Northern Bank Limited
Basel Pillar III Disclosure

31 DECEMBER 2017

Northern Bank Limited Pillar 3 Disclosures

Introduction

Background

The Board of Directors (The Board) of Northern Bank Limited (the 'Bank') present their Pillar III Disclosure for the year ended 31 December 2017.

The Bank is authorised under the Financial Services and Markets Act 2000 and is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

The Bank is the principal operating subsidiary of the Danske Bank Group (the 'Group') in the UK.

Following the publication of the Basel III Accord, the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD), together referred to as CRD IV, came into force on 1 January 2014. CRD IV is enforced in the UK, together with local implementing rules and guidance by the PRA.

CRD IV contains the following three pillars:

Pillar I – Minimum capital requirements
Pillar I contains mechanisms and requirements for the calculation by financial institutions of their minimum capital requirements for credit risk, market risk and operational risk.

Pillar II – Supervisory review process
Pillar II is intended to ensure that each financial institution has sound internal processes in place to assess the adequacy of its capital, based on a thorough evaluation of its risks.

Pillar III – Enhanced disclosure (Discipline of Market)
Pillar III outlines market discipline such as requirements for the disclosure of risk and capital information, as specified in the Basel rules, to promote transparency and good risk management, allowing the market to assess and compare the capital adequacy of firms.

The Pillar III disclosure requirements from the Basel Accord have been implemented in EU law via Part Eight of Regulation (EU) No 575/2013 (the CRR). The Bank's Pillar III Disclosure has been prepared in accordance with CRD IV as implemented into UK legislation and in accordance with the Bank's Pillar III Disclosure policy.

The Bank's Pillar III Disclosure should be read in conjunction with the Bank's Annual Report and Financial Statements for the year ended 31 December 2017 as well as the Group's Risk Management Report, located on the Group's website.

All amounts are expressed in pounds sterling and whole thousands or millions as denoted, unless otherwise stated. As a result, rounding discrepancies may occur because sum totals have been rounded off and the underlying hundreds or thousands are not presented to the users of the Disclosure.

Scope of application

The Bank is required to produce a Pillar III Disclosure as a subsidiary of material significance for its local market, in accordance with Article 13(1) of the CRR.

Per Article 13(1) of the CRR, the Bank is required to disclose the information specified in Articles 437, 438, 440, 442, 450, 451 and 453, on an individual or sub-consolidated basis.

Frequency

Article 433 of the CRR requires information listed in Part Eight of the same regulation to be published in conjunction with the date of publication of the financial statements.

In addition, Article 433 of the CRR and the European Banking Authority (EBA) guidelines require that the Bank discloses information on at least an annual basis. The Bank will assess each year the need to provide more frequent disclosures.

Format

In December 2016, the EBA issued guidelines to ensure the harmonized and timely implementation of the Pillar III framework in the EU. These guidelines were amended in June 2017 and do not change the substance of the regulatory disclosures regarding the requirements defined in Part Eight of the CRR, but provide guidance on these disclosures from a presentational aspect.

The EBA Guidelines currently apply in full to G-SII and O-SII institutions, and therefore Northern Bank Limited is not required to comply with the EBA Guidelines in full.

The Bank has produced the Pillar III Disclosure in line with the European Commission implementing regulations in conjunction with the requirements set out in Part Eight of the CRR for the disclosure requirements under Article 13(1). In addition, the Bank has adopted certain recommended templates from the EBA Guidelines for the disclosure requirements that are applicable to the Bank in accordance with Article 13(1) of the CRR.

Verification

Information which is sourced from the Bank's Annual Report and Financial Statements has been subject to external audit review. The Pillar III Disclosure is subject to a robust governance process, in line with the Pillar III Disclosure Policy, including review by internal audit and final approval by the Board Risk Committee.

Media

The Bank's Pillar III Disclosure is published on the Bank's website:

https://www.danskebank.co.uk/en-gb/About-the-bank/Media-and-Press/Pages/media-press.aspx

The Bank's Annual Report and Financial Statements are filed with Companies House.

Consolidation

The Bank is a wholly owned subsidiary of Danske Bank Group.

The Bank holds 100% of the ordinary share capital of its subsidiaries. All its subsidiary undertakings are incorporated in the UK. None of the subsidiaries of the Bank traded during the current year.

The subsidiary undertakings of the Bank are:

- Northern Bank Factors Limited;
- Northern Bank Nominees Limited;
- Northern Bank Pension Trust Limited; and
- Northern Bank Executor and Trustee Company Limited.

These subsidiaries of the Bank are dormant and are expected to remain so. The registered office of all the subsidiary undertakings is Donegall Square West, Belfast BT1 6JS.

Risk management

Under Article 13(1) of the CRR, whilst not required to disclose information in Article 435, details of the Bank's risk management are contained within the Strategic Report of the Bank's Annual Report and Financial Statements.

In addition, details of the Group's approach to risk management are disclosed in the Group's Risk Management Report, published on the Danske Bank A/S website.

1 Own Funds

Table 1.1 below provides a reconciliation of the Bank's Equity on a statutory accounting basis, as reported in the Annual Report and Financial Statements, to the Bank's Regulatory Capital, in accordance with Article 2 of the Commission Implementing Regulation (EU) No 1423/2013.

Balance Sheet Reconciliation	
£m	At 31 December 2017
Balance Sheet:	
Permanent share capital	218
Retained Earnings	261
Share premium account	307
Revaluation reserve	35
Available For Sale Reserve	(1)
Cash Flow Hedge Reserve	-
Shareholders of Northern Bank Limited	**820**
Deduct:	
Profit to be verified for inclusion in regulatory capital	(120)
Less pension fund asset	(154)
Less deferred tax asset	(1)
Less intangible asset	-
Prudent valuation adjustment	-
Total regulatory CET 1 capital after deductions	**545**
Additional Tier 1 Capital	97
Tier 2 Capital	126
Total regulatory Capital after deductions	**768**
Total regulatory CET 1 capital after deductions	**545**
Add back:	
Pension Fund Asset	154
Deferred Tax Asset	1
Profit to be verified for inclusion in regulatory capital	120
Intangible Asset	-
Cash Flow Hedge Reserve	-
Prudent Valuation Adjustment	-
Additional Tier 1 Capital	97
Total Statutory Equity	**917**

Table 1.2 below provides information on the CET1, AT1 and Tier 2 capital instruments in accordance with Article 3 of the Commission Implementing Regulation (EU) No 1423/2013.

Capital instruments main features						
At 31 December 2017, £						
1	Issuer	Northern Bank Limited	Northern Bank Limited	Northern Bank Limited	Northern Bank Limited	Northern Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN, or Bloomberg identifier for private placement)	n/a	n/a	n/a	n/a	n/a
3	Governing law(s) of the instrument	English Law	English Law and Northern Irish Law regarding status and subordination and winding-up	English Law and Northern Irish Law regarding status and subordination	English Law and Northern Irish Law regarding status and subordination	English Law and Northern Irish Law regarding status and subordination
	Regulatory treatment					
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Additional Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Tier 2	Additional Tier 1	Tier 2
6	Eligible at solo/(sub-) consolidated/ solo & (sub-) consolidated	Solo and Group	Solo and Group	Solo and Group	Solo and Group	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	Common shares	Other Additional Tier 1	Tier 2 Subordinated debt	Other Additional Tier 1	Tier 2 Subordinated debt
8	Amount recognised in regulatory capital (Currency in millions, as of most recent reporting date)	£525m	£81m	£100m	£16m	£26m
9	Nominal amount of instrument	£218m	£80m	£100m	£16m	£26m
9a	Issue price	£1 each	£1m	£1m	£1m	£1m
9b	Redemption price	Non-redeemable	Principal amount together with interest accrued	Principal amount together with interest accrued	Principal amount together with interest accrued	Principal amount together with interest accrued
10	Accounting classification	Shareholders' equity	Shareholders' equity	Liability - amortised cost	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	Multiple issue dates	12/01/2015	12/01/2015	19/12/2017	19/12/2017
12	Perpetual or dated	Perpetual	Perpetual	Dated	Perpetual	Dated
13	Original maturity date	No maturity	No maturity	12/01/2027	No maturity	19/12/2029
14	Issuer call subject to prior supervisory approval	n/a	Yes	Yes	Yes	Yes

