capital requirement. The result of this stress testing is

compared to the CCB and an additional PRA Buffer held where the CCB is not considered sufficient to cover the risks in the scenario.

- Countercyclical Buffer (CCyB). The Group is required to hold a Countercyclical Buffer; although this is currently 0%. This buffer is to ensure financial institutions hold more capital in favourable economic conditions so it can be utilised in economic downturns.

3.2 Capital Resources

3.2.1 Total Available Capital

As at 31 December 2017 and throughout the year, the Group complied with the capital requirements that were in force as set out by European and national legislation. The following table shows the breakdown of the total available capital for the Capital Group and Solo-consolidated Group as at 31 December 2017.

Table 1 - Capital Resources £m	Group 2017	Group 2016	Solo 2017	Solo 2016
Common Equity Tier 1 (CET1)				
General reserve	2,377.2	2,215.4	2,361.5	2,210.6
AFS reserve	10.8	8.2	10.8	8.2
Deductions from CET1				
Prudent Valuation Adjustment	(1.6)	(1.5)	(1.3)	(1.2)
Pension Scheme Adjustment	(71.4)	(31.5)	(71.4)	(31.5)
Intangible fixed assets	(31.3)	(32.9)	(31.3)	(32.9)
Securitisation holdings deducted from capital resources	-	(36.1)	-	(36.1)
Deferred tax assets that rely on future profitability	-	(2.3)	-	(2.3)
Total CET1	**2,283.7**	**2,119.3**	**2,268.3**	**2,114.8**
Additional Tier 1 Capital				
Permanent Interest Bearing Shares (PIBS)	3.2	4.0	3.2	4.0
Total Tier 1 capital	**2,286.9**	**2,123.3**	**2,271.5**	**2,118.8**
Tier 2 Capital				
Subordinated liabilities	589.2	291.5	589.2	291.5
Collective provisions for impairment	24.5	34.4	24.5	34.4
Total Tier 2 capital	**613.7**	**325.9**	**613.7**	**325.9**
Total capital available	**2,900.6**	**2,449.2**	**2,885.2**	**2,444.7**

3.2.2 Tier 1 Capital

3.2.2.1 Common Equity Tier 1 Capital

CET1 capital resources comprises the general reserve, Available for Sale (AFS) reserve and adjustments for items reflected in the general reserve which are treated separately for capital adequacy purposes. The following items are fully deducted under CRD IV:

- A Prudent Valuation Adjustment (PVA) is applied to fair-valued positions and is deducted from CET1 capital as per CRD IV. As at 31 December 2017, the net impact of the PVA was a reduction in CET1 capital of £1.6m.
- Defined benefit pension fund assets are deducted from CET1 capital resources, net of any associated deferred tax liabilities. As at 31 December 2017, the net impact of the adjustment was a reduction in CET1 capital of £71.4m.
- An adjustment is also made in respect of intangible fixed assets. For accounting purposes, items including software development costs, other intangibles resulting from business combinations and goodwill are capitalised as intangible fixed assets where they meet certain criteria. Intangibles are deducted from capital under the regulatory rules and as at 31 December 2017, the deduction amounted to £31.3m.
- Under CRD IV, deferred tax assets that rely on future profitability are deducted from CET1 capital. As at 31 December 2017, the net impact of the deferred tax adjustment was £0.0m.

3.2.2.2 Additional Tier 1 Capital

Additional Tier 1 Capital comprises of Permanent Interest Bearing Shares (PIBS). PIBS are unsecured deferred shares and rank behind the claims of subordinated noteholders, depositors, creditors and investing members of the Group. Further details about PIBS are provided in Note 30 to the Annual Report and Accounts and full terms and conditions of the Group's PIBS can be found on the Group's website:

http://www.ybs.co.uk/your-society/treasury/wholesale_funding/subordinated-debt-info.html

Under CRD IV these instruments are being phased out over a ten year period. Currently 50% of the PIBS balance sheet carrying value qualifies as Tier 1 capital.

3.2.3 Tier 2 Capital

Tier 2 Capital comprises the Group's qualifying subordinated liabilities and the collective provisions for impairments.

Subordinated notes are unsecured and rank behind the claims of all depositors, creditors and investing members (other than holders of PIBS) of the Group. For regulatory capital purposes, the value of any subordinated liabilities is amortised in the last five years to maturity. More details of the subordinated liabilities are included in Note 29 to the Annual Report and Accounts and the full terms and conditions of the Group's subordinated liabilities can be found on the Group's website:

http://www.ybs.co.uk/your-society/treasury/wholesale_funding/subordinated-debt-info.html

To the extent that collective provisions for impairment have been recognised in the income and expenditure account, they may be added back to Tier 2 capital.

3.2.4 Reconciliation of Regulatory Capital to Balance Sheet Capital

The table below shows how the balance sheet capital values in the Annual Report and Accounts reconcile to the regulatory capital equivalent for the Group at 31 December 2017.

Table 2 Reconciliation of Accounting Capital to Regulatory Capital £m	Accounting Balance Sheet Capital Value	Adjustments to Balance Sheet Capital Value	Regulatory Capital Value	Ref
CET1				
Total equity attributable to members	2,389.9			1
Less reserves not included in regulatory capital:				
Hedging reserve		3.6		2
Non-consolidated subsidiary		(5.5)		6
Total adjustments to Common Equity Tier 1 resources		**(1.9)**		
CET1	**2,389.9**	**(1.9)**	**2,388.0**	
Regulatory deductions from CET1				
Prudent Valuation Adjustment		(1.6)		3
Pension Scheme Adjustment		(71.4)		3
Intangible fixed assets		(31.3)		3
Securitisation holdings deducted from capital resources		-		3
Deferred tax assets that rely on future profitability		-		3
Total regulatory deductions from Common Equity Tier 1 capital		**(104.3)**		
Total CET1	**2,389.9**	**(106.2)**	**2,283.7**	
Additional Tier 1 capital				
Subscribed capital (Permanent Interest Bearing Shares)	6.4			1
Adjustment to phase out subscribed capital		(3.2)		
Total Additional Tier 1 capital			3.2	5
Total Tier 1 capital after deductions	**2,396.3**	**(109.4)**	**2,286.9**	
Tier 2 capital				
Subordinated Liabilities	593.7	(4.5)	589.2	1
Collective provisions for impairments		24.5	24.5	4
Tier 2 capital after deductions	**593.7**	**20.0**	**613.7**	
Total capital resources after deductions	**2,990.0**	**(89.4)**	**2,900.6**	

[1] Statement of Financial Position, Annual Report and Accounts

[2] Statement of Changes in Members' Interest, Annual Report and Accounts

[3] Pillar 3 Disclosures, Table 1

[4] Note 9 (Impairment) Annual Report and Accounts

[5] As per 3.2.2.2 above only 50% of PIBS balance sheet carrying value qualifies as Tier 1 capital

[6] See section 1.3 for further details

3.2.5 Capital Flow Statement

The table below shows the flow of Group regulatory capital and associated deductions in 2017.

Table 3 - Regulatory Capital Flow Statement £m	2017	Ref
Total CET1 Capital		
1 January 2017	2,119.3	
Total comprehensive income in 2017	168.9	1
Profits allocated to hedging reserve	(4.5)	2
Increase of Prudent Valuation Adjustment	(0.1)	
Increase in pension scheme adjustment	(39.9)	
Decrease in intangible fixed assets	1.6	
Decrease in securitisation holdings deducted from capital resources	36.1	
Decrease in deferred tax adjustment	2.3	
Total CET1 Capital as at 31 December 2017	**2,283.7**	
Additional Tier 1 capital		
1 January 2017	4.0	
Movement in market valuation of PIBS and eligible percentage	(0.8)	
Additional Tier 1 capital as at 31 December 2017	**3.2**	
Total Tier 1 capital as at 31 December 2017	**2,286.9**	
Tier 2 Capital		
1 January 2017	325.9	
Issuance of Tier 2 Capital	300.0	
Maturity of Tier 2 Capital	(3.0)	
Movement in fair value adjustments to subordinated liabilities	1.0	
Decrease in collective provisions for impairment	(9.9)	
Movement on maturity write down of Tier 2 capital	(0.3)	
Tier 2 capital before deductions as at 31 December 2017	**613.7**	
Total capital available as at 31 December 2017	**2,900.6**	

[1] Statement of Comprehensive Income, Annual Report and Accounts

[2] Statement of Changes in Member's Interest, Annual Report and Accounts

3.2.6 Leverage Ratio

This is a non-risk based requirement that measures the relationship between capital resources and an adjusted measure of total on and off-balance sheet assets. The PRA released a policy statement *'UK leverage ratio: treatment of claims on central banks'* (PS21/17) in October 2017 increasing the minimum leverage ratio to 3.25% and allowing the exclusion from the calculation of the leverage exposure those assets constituting claims on central banks, where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity. The leverage ratio remains in force for the UK's largest institutions; with the policy statement applying to PRA regulated banks and building societies with retail deposits equal to or greater than £50bn. The FPC will be reviewing the leverage ratio framework in 2018.

The ratio is calculated as:

$$\frac{\text{Tier 1 Capital}}{\text{Total on and off-balance sheet assets (adjusted for deductions)}}$$

The table below shows the leverage ratio calculation with balance sheet assets excluding assets constituting as claims on central banks.

Table 4 - Leverage Ratio calculation with balance sheet assets excluding assets constituting as claims on central Banks.

£m	Group 2017	Group 2016
Balance Sheet Assets	**37,210.9**	**36,076.8**
Adjustments		
Mortgage pipeline	678.0	589.7
Other committed facilities	19.9	24.5
Repurchase agreements	2,640.8	1,632.6
Netted derivatives adjustment	(151.3)	(121.2)
Tier 1 deductions	(104.3)	(104.3)
Leverage Ratio Assets	**40,294.0**	**38,098.1**
Tier 1 Capital Resources	**2,286.9**	**2,123.3**
Leverage Ratio %	**5.7%**	**5.6%**

The table below shows the leverage ratio calculation as per the CRR.

Table 5 - Leverage Ratio as per the CRR

£m	Group 2017	Group 2016
Leverage Ratio %	**5.1%**	**5.1%**

3.3 Capital Requirements

3.3.1 Minimum Capital Requirement (Pillar 1)

The following tables show the credit and operational risk exposure, average risk weight and RWAs for each of the Group's exposure classes and the resultant Pillar 1 minimum capital requirements (being 8% of RWAs).

- The exposure is based on the definitions for regulatory capital purposes, before impairment provision and credit risk mitigation such as collateral held and government guarantees.
- After the impairment provision and credit risk mitigation adjustment, the retail (current accounts and personal loans) capital exposure is reduced to nil, therefore showing an average RW of 0%.
- Credit Valuation Adjustment (CVA) RWAs are included in the Financial Institutions line, increasing the average risk weight.
- Capital requirements and RWAs for operational risk are shown; however, as they do not relate to asset exposures they do not have an exposure value.

