Northern Bank Limited
Basel Pillar III Disclosure

31 DECEMBER 2018

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Northern Bank Limited Pillar 3 Disclosures

Standardised Approach – Credit risk exposure and CRM effects	453 (g)	Table 7.7	EU CR4	41

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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 2018.

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 2018 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 the Bank 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.

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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 2018	At 31 December 2017
Balance Sheet:		
Permanent share capital	218	218
Retained Earnings	180	261
Share premium account	307	307
Revaluation reserve	36	35
Hold to Collect (HTC) and Sell Reserve	(3)	(1)
Cash Flow Hedge Reserve	-	-
Shareholders of Northern Bank Limited	**738**	**820**
IFRS 9 Transitional Adjustment	14	-
Deduct:		
Profit to be verified for inclusion in regulatory capital	(21)	(120)
Less pension fund asset	(115)	(120)
Less deferred tax asset	(25)	(35)
Less intangible asset	-	-
Prudent valuation adjustment	-	-
Total regulatory CET 1 capital after deductions	**591**	**545**
Additional Tier 1 Capital	97	97
Tier 2 Capital	126	126
Total regulatory Capital after deductions	**814**	**768**
Total regulatory CET 1 capital after deductions	**591**	**545**
Add back:		
Pension Fund Asset	115	120
Deferred Tax Asset	25	35
Profit to be verified for inclusion in regulatory capital	21	120
Intangible Asset	-	-
Cash Flow Hedge Reserve	-	-
Prudent Valuation Adjustment	-	-
IFRS 9 Transitional Adjustment	(14)	
Additional Tier 1 Capital	97	97
Total Statutory Equity	835	**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 2018, £						
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 2018, £						
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 2018, £						
			(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

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Table 1.3 below provides information on the CET1, AT1 and Tier 2 capital instruments in accordance with Article 4 of the Commission Implementing Regulation (EU) No 1423/2013.

Own Funds Disclosure				
	Common Equity Tier 1 capital: instruments and reserves	At 31 December 2018 £m	At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
1	Capital instruments and the related share premium accounts	525	525	26 (1), 27, 28, 29
	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	115	99	26 (1) (c)
3	Accumulated other comprehensive income (and any other reserves)	28	76	26 (1)
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)
5	Minority interests (amount allowed in consolidated CET1)			84
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	49		26 (2)
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**717**	**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
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)	(25)	(35)	36 (1) (c), 38
11	Fair value reserves related to gains or losses on cash flow hedges	-	-	33 (1) (a)
12	Negative amounts resulting from the calculation of expected loss amounts			36 (1) (d), 40, 159
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)
15	Defined-benefit pension fund assets (negative amount)	(115)	(120)	36 (1) (e), 41
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)			36 (1) (f), 42
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
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

Own Funds Disclosure				
Common Equity Tier 1 capital: instruments and reserves		At 31 December 2018 £m	At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
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
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)
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)
24	Empty set in the EU			
25	of which: deferred tax assets arising from temporary difference			36 (1) (c), 38, 48 (1) (a)
25a	Losses for the current financial year (negative amount)			36 (1) (a)
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	14		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)**	(126)	(155)	
29	**Common Equity Tier 1 (CET1) capital**	591	545	
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	97	97	51, 52
31	of which: classified as equity under applicable accounting standards	97	97	
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)

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Own Funds Disclosure				
Common Equity Tier 1 capital: instruments and reserves		At 31 December 2018 £m	At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
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
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
38	Direct, indirect and synthetic 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
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
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
41	Empty set in the EU			
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)**	688	642	
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	126	126	62, 63
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)
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
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
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

Own Funds Disclosure				
Common Equity Tier 1 capital: instruments and reserves		At 31 December 2018 £m	At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
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
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
56	Empty set in the EU			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-	
58	**Tier 2 (T2) capital**	126	126	
59	**Total capital (TC = T1 + T2)**	814	768	
60	**Total risk-weighted assets**	4,282	4,193	
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	13.8%	13.0%	92 (2) (a)
62	Tier 1 (as a percentage of total risk exposure amount	16.1%	15.3%	92 (2) (b)
63	Total capital (as a percentage of total risk exposure amount	19.0%	18.3%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements plus a systemic risk buffer, plus systemically important institution buffer expressed as a percentage of total risk exposure amount)	8.0%	7.0%	CRD 128, 129, 130, 131, 133
65	of which: capital conservation buffer requirement	2.5%	2.5%	
66	of which: countercyclical buffer requirement	1.0%		
67	of which: systemic risk buffer requirement			
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer			
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.1%	5.5%	CRD 128
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, 56 (c), 59, 60, 66 (c), 69, 70
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
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)	10		36 (1) (c), 38, 48

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Own Funds Disclosure				
Common Equity Tier 1 capital: instruments and reserves		At 31 December 2018 £m	At 31 December 2017 £m	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE
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
- Hold to Collect (HTC) and Sell 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;
- Cash Flow Hedge reserve;
- Prudent valuation adjustment; 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.