Capital instruments main features						
At 31 December 2017, £						
15	Optional call date, contingent call dates and redemption amount	n/a	12/01/2020 First Call Date. Instrument has a tax and regulatory event call option. Principal Amount and Accrued Interest	12/01/2022 First Call date. Instrument has a tax and regulatory event call option. Principal Amount and Accrued Interest	19/12/2022 First Call Date. Instrument has a tax and regulatory event call option. Principal Amount and Accrued Interest.	19/12/2024 First Call date. Instrument has a tax and regulatory event call option. Principal Amount and Accrued Interest.
16	Subsequent call dates, if applicable	n/a	Each Interest Payment Date thereafter	Each Interest Payment Date thereafter	Each Interest Payment Date thereafter	Each Interest Payment Date thereafter
	Coupons/dividends					
17	Fixed or floating dividend/coupon	n/a	Floating	Floating	Floating	Floating
18	Coupon rate and any related index	As declared	525bps over 3 month LIBOR	200bps over 3 month LIBOR	355bps over 3 month LIBOR	140bps over 3 month LIBOR
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially or mandatory (in terms of timing)	Fully discretionary	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory	Fully discretionary	Mandatory
21	Existence of a step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	n/a	n/a	n/a	n/a	n/a
25	If convertible, fully or partially	n/a	n/a	n/a	n/a	n/a
26	If convertible, conversion rate	n/a	n/a	n/a	n/a	n/a
27	If convertible, mandatory or optional conversion	n/a	n/a	n/a	n/a	n/a
28	If convertible, specify instrument type convertible into	n/a	n/a	n/a	n/a	n/a
29	If convertible, specify issuer of instrument it converts into	n/a	n/a	n/a	n/a	n/a
30	Write-down feature	No	Yes	No	Yes	No
31	If write-down, write-down trigger (s)	n/a	Loss Absorption Event shall occur if: (a) the CET1 Capital Ratio of the Issuer falls below 7%; and/or	n/a	Loss Absorption Event shall occur if: (a) the CET1 Capital Ratio of the Issuer falls below 7%; and/or	n/a

Capital instruments main features							
At 31 December 2017, £							
			(b) the CET1 Capital Ratio of the Group falls below 7% If a Loss Absorption Event occurs, the Issuer shall immediately notify the Regulator and Security holders and an automatic write-down shall occur		(b) the CET1 Capital Ratio of the Group falls below 7% If a Loss Absorption Event occurs, the Issuer shall immediately notify the Regulator and Security holders and an automatic write-down shall occur	
32	If write-down, full or partial	n/a	Full	n/a	Full	n/a
33	If write-down, permanent or temporary	n/a	Permanent	NA	Permanent	NA
34	If temporary write-down, description of write-down mechanism	n/a	n/a	n/a	n/a	n/a
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Most junior. Instrument Type immediately senior: Additional Tier 1	The Securities constitute direct, unsecured and subordinated securities of the Issuer and rank pari passu, without any preference among themselves Instrument Type immediately senior: Tier 2	The Notes constitute direct, unsecured and subordinated securities of the Issuer and rank pari passu, without any preference among themselves. Instrument Type immediately senior: Most senior	The Securities constitute direct, unsecured and subordinated securities of the Issuer and rank pari passu, without any preference among themselves. Instrument Type immediately senior: Tier 2	The Notes constitute direct, unsecured and subordinated securities of the Issuer and rank pari passu, without any preference among themselves. Instrument Type immediately senior: Most senior
36	Non-compliant transitioned features	No	No	No	No	No
37	If yes, specify non-compliant features	n/a	n/a	n/a	n/a	n/a

Table 1.3 below provides information on the CET1, AT1 and Tier 2 capital instruments in accordance with Article 5 of the Commission Implementing Regulation (EU) No 1423/2013.

Transitional own funds disclosure				
	Common Equity Tier 1 capital: instruments and reserves	At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
1	Capital instruments and the related share premium accounts	525	26 (1), 27, 28, 29, EBA list 26 (3)	525
	of which: Instrument type 1		EBA list 26 (3)	
	of which: Instrument type 2		EBA list 26 (3)	
	of which: Instrument type 3		EBA list 26 (3)	
2	Retained earnings	99	26 (1) (c)	99
3	Accumulated other comprehensive income (and any other reserves)	76	26 (1)	76
3a	Funds for general banking risk		26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		486 (2)	
	Public sector capital injections grandfathered until 1 January 2018		483 (2)	
5	Minority interests (amount allowed in consolidated CET1)		84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	700		700
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-	34, 105	-
8	Intangible assets (net of related tax liability) (negative amount)	-	36 (1) (b), 37, 472 (4)	-
9	Empty set in the EU			
10	Deferred tax assets that rely on future profitability excluding those arising from temporary difference (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(35)	36 (1) (c), 38, 472 (5)	(35)
11	Fair value reserves related to gains or losses on cash flow hedges	-	33 (a)	-
12	Negative amounts resulting from the calculation of expected loss amounts		36 (1) (d), 40, 159, 472 (6)	
13	Any increase in equity that results from securitised assets (negative amount)		32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (1) (b) (c)	
15	Defined-benefit pension fund assets (negative amount)	(120)	36 (1) (e), 41, 472 (7)	(120)
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42, 472 (8)	
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)	

Transitional own funds disclosure				
Common Equity Tier 1 capital: instruments and reserves		At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	
20	Empty set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91	
20c	of which: securitisation positions (negative amount)		36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258	
20d	of which: free deliveries (negative amount)		36 (1) (k) (iii), 379 (3)	
21	Deferred tax assets arising from temporary difference (amount above 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
22	Amount exceeding the 15% threshold (negative amount)		48 (1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		36 (1) (i), 48 (1) (b), 470, 472 (11)	
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary difference		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
25a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)		36 (1) (l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment			
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468			
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR		481	
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		36 (1) (j)	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	(155)		(155)
29	**Common Equity Tier 1 (CET1) capital**	545		545
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	97	51, 52	97

Transitional own funds disclosure				
	Common Equity Tier 1 capital: instruments and reserves	At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
31	of which: classified as equity under applicable accounting standards			
32	of which: classified as liabilities under applicable accounting standards			
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		486 (3)	
	Public sector capital injections grandfathered until 1 January 2018		483 (3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	
35	of which: instruments issued by subsidiaries subject to phase-out		486 (3)	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	97		97
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)	
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)	
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)	
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)	
41	Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 585/2013 (i.e. CRR residual amounts)			
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 473(3)(a), 472 (4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		477, 477 (3), 477 (4) (a)	
41c	Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR		467, 468, 481	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		56 (e)	
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-		-
44	**Additional Tier 1 (AT1) capital**	97		97
45	**Tier 1 capital (T1 = CET1 + AT1)**	642		642
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	126	62, 63	126

Transitional own funds disclosure				
	Common Equity Tier 1 capital: instruments and reserves	At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		486 (4)	
	Public sector capital injections grandfathered until 1 January 2018		483 (4)	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		87, 88, 480	
49	of which: instruments issued by subsidiaries subject to phase-out		486 (4)	
50	Credit risk adjustments		62 (c) & (d)	
51	**Tier 2 (T2) capital before regulatory adjustment**	126		126
Tier 2 (T2) capital: regulatory adjustments				
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		66 (b), 68, 477 (3)	
54	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		66 (c), 69, 70, 79, 477 (4)	
54a	Of which new holdings not subject to transitional arrangements			
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements			
55	Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		66 (d), 69, 79, 477 (4)	
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)			
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013		472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013		475, 475 (2) (a), 475 (3), 475 (4) (a)	
56c	Amounts to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre- CRR		467, 468, 481	
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-		-
58	**Tier 2 (T2) capital**	126		126
59	**Total capital (TC = T1 + T2)**	768		768

Danske Bank

Transitional own funds disclosure				
Common Equity Tier 1 capital: instruments and reserves		At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)			
	Of which:... items not deducted from CET1 (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc.)			
	Of which:...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc.)			
	Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own T2 instruments, indirect holdings of non-significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc.)			
60	**Total risk-weighted assets**	4,193		4,193
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	13.0%	92 (2) (a), 465	13.0%
62	Tier 1 (as a percentage of total risk exposure amount	15.3%	92 (2) (b), 465	15.3%
63	Total capital (as a percentage of total risk exposure amount	18.3%	92 (2) (c)	18.3%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	7.0%	CRD 128, 129, 140	7.0%
65	of which: capital conservation buffer requirement	2.5%		2.5%
66	of which: countercyclical buffer requirement			
67	of which: systemic risk buffer requirement			
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		CRD 131	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5.5%	CRD 128	5.5%
69	[non-relevant in EU regulation]			
70	[non-relevant in EU regulation]			
71	[non-relevant in EU regulation]			
Amounts below the thresholds for deduction (before risk-weighting)				
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions		36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4), 66 (c), 69, 70, 477 (4)	