Table 6 - Pillar 1 Capital Requirement - Group 2017 - £m	Exposure	RWAs	Capital Requirements	Average RW %
Loans secured by mortgages on immovable property				
Loans to individuals	35,226.1	12,490.1	999.2	35.5
Commercial lending (including SME)	517.9	426.9	34.2	82.7
Past due (3 months or more)	158.6	150.6	12.0	100.8
Immovable property total	**35,902.6**	**13,067.6**	**1,045.4**	**36.4**
Wholesale exposure classes				
Securitisation positions	3.9	8.7	0.7	225.0
Central governments or central banks	13,918.2	-	-	0.0
Financial institutions	2,486.3	432.8	34.6	62.6
Multilateral Development Banks	38.9	-	-	0.0
Short term claims on financial institutions and corporates	245.1	49.0	3.9	20.0
Wholesale total	**16,692.4**	**490.5**	**39.2**	**5.3**
Retail				
Current accounts	1.0	-	-	n/a
Personal loans	1.0	-	-	n/a
Retail total	**2.0**	**-**	**-**	**n/a**
Operational risk	**n/a**	703.1	56.2	n/a
Other assets	302.5	188.2	15.2	62.2
Total	**52,899.5**	**14,449.4**	**1,156.0**	**31.9**

Table 6 - Pillar 1 Capital Requirement - Group 2016 - £m	Exposure	RWAs	Capital Requirements	Average RW %
Loans secured by mortgages on immovable property				
Loans to individuals	34,073.2	12,018.1	961.5	35.3
Commercial lending (including SME)	480.8	396.1	31.7	82.8
Past due (3 months or more)	226.9	216.7	17.3	101.1
Immovable property total	**34,780.9**	**12,630.9**	**1,010.5**	**36.4**
Wholesale exposure classes				
Securitisation positions	43.7	17.1	1.4	39.2
Central governments or central banks	11,911.6	-	-	0.0
Financial institutions	906.6	493.3	39.4	97.1
Multilateral Development Banks	-	-	-	0.0
Short term claims on financial institutions and corporates	294.0	58.8	4.7	20.0
Wholesale total	**13,155.9**	**569.2**	**45.5**	**8.7**
Retail				
Current accounts	1.5	-	-	n/a
Personal loans	1.5	-	-	n/a
Retail total	**3.0**	-	-	**n/a**
Operational risk	n/a	757.2	60.6	n/a
Other assets	277.4	222.4	17.8	80.1
Total	**48,217.2**	**14,179.7**	**1,134.4**	**34.1**

Table 6 - Pillar 1 Capital Requirement - Solo 2017 - £m	Exposure	RWAs	Capital Requirements	Average RW %
Loans secured by mortgages on immovable property				
Loans to individuals	35,226.1	12,490.1	999.2	35.5
Commercial lending (including SME)	517.9	426.9	34.2	82.7
Past due (3 months or more)	158.6	150.6	12.0	100.8
Immovable property total	**35,902.6**	**13,067.6**	**1,045.4**	**36.4**
Wholesale exposure classes				
Securitisation positions	3.9	8.7	0.7	225.0
Central governments or central banks	13,918.2	-	-	0.0
Financial institutions	2,486.3	432.8	34.6	62.6
Multilateral Development Banks	38.9	-	-	0.0
Short term claims on financial institutions and corporates	244.9	49.0	3.9	20.0
Wholesale total	**16,692.2**	**490.5**	**39.2**	**5.3**
Retail				
Current accounts	1.0	-	-	n/a
Personal loans	1.0	-	-	n/a
Retail total	**2.0**	**-**	**-**	**n/a**
Operational risk	**n/a**	710.9	56.9	n/a
Other assets	2,937.8	220.8	17.7	7.5
Total	**55,534.6**	**14,489.8**	**1,159.2**	**30.2**

Table 6 - Pillar 1 Capital Requirement - Solo 2016 - £m	Exposure	RWAs	Capital Requirements	Average RW %
Loans secured by mortgages on immovable property				
Loans to individuals	34,073.2	12,018.1	961.5	35.3
Commercial lending (including SME)	480.8	396.1	31.7	82.8
Past due (3 months or more)	226.9	216.7	17.3	101.1
Immovable property total	**34,780.9**	**12,630.9**	**1,010.5**	**36.4**
Wholesale exposure classes				
Securitisation positions	43.7	17.1	1.4	39.2
Central governments or central banks	11,911.6	-	-	0.0
Financial institutions	906.6	493.3	39.4	97.1
Multilateral Development Banks	-	-	-	0.0
Short term claims on financial institutions and corporates	293.6	58.7	4.7	20.0
Wholesale total	**13,155.5**	**569.1**	**45.5**	**8.7**
Retail				
Current accounts	1.5	-	-	n/a
Personal loans	1.5	-	-	n/a
Retail total	**3.0**	**-**	**-**	**n/a**
Operational risk	n/a	762.7	61.0	n/a
Other assets	2,391.9	219.1	17.5	9.2
Total	**50,331.3**	**14,181.8**	**1,134.5**	**32.5**

3.3.2 Pillar 1 + Pillar 2A guidance

The Group's Pillar 1 + Pillar 2A guidance as at 31 December 2017 is £1,483.0m which is equivalent to 10.3% of RWAs.

The table below details the Group's Pillar 1 and Pillar 2A guidance requirements.

Table 7 - Pillar 1 + Pillar 2A guidance requirement	2017		2016	
£m / %	£m	% of RWAs	£m	% of RWAs
Pillar 1 capital requirement	1,156.0	8.0%	1,134.4	8.0%
Pillar 2A guidance	327.0	2.3%	323.2	2.3%
Total Capital Requirement (TCR)	1,483.0	10.3%	1,457.6	10.3%

In January 2018 (following a Periodic Summary Meeting), the PRA confirmed the Group's revised Pillar 2A requirement as 0.63% of RWAs compared to 2.3% of RWA as at 31 December 2017.

3.3.3 RWA Flow Statement

The table below shows the causes of movements in RWAs in the year at the Group level. In the table below, operational risk has been included to fully illustrate overall RWA movements. Changes in operational risk requirements reflect income growth within the regulatory prescribed income streams.

Table 8 - RWA Flow Statement £m	2016 RWAs	Portfolio Quality	Portfolio Growth	Income Growth	2017 RWAs
Loans secured on immovable property	12,630.9	30.5	406.2	-	13,067.6
Wholesale credit risk	569.2	(81.6)	2.9	-	490.5
Retail credit risk	-	-	-	-	-
Other credit risk	222.4	-	(34.2)	-	188.2
Operational risk	757.2	-	-	(54.1)	703.1
Total risk weighted assets	**14,179.7**	**(51.1)**	**374.9**	**(54.1)**	**14,449.4**

3.3.4 MREL

The table below shows the Group's progress in meeting MREL requirements on both a transitional and end-state basis prior to the addition of applicable buffers. The Group is making good progress towards meeting its MREL requirements, with the Group's Capital plan including increasing CET1 resources through retained profits, issuance of both Tier 2 and Tier 3 resources and the impact of receiving IRB permissions.

Table 9 - The Group's progress to meeting MREL requirements (£m)	2017	2016
Transitional Requirements[1]	2,600.9	2,552.3
End-state Capital Requirements[2]	2,966.0	2,915.2
End-state Leverage Requirements[3]	2,619.1	2,476.4
Total Capital Resources	2,900.6	2,449.2

[1] The transitional requirement provided is equal to 18% of RWAs.

[2] The End-state capital requirement provided is equal to Pillar 1 plus Pillar 2A doubled.

[3] The End-state leverage requirement provided is equal to the minimum leverage requirement (calculated as per PS21/17) doubled.

3.3.5 IFRS9

The impact of IFRS9 on the Group's capital position will largely impact two items.

- CET1 capital resources - if IFRS9 provisions at any stage are higher or lower than they would have been under IAS39, and
- The collective provision for impairment included within Tier 2 capital resources.

Further details of the impact of IFRS9 can be found in the Group's Annual Report and Accounts, included in Note 1.

3.4 Capital Adequacy

3.4.1 Capital Adequacy Overview

The table below summarises the Group's capital adequacy position, using key figures from Tables 1, 4 and 5.

Table 10 - Capital Adequacy £m / %	Group 2017	Group 2016	Solo 2017	Solo 2016
Capital Excess				
Total pillar 1 capital requirement	1,156.0	1,134.4	1,159.2	1,134.5
Total capital resources	2,900.6	2,449.2	2,885.2	2,444.7
Excess of own funds over minimum pillar 1 requirement	**1,744.6**	**1,314.8**	**1,726.0**	**1,310.2**
Total risk weighted assets	14,449.4	14,179.7	14,489.8	14,181.8
Common Equity Tier 1 capital resources	2,283.7	2,119.3	2,268.3	2,114.8
Tier 1 capital resources	2,286.9	2,123.3	2,271.5	2,118.8
Total capital resources	2,900.6	2,449.2	2,885.2	2,444.7
Common Equity Tier 1 capital ratio	**15.8%**	**14.9%**	**15.7%**	**14.9%**
Tier 1 capital ratio	**15.8%**	**15.0%**	**15.7%**	**14.9%**
Total capital ratio	**20.1%**	**17.3%**	**19.9%**	**17.2%**

Sections 4 and 5 provide further detail on the significant risks captured under Pillar 1, i.e. credit risk and operational risk, including the nature of the exposures and the key risk management techniques. A summary of other significant risks captured under Pillar 2 is contained in section 6.

Given the total minimum capital requirements are not materially different on a Group or Solo consolidated basis, the disclosures in the remainder of this document are on a Group basis.

3.4.2 Impact of CRD IV

As noted in section 1.1, the Basel III regulations have been adopted into European law in the form of a Regulation and Directive commonly known as CRD IV, in force from 1 January 2014.

This section is intended to assist in understanding how the regulations will affect the Group's capital position. The table below shows the capital position under the current CRD IV rules as they stand under PRA national implementation, and on a final rules basis (applying the final CRD IV rules without transitional elements, as the rules will stand in 2022). All figures are as at 31 December 2017.

Table 11 - CRD IV Capital Position £m	Transitional	Final Rules
Common Equity Tier 1 (CET1)		
General reserve	2,377.2	2,377.2
Regulatory adjustments:		
Available for sale reserve	10.8	10.8
Pension scheme adjustment	(71.4)	(71.4)
CET1 deductions:		
Prudent Valuation Adjustment	(1.6)	(1.6)
Intangible fixed assets	(31.3)	(31.3)
Securitisation holdings deducted from capital resources	-	-
Deferred tax assets that rely on future profitability	-	-
Total CET1 capital	**2,283.7**	**2,283.7**
Additional Tier 1 (AT1) Capital		
Permanent Interest Bearing Shares (PIBS)	3.2	-
Total Tier 1 capital	**2,286.9**	**2,283.7**
Tier 2 (T2) Capital		
Subordinated liabilities	589.2	589.2
Collective provisions for impairment	24.5	24.5
Total Tier 2 capital	**613.7**	**613.7**
Total capital	**2,900.6**	**2,897.4**
Current RWAs	14,449.4	14,449.4
Total RWAs under CRD IV	**14,449.4**	**14,449.4**
CET1 Ratio	**15.8%**	**15.8%**
Tier 1 Ratio	**15.8%**	**15.8%**
Total Capital Ratio	**20.1%**	**20.1%**
Leverage Ratio excluding assets constituting as claims on central banks	**5.7%**	**5.7%**
Leverage Ratio	**5.1%**	**5.1%**

3.4.3 Internal Capital Adequacy Assessment Process

The Group undertakes the ICAAP at least annually which is an internal assessment of its capital requirement. In performing the ICAAP, the Group considers the key risks, to which it is exposed, and the levels of capital and other financial resources that should be held to safeguard the interests of its members and depositors, particularly during times of stress.

This process includes:

- Identification by senior managers of the relevant risk categories for the Group.
- Establishment, under the sponsorship of senior management, of separate work streams to consider each risk category in detail.
- Analysis of the risks within each work stream, involving relevant personnel from across the business, with this being documented in individual risk assessment documents.
- Consideration of whether capital is an appropriate mitigant to the risk. Where this is deemed to be the case, capital requirements are calculated based on the results of stress testing for each risk category. Where capital is not deemed appropriate to mitigate a particular risk, alternative management actions are identified and described within the risk assessment. For certain risks where capital is not an appropriate mitigant, the holding of liquidity can be used to mitigate the risk. In these cases, the risk is considered in more depth as part of the Individual Liquidity Adequacy Assessment Process (ILAAP).
- Calculation of an appropriate PRA Buffer to absorb a “severe but plausible” economic stress event over the Group’s planning horizon, should such a scenario materialise, thereby ensuring minimum capital requirements are maintained.
- Approval of individual risk assessment documents by the relevant sponsor and committee.
- Documentation of the overall process and assessment, which is presented to Executive Risk Committee (ERC) before being presented to Group Risk Committee (GRC) and the Board (with whom ultimate responsibility lies) for challenge and approval.

Further information on the material risks identified as part of the ICAAP can be found in sections 4, 5 and 6 of this document.