On 1 January 2018, the Bank adopted the accounting standard IFRS 9 'Financial Instruments'. The most significant impact of IFRS 9 to the Bank is the move from an 'incurred credit loss' model to an 'expected credit loss' model for measuring impairment losses under IFRS 9. The introduction of IFRS 9 requires a level of impairment provision to be carried for all financial assets where there is a credit risk. On transition to IFRS 9, the Bank recognised a transitional adjustment of £12.2m within its opening reserves (£16.4m of additional impairment provision net of the related deferred tax adjustment of £4.2m).

The implementation of the ECL impairment model (for loans at amortised cost), will be phased-in from 2018 to 2022 in accordance with EU Capital Requirements Regulation 473(a) adopted in 2017. Therefore, the IFRS 9 transitional adjustment is added back to determine CET1 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
Hard Brexit Scenario	This scenario assumes that the UK leaves the EU without a withdrawal agreement i.e. a no-deal Brexit. It is assumed that output contracts sharply, unemployment increases and inflation rises due to a depreciation in the value of sterling. Interest rates are cut in this scenario in an attempt to support the economy through the downturn. Demand for housing is also assumed to decline, leading to a relatively sharp decrease in house prices.
Extreme Recession	This scenario involves a global downturn in output growth. This downturn impacts the domestic economy which experiences a contraction in output. Unemployment rises sharply and this contributes towards a fall in consumer spending. This is a low inflation, low interest rate scenario. The low inflation is driven by reduced levels of demand in the economy and interest rates are assumed to be accommodative in an attempt to support economic activity. 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 during 2018, the Group met its projected capital requirements with a satisfactory 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				
		Risk-weighted Assets (RWAs)		Minimum capital requirements (Pillar 1)
£m		At 31 December 2018	At 31 December 2017	At 31 December 2018
1	Credit risk (CR)	3,866	3,809	310
2	*of which:*			
3	*CR - standardised approach*	3,866	3,809	310
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)	11	8	1
8	*of which:*			
9	*CCR - mark to market*	-	-	-
10	*CCR - original exposure*	-	-	-
11	*CCR - standardised approach*	11	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)	380	376	30
28	*of which:*			
29	*OR - basic indicator approach*	-	-	-
30	*OR - standardised approach*	380	376	30
31	*OR - advance measurement approach*	-	-	-
32	Amounts below the threshold for deduction (subject to 250% risk weight)	25	-	2
33	Floor adjustment*	-	-	-
34	**Total**	**4,282**	**4,193**	**343**

The Bank has availed of the IFRS 9 transitional adjustment under Article 473(a) of the CRR. Table 2.3 below shows a comparison of the Bank's own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs.

IFRS 9-FL		
£m		At 31 December 2018
Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	591
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	577
3	Tier 1 capital	688
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	674
5	Total capital	814
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	800
Risk-weighted assets (amounts)		
7	Total risk-weighted assets	4,282
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4,268
Capital ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.8%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.5%
11	Tier 1 (as a percentage of risk exposure amount)	16.1%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.8%
13	Total capital (as a percentage of risk exposure amount)	19.0%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	18.7%
Leverage ratio		
15	Leverage ratio total exposure measure	9,819
16	Leverage ratio	7.0%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6.9%