Transitional own funds disclosure

Common Equity Tier 1 capital: instruments and reserves		At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions		36 (1) (i), 45, 48, 470, 472 (11)	
74	Empty set in the EU			
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)		36 (1) (c), 38, 48, 470, 472 (5)	
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)		62	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		62	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		62	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)				
80	- Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486 (2) & (5)	
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (3), 486 (2) & (5)	
82	- Current cap on AT1 instruments subject to phase-out arrangements		484 (4), 486 (3) & (5)	-
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) & (5)	
84	- Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486 (4) & (5)	
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) & (5)	

1.4: A description of all restrictions applied to the calculation of own funds and the instruments prudential filters and deductions to which those restrictions apply

Common Equity tier 1 Capital

Starting with total equity under IFRS, the Bank makes a number of adjustments in order to determine its CET1 capital.

In accordance with IFRS, total equity is made up of:

- Share capital and retained profit;
- Additional Tier 1 Capital;
- Revaluation of domicile property is recognised at the estimated fair value; and
- Available for Sale Reserve and Cash Flow Hedge Reserve arising from fair value adjustments.

Total equity is also subject to the following deductions to determine CET1 capital in accordance with the CRR:

- Profit to be verified for inclusion in regulatory capital;
- Deferred tax asset;
- Defined benefit pension fund asset;
- Carrying amounts of intangible assets;
- Prudential filters and
- Additional Tier 1 capital.

The CRR-compliant additional tier 1 capital instruments issued in January 2015 and December 2017 count as equity under accounting rules, but do not qualify as equity under capital and solvency rules. The additional instruments are therefore excluded from CET1 capital instruments and instead categorised as additional tier 1 capital.

2 Capital Requirements

2.1: A summary of the Bank's approach to assessing the adequacy of its internal capital to support current and future activities

The Bank's capital planning takes into account both short-term and long-term horizons in order to give the Board a comprehensive view of current and future capital levels. The capital plan includes a forecast of the Bank's expected capital performance based on budgets and takes pending regulation into account when future capital requirements are assessed. The Bank also uses stress tests in its internal capital planning and compliance with regulatory capital requirements.

The Bank uses macroeconomic stress tests in the Internal Capital Adequacy Assessment Process (ICAAP) for the purpose of projecting its solvency need and actual capital level in various unfavourable scenarios. Stress tests are an important means of analysing the risk profile since they give management a better understanding of how the Bank's portfolios are affected by macroeconomic changes, including the effects of undesirable events on the Bank's capital.

When the Bank uses stress tests in its capital planning, it applies stress to risks, income and the cost structure. Stressing income and costs affects the Bank's capital, while stressing risk exposures affects its solvency need. The Bank evaluates the main scenarios and their relevance on an ongoing basis. The scenarios that are most relevant to the current economic situation and related risks are analysed at least once a year. New scenarios may be added when necessary. The scenarios are an essential part of the Bank's capital planning in the ICAAP.

Internal stress test

The Bank's internal stress tests are based on various scenarios, each consisting of a set of macroeconomic variables. The scenarios are submitted to the Board of Directors for approval.

The following outlines the Bank's most important stress test scenarios:

Scenario	Description and Use
Recession Scenario	This scenario is based on a domestic recession, but this happens in isolation and is not linked to a wider global downturn. Business investment and consumer spending growth turn negative and so domestic economic output contracts. A depreciation in the pound leads to increased inflationary pressures but interest rates are cut to support the economy. Uncertainty has an impact on businesses' employment and recruitment decisions and so unemployment rises. This rise in unemployment, shrinking real wages and heightened uncertainty all contribute to a weakening in demand for housing and so house prices fall sharply.
Extreme Recession	This scenario involves a global downturn in output growth and increased financial market volatility. The global downturn impacts the domestic economy which experiences a sharp contraction in output. Unemployment rises sharply and this contributes towards a falls in consumer spending. This is a low inflation, low interest rate scenario. The low inflation was driven by reduced levels of demand in the economy and interest rates were assumed to be accommodative in an attempt to support economic activity and increase inflation. The scenario also involves a sharp fall in residential house prices.
Other Scenarios	Besides the main scenarios listed above, the Bank also uses various specialised or portfolio-specific scenarios that provide management an understanding of how the Bank will be affected by specific events.

External stress test

Danske Bank also participates in the EU-wide external stress test conducted by the EBA every second year. The purpose of the EBA stress test is to assess the health of the European banking sector in the stress scenario and the ability of the individual banks to absorb losses in various economic scenarios. According to the latest stress test, which was conducted in the spring of 2016, the Group met the capital requirements with a solid margin.

In conclusion, the results of both internal and external stress tests show that the Bank is robust in the event of unfavourable economic developments in the selected stress test scenarios.

The Bank has adopted the Standardised Approach to assess its risk weightings. Table 2.2 below shows the amount of capital, excluding capital buffers, the Bank is required to set aside to meet the Pillar 1 minimum capital requirement of 8% of Risk Weighted Assets (RWA).

Overview of RWAs			
£m		Risk-weighted Assets (RWAs)	Minimum capital requirements (Pillar 1)
		At 31 December 2017	At 31 December 2017
1	Credit risk (CR)	3,809	305
2	*of which:*		
3	*CR - standardised approach*	3,809	305
4	*CR - foundation IRB (FIRB) approach*	-	-
5	*CR - advanced IRB (AIRB) approach*	-	-
6	*CR - equity IRB under the simple risk-weighted approach or the IMA*	-	-
7	Counterparty credit risk (CCR)	8	1
8	*of which:*		
9	*CCR - mark to market*	-	-
10	*CCR - original exposure*	-	-
11	*CCR - standardised approach*	8	1
12	*CCR - internal model method (IMM)*	-	-
13	*CCR - CCP trade exposures and default fund contributions*	-	-
14	*CCR - CVA*	-	-
15	Settlement risk	-	-
16	Securitisation exposures in the banking book (after the cap)	-	-
17	*of which:*		
18	*Securitisations - IRB approach*	-	-
19	*Securitisations - IRB supervised formula approach (SFA)*	-	-
20	*Securitisations - internal assessment approach (IAA)*	-	-
21	*Securitisations - standardised approach*	-	-
22	Market risk (MR)	-	-
23	*of which:*		
24	*MR - standardised approach*	-	-
25	*MR - IMA*	-	-
26	*Large exposures*	-	-
27	Operational risk (OR)	376	30
28	*of which:*		
29	*OR - basic indicator approach*	-	-
30	*OR - standardised approach*	376	30
31	*OR - advance measurement approach*	-	-
32	Amounts below the threshold for deduction (subject to 250% risk weight)	-	-
33	Floor adjustment*	-	-
34	**Total**	**4,193**	**336**
* Floor adjustment is not the binding constraint on the capital requirement			

3 Capital Buffers

Table 3.1 below shows the geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer. In accordance with the Commission Delegated Regulation (EU) No 1152/2014, under Article 2(5) (b), the Bank is able to allocate foreign exposures, whose aggregate does not exceed 2% of the aggregate of the general credit exposures, to the Bank's home Member State.

In order to provide additional transparency, the Bank has aggregated its foreign exposures to Rest of Europe and Rest of World, excluding countries where a countercyclical buffer rate has been set.