4 Significant Risk Categories - Credit Risk

4.1 Credit Risk Overview

Credit risk is the potential risk of financial loss arising from the failure of a customer or other counterparty to settle their financial and contractual obligations as they fall due.

For the purposes of Pillar 3 disclosures, credit risk is sub-divided into loans secured by mortgages on immovable property, wholesale (treasury) and retail (current accounts & personal loans). Details of the Group's risk management and governance practices can be found in the Risk Management Report in the Annual Report and Accounts, with further details of exposures included in Notes 38 and 39.

4.2 Credit Risk Exposures

The gross credit risk exposure (based on the definitions for regulatory capital purposes, before impairment provision and credit risk mitigation such as collateral held and government guarantees) and the average for the year is summarised as follows:

Table 12 - Credit Risk Exposure £m	Average during 2017	Dec 2017	Average during 2016	Dec 2016
Loans secured by mortgages on immovable property				
Loans to individuals	34,729.0	35,382.9	34,029.5	34,296.8
Commercial lending (including SME)	504.0	519.7	467.1	484.1
Total loans secured on immovable property exposure	**35,233.0**	**35,902.6**	**34,496.6**	**34,780.9**
Wholesale				
Securitisation positions	14.3	3.9	40.2	43.7
Central governments or central banks	12,539.2	13,918.2	12,772.0	11,911.6
Financial institutions	1,521.9	2,486.3	927.5	906.6
Multilateral Development Banks	16.1	38.9	-	-
Short term claims on institutions and corporates	247.9	245.1	313.3	294.0
Total wholesale exposure	**14,339.4**	**16,692.4**	**14,053.0**	**13,155.9**
Retail				
Current accounts	1.2	1.0	1.7	1.5
Personal loans	1.2	1.0	1.8	1.5
Total retail exposure	**2.4**	**2.0**	**3.5**	**3.0**
Other assets exposure	251.8	302.5	336.6	277.4
Total credit risk exposure	**49,826.6**	**52,899.5**	**48,889.7**	**48,217.2**

The section below gives a detailed breakdown of the material risk categories. A further geographical analysis of loans secured by mortgages on immovable property is disclosed in Note 39 to the Annual Report and Accounts.

The geographical distribution of the Group's exposures is as follows.

Table 13- Credit Risk Exposure - Geographic Distribution 2017 £m	UK	Other European Countries	North America	Rest of the World	Total
Loans secured by mortgages on immovable property					
Loans to individuals	35,347.5	35.4	-	-	**35,382.9**
Commercial lending (including SME)	519.7	-	-	-	**519.7**
Total loans secured on immovable property	**35,867.2**	**35.4**	**-**	**-**	**35,902.6**
Wholesale					
Securitisation positions	-	3.9	-	-	**3.9**
Central governments or central banks	13,918.2	-	-	-	**13,918.2**
Financial institutions	829.2	647.1	764.0	246.0	**2,486.3**
Multilateral Development Banks	-	38.9	-	-	**38.9**
Short-term claims on institutions and corporates	138.7	0.2	106.2	-	**245.1**
Total wholesale credit exposure	**14,886.1**	**690.1**	**870.2**	**246.0**	**16,692.4**
Total credit risk exposure (excl. retail and other assets)	**50,753.3**	**725.5**	**870.2**	**246.0**	**52,595.0**

Table 13 - Credit Risk Exposure - Geographic Distribution 2016 £m	UK	Other European Countries	North America	Rest of the World	Total
Loans secured by mortgages on immovable property					
Loans to individuals	34,253.6	43.2	-	-	**34,296.8**
Commercial lending (including SME)	484.1	-	-	-	**484.1**
Total loans secured on immovable property	**34,737.7**	**43.2**	**-**	**-**	**34,780.9**
Wholesale					
Securitisation positions	-	19.4	-	24.3	**43.7**
Central governments or central banks	11,911.6	-	-	-	**11,911.6**
Financial institutions	561.0	300.0	39.5	6.1	**906.6**
Multilateral Development Banks	-	-	-	-	**-**
Short-term claims on institutions and corporates	184.2	0.1	109.7	-	**294.0**
Total wholesale credit exposure	**12,656.8**	**319.5**	**149.2**	**30.4**	**13,155.9**
Total credit risk exposure (excl. retail and other assets)	**47,394.5**	**362.7**	**149.2**	**30.4**	**47,936.8**

The residual maturity of the exposures is as follows.

Table 14 - Credit Risk Exposure - Residual Maturity 2017 £m	Up to 12 months	1 to 5 years	5 to 10 years	> than 10 years	Total
Loans secured by mortgages on immovable property					
Loans to individuals	319.8	937.0	2,962.6	31,163.5	35,382.9
Commercial lending (including SME)	16.6	14.9	62.8	425.4	519.7
Total loans secured on immovable property	**336.4**	**951.9**	**3,025.4**	**31,588.9**	**35,902.6**
Wholesale					
Securitisation positions	-	-	-	3.9	3.9
Central governments or central banks	4,883.8	-	724.3	8,310.1	13,918.2
Financial institutions	250.3	264.7	704.8	1,266.5	2,486.3
Multilateral Development Banks	-	-	38.9	-	38.9
Short-term claims on institutions and corporates	245.1	-	-	-	245.1
Total wholesale exposure	**5,379.2**	**264.7**	**1,468.0**	**9,580.5**	**16,692.4**
Total credit risk exposure (excl. retail and other assets)	**5,715.6**	**1,216.6**	**4,493.4**	**41,169.4**	**52,595.0**

Table 14 - Credit Risk Exposure - Residual Maturity 2016 £m	Up to 12 months	1 to 5 years	5 to 10 years	> than 10 years	Total
Loans secured by mortgages on immovable property					
Loans to individuals	477.8	912.0	2,795.1	30,111.9	34,296.8
Commercial lending (including SME)	26.7	16.2	59.8	381.4	484.1
Total loans secured on immovable property	**504.5**	**928.2**	**2,854.9**	**30,493.3**	**34,780.9**
Wholesale					
Securitisation positions	36.1	-	-	7.6	43.7
Central governments or central banks	3,513.2	157.5	403.0	7,837.9	11,911.6
Financial institutions	1.3	154.1	652.4	98.8	906.6
Multilateral Development Banks	-	-	-	-	-
Short-term claims on institutions and corporates	294.0	-	-	-	294.0
Total wholesale exposure	**3,844.6**	**311.6**	**1,055.4**	**7,944.3**	**13,155.9**
Total credit risk exposure (excl. retail and other assets)	**4,349.1**	**1,239.8**	**3,910.3**	**38,437.6**	**47,936.8**

The maturity of exposures is shown on a contractual basis, and it does not take into account any instalments receivable over the life of the exposure.

The risk weighted distribution of exposures on a Group and Solo basis is shown in Table 15 below.

Table 15 - Credit Risk Exposure - Group - £m - 2017

	Risk Weight											
Exposure Class	**0%**	**2%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Deducted**	**Total**	**Of which unrated**
Central governments or central banks	13,918.2	-	-	-	-	-	-	-	-	-	**13,918.2**	-
Multilateral development banks	38.9	-	-	-	-	-	-	-	-	-	**38.9**	-
Institutions	80.2	234.8	1,208.7	-	959.2	-	3.4	-	-	-	**2,486.3**	-
Retail	-	-	-	-	-	2.0	-	-	-	-	**2.0**	-
Secured by mortgages on immovable property	-	-	-	34,824.2	-	343.3	576.5	-	-	-	**35,744.0**	-
Exposures in default	-	-		-	-	-	155.8	2.8	-	-	**158.6**	-
Institutions and corporates with a short-term credit assessment	-	-	245.1	-	-	-		-	-	-	**245.1**	-
Other items*	127.4	-	-	-	-	-	166.4	-	12.6	-	**306.4**	-
Total	**14,164.7**	**234.8**	**1,453.8**	**34,824.2**	**959.2**	**345.3**	**902.1**	**2.8**	**12.6**	**-**	**52,899.5**	**-**

*Other items include securitisation positions and other asset exposure.

Table 15 - Credit Risk Exposure - Group - £m - 2016

	Risk Weight											
Exposure Class	**0%**	**2%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Deducted**	**Total**	**Of which unrated**
Central governments or central banks	11,911.6	-	-	-	-	-	-	-	-	-	**11,911.6**	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	**-**	-
Institutions	-	92.3	285.4	-	525.5	-	3.4	-	-	-	**906.6**	3.4
Retail	-	-	-	-	-	3.0		-	-	-	**3.0**	-
Secured by mortgages on immovable property	-	-	-	33,809.0	-	248.2	496.8	-	-	-	**34,554.0**	-
Exposures in default	-	-	-	-	-	-	221.6	5.3	-	-	**226.9**	-
Institutions and corporates with a short-term credit assessment	-	-	294.0	-	-	-	-	-	-	-	**294.0**	-
Other items*	76.0	-	-	-	-	-	187.4	-	21.6	36.1	**321.1**	-
Total	**11,987.6**	**92.3**	**579.4**	**33,809.0**	**525.5**	**251.2**	**909.2**	**5.3**	**21.6**	**36.1**	**48,217.2**	**3.4**

*Other items include securitisation positions and other asset exposure.

Table 15 - Credit Risk Exposure - Solo - £m - 2017

Exposure Class	Risk Weight											
	0%	2%	20%	35%	50%	75%	100%	150%	250%	Deducted	Total	Of which unrated
Central governments or central banks	13,918.2	-	-	-	-	-	-	-	--	-	**13,918.2**	-
Multilateral development banks	38.9	-	-	-	-	-	-	-	-	-	**38.9**	-
Institutions	80.2	234.8	1,208.7	-	959.2	-	3.4	-	-	-	**2,486.3**	-
Retail	-	-	-	-	-	2.0	-	-	-	-	**2.0**	-
Secured by mortgages on immovable property	-	-	-	34,824.2	-	343.3	576.5	-	-	-	**35,744.0**	-
Exposures in default	-	-	-	-	-	-	155.8	2.8	-	-	**158.6**	-
Institutions and corporates with a short-term credit assessment	-	-	244.9	-	-	-	-	-	-	-	**244.9**	-
Other items*	2,730.3	-	-	-	-	-	198.6	-	12.7	-	**2,941.6**	-
Total	**16,767.6**	**234.8**	**1,453.6**	**34,824.2**	**959.2**	**345.3**	**934.3**	**2.8**	**12.7**	**-**	**55,534.5**	**-**

*Other items include securitisation positions and other asset exposure.

Table 15 - Credit Risk Exposure - Solo - £m - 2016												
	Risk Weight											
Exposure Class	**0%**	**2%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**250%**	**Deducted**	**Total**	**Of which unrated**
Central governments or central banks	11,911.6	-	-	-	-	-	-	-	-	-	**11,911.6**	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	**-**	-
Institutions	-	92.3	285.4	-	525.5	-	3.4	-	-	-	**906.6**	3.4
Retail	-	-	-	-	-	3.0	-	-	-	-	**3.0**	-
Secured by mortgages on immovable property	-	-	-	33,809.0	-	248.2	496.8	-	-	-	**34,554.0**	-
Exposures in default	-	-	-	-	-	-	221.6	5.3	-	-	**226.9**	-
Institutions and corporates with a short-term credit assessment	-	-	293.6	-	-	-		-	-	-	**293.6**	-
Other items*	2,190.0	-	-	-	-	-	190.3	-	19.2	36.1	**2,435.6**	-
Total	**14,101.6**	**92.3**	**579.0**	**33,809.0**	**525.5**	**251.2**	**912.1**	**5.3**	**19.2**	**36.1**	**50,331.3**	**-**

*Other items include securitisation positions and other asset exposure.

