Annual Report and Financial Statements

Northern Bank Limited for the year ended 31 December 2023

Company Number: R0000568

Your life. Your Danske Bank

BUSINESS REVIEW

AT A GLANCE

£334m
TOTAL OPERATING INCOME
(2022: £274M)

PROFIT BEFORE TAX
£186m
(2022: £103M)

£6.7bn
IN CUSTOMER LENDING ACTIVITES (2022: £6.3BN)

£3.5bn
AVAILABLE LIQUIDITY
(2022: £3.5BN)

15.6%
COMMON EQUITY TIER 1 CAPITAL RATIO
(2022: 13.6%)

£11.3bn
IN CUSTOMER DEPOSIT ACTIVITIES
(2022: £11.2BN)

YOUNG PEOPLE EDUCATED THROUGH DANSKE MONEY SMART
7,000

£378m
IN SUSTAINABLE FINANCE LENDING

ACCREDITED AS A 3-STAR 'WORLD CLASS COMPANY TO WORK FOR'

12,000
CHILDREN SUPPORTED WITH REGULAR BREAKFASTS IN SCHOOLS

>50%
MORE THAN 50% OF NEW MORTGAGE LENDING APPROVED THROUGH OUR CARBON NEUTRAL MORTGAGE PRODUCT

CHAIR'S REVIEW

"Guided by a clear purpose to help customers, colleagues and society thrive, we have shown again that when customers need us most, we are there to support them."

Martin Stewart
Chair

In 2023 we consolidated our position as one of the pillar banks supporting Northern Ireland's economy. As the Bank's Chair, I'm delighted to be able to share our achievements and the positive impact we have had in this year's Annual Report.

With overall lending up 6% and customer deposits up 1%, we enter our 200th year with momentum and a clear message that we are a strong, healthy bank that plays a fundamental role in supporting consumers, businesses and the economy.

2023 highlights

We continued to deliver on our strategic priorities, resulting in leading customer satisfaction scores across both Personal and Business, world class levels of employee engagement, and good progress in our ambition to help finance the transition to a more sustainable future.

The external environment remained challenging, with rising living costs and inflationary pressures continuing to test household budgets, while businesses faced a range of challenges including the impact of higher input costs and economic and political uncertainty. In response to inflationary pressures, the Bank of England raised interest rates throughout 2023 to a 15-year high of 5.25%.

Against this backdrop customers still looked for support for significant life events, such as buying their first home, a new car or saving for the future. Northern Ireland's business community continued to demonstrate its resilience in challenging times, and many businesses sought opportunities to invest and grow. We continued to put customers at the heart of everything we do and support them when they need us most, whether in good times or more challenging times.

The UK banking sector continued to evolve in response to changing consumer demands and emerging technologies, with more choice than ever for consumers from both traditional players and digital banks. We continued to meet our regulatory requirements whilst transforming at pace and offering a proposition of strong local leadership, skilled people and continued investment in our digital channels.

Strategic direction

Despite the external challenges we made good progress on our strategic priorities, guided by a clear vision to be a leader in Northern Ireland, a growing bank in the Rest of the UK, driving sustainability.

Growing as a modern and digitally focused bank is also key to achieving our Vision in a digital world and we made good progress in our digitisation agenda, simplifying processes and improving the online experience for customers.

During 2023 we saw the impact of climate change through some of the most extreme weather globally in living memory, and with it a heightened focus on sustainability. While businesses faced a wide range of challenges, many still wanted to talk to us about climate action. We showed again our commitment to working together with our customers, colleagues and wider society to support the transition to a more sustainable future through finance, education and awareness.

Purpose and culture

The Board continued to place great emphasis on engaging with colleagues. Our 'Board 360' series provided a valuable opportunity for the Board to engage in open and transparent conversations with colleagues at all levels of the organisation.

A diverse and inclusive culture is key to our long-term success, and many colleagues contribute to driving this agenda through our affinity networks. The Board actively engaged with the diversity and inclusion agenda and welcomed the opportunity to host a lunch for the winners of our first D&I Awards in 2023. This was a valuable opportunity to listen, and to thank colleagues for their contribution.

Once again I was struck by the purpose-led ethos in the organisation and how much our colleagues want to make a difference. This positive culture that permeates the organisation was reflected in high levels of engagement with our annual Best Companies employee engagement survey, and world-class scores. Maintaining this diverse and inclusive culture will be key to supporting our long-term success.

I would like to thank all colleagues for their continued commitment and for the contribution they have made during 2023.

Governance

The Board continues to value regular engagement with our sole shareholder, Danske Bank A/S (Group). Our two Group Directors, Frans and Michel, continue to provide valued contribution and linkage to our shareholder. In April, I joined Vicky our CEO in welcoming Martin Blessing, the Chair of the Board of Danske Bank A/S to the Bank's Head Office in Belfast. It was a great opportunity for us to showcase how our colleagues help customers, colleagues and society to thrive. In September, the Board held its annual Strategy Day and Board Meeting in Copenhagen, a valuable opportunity for the whole Board to engage with Group stakeholders.

Looking ahead

We are entering what will be our 200th year as an industry leader in Northern Ireland and remain strongly positioned to continue to help customers as an integral part of the economy for the long-term. This means continuing to evolve in response to changing consumer behaviours, emerging technologies and increased competition.

I am honoured to have served this organisation as Chair in 2023 and would like to thank my fellow directors for their support to me and to the organisation.

The Bank remains well capitalised with robust funding and liquidity levels. While we continue to operate through economic uncertainty, I remain confident that we are on the right path for continued success. I look forward to supporting Vicky, the Executive Committee and all our colleagues as we move forward with optimism and a continued determination to support our customers, wider society and the economy.

Martin Stewart
22 March 2024

CHIEF EXECUTIVE'S REVIEW

"A strong financial performance means we were able to help customers navigate cost of living challenges while continuing to provide fuel in the economy, helping businesses pursue growth opportunities and people to buy or move home."

Vicky Davies
Chief Executive Officer

Throughout 2023 we continued to deliver on our Purpose of helping colleagues, customers and society thrive.

It was a year which reinforced that we are there for our customers when they need us both in good times and in more challenging times.

A strong financial performance means we were able to help customers navigate cost of living challenges while continuing to provide fuel in the economy, helping businesses pursue growth opportunities and people to buy or move home. At the same time we continued to invest in our digital capabilities and products and services that improve customer experience.

We made good progress on the five strategic priorities that will help us deliver on our Vision to be a leader in Northern Ireland, a growing bank in the Rest of the UK, driving sustainability.

Our colleagues play a pivotal role in delivering on our strategy. Spending time around the business is important to me, listening to colleagues and hearing new ideas about how we can make things even better for our customers. This valuable time with colleagues reinforces my belief that we have great people, and so much to be proud of.

I would like to thank our Chair, Martin Stewart, the Board and the Executive Committee for their commitment and support in 2023.

Despite the external challenges, I am excited by the opportunities for future growth and to make a difference. Our Vision and strategy remain the right ones, and our Purpose is more important than ever. My focus will remain on the five strategic priorities we have set out, guided by our clear purpose to help our colleagues, customers and society thrive.

Helping Personal Customers thrive

I truly believe our colleagues provide great service to our customers every day, and this was reflected in leading customer satisfaction scores in Personal Banking. Our proposition of strong digital solutions, supported by over 500 skilled people across our branches, local contact centre and mortgage teams, continues to deliver for our customers.

Consumer Duty came into effect and has given us a renewed focus on delivering good customer outcomes, a new way of delivering care for our customers that aligns clearly to our Purpose.

We continued our branch investment programme with the refurbishment and expansion of our Abbey Centre branch. The first Banking Hub in Northern Ireland opened in Kilkeel, enabling Danske Bank customers to carry out day to day banking transactions and speak to our Community Banker.

At the same time we continued to see growth in digital adoption to 70% and over 7 million logins each month to our Mobile Banking app.

We further digitised our mortgage application process and customers can now open a personal loan or savings account through Mobile Banking, significant milestones as we seek to further digitise our offering.

Despite rising interest rates, mortgage lending remained resilient, supported by low unemployment. We approved over £550 million in mortgage lending in Northern Ireland - helping thousands of customers realise their home owning ambitions. In the Rest of the UK we strengthened relationships with the Mortgage Advice Bureau and expanded into East and West Midlands, supporting more existing or new homeowners with energy efficient homes. Around half of the new mortgage lending we have approved across the UK this year has been for our Carbon Neutral mortgage product.

Multi-banking is now engrained in how people manage their finances and competition in the personal current account market was strong. We focused on further optimising our current account range and saw increased demand for our youth current accounts, welcoming 6,000 young people as new customers in 2023.

With higher interest rates customers started looking for alternative options for saving. We focused on retaining customers through simplification, digital account opening, and pricing.

We remain acutely aware of the impact cost of living and inflationary pressures continued to have on our customers. While most customers were able to keep up with repayments, we proactively contacted over 45,000 customers offering guidance and support directly relating to their financial circumstances. A Money Worries marketing campaign helped raise awareness of the help and support available through our Money Worries Hub, dedicated local teams, and external organisations.

Through the vigilance of our colleagues and ongoing training we are well placed to support customers who need additional support, including those at greatest risk of harm, for example through gambling-related harms or economic abuse. We continued to strengthen our relationships with organisations that help us provide better support to customers and colleagues, such as Adult Safeguarding Trusts, Alzheimer's NI, GamCare, Hourglass and others.

Helping Business Customers thrive

We supported the Northern Ireland business community with over £575 million in business lending approvals, helping local businesses achieve their ambitions. This includes many businesses that are key to Northern Ireland's infrastructure, employment and stability.

Many of the businesses I met are performing well, pursuing opportunities and investing. Equally, there are those for which the economic environment, political uncertainty, inflationary pressures and cost of doing business weigh more heavily.

Against this backdrop our proposition continues to deliver for our customers, as reflected in leading customer satisfaction across all business segments. Over 80 skilled and experienced relationship managers on the ground are supported by local support teams and specialists in areas like Cash Management, Markets and Sustainability.

Investment in our digital platforms included a new Asset Finance system and improvements to District, our online banking platform for businesses, giving businesses greater flexibility and customisable options to manage their finances and accounts online.

The market is an increasingly competitive one with more choice than ever for businesses, particularly in the small business sector. We reviewed our proposition and launched a switching campaign to demonstrate our commitment to supporting local businesses and attracting quality, new to bank small business customers.

Leveraging our strengths and experience in the Northern Ireland market, we continued to grow our business in the wider UK marketplace. We helped improve access to quality housing, approving £213 million in lending to the social housing sector, including our first housing association customer in Wales. In syndicated lending we approved over £168 million in lending, including supporting our first FTSE 100 customer.

Helping colleagues thrive

We are committed to creating a vibrant workplace environment where each of our colleagues can thrive at work.

With an 88% completion rate, more colleagues than ever took the opportunity to share their opinions through the Best Companies employee engagement survey. We were delighted to see overall engagement increase, and we retained our 3-star accreditation reflecting 'world-class' levels of colleague engagement. For the first time, we were recognised as one of the top 50 companies to work for in the UK.

That's something to be really proud of, but the real value is in the rich insights we get into the employee experience. In 2023 we continued to use those insights to deliver actions that will help us become an even better place to work.

Colleagues are key to our future success. We continued to invest in developing future talent and building the mindset and skills for the future world of work, through events, webinars and training. It was great to see more than 300 colleagues 'squiggle' their careers with a change in role or promotion, and 17 of our apprentices graduate from Ulster University and Belfast Metropolitan College.

I am passionate about ensuring all colleagues feel that they belong within the organisation and that they are supported during life's key events. Colleagues in our affinity groups are helping to drive positive change around gender diversity, disability inclusion, racial equality and LGBTQIA+ inclusion. They are helping to create a more inclusive workplace and society, and we were delighted to be awarded the Business in the Community NI Diversity & Inclusion Award 2023.

To support colleagues' wellbeing and add to our support in the moments that matter we focused on supporting colleagues' mental health and financial wellbeing, organised events to drive conversations on topics such as the menopause, and introduced new Guiding Principles on Reasonable Adjustments, among many other initiatives driven by colleague feedback. In recent years more and more colleagues have shared their personal stories to help others, a great reflection of our culture in Danske Bank.

Helping society thrive

Being a sustainable and responsible business is fundamental to who we are, and key to our ambition to help society thrive.

We have a clear role to play in financing the transition to a more sustainable future. That means continuing to become 'greener' in our own operations, however it will be through helping our customers make more sustainable choices that we will make the greatest impact in the transition to a lower carbon economy.

Achieving the highest level in the annual Business in the Community NI Environmental Benchmarking Survey 2023 is testament to the strong progress we have made in reducing the negative impact of our own operations, but we have more to do. We have set ourselves a target of being operationally net zero by 2030 and for all operational and customer-related carbon emissions to be net zero by 2050.

In 2023 we launched a new Home Energy Efficiency Loan for mortgage customers and in total provided £378 million in Sustainable Finance across personal and business lending. To date, 140 Business Customers have taken part in the Climate Action Programme we co-developed with Business in the Community.

The feedback I get from Business Customers is that our locally based Sustainability team is adding real value, and it was great to see this recognised when we were awarded the Business in the Community NI Climate Action Award 2023.

Through our core community programmes, working with many local charities and not-for-profit organisations, we also help to make a difference on key societal issues, such as financial confidence, mental health and scam awareness.

We were one of the driving forces behind a new Good Food Fund launched by Business in the Community, which in 2023 benefited more than 12,000 children thanks to donations from businesses. The fund gives children free access to nutritious food in a school setting and is a great example of the impact businesses can have when they come together.

I am so proud of the strong culture of volunteering in our organisation and how active our colleagues are in their local communities. In classrooms across Northern Ireland our colleagues helped teach almost 7,000 children and young people about money and budgeting through our Money Smart financial education programme. In addition, colleagues volunteered their time and skills with many local charities supporting issues like food poverty, disability inclusion and biodiversity loss.

Our successful three-year partnership with local mental health charity AWARE NI came to an end in December. The money raised has benefited over 11,500 teenagers through the charity's Mood Matters education programme in schools and the impact of our support will continue after the partnership ends.

Looking ahead

While the economic outlook in the UK remains uncertain, we are here to support our customers when they need us. We are excited to create new opportunities for further growth and to continue to make things even better for our customers.

In 2024 we are marking 200 years as a leading local bank. It has been 200 years of supporting businesses, communities and people. Over the generations we have seen huge societal and technological change, and we have evolved with it. We look forward to our third century in business with renewed optimism and a continued determination to support our customers, wider society and the economy.

Vicky

Vicky Davies
22 March 2024

STRATEGIC REPORT

Danske Bank

Danske Bank in the UK

Northern Bank Limited trading as Danske Bank (the Bank) is a market leader in Northern Ireland and is an autonomous subsidiary of the Danske Bank A/S ('the Group' or 'the Parent'). We have been helping people and businesses achieve their ambitions for 200 years. Today we have around 1,300 full time employees and serve the needs of our Personal and Business Customers via a combination of digital and physical channels which include local branches and regional business centres, as well as telephone banking support.

We play a fundamental role in driving Northern Ireland's growth by lending to people and businesses, as well as, on a targeted basis, in the Rest of the UK. We also believe we have a fundamental responsibility to ensure we are contributing to the wider society that we serve and our local communities. How we do business, is as important as the business we do.

Further details of the Bank's activities are regularly published on the Bank's website at www.danskebank.co.uk

Our values

As we work towards achieving our Vision and Purpose, and delivering on our five strategic priorities, our values remain a fundamental component of who we are as an organisation.

At Danske Bank, our Culture Wheel encapsulates the values that we uphold, and consistently and transparently articulates the behaviours that we aim to live by every day across our business.

We use this Culture Wheel as an integral part of our people processes from resourcing strategies, recognition, performance management, through to how we shape our development interventions for our colleagues.

Principal activities

The principal activity of the Bank, operating under the Danske Bank brand, is the provision of a comprehensive range of banking, financial and related services to households and businesses.

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).

Basis of presentation

The Directors of Northern Bank Limited present their Strategic Report for the year ended 31 December 2023.

Northern Bank Limited is a wholly owned subsidiary of Danske Bank A/S, a company incorporated in Denmark. The Bank's 2023 Financial Statements have been prepared under the UK adopted International Accounting Standards (IAS).

The Strategic Report is a statutory requirement under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and is intended to be fair and balanced, and to provide information that enables the Directors to be satisfied that they have complied with section 172 of the Companies Act 2006 (which sets out the Directors' duty to promote the success of the company).

Risk management and governance

Our commitment to good governance and risk management continues to underpin our strategy and outcomes, and ensures we continue to challenge key risks, controls and assumptions.

The Bank's Risk Management framework, principal risks and assumptions and how it manages these key risks are outlined within the Risk Management section from page 64 of the Annual Report.

Further information on the Bank's governance arrangements are outlined from page 90 of the Annual Report, including the Bank's Section 172(1) Statement.

Climate reporting

Being a sustainable bank and playing an active part in helping our customers transition to a new low carbon economy is at the heart of the Bank's strategic ambitions. This is further outlined in the Bank's Task force on Climate related Financial Disclosures (TCFD) report (which incorporates Climate Financial Disclosure reporting requirements) from page 44.

OUR VISION, OUR PURPOSE AND STRATEGIC PRIORITIES

The Bank's Vision statement reflects the type of Bank we want to be.

The Bank's ambition is to be the leader in Northern Ireland in all areas of personal and business banking whilst pursuing selected growth opportunities in the Rest of the UK and being a driving force for sustainability.

Our Purpose focuses on why the Bank exists beyond creating shareholder value.

People and society are at the heart of our business and therefore drive the sentiment behind our Purpose. We want to positively impact people and businesses, help secure a prosperous and sustainable future for the places we operate in and play our part in addressing key societal issues.

Our strategy

In 2023, the Bank's Board and Executive Committee considered the longer-term goals of the organisation and the type of Bank we want to be in the future.

Our long-term strategic focus is to remain a stable, strong and risk-astute Bank – consolidating our market leading position in Northern Ireland, taking selective growth opportunities in the Rest of the UK, and supporting customers on their sustainability transitions.

Complementing this approach, our ambition remains to deliver a strong future for the Bank as a more efficient, geographically diverse (with Northern Ireland remaining the core region) and digitally orientated business achieving sustainable and responsible growth, which is seen as the best place to work. The Bank's strategy continues to be consistent with acting to deliver good customer outcomes.

Our five strategic priorities

In order to achieve our Vision and Purpose, we have five key strategic priorities that guide our commercial activities.