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

At 31 December 2017 £m		General credit exposures		Trading book exposures		Securitisation exposures		Own fund requirements				Own Funds requirement weights	Countercyclical capital buffer rate
		Exposure value for SA	Exposure value for IRB	Sum of long and short positions of trading book exposures for SA	Value of trading book exposures for internal methods	Exposure value for SA	Exposure value for IRB	of which: General credit exposures	of which: Trading book exposures	of which: Securitisation exposures	Total		
010	UK – United Kingdom	5,353	-	-	-	-	-	294	-	-	294	0.9783	0.00%[1]
020	IE - Ireland	37	-	-	-	-	-	2	-	-	2	0.0082	0.00%
030	HK - Hong Kong	-	-	-	-	-	-	-	-	-	-	-	1.25%
040	NO - Norway	1	-	-	-	-	-	-	-	-	-	0.0001	2.00%
050	SE - Sweden	10	-	-	-	-	-	-	-	-	-	0.0003	2.00%
060	CZ - Czech Republic	-	-	-	-	-	-	-	-	-	-	0.0000	0.50%
070	IS - Iceland	-	-	-	-	-	-	-	-	-	-	0.0000	1.25%
080	Rest of Europe	48	-	-	-	-	-	4	-	-	4	0.0126	0.00%
090	Rest of World	3	-	-	-	-	-	-	-	-	-	0.0006	0.00%
	Total	**5,452**	-	-	-	-	-	**300**	-	-	**300**	1.0000	0.00%

Countercyclical capital buffer is calculated only for the relevant credit exposure classes as defined in Article 140(4) of the Capital Requirement Directive. Exposure classes not included in the calculation are exposures to a) central governments or central banks; b) regional governments or local authorities; c) public sector entities; d) multilateral development banks; e) international organisations; f) institutions.

[1] *It has been agreed by the BoE FPC that the Counter Cyclical Capital Buffer rate for the UK will increase to 0.5% in June 2018 and subsequently to 1.0% in November 2018.*

Table 3.2

Amount of institution-specific countercyclical capital buffer		
At 31 December 2017, £m		
		010
010	**Total risk exposure amount**	4,193
020	**Institution specific countercyclical buffer rate**	0.00%
030	**Institution specific countercyclical buffer requirement**	0.00

4 Credit Risk Adjustments

4.1: Disclosure of the Bank's definitions of past due and impaired

Past due

Loans or credit commitments are termed past due when the repayment of interest and / or principal is contractually overdue by at least one day.

Individual impairment charges

Individual impairment charges are charges booked for individual customers. If a customer facility is past due 90 days or more, the customer is considered to be in default and an impairment charge is recognised for the customer's total exposure. Significant loans and amounts due are tested individually for impairment at the end of each reporting period.

Loans without objective evidence of impairment (OEI) are included in a collective assessment of the need for impairment charges. The collective assessment also includes customers with OEI but without a need for impairment.

4.2: Description of the approaches and methods adopted for determining specific and general credit risk adjustments

Credit process

The credit process ensures that loans are granted within customers' financial capacity and that distressed and non-performing loans are identified at an early stage and managed proactively. Assessing a customer's financial capacity is an element of the credit approval process. The Bank follows a policy of mitigating credit risk by means of guarantees and / or collateralisation. The credit control environment verifies that credit facilities granted are in compliance with credit policies and directives and in alignment with the Group's Credit Risk Appetite. Credit exposures are monitored so that credit plans and / or forbearance measures can be applied for distressed loans and impairment charges can be calculated for non-performing loans.

Rating and scoring

The Bank uses a number of probability of default (PD) models to assess the probability of default of customers in various segments.

Corporate and financial customers are classified by rating models, while small business customers and personal customers are classified by scoring models. Under an outsourcing arrangement, Group Risk Management maintain the rating and scoring models and processes.

Impairment charges and non-performing loans

The Bank conducts impairment tests, assessing all credit facilities for objective evidence of impairment (OEI) in accordance with IFRS.

Impairment charges are based on discounted cash flows. The Bank's systems calculate impairment charges for small loans (i.e. <£500k) automatically, taking into account the discounted market value of the collateral assets after a deduction of the costs of realising the assets (a haircut, according to International Accounting Standard (IAS) 39). Impairment charges for all medium and large exposures with OEI (i.e. >£500k) are assessed by senior credit officers. The accumulated impairment charges constitute the allowance account.

Individual impairment charges

When an OEI exists for a facility, the Group applies it to all of the customer's facilities and calculates the impairment charge on the basis of the total customer exposure. Under certain conditions, an OEI for one customer may be applied to other customers when the customers have a "financial relationship"; for example, if they are part of the same customer group.

Objective evidence of impairment of loans and advances exists if at least one of the following events has occurred:

- The borrower is experiencing significant financial difficulty;
- The borrower's actions, such as default or delinquency in interest or principal payments, lead to a breach of contract;
- The Bank, for reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the Bank would not otherwise have granted; and
- It becomes probable that the borrower will enter bankruptcy or other financial restructuring.

If a customer facility is past due 90 days or more, the customer is considered in default and assessed for impairment. Significant loans, advances and amounts due are tested individually for impairment at the end of each reporting period.

The impairment charge equals the difference between the carrying amount of the loan or advance and the present value of the most likely future cash flows from the loan or advance and is assessed by credit officers. The present value of fixed-rate loans and advances is calculated at the original effective interest rate, whereas the present value of loans and advances with a variable rate of interest is calculated at the current effective interest rate.

The cash flows used to determine the present value of future cash flows are specified by means of parameters used for solvency calculations and historical loss data adjusted for use in the Financial Statements. The adjustment reflects the loss identification period shown by the Bank's empirical data. This period is the period from the first evidence of impairment to the determination of a loss at customer level.

Impairment charges for loans, advances and guarantees are booked in an allowance account and set off against loans and advances or recognised as provisions for guarantees. Impairment charges for loans and advances are recorded under loan impairment charges in the income statement. If subsequent events show that impairment is not permanent, charges are reversed.

Loans and advances that are considered uncollectible are written off. Write-offs are debited to the allowance account. Loans and advances are written off once the usual collection procedure has been completed and the loss on the individual loan or advance can be calculated. If the full loss is not expected to be realised until after a number of years, for example in the event of administration of complex estates, a partial write-off is recognised, reflecting the Bank's claim less collateral, estimated dividend and other cash flows.

In accordance with the effective interest method, interest is recognised on the basis of the value of the loans and advances less impairment charges. Consequently, part of the allowance account balance is set aside for future interest income.

For non-significant loans where default or other objective evidence of impairment is identified, the Bank calculates the individual impairment charge statistically. Loans where objective evidence of impairment has not been identified are included in an assessment of collective impairment at portfolio level. For individual impairment charges calculated statistically and for the collectively assessed loans, the impairment charges are calculated as the difference between the carrying amount of the loans of the portfolios and the present value of expected future cash flows.

The customer's debt is written down to the amount that the borrower is expected to be able to repay after financial restructuring. If financial restructuring is not possible, the write-down equals the estimated recoverable amount in the event of bankruptcy. If the borrower's ability to repay depends significantly on the assets that have been provided as collateral (asset financing), the customer's debt is written down to the fair value of the collateral.

Collective impairment charges

Loans and advances without OEIs are included in a collective assessment of the need for impairment charges. The collective assessment also includes customers with objective evidence of impairment, but without need for impairment. Collective impairment charges are calculated for loans with similar credit characteristics when impairment of expected future cash flows from a portfolio has occurred but no interest rate change has been agreed on to adjust the credit margin. The collective impairment charge reflects the lowering of customer ratings over time (migration). When external market information indicates that an impairment event has occurred even though it has not yet caused a change in rating, the Bank registers an "early event" impairment charge. Early events represent an expected rating change because of deteriorating market conditions in an industry. If a rating downgrade does not occur as expected the charge is reversed. The loans and advances are divided into portfolios on the basis of current ratings. Calculation of charges also factors in portfolios of loans held by customers with improved ratings.

Management judgements are applied to adjust the collective impairment charge if the Bank becomes aware of market conditions at the balance sheet date that are not fully reflected in the Bank's models.

Non-performing loans and forbearance

The Bank defines non-performing loans (NPLs) as facilities for which individual impairment charges have been booked.

For exposures to non-retail customers with NPLs, the entire amount of the customer's exposure is considered to be non-performing. For retail exposures, only impaired facilities are included in NPLs.

The Bank engages in work-out processes with customers in order to minimise losses and help viable customers in financial difficulty. During the work-out process, the Bank makes use of forbearance measures to assist the non-performing customers. Concessions granted to customers include interest-reduction schedules, interest-only schedules, temporary payment holidays, term extensions, cancellation of outstanding fees, waiver of covenant enforcement and settlements. Due to the length of the work-out processes, the Bank is likely to maintain impairments for these customers for years.