For the purposes of generating risk weightings for its wholesale and asset securitisation exposures, the Group uses Standard and Poor's (S&P), Fitch and Moody's as External Credit Assessment Institutions (ECAIs), using a composite rating where a counterparty is rated by more than one agency. There has been no change in the Group's use of ECAIs during the year. The following tables show the exposure values associated with each credit quality step for wholesale exposures under the standardised approach:

Table 16 - Sovereign Exposure Credit Quality Steps — 2017

Central Government, Central Banks and Multilateral Development Banks

Credit Quality Step	Risk Weight (<3 months / >3 months)	S&P Rating	Fitch rating	Moody's rating	Exposure values £m	Exposure values after mitigation[1] £m
1	0%/0%	AAA to AA-	AAA to AA-	Aaa to Aa3	13,957.1	8,345.4
Total					**13,957.1**	**8,345.4**

2016

Credit Quality Step	Risk Weight (<3 months / >3 months)	S&P Rating	Fitch rating	Moody's rating	Exposure values £m	Exposure values after mitigation[1] £m
1	0%/0%	AAA to AA-	AAA to AA-	Aaa to Aa3	11,911.6	5,706.2
Total					**11,911.6**	**5,706.2**

Table 17 - Wholesale Exposure Credit Quality Steps

Financial institutions, Covered bonds and Short-term claims

Credit Quality Step	Risk Weight (<3 months / >3 months)	S&P rating	Fitch rating	Moody's rating	Exposure values £m	Exposure values after mitigation[1] £m
						2017
1	20%/20%	AAA to AA-	AAA to AA-	Aaa to Aa3	1,367.7	328.5
2	20%/50%	A+ to A-	A+ to A-	A1 to A3	1,329.8	510.4
3	20%/50%	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	30.5	13.6
4	50%/100%	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	-	-
5	50%/100%	B+ to B-	B+ to B-	B1 to B3	-	-
6	150%/150%	CCC+ and below	CCC+ and below	Caa1 and below	-	-
Unrated	20%/50%	Unrated	Unrated	Unrated	3.4	3.4
Total					**2,731.4**	**855.9**

Credit Quality Step	Risk Weight (<3 months / >3 months)	S&P rating	Fitch rating	Moody's rating	Exposure values £m	Exposure values after mitigation[1] £m
						2016
1	20%/20%	AAA to AA-	AAA to AA-	Aaa to Aa3	370.1	333.6
2	20%/50%	A+ to A-	A+ to A-	A1 to A3	755.0	445.5
3	20%/50%	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	72.1	19.8
4	50%/100%	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	-	-
5	50%/100%	B+ to B-	B+ to B-	B1 to B3	-	-
6	150%/150%	CCC+ and below	CCC+ and below	Caa1 and below	-	-
Unrated	20%/50%	Unrated	Unrated	Unrated	3.4	3.4
Total					**1,200.6**	**802.3**

Included within the 2017 exposures above, is approximately £183.8m (31 December 2016: £84.7m) of exposures after mitigation (rated at A+) that relate to centrally cleared counterparties. The exposures have been risk weighted at 2% as per CRD IV rules.

[1] Mitigation recognises the benefit of collateral held and government guarantees against these investments - see Section 4.6.2 Credit Risk Mitigation: Wholesale

4.3 Securitisation Positions

Issued Securitisations

The Group uses securitisation activities to obtain wholesale funding or to create additional collateral which can be used to source additional funding. It has securitised certain mortgage loans by transferring the loans to special purpose entities (SPEs) under the 'Brass' and 'Tombac' securitisation programmes. The SPEs are fully consolidated into the Group accounts.

The transfer of the mortgage loans to the SPEs are not treated as sales by the Group and therefore no gains or losses are recognised, as these structures were not intended to achieve significant transfer of credit risk away from the Group, but to benefit from attractive funding rates. The Group continues to recognise the mortgage loans on its own balance sheet after the transfer because the risks relating to the underlying mortgage pools, and rewards through the receipt of substantially all of the profits or losses of the securitisation entities, remain with the Group and are included in the 'secured by mortgages on immovable property' sections detailed in this document. These assets are held at amortised cost.

There are no specific capital requirements for the securitisation vehicles. As there has not been a transfer of significant credit risk, the Group does not calculate risk weighted asset amounts for any positions it holds in the securitisations and these continue to be calculated in line with capital requirements applied to the underlying mortgage assets. The risk relating to the underlying mortgage pool remains with the Group and is included in the residential mortgage tables detailed throughout this document. Note 35 to the Annual Report and Accounts provides more information on the securitisation programme.

The Group has also retained notes from its securitisation issues to be used as collateral for use in sale and repurchase agreements or central bank operations. Investments in self-issued notes and the equivalent 'deemed loan', together with the related income, expenditure and cash-flows are not recognised in the Group's consolidated accounts. This avoids the 'grossing-up' of the financial statements that would otherwise arise. Under the terms of the securitisation programme, the nominal amount of the debt securities in issue is paid down to match the payment profile of the mortgages pledged to the programme.

To manage interest rate risk the SPEs enter into derivative transactions. Treatment of derivatives relating to securitisations can be found in Note 34 to the Annual Report and Accounts.

To manage market and credit risk, the Securitisation Committee undertakes monthly monitoring of the portfolio, including a review of statistics of the underlying asset pools and compliance with structural tests where applicable using the investor reports published for each of the investments.

The SPEs also represent a liquidity risk to the Group due to legal covenants which need to be fulfilled in the event of a downgrade of the Group. The cash flows resulting from these covenants are in respect of amounts required to collateralise swaps, based on rating agency methodologies. In the event that the Group is downgraded, funds may need to be deposited externally with, or a guarantee obtained from, a suitably rated institution. The cash flows required in the event of downgrade are considered in the Group's ILAAP.

The Group or any of its subsidiaries are under no obligation to support any losses that may be incurred by the securitisation programme or holders of the notes issued, and does not intend to provide such support.

A total of £6.5bn (31 December 2016: £6.1bn) of mortgage loans are currently pledged to the Brass and Tombac securitisation programmes.

For mortgage loans securitised by the Group for the Brass and Tombac programmes as at 31 December 2017, 45 accounts were past due, with a balance of £7.7m. Losses incurred in the securitisation programmes during the year amounted to £24,384.80 relating to one property sold.

As at 31 December 2017, the nominal value of outstanding debt securities issued through the securitisation programmes was £7.1bn (2016: £6.4bn) of which £6.4bn (2016: £5.7bn) was retained by the Group. The listed notes issued by the securitisation programmes are rated by Moody's and Fitch as Aaa/AAA respectively.

Purchased Securitisations

The Group's exposures listed below relate to purchased securitisation positions, including resecuritisations (which is defined as a securitisation instrument where at least one of the underlying exposures is itself a securitisation).

Table 18 - Securitisation Positions by Investment type	Exposure Values	
£m	2017	2016
Combination Note	3.9	7.6
Synthetic Collateralised Debt Obligation	-	36.1
Total	**3.9**	**43.7**

Securitisation exposures are currently limited to legacy portfolios which have been in run-off for a significant period. There has been no new investment since 2008, although a small amount was added to the portfolio in 2010 and 2011 following the Chelsea and N&P mergers respectively.

The fair values are based on either quoted market prices, where available, or via valuations provided by external parties. The Combination Note was subject to some pay downs of principal during the year based on redemptions within the underlying asset pool. The Synthetic Collateralised Debt Obligations were redeemed in full during the year.

The following table shows the Group's aggregate exposure to purchased securitisations, split by their associated credit quality steps:

Table 19 - Securitised Positions Exposure Credit Quality Steps 2017

Credit Quality Step	Risk Weight	S&P rating	Fitch rating	Moody's rating	Exposure values £m
1	20%	AAA to AA-	AAA to AA-	Aaa to Aa3	-
2	50%	A+ to A-	A+ to A-	A1 to A3	-
3	100%	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	-
4	350%	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	-
5	Deducted	B+ and below	B+ and below	B1 and below	-
Total					**-**

Table 19 - Resecuritised Positions Exposure Credit Quality Steps 2017

Credit Quality Step	Risk Weight	S&P rating	Fitch rating	Moody's rating	Exposure values £m
1	40%	AAA to AA-	AAA to AA-	Aaa to Aa3	-
2	100%	A+ to A-	A+ to A-	A1 to A3	-
3	225%	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	3.9
4	650%	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	-
5	Deducted	B+ and below	B+ and below	B1 and below	-
Total					**3.9**

Table 19 - Securitised Positions Exposure Credit Quality Steps 2016

Credit Quality Step	Risk Weight	S&P rating	Fitch rating	Moody's rating	Exposure values £m
1	20%	AAA to AA-	AAA to AA-	Aaa to Aa3	-
2	50%	A+ to A-	A+ to A-	A1 to A3	-
3	100%	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	-
4	350%	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	-
5	Deducted	B+ and below	B+ and below	B1 and below	36.1
Total					**36.1**

Table 19 - Resecuritised Positions Exposure Credit Quality Steps 2016

Credit Quality Step	Risk Weight	S&P rating	Fitch rating	Moody's rating	Exposure values £m
1	40%	AAA to AA-	AAA to AA-	Aaa to Aa3	-
2	100%	A+ to A-	A+ to A-	A1 to A3	-
3	225%	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	7.6
4	650%	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	-
5	Deducted	B+ and below	B+ and below	B1 and below	-
Total					**7.6**

4.4 Impairment Provisions

4.4.1 Loans Secured by Mortgages on Immovable Property

Further details of the Group's accounting policy for impairment losses on loans and advances to customers is given in Note 1 to the Annual Report and Accounts.

The following table shows the past due loans and provisions for impaired exposures (equivalent to value adjustments) and charges to the Income Statement for the year ended 31 December 2017. Please note that the figures below show the customer balances used for provisioning as opposed to capital exposure values (which include potential exposures due to undrawn facilities and pipeline business that do not appear on balance sheet) and therefore do not match the totals in the capital exposure tables above.

Table 20 - Loans secured on immovable property (£m) Exposures not subject to fair value	Total 2017	Total 2016
Neither past due nor individually impaired	**30,724.6**	**28,983.1**
Past Due		
Up to 3 months	**509.7**	531.8
3 to 6 months	**59.1**	84.9
6 to 12 months	**26.0**	37.7
Over 12 months	**10.8**	12.8
Possessions	**4.5**	5.9
Total past due	**610.1**	**673.1**
Total exposures	**31,334.7**	**29,656.2**
Provisions	**32.5**	**41.8**
(Credit)/charge for the year	**(6.9)**	**1.1**
Fair Value Held	**-**	**-**

Table 20 - Loans secured on immovable property (£m) Exposures subject to fair value	Total 2017	Total 2016
Neither past due nor individually impaired	**3,594.2**	**4,151.4**
Past Due		
Up to 3 months	**236.3**	295.5
3 to 6 months	**33.4**	46.5
6 to 12 months	**13.5**	22.6
Over 12 months	**5.2**	9.3
Possessions	**6.1**	7.2
Total past due	**294.5**	**381.1**
Total exposures	**3,888.7**	**4,532.5**
Provisions	**-**	**0.1**
Credit for the year	**(2.5)**	**-**
Fair Value Held	**43.5**	**52.8**

Table 20 - Loans secured on immovable property (£m) All exposures	Total 2017	Total 2016
Neither past due nor individually impaired	**34,318.8**	**33,134.5**
Past Due		
Up to 3 months	**746.1**	827.3
3 to 6 months	**92.5**	131.4
6 to 12 months	**39.5**	60.3
Over 12 months	**16.0**	22.1
Possessions	**10.6**	13.1
Total past due	**904.7**	**1,054.2**
Total exposures	**35,223.5**	**34,188.7**
Provisions	**32.5**	**41.9**
(Credit)/charge for the year	**(9.4)**	**1.1**
Fair Value Held	**43.5**	**52.8**

Impairment is assessed based on the arrears status of each loan. Where mortgages are in arrears by three months or more, they are individually assessed for impairment. All mortgages that are past due but not impaired are less than three months in arrears. Where retail or commercial mortgages are less than three months in arrears they are assessed for collective impairment, unless individual impairment triggers exist on any of these loans.