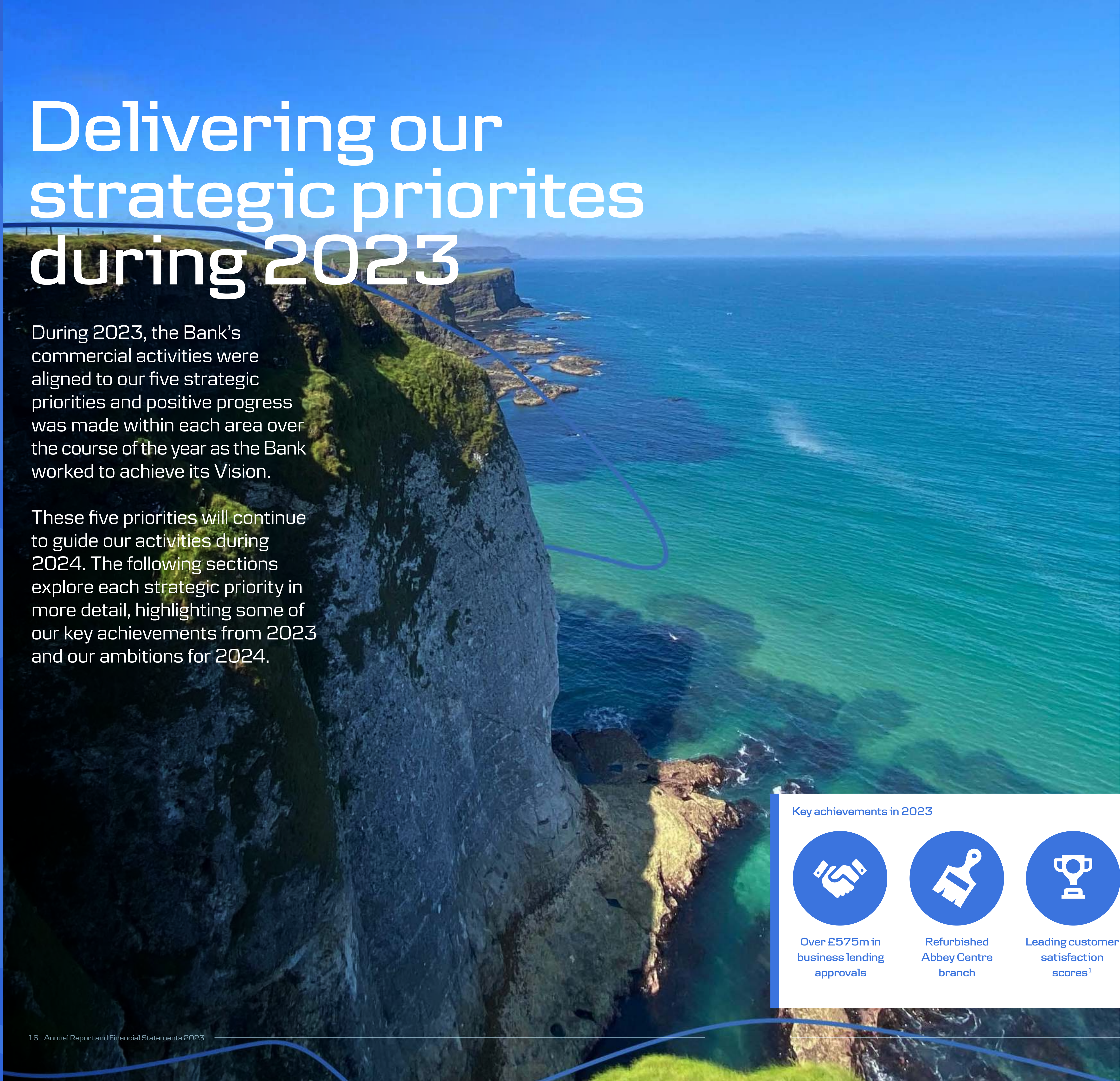
1. **LEADER IN NORTHERN IRELAND**
   We aim to be recognised as the leading bank in Northern Ireland within both the personal and business banking segments as well as a leader in society

2. **GROWING IN REST OF THE UK**
   We will grow our business in the Rest of the UK in selected risk-astute areas across both personal and business banking

3. **BEST PLACE TO WORK**
   The Bank will strive to remain a world class organisation to work for through a continued focus on colleague experience and engagement

4. **DIGITISE & SIMPLIFY**
   We will make banking with us easier by continuing to enhance our digital customer propositions through strengthening our capabilities and embedding digital developments and simplification initiatives across the organisation

5. **SUSTAINABLE & RESPONSIBLE**
   The Bank will operate sustainably, support others on their sustainability journeys and enhance our position as a leading responsible business



Delivering our strategic priorites during 2023

During 2023, the Bank's commercial activities were aligned to our five strategic priorities and positive progress was made within each area over the course of the year as the Bank worked to achieve its Vision.

These five priorities will continue to guide our activities during 2024. The following sections explore each strategic priority in more detail, highlighting some of our key achievements from 2023 and our ambitions for 2024.

Leader In Northern Ireland

In 2023, the Bank continued to be a leading bank in Northern Ireland by delivering leading customer satisfaction and supporting our broad range of customers. Our customer satisfaction outcomes are supported by the multi-channel approach provided for customers including our digital channels, large branch network and award-winning contact centre. Over the course of the year, the Bank supported our borrowing customers and committed to the Mortgage Charter as we sought to support those customers most impacted by cost of living challenges. Despite the challenging environment, the credit quality of the mortgage portfolio remained robust.

The Bank continued to invest in its delivery channel to improve the overall customer experience, with a number of exciting new digital releases, such as instant access savings and personal loans available through our app, complementing continued investment into our physical footprint, with the Abbey Centre branch remodelled to provide customers with a modern, welcoming and engaging branch layout.

Within the business banking segment, whilst the lending market was subdued, we approved over £575m of lending applications.

Our proposition continued to support our customers by delivering leading customer satisfaction and the Bank remained in a strong position across its focus segments, benefiting from the strength of its skilled relationship managers and supported by its digital platform for larger businesses. During the year the Bank delivered a "Helping Local Business Thrive" campaign to support local businesses as they sought to navigate a challenging macroeconomic environment, and we continued to support businesses on their climate transition journeys. In addition to financial funding available, we supported a number of customers' sustainability journeys through their participation in a bespoke Climate Action Programme delivered in partnership with Business in the Community.

The Bank adopted the Consumer Duty principles which will ensure that we continue to offer fair value and deliver good outcomes for customers across our range of products and services.

Looking forward, the Bank will focus on continuing to be a leading bank in Northern Ireland across both the personal and business banking segments.

Key achievements in 2023

- Over £575m in business lending approvals
- Refurbished Abbey Centre branch
- Leading customer satisfaction scores[1]
- Welcomed 6,000 young people as new customers
- Over £550m in mortgage lending approvals
- Exciting new digital releases to make banking with us easier

[1] Based on surveys undertaken by market research companies.

Growing In Rest Of The UK

In 2023, the Bank successfully delivered quality lending growth across each of our three Rest of UK target segments of mortgages, housing associations and syndicated lending. With the Bank's strong market share in Northern Ireland, and a smaller market share and larger potential in other regions, lending in the rest of the UK was a key contributor to the Bank's growth over the year.

Controlled and targeted Rest of UK growth provides a range of strategic benefits to the Bank. It leverages the strong base and existing experience in Northern Ireland in other regions of the UK and our existing head office functions. Lending into the Rest of the UK also contributes to improving the overall risk profile of the Bank.

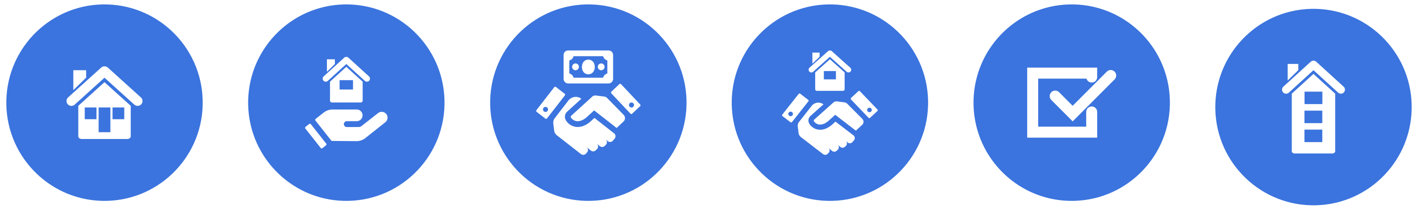
Over the course of the year, the Bank increased its mortgage market reach through expanding into two new regions of the UK through offering its Carbon Neutral Mortgage proposition in partnership with the same broker network. The Bank also launched a bespoke "Custom" large loan mortgage product.

Our Housing Association proposition continued to prove attractive to the sector, with a combination of an experienced relationship management team, strong product offering and excellent service delivery enabling the Bank to grow its lending to this sector. Due to the strong credit quality of the counterparties engaged with, the Bank's lending into this sector supported the credit quality of the overall business lending portfolio.

Within the syndicated lending segment, the corporate team successfully increased lending volumes through developing a strong reputation in the market with an ability to respond quickly. A particular highlight was the onboarding of the Bank's first FTSE 100 syndicated lending corporate customer. Similar to housing associations, the credit quality of the Bank's overall business lending portfolio is supported by lending into the segment due to the credit quality of the syndicated lending counterparties.

Moving forward, our ambition is to continue to support the Bank's quality growth and risk optimisation ambitions through leveraging existing strengths and skills.

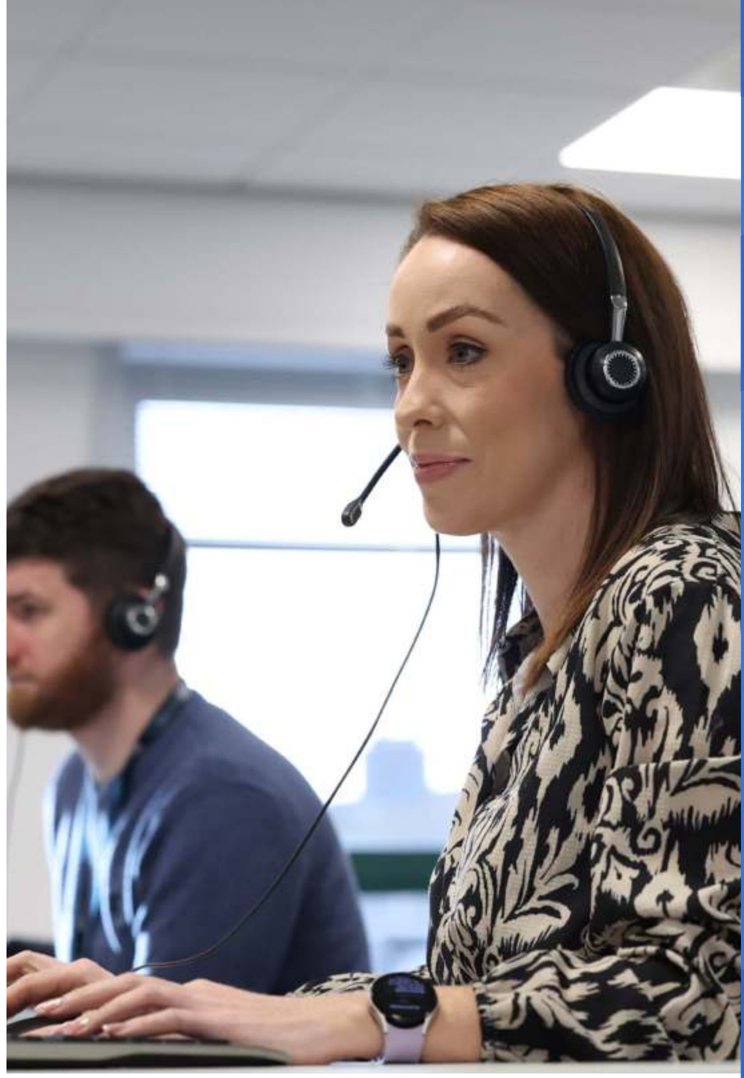
Key achievements in 2023



- Over £220m of Rest of UK mortgage approvals
- Around 1,000 Rest of UK mortgage brokers registered to do business with us
- Delivered first FTSE 100 syndicated lending transaction
- £213m of Rest of UK housing association lending approvals
- £168m of Rest of UK syndicated lending approvals
- Launched bespoke "Custom" large loan mortgage proposition

Best Place To Work

In 2023, the Bank made substantial progress towards its ambition to be a best place to work within the UK. Our workforce is highly engaged, with 88% of colleagues participating in the Q3 employee engagement survey and the Bank being accredited as a 3 star, "World Class" company to work for. Notably, within the survey conducted by Best Companies, the Bank was ranked the 5th Best Financial Services company to work for in the UK and for the first time we were recognised within the top 100 companies to work for across the UK, at no. 34. External benchmarking also indicates that we are the number one locally led company to work for in Northern Ireland. Furthermore, colleagues tell us that they feel included and have a sense of belonging within the Bank. Our commitment to Diversity and Inclusion is underpinned by ally led affinity networks that lead a compelling range of activities and in 2023 we were awarded the Business in the Community NI Diversity & Inclusion Award.



The Bank invests heavily in its people, with a learning and development framework providing personal and professional growth from early careers through to senior leadership. Formalised pathways, functional academies and external partnerships encourage colleagues to diversify their knowledge and further their careers within the Bank. Apprenticeship programmes are also available which focus on future skills in digital and in leading the way in customer experience, with bespoke Danske Bank content delivered in partnership with Ulster University and Belfast Metropolitan College. Career development is actively encouraged through our "Squiggly Career" initiative which encourages colleagues to broaden their experience in different roles across the Bank, evidenced through around 300 internal moves over 2023.

During the year, the Bank held a set of "My Danske My Growth" days to provide learning and connection opportunities to colleagues. Held over 7 days, over 900 colleagues participated in the workshops, furthering a culture of connection and of personal ownership for career, growth, and wellbeing.

The Bank's focus on leadership was sustained over the course of 2023 through our Navigator programme for new leaders and workshops on Adaptive Leadership. Specific development days for leaders were also a feature for many functions across the Bank.

A key strand of being a Best Place to Work is providing support for colleagues, and over the course of 2023 the Bank broadened its wellbeing support where, alongside the rich set of resources to support physical and mental health, particular support was given to supporting colleagues' financial wellbeing. A new partnership was also entered into with Platform 55 to provide guidance and assistance to working parents.

Looking forward to 2024, the Bank will continue to focus on developing its people and culture and aims to create a vibrant workplace that attracts, engages and motivates talent, and which ultimately drives commercial success.

Key achievements in 2023

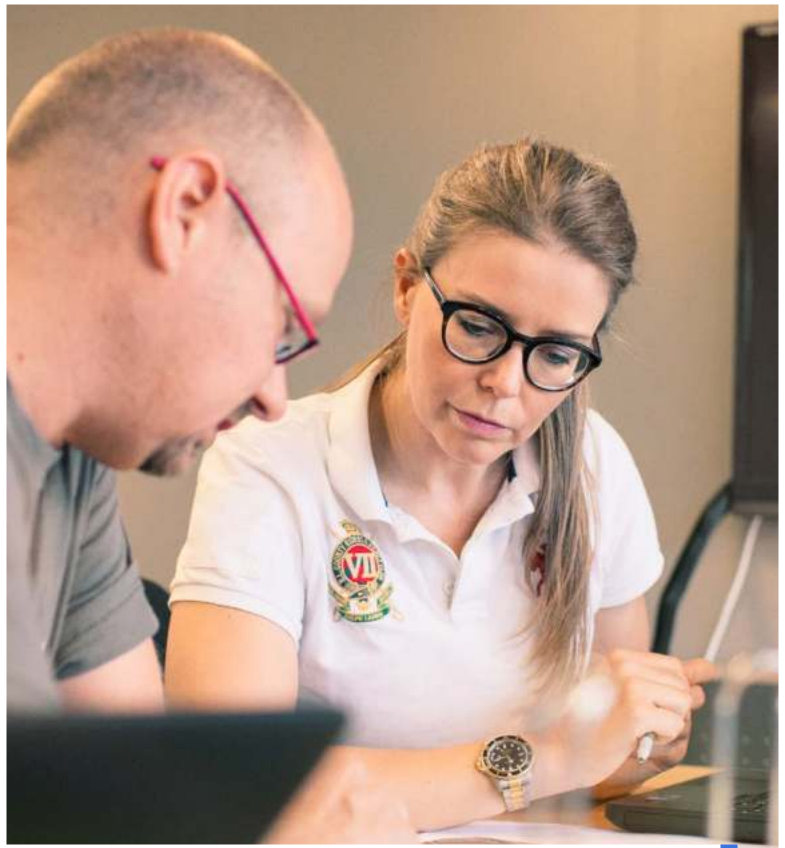
- Retained a 3 star accreditation in Best Companies survey, regarded as 'World Class' company to work for
- Awarded Business in the Community NI Diversity & Inclusion Award 2023
- Over 900 colleagues attended My Danske My Growth days
- Ranked the 5th best Financial Services company to work for in the UK
- Around 300 career moves through internal vacancies
- Around 500 hours of digital upskilling lessons through Coursera

Digitise & Simplify

The Bank is continuing to invest heavily into making banking with us easier as customer behaviours transition to more digital channels.

In 2023 there were a number of digital releases including new savings products and a personal loan offering accessible through the App, continued enhancements to digitalise our mortgage journey, and confirmation of payee was made available to Business Customers through our online banking service, District, which will help customers to better detect attempted fraud. A new asset finance system was implemented which provides digital processing of documents and digital signing to facilitate faster 'time to money' for customers. The Bank also commenced a pilot for digital on-boarding of new-to-bank Personal and Business Customers which will improve the journey for customers wanting to start a banking relationship with us.

Our data capabilities continue to evolve, and in 2023 we improved our data capabilities within personal banking. Additionally, automation of manual processes continued over the course of the year and has led to increased efficiencies across the organisation and enabled colleagues to focus on more value adding activities.



Key achievements in 2023

- Around 100,000 hours of manual tasks automated
- Improved data capabilities within personal banking
- Launched Personal loans & savings offerings in the App
- Digital onboarding pilot launched for Personal and Business Customers
- Over 250 processes simplified
- 25% increase in digital log ins over the past 2 years with over 7m logins each month

During the year the Bank also introduced a number of simplification initiatives, acknowledging that every colleague can make a positive contribution towards simplifying how we do things. A Mortgage Strategy & Transformation Team was formed, with a remit to revolutionise the mortgage journey for our customers. Incorporated within the team's early work was a mortgage pilot aimed at simplifying the overall mortgage process and increasing productivity levels at key points of the journey. The Bank completed the sale of its off-site ATM network during the year which has simplified our business and enabled enhanced focus on other activities. A bank-wide simplification programme was also initiated which empowered colleagues to improve how they do things and resulted in over 250 processes being simplified by the teams that carry them out, freeing up colleagues time to focus on more value adding activities.