Forbearance plans must comply with the Bank's Credit Policy and are used as an instrument to maintain long-term customer relationships during economic downturns if there is a realistic possibility that the customer will be able to meet obligations again. The purpose of the plans is therefore to minimise loss in the event of default.

If it proves impossible to improve a customer's financial situation by forbearance measures, the Bank will consider whether to subject the customer's assets to a forced sale or whether the assets could be realised later at higher net proceeds.

IFRS 9

On 1 January 2018, the Bank implemented IFRS 9, the new accounting standard for financial instruments. More information is provided in the Annual Report and Financial Statements 2017. As part of IFRS 9, the International Accounting Standards Board (IASB) introduced a new, expected credit loss impairment model that will require earlier recognition of expected credit losses.

Specifically, the Bank will be required to account for 12-month expected credit losses at the initial recognition of a financial instrument and to make earlier recognition of lifetime expected credit losses.

The Bank has completed the process of making the required changes in its models, data, reporting and governance to ensure compliance with IFRS 9.

On the basis of the Bank's preparation, the national regulator guidelines and the loan portfolio at 31 December 2017, IFRS 9 was implemented on 1 January 2018, with a resulting increase in the allowance account of approximately £17m. The impact, net of tax, will be recognised as a reduction in shareholders' equity of approximately £12.8m. The Bank will continue to refine its estimate during the transition period in 2018 as processes are fully embedded.

In order to prevent the application of IFRS 9 from causing a sudden decrease in the capital ratios of financial institutions, institutions may apply a 5-year phase-in period in accordance with EU Capital Requirements Regulation adopted in 2017.

During the phase-in period, provisions due to the implementation of IFRS 9 are added back to CET1 capital according to specified percentages. Eligible provisions include those arising at the point of transition to IFRS 9 and provisions that are increased during the phase-in period. The add-back percentages start at 95% in 2018 and will fall to 25% in 2022, the final year of the transition period.

The Bank will apply the phase-in arrangement for the IFRS 9 impact on regulatory capital.

Table 4.3 below shows the credit exposure per exposure class under the Standardised Approach.

Total and average net amount of exposures			
	At 31 December 2017, £m	Net value of exposures at the end of the period	Average net exposure amount over the period
1	Central governments or central banks	-	-
2	Institutions	-	-
3	Corporates	-	-
4	*of which:*		
5	*Corporates - Specialised lending*	-	-
6	*Corporates - SMEs*	-	-
7	Retail	-	-
8	*of which:*		
9	*Retail - Secured by mortgages on immovable property, SMEs*	-	-
10	*Retail - Secured by mortgages on immovable property, non-SMEs*	-	-
11	*Retail - Qualifying revolving*	-	-
12	*Retail - Other, SMEs*	-	-
13	*Retail - Other, non-SMEs*	-	-
14	Equity	-	-
15	Securitisations	-	-
16	Other non-credit obligation assets	-	-
17	**Total IRB approach**	**-**	**-**
18	Central governments or central banks	3,777	3,852
19	Regional governments or local authorities	-	-
20	Public sector entities	-	-
21	Multilateral development banks	112	56
22	International organisations	-	-
23	Institutions	110	99
24	Corporates	3,073	2,980
25	*of which:*		
26	*Corporates - SMEs*	415	409
27	Retail	1,112	1,088
28	*of which:*		
29	*Retail - SMEs*	466	450
30	Secured by mortgages on immovable property	2,577	2,425
31	*of which:*		
32	*Secured by mortgages on immovable property - SMEs*	290	272
33	Exposures in default	95	103
34	Items associated with particularly high risk	173	191
35	Covered bonds	39	20
36	Claims on institutions and corporates with a short-term credit assessment	-	-
37	Collective investment undertakings	-	-
38	Equity	-	-

Total and average net amount of exposures			
At 31 December 2017, £m		Net value of exposures at the end of the period	Average net exposure amount over the period
39	Other	61	59
40	**Total standardised approach**	**11,129**	**10,873**
41	**Total**	**11,129**	**10,873**

Table 4.4 below shows the geographical breakdown of credit exposures per exposure class under the Standardised Approach.

Geographical breakdown of exposures					
At 31 December 2017 (£m)	United Kingdom	Ireland	Rest of Europe	Rest of World	Total
Standardised approach:					
Central governments or central banks	3,555	-	222	-	3,777
Regional governments or local authorities	-	-	-	-	-
Multilateral Development Banks	-	-	112	-	112
Institutions	92	-	9	9	110
Corporates	2,999	36	36	2	3,073
Retail	1,106	3	1	2	1,112
Secured by mortgages on immovable property	2,565	8	2	2	2,577
Exposures in default	95	-	-	-	95
Items associated with particularly high risk	173	-	-	-	173
Covered Bonds	29	-	10	-	39
Other items	61	-	-	-	61
Standardised approach, total	**10,675**	**47**	**392**	**15**	**11,129**
Total credit exposure (EAD)	**10,675**	**47**	**392**	**15**	**11,129**

Table 4.5 below shows the industry breakdown of credit exposures per exposure class under the Standardised Approach. The table below is a more detailed industry breakdown than that reported in the Annual Report and Financial Statements 2017.

Concentration of exposures by industry or counterparty types

	At 31 December 2017, £m	Consumer discretionary	Consumer staples	Industrials	Energy and utilities	Health care	Information technology	Financials	Telecommunication	Materials and building products	Real estate	Personal	Government and public administration	Other	Total
1	Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
3	Corporates	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5	Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
6	Securitisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Other non-credit obligation assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
8	**Total IRB approach**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
9	Central governments or central banks	22	-	6	-	2	-	86	-	-	-	-	3,044	617	**3,777**
10	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	112	-	**112**
13	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14	Institutions	-	-	-	-	-	-	56	-	-	-	-	-	54	**110**
15	Corporates	512	708	602	86	227	12	32	-	170	675	3	9	37	**3,073**
16	Retail	65	162	51	2	13	3	8	-	6	24	648	-	130	**1,112**
17	Secured by mortgages on immovable property	19	14	11	-	1	-	-	-	1	408	2,122	-	1	**2,577**
18	Exposures in default	5	16	17	-	-	-	-	-	1	17	39	-	-	**95**
19	Items associated with particularly high risk	-	-	78	-	-	-	-	-	-	95	-	-	-	**173**

Concentration of exposures by industry or counterparty types

	At 31 December 2017, £m	Consumer discretionary	Consumer staples	Industrials	Energy and utilities	Health care	Information technology	Financials	Telecommunication	Materials and building products	Real estate	Personal	Government and public administration	Other	Total
20	Covered bonds	-	-	-	-	-	-	39	-	-	-	-	-	-	**39**
21	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
22	Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
23	Equity	-	-	-	-	-	-	30	-	-	-	-	-	(30)	**-**
24	Other	-	-	-	-	-	-	-	-	-	-	-	-	61	**61**
25	**Total standardised approach**	**623**	**900**	**765**	**88**	**243**	**15**	**251**	**0**	**178**	**1,219**	**2,812**	**3,165**	**870**	**11,129**
26	**Total**	**623**	**900**	**765**	**88**	**243**	**15**	**251**	**0**	**178**	**1,219**	**2,812**	**3,165**	**870**	**11,129**

Table 4.6 below shows the maturity breakdown of credit exposures per exposure class under the Standardised Approach.

Maturity of exposures							
		Net exposure value					
At 31 December 2017, £m		On demand	Up to 1 year	Between 1 and 5 years	More than 5 years	No stated maturity	Total
1	Central governments or central banks	-	-	-	-	-	-
2	Institutions	-	-	-	-	-	-
3	Corporates	-	-	-	-	-	-
4	Retail	-	-	-	-	-	-
5	Equity	-	-	-	-	-	-
6	Securitisations	-	-	-	-	-	-
7	Other non-credit obligation assets	-	-	-	-	-	-
8	**Total IRB approach**	-	-	-	-	-	-
9	Central governments or central banks	1,049	158	686	-	1,884	**3,777**
10	Regional governments or local authorities	-	-	-	-	-	-
11	Public sector entities	-	-	-	-	-	-
12	Multilateral development banks	-	-	112	-	-	**112**
13	International organisations	-	-	-	-	-	-
14	Institutions	9	6	-	-	95	**110**
15	Corporates	732	698	932	583	128	**3,073**
16	Retail	388	317	89	193	125	**1,112**
17	Secured by mortgages on immovable property	171	128	181	2,094	3	**2,577**
18	Exposures in default	9	5	3	20	58	**95**
19	Items associated with particularly high risk	58	70	22	7	16	**173**
20	Covered bonds	-	-	39	-	-	**39**
21	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
22	Collective investment undertakings	-	-	-	-	-	-
23	Equity	-	-	-	-	-	-
24	Other	-	-	-	-	61	**61**
25	**Total standardised approach**	**2,416**	**1,382**	**2,064**	**2,897**	**2,370**	**11,129**
26	**Total**	**2,416**	**1,382**	**2,064**	**2,897**	**2,370**	**11,129**

Table 4.7 below shows the credit quality of exposures by exposure class under the Standardised Approach.