The amounts shown as past due represent the full amount of the loan outstanding, not just the amount that is past due. The assets acquired during the mergers with the Chelsea Building Society and N&P Building Society in 2010 and 2011 respectively were subject to a number of significant adjustments to reflect their "fair value" rather than the value at which they were recorded in Chelsea or N&P's own records; i.e. as if they had been acquired individually by YBS in standalone transactions. This included an adjustment to reflect the amount that the Group expects to lose, at any point in the future, through borrower defaults. This approach is different to that for the existing mortgage assets where only currently impaired loans can be taken into account for impairment provisions. The effect is, provided the estimate of future losses is accurate, that any future losses on these assets will not be reflected in the Income Statement – it is equivalent to bringing forward future loan loss provisions charges to the effective merger date. These are illustrated in the table showing 'Exposures subject to Fair Value'.

Further information on impaired exposures and past due exposures, specific and general credit risk adjustments and the impairment charge for specific and general provisions can be found in Note 39 to the Annual Report and Accounts.

A reconciliation of the changes in the specific and general credit risk adjustments for impaired exposures can be found in Note 9 of the Annual Report and Accounts.

Further information on the geographic distribution of retail mortgage balances can be found in Note 39 to the Annual Report and Accounts.

The Group uses forbearance tools where they are deemed appropriate for an individual customer's circumstances, and are used in line with industry guidance. Forbearance tools which the Group may offer include capitalisation, interest only concessions, arrears arrangements, direct debit suspension and term extensions. The use of account management tools are either fully recognised within provisioning or are low in materiality. Further detail of Forbearance can be found in Note 39 to the Group's Annual Report & Accounts.

4.4.2 Wholesale

As at 31 December 2017, the Group had an impairment provision of £6.0m on wholesale investments relating to individually assessed CDOs, as shown in Note 15 to the Group's Annual Report and Accounts.

4.4.3 Other

As at 31 December 2017, the Group had an impairment provision of £4.0m on joint venture investments, as shown in Note 41 to the Group's Annual Report and Accounts.

4.5 Credit Risk Concentrations

As a UK residential mortgage lender, the Group is inevitably concentrated in this market. Within this overall concentration however, the Group has put in place controls to mitigate undue concentration risk. Further detail of concentrations can be found in Note 39 to the Group's Annual Report and Accounts.

4.6 Credit Risk Mitigation

The Group uses a range of techniques to manage the credit risk of its retail, commercial and wholesale lending. The most critical of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. However, the risk is further mitigated by obtaining collateral for the funds advanced.

4.6.1 Loans Secured by Mortgages on Immovable Property

Loans to Individuals
Residential property is the Group's main source of collateral and means of mitigating credit risk inherent in its residential mortgage portfolios. All current mortgage lending activities are supported by an appropriate form of valuation using either an independent firm of valuers (except low LTV re-mortgage cases valued without independent valuation) or indexed valuation for further advances. All residential property must be insured to cover property risks, which may be through a third party. Additional protection is also available to borrowers through optional payment protection insurance.

Commercial Lending
The Group also lends to commercial parties through the N&P brand. All commercial loans are secured by a first charge over a commercial or semi-commercial property and are valued by a panel approved valuer. The property must be insured in line with the amount recommended by the valuer. Where the Group lends to a limited company, a guarantee is obtained from the directors of that company.

The Group also lends to housing associations ('Registered Providers'), via the YBS brand. All of these loans are secured on a portfolio of completed residential properties and are valued by a panel valuer.

4.6.2 Wholesale

Collateral held as security for wholesale assets is determined by the nature of the instrument. Loans, debt securities, and treasury bills are generally unsecured with the exception of securitisation positions and similar instruments, which are secured by pools of financial assets.

The Group's legal documentation with its counterparties for derivative transactions grants legal rights of setoff for those transactions. Accordingly, for credit risk exposures purposes, negative market values on derivatives will offset positive

market values on derivatives with the same counterparty in the calculation of credit risk, subject to a minimum absolute exposure of zero by counterparty.

International Swaps and Derivatives Association (ISDA) documentation confers the ability to use designated cash collateral to set against derivative credit risk exposures in the event of a counterparty default. Frequent rebalancing of the collateral requirements reduces the potential increase in future credit risk exposure. For such collateralised exposures, the posting of cash collateral reduces the impact of the current market value to the difference between the market value of the derivatives and the value of the collateral. This difference is limited by the operational use of "thresholds" and "minimum transfer amounts", which set criteria to avoid the movement of small amounts of collateral.

Credit risk is further mitigated by the use of central counterparties (CCPs). A CCP is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, where a single bilateral contract between the buyer and seller is replaced with two contracts, one between the buyer and CCP and one between the seller and CCP. Since late 2015 the Group has settled eligible derivatives using central counterparties.

Further details on wholesale credit risk can be found in Note 38 to the Group's Annual Report and Accounts.

4.7 Counterparty Credit Risk for Derivative Contracts

The Group uses derivative instruments to hedge interest rate risk, foreign currency risk or other factors of a prescribed description arising from fixed rate mortgage lending and savings products, funding and investment activities. Derivatives are only used by the Group in accordance with the Building Societies Act 1997. This means that such instruments are not used in trading activity or for speculative purposes. Counterparty credit risk in the context of this disclosure is the risk that a counterparty to a derivative instrument could default before the final settlement of the transaction's cash flows.

As described in section 4.6.2, risk is mitigated by offsetting the amounts due to the same counterparties ("Netting benefits") and by cash deposited by the counterparties ("Collateral held"). The following table shows the exposures to counterparty credit risk for derivative contracts as at 31 December 2017. Where derivative transactions meet eligibility for clearing at CCP, counterparty credit risk is replaced by an exposure against the CCP. Counterparty credit risk exposures are calculated using the mark to market method.

Table 21 - Counterparty Credit Risk for Derivative Contracts

£m	2017	2016
Interest rate contracts	922.4	905.3
Foreign exchange contracts	3,092.9	2,633.8
Other contracts	77.5	236.6
Gross positive fair value of contracts	**4,092.8**	**3,775.7**
Netting benefits	(3,372.2)	(3,037.8)
Netted current credit exposure	**720.6**	**737.9**
Collateral held	(298.9)	(398.3)
Net derivatives credit exposure	**421.7**	**339.6**
Add on for potential future exposure	163.1	165.3
Total derivatives exposure	**584.8**	**504.9**

The 'other contracts' element mainly reflects funds provided to counterparties as collateral and the collateral held incorporates the positions that mitigate this exposure.

The net derivatives credit exposure represents the credit exposure to derivative transactions after taking account of legally enforceable netting agreements and collateral arrangements. The total derivatives exposure includes uplifts for potential future exposure under the mark to market method for assessing counterparty credit risk.

If the Group were to be downgraded by a ratings agency, there would be no impact on the collateral required to be posted in relation to existing swap agreements, other than those pertaining to securitisations discussed in section 4.3.

Wrong way risk can occur if exposures to a counterparty are negatively correlated to the creditworthiness of that counterparty. As such, there is potential for the exposure to increase as the creditworthiness decreases. Should such a risk arise, this would be taken into account as part of the counterparty review process which allows management to assess what, if any, appropriate mitigating actions are required. Additionally, the Group mitigates wrong way risk by ensuring that exposures on bilateral derivatives are managed via Credit Support Annex (CSA) agreements and margins for centrally cleared swaps which are regularly re-margined.

Internally, capital is allocated to counterparty credit risk based on the methods shown above. Credit limits are determined by internal ratings from credit assessment and approved by the ERC.

5 Risk Types - Operational Risk

5.1 Operational Risk Overview

The Group has adopted the standardised approach to all operational risks and has defined operational risk as: "the risk of direct or indirect loss resulting from inadequate or failed internal processes, people, and systems, or from external events".

This means that for the calculation of Pillar 1 capital requirements, the Group calculates its average annual income from prescribed business lines over the past three years. Capital is then held to support operational risk for each business line at prescribed rates from 12% to 18% of its average annual relevant income.

Qualitative requirements for the standardised approach to operational risk have been adopted including:-

- Board and senior management oversight of the Enterprise Risk Management Framework (ERMF). The ERMF replaces the former Enterprise & Operational Risk Management Policy and the framework elements of the former Risk Management Strategy & Framework, providing a single point of reference to direct risk management activity.
- Board approved Group wide ERMF in place with framework components including risk registers, risk assessment, risk response, controls, horizon risks, risk events, Risk & Control Self-Assessment (RCSA), and Second line of defence (2nd LoD) oversight.
- Stress testing and scenario analysis activities undertaken to define the level of capital required to recover from a severe stress scenario event.
- Board, committee and senior management levels reporting on Enterprise and Operational risks with appropriate actions taken as required.

5.2 Enterprise Risk Management Framework (ERMF) and Governance

The Enterprise Risk Management Framework has been created in order to support robust yet efficient risk management which has an important and integral role in the Group:

- Delivering against its Strategy within an appropriate culture;
- Being protected from unplanned financial outcomes;
- Having greater resilience to organisational threats;
- Protecting its customers from unfair outcomes; and
- Demonstrating confidence about itself to external stakeholders.

The Group operates a 'three lines of defence' model towards risk management which seeks to differentiate; those with direct responsibility for the management and control of risk; those with oversight responsibility across the effectiveness and integrity of the enterprise risk management framework; and those providing independent assurance across the first and second lines of defence.

Governance

Oversight and governance arrangements for the setting and management of a robust ERMF are the responsibility of the Board, GRC and ERC. Each committee has a defined Terms of Reference allocating their accountability and responsibilities.

ERC is responsible for the oversight of day to day risk management activity including, but not limited to, review of the effectiveness of the Group's risk management framework and system of internal controls. It has authority to direct the business in relation to mitigating actions and to approve or endorse risk acceptance within defined levels.

During 2017, the Group developed a risk category model comprising ten 'Level 2' risk categories for operational risk, in order to support the consistent description, aggregation, analysis and reporting of operational risks across the Group. A risk and control library has been developed for each category, setting out the 'core' (level three) risks to the Group, together with the associated 'key' controls. The libraries support the creation and maintenance of consistently articulated risk and control registers, whilst providing a framework for lower level risks and controls and supporting the Group's risk and control self-assessment (RCSA) approach. In addition, they enable the alignment and aggregation of risk event data, to validate the self-assessment approach.

5.3 Operational Risk Oversight and Reporting

Oversight (2nd LoD)

Under the 'three lines of defence' model, second line of defence functions are responsible for overseeing the day to day management of risk by (1st LoD). An integrated (2nd LoD) plan for formal oversight reviews is considered and approved by GRC on an annual basis.

Reporting

In order to demonstrate the degree to which risk management has been embedded throughout the organisation, there are a number of reporting mechanisms in place which broadly encompass:

- Current key areas of concern or 'hot topics'.
- The risks with the highest net risk exposure.
- Any key control weaknesses / areas for improvement.
- Significant risk events.
- Any concerns in relation to the funding or progress of mitigating actions.

The first line risk functions are responsible for producing risk reports on a monthly basis in support of Division risk committees / forums, covering the above and any Division specific requirements.

The Enterprise Risk Management team compile risk reporting to support the operation of the Executive (Monthly) and Group (Quarterly) Risk Committees. Again this reporting encompasses the matters highlighted above, together with any specific areas of concern for ERC / GRC attention.

Risk & Control Self-Assessment (RCSA)

The Group operates a RCSA process in order to determine whether the current set of controls is appropriate to manage its risks going forwards.

Risk Category Subject Matter Experts (SMEs) collate the outputs from the Divisional reports relevant to their Risk Category; review these against their own assurance outcomes, risk events and known areas of concern. They then produce a Category Summary Report which confirms the design effectiveness in relation to each L3 'Key' control and highlights any desirable control enhancements.

The Enterprise Risk Management team summarises the Divisional and Category Summary Reports for ERC and GRC within the Group Risk & Control Assurance Report and provides a 2nd Line opinion of control performance based upon available data, 2nd Line oversight reviews and Business Risk Partner opinion.

6 Other Significant Risks - Pillar 2

6.1 Pillar 2 Overview

As noted in section 3.4.3, the Group undertakes its ICAAP at least annually in line with Pillar 2 requirements. The outcome of the ICAAP is presented within an Internal Capital Assessment document (ICA).

The process is led by the Balance Sheet Management department, but involves a wide range of personnel from across the Group, including Chief Officers. The ICA, including underlying individual risk assessments for material risk categories, is reviewed by Chief Officers, ERC, GRC and the Board.