Moving into 2024, we will continue to simplify the things that we do to make banking with us easier and continue to invest in and improve our digital offerings.

Sustainable & Responsible

Operating as a sustainable and responsible business is fundamental to the success and future of the Bank, and key to achieving our Purpose of helping colleagues, customers and society thrive. In 2023, the Bank took further strides in supporting the transition to a greener economy and towards continuing in its position as a leading responsible business.

Further progress was made in the climate transition journey through "Going Green Ourselves", as the Bank was able to deliver reductions to scope 1 & 2 carbon emissions, and through "Helping Others Go Green". The Bank was able to support customers with their climate transition aspirations across a range of mediums including through our carbon neutral mortgage, which supports customers with the purchase of EPC A-C rated properties, and through education and awareness programmes, such as our bespoke Climate Action Programme delivered in partnership with Business in the Community. During the year we launched a £35m Agri Sustainability Fund and created a dedicated agri-sustainability advisor role to support the transition aspirations of our large farming customer base. For Personal Customers we launched a home energy efficiency loan, whilst for Business Customers we continued to provide a range of sustainable finance solutions. Furthermore, the Bank continued to be a leading voice in Northern Ireland on sustainability through its external engagement. The Bank achieved Platinum Level in the 2023 NI Environmental Benchmarking organised by Business in the Community. The Bank was also awarded the Business in the Community Northern Ireland Climate Action Award in 2023.

2023 also saw the Bank continue to focus on being a responsible business with high levels of activity across each area of financial education, fundraising & volunteering. The core community initiatives operated by the Bank provided a strong platform to support wider society through activities such as the Money Smart financial education programme, our charity partnership with Aware and through staff volunteering. Additionally, the Bank provided education and guidance to Personal and Business Customers on the cost of living challenges through a Money Worries Hub and Cost of Doing Business hub on our website and worked with Business in the Community through the Good Food Fund to support children with breakfast in schools across Northern Ireland.

Throughout the year the Bank also continued its support for youth sports in Northern Ireland, notably through long-standing sponsorships of Schools Cup rugby, Ulster Schools GAA, and Northern Irish Schools football.

In 2024, the Bank will continue on its journey to operate sustainably, support others to go green and to enhance our position as a leading responsible business.

Key achievements in 2023

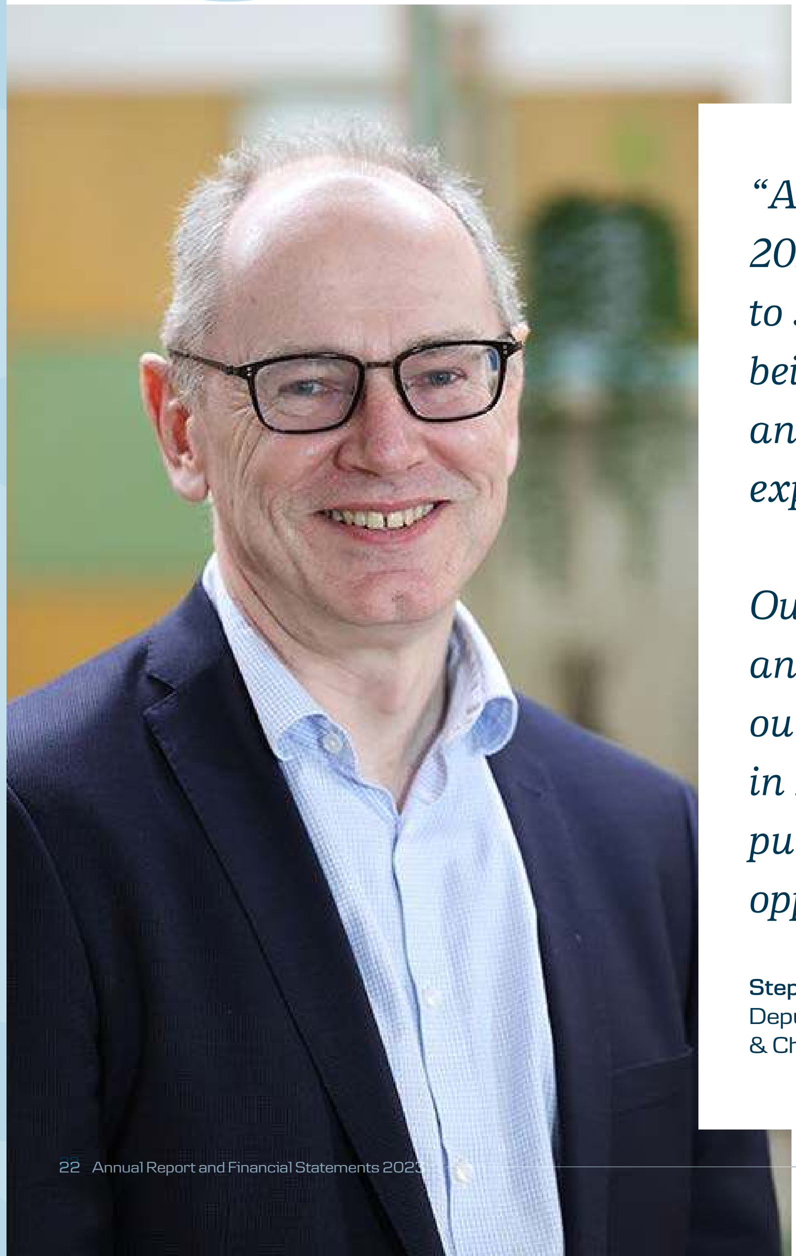
- Proactively contacted over 45,000 customers offering guidance & support relating to their financial circumstances
- £378m in sustainable finance lending
- Won awards for Climate Action and Diversity & Inclusion at the Business in the Community NI Responsible Business Awards
- Almost 7,000 children & young people educated on money through our Money Smart programme
- Achieved Platinum level in the Business in the Community Environmental Benchmarking Survey
- Over 400 colleagues volunteered to support local organisations

2023 FINANCIAL REVIEW

£186m
Profit before Tax
(2022: £103m)

0.9%
DEPOSIT GROWTH
(2022: 0.6%) (2021: 9.1%)

6.4%
LOAN GROWTH
(2022: 2.1%) (2021: -0.4%)



"A strong financial performance in 2023 means the Bank is well positioned to support customers, alongside being able to invest in new products and services that improve customer experience.

Our focus is to remain a stable, strong and risk-astute bank, consolidating our market-leading position in Northern Ireland alongside pursuing selected low-cost growth opportunities in the Rest of the UK."

Stephen Matchett
Deputy Chief Executive Officer
& Chief Financial Officer

Underlying financial performance

Despite economic uncertainties during 2023, profit before tax increased to £186.0m (2022: £103.3m) reflecting a combination of growth in lending, actions taken in response to higher interest rates, increased transactional activity and high credit quality.

Overall, our 2023 full year financial results, resilient balance sheet, robust capital position and strong liquidity base, all leave us well placed to support customers and deliver on our strategic priorities in 2024 and deliver profitable growth, despite the uncertain economic outlook.

Income Statement - 2023 Overview

	2023	2022
	£'000	£'000
Net interest income	297,026	218,817
Non-interest income	36,495	54,688
Total operating income	333,521	273,505
Total Operating expenses	(160,666)	(150,345)
Profit before loan impairment charge	172,855	123,160
Loan impairment credit / (charge)	13,105	(19,859)
Profit before tax	185,960	103,301
Tax	(29,241)	109
Profit for the year	156,719	103,410
Net interest margin	2.37%	1.82%
Cost income ratio	48%	54%

The Bank recorded a statutory profit after tax of £156.7m (2022: £103.4m).

The Bank's Income Statement on page 127 provides a breakdown of the financial performance during the year ended 31 December 2023.

Key performance indicators

In response to inflationary pressures within the UK economy, the Bank of England raised interest rates throughout 2023, from 3.5% at the start of the year, to 5.25% at 31 December 2023.

Net interest income in 2023 increased by 35.7% to £297.0m (2022: £218.8m), with an increased net interest margin of 2.37% (2022: 1.82%).

The increase in the **Net Interest Margin** (NIM) was driven by growth in both personal and business lending and actions taken in response to higher UK interest rates.

Non-interest income decreased by 33.3% to £36.5m (2022: £54.7m). This reflects a combination of actions taken to rebalance the Bank's hedging portfolio and lower ATM related income following the sale of the Bank's offsite ATM network, partly offset by continued growth in underlying customer transactional activity and related fee income.

Operating expenses increased by 6.9% to £160.7m (2022: £150.3m) due to a combination of increased investment and inflationary pressures. The increase is lower than average UK inflation for 2023, reflecting the Bank's continued cost and efficiency focus.

Overall, the **Cost Income ratio** has decreased during the year to 48% (2022: 54%).

There was a net reversal to **Loan impairments** in 2023 reflecting continued strong credit quality despite challenging economic conditions, with an overall impairment credit of £13.1m (2022: charge of £19.9m).

Details of the key movements in the macroeconomic assumptions applied within the Bank's IFRS 9 modelling are further detailed in disclosure note 1 of the Financial Statements.

A current **tax charge** of £44.2m (2022: £24.5m) was recognised in the financial year in respect of tax liability payable on the Bank's 2023 profits.

During 2023, a deferred tax credit of £15.0m (2022: £24.6m) was recognised in respect of historical tax losses and a reduction in the banking surcharge rate. For reporting purposes, the deferred tax credit is netted against the current year tax charge. The Bank's tax charge is outlined in note 11 of the financial statements.

The profit attributable to the shareholders (i.e. excluding Additional Tier 1 capital holders) for the year ended 31 December 2023 amounted to £136.0m (2022: £91.0m).

Financial performance outlook

We are targeting further lending and net interest margin growth in 2024 with costs continuing to be closely managed and further cost efficiencies identified. Such actions will allow the Bank to make further investment in digitalisation.

The Bank's strong financial performance means we remain well positioned to continue to support customers through the uncertain economic conditions, as well as being able to invest in new products that improve customer experience.

Financial position– 2023 overview

	2023 £'000	2022 £'000
Assets		
Cash and balances at central bank	3,299,543	3,350,828
Investment securities	3,367,408	3,369,156
Loans and advances to customers	6,739,732	6,334,707
Defined benefit pension asset	4,804	78,009
Other assets	285,880	287,691
Total assets	13,697,367	13,420,391
Liabilities		
Deposits from customers	11,333,715	11,229,589
Due to other banks	431,125	404,807
Other liabilities	1,003,186	948,803
Total liabilities	12,768,026	12,583,199
Equity attributable to shareholders	929,341	837,192
Total liabilities and equity	13,697,367	13,420,391
Loan to Deposit ratio (%)	59%	56%
Common Equity Tier 1 (CET1) capital ratio (%)	15.6%	13.6%
Liquidity Coverage ratio (LCR) (%)	309%	290%

Underlying financial position

Overall, the Bank's Balance Sheet remained robust throughout 2023 with total net assets of £13.7bn (2022: £13.4bn).

Whilst competition within the UK retail lending market remains significant, we achieved growth in both personal and corporate and business lending. Customer deposits grew marginally year on year, maintaining our strong liquidity and funding position. The Bank's Balance Sheet on page 129 provides a breakdown of the financial position at 31 December 2023.

Key performance indicators

Loans and advances to customers increased year on year to £6.7bn at 31 December 2023 (2022: £6.3bn).

Personal lending in Northern Ireland

Customer demand for residential mortgages remained resilient despite higher UK interest rates.

Our residential mortgage book grew year-on-year in 2023, supported by a strong product and service proposition. Around half of our new mortgage lending approval across the UK in 2023 was through the Bank's Carbon Neutral mortgage product.

Other personal lending volumes (i.e. credit card and overdrafts) were maintained in line with 2022.

Corporate and business lending in Northern Ireland

Overall the Bank's Northern Ireland corporate and business customers continued to hold high levels of liquidity during 2023, with some businesses continuing to reduce their existing debt levels and / or delay investment decisions.

In 2023 the Bank approved £575m of business lending. Lending approvals were supported by increased demand from small businesses with 23% year-on-year growth.

Rest of UK lending

While Northern Ireland continues to be the Bank's primary market, in 2023 we continued to pursue lending opportunities in selected, risk-astute focus areas in the Rest of the UK.

In 2024 we will continue to focus our lending strategy towards owner occupied residential mortgages in England, the social housing sector in England and Wales and large corporates, the latter being via participation in syndicates with other bank lenders.

Impairment for Expected Credit Losses

The Bank has continued to take a thorough approach to its credit impairment provisioning to reflect the impact of any future economic uncertainties on its customers.

Overall, the decrease in the provision for expected credit losses to £93m (2022: £103m) reflects an improved UK economic outlook (when compared year-on-year) and an improvement in the credit quality of the customer loan book during the year.

Details of the key movements in the loan impairment provisioning are further detailed in disclosure note 16 of the Financial Statements.

Overall, the loan-to-deposit ratio remained at 59% (2022: 56%).

Danske Bank remains well positioned to support future lending growth.

Customer deposits marginally increased by 0.9% to £11.3bn (2022: £11.2bn). Whilst the Bank continues to hold record levels of customer deposits, the Bank is aware that the purchasing power of its customers continues to be impacted by higher levels of inflation and we expect that some customers will begin to use the deposits built up during the pandemic to help with cost of living challenges and increased costs of doing business.

The Bank's cash and balances with central banks, which is cash placed with the Bank of England decreased by 1.5% on the prior year to £3.3bn (2022: £3.4bn) as the Bank sought other options to optimise its return on surplus liquidity held. Consequently, the Bank continued to invest in its portfolio of investment securities held during 2023 with £3.4bn held at 31 December 2023 (2022: £3.4bn).

The funded status of the defined benefit pension scheme obligation was a surplus of £5m at December 2023 (2022: £78m). During 2023, a final bulk annuity buy-in policy was purchased in order to further de-risk and secure the benefits for scheme members. The Scheme now has buy-in policies in place to cover the benefits of all members. Consequently, the Scheme is no longer exposed to interest, inflation or longevity risk in respect of all pension benefits.

An interim property revaluation in quarter 4 2023 was undertaken by external valuers and this decreased the net carrying value of properties by £1.2m (2022: £0.2m).

2023 capital position

The Bank remains well capitalised and this is reflected in its CET1 ratio of 15.6% (2022: 13.6%).

During the year, no dividend was paid to the Bank's ultimate parent undertaking, Danske Bank A/S (2022: £40m).

Page 86 provides further detail of the Bank's capital position at year ended 31 December 2023.

2023 liquidity position

The Bank continues to have a very strong funding position. The loan to deposit ratio was 59% at 31 December 2023 (2022: 56%). Regulatory liquidity requirements were met at all times throughout the year.

A substantial amount of the Bank's funding is from customer deposit balances, which makes up 83% (2022: 84%) of its total liabilities and shareholders' equity.

Page 84 provides further detail of the Bank's funding and liquidity position at year ended 31 December 2023.

2023 ECONOMIC REVIEW

Overall economic performance in Northern Ireland and the rest of the UK was modest in 2023 with the data available at the time of writing showing that the UK economy entered into a technical recession as GDP contracted in both the third and fourth quarters of the year. High inflation, the tight policy environment and elevated uncertainty levels all weighed on the economy.

	2023	2022
UK GDP growth	0.1%	4.3%
UK Inflation	7.3%	9.1%
BoE Bank Rate	4.7%	1.5%
UK Unemployment Rate	4.0%	3.9%
NI Unemployment Rate	2.5%	2.8%
NI Employment Rate	70.8%	70.1%

2023 economic environment

There were a number of factors that impacted the economy during 2023. Inflation remained above target, exerting a squeeze on household purchasing power though the rate of price rises declined during the year. Monetary policy tightened, weighing on economic activity. However, the labour market remained relatively resilient.

The UK economy entered into a technical recession as GDP declined in the third and fourth quarters of the year but, despite this, the annual rate of economic growth was positive though low at 0.1% in 2023. In Northern Ireland, the pace of annual economic growth is estimated to have been positive but modest.

Inflation in the UK moderated during the year but remained above its 2% target, weighing down on consumer purchasing power. The UK CPI inflation rate averaged 7.3% in 2023. In January, the annual rate of price rises was 10.1% but in December the inflation rate had decreased to 4.0%.

In response to the high rates of inflation, the Bank of England's (BoE) Monetary Policy Committee continued to increase Bank Rate. At the end of January 2023, Bank Rate was at 3.5%. By the end of August 2023, it had risen to 5.25% and it remained at that rate throughout the rest of the year. On average over the year, Bank Rate in 2023 was 4.7% which was higher than the 1.5% average observed in 2022. Tighter monetary policy can weigh on economic activity levels as it makes borrowing more expensive for households and businesses. It's also important to note that Bank Rate rises take time to fully impact the economy.

The labour markets in Northern Ireland and the UK continued to show a degree of resilience and likely provided some support to consumer spending during 2023. Across the wider UK, the unemployment rate averaged 4.0% in 2023, up very slightly from 3.9% in 2022 and the average employment rate in 2023 was 75.1%. In Northern Ireland, the average unemployment rate fell from 2.8% in 2022 to 2.5% in 2023 and the average employment rate increased from 70.1% in 2022 to 70.8% in 2023.

The housing market in Northern Ireland and the wider UK was influenced by a number of factors in 2023 including higher interest rates, the squeeze on household budgets and economic uncertainty. In the UK as a whole, the average rate of house price growth was estimated to be 0.4% in 2023 at the time of writing. In Northern Ireland, the average rate of house price growth was estimated at 2.7% in 2023.

Economic outlook

Looking forward, and noting the uncertainty around the economic outlook, annual output levels are expected to rise in Northern Ireland and the wider UK in 2024 but the pace of economic growth is likely to remain modest.

The headline rate of CPI inflation is expected to decline further in 2024. There could still be some pressure on household budgets and businesses during the year but the squeeze on consumer purchasing power may ease further as we move through 2024.

Assuming that inflation continues to decline, the Bank of England's Monetary Policy Committee may begin to reduce Bank Rate from around the middle of 2024. Though even if this is the case, the prevailing monetary policy environment would still be much tighter than households and businesses have experienced in recent years and so monetary policy could weigh on spending and investment levels.

With the performance of the economy expected to remain relatively modest and recognising that the labour market tends to lag wider economic developments, the labour market could weaken somewhat in 2024 with an increase in unemployment, albeit to a relatively low level when considered against the subdued economic backdrop.