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 2018 £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	5,903	-	-	-	-	-	303	-	-	303	0.9793	1.00%[1]
020	IE - Ireland	34	-	-	-	-	-	2	-	-	2	0.0071	0.00%
030	HK - Hong Kong	-	-	-	-	-	-	-	-	-	-	0.0000	1.88%
040	NO - Norway	-	-	-	-	-	-	-	-	-	-	0.0000	2.00%
050	SE - Sweden	10	-	-	-	-	-	-	-	-	-	0.0003	2.00%
060	CZ - Czech Republic	-	-	-	-	-	-	-	-	-	-	0.0000	1.00%
070	IS - Iceland	-	-	-	-	-	-	-	-	-	-	0.0000	1.25%
080	LT - Lithuania	-	-	-	-	-	-	-	-	-	-	0.0000	0.50%
090	Rest of Europe	64	-	-	-	-	-	4	-	-	4	0.0129	0.00%
100	Rest of World	2	-	-	-	-	-	-	-	-	-	0.0004	0.00%
	Total	**6,013**	-	-	-	-	-	**309**	-	-	**309**	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 was agreed by the BoE FPC that the Counter Cyclical Capital Buffer rate for the UK increased from 0.5% to 1.0% in November 2018.*

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%
020	IE - Ireland	37	-	-	-	-	-	2	-	-	2	0.0082	0.00%
030	HK - Hong Kong	-	-	-	-	-	-	-	-	-	-	0.0000	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%

Table 3.2

Amount of institution-specific countercyclical capital buffer			
£m		At December 2018	At 31 December 2017
		010	020
010	**Total risk exposure amount**	4,282	4,193
020	**Institution specific countercyclical buffer rate**	0.98%	0.00%
030	**Institution specific countercyclical buffer requirement**	41.96	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 and represent the likelihood of loss to the Bank using the IFRS 9 accounting methodology. Under the provisions of IFRS 9, an impairment (or expected credit loss) is calculated for all financial assets. Impairment charges are calculated through the use of various models or through a manual file review in the case of larger Distressed Lending cases.

The Bank adopts a proactive approach to the management of balances in arrears with a focus on early intervention.

4.2: Description of the approaches and methods adopted for determining impairment practices

Measurement of Expected Credit Losses

At 1 January 2018, the Bank implemented the three-stage expected credit loss (ECL) impairment model in IFRS 9. The impairment charge for ECL depends on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or the loan is in default, the impairment charge equals the lifetime expected credit losses (stage 2 and 3).

The expected credit loss is calculated for all individual facilities as a function of probability of default (PD), exposure at default (EAD) and loss given default (LGD) and incorporates forward-looking information. The estimation of expected credit losses involves forecasting future economic conditions over a number of years under base case, upside and downside scenarios. Such forecasts are subject to management judgement and those judgements may be sources of measurement uncertainty that have a significant risk of resulting in a material adjustment to a carrying amount within the next financial year.

The accumulated impairment charges constitute the allowance account.

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 models to assess the PD, LGD and EAD of respective 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 for medium and large exposures displaying OEI (i.e. >£500k) are assessed by senior credit officers taking into account the discounted market value of the collateral assets after a deduction of the costs of realising the assets.

When an OEI exists for a facility, the Bank 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.

OEI of loans and advances exist 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.

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.

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.

Forbearance

When 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.

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.

Implementation of IFRS 9

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's increase in impairments following the implementation of IFRS 9 on 1 January 2018 amounted to approximately £17m. As a consequence the Bank is applying a phased-in arrangement for this IFRS 9 impact on its 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 2018		At 31 December 2017	
£m		Net value of exposures at the end of the period	Average net exposure amount over the period	Net value of exposures at the end of the period	Average net exposure amount over the period
17	**Total IRB approach**	**-**	**-**	**-**	**-**
18	Central governments or central banks	4,042	4,034	3,777	3,852
19	Regional governments or local authorities	-	-	-	-
20	Public sector entities	-	-	-	-
21	Multilateral development banks	152	139	112	56
22	International organisations	-	-	-	-
23	Institutions	80	118	110	99
24	Corporates	3,265	3,276	3,073	2,980
25	*of which:*				
26	*Corporates - SMEs*	1,892	1,992	415	409
27	Retail	1,154	1,196	1,112	1,088
28	*of which:*				
29	*Retail - SMEs*	523	528	466	450
30	Secured by mortgages on immovable property	2,880	2,777	2,577	2,425
31	*of which:*				
32	*Secured by mortgages on immovable property - SMEs*	368	432	290	272
33	Exposures in default	67	70	95	103
34	Items associated with particularly high risk	169	196	173	191
35	Covered bonds	175	143	39	20
36	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-
37	Collective investment undertakings	-	-	-	-
38	Equity	-	-	-	-
39	Other	81	76	61	59
40	**Total standardised approach**	**12,065**	**12,025**	**11,129**	**10,873**
41	**Total**	**12,065**	**12,025**	**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 2018 (£m)	United Kingdom	Ireland	Rest of Europe	Rest of World	Total
Standardised approach:					
Central governments or central banks	3,718	-	324	-	4,042
Regional governments or local authorities	-	-	-	-	-
Multilateral Development Banks	-	-	127	25	152
Institutions	71	-	4	5	80
Corporates	3,156	56	51	2	3,265
Retail	1,149	3	1	1	1,154
Secured by mortgages on immovable property	2,869	9	1	1	2,880
Exposures in default	67	-	-	-	67
Items associated with particularly high risk	169	-	-	-	169
Covered Bonds	150	-	25	-	175
Other items	81	-	-	-	81
Standardised approach, total	**11,430**	**68**	**533**	**34**	**12,065**
Total credit exposure (EAD)	**11,430**	**68**	**533**	**34**	**12,065**