Credit quality of exposures by exposure class and instrument							
At 31 December 2017, £m		Gross carrying values of		Credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures				
1	Central governments or central banks	-	-	-	-	-	-
2	Institutions	-	-	-	-	-	-
3	Corporates	-	-	-	-	-	-
4	*of which:*	-	-	-	-	-	-
5	*Corporates - Specialised lending*	-	-	-	-	-	-
6	*Corporates - SMEs*	-	-	-	-	-	-
7	Retail	-	-	-	-	-	-
8	*of which:*	-	-	-	-	-	-
9	*Retail - Secured by mortgages on immovable property, SMEs*	-	-	-	-	-	-
10	*Retail - Secured by mortgages on immovable property, non-SMEs*	-	-	-	-	-	-
11	*Retail - Qualifying revolving*	-	-	-	-	-	-
12	*Retail - Other, SMEs*	-	-	-	-	-	-
13	*Retail - Other, non-SMEs*	-	-	-	-	-	-
14	Equity	-	-	-	-	-	-
15	Securitisations	-	-	-	-	-	-
16	Other non-credit obligation assets	-	-	-	-	-	-
17	**Total IRB approach**	**-**	**-**	**-**	**-**	**-**	**-**
18	Central governments or central banks	-	3,777	-	-	-	**3,777**
19	Regional governments or local authorities	-	-	-	-	-	-
20	Public sector entities	-	-	-	-	-	-
21	Multilateral development banks	-	112	-	-	-	**112**
22	International organisations	-	-	-	-	-	-
23	Institutions	-	110	-		-	**110**
24	Corporates	-	3,082	9		(19)	**3,073**
25	*of which:*	-	-	-	-	-	-
26	*Corporates - SMEs*	-	416	1		-	**415**
27	Retail	-	1,118	6		(1)	**1,112**
28	*of which:*	-	-	-	-	-	-
29	*Retail - SMEs*	-	467	1		-	**466**

Credit quality of exposures by exposure class and instrument							
At 31 December 2017, £m		Gross carrying values of		Credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures				
30	Secured by mortgages on immovable property	-	2,577	-	-	-	**2,577**
31	*of which:*	-	-	-	-	-	-
32	*Secured by mortgages on immovable property - SMEs*	-	290	-	-	-	**290**
33	Exposures in default	159	-	64	-	(28)	**95**
34	Items associated with particularly high risk	-	176	3		(4)	**173**
35	Covered bonds	-	39	-	-	-	**39**
36	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
37	Collective investment undertakings	-	-	-	-	-	-
38	Equity	-	-	-	-	-	-
39	Other	-	61	-	-	-	**61**
40	**Total standardised approach**	**159**	**11,052**	**82**		**(52)**	**11,129**
41	**Total**	**159**	**11,052**	**82**	**-**	**(52)**	**11,129**
42	*of which:*	-	-	-	-	-	-
43	*Loans*	156	7,101	76	-	(43)	**7,181**
44	*Debt securities*	-	1,016	-	-	-	**1,016**
45	*Off-balance-sheet exposures*	3	2,257	1	-	-	**2,259**

Table 4.8 below shows the breakdown of impaired and past due exposures by industry under the Standardised Approach.

Credit quality of exposures by industry or counterparty types							
At 31 December 2017, £m		Gross carrying values of		Credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures				
1	Consumer discretionary	15	621	13	-	(3)	623
2	Consumer staples	18	886	4	-	(8)	900
3	Industrials	32	751	18	-	(4)	765
4	Energy and utilities	-	88	-	-	-	88
6	Health care	-	243	-	-	-	243
8	Information technology	-	15	-	-	-	15
9	Financials	-	251	-	-	-	251
10	Telecommunication	-	1	1	-	-	-
12	Materials and building products	1	178	1	-	-	178
13	Personal	54	2,778	20	-	(4)	2,812
14	Real estate	38	1,204	23	-	21	1,219
15	Government and public administration	-	3,165	-	-	-	3,165
16	Other	1	871	2	-	(54)	870
17	**Total**	**159**	**11,052**	**82**	**-**	**(52)**	**11,129**

Table 4.9 below shows the credit quality of exposures by geographical area under the Standardised Approach.

Credit quality of exposures by geography							
At 31 December 2017, £m		Gross carrying values of		Credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
		Defaulted exposures	Non-defaulted exposures				
1	United Kingdom	159	10,594	78	-	(39)	10,675
2	Ireland	-	47	-	-	-	47
3	Rest of Europe	-	396	4	-	(13)	392
4	Rest of World	-	15	-	-	-	15
5	**Total**	**159**	**11,052**	**82**	**-**	**(52)**	**11,129**

4.10: Reconciliation of changes in the specific and general credit risk adjustments for impaired exposures

Rating categories 10 (non-default) and 11 (default) include customers with exposures for which objective evidence of impairment exists. Exposures to customers in the other rating categories are subject to collective impairment testing.

The allowance account comprises all impairment charges against loans and advances at amortised cost, amounts due from credit institutions and central banks, and loan commitments and guarantees.

Allowance account broken down by type of impairment:

£k	Specific	Collective	Total Allowance	Specific	Collective	Total Allowance
	2017	2017	2017	2016	2016	2016
Opening balance	134,894	11,573	146,467	261,279	17,045	278,324
Charge/(credit) for the year	(21,801)	(7,385)	(29,186)	(20,461)	(5,472)	(25,933)
Amounts written off	(27,050)	-	(27,050)	(104,730)	-	(104,730)
Recoveries of amounts written off in previous years	4,203	-	4,203	3,369	-	3,369
Foreign exchange and other movements	**(3,318)**	**-**	**(3,318)**	(4,563)	-	(4,563)
Closing balance	**86,928**	**4,188**	**91,116**	134,894	11,573	146,467

£k	2017	2016
Amounts included in		
Loans and advances to customers	90,297	145,173
Other liabilities	819	1,294
	91,116	146,467

5 Remuneration

The Bank is one of the leading retail banks in Northern Ireland, with around 1,400 employees and a network of 44 branches and three regional business centres across Northern Ireland. We are part of the Danske Bank Group which is headquartered in Copenhagen and is a leading financial institution in the Nordic countries and operating in 15 countries.

Our Vision is to be recognised as the best bank in Northern Ireland for our customers, employees, stakeholders and society.

The financial sector is subject to increasing regulation on remuneration. Most of this regulation is initiated to ensure public trust in our sector, and it strongly influences and governs how incentives can be put into practice.

Remuneration policy and practices evolve over time to reflect the Bank's changing priorities and the regulatory frameworks however, it will always adhere to the Bank's objectives of good corporate governance and promoting sound and effective risk management related to remuneration matters.

As a Level Three firm, the Bank applies the proportionality levels in accordance with the PRA Supervisory Statement SS2/17 (Table E), in relation to the requirement to make disclosures under Article 450 of the CRR on Remuneration.

5.1: Description of Remuneration Policy and Governance

Remuneration Policy

The Bank's Remuneration Policy supports the business strategy, objectives, core values and long-term interests of the Bank and the shareholders of the Group, of which the Bank is a part.

The Policy outlines the principles for remuneration of the Non-Executive Directors, Executive Committee and other staff members, and it is consistent with the Bank's remuneration policy.

Non-Executive Members Board, who are not employed by a Group Company, receive a fixed fee (Board member). Board members are not covered by incentive programmes and do not receive performance-based remuneration.

The basic fee of a Board member is set at a level that is in accordance with the market and reflects the qualifications and contribution required in view of the Bank and the Group's complexity, the extent of the responsibilities and the number of Board meetings. No pension contributions are payable on Board members' fees.