There are also a number of risks and uncertainties that could affect the performance of the economy in 2024 and beyond such as the possibility of persistent inflation and prolonged political uncertainty.

Non-financial and sustainability information statement

As the Bank develops more comprehensive disclosures in line with emerging recommendations and principles, the purpose of the following tables is to provide an overview of how the Bank's policies and management of key non-financial and climate related matters meet the Companies Act requirements. The Bank's principal risks are outlined on page 70, with the Bank's Enterprise Risk Management framework and how the Bank manages its principal risks from pages 72 to 83.

All Bank colleagues are subject to the requirements outlined below:

Non-financial reporting matters (as outlined in section 414CA of the Companies Act 2006)	Principal policies / documentation
Our colleagues The Bank has a strong focus on its colleagues and their wellbeing Through the Bank's People Board, the Bank has continued to prioritise the health and wellbeing of colleagues by investing in a range of areas including: leadership and culture, learning and development and digital enablement, and working to ensure that every colleague feels supported, accepted and included See the Bank's Sustainable and Responsible Business Report at page 36 for further information	• Code of conduct policy • Fit and proper policy • Succession and talent management policy • Remuneration policy • Diversity and inclusion policy • Domestic Abuse policy • Danske Families (suite of family-friendly policies including the introduction of inclusive Pregnancy Loss and Parental Bereavement Leave policies)
Our respect for human rights The Bank's commitment to human rights and the ethical treatment of our colleagues, suppliers and customers is fundamental to our core values and culture The Bank's Statement on the Modern Slavery Act is available at www.danskebank.co.uk	• Slavery and human trafficking statement • Data privacy policy • IT risk management policy • IT security policy • Supplier code of conduct
Our communities and supporting social matters The Bank plays a fundamental role in society by lending to people and businesses, in turn helping to drive economic growth. The Bank is committed to ensuring banking is accessible for everyone, investing in improvements to customer services and supporting initiatives to help enable business growth See the Bank's Sustainable and Responsible Business Report at page 40 for further information	• Regulatory engagement policy • Vulnerable customer policy • Volunteering policy • Complaints Handling policy
Anti-corruption and anti-bribery matters The Bank has a responsibility to make banking accessible for everyone, helping to keep its customers safe from fraud and cyber crime, investing in improvements to customer services and supporting initiatives to help enable business growth The Bank adheres to the Bribery Act 2010 and supports a zero tolerance approach to bribery by any person associated with it, whether acting in the UK or abroad The Bank strives to conduct our business with integrity, skill, care and diligence, promoting a culture of transparency by being co-operative and open in all matters	• Financial Crime policy • Whistleblowing policy • Market abuse policy • Conflicts of interest policy • Outsourcing and third party risk management policy • Anti-money laundering instruction • Anti-Bribery and Corruption Instruction • Sanctions Instruction • Gifts and Hospitality Instruction • Politically Exposed Persons (PEP) procedure
Policies embedding due diligence and outcomes The Bank has a Code of Conduct which sets out the behaviour which is expected from all our colleagues The Bank's Culture Wheel encapsulates our values – see page 13 for further information The Bank's Enterprise Risk Management (ERM) is outlined from page 65	
Description of principal risks and impact on business activity The Bank's principal risks, key controls and mitigating factors are outlined from page 72	
Description of the business model The Bank's model and strategy is outlined from page 13	
Non-financial key performance indicators Non-financial key performance indicators are outlined in our strategic priorities update (page 15), CFD disclosure matters (page 30), TCFD Report (page 44) and within the Chief Executive's Review (page 8)	

Climate-Related Financial Disclosure (CFD) matters

The Bank has included climate-related financial disclosures as required by the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 (SI 2022/31).

Those matters cover how climate change is addressed in corporate governance, the impacts on strategy, how climate risk and opportunities are identified, considered and managed and the performance measures and targets applied in managing these issues.

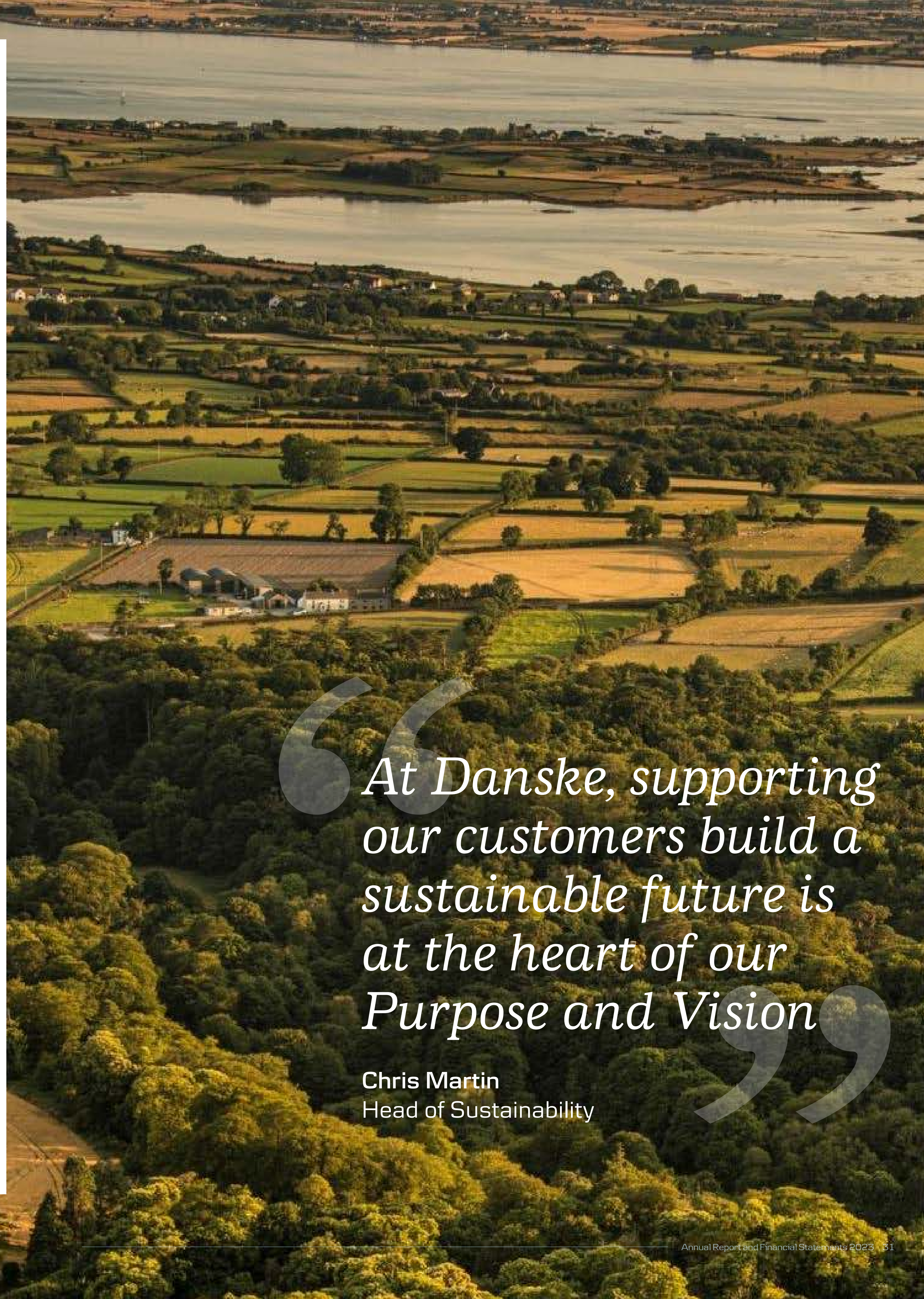
As the Bank continues to disclose its climate-related activities under the Taskforce for Climate-Related Financial Disclosures ('TCFD') guidance we have chosen to integrate our CFD reporting obligations within the Annual Report.

The following table summarises where the relevant CFD disclosures can be located within the Bank's TCFD reporting.

CFD Requirement	CFD Disclosure	CFD Disclosure Requirement	Relevant TCFD section	Page No.
Governance	a)	A description of the governance arrangements of the business in relation to assessing and managing climate-related risks and opportunities	Governance	See page 46
Risk Management	b)	A description of how the company identifies, assesses, and manages climate related risks and opportunities	Risk Management	See page 48-49
	c)	A description of how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process		See page 56
Strategy	d)	A description of (i) the principal climate-related risks and opportunities arising in connection company's operations and (ii) the time periods by reference to which those risks and opportunities are assessed	Strategy	See page 48-49
	e)	A description of the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy		See page 48
	f)	An analysis of the resilience of the company's business model and strategy, taking into account consideration of different climate-related scenarios		See page 54
Metrics and Targets	g)	A description of the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets	Metrics and Targets	See page 60
	h)	The key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and a description of the calculations on which those key performance indicators are based		See page 60

The Strategic report is approved by order of the Board and signed on behalf of the Board of Directors.

Fiona Sturgess
Company Secretary
22 March 2024



SUSTAINABLE & RESPONSIBLE BUSINESS REPORT

Our Purpose in action

Being a sustainable and responsible business is fundamental to who we are, and key to achieving our Purpose of helping customers, colleagues and society thrive.

We have both the responsibility and the financial ability to make a difference for our customers and for the societies we are a part of, and to support the transition to a more sustainable future.

Through our sustainable and responsible business strategy we support a number of UN Sustainable Development Goals (SDGS) but have specifically set targets against three - No. 4: Quality Education, No. 5: Gender Quality and No. 13: Climate Action.

4 QUALITY EDUCATION

5 GENDER EQUALITY

13 CLIMATE ACTION

SUSTAINABLE DEVELOPMENT GOALS

Helping our customers thrive

Supporting business and economic growth

The financial services industry plays an important role in supporting all other sectors to develop, innovate and grow.

In May, our CEO Vicky Davies addressed the Trade NI Reception at Westminster, highlighting the importance of a vibrant, growing private sector which is vital in ensuring a strong future for Northern Ireland's economy and communities.

Senior executives engaged on key issues impacting the economic landscape through positions on the Boards or Committees of external bodies such as UK Finance, the Confederation of British Industry (CBI), Institute of Directors NI, Northern Ireland Chamber of Commerce, Business in the Community NI and the Northern Ireland Skills Council.

One of our key priorities is helping to ensure that industry has the talent and skills it needs for the future. Senior executives contributed through positions on the UK Financial Services Skills Commission, the NI Skills Council, the NI Productivity Forum, CBI People and Skills Network, CBI Future Leaders Network, Young Enterprise and SistersIN.

In 2023 we supported the local business community with over £575 million in business lending approvals and reinforced our position as a key contributor to Northern Ireland's economy and infrastructure.

We continued to act as a conduit to our customers and to the wider business community through our external relationships such as the Northern Ireland Chamber of Commerce, InterTradeIreland, Management and Leadership Network (MLN), Chartered Accountants Ulster Society, All Ireland Sustainability and Ulster University. We partnered with many of these organisations to bring relevant insights and knowledge through our Danske Advantage events, with a particular focus on sustainability, complemented by a business podcast series on topics including female leadership, empowering talent, and the economy.

We stepped up our focus on supporting our Small Business customer base, partnering with local Enterprise Parks and the Chartered Accountants Ulster Society to run free events of relevance to this audience.

Our team of specialist Agribusiness Managers remains committed to supporting an industry that is vital to the economy and a cornerstone of local communities. In 2023 we launched a £35 million Agri Sustainability Fund, supported by a dedicated Agri Sustainability Manager, to support customers with the introduction of sustainability initiatives and the transition to net-zero.

Industry relationships and sponsorships remain at the heart of our support including our 36-year support for the Royal Ulster Winter Fair as sole sponsor. We continued to help create a vibrant, sustainable industry through our long-standing support for the Young Farmers Clubs of Ulster (YFCU), and by supporting students through student bursaries, interview skills training and advice on farm finance.

We remain the leading provider of banking services to the public sector in Northern Ireland. We are the largest and most active lender to the local social housing sector and continued to leverage this knowledge and experience to support the supply of social and affordable housing in the Rest of the UK.

Supporting customers through cost of living challenges

Building on the resources and initiatives launched the previous year we continued to focus on supporting our customers and colleagues through the challenges created by the rising cost of living. This included proactively contacting over 45,000 customers offering guidance and support directly relating to their financial circumstances and signposting to our Money Worries and Cost of Doing Business online hubs. A new marketing campaign encouraged people and businesses to talk to us if they had concerns about their financial situation, and signposted to support from external organisations.

We put in place a range of additional supports for our mortgage customers, including signing the UK Government's Mortgage Charter, a commitment to ensuring mortgage customers who get into difficulty receive the support they need.

Accessible banking

The needs and expectations of our customers continued to evolve. While digital customer adoption and usage continued to increase, our branches and contact centres remained an important part of our customer proposition. We continued our branch transformation programme in 2023, with a significant investment in the expansion and refurbishment of our Abbey Centre branch. While we had to close our Downpatrick branch temporarily due to flooding, we acted quickly to serve the local community from alternative premises until the branch re-opened. In December, Northern Ireland's first Banking Hub opened in Kilkeel. Local Danske Bank customers can access day to day banking services and speak to our Community Banker.

We proactively contacted customers at greatest risk of financial harm to offer help and support

To reduce fraud we had over 9,000 safeguarding conversations with customers

Helping customers who need additional support

We continued to build and strengthen the support available to customers in vulnerable situations, leveraging our strong relationships with external organisations to ensure our products and services are inclusive and accessible. Some of the organisations we worked with in 2023 included Adult Safeguarding Trusts, Advice NI, Age NI, Alzheimer's NI, Consumer Council NI, GamCare, Hourglass, the Money Advice and Pensions Service and NOW Group.

We are committed to ensuring that banking is easy, accessible and straightforward for all our customers, whether in a branch, over the telephone, or online. We work with Alzheimer's Society to be a dementia-friendly organisation, are a JAM-Card Friendly organisation, and support the Hidden Disabilities Sunflower Lanyard scheme. We also engage regularly with external organisations like the Royal National Institute of Blind People (RNIB) and Royal National Institute for Deaf People (RNID) on individual customer cases and to improve the services we offer.

Using insights from our customer data, additional support flags, ongoing staff training and the vigilance of our colleagues we tailor support to those customers at greatest risk of harm, for example those experiencing gambling-related harms, or victims of economic abuse. In 2023 we introduced a new customer disclosure tool on our website as an additional way customers can tell us about the support or adjustments they need to make banking easier.

Protecting customers from gambling-related financial harms continued to be a top priority. We were the first bank in the UK to introduce a gambling block for competitions websites, and introduced a hard block on gambling spend for personal credit card customers. We proactively contacted customers at greatest risk of harm to offer help and support, and introduced a new Gambling and Gaming content module to our Money Smart financial education programme.

Protecting customers from fraud

The scale and sophistication of fraud continued to grow. Our local Customer Fraud Management team continued to invest in measures to protect customers and to speak to them at every opportunity about scams and how they can protect themselves.

In 2023 this included 9,000 safeguarding conversations with customers to check the authenticity of payments before they were released.

We are active members of the Scamwise NI Partnership and are signed up to the UK Finance Take Five Charter to raise awareness and educate our customers. Our local Fraud team delivered a series of fraud awareness sessions in 2023 to charities, social and business groups, and customers, and we introduced a new scam awareness module into our Money Smart education programme in schools.

TAKE FIVE TO STOP FRAUD™

Helping our colleagues thrive

Employee engagement

During 2023 we delivered a range of colleague initiatives to motivate, develop and support high performance, retain key talent and support our colleagues through the cost of living challenges.

We are working to become an even more attractive and inclusive workplace where everybody feels that they belong and that offers employees flexibility in their work and support with their professional development. This is key to achieving our Vision.

The Best Companies employee engagement survey framework continued to provide us with rich insights to enable future planning and a basis for ongoing conversations about how we continue to improve our employer proposition. With an 88% completion rate, more colleagues than ever took the opportunity to share their opinions in 2023.

We retained our 3-star 'world class' levels of engagement and saw an overall increase in our Best Companies Index (BCI) score. For the first time, we were recognised by Best Companies as one of the top 50 companies to work for in the UK, and in the top five financial services companies to work for across the UK.

Acting on the Best Companies feedback, alongside feedback and ideas generated through our Employee Engagement Champions, Affinity Networks, Board 360 Colleague Conversations series, and regular face to face engagement, colleague voice remained a key priority for senior management.

Recognising the power of connecting, we continued our series of Coffee Connect sessions and Danske Day Out events. Over 700 colleagues, friends and family joined our Danske Day Out at Montalto Estate and over 500 colleagues and families enjoyed our Santa Saturday event.

We also continued to recognise achievement and celebrate long careers. At our Career Celebration event 200 colleagues celebrated career milestones from 10 years to 50 years. Nominated by their colleagues, 34 colleagues were awarded a Thrive recognition award for going the extra mile for our colleagues, customers or society.

Developing the skills and capabilities of our colleagues

Equipping colleagues with the mindset, skills and experiences needed for the future world of work was the focus of our learning and development strategy in 2023. Over 12,000 hours of facilitated training was delivered.

Over 1,100 colleagues joined a Learning at Work Week including 15 virtual events providing perspective from internal and external speakers on supporting colleagues' careers and wellbeing. During two weeks in September over 900 colleagues joined My Danske My Growth half day sessions in our Belfast head office to develop knowledge and skills on topics like preparing for the future world of work, coaching skills and the benefits of squiggly careers.

Recognising that successful careers can take many different paths, we partnered with external organisation AmazingIf to encourage squiggly careers, profiled colleague career stories and ran a Squiggly Swaps pilot between Operations and Personal Banking. During the year 300 colleagues moved roles, 80 of whom achieved promotions.

With the focus on transferable skills we ran regular CV and interview skills clinics, while more than 500 hours of learning were recorded through a new digital training provider, Coursera, to help colleagues develop the digital skills required for the future world of work.

We delivered over 6,000 hours of leadership development programmes to people leaders at all stages of their career journeys, and strengthened our coaching expertise, with 26 colleagues and 50 people leaders undergoing training or qualifications.

Through our Mentor Me programme every employee was again offered the chance to be matched with a mentor from within the business. There were over 300 active mentoring or coaching relationships, including both traditional and reverse mentoring.

You don't find yourself by travelling in straight lines.

200 colleagues celebrated milestones from 10 years to 50 years

34 colleagues were awarded a Thrive recognition award

Developing future talent

We want to ensure that the pipeline of skills and talent meets the future needs of our business and wider society, to increase the entry points to our organisation and to build stronger links with education and industry.