The purpose of the process is to identify the key risks to which the Group is exposed, the levels of capital and other financial resources that should be held to meet the Group's regulatory requirements during a period of severe stress and the extent to which minimum Pillar 1 requirements do not satisfy the findings of the ICA.

The ICA is prepared at a Group level, and currently identifies the following key risk categories:

- Credit Risk[1]
- Interest Rate & Market Risk
- Pension Risk
- Operational, Fraud & Conduct Risk[1]
- Concentration Risk
- Business Risk

In the case of risk categories that have Pillar 1 capital requirements, stress testing is performed on the exposures to determine whether capital is required over and above the Pillar 1 amounts held. For other risks, stress testing determines the level of Pillar 2 capital required to protect against the risk in a severe stress scenario – the amount of capital held against these risks is referred to as 'Pillar 2A'. See below for further details.

Additional capital is required to be held in the form of the Pillar 2B "PRA Buffer" which is the result of a stress test that assesses the capital impact of a "severe but plausible" economic downturn on the Group's strategic plan. Further consideration is provided below within the "Capital Planning Stress Test" section.

6.2 Interest Rate Risk

Interest rate risk relates to the impact of re-pricing of assets and liabilities through interest rate movements. Details of interest rate risk can be found in Note 36 to the Group's Annual Report and Accounts; a description of risk appetite and governance can be found in the Risk Management Report of the Annual Report and Accounts.

For assessment of capital requirements, the Group models the impact of a range of severe scenarios on the Group's interest rate position to determine the amount of Pillar 2 capital to hold against this risk.

[1] These risks are Pillar 1 risks that are considered in detail within Sections 4 and 5 of this document

6.3 Pension Risk

The risk of the Group's defined benefit pension obligations has been modelled, with the help of external actuaries, by applying a severe stress test to the factors that affect the valuation of the scheme. Details of the Group's pension obligations can be found in Note 26 to the Group's Annual Report and Accounts.

6.4 Concentration Risk

The Group routinely considers concentrations in products, geographies, channels, income streams and funding sources as part of its strategic planning and has stress tested any such concentrations as part of the ICAAP. A degree of concentration risk is inevitable given the Group's focus in the UK residential mortgage market.

6.5 Business Risk

Consideration is given to the risk that the Group is unable to pursue its short term business plan or longer term strategy. This includes the impact of shifts in the economic, market or regulatory environment that could fundamentally impact on the Group's key Income Statement and Balance Sheet metrics. It can include, for example, the impact of credit ratings downgrades on the Group's ability to raise funding at planned levels and cost.

6.6 Capital Planning Stress Test

A PRA Buffer has been generated from the results of the Capital Planning Stress Test. This stress test is defined and articulated with the assistance of key business experts and is set at a severity level that is consistent with the PRA's "severe but plausible" requirement.

The test calculates the impact to both capital requirements and resources across the strategic planning period. Based upon the results (after management actions are considered), an additional amount of capital is held above the proposed regulatory minimum. This PRA Buffer can, in extreme times of stress, be utilised without breaching the regulatory minimum.

6.7 Other Risks

After detailed stress testing, no other risks were considered material from a capital perspective as part of the latest ICAAP.

7 Liquidity Management

7.1 Liquidity Management

The Group's management of liquidity is based on a number of key principles:

- The Group will 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 Group must also ensure that its liquidity resources contain an adequate buffer of high quality, unencumbered assets and it maintains a prudent funding profile.
- The Group must have in place robust strategies, policies, processes and systems that enable it to identify measure, manage and monitor liquidity risk over a set of time horizons, including intra-day, so as to ensure that it maintains adequate levels of liquidity buffers. These strategies, policies, processes and systems must be tailored to business lines and must include adequate allocation mechanisms of liquidity costs, benefits and risks and ensure that the risks associated with collateral management and asset encumbrance are adequately identified, monitored and managed.
- The Group must adequately stress test their liquidity requirements with contingency funding arrangements in place.

Liquidity risk is monitored on a Group basis with various subsidiaries which could impact the Group's liquidity position (e.g. Accord, securitisation SPVs and the Covered Bond LLP) incorporated into the liquidity risk management process.

The Group employs a number of complimentary indicators within its risk appetite framework, both internal and regulatory, and supplements these with a number of secondary metrics to strengthen the liquidity risk management framework.

Cash flow and liquidity projections are reviewed weekly by the Group and appropriate actions, where required, are taken to adjust the Group's cash flow activity to remain within risk appetite; these meetings also include a discussion of major issues in the wholesale and retail markets, as well as general economic conditions.

GRC is responsible for review and approval of the overall liquidity risk framework, including the Liquidity & Funding Risk Appetite Statement and the Individual Liquidity Adequacy Assessment Process (ILAAP), prior to submission to the Board and regulator (if required).

Liquidity metrics cover the following risks across the Group:

- Pillar 1 risks (i.e. market liquidity and funding liquidity risks). The Liquidity Coverage Ratio (LCR) is a Pillar 1 standard applicable across the European Union which took effect on 1 October 2015. The LCR ensures that a credit institution has an adequate liquidity buffer of unencumbered high-quality liquid assets (HQLA) that can be converted into cash quickly and easily to meet its liquidity needs for a 30 day liquidity stress scenario. The LCR has been designed to make credit institutions less dependent on short-term financing and central bank provision. While the majority of the inflow and outflow weightings are prescribed by the regulator, some outflow weightings are at the discretion of the Group. These are considered as part of the annual ILAAP.
- Pillar 2 risks (i.e. all other material risks not captured by the LCR). The Group captures these risks within its internal liquidity stress test, the Overall Liquidity Requirements (OLR) test. The construction and assumptions in this test are outlined and agreed in the ILAAP.

7.2 Internal Liquidity Adequacy Assessment Process (ILAAP)

The Group undertakes at least annually an ILAAP, which is an internal assessment of its liquidity risk requirement.

This process includes:

- Identification of the relevant liquidity risk drivers for the Group;
- Development of severe but plausible liquidity risk scenarios to enable an assessment of the requirement of the Group to be established. These scenarios are approved by both the ERC and GRC prior to any development work being undertaken on the impacts of the scenarios;
- Relevant business areas are then responsible for determining the way in which each of the scenarios would impact on the relevant elements of the balance sheet;
- All the relevant assessments are then consolidated to determine which of the scenarios generate the worst case outcome. This is documented in the ILAAP and will, once approved, form part of the daily stress testing process;
- The ILAAP is then reviewed by the second line Prudential Risk team before being submitted to GRC and ultimately the Board for approval.

7.3 Liquidity Coverage Ratio (LCR)

The following table shows the breakdown of the components of the LCR on both a consolidated and solo basis and states the values for each of the four calendar quarters (January – March, April – June, July – September, October – December). The values have been calculated as the simple averages of month-end observations over the twelve months preceding the end of each quarter.

Table 22 Breakdown of components of the LCR - Consolidated

£m		Total unweighted value (average)				Total weighted value (average)			
Quarter ending		31 March 2017	30 June 2017	30 September 2017	31 December 2017	31 March 2017	30 June 2017	30 September 2017	31 December 2017
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
21	**Liquidity buffer**					4,311.2	4,309.8	4,061.2	4,020.8
22	**Total net cash outflows**					2,418.9	2,465.9	2,512.1	2,539.3
23	**Liquidity coverage ratio (%)**					178.6%	175.1%	161.7%	158.4%

Table 22 Breakdown of components of the LCR - Solo

£m		Total unweighted value (average)				Total weighted value (average)			
Quarter ending		31 March 2017	30 June 2017	30 September 2017	31 December 2017	31 March 2017	30 June 2017	30 September 2017	31 December 2017
Number of data points used in the calculation of averages		12	12	12	12	12	12	12	12
21	**Liquidity buffer**					4,331.6	4,324.4	4,072.9	4,028.8
22	**Total net cash outflows**					2,458.4	2,506.3	2,553.6	2,582.9
23	**Liquidity coverage ratio (%)**					176.5%	172.8%	159.5%	156.1%

7.3.1 Liquidity Buffer

The liquidity buffer includes assets with the potential to be converted quickly and easily into cash if a stress were to materialise. There are three categories of liquidity buffer with differing levels of perceived quality: Level 1 (highest quality and perceived to be the most liquid of assets), Level 2A (lower quality) and Level 2B (lowest quality and perceived to be the least liquid of the assets eligible for inclusion in the liquidity buffer). Assets included in the liquidity buffer must be unencumbered, capable of being valued easily and either listed on a recognised exchange or tradable via outright sale or via repurchase transactions. The asset classes are also subject to minimum requirements to determine their 'Level' i.e. how easily they could be converted into cash in a stress.

- The liquidity buffer must comply with the following requirements
- Minimum of 60% of the buffer must be composed of Level 1 assets;
- Minimum of 30% of the buffer must be composed of Level 1 assets excluding extremely high quality covered bonds;
- A maximum of 15% of the buffer may be held in Level 2B assets.

7.3.1.1 Level 1 Assets

Level 1 assets include coins and banknotes, exposures to central banks, assets representing claims on or guaranteed by central or regional governments, local authorities or public sector entities, exposures in the form of extremely high quality covered bonds and assets representing claims on or guaranteed by multilateral development banks.

All Level 1 eligible assets can be held at full value within the LCR, apart from extremely high quality covered bonds which are subject to a haircut of at least 7%. As at 31 December 2017 all of the Group's assets within the liquid buffer were designated as Level 1.

7.3.1.2 Level 2A Assets

Level 2A assets include assets representing claims on or guaranteed by central or regional governments, local authorities or public sector entities, exposures in the form of high quality covered bonds and corporate debt securities. All Level 2A eligible assets are subject to a haircut of at least 15%. As at 31 December 2017 the Group held no Level 2A eligible assets.

7.3.1.3 Level 2B Assets

Level 2B assets comprise of asset-backed securities, corporate debt securities, shares, restricted-use committed facilities provided by a central bank and exposures in the form of high quality covered bonds. All Level 2B eligible assets are subject to a haircut of at least 25%. As at 31 December 2017 the Group held no Level 2B eligible assets.

7.3.2 Total Net Cash Outflows

Net cash outflows is defined as the total expected cash outflows, minus total expected cash inflows, for the subsequent 30 days. Total expected cash outflows are calculated by multiplying the outstanding balances of various types of liabilities and off-balance sheet commitments by the stress rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories or contractual receivables by the rates at which they are expected to flow in. Total cash inflows are subject to an aggregate cap of 75% of total expected cash outflows, thereby ensuring a minimum amount of liquid buffer at all times.

The primary driver of outflows in the LCR stems from the Group's retail savings book. Other areas of the business that generate outflows include the wholesale funding book, mortgage pipeline and operational expenses. The main drivers of inflows in the LCR come from the Group's mortgage book via contractual repayments. Other areas of the business that contribute inflows include the Group's commercial lending as well as coupons from both the retained wholesale funding book and the assets included within the liquidity buffer.

8 Remuneration

8.1 Remuneration

The Pillar 3 disclosures on remuneration are contained in various sections of the Annual Report and Accounts, including the Corporate Governance Report, the Directors' Remuneration Report, the Directors' and Chief Officers' Profiles and the Annual Business Statement.

The table below shows the remuneration awarded during the financial year.

Table 23 - Remuneration awarded during the financial year

£m	Senior Management	Other material risk takers	Total
Fixed remuneration	8.4	0.9	9.3
Variable remuneration	2.9	0.1	3.0
Total remuneration	**11.3**	**1.0**	**12.3**

Further details of the aggregate remuneration data of the Group's material risk takers for the performance year 31 December 2017 can be found within the Directors' Remuneration Report of the Annual Report and Accounts. The Group's Reward policy can be found on the Group's website:

https://www.ybs.co.uk/your-society/inside-your-society/corporate-governance/committees.html

9 Appendix

9.1 Appendix 1 – Asset Encumbrance

The amounts disclosed in Templates A and C below are median values calculated using quarterly data and have been prepared in accordance to EBA Guideline EBA/GL/2014/03 on the disclosure of encumbered and unencumbered assets and as such differ from the disclosures contained in the Group's 2017 Annual Report and Accounts.