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**

Danske Bank

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 2018.

Concentration of exposures by industry or counterparty types

	At 31 December 2018, £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
8	**Total IRB approach**	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9	Central governments or central banks	26	-	23	-	1	-	200	-	-	-	-	3,165	627	**4,042**
10	Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
11	Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
12	Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	152	-	**152**
13	International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
14	Institutions	-	-	-	-	-	-	46	-	-	-	-	-	34	**80**
15	Corporates	483	757	631	78	218	109	37	-	128	678	3	1	142	**3,265**
16	Retail	62	159	48	2	13	3	6	1	5	25	631	-	199	**1,154**
17	Secured by mortgages on immovable property	17	14	11	-	39	-	-	-	1	349	2,448	-	1	**2,880**
18	Exposures in default	7	10	6	-	-	-	-	-	1	10	33	-	-	**67**
19	Items associated with particularly high risk	-	-	68	-	-	-	-	-	-	101	-	-	-	**169**
20	Covered bonds	-	-	-	-	-	-	175	-	-	-	-	-	-	**175**
21	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
22	Collective investment undertakings	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
23	Equity	-	-	-	-	-	-	30	-	-	-	-	-	(30)	**-**
24	Other	-	-	-	-	-	-	-	-	-	-	-	-	81	**81**
25	**Total standardised approach**	**595**	**940**	**787**	**80**	**271**	**112**	**494**	**1**	**135**	**1,163**	**3,115**	**3,318**	**1,054**	**12,065**
26	**Total**	**595**	**940**	**787**	**80**	**271**	**112**	**494**	**1**	**135**	**1,163**	**3,115**	**3,318**	**1,054**	**12,065**

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
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**
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 2018, £m		On demand	Up to 1 year	Between 1 and 5 years	More than 5 years	No stated maturity	Total
8	**Total IRB approach**	-	-	-	-	-	**-**
9	Central governments or central banks	1,018	232	748	-	2,044	**4,042**
10	Regional governments or local authorities	-	-	-	-	-	**-**
11	Public sector entities	-	-	-	-	-	**-**
12	Multilateral development banks	-	6	146	-	-	**152**
13	International organisations	-	-	-	-	-	**-**
14	Institutions	9	5	-	2	64	**80**
15	Corporates	779	742	882	731	131	**3,265**
16	Retail	356	323	95	193	187	**1,154**
17	Secured by mortgages on immovable property	140	46	220	2,471	3	**2,880**
18	Exposures in default	3	2	2	19	41	**67**
19	Items associated with particularly high risk	36	79	25	12	17	**169**
20	Covered bonds	-	-	175	-	-	**175**
21	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	**-**
22	Collective investment undertakings	-	-	-	-	-	**-**
23	Equity	-	-	-	-	-	**-**
24	Other	-	-	-	-	81	**81**
25	**Total standardised approach**	**2,341**	**1,435**	**2,293**	**3,428**	**2,568**	**12,065**
26	**Total**	**2,341**	**1,435**	**2,293**	**3,428**	**2,568**	**12,065**

Maturity of exposures

At 31 December 2017, £m		Net exposure value					
		On demand	Up to 1 year	Between 1 and 5 years	More than 5 years	No stated maturity	Total
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**