Another 10 Danske Futures apprentices graduated from Ulster University with a BSc Honours degree in Leading on Customer Operations, while through our Tech Futures apprenticeship programme seven colleagues completed foundation degrees from Belfast Metropolitan College.

Fostering an inclusive culture

Danske Belong

We continued to deliver on our Diversity & Inclusion (D&I) strategy, Danske Belong, making positive progress in our ambition to ensuring colleagues, customers and society feel supported, accepted and included. In the Best Companies survey 90% of colleagues who responded told us that they feel they belong.

External recognition included the Business in the Community NI Diversity and Inclusion Award 2023, the International Employment Lawyer Employee Wellbeing Initiative of the Year and GNI magazine Most LGBT Friendly Financial Services Organisation.

We continued to harness data to inform all aspects of our D&I strategy and to sustain accountability, inform action planning and maintain ongoing focus.

We seek to provide equal opportunities for leadership at all levels of decision-making, in support of SDG 5: Gender Equality. At the time of writing our Board has 30% female representation and our Executive Committee has 40% female representation. We are signatories of the HM Treasury Women in Finance Charter through which we have committed to achieving 42% senior female representation by December 2025. Since 2020 we have held the Silver Diversity Mark by awarding body Diversity Mark NI and are actively working towards achieving Gold level.

Colleague affinity networks and allyship continued to generate a vibrancy and sense of ownership, across our D&I strategy, with 75 colleagues helping to drive conversations and actions across our business and wider society. The appointment of our first Intersectionality Champion in 2023 is helping create an integrated approach across our affinity networks, encouraging collaboration and ensuring a more inclusive approach across policies, discussions and actions in promoting belonging across the business.

We strengthened partnerships with organisations including Cara Friend, NOW Group, Women in Business and Artsekta, enabling colleague development, education and volunteering opportunities.

Our Gender Diversity Network hosted multiple events in 2023 to showcase successful women in business and in technology, raise awareness of men's mental health and the power of allyship. Over 150 colleagues and external guests gathered in our Head Office to celebrate at an International Women's Day event where internal and external speakers provided inspirational thought leadership.

We are signed up to Stonewall's Workplace Equality Index, an opportunity to measure progress made within our Rainbow Network and wider business. We have a range of meaningful targets which solidify our commitment to LGBTQIA+. The Rainbow Network has used the Stonewall survey results to highlight key areas of focus and develop new initiatives, including a new podcast series ("Rainbow Drops") and increasing bank-wide education and awareness of underrepresented groups. Over 100 colleagues, friends and families took part in our in our Belfast Pride event 2023.

In 2023 Enable, our disability network, relaunched with a new structure focused around four key workstreams – employment, physical and invisible disabilities, neurodiversity, and carers. The relaunch included a new peer-to-peer network that allows colleagues to offer support to each other based on their lived experiences. Over the last two years we have worked in partnership with NOW Group's Digital Academy, Stepping Stones NI, Employ Autism and Queen's University of Belfast to facilitate six paid work placements for people with disabilities, in skilled roles, half of whom have now achieved permanent employment.

We are signatories of the Business in the Community NI Race at Work Charter which includes a Board level commitment to being an anti-racist organisation, supported by clear targets taking us to the end of 2026. Our racial equality network, Origins, works to educate colleagues on race equality while celebrating cultural diversity across the Bank and in wider society. Activities included an Origins Focus Week, Culture Celebration Day and participation in the Belfast Mela Carnival parade celebrating the city's cultural diversity.

Employee wellbeing

We are committed to fostering employee wellbeing and a positive working environment where colleagues can thrive. These are core enablers of employee engagement and organisational performance.

Our wellbeing strategy is rooted in a strong partnership approach, providing access to a wide range of experts and organisations such as Benenden, AWARE NI, Money and Pensions Service, Consumer Council NI, Platform 55, Autism NI, Employers for Childcare, Age NI, and Timely Careers.

While we take a holistic approach to wellbeing, in 2023 we placed particular emphasis on financial wellbeing and mental health and saw over 2,300 registrations for our wellbeing events during the year.

Since 2021 we've had a sustained focus on mental health, working closely with our partners Benenden and AXA, and our charity partner, AWARE NI to support colleagues to manage their mental wellbeing, through virtual workshops, online wellbeing support and personal support. Around 300 colleagues joined Mood Matters sessions run by AWARE NI, while a series of events during Mental Health Awareness Week focused on the theme of anxiety and included personal stories from colleagues. We stepped up our focus on men's mental health, including a series of colleague interviews to mark International Men's Day.

Conscious of the impact of the increased cost of living and rising Base Rates on our colleagues' financial wellbeing, we refocused on the banking benefits we offer and creating a safe environment for colleagues to discuss and access support for their financial wellness. A series of webinars with internal and external experts provided access to advice on topics such as consumer rights, pension planning and common scams.

We saw a 77% increase in the uptake of flexible benefits, which empower colleagues to tailor their benefits to meet their individual needs. Almost 1,000 colleagues actively used our Danske Discounts scheme to make savings on everyday items and we continued to offer a Tech Scheme, Holiday Purchase, Cycle to Work Scheme and Pension Additional Voluntary Contributions (AVCs).

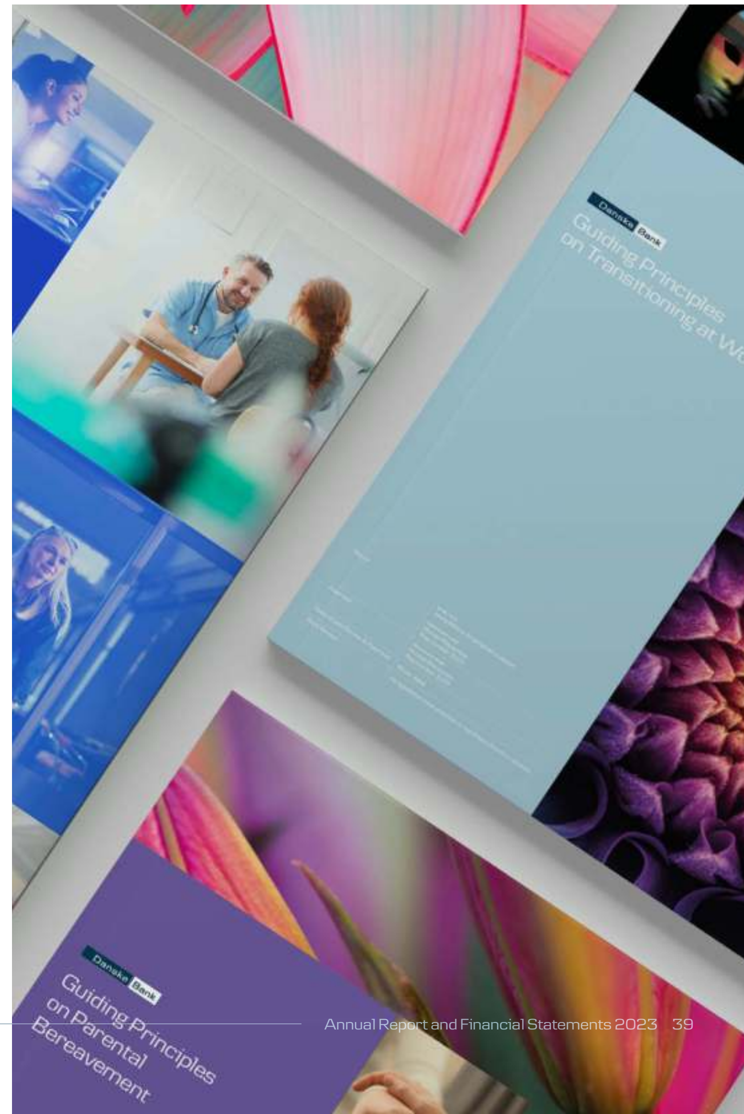
A series of webinars with internal and external experts provided access to advice on topics such as consumer rights, pension planning, common scams and talking to your children about money.

Guiding principles

To ensure we are creating an environment where colleagues can thrive at each stage of the employee lifecycle, we continued to redraft and rebrand our employment policies, creating a Guiding Principles framework. Our people are at the heart of these policies, which cover topics such as menopause, career breaks and reasonable adjustments.

We now have Menopause Champions across the business, and continued to provide support through a new Tell Me More Podcast series, Learning Lunches and an event to mark World Menopause Day. We also strengthened the support available to colleagues as they become new parents, launching a new partnership with Platform 55, a self-serve platform that supports parents at work. In October we held our first Working Carers Month which saw experts share guidance and advice across a range of topics, acknowledging that there are so many different reasons as to why and how our colleagues may care for others.

For the ninth year we offered the winter flu vaccination free of charge to colleagues in Northern Ireland, while around 100 colleagues took the opportunity to donate blood directly in our head office.



Helping our society thrive

We continued to make a positive impact on local communities through our charity initiatives, volunteering programme, financial education programme and investment in youth sports.

Against the backdrop of rising inflation and funding cuts across the voluntary, public and education sectors, supporting families and children through the cost of living challenges was a key theme that underpinned our core community initiatives in 2023.

Danske Bank was one of the driving forces behind a new Good Food Fund for schools launched by Business in the Community NI amidst concerns about high levels of child poverty and children not getting the nutrition they need to thrive in school. The Fund provides free breakfasts to primary school children in need. We were one of two organisations to help get the Fund off the ground. To date over 12,000 children have benefited thanks to donations from businesses.

A new Money Worries marketing campaign encouraged people to talk to us about any financial concerns and signpost to help, including to our charity partner AWARE for those whose mental health has been impacted by financial worries.

Many colleagues volunteered their time and skills to help local charities such as North Belfast Food Bank, Habitat ReStore and Simon Community. At Christmas, £20,000 raised through the recycling of IT equipment was used to support local charities including the NOW Group's Christmas Hampers appeal, North Belfast Food Bank, Salvation Army and St Vincent de Paul. Colleagues also donated food, clothing, toys and hygiene items to support a range of charity appeals and projects in their communities.

Developing good money habits

As a financial services provider we have a responsibility to help the next generation build good money habits for the future. Through our financial education programme, Money Smart, colleagues volunteer their time to help educate children and young people about money and budgeting through face-to-face sessions in schools. In 2023 we helped teach almost 7,000 children and are aiming to reach 8,000 in 2024. We contribute to UN SDG No. 4: Quality Education through our contribution to this target.

Supporting local charities

December marked the end of a successful three-year charity partnership with local mental health charity, AWARE NI. This was a strategic, mutually beneficial partnership which has truly engaged our colleagues since it first launched during the Covid-19 pandemic.

Through colleague fundraising we raised more than £276,000 (which includes matched funding of £60,000). This support has enabled more than 11,500 local teenagers to benefit from the charity's Mood Matters programme, which gives young people the knowledge and skills to maintain good mental health and build resilience.

A key element of the partnership was raising awareness of the charity and the support it offers, and we did so through our branches, customer newsletters, social media channels, PR and marketing campaigns. The partnership was recognised externally as the Institute of Fundraising NI's Partnership of the Year Award 2023.

In 2024 we will support Include Youth as our new charity partner, working together to help break the cycle of deprivation and redefine possibilities for some of the most vulnerable young adults in Northern Ireland as they leave the care system and prepare for independent living and employment.

Employees' Charity Group

The Employees' Charity Group is our Give as you Earn scheme through which current and retired employees support smaller charities and good causes throughout Northern Ireland. In 2023 members donations reached £49,637, the highest amount raised since 2010. The funding supported 19 local charities and not-for-profit organisations such as Northern Ireland Children's Heart Centre, Friends of the Cancer Centre, Down Right Brilliant, The Barn Animal Rescue, ROC Northern Ireland, Trussell Trust and FareShare NI.

Corporate Volunteering

Through our Time to Give programme all colleagues are given one day a year to volunteer in the local community during working hours, individually or in teams. Through this programme colleagues help address some of Northern Ireland's key societal issues, such as financial education, food poverty, disability inclusion, and biodiversity loss. Over 400 colleagues volunteered their skills and 2,750 hours of their time. Woodland Trust, Ulster Wildlife, Praxis Care and Belfast Hills were just a few of the 100+ organisations we gave our time to in 2023.

Skills development and entrepreneurship

Through a range of partnerships with external organisations we aimed to inspire and prepare young people in Northern Ireland, and those facing barriers to work, to prepare for, and thrive, in the workplace.

We are a founding partner of SistersIN, a leadership development programme for sixth form girls to help build their confidence, broaden career perspectives, and develop their skills as future leaders. Thirteen colleagues volunteered as mentors in 2023, while our wider support helped to further mobilise the programme across Northern Ireland.

We continued our support for the Young Enterprise Business Beginnings programme for Primary 6 and Primary 7 pupils, including the support of Danske Bank's volunteer advisers. Over 3,000 pupils in 82 schools across Northern Ireland were supported by 23 Danske volunteers. We also bolstered our support for Young Enterprise by co-developing an innovative new educational programme focusing on biodiversity entrepreneurship (see page 43).

Several colleagues took part in Catalyst's Generation Innovation a work experience programme, designed to inform, upskill and empower 17-18-year-olds as the next leaders, innovators and entrepreneurs of the future. We were also one of the supporters of BelTech EDU, a conference to support the next generation of tech professionals in Northern Ireland and which returned in 2023 for the first time since the pandemic.

Youth sports

After 11 successful years of partnership our sponsorship of the Danske Bank Premiership came to an end in 2023. During this time average match attendances rose over 82% with more than 300,000 fans enjoying top level football across the country each season.

To align with our youth strategy we now focus on developing youth sports and driving diversity across our NI Schools Football (NISFA), Ulster Schools GAA and School's Cup Rugby partnerships. During the 2022/23 seasons we saw an increase in girls' participation in both football and rugby. In total over 30,000 young people across Northern Ireland participate in one of our football, rugby or GAA competitions.

12,000

children have benefitted from donations by businesses to the Good Food Fund

We reduced our emissions to 159 tonnes in 2023

Driving sustainability

As a leading financial institution in Northern Ireland, we play an important role in the transition to a more sustainable society through the money we lend and how we encourage, support and finance our customers' transition to a more sustainable future.

We have signed the Business in the Community Climate Action Pledge and publicly committed to achieving net zero by 2030 (scope 1 & 2 emissions) and 2050 (scope 3 emissions).

Our climate strategy is focused on both 'Going Green Ourselves' and 'Helping Others Go Green' through finance, product development, education and engagement. Our actions support SDG 13: Climate Action, however, we have a potential indirect impact on all SDGs through our Sustainable Finance activities.

Going green ourselves

Driving sustainability starts in our own business. We have been committed to minimising the environmental footprint from our own operations for many years, benchmarking our performance in this area through the annual Business in the Community NI Environmental Benchmarking Survey. In 2023 we achieved Platinum level for the sixth consecutive year, leading the way in the local financial services sector.

Our Scope 1 and 2 (market based) emissions emissions reduced to 159 tonnes in 2023 compared to 684 tonnes in 2015 (our baseline).

BUSINESS IN THE COMMUNITY
NI Environmental Benchmarking Survey 2023
Platinum

Reducing energy consumption

The electricity we use is obtained from certified renewable sources, including the outputs from solar panels on 10 of our properties. All our standalone branches have been fossil fuel free since 2022. At our Killeaton House offices we converted the property from oil fired heating to more energy-efficient gas fired heating to reduce emissions at this property. Our long-term ambition is to transfer to 'green' gas, reducing our emissions further. Conversion of our head office to a fossil fuel free fully renewable energy source is more of a challenge due to the scale of heating / cooling demands and lack of alternative renewable fuel sources, however we are optimistic we will achieve this by 2030.

Sustainable transport

Since 2022 we have removed the option to order petrol or diesel cars through our company car scheme, with the aim of achieving a zero-emission car fleet by the end of 2025. We offer a salary sacrifice car benefit scheme to support colleagues purchasing an electric or plug-in hybrid car. We encourage more sustainable choices by offering a Cycle to Work scheme and actively encouraging colleagues to prioritise virtual meetings rather than travelling. When travel is required we look to minimise impact through lower impact travel options. We track business travel by car and aeroplane as part of our wider scope 3 emissions monitoring.

Resource efficiency

We are committed to reducing our CO2 emissions through responsible waste management including prioritising the prevention of waste, recycling or re-using resources where we can, digitisation, workplace transformation and promoting behavioural change. Since 2020 no waste has gone to landfill, with 37% recycled and 63% incinerated for refuse derived fuel.

All of the paper we use is FSC-certified. We have an ongoing programme of activity to further reduce paper usage in our business through education and as we continue to simplify processes and increase digitisation, for example through the continued roll-out of digital signing capabilities.

Changing culture and behaviours

We believe colleague action and fostering a more sustainability-focused culture is key to achieving our ambitions. All colleagues undertake annual mandatory sustainability eLearning and Relationship Managers have received accredited carbon literacy training. In 2023 a new colleague network, Green Matters, was formed, with the aim of empowering colleagues to take responsibility for their personal impact on the environment.

Helping others go green

The carbon emissions we finance through lending to businesses and consumers far exceed emissions from our own operations. In 2023 our total scope 3 financed emissions (calculated from the Scope 1 and Scope 2 emissions generated from our lending) amounted to approximately 649,000 tonnes of CO2. Our ambition is to reduce financed emissions through both the provision of Sustainable Finance, and education and awareness to help customers develop and act on their climate transition plans.

Sustainable Finance

In 2023 we launched a £35 million Agri Sustainability Fund to support agriBusiness Customers with the introduction of sustainability initiatives and their transition to net zero. Year one saw £10 million of lending approved.

To support customers seeking to improve the energy efficiency of their home we launched a Home Energy Efficiency Loan, which works in conjunction with the free retrofit advice tool on our website in partnership with the Energy Saving Trust.

Our Carbon Neutral Mortgage Service for customers purchasing houses with EPC A-C, was recertified by the Carbon Trust in November 2023. The assessment is undertaken in line with PAS 2060 standards and is calculated based on the physical and digital paperwork emissions occurring through the mortgage application, maintenance/use, and end-of-life stages.

In total we provided £378 million in Sustainable Finance in 2023 through our Carbon Neutral Mortgage Service for Personal Customers, Agri Sustainability Fund, Sustainability Linked Loans and Green Loans for corporate and business customers.

Support and education

A key part of our role in the transition to a low carbon economy is helping customers, colleagues and wider society understand the need for climate action.

Since co-developing the Climate Action Programme with Business in the Community we have supported 140 Business Customers to take part in the programme. This initiative challenges businesses to accelerate their climate transition and make tangible emissions reduction commitments. Over 30 participating customers have so far made commitments to reduce their emissions.