Template A: Assets

Table 24 - Encumbered Assets (Template A) 2017 £m	Carrying amount of encumbered assets	Fair Value of encumbered assets	Carrying amount of unencumbered assets	Fair Value of unencumbered assets
Assets of the reporting institution	8,610.9		30,687.9	
of which:				
Equity instruments				
Debt securities	81.9	81.9	446.0	446.0
Other assets			835.2	

Table 24 - Encumbered Assets (Template A) 2016 £m	Carrying amount of encumbered assets	Fair Value of encumbered assets	Carrying amount of unencumbered assets	Fair Value of unencumbered assets
Assets of the reporting institution	9,161.6		30,678.0	
of which:				
Equity instruments	-		-	
Debt securities	111.7	111.7	424.9	424.9
Other assets	-		982.8	

Template B: Collateral

In accordance with PRA Supervisory Statement 'CRD IV: compliance with the European Banking Authority's Guidelines on the disclosure of encumbered and unencumbered assets' (SS11/14), the Group has elected to apply the waiver regarding disclosure of collateral received, therefore Template B has not been disclosed.

Template C: Encumbered Assets/ Collateral Received and Associated Liabilities

Table 25 - Encumbered Assets/ Collateral Received and Associated Liabilities (Template C) £m	Matching liabilities, contingent liabilities or securities lent		Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered	
	2017	2016	2017	2016
Carrying amount of selected financial liabilities	5,010.8	5,091.4	5,996.8	6,447.7

Template D: Information on importance of encumbrance

Encumbrance occurs through the pledging of assets to secured creditors; such assets become unavailable for other purposes. The most material sources of encumbrance for the Group is secured funding via the Group's covered bond and securitisation programmes which are supported by pledging mortgage assets as collateral. Assets are encumbered in accordance with the contractual requirements of these programmes. Further detail on these activities is set out in Note 35 to the Annual Report & Accounts. These programmes are continually assessed and a prudent buffer of over-collateralisation is voluntarily maintained for operational efficiency.

The Group also pledges debt securities as collateral in sale and repurchase transactions. An additional source of encumbrance is the collateralisation of derivative liabilities. The Group also treats some cash and balances with the Bank of England, some loans and advances to credit institutions and some debt securities as encumbered even though there are no associated liabilities. An example of this would be liquid assets held within the Group's covered bond and securitisation programmes; as these are not available for use in the Group's day-to-day operations.

9.2 Appendix 2 - Own Funds Disclosure Template

The table below contains the own funds of the Capital Group and Solo-consolidated Group on a transitional and end-point basis and have been prepared in accordance with Regulation (EU) 1423/2013, blank cells have been removed from the template.

Table 26 Own funds disclosure template - Group

		Transitional		End-Point	
£m		2017	2016	2017	2016
Common Equity Tier 1 (CET1) Capital: instruments and reserves					
2	Retained earnings	2,215.4	2,117.6	2,215.4	2,117.6
3	Accumulated other comprehensive income (and other reserves)	44.5	(16.4)	44.5	(16.4)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	124.5	114.2	124.5	114.2
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,384.4	2,215.4	2,384.4	2,215.4
Common Equity Tier 1 (CET1) capital: regulatory adjustments					
7	Additional value adjustments (negative amount)	(1.6)	(1.5)	(1.6)	(1.5)
8	Intangible assets (net of related deferred tax liability (negative amount)	(31.3)	(32.9)	(31.3)	(32.9)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	(2.3)	-	(2.3)
11	Fair value reserves related to gains or losses on cash flow hedges	3.6	8.2	3.6	8.2
15	Defined-benefit pension fund assets (negative amount)	(71.4)	(31.5)	(71.4)	(31.5)
20 a	Exposure amount of the following items which qualify for a RW of 1,250%, where the institution opts for the deduction alternative	-	(36.1)	-	(36.1)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(100.7)	(96.1)	(100.7)	(96.1)
29	Common Equity Tier 1 (CET1) capital	2,283.7	2,119.3	2,283.7	2,119.3
Additional Tier 1 (AT1) capital: instruments					
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	3.2	4.0	-	-
36	Additional Tier 1 (AT1) capital before regulatory adjustments	3.2	4.0	-	-
Additional Tier 1 (AT1) capital: regulatory adjustments					
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-	-	-
44	Additional Tier 1 (AT1) capital	3.2	4.0	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	2,286.9	2,123.3	2,283.7	2,119.3
Tier 2 (T2) capital: instruments and provisions					

Table 26 Own funds disclosure template - Group - Continued					
		Transitional		End-Point	
£m		2017	2016	2017	2016
46	Capital instruments and the related share premium accounts	589.2	288.5	589.2	288.5
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	3.0	-	-
50	Credit risk adjustments	24.5	34.4	24.5	34.4
51	Tier 2 (T2) capital before regulatory adjustments	613.7	325.9	613.7	322.9
Tier 2 (T2) capital: regulatory adjustments					
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-	-	-
58	**Tier 2 (T2) capital**	613.7	325.9	613.7	322.9
59	Total capital (TC = T1 + T2)	2,900.6	2,449.2	2,897.4	2,442.2
60	Total risk weighted assets	14,449.4	14,179.7	14,449.4	14,179.7
Capital ratios and buffers					
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.8%	14.9%	15.8%	14.9%
62	Tier 1 (as a percentage of total risk exposure amount)	15.8%	15.0%	15.8%	14.9%
63	Total capital (as a percentage of total risk exposure amount)	20.1%	17.3%	20.1%	17.2%
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	1.3%	0.6%	1.3%	0.6%
65	of which: capital conservation buffer requirement	1.3%	0.6%	1.3%	0.6%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.1%	7.3%	8.1%	7.2%
Applicable caps on the inclusion of provisions in Tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	24.5	34.4	24.5	34.4
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	180.6	177.2	180.6	177.2
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)					
82	Current cap on AT1 instruments subject to phase out arrangements	3.2	4.0	-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	3.2	2.7	-	-

Table 26 Own funds disclosure template - Solo

£m		Transitional 2017	Transitional 2016	End-Point 2017	End-Point 2016
Common Equity Tier 1 (CET1) Capital: instruments and reserves					
2	Retained earnings	2,210.6	2,105.8	2,210.6	2,105.8
3	Accumulated other comprehensive income (and other reserves)	43.5	(15.2)	43.5	(15.2)
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	114.6	120.0	114.6	120.0
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,368.7	2,210.6	2,368.7	2,210.6
Common Equity Tier 1 (CET1) capital: regulatory adjustments					
7	Additional value adjustments (negative amount)	(1.3)	(1.2)	(1.3)	(1.2)
8	Intangible assets (net of related deferred tax liability (negative amount)	(31.3)	(32.9)	(31.3)	(32.9)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-	(2.3)	-	(2.3)
11	Fair value reserves related to gains or losses on cash flow hedges	3.6	8.2	3.6	8.2
15	Defined-benefit pension fund assets (negative amount)	(71.4)	(31.5)	(71.4)	(31.5)
20 a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	(36.1)	-	(36.1)
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	(100.4)	(95.8)	(100.4)	(95.8)
29	Common Equity Tier 1 (CET1) capital	2,268.3	2,114.8	2,268.3	2,114.8
Additional Tier 1 (AT1) capital: instruments					
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	3.2	4.0	-	-
36	Additional Tier 1 (AT1) capital before regulatory adjustments	3.2	4.0	-	-
Additional Tier 1 (AT1) capital: regulatory adjustments					
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-	-	-	-
44	Additional Tier 1 (AT1) capital	3.2	4.0	-	-
45	Tier 1 capital (T1 = CET1 + AT1)	2,271.5	2,118.8	2,268.3	2,114.8
Tier 2 (T2) capital: instruments and provisions					
46	Capital instruments and the related share premium accounts	589.2	288.5	589.2	288.5
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	3.0	-	-
50	Credit risk adjustments	24.5	34.4	24.5	34.4
51	Tier 2 (T2) capital before regulatory adjustments	613.7	325.9	613.7	322.9
Tier 2 (T2) capital: regulatory adjustments					
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-	-	-

Table 26 Own funds disclosure template - Solo - Continued					
		Transitional		End-Point	
£m		2017	2016	2017	2016
58	**Tier 2 (T2) capital**	613.7	325.9	613.7	322.9
59	Total capital (TC = T1 + T2)	2,885.2	2,444.7	2,882.0	2,437.7
60	Total risk weighted assets	14,489.8	14,181.8	14,489.8	14,181.8
Capital ratios and buffers					
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.7%	14.9%	15.7%	14.9%
62	Tier 1 (as a percentage of total risk exposure amount)	15.7%	14.9%	15.7%	14.9%
63	Total capital (as a percentage of total risk exposure amount)	19.9%	17.2%	19.9%	17.2%
64	Institution specific buffer requirement (CET1 requirement in accordance with Article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	1.3%	0.6%	1.3%	0.6%
65	of which: capital conservation buffer requirement	1.3%	0.6%	1.3%	0.6%
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	8.0%	7.2%	8.0%	7.2%
Applicable caps on the inclusion of provisions in Tier 2					
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	24.5	34.4	24.5	34.4
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	181.1	177.3	181.1	177.3
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)					
82	Current cap on AT1 instruments subject to phase out arrangements	3.2	4.0	-	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	3.2	2.7	-	-

9.3 Appendix 3 – Capital Instruments Main Features Template

The table below contains the capital instruments of the Group and has been prepared in accordance with Commission Implementing Regulation (EU) 1423/2013.

Table 27 Capital instruments main features template

1	Issuer	Yorkshire Building Society	Yorkshire Building Society	Yorkshire Building Society	Yorkshire Building Society	Yorkshire Building Society	Yorkshire Building Society
2	Unique Identifier	XS1140677250	XS0096893465	XS0498549194	n/a	XS1681849300	XS0247065674
3	Governing law(s) of the instrument	English	English	English	English	English	English
Regulatory treatment							
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Additional Tier 1
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Ineligible
6	Eligible at solo/(sub-)consolidated / solo & (sub-)consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated	Solo and Consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	PIBS
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£249,344,728	£4,995,276	£26,844,308	£336,439	£307,663,563	£3,202,833
9	Nominal amount of instrument	£250,000,000	£3,900,000	£25,605,500	£5,000,000	£300,000,000	£6,056,000
9a	Issue price	99.267	97.983	100	100	99.389	100
9b	Redemption price	100	100	100	100	100	100
10	Accounting classification	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	20/11/2014	26/04/1999	01/04/2010	29/06/1990	13/09/2017	27/03/2006
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated	Perpetual
13	Original maturity date	20/11/2024	26/04/2024	01/04/2025	29/06/2018	13/09/2028	Perpetual
14	Issuer call subject to prior supervisory approval	Yes	n/a	n/a	n/a	Yes	n/a
15	Optional call date, contingent call dates and redemption amount	20/11/2019	n/a	n/a	n/a	13/09/2027	27/03/2019
16	Subsequent call dates, if applicable	n/a	n/a	n/a	n/a	n/a	Quarterly
Coupon / dividends							
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed	Floating	Fixed	Fixed
18	Coupon rate and any related index	4.125	6.375	13.500	3mL + 50bp	3.375	5.649
19	Existence of a dividend stopper	n/a	n/a	n/a	n/a	n/a	n/a
20 a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	n/a	n/a	n/a	n/a	n/a	Fully
20 b	Fully discretionary, partially discretionary or mandatory (in terms of timing)	n/a	n/a	n/a	n/a	n/a	Fully

Table 27 Capital instruments main features template - Continued

21	Existence of step up or other incentive to redeem	No	No	No	No	No	No
22	Non-cumulative or cumulative	n/a	n/a	n/a	n/a	n/a	n/a
23	Convertible or non-convertible	Non-convertible	Non-convertible	Convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	n/a	n/a	CET < 5% contractual approach	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	Fully	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	100	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	Mandatory	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	Profit Participating Deferred Shares (PPDS)	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	Yorkshire Building Society	n/a	n/a	n/a
30	Write-down features	n/a	n/a	n/a	n/a	n/a	n/a
31	If write-down, write-down trigger(s)	n/a	n/a	n/a	n/a	n/a	n/a
32	If write-down, full or partial	n/a	n/a	n/a	n/a	n/a	n/a
33	If write-down, permanent or temporary	n/a	n/a	n/a	n/a	n/a	n/a
34	If temporary write-down, description of write-up mechanism	n/a	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Tier 2
36	Non-compliant transitioned features	No	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a	n/a

9.4 Appendix 4 - Leverage Disclosure Template

The table below contains the CRR leverage ratio disclosure and has been prepared in accordance with Commission implementing Regulation (EU) 2016/200; blank cells have been removed from the template.