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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 2018, £m		Gross carrying values of Defaulted exposures	Gross carrying values of Non-defaulted exposures	Credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values
17	**Total IRB approach**	**-**	**-**	**-**	**-**	**-**	**-**
18	Central governments or central banks	-	4,042	-	-	-	**4,042**
19	Regional governments or local authorities	-	-	-	-	-	-
20	Public sector entities	-	-	-	-	-	-
21	Multilateral development banks	-	152	-	-	-	**152**
22	International organisations	-	-	-	-	-	**-**
23	Institutions	-	80	-		-	**80**
24	Corporates	-	3,283	18		(6)	**3,265**
25	*of which:*						
26	*Corporates - SMEs*	-	1,904	12		-	**1,892**
27	Retail	-	1,159	5		-	**1,154**
28	*of which:*						
29	*Retail - SMEs*	-	524	1		-	**523**
30	Secured by mortgages on immovable property	-	2,885	5	-	1	**2,880**
31	*of which:*						
32	*Secured by mortgages on immovable property - SMEs*	-	369	1	-	-	**368**
33	Exposures in default	105	-	38	-	(12)	**67**
34	Items associated with particularly high risk	25	157	13		7	**169**
35	Covered bonds	-	175	-	-	-	**175**
36	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	**-**
37	Collective investment undertakings	-	-	-	-	-	**-**
38	Equity	-	-	-	-	-	**-**
39	Other	-	81	-	-	-	**81**
40	**Total standardised approach**	**130**	**12,014**	**79**	**-**	**(10)**	**12,065**
41	**Total**	**130**	**12,014**	**79**	**-**	**(10)**	**12,065**
42	*of which:*						
43	*Loans*	128	7,766	77	**-**	(3)	**7,817**
44	*Debt securities*	-	1,174	-	-	-	**1,174**
45	*Off-balance-sheet exposures*	2	2,365	2	-	(7)	**2,365**

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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				
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**
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 2018, £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	592	12	-	-	595
2	Consumer staples	12	933	5	-	(3)	940
3	Industrials	25	779	17	-	(5)	787
4	Energy and utilities	-	80	-	-	-	80
6	Health care	-	273	2	-	-	271
8	Information technology	-	112	-	-	-	112
9	Financials	-	494	-	-	-	494
10	Telecommunication	-	1	-	-	-	1
12	Materials and building products	1	134	-	-	-	135
13	Personal	47	3,091	23	-	-	3,115
14	Real estate	29	1,152	18	-	(2)	1,163
15	Government and public administration	-	3,318	-	-	-	3,318
16	Other	1	1,055	2	-	(10)	1,054
17	**Total**	**130**	**12,014**	**79**	**-**	**(10)**	**12,065**

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 2018, £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	130	11,379	79	-	(8)	11,430
2	Ireland	-	68	-	-	-	68
3	Rest of Europe	-	533	-	-	(2)	533
4	Rest of World	-	34	-	-	-	34
5	**Total**	**130**	**12,014**	**79**	**-**	**(10)**	**12,065**

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 l credit risk adjustments for impaired exposures

Following the adoption of IFRS 9 by the Bank on 1 January 2018, expected credit loss impairments are booked in an allowance account and allocated to individual exposures; no collective impairments are recognised under IFRS 9.

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.

The table below shows the breakdown of the allowance using the IFRS 9 impairment category.

	£m		Stage 1	Stage 2	Stage 3		Total
1	Collective and individual impairment charges under IAS 39 as at 31 December 2017		569	109	90,411		91,116
2	Transition effect (ECL at 1 January 2018)		4,606	11,908	(126)		16,388
3	Charge for the year						
4	- Transferred from Stage 1 during the year		-	1,693	3,001		4,694
5	- Transferred from Stage 2 during the year		7,723	-	4,437		12,160
6	- Transferred from Stage 3 during the year		1,322	5,546	-		6,868
7	- Transferred to Stage 1 during the year		-	(7,723)	(1,322)		(9,044)
8	- Transferred to Stage 2 during the year		(1,693)	-	(5,546)		(7,239)
9	- Transferred to Stage 3 during the year		(3,001)	(4,437)	-		(7,438)
10	- ECL on new assets		6,282	894	-		7,176
11	- ECL on assets derecognised		(3,273)	(5,891)	(20,481)		(29,644)
12	Impact of net remeasurement on ECL (incl. Changes in models)		964	1,303	5,501		7,768