Relationship managers had a conversation about sustainability with 80% of our Corporate customers in 2023. An annual ESG assessment is carried out for Corporate & Business Customers with borrowing over £800,000.

Awareness and advocacy

While Sustainable Finance is at the core of our sustainability strategy, we're committed to driving progress by using our channels and expertise to actively call on others to act on climate and signpost to the support available. In 2023 this included speaking at events, meeting customers, stakeholder engagement and media commentary. As Business in the Community NI's Climate Champion for the financial services sector, we actively call on other businesses to act on climate.

Building a sustainable supply chain

With around 200 active suppliers we have a responsibility to ensure that the products and services we purchase are produced responsibly and support the transition towards a sustainable economy. We encourage our partners and suppliers to adopt sustainable practices, in support of UN SDG 12: Responsible Consumption and Production. In 2023 this included finalising the implementation of a new supplier ESG assessment process, which is fundamental in helping us to build a resilient and sustainable supply chain. Around 49% of our total active suppliers were invited for ESG assessment via the platform in 2023, of which 85% have been assessed as compliant.

Addressing biodiversity loss

To support our ambition of contributing to biodiversity conservation and the sustainable use of natural resources, in 2023 we developed a set of 'Biodiversity Guiding Principles' which set out how the Bank will work to achieve its goal of biodiversity protection and conservation, preserving development and growth in a sustainable and resilient manner. As part of this we carried out a biodiversity mapping exercise of our branch network and of our lending activities. Key colleagues received Lantra-accredited training in Nature and Climate Change.

Supporting a greener society

We are committed to helping others 'go green' and building the skills needed for a more sustainable economy.

Through our partnership with the Woodland Trust we help address the lack of biodiverse and woodland coverage in Northern Ireland. Since the partnership began in 2022 our support has resulted in around 40,000 new trees being planted. Many colleagues volunteered with the Woodland Trust, and other organisations such as Belfast Hills, Camphill Community, Keep Northern Ireland Beautiful and Ulster Wildlife.

The Young Enterprise Business Beginnings programme, powered by Danske Bank, encourages primary school pupils to consider how they can adopt greener options while setting up and running their own businesses. 'Challenge: Biodiversity powered by Danske Bank', a new programme we co-developed with the charity in 2023, aims to showcase to pupils in years 8 to 10 why nature and biodiversity are important to the economy, the impact industries can have and insights into some of the innovative solutions developed in response by local businesses.

To help unearth, inspire, and equip future leaders who can play an instrumental part in shaping a better climate future for Northern Ireland and beyond we lent our support to a new programme delivered by Keep Northern Ireland Beautiful and Podiem, The 30 Under 30 Climate Changemakers.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Danske Bank

Governance

Our climate governance framework overview

The Bank has fully integrated climate risk into its governance framework with both the Executive Committee and the Board regularly updated on climate-related activities (see table on page 46). The diagram below outlines the Bank's governance framework overseeing the risks and opportunities presented by a changing climate, with the Board responsible for supervising the identification, assessment, and management of climate risks and opportunities through the Bank's corporate plan.

Climate Change Roles and Responsibilities

The Bank's Chief Executive Officer (CEO) has ultimate responsibility for climate-related risks and opportunities affecting the Bank. The CEO is supported in this by the wider Executive team and in particular the Managing Director, Corporate & Business Banking, holder of SMF responsibility for climate change. The broader governance regarding sustainability is presented in the adjacent diagram with governance forum and committee roles outlined further in the table on page 46.

The Managing Director, Corporate & Business Banking is in turn supported by our Sustainability Team. This team is managed by the Bank's Head of Sustainability and is responsible for the development of the Bank's sustainability strategy, net zero transition plan and ensuring climate change related risks and opportunities are identified and addressed across the Bank's risk taxonomy. Recognising Sustainability as a key priority, the Sustainability Team has added an 'Insights and Analytics' manager in early 2023 to ensure decisions and monitoring are data driven.

In addition to regular committee updates (see table on page 46) the Sustainability Team contribute to the Bank's annual Corporate Planning process ensuring that climate risks and opportunities are captured and considered within top of Bank strategy, business planning and budgeting at Board level. Climate metrics are also included within the Bank's Risk Appetite Statement and are reported on regularly (see table on page 46).

INFORMING

Northern Bank Limited Board
Overall responsibility for oversight and delivery of sustainability strategy

Board Committees
Delegated sustainability oversight and decision making

Risk Committee | Audit Committee
Nominations Committee | Renumeration Committee

Chief Executive Officer and Executive Committee
Responsibility for delivery of sustainability strategy including the identification and management of climate-related financial risks

Risk Committees
Support the CEO and Executive Committee in embedding climate change and discharging their respective areas of responsibility

All-Risk Management Committee | Operational Risk & Compliance Committee
Commercial Management & Pricing Committee | Credit Oversight Forum
Sustainable & Responsible Board[1]

Sustainability Team
Responsibility for sustainability strategy development, across the three pillars of the sustainability strategy along with providing guidance, expertise and advisory support to business units

Business units
Responsibility for ensuring the Bank's sustainability goals and risk management actions are being lived out in day to day operations

REPORTING

[1] Non-decision making committee whose purpose is to review ongoing progress under the 'Sustainabile & Responsible' pillar of the Bank's strategy

Committee	Committee Members	Sustainability input	Committee role and areas of focus in 2023
Board	Board of Directors (Executive and Non-Executive) Chaired by Chair of the Board	Every Meeting	Ongoing performance monitoring is achieved by the inclusion of climate and sustainability KPIs within the Board scorecard Board have been monitoring the development of the Bank's transition plan, climate related risks and opportunities, and wider sustainability and Net Zero strategy
Board Remuneration Committee (RemCo)	Independent Non-Executive Directors Chaired by Independent Non-Executive Director	Annually	Integration of sustainability KPIs into remuneration and reward
Board Audit Commitee (BAC)	Independent Non-Executive Directors Chaired by Independent Non-Executive Director	Annually	Review of sustainability disclosures within the Bank's annual report
Board Nominations Commitee (NomCo)	Independent Non-Executive Directors Chaired by Independent Non-Executive Director	Annually	Review of wider sustainability agenda in the context of culture and diversity & inclusion overall
Board Risk Committee (BRC)	Independent Non-Executive Directors Chaired by Independent Non-Executive Director	Quarterly Half-Yearly Annually	Key trends relating to climate-related risks are measured against Key Risk Indicators (KRIs) within the CRO report Sustainability team also provide an independent climate risk update half yearly to review and update on risks Climate-related risk management policies and risk appetite statement are reviewed annually by BRC
All Risk Management Committee (ARMC)	Key senior management, subject matter experts and Executive Committee members, including CRO, CEO and MD of Corporate and Business Banking Chaired by CFO	Quarterly Half-Yearly	Sustainability team provide a climate risk update half yearly to review and update on risks against key metrics and targets Key trends relating to climate-related risks are measured against Key Risk Indicators (KRIs) within the CRO report
Credit Oversight Forum (COF)	Key senior management, subject matter experts and executive committee members, including CRO, CFO, CEO, and MD of Corporate and Business Banking Chaired by CRO	Quarterly	Key trends and portfolio movements against KRIs and sector concentration Identification of material climate driven credit risks and ongoing monitoring of identified high risk sectors
Commercial Management & Pricing Committee (CMPC)	Key senior management, subject matter experts including MDs of Personal Banking and Corporate and Business Banking Chaired by MD, GB & Corporate Strategy	Monthly	Sustainability team reports to CMPC with monthly scorecard data, and where opportunities are identified In 2023 this involved gaining approval for products and customer engagement through Home Energy Efficiency Loan and Retrofit Mortgage products
Sustainable & Responsible Business Board	Senior management related to Sustainable and Responsible, including the MD of Corporate and Business Banking Chaired by CEO, deputy co-chaired by Head of Sustainability	Quarterly	Measure the Bank's progress against the targets set out within the Sustainable & Responsible strategy pillar

Integrating Sustainability across the Business

With sustainability now embedded as a strategic priority, the Bank has taken both a top-down and bottom-up approach to integrating climate consciousness into our culture. Several initiatives have been developed to engage staff at all levels in integrating climate risks and opportunities across the organisation.

Training

The Bank recognises the need to continue to build on climate awareness and competencies across all areas of the business including colleagues, the Executive Committee and the Board. New Non-Executive Directors receive a one to one with the Head of Sustainability which covers the Bank's climate and sustainability governance pathways, strategy, risk management and details of actions to identify and leverage climate opportunities.

Recognising the need to ensure all colleagues understand the Bank's strategic response to climate change, an e-learning program was rolled out to all colleagues in the Bank in May 2023. Climate and sustainability awareness training has also been integrated into the development pathways for our Customer Advisors and Danske Futures Apprenticies.

Engagement

The Head of Sustainability is co-deputy Chair of the Bank's Sustainable & Responsible Board which is chaired by the CEO and meets quarterly. As a non-decision-making forum, the purpose of the Sustainable & Responsible Board is to ensure ongoing progress in relation to the Sustainable & Responsible element of the Bank's overall strategy and to drive cross Bank collaboration and engagement.

To engage colleagues across the business and to integrate climate conscience across the organisation, the Bank has also formed a Green Matters network made up of colleagues from across the organisation seeking to facilitate further awareness and education and new climate focused intitiatives for the Bank.

Remuneration

The Bank understands that remuneration can be used to incentivise the successful implementation of the Bank's strategy and as such has integrated performance measures associated with climate-related targets into the KPI scorecard for senior managers, including the Executive Committee.

In addition, the achievement of 2023 top of bank, sustainability targets relating to scope 1 & 2 emissions reductions and sustainable finance have been integrated into the reward scheme for all managerial level employees. See 'Metric and Targets' for summary of targets and performance.

Our obligation to clients, shareholders, colleagues and local communities

The Bank's Purpose is to 'Help Customers, Colleagues and Society to Thrive'. Aligning our climate change response with this purpose we seek to ensure our clients, shareholders, employees, and local communities are protected against the potential detriment of climate change and nature loss. The Bank recognises its key role in facilitating the transition to a low-carbon economy and supporting these significant issues.

The Bank recognises that the potential risks and opportunities arising from climate change have the potential to impact on its business model and strategy (outlined on page 49). For that reason climate change holds a central role within the Bank's Purpose, Vision and Strategy with sustainability integrated into the Bank's five strategic priorities.

While our long term objective is to achieve net-zero by 2050 our transition journey to realising this outcome has been refined during 2023 to embed medium term ambitions. The Bank considers the impacts of climate change across short (within 5 years), medium (within 10 years) and long-term (by 2050) time horizons and is committed to developing its management of key physical and transition risks arising across each of these horizons.

Our ambitions help to frame the potential opportunities that arise as part of our response to managing and mitigating the physical and transition risks.

The Bank analyses these key risk factors through an annual heat mapping process, which assists with the identification of sectors at increased risk of impacts from climate change and facilitates the integration of appropriate responses into the Bank's strategy.

The financial impacts of climate risk form part of the Bank's stress testing and scenario analysis the outputs of which can be found on page 54.

Sustainability Framework

Long term strategic objective	DELIVERING NET ZERO				
Our 'Climate Transition' strategic ambition	Going green Ourselves	Helping Customers Go Green			
Guiding Principles	Deliver regulatory requirements	Align climate transition with business goals	Assist customers sustainability journey	Measure and Improve our impact	Maintain a market leading position
Key Execution areas	Risk Management	Products and Solutions	Education and Partnerships		
Critical enablers	Data and Insights	Governance	Product development	Training and expertise	Communications
Delivery channels	Risk and Compliance	Growth and Impact	Responsible Business		
Medium term ambitions	Fully embed climate related regulatory requirmnts Reduce the level of high climate risk exposures	Developing Corporate & Business climate action through engagement and Sustainable Finance Delivering 'climate friendly' products for Personal Customers	Reducing our carbon emissions 'Do more good' by developing climate focused partnerships		

Potential risk category	Potential risk	Events	Expected time horizon	Potential impacts	Principal risks impacted
Transition Risks	Policy and Legal	Expansion and increase of Greenhouse gas (GHG) emissions pricing Enhanced regulatory environment, particularly in NI as the Climate Change Act is implemented	Short - medium	Demand downturn arising from regulatory change Cost increases for both businesses and individuals Negative impact on value of assets	• Credit Risk • Reputational Risk • Operational Risk • Conduct Risk • Regulatory Compliance Risk
	Technology	Requirements to source low-carbon alternatives leading to substitution of technology Investment requirements to transition to low-carbon alternatives	Short - medium	Increased costs linked to investment requirements Accelerated decrease in value of existing assets	
	Market	Changes to customer behaviours driving move to low-carbon alternatives / providers Increased costs or difficulty sourcing raw materials	Short - medium	Reduced / changing demand linked to customer behaviours Increased costs linked to adaption to market demand Negative impact on value of assets	
	Reputation	Shifts in customer and stakeholder perceptions and negative feedback Increased third party scrutiny on how high-carbon emissions are financed	Short - medium	Reduced demand for products and services Competitive position diminished Increased adaption costs and reduced asset values	
Physical Risks	Acute	Increased frequency and severity of extreme weather events e.g. flood / storm	Short - medium - long	Increased risk of business disruption Higher costs linked to insurance and recovery Negative impact on value of affected assets	• Credit Risk • Operational Risk • Conduct Risk
	Chronic	Changes in long term weather patterns impacting local ecosystems Rising temperatures impacting quality of life and infrastructure	Long	Increased risk of business disruption Higher costs linked to insurance and recovery Negative impact on value of affected assets	

Changing customer behaviours, increased interest in emissions data and shifts in consumer preferences are all serving to accelerate the transition risks faced by many of our customers. This transition, accelerated by the Climate Change Act now committing Northern Ireland to achieve net-zero by 2050, also presents the Bank with many opportunities. The Bank considers climate oportunities and its response to same on an annual basis as part of business planning activities.

Potential opportunity	Description	Expected time horizon	Potential impacts
Enhance data insights and modelling	Support the Bank and its customers in understanding potential physical and transition risks arising from climate change e.g. flood analysis; property linked energy costs	Short - Medium	Reduced risks from impacted customers and assets Increased lending through demand for transition finance
Expanded coverage of scope 3 emissions	Enhance capture and measurement of scope 3 emissions across the value chain including supplier emissions	Medium	Increased understanding facilitating improved alignment across risk and strategy Added value for supply chain in addressing their own emissions
Education and communication	Support colleagues and customers in recognising the risks associated with climate and drive the Net Zero transition	Short	Wider awareness of need for change and increased awareness of climate related risks Enhanced customer service offering with advisors equipped for sustainability conversations
Expanded range of sustainable products and services for customers	Products and services for customers to assist the societal transition towards a low carbon future	Short – Medium	Increased balance sheet volumes through demand for sustainable lending solutions that support customer transition Reduced balance sheet risks from potential reduction in asset values of high-emission and carbon intensive lending
Accelerate delivery of net-zero operational emissions	All stand-alone properties are now fossil fuel free	Short	Reduced operational costs and reduced impact of price volatility of oil and gas Reduction in scope 1&2 emissions supporting Net Zero ambitions
Expand climate transition partnerships.	Both develop existing and forge new partnerships with like-minded organisations seeking to drive climate transition across key strategic focuses	Short – Medium – Long	Increased understanding of climate factor for colleagues involved in partnership programmes Enhanced external insights into climate challenges which can inform our risk and strategic response

Translating risk to strategy – Supporting Transition
The purpose of our climate strategy is to ensure a coherent approach to climate risk management and mitigation.

Identification and integration of climate-related risks and opportunities into the Bank's strategy and financial planning process to deliver on short, medium and long term climate ambitions through new solutions for both Personal and Business Customers to finance their transition and support actions with positive environmental impacts.

Personal Customers
Following on from the successful development and release of our Carbon Neutral mortgage product developed in 2021, which provides finance for customers purchasing properties with EPC A-C, the Bank considered the need to support customers seeking to improve the EPC and efficiency of their homes. This led to the development of a dedicated Home Energy Efficiency Loan.

The Home Energy Efficiency Loan supports customers seeking to improve their home's efficiency and reduce their impact on the environment. The Home Energy Efficiency Loan works in conjunction with the Energy Saving Trust tool on the Bank's website which provides suggestions as to how customers can improve their EPC, reduce their emissions and energy costs.

To further enhance the impact of these new products, the Bank also plants a tree with the Woodland Trust for each of the new loans provided, providing added benefit for wider society.

Corporate & Business Customers
Having successfully released the Green Loan product for Corporate and Business Customers the Bank has also seen growth in its portfolio of Sustainability Linked Loans.

Sustainability Linked Loans provide finance for Business Customers seeking to begin their transition to a lower carbon and more sustainable future through greater energy efficiency or through alternative low emissions technologies.

Each Sustainability Linked Loan is underpinned by agreed Key Performance Indicators which see the customer commit to tangible sustainable outcomes throughout their business operations and benefit from interest rate adjustments for successful outcomes.

Prioritising Nature
Acknowledging the risks presented by deterioration of biodiversity and nature more broadly, the Bank has considered how it might mitigate risk and capitalise on opportunities posed by changes to nature. In approaching these, the Bank has produced a Biodiversity strategy to provide a coherent and consistent approach, outlining the key priorities for the Bank in its response. This strategy has also raised the profile of the Bank's goal to make positive contributions to nature. This strategy has outlined practical proactive steps planned by the Bank to minimise the Bank's impact on nature and support customers and wider society on biodiversity.

Having achieved a platinum rating in BITC's Environmental Benchmarking Survey again in 2023 and having implemented initial interventions such as a productive garden at the Bank's operations centre and living walls across a number of properties in previous years, the Bank sought further expertise, training and education. This led to a partnership with VeriConnect to gain LANTRA Accreditation in Nature and Climate Change training for 15 key stakeholders. This provided clarity to the Bank's strategic response to enhance biodiversity, including site visits with biologists to the Bank's estate to discuss potential solutions.

Decarbonising the branch network
Delivering on our ambition to 'Go Green Ourselves' and recognising the transition risks to the Bank's operations posed by climate change and in particular those related to rising energy costs the Bank has, over the last number of years, invested in decarbonisation through a target to make its branch network fossil fuel free.

This has been delivered through ensuring that 100% of the Bank's electricity requirements are met from certified renewable energy sources combined with the installation of renewable technology such as solar panels on those buildings which are suitable. From this foundation the Bank has removed fossil fuel boilers and electrified the heating systems through use of either air-source heat pumps or electric radiators.

As a result of this approach 100% of the Bank's standalone branches are now fossil fuel free and zero emissions. Emissions related to the Bank's properties have fallen from 684 t/co2e in 2015 (our baseline year) to 159 t/co2e at the end of 2023 a 76% reduction.