Governance and Decision Making Processes

The Board has established a Remuneration Committee. The Remuneration Committee (RemCo) is instrumental in the Board's fulfilment of its governance responsibilities relating to the Bank's compliance with legal and regulatory requirements with regard to the remuneration of employees and in particular the alignment of performance related pay with the long-term interests of the Bank and its policy on risk and stakeholders in the Bank.

The purpose of the Committee is to recommend, for the approval of the Board, the overarching principles and governance framework of the Bank's remuneration policy, and to recommend for the approval of the Board, remuneration outcomes for 'Code Staff' – defined by the UK FCA / PRA Remuneration Code as '*senior management and other members of staff whose actions have a material impact on the risk profile of the credit institution*'.

The Chairman of the Committee and Committee members are appointed by the Board and may be removed by the Board at any time. The Committee is composed of at least two members including the Chairman of the Committee (the Chairman). The members of the Committee, including the Chairman, are members of the Board who do not perform any executive function.

The Committee has the support of a committee of specialists from HR, Risk, Compliance, Finance and Legal Departments which is chaired by the HR Director. The Company Secretary or appointed deputy acts as Secretary and attends all meetings.

The Chairman may invite any Director, executive, or Head of Internal Audit, to attend and participate in any meeting(s) of the Committee as s/he may from time-to-time consider desirable to assist the Committee in the attainment of its purpose.

The Committee meets as often as necessary but not less than twice a year, and where appropriate meetings are arranged to tie in with the publication of the Bank's financial statements. During 2017, the Committee has held four meetings.

In 2017 the Committee considered

- Whether the Bank should adopt a proportionate approach in line with PRA Supervisory Statement SS2/17 on Remuneration.
- A new Incentive Structure for Senior Managers.
- The remuneration structure for designated Control Functions that are excluded from variable remuneration.
- Base salary and variable pay levels for members of the Executive Committee and Senior Managers.

The Remuneration Committee Charter and the Remuneration Policy are reviewed annually.

Remuneration practices

The Bank's overall remuneration practices are anchored in the remuneration policy, and current governance is mainly targeted towards the remuneration of the Executive Committee of the Bank and those employees who have been designated in accordance with regulation as Material Risk Takers, i.e. those who take decisions that have the greatest impact on the Bank.

5.2: Information on link between pay and performance

Remuneration principles

The Bank offers a competitive and market aligned remuneration package which is designed to ensure that the Bank is able to attract, develop and retain high performing and motivated employees in a competitive market.

The various remuneration components are combined to ensure an appropriate and balanced remuneration package that reflects the individual's role within their business unit, and the Bank as well as the market. The remuneration components are:

Fixed remuneration (including non-pensionable supplements)

This is determined on the basis of the role of the individual employee and its relative position in the internal hierarchy; the Bank use a globally recognised job evaluation methodology to create an internal hierarchy. The salary level is reviewed annually with no guaranteed increase for employees.

Variable remuneration

The Bank operates variable remuneration arrangements for all staff or specific groups of staff to incentivise and reward individual and / or team performance. These arrangements are designed to attract and retain high-performing employees who take an active part in achieving the goals of the Bank while at the same time embedding customer centric behaviours and balancing individual risk taking against performance targets.

For the majority of employees the arrangements are team based linked to the achievement of customer satisfaction, and are cash based.

Incentives for Senior Managers are based on the performance of the Danske Bank Group, Northern Bank Limited and individual performance agreements. Key Performance Indicators include financial and non-financial targets, and there is weighting of each Indicator.

The Financial targets of the Danske Bank Group and Northern Bank Limited are measured on the annual results audited by the Danske Bank's external auditors. Non-financial targets are also delivered by external parties, e.g. customer satisfaction. Individual targets are qualitative as well as quantitative, e.g. behavioural objectives, compliance and internal rules as well as overall value contribution.

Guaranteed Variable Remuneration is granted only in exceptional cases in the first year after recruitment, and is paid in line with the Regulator's guidance on such payments.

For the majority of employees, the arrangements are team based, linked to the achievement of customer satisfaction, and are cash based.

Benefits

Benefits, for example pension contributions, paid annual leave, sick pay, and family friendly flexibility, are offered to all employees. Certain benefits are offered to different groups of employees e.g. Company cars or cash equivalent, to ensure competitive remuneration packages to attract and retain employees.

Risk Impact of Remuneration

In conjunction with Danske Bank Group, the Bank has deployed different mechanisms to ensure that variable remuneration does not incentivise excessive risk taking.

There is a sound performance management structure for setting and assessing financial and non-financial goals and communicating these goals to employees.

There is a well-balanced distribution between fixed and variable remuneration and a maximum cap on incentives at 50% of base salary.

Performance based incentives for Senior Managers are split between cash and shares; the shares constitute 50% of the total variable remuneration and are restricted during a three year vesting period. There is also deferral of variable remuneration to encourage sustainable and long-term value creation. Variable remuneration (cash and shares) granted in one year is divided into 40% paid initially and 60% deferred for three years.

Deferred shares are restricted from transaction for six months after disbursement. The deferred remuneration is disbursed only to the extent to which the criteria for the original granting are still fulfilled, and at the same time, provided the financial situation in the Group and the Bank has not deteriorated materially. In addition, disbursed and deferred variable remuneration is subject to clawback, if there is evidence that the granting of the remuneration was made on a false basis.

5.3: Aggregate Quantitative information on remuneration, broken down by business area and senior management and members of staff whose actions have a material impact on the risk profile of the institution

Quantitative Information relating to 2017

For the purposes of providing this quantitative information, pursuant to BIPRU 11.5.18, the Bank as a Retail Bank is considered as a single business unit.

The following remuneration components operated in the year ended 31 December 2017 and are included in the information:

- Fixed Remuneration (including non-pensionable supplements);
- Variable Remuneration;
- Pension Benefits; and
- Other Benefits.

Aggregate remuneration is shown below for Senior Management Function holders (SMFs) and Other Material Risk Takers (other staff in addition to SMFs whose actions have a significant impact on the risk profile of the firm).

Aggregate Remuneration includes fixed remuneration, non-pensionable supplements, variable remuneration, pension and other benefits and severance payments.

	Senior Managers	No.	Other MRTs	No.	Total	No.
Aggregate Remuneration	3,262,198	15	11,004,987	127	14,267,186	142

Information in relation to the aggregate remuneration of all Bank employees can be found in the Report and Financial Statement for Year Ended 31 December 2017.

6 Leverage

The Tables below set out the Bank's Leverage disclosures in accordance with the Commission Implementing Regulation (EU) 2016/200.

Leverage Ratio - Disclosure Templates, £m	
Reference date	31. Dec 2017
Entity name	Northern Bank Limited
Level of application	Sub-consolidated

Table 6.1 LRSum: Summary reconciliation of accounting assets and leverage ratio exposures

		Applicable Amounts
1	Total assets as per published financial statements	8,656
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	(1)
5	Adjustments for securities financing transactions "SFTs"	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	487
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	(162)
8	**Total leverage ratio exposure**	**8,980**

Table 6.2 LRCom: Leverage ratio common disclosure

		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	8,493
2	(Asset amounts deducted in determining Tier 1 capital)	-
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**8,493**
Derivative exposures		
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	2
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	6
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	(8)
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivative exposures (sum of lines 4 to 10)**	**-**
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	-
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	-
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	2,643
18	(Adjustments for conversion to credit equivalent amounts)	(2,156)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**487**
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures		
20	**Tier 1 capital**	**642**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**8,980**
Leverage ratio		
22	**Leverage ratio**	**7.1%**
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Transitional
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-

Table 6.3 LRQua: Free format text boxes for disclosure on qualitative items	
Description of the processes used to manage the risk of excessive leverage	The leverage ratio represents a non-risk-adjusted capital requirement that is implemented to function as a further "backstop" measure for risk-based capital. Since January 2014, the CRR/CRD IV rules have required that credit institutions calculate, monitor and report on their leverage ratios, defined as tier 1 capital as a percentage of total exposure. On the basis of the European Commission's legislative proposal for a revised CRR, a leverage ratio of 3% is expected to become a minimum requirement with the implementation of the revised CRR. The Bank uses the leverage ratio, including its specific on- and off-balance sheet components as the main indicator for identifying risk of excessive leverage. The overall monitoring of the Bank's leverage risk is done through the Bank's Internal Capital Adequacy Assessment Process (ICAAP), which includes an assessment of the leverage risk under stress. The management of specific components contributing to the Bank's leverage risk, is done through the existing set-up for market risk, liquidity risk and credit risk. In addition, on a monthly basis, the Group determines and monitors its leverage ratio. To ensure sound monitoring, the Group has set forth policies for the management and control of each component that contributes to leverage risk.
Description of the factors that had an impact on the Leverage Ratio during the period to which the disclosed Leverage Ratio refers	The Bank's leverage ratio was 7.1% at 31 December 2017. The leverage ratio has decreased 0.7 percentage point from Q4 2016. The decrease is the result of a lower level of tier 1 capital. The full year profits for 2017 have not been included in calculating the leverage ratio at 31 December 2017. The profits will increase Tier 1 capital and thus the leverage ratio with effect from the first quarter of 2018.