Reference date	31 December 2017
Entity name	Yorkshire Building Society
Level of application	Consolidated

Table 28 LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

£m		Group
1	Total assets as per published financial statements	42,041.7
4	Adjustments for derivative financial instruments	(151.3)
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3,338.7
7	Other adjustments	(104.3)
8	**Leverage ratio total exposure measure**	**45,124.8**

Table 28 LRCom: Leverage ratio common disclosure

£m		Group
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	41,449.9
2	(Asset amounts deducted in determining Tier 1 capital)	(104.3)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)**	**41,345.6**
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	508.6
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	163.1
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(231.2)
11	Total derivatives exposures	**440.5**
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	4,196.2
18	(Adjustments for conversion to credit equivalent amounts)	(857.5)
19	**Other off-balance sheet exposures**	**3,338.7**
Capital and total exposure measure		
20	**Tier 1 capital**	2,286.9
21	**Leverage ratio total exposure measure**	**45,124.8**

Leverage Ratios		
22	Leverage ratio	5.1%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
£m		**Group**
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	41,449.9
EU-3	Banking book exposures, of which:	41,449.9
EU-5	Exposures treated as sovereigns	5,727.3
EU-7	Institutions	170.2
EU-8	Secured by mortgages of immovable properties	35,024.4
EU-11	Exposures in default	149.4
EU-12	Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	378.6

Table 28 LRQua: Free format text boxes for disclosure on qualitative items

1 Description of the processes used to manage the risk of excessive leverage

The Group has a CRR leverage ratio of 5.1%, and a leverage ratio excluding assets constituting as claims on central banks of 5.7%. The PRA released policy statement ‘UK leverage ratio: treatment of claims on central banks’ (PS21/17) in October 2017, increasing the minimum leverage ratio to 3.25% and allowing the exclusion from the calculation of the leverage exposure those assets constituting claims on central banks, where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity. The leverage ratio remains in force for the UK’s largest institutions; with the policy statement applying to PRA regulated banks and building societies with retail deposits equal to or greater than £50bn; as such, the Group is currently not within the scope of this policy statement. The FPC will be reviewing the leverage ratio framework in 2018, including when this will become mandatory for all other institutions (including the Group). The Group is confident that it will remain above this minimum requirement. The Leverage ratio is a key risk indicator for the Group and is monitored by the Board quarterly, with the Group producing a strategic reassessment of its leverage risk appetite annually. The Group produces a five year capital plan of the leverage ratio annually, reforecasting this position more frequently during the year.

2 Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers.

The key factors impacting the Group’s CRR leverage ratio during the period are primarily an increase in Tier 1 capital due to increased general reserves offset by increased leverage exposure due to an increase in central government and central banks’ exposure.

9.5 Appendix 5 - Countercyclical Capital Buffer

The table below contains the Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer and has been prepared in accordance with Commission Delegated Regulation (EU) 2015/1555.

In accordance with Commission Delegated Regulation (EU) 1152/2014, due to foreign exposures not exceeding 2% of the Group's aggregate exposures, all exposures have been allocated to the UK. For the purposes of this calculation this includes loans secured by mortgages on immoveable property, retail, securitisation positions and other assets. The Group has no trading book exposures.

Table 29: Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer
£m

	General Credit Exposures		Securitisation exposure		Own funds requirements					
Breakdown by country	Exposure value for SA	Exposure value for IRB	Exposure value for SA	Exposure value for IRB	Of which: General credit exposures	Of which: Trading book exposures	Of which: Securitisation exposures	Total	Own funds requirement weights	Countercyclical capital buffer rate
UK	36,207.1	-	3.9	-	1,060.6	-	0.7	1,061.3	100.0%	0%

The table below contains the Group's specific countercyclical buffer rate.

Table 30: Amount of institution-specific countercyclical capital buffer
£m

Total risk exposure amount*	14,449.4
Institution specific countercyclical buffer rate	0%
Institution specific countercyclical buffer requirement	0%

* The total risk exposure amount provided is equal to total RWAs.

Glossary

Additional Tier 1 (AT1)	Any remaining eligible Permanent Interest Bearing Shares (PIBS).
Arrears	A customer is defined as being in arrears when they fall behind in meeting their obligations to pay their mortgage and as a result there is an outstanding loan commitment that is overdue.
Average Risk Weight (RW)	Risk weighted assets divided by capital exposure.
Common Equity Tier 1 (CET1) capital	The highest quality regulatory capital resources, comprising retained earnings less regulatory adjustments, as defined under CRD IV. Equivalent to Core Tier 1 defined under previous CRD legislation.
Common Equity Tier 1 capital ratio	The ratio of Common Equity Tier 1 Capital to Risk Weighted Assets.
Counterparty Credit Risk	Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.
Credit Quality Steps (CQS)	A credit quality assessment scale as set out in CRD IV.
CRD IV	A package of legislation incorporating a Regulation (CRR) and a Directive (CRD) that implements the Basel III framework in Europe.
Credit risk	The risk of financial loss arising from a failure of a customer or counterparty to settle their financial and contractual obligations as they fall due.
Credit risk mitigation	Techniques to reduce the potential loss in the event that a customer (borrower or counterparty) becomes unable to meet its obligations. This may include the taking of financial or physical security, the assignment of receivables or the use of credit derivatives, guarantees, credit insurance, set off or netting.
Credit Valuation Adjustment (CVA)	These are adjustments applied to the fair values of derivatives to reflect the creditworthiness of the counterparty.
External Credit Assessment Institution (ECAI)	An ECAI (e.g. Moody's, Standard and Poor's, Fitch) is an institution that assigns credit ratings to issuers of certain types of debt obligations as well as the debt instruments themselves.
EEA parent institution	A parent financial institution situated in a Member State of the European Economic Area which is not a subsidiary of another financial institution also situated in the EEA.
Financial Conduct Authority (FCA)	The UK conduct regulator which is responsible for regulation of conduct in retail, as well as wholesale, financial markets and the infrastructure that supports those markets. The FCA's objective is to protect consumers, promote competition and enhance market integrity.
Guarantee	An agreement by a third party to cover the potential loss to a credit institution should a specified counterparty default on their obligations.
Individual Capital Assessment (ICA)	The document produced as a result of the ICAAP.
Internal Capital Adequacy Assessment Process (ICAAP)	The Group's internal assessment of the levels of capital that need to be held by the Group to meet its regulatory capital requirements.
Individual Capital Guidance (ICG)	The minimum amount of capital the Group should hold as set by the PRA under Pillar 2.

Individual Liquidity Adequacy Assessment (ILAA)	The Group's internal assessment of the levels of liquidity that need to be held by the Group to meet its regulatory liquidity requirements.
Interest rate risk	Interest rate risk is the exposure of a firm's financial condition to adverse movements in interest rates.
Impaired loans	Loans where there is evidence to suggest a measurable decrease in the present value of cash flows expected which has occurred after initial recognition of the asset, but before the statement of financial position date.
Individually impaired loans	Where retail or commercial mortgages are in arrears by three months or more, they are individually assessed for impairment. Commercial loans less than three months in arrears are also individually impaired where other factors suggest a measurable decrease in the present value of their future cash flows.
Internal Ratings Based (IRB)	Approach to calculating capital requirements where lenders use their own models of risk to determine the appropriate minimum capital requirement.
International Swaps and Derivatives Association (ISDA)	The global trade association for over-the-counter (OTC) derivatives, and providers of the industry-standard ISDA documentation.
Loan-to-value ratio (LTV)	A ratio showing outstanding loan balance as a percentage of the value of the security.
Maturity	The remaining time in years that a borrower is permitted to take to fully discharge their contractual obligation (principal, interest and fees) under the terms of a loan agreement.
Minimum Capital Requirement	The minimum amount of regulatory capital that a financial institution must hold to meet the Pillar 1 requirements for credit, operational risk and market risk.
Minimum Requirement of Eligible Liabilities (MREL)	The minimum requirements a financial institution must hold to meet the loss absorption and recapitalisation components if an institution were to fail.
Netting	The ability to reduce credit risk exposures by offsetting the value of any deposits against loans to the same counterparty.
Operational risk	The risk of direct and indirect loss resulting from inadequate or failed internal processes, people and systems or from external events.
Past due	Loans which are in arrears by 3 months or more.
Permanent Interest Bearing Shares (PIBS)	Unsecured, sterling denominated Tier 1 capital instruments repayable at the option of the Group.
Pillar 1	The part of the Basel III Framework which sets out the regulatory minimum capital requirements for credit and operational risk.
Pillar 2	The part of the Basel III Framework which sets out the processes by which financial institutions review their overall capital adequacy. Supervisors then evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments. This includes all risks (including Pillar 1 risks) – ICG is an outcome from Pillar 2.
Pillar 3	The part of the Basel III Framework which sets out the disclosure requirements for firms to publish details of their risks, capital and risk management. The aims are greater transparency and strengthening market discipline.
Provisions	Amounts set aside to cover incurred losses associated with credit risks.

Glossary continued...

Prudential Regulation Authority (PRA)	The UK prudential regulator, which is a part of the Bank of England and alongside the FCA, has responsibility for the oversight of building societies, banks and insurers. The PRA's objective is to promote the safety and soundness of regulated firms.
Prudent Valuation Adjustment (PVA)	A regulatory deduction applied to CRD IV Common Equity Tier 1 capital calculated in accordance with Article 105 of the Capital Requirements Regulation (CRR). The purpose of the Prudent Valuation Adjustment is to ensure that the valuation of financial instruments for capital reporting is at the more conservative end of any range of plausible valuations.
Resecuritisation	A securitisation transaction or scheme that includes at least one securitisation within its underlying asset pool.
Risk Weighted Assets (RWA)	A regulatory measure that adjusts the value of assets to reflect their level of risk when calculating capital requirements.
Securitisation	A transaction or scheme where assets are sold to a Special Purpose Vehicle (SPV) in return for immediate cash payment. That vehicle raises the immediate cash payment by issuing debt securities in the form of tradable notes or commercial paper to wholesale investors who receive an income from the underlying assets. Some risk is retained on the balance sheet while the remaining risk is transferred to investors. Securitisations may be purchased or retained.
SME	Small and medium-sized enterprise.
SREP	Supervisory Review and Evaluation Process, the PRA assessment of a firm's own capital assessment (ICA) under Basel III Pillar 2.
Stress testing	Various techniques that are used to gauge the potential vulnerability to exceptional but plausible events.
Subordinated debt	Tier 2 capital that is subordinated to the claims of all depositors, creditors and members holding shares in the Group (other than holders of PIBS).
The Standardised Approach (credit risks)	The standardised approach to credit risk, calculated by applying varying RWA percentages to credit exposures, depending on the underlying risk.
The Standardised Approach (operational risks)	The standardised approach to operational risk, calculated using three-year historical net income multiplied by a factor of between 12-18%, depending on the underlying business being considered.
Tier 1 (T1) capital	The sum total of Common Equity Tier 1 and Additional Tier 1 capital.
Tier 1 capital ratio	The ratio of Tier 1 capital to Risk Weighted Assets.
Tier 2 (T2) capital	A measure of regulatory capital that includes subordinated liabilities and provisions for collective impairment, less regulatory adjustments.
Total capital ratio	The ratio of total capital to Risk Weighted Assets.
Total Capital Requirement (TCR)	The total of Pillar 1 requirements and Pillar 2A requirements

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