The Bank only has two remaining properties, its head office building (with integrated branch) and its operations centre continue to have a requirement to use fossil fuels. Decarbonisation of heating requirements due to the size of these buildings is likely to be dependent on the wider availability of biogas in NI, however, the Bank continue to monitor options and remain committed to be net-zero across our scope 1 & 2 emissions by 2030.

Quantifying the opportunity

Successfully delivering net-zero transition by 2050 will require significant levels of investment across all sectors on an annual basis

40,000

new trees planted in partnership with the Woodland Trust

£2.2bn pa

Estimated annual NI net-zero investment requirement

£16bn pa

Estimated annual UK net-zero investment requirement

Estimated sector investment requirements

£445m Agriculture	**£264m** Transport
£231m Energy Supply	**£215m** Business
£231m Residential	**£50m** Waste management

Note: Overall Net-Zero investment requirement based on commentary from the Department of Agriculture, Environment and Rural Affairs, with estimated sector level investments extrapolated based on respective percentage share of NI green house gas outputs.

Stress Testing and Scenario Analysis

Annual stress testing and scenario analysis allows the Bank to consider how risks arising from climate change could impact from a financial perspective and also provides the opportunity to consider how those risks can inform strategy and the development of products, services and solutions which could support our customers in successfully navigating that transition. The Bank has a balance sheet split between Personal Banking and Corporate & Business Banking exposures.

Exposures to Personal Customers are dominated by residential mortgages which represent 96% of total Personal Banking exposures with mortgages facing both physical risks from storms and flooding and transition risk as energy prices rise and the need for expensive retrofit work grows.

Within Corporate and Business Banking, heat mapping identified specific sub-sectors as being of higher risk to the Bank. With negligible exposures to internationally recognised high-risk sectors linked to fossil fuels combined with strict guidelines and exclusions on fossil fuel financing (as outlined in the Danske Bank Group Fossil Fuel Position Statement) means the Bank's focus is instead on sectors including: Agriculture, Commercial Property, Chemicals, Metals and Mining, Automobiles and Freight Transport. As a result, the Bank's climate scenario analysis focuses on these key portfolio areas covering 93% of high-risk exposures.

TCFD defined Corporate and Business sectors impacted by Climate Change (% of total portfolio)

Energy		Transportation		Materials and Buildings		Agriculture, Food and Forest Products	
0.15%		0.95%		8.91%		5.51%	
Oil and Gas	<0.00%	Air Freight	<0.00%	Metals and Mining	0.08%	Beverages	0.01%
Coal	<0.00%	Passenger Air Transportation	<0.00%	Chemicals	0.65%	Agriculture	4.67%
Electric Utilities	0.14%	Maritime Transportation	<0.00%	Construction Materials	0.24%	Packaged Food and Meats	0.81%
		Rail Transportation	<0.00%	Real Estate Management and Development	7.94%	Paper and Forest Products	0.02%
		Freight (road) Transportation	0.13%				
		Automotive and Components	0.82%				

Summary of climate stress testing and scenario analysis undertaken, methodology and outcome:

Stress scenario description	Sector	Transition Risk	Physical Risk	Time Horizon	Methodology and assumptions	Estimated financial impact*
Impacts of river and/or coastal flooding on properties within the Bank's residential mortgage exposures identified as being 'at risk'. Based on <2°C and 'Representative Concentration Pathway' (RCP) scenario 6.0 by 2030	Personal residential mortgages	-	Y	Short, Medium, Long	The Bank's mortgage portfolio was mapped against flooding scenarios. The cost of flood damage and repair on residential properties where flooding is predicted was applied and an ECL impact calculated	£1.95m (present day risk) £1.99m (2030 risk)
Impacts of long-term energy cost increases and impact on disposable income based upon EPC rating	Personal residential mortgages	Y	-	Short	The cost of living was increased by EPC linked energy cost variance decreasing disposable income figures used in the Bank's mortgage model. This stress then identified movements in the PD of customers and resulting ECL uplift	£5.7m
Impact of the introduction of a carbon tax on the agriculture sector through 3 different carbon taxes 350DKK, 750DKK and 1500DKK. (DKK per tCO2e) (GBP c£40, c£85, c£175 respectively)	Agriculture	Y	-	Short, Medium, Long	Carbon tax implementation based upon 5 different policy scenarios. These taxes were used to model future profitability and their impact on Probability of Default (PD)	£15.8m (c£40 carbon tax) £32.8m (c£85 carbon tax) £41.0m (c£175 carbon tax)
Qualitative impacts of river and/or coastal flooding on properties within the Bank's commercial real estate management exposures identified as being 'at risk' based on <2°C and RCP scenario 6.0 by 2030	Real Estate Management and Development	-	Y	Short, Medium, Long	The Bank's CRE portfolio was mapped against flooding scenarios. The cost of flood damage and repair on residential properties where flooding is predicted was applied and an ECL impact calculated	N/A
Qualitative impact of curtailed rental demand for commercial real estate management exposures due to dropping demand for less efficient buildings needing major retrofit	Real Estate Management and Development	Y	-	Short	The EPC rating of the CRE portfolio was estimated to align with the NI average split. With a weighted PD and weighted LGD applied across portfolio to arrive at a stressed ECL uplift	N/A
Negative impact on credit quality arising from demand downturn and increased climate related industry regulation	Packaged food and meats	Y	-		Negative downturn in sector represented by assumed adjustment to credit classification resulting in PD uplift generating ECL uplift	£0.3m

*Financial impact represents a potential ECL in the event of proposed stress materialising

Outcomes & Insights

The outcomes of the climate stress testing demonstrates that while the risk of impact varies by sector and by the stress applied, there remains a relatively low level of material impact on the Bank's financial position. However, it would not be unreasonable to assume:

- ongoing realignment of the Bank's agri & commodity foods portfolio;
- ongoing changes to the EPC mix of the Bank's personal mortgage portfolio; and
- some shrinkage in relation to exposure to packaged food & meats and other carbon related sectors.

Consequently, particularly in areas such as agriculture, mitigation factors by the Bank and government agencies are key to avoiding the most significant potential outcomes. Thus, the Bank remains focused on continuing to refine its strategic response in those areas at higher risk of exposure to climate-related changes.

The Bank's Risk Management Framework has a clear focus on climate risk and the Bank has outlined a range of climate specific risk metrics and limits to ensure robust monitoring to respond and adapt to the emerging impacts of climate change.

Furthermore, 'Sustainable & Responsible' actions and initiatives remain fundamental to the Bank's ongoing strategy and Corporate Plan. The Bank continues to put considerable effort into becoming more sustainable, as evidenced by maintaining 'Platinum' standard in the NI Environmental Benchmarking Survey awarded to the Bank for the sixth consecutive year. This is in addition to our 'Platinum' Business and Bio-diversity and 'Platinum' Business in the Community 'CORE' accreditations. The Bank continues to use this scenario analysis as a basis for action, evidenced through providing practical support to customers and through the development of the Home Energy Efficiency Loan which provides Personal Customers with a solution to support energy efficiency works to mitigate transition risks.

Further recognising that many climate-related risks are found within the Bank's customer base and building on Carbon Literacy Accreditations in 2022, all Corporate & Business relationship managers received specifically tailored training to engage customers on the topic and provide expertise. Any new staff to the department also received climate consciousness training alongside managers from Marketing, Communications and Credit teams to further embed sustainability within different business areas and provide a coherent implementation of strategy.

Risk Management

Identifying and assessing physical and transition risk

Climate (as part of overall sustainability) is identified as a risk driver within the Bank, and as such the risks presented (which are reviewed annually), are cross cutting in nature. Climate risk is embedded within the Bank's Enterprise Risk Management Framework (ERM Framework) which ensures a consistent approach to risk management across the business. The ERM Framework is supported by a range of climate related policies and position statements which outline the Bank's approach to areas such as Sustainable Finance, Climate Change and Fossil Fuels. The Bank's Climate Risk Appetite Statement (RAS) has been refreshed and updated during the year with clear risk appetite limits established and a range of climate risk indicators implemented to act as early warming triggers across key climate risk areas. The Bank recognises that climate change presents a range of both physical and transition risks such as:

Transition risks	Physical risks
• Factors such as changes in appetite, strategy, policy and sentiment arising from the process of adjusting to a low-carbon economy • Can potentially result in changes in the value of both owned and financed assets, increased costs and opportunities and also reputational impacts from a failure to meet both societal and regulatory expectations	• Acute factors such as higher frequency or severity of weather-related events, along with factors such as rising temperatures, floods, storms, droughts, heatwaves and rising sea levels resulting from longer term changes to climate and weather patterns • Can potentially result in significant financial losses in respect of both the Bank's own operations and the financial position of borrowers and suppliers

Potential impacts arising from both physical and transition risk have been mapped across key aspects of the Bank's risk taxonomy. The financial impact is outlined within the climate stress testing and scenario analysis, as outlined on page 55.

Risk Drivers	Transition Risk Materiality	Physical Risk Materiality	Time Horizon	Response	FY 23 Progress	Future Focus & Mitigations
Credit Risk						
Increased impacts on future credit worthiness of customer segments due to climate-related factors impacting asset values, revenue and costs	High	Medium	Short <5 years Medium 5-10 years Long >10 years	Mitigate & Control	• Enhanced scope of flooding risk across CRE and personal mortgage portfolio • Development of Transition Plan setting direction for credit policy and portfolio transition • Update of Sustainable Finance policies • Development of on-boarding protocols for customers with higher ESG risk and increased monitoring and reporting of credit system ESG Tracker completions and results	• Ongoing monitoring, management, and reporting of climate-related risk • Embed expanded physical risk data to improve climate-related risk assessment • Expand quantitative approach to assessment of customer level climate risk through transition plans and scenario analysis
Operational Risk						
Increased likelihood of business disruption arising from extreme weather events or climate-related transition factors such as continuity of energy supply	Low	Medium	Short <5 years Medium 5-10 years Long >10 years	Mitigate & Control	• Climate risk continues to be incorporated within Risk Control Self-Assessment (RCSA) • Sustainability factors integrated into change and communications requests • Updated flood data with mapping completed for the Bank's physical estate	• Continue to develop climate related RCSA and risk mapping • Expand analysis and understanding of a wider range of physical risk impacts e.g. storm damage
Regulatory & Conduct Risk						
Potential for damage to stakeholder trust resulting from both internal actions and external events. Alongside risks arising from failure to observe and comply with relevant regulations and standards of good market practice	Medium	Medium	Short <5 years Medium 5-10 years Long >10 years	Mitigate & Control	• Integration and embedding of climate risk within the governance processes • Carbon Consciousness training for new relationship managers and marketing and communications managers	• Continue to deliver on regulatory and conduct requirements • Further development of climate training for key colleagues to build additional knowledge, awareness and understanding
Pension Risk*						
Potential for climate-related risks to negatively impact portfolio values	Medium	Low	Medium 5-10 years Long >10 years		• Ongoing monitoring of percentage of high climate risk assets contained within the portfolio	• Continue monitoring of climate-related risk within the pension portfolio

*During 2023, the acquisition of a further, final, bulk annuity buy-in policy has resulted in all liabilities of the Scheme (with the exception of GMP equalisation) now being covered by insurance policies. Consequently, as the Scheme's remaining assets over which the Trustee has direct investment control are comprised of cash and one directly held property, pension obligation risk relating to climate no longer applies.

This risk taxonomy has continued to be used by the Bank in setting metrics, assessing risk and informing policy and governance decisions. Scenario analysis has and will continue to be used to assess the risks presented in each category, in order to test the resilience of the mitigation and controls in place.

Managing transition and physical risk

The Bank continues to consider the key physical risk as flooding due to climate change. This presents a risk not only to the Bank's own property, but also to the businesses financed and properties financed within the mortgage portfolio. Where the Bank's own estate is flooded, there would be a considerable cost for repairs but also a potential disruption to services which could lead to income loss and compensation for customers. Within the residential housing and commercial real-estate portfolios, flooding could increase the risk of default and collateral shortfalls which would increase the loss to the Bank.

In considering transition risk, the Bank is considering the risks associated with a transition to a low-carbon economy. This risk is realised across businesses where current business models or practices may become expensive or where levies are placed on sectors of the economy. This could lead to an increase in defaults in businesses or sectors which do not adapt. Within personal banking, transition risk is considered across the residential mortgage portfolio where EPC ratings may have a future impact on the value and sale of properties dependent on these ratings. Homes with poorer EPC ratings are also more costly to run and require more renovation, increasing the probability of default for customers in the D-G rating band. These transition risks are modelled within the Bank's Scenario Analysis (page 54).

The Bank undertakes annual flood assessment of its own estate within NI. This assessment exercise was enhanced in 2023, with a new data source from a 3rd party providing risk insights across a number of RCP scenarios. This has provided the Bank with an understanding of key risks, supporting direct climate mitigation and adaptation efforts to the most vulnerable areas and better facilitating the development of high-impact solutions. The Bank has utilised this mapping of physical risks within scenario analysis to further identify and understand credit risks arising from climate change as outlined on page 54.

Case Study: Integrating Climate Related Risks to the supply chain

The Bank has incorporated climate-specific due diligence metrics into its procurement process for contracted services utilising the Integrity Next platform. This captures the carbon footprint of each organisation, any public sustainability commitments, and the level of climate consideration in each organisation's business continuity and resiliency plans.

An initial scoping exercise of 3rd party emissions was carried out in 2023 highlighting key suppliers and collating emissions data of 3rd parties. As this is an area under development data is too limited to report on at this stage, however, the Bank's ambition is to incorporate data in future reporting as part of a wider view of scope 3 emissions.

In addition, climate factors are also integrated into the Bank's change control process ensuring that potential or emerging risks can be captured and assessed for all key projects and paper use consideration is now embedded into project and communications planning to encourage less paper use and reduce related emissions.

Case Study: Identifying Nature Related Risks

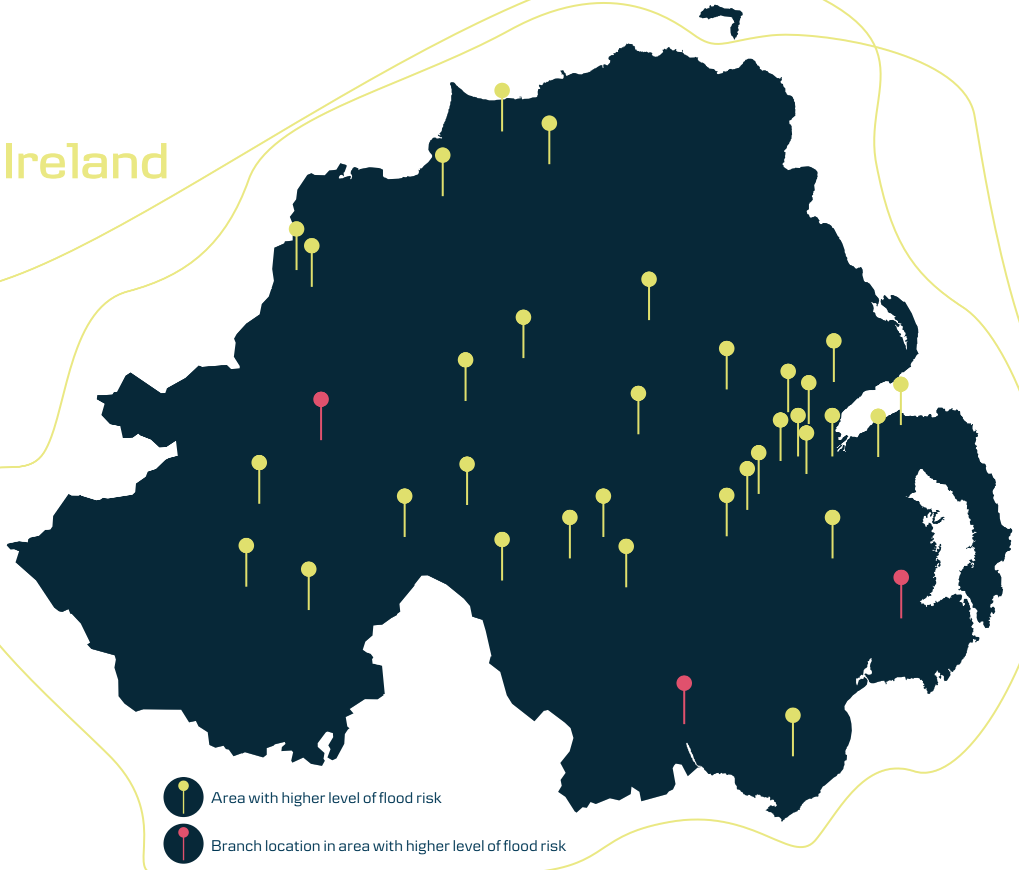
Recognising the intrinsic link between nature and climate, the Bank has considered its role in supporting nature more broadly and the risks presented by deterioration of nature and biodiversity. With the release of the Taskforce for Nature-Related Financial Disclosures (TNFD) disclosure, the Bank has used the 'LEAP' approach recommended to begin to Locate and Evaluate interfaces with nature both within its own estate and across the financed portfolio.

Within the Bank's estate, this involved mapping properties using the Department of Agriculture, Environment and Rural Affairs (DAERA) natural environment to locate the potential impacts and dependencies at each site.

When locating and evaluating the impacts, dependencies and risks across the portfolio, the Bank has utilised PBAF-aligned methodology within the Bioscope tool to assess the portfolio impacts on nature with Agriculture exposures having the most significant impact on nature and further inform its approach. This tool used the outstanding lending balances to sectors, translating these into estimated species impacts using industry based conversion factors.

Further analysis will be carried out in 2024 to better understand nature related risks across the Bank's lending portfolio.

Northern Ireland flood map



Case Study:
Facing the reality of climate related flooding

In 2023, the Bank sourced expanded flood risk data which included a range of five differing temperature scenarios across a range of time intervals through until 2100 for all of the UK.

Along with mapping of the Bank's residential mortgage portfolio for flood risk potential, the Bank also took the opportunity to update flood mapping of our own properties. This mapping exercise identified only two branches currently at risk of flooding and one which has the potential to be impacted in the medium to long term. All three locations are shown on the flood map above.

This accuracy of this modelling was proven in November 2023 when our Downpatrick branch was forced to temporarily close as a result of a flooding event which had significant impact on businesses across the town.

The Bank were able to respond rapidly to the incident with temporary customer service solutions delivered via existing Post Office relationships and a temporary non-cash branch opened in alternative premises. Once the flood waters had subsided the Branch was fully refurbished including the integration of flood resistant measures such as repositioning of key electricity and network infrastructure to minimise the impact of any potential future events.