Table LRSpl

In accordance with the Commission Implementing Regulation (EU) 2016/200, paragraph (4) applies to Northern Bank and therefore Northern Bank is not required to publish the LRSpl table.

7 Use of Credit Risk Mitigation Techniques

7.1: Description of policies and processes for on-and-off-balance sheet netting

Offsetting of financial assets and liabilities

Assets and liabilities are offset when the Bank and the counterparty have a legally enforceable right to offset recognised amounts and have agreed to settle balances on a net basis or to realise the asset and settle the liability simultaneously. Positive and negative fair values of derivatives with the same counterparty are offset if the Bank has agreed with the counterparty to settle contractual cash flows net and to make cash payments or provide collateral on a daily basis to cover changes in the fair value of the derivative position. Master netting agreement or similar agreements give the right to additional offset in the event of default. Such agreements reduce the exposure further in the event of default, but do not qualify for offsetting in accordance with IFRS.

There is no offsetting of financial assets and liabilities in the Financial Statements. In the event the counterparty or the Bank defaults, further offsetting will take place. This note shows netting according to enforceable master netting agreements (i.e. in the event of default) and collateral provided or received under these agreements.

£k	Gross amount	Legal right of offset	Further offsetting, master netting agreement	Collateral /offset	Net amount
At 31 December 2017					
Financial assets					
Cash and balances at central bank	1,880,091	-	-	(470,601)	1,409,490
Due from other banks	52,016	-	(29,790)	(1,291)	20,935
Derivatives with positive fair value	7,258	-	(5,137)	-	2,121
Loans and advances to customers	5,422,293	(399,496)	-	-	5,022,797
Financial liabilities					
Due to other banks	34,420	-	(29,790)	-	4,630
Derivatives with negative fair value	13,958	-	(5,137)	(1,291)	7,530
Deposits from customers	7,030,089	(399,496)	-	-	6,630,593
Notes in circulation	470,601	-	-	(470,601)	-

7.2 Description of policies and processes for collateral valuation and management

Collateral

The Bank uses a number of measures to mitigate credit risk, including collateral, guarantees and covenants. The main method is obtaining collateral.

The market value of collateral is monitored and evaluated by advisers, internal or external assessors, or automatic valuation models. Automatic valuation models are validated annually and monitored quarterly. The Bank regularly evaluates the validity of external inputs on which the valuation models are based. The collateral system supports the process of reassessing the market value to ensure that the Bank complies with regulatory requirements.

The market value of collateral is subject to a haircut. The haircut reflects the risk that the Bank will not be able to obtain the estimated market value upon the sale of the individual asset in a distressed situation and thus includes forced sale reduction, price volatility during the sales period, realisation costs and maintenance costs. The haircut applied depends on the type of collateral.

The composition of the Bank's collateral base reflects the product composition of the credit portfolio. The most important collateral type, measured by volume, is real estate/property. For reporting purposes, all collateral values are net of haircut and capped by the exposure amount at facility level.

7.3: Description of the main types of collateral taken by the institution

Collateral

Typically the Bank undertakes lending on a secured basis, accepting collateral in the form of properties (commercial and residential) and tangible assets. It is the Bank's policy that a credit facility should never be extended solely on the basis of the collateral offered, without consideration of the capacity of the borrower to repay the debt.

In addition to residential and commercial property, in certain sectors trading assets (e.g. stock, debtors, work-in-progress) are taken into consideration in the lending decision. These assets are normally captured by the Bank under corporate security (such as a floating charge) and are subject to much more severe haircut treatment than for property assets.

7.4: Main types of guarantor and credit derivative counterparty and their creditworthiness

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

The Bank does not transact any credit derivative business and therefore does not have any counterparty risk in this regard.

7.5: Information about market or credit risk concentrations within the credit mitigation taken

The credit risk profile is monitored and strengthened in accordance with the Credit Risk Appetite, which encompasses credit quality (expected loss) and credit risk concentration (limits on single names, industries and geographical regions). Regular risk reporting enables the ongoing monitoring of the Bank's credit risk profile in relation to the formulated risk appetite.

As part of the overall risk appetite framework, the Group has implemented a set of frameworks to manage credit risk concentrations. The frameworks cover the following concentrations:

- Single-name concentrations;
- Industry concentrations; and
- Geographical concentrations.

Single-name concentrations

Single-name concentrations are managed according to a framework based on the regulatory definition of large exposures specified in article 395 of the CRR (Regulation (EU) No. 575/2013). At the end of 2017, the Bank was within the regulatory limits for large exposures. The Group has also defined stricter internal limits for managing single-name concentrations, including the following:

- Absolute limit on single-name exposures;
- The sum of single-name exposures larger than 10% of the total adjusted capital may not exceed a portfolio limit of 95% of the total adjusted capital; and
- The sum of single-name exposures equal to 5-10% of the total adjusted capital may not exceed 150% of the total adjusted capital.

The Bank has set internal limits regarding its maximum percentage exposure to a single name in the context of the total customer lending and percentage of the Bank's total regulatory capital. The Bank's performance against the concentration risk control limits detailed above is reported to the Bank's internal credit risk governance committee and the Board.

Industry concentrations

The Bank's Risk Management Framework outlines the principles of managing industry exposures and includes various sector caps or limits to be observed in relation to lending within the major industry sectors. These controls are established by senior personnel within the Bank's business units, Credit and Risk Management departments and are approved by the Bank's Board as part of the credit risk appetite process.

Geographical concentrations

The Bank's Risk Management Framework outlines the principles of managing country exposures. The Bank's strategy is to target markets in which it has the greatest understanding and experience and therefore the Bank accepts its geographical concentration in Northern Ireland as being within its risk appetite as this risk is inherent to the Bank's business model.

Table 7.6 below shows the credit exposures (after volatility adjustments) covered by eligible collateral per exposure class under the Standardised Approach.

CRM techniques - overview

	At 31 December 2017 (£m)	Exposures unsecured - Carrying amount	Exposures secured - carrying amount	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
1	Loans	4,719	2,461	2,460	1	-
2	Debt securities	986	-	-	-	-
3	Total exposures	5,705	2,461	2,460	1	-
4	Of which defaulted	51	43	43	-	-

Table 7.7 below shows the credit exposures covered by guarantees or credit derivatives by rating category of counterparty and exposure class under the Standardised Approach.

Standardised Approach – Credit risk exposure and CRM[2] effects							
		Exposures before CCF[3] and CRM		Exposures post CCF and CRM		RWAs and RWA density	
At 31 December 2017, £m		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	3,063	714	3,063	143	-	0.00%
2	Regional governments or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	112	-	112	-	-	0.00%
5	International organisations	-	-	-	-	-	-
6	Institutions	96	14	96	3	50	50.82%
7	Corporates	2,024	1,048	2,024	168	2,181	99.52%
8	Retail	531	582	531	40	393	68.85%
9	Secured by mortgages on immovable property	2,358	219	2,358	9	826	34.92%
10	Exposures in default	93	3	93	1	113	120.39%
11	Items associated with particularly high risk	110	63	110	11	181	150.00%
12	Covered bonds	39	-	39	-	4	10.00%
13	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other	61	-	61	-	61	100.00%
17	**Total**	**8,487**	**2,643**	**8,487**	**375**	**3,809**	**42.99%**

Approved by order of the Board and signed on behalf of the Board of Directors.

Fiona Sturgess

Company Secretary

28 June 2018

[2] *CRM: Credit Risk Mitigation*
[3] *CCF: Credit Conversion Factor*