13	Impact of net remeasurement of ECL (Stage Change)		(7,583)	11,437	15,815		19,669
14	Recovery of amounts written off in previous years		-	-	(2,072)		(2,072)
			741	**2,822**	**(667)**		**2,896**
15	Write-offs recoveries applied to the allowance account						
16	- Write-offs debited to the allowance account		(3)	(8)	(17,452)		(17,463)
17	- Recoveries of amounts written off in previous years		-	-	2,072		2,072
18	Foreign exchange and other adjustments		1	13	790		804
19	**As at 31 December 2018**		**5,941**	**14,844**	**75,028**		**95,813**

5 Remuneration

The Bank is one of the largest banks in Northern Ireland and is an autonomous subsidiary of Danske Bank Group. We have been helping people and business achieve their ambitions for over 200 years. Today we have around 1,400 employees and serve the needs of our personal and business customers through our branches, our regional business centres, telephone banking and a wide range of digital banking channels

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

The financial sector is subject to increasing regulation on remuneration, i.e. incentives to 'bankers'. 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.

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 Danske Bank 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 Danske Bank remuneration policy.

Non-Executive Members of the Board of Directors who are not employed by a Group Company (Board member) receive a fixed fee. 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 of the Bank has an established Remuneration Committee (RemCo).

The 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 approve the 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 no less than three 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. One member of the Committee is also a member of the Board Risk Committee.

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 2018, the Committee had three scheduled meetings and three others, which were ad hoc.

In 2018 the Committee considered:

• The CRO's review of the risk that the performance management and variable remuneration frameworks incentivise inappropriate behaviours or culture;

• The variable pay arrangements in operation during 2018 in the context of a wider reward and recognition agenda;

• A review of the Senior Management Programme for 2018;

• The remuneration for the CEO and his Direct reports (including the variable pay awards under the Senior Management Bonus Programme 2017);

• The remuneration review for the Code Staff including the variable pay awards for employees outside ExCo that are eligible to participate in the Senior Manager Bonus Programme;

• The endorsement, for Board approval, of the Bank's Remuneration Report and Pillar III Disclosure;

• The Gender Pay Gap Report. This Report is not a statutory requirement in Northern Ireland;

• The review of and approval of the Bank's Remuneration Policy;

• The review of the categorisation of Material Risk Takers;

• A review of how the long term performance of senior executives is measured and a tool to measure this and their potential;

• The performance of senior executives on the Executive Committee during the 2018 financial year;

• Retention of key executives and employees through periods of turbulence; and

• The review of the Committee Charter to align it with the other Board Committee Charters and with existing practice.

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)

All employees in the Bank receive a fixed salary, which may include non-pensionable elements. 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 Short Term Incentives, which 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.

Variable Pay for Senior Managers is based on the performance of the Danske Bank Group, the Bank, and individual performance. Key Performance Indicators include financial and non-financial targets and there is weighting of each Indicator. Short term incentive awards are split between cash and shares in the Danske Bank Group and 60% of the award is subject to three year deferral.

The financial targets of the Danske Bank Group and the Bank are measured on the annual results audited by the Bank's external auditors. Non-financial targets are also measured 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.

Benefits

Benefits, for example pension contributions, paid annual leave, sick pay, family friendly flexibility and healthcare 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

The primary risk related to the Bank's remuneration is the link with variable 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. The structure includes an assessment of behaviours, which is linked to our culture and values.

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. Therefore, disbursement may lapse in part or in full. 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.

During 2018 there was no material deterioration in the financial situation of the Bank or the Danske Bank Group.

In 2018 back testing did not result in a reduction of deferred performance based remuneration.

Consistent with the Bank's approach to risk management the CRO reviews the risk that the performance management and variable remuneration frameworks incentivise inappropriate behaviours or culture;

The CRO considered that in 2018 there were not any incentives related cultural issues that require to be addressed.

Material Risk Takers

The FCA aligns the remuneration provisions in their Handbook with the European Banking Authority (EBA) guidelines on sound remuneration policies. The Bank is required to comply with Chapter 19D of the Senior Management Arrangements, Systems and Controls 'Dual-regulated firms Remuneration Code' (the Code).

The Bank has in place a procedure to identify employees 'whose professional activities have a material impact on the firm's risk profile, including any employee who is deemed to have a material impact on the firm's risk profile in accordance with Regulation (EU) 604/2014 of 4 March 2014 (Regulatory Technical Standards) to identify staff who are material risk takers'.

This procedure involves the close co-operation between Senior Managers within significant business units, HR and Risk and Compliance, and enables the continuous evaluation of regulatory guidelines and business practices to ensure an appropriate interpretation of such guidelines.

As of December 2018 the number of designated material risk takers was 137, a reduction of five from the reported figure in 2017.

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 2018

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 2018 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	4,140,272	17	12,201,835	120	16,351,107	137

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 2018.

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6 Leverage

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

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

£m		At December 2018	At December 2017
		Applicable Amounts	
1	Total assets as per published financial statements	9,457	8,657
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	4	-
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)	492	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	(134)	(163)
8	**Total leverage ratio exposure**	**9,819**	**8,981**

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Table 6.2 LRCom: Leverage ratio common disclosure			
£m		At 31 December 2018	At 31 December 2017
On-balance sheet exposures (excluding derivatives and SFTs)			
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	9,447	8,649
2	(Asset amounts deducted in determining Tier 1 capital)	(130)	(155)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**9,317**	**8,494**
Derivative exposures			
4	Replacement cost associated with *all* derivatives transactions (i.e. net of eligible cash variation margin)	5	2
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	9	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)	(4)	(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)**	**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	2,759	2,643
18	(Adjustments for conversion to credit equivalent amounts)	(2,267)	(2,156)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**492**	**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**	**688**	**642**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**9,819**	**8,981**
Leverage ratio			
22	**Leverage ratio**	**7.0%**	**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	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 7.0% at 31 December 2018. The leverage ratio has decreased 0.1 percentage point from Q4 2017. The decrease is the result of an increase in the exposure amount, which was partly driven by an increase in exposures to central banks and mortgage lending.

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, At 31 December 2018	Gross amount	Legal right of offset	Further offsetting, master netting agreement	Collateral /offset	Net amount
Financial assets					
Cash and balances at central bank	2,041,923	-	-	(489,091)	1,552,832
Due from other banks	41,543	-	(17,605)	-	239,358
Derivatives with positive fair value	9,857	-	(4,597)	(897)	4,363
Loans and advances to customers	5,926,360	(482,426)	-	-	5,443,934
Financial liabilities					
Due to other banks	372,624	-	(17,605)	-	355,019
Derivatives with negative fair value	11,992	-	(4,597)	(897)	6,498
Deposits from customers	7,565,139	(482,426)	-	-	7,082,713
Notes in circulation	489,091	-	-	(489,091)	-

7.2 Description of policies and processes for collateral valuation and management

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. For reporting purposes, all collateral values are net of haircut and capped by the exposure amount at facility level.

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.

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

Collateral

The most important collateral type, measured by volume, is real estate / property (commercial and residential). However the Bank may also take collateral in the form of other tangible assets. In certain business sectors this may comprise trading assets (e.g. stock, debtors, work-in-progress) 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 assets.

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

The Group may also obtain 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 credit losses) and credit risk concentration. 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 2018, the Bank was within the regulatory limits for large exposures.

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 2018 (£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	5,008	2,809	2,808	1	-
2	Debt securities	1,103	71	-	71	-
3	Total exposures	6,111	2,880	2,808	72	-
4	Of which defaulted	46	31	31	-	-

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[1] effects

At 31 December 2018, £m		Exposures before CCF[2] and CRM		Exposures post CCF and CRM		RWAs and RWA density	
		On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
1	Central governments or central banks	3,305	737	3,305	147	-	-
2	Regional governments or local authorities	-	-	-	-	-	-
3	Public sector entities	-	-	-	-	-	-
4	Multilateral development banks	152	-	152	-	-	-
5	International organisations	-	-	-	-	-	-
6	Institutions	67	13	67	2	35	50.72%
7	Corporates	2,211	1,054	2,211	175	2,238	93.80%
8	Retail	431	723	431	34	313	67.31%
9	Secured by mortgages on immovable property	2,716	164	2,716	1	946	34.82%
10	Exposures in default	65	2	65	-	74	113.85%
11	Items associated with particularly high risk	106	63	106	8	171	150.00%
12	Covered bonds	175	-	175	-	17	10.00%
13	Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
14	Collective investment undertakings	-	-	-	-	-	-
15	Equity	-	-	-	-	-	-
16	Other	81	-	81	-	97	119.75%
17	**Total**	**9,309**	**2,756**	**9,309**	**367**	**3,891**	**40.21%**

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

Danske Bank

Standardised Approach – Credit risk exposure and CRM effects		Exposures before CCF 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

04 June 2019