Learnings from this flooding event have been integrated into the Bank's disaster recovery process and will help in informing future design considerations particularly in those locations which have been identified as potentially at risk.

Metrics & Targets

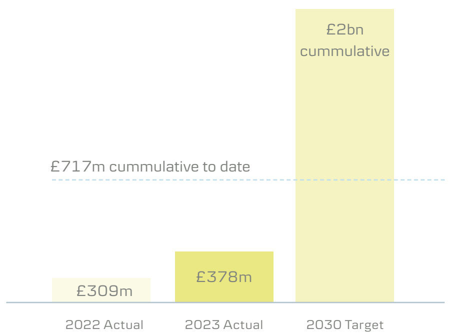
Assessing and managing climate related risks and opportunities

The Bank seeks to show leadership within the area of sustainability, understanding the need for quality data, metrics and targets in order to provide clarity, direction and insight. Given the Bank's Net Zero pledge by 2050, the Bank utilises a number of key targets to support the Bank's transition. These targets focus on the Bank's emissions profile, including financed emissions and also include sustainability linked strategic priorities including Sustainable Finance drawdown targets.

Key Targets

Emissions	2023 position	Commentary
Interim Targets		
Net Zero in Scope 1&2 emissions by 2030	159 t/co2e	Of the Bank's 29 properties, 27 (representing our stand alone branch network) are now fossil fuel free and zero emissions. Investment continues in the remaining properties (our Donegall Square West head office and our operations centre at Killeaton House) to ready them for conversion to fossil fuel alternatives. Achieving net zero on the two remaining buildings will require significant changes in NI energy provision including the reliable supply of bio-gas alternatives
£2bn Sustainable Finance by 2026	£717m	Sustainable Finance is made up of lending from our Carbon Neutral Mortgage service, Corporate & Business Banking Green Loans and Sustainability Linked Loans (SLLs). 'Sustainability ready' SLLs and our Home Energy Efficiency Loan for Personal Customers are excluded from calculations
2023 annual targets		

2023 Target
£375m Sustainable Finance



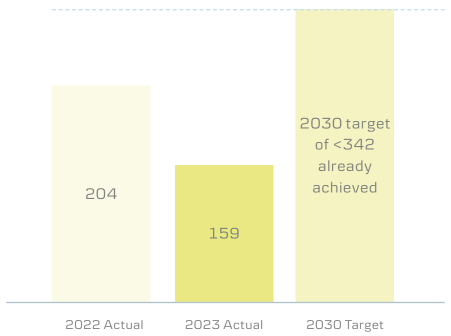
2023 Progress

£378m of Sustainable Finance provided in 2023

Sustainable Finance drawdowns are made up of lending from our Carbon Neutral Mortgage service, Corporate & Business Banking Green Loans and Sustainability Linked Loans (SLLs)

'Sustainability ready' SLLs and our Home Energy Efficiency Loan for Personal Customers are excluded from calculations

2023 Target
1 & 2 emissions of <225 t/co2e



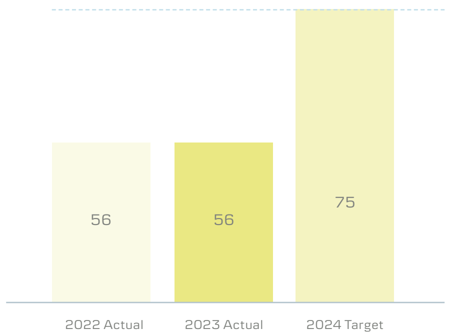
2023 Progress
70% reduction in scope 1 & 2 emissions

Target achieved 8 years ahead of schedule

Scope 1 & 2 emissions reduced further during 2023 as the benefits arising from previous investment in renewable technologies and electrification of heating systems were realised

159 t/co2e represents a 24% year on year reduction in scope 1 & 2 emissions and a 76% reduction against the Banks chosen baseline year of 2015

2023 Target
75 customers completing the climate action programme



2023 Progress
78 Customers completing the Climate Action Program

2023 target partially achieved

While a total of 78 customers actively participated in the Climate Action Programme during 2023, scheduling of workshops and customer availability resulted in 56 completing the programme at December 2023 year end

The remaining 22 customers are committed to the programme and are expected to fully complete during 2024

Greenhouse Gas Emissions

Scope 1 & 2

Market Based Emissions
159.3t

Location Based Emissions
757.3t

Scope 3

Customer borrowing - Financed Emissions:
649,035t

Business Travel - Flight Emissions:
66.4t

Business Travel - Car Emissions:
92.3t

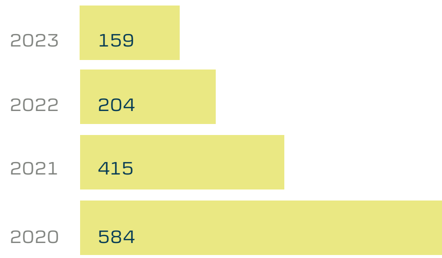
Printed Paper Emissions:
39.8t

Printed Mailing Emissions:
179.6t

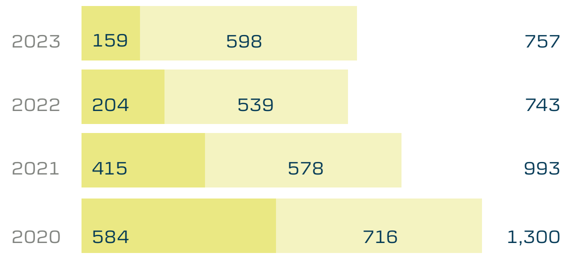
The Bank has taken actions to better understand its environmental impact including monitoring of business travel and a footprinting exercise of outsourced statement printing and delivery. The Bank has also completed initial scoping of key 3rd party supplier emissions to commence proactive engagement to obtain emissions reporting figures, however, at present the data is too limited to report on.

Scope 1 & 2 emissions

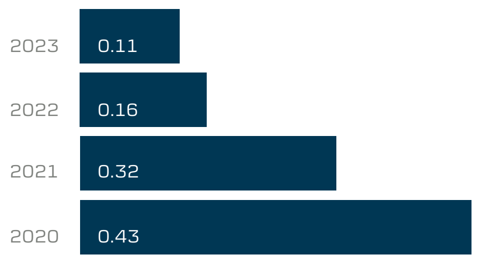
Market-based emissions (tCO²e)



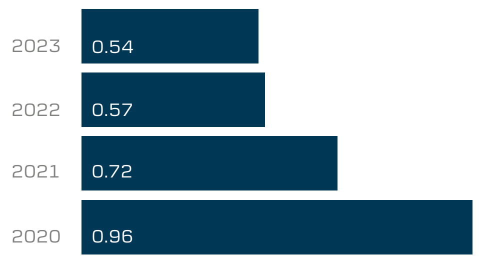
Location-based emissions (tCO²e)



Market-based intensity ratio (tCO²e/FTE)



Location-based intensity ratio (tCO²e/FTE)



Energy Consumption - Heating (MWh)

Energy Consumption - Electricity (MWh)

The emissions above demonstrate further reductions seen across the Bank's operational emissions showing that the Bank continues to make progress on its 2030 target to be net zero in scope 1&2 emissions. More information is detailed within the Streamlined Energy and Carbon Reporting disclosure table within the Directors Report (page 113).

Scope 3 emissions

Financed Emissions

Scope 3 financed emissions represent the Bank's share of Green House Gas (GHG) emissions relating to customer borrowing. During 2023 we have worked to deepen our understanding in this area and improve our calculation methodologies to better align with accepted industry standards. In that regard the Bank is committed to disclosing our financed emissions using the Partnership for Carbon Accounting Financials (PCAF) Global GHG Accounting and Reporting Standard (PCAF standard). PCAF is the global standard industry-led initiative to measure and disclose emissions financed by loan and investments. They have set out a scoring system (data quality score ranging from 1 to 5) along with explanations in order to define the data quality underpinning the emissions calculations. In the hierarchy of data quality the top score of 1 is retained for instances where verified emissions of the company are known.

The Bank's reported financed emissions are made up of customers scope 1 & 2 emissions either reported by the customer, obtained from external sources (e.g. EPC certificates in the case of residential property) or as estimated using emissions factors by sub-sector. Where customer reported emissions are unavailable financed emissions under the PCAF standard are calculated as follows:

Calculating financed emissions

Attribution Factor

$$\frac{^{1}\text{Outstanding borrowing}}{\text{Total equity + debt}}$$

X

Emissions

=

Financed Emissions

[1]Outstanding borrowing including balances on overdrafts and term lending. Excludes asset finance and other types of borrowing lines e.g. trade finance.

The Bank recognises that while it has made progress in the calculation of its financed emissions further development is required to address data gaps, increase the scope and depth of analysis and to increase the availability and consistency of climate-related data. Given those challenges a number of assumptions have been made in order to calculate emissions. Those assumptions are prevalent in two key areas:

1. Limitations in EPC data with c.30% of the Bank's residential properties having no EPC.
2. Lack of reported emissions for Corporate & Business Customers reflecting the primarily SME nature of the Bank's lending.

In an effort to address some of these SME data challenges the Bank has partnered with Experian during 2023 to utilise a wider range of source information in order to improve and expand the accuracy of estimated emissions for this customer cohort.

On that basis the data quality score attributable to the Bank's financed emissions calculations is at the lower end of the PCAF rating scale (where 1 represents a very low margin of error while 5 represents the highest margin of error).

Residential Mortgages

The financed emissions calculated for residential mortgages is based on outstanding loan balances at 31 December 2023. Residential mortgages represent c.48% of the Bank's total lending balances and is an area that has been identified as being of higher risk of impact from climate-related physical and transition risk factors. Calculations exclude any residential property owned by Corporate & Business Customers which is captured under the Commercial Real Estate sector.

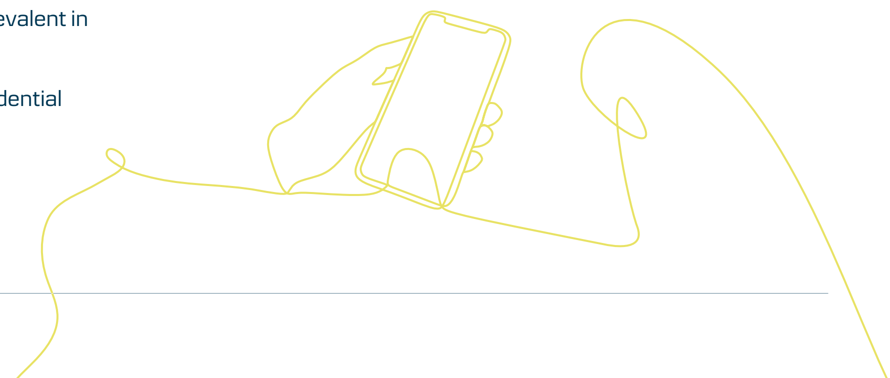
Methodology

For the 61% of the mortgage properties where EPC certificates were available the CO2e emission figure was extracted from the EPC certificate. For the remaining 39% of properties with no EPC recorded, the Northern Ireland average distribution was used to allocate the unknown properties into A-G in proportion both by number and value. The average carbon emissions (calculated from the full NI Dataset) from each EPC band are used to calculate the total emissions in each band (i.e. number of properties x average emissions). The average LTV is calculated for each EPC band by taking an average across all known EPC properties in that band. The financed emissions are then calculated by multiplying the total carbon emissions in each band by the average LTV. The percentage of calculated emissions from known CO2e emissions contributes 61% of the calculated emissions while the proxy data contributes 39%.

Limitations

Based on some of the factors already outlined there are a number of limitations within the final emissions calculation as outlined above namely:

- Overall availability of EPC information given the requirement for assessments to only be completed when a property is initially constructed, transacted for sale or made available to let.
- Timeliness of data given that EPC certificates are valid for 10 years hence property efficiency may have been improved since the certificate was initially prepared along with the fact that the calculations regarding the property may not accurately reflect the real-world outputs based on owner behaviour.



Mortgage portfolio scope 3 financed emissions	31 December 2023	31 December 2022
Total Lending (£bn)	3.3	3.1
Assessed Lending (£bn)	3.3	2.8
Assessed Lending (% total mortgage lending)	100%	90%
Danske Bank attributed financed emissions (t/CO2e)	**77,938**	**69,191**
Economic emissions intensity (tCO2e/£m lent)	**23.7**	**24.6**

Future Focus

The Bank will continue to refine its approach and methodology to calculating emissions within personal portfolios with enhanced scope and quality of data the primary focus.

Corporate & Business Banking

The financed emissions calculated for Corporate & Business Banking exposures is based on outstanding loan balances as at 31 December 2023. Corporate & Business borrowing represents c.50% of the Bank's total lending balances and includes a number of areas that have been identified as being of higher risk of impact from climate-related physical and transition risk factors. The financed emissions outlined for Corporate & Business Banking are improved and updated estimates which have been developed in 2023 collaboration with Experian, pulling on their many data sources to provide additional granularity regarding sub-sectors and industries and turnover as well as other data of which the Bank previously had very limited coverage. The overall methodology is the same PCAF aligned calculation as 2022, however the additional data sources have improved the data calculation quality to PCAF score of 4.

Methodology

For each of the sectors reviewed the Bank applied the PCAF standard methodology relating to Business Loans and Unlisted Equity as this most accurately reflects the primarily SME nature of the Bank's lending.

Calculation of total customer emissions (CO2e) was based on the following:

- Where available customer reported figures are used
- Where reported emissions are unavailable estimations are based on the industry classification code for the customer and the published economic activity based PCAF emissions factor
- The identified economic emissions factors were subsequently multiplied by customer revenue to determine an estimated total emissions figure

Overall absolute emissions have increased during 2023 due to a number of factors including:

- Change to underlying PCAF attribution factors (particularly those associated with agriculture)
- Increase in underlying lending volumes
- Improvement in data quality across sectors in relation to SME customers

Limitations

Based on some of the factors already outlined there are limitations within the final emissions calculation as outlined above namely:

- Lack of reported, verified customer emissions resulting in a reliance on accurate translation of industry classification codes from the Bank's methodology to the PCAF database to allocate emissions factors, alongside customers with portfolio businesses resulting in a range of classification codes under one ultimate ownership structure
- Alignment of reporting dates for extract of financial information, along with variances in customers required to report financial information under the Bank's standard reporting procedures

Future Focus

The Bank will continue to refine its approach and methodology to calculating emissions within business portfolios with enhanced scope and quality of data the primary focus. Primary capture and recording of customer reported data is recognised as key to improving the medium to long term accuracy of emissions data. The Bank also recognises the need to continue assessing short, medium and long term emissions reductions pathways for those sectors which have a material impact on the Bank's transition plans. This work will be developed further annually through the Transition Planning process.

Sector	2023 Financed Emissions (tCO2e)	2022 Financed Emissions (tCO2e)	Economic Emissions Intensity (tCO2e/ £m lent)
Agriculture	452,604	352,855	1342.2
Utilities and Infrastructure	3,047	11,675	129.2
Metals and Mining	17,303	16,570	207.7
Consumer Goods	14,674	12,882	185.2
Services	8,406	6,527	99.3
Pulp, Paper and Chemicals	7,494	19,700	165.8
Construction and Building Materials	18,276	8,546	186.4
Retailing	12,604	7,565	85.9
Capital Goods	12,081	5,829	97.6
Pharma and Medical Devices	956	3,254	82.3
Automotive	10,299	2,218	184.8
Shipping, Oil and Gas	397	1,397	218.0
Social Services	3,416	1,159	52.0
Hotels, Restaurants and Leisure	4,931	1,119	65.6
Transportation	2,207	940	81.0
Telecom and Media	1,068	561	137.3
Financials	1,314	139	18.2
Total Financed Emissions	571,097	452,966	-

RISK MANAGEMENT

"At Danske Bank, our risk ethos is to deliver sound business and risk management, supporting an overall conservative risk appetite controlled within predefined risk limits."

Phil Smyth
Chief Risk Officer

Sound business and risk management	Supporting an overall conservative risk appetite controlled within pre-defined risk limits	A strong risk and governance culture	Across the three lines of defence 3LoD
by ensuring overall sound business and risk management of the Bank and ensuring that it acts in the best interests of shareholders and customers; delivering good customer outcomes, reflecting Consumer Duty principles and by acting in good faith in all our interactions	the Bank has a conservative risk appetite across all risk types reflected through the implementation of specific risk supporting limits, ensuring that financial or non-financial exposures do not cause material harm to the Bank. The Board seeks to ensure that the Bank at all times has optimal control of all types of risk to ensure a stable basis for the Bank's future development	viewing good corporate governance and effective risk management as a fundamental part of the culture and operations of the Bank and an essential element of the Bank's strategy	the three lines of defence model, which includes placing primary risk ownership with the business units, independent risk oversight with Risk Management, and Internal Audit assessing the risk framework and internal control environment

Enterprise Risk Management

Enterprise Risk Management (ERM) is central to the management of risk in order for the Bank to achieve its strategic objectives, ensure accountability and deliver sustainable outcomes for customers, colleagues and society.

As a financial service provider in a dynamic environment, the Bank faces a range of both external and internal risks that fluctuate over time. As all activities of the Bank involve risks, risk management is the responsibility of all colleagues.

The purpose of ERM is to implement an effective and comprehensive risk management approach across the Bank. It ensures complete coverage in our risk management activities by:

- embedding practical methods and skills to manage the key risks we face as an organisation, and
- enabling robust and proactive identification, prioritisation, and management of risks and issues, detailing the Bank's overall standards across the areas of People and Risk Culture, Risk Appetite and Risk Taxonomy.

Material risks and outlook assessment summary

The table overleaf provides a summary of key risks, however it should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing the Bank. Other factors not yet identified or not currently assessed as material may subsequently affect the Bank. Further information on the key risks including the impact and managing of these keys risk can be found from page 72. A summary of the Cross Taxonomy Risks, Sustainability Risk, Group Risk and Conduct Risk can be found from page 82.

The ICAAP is a key process that facilitates the Board and senior management in adequately identifying, measuring and monitoring the Bank's risk profile. The ICAAP is performed by the Bank on an annual basis. The Board approved ICAAP Report and supporting documentation are submitted to the PRA and are subject to regulatory review as part of the PRA's Supervisory Review and Evaluation Process.

Risk taxonomy

The risk taxonomy structures and visualises the most material risk types applicable to the Bank. A clear risk taxonomy helps the Bank align its risk language and terminology to;

i. identify and categorise the risks,
ii. define responsibility for setting standards,
iii. set the risk appetite,
iv. structure risk escalation and reporting,
v. manage the risks.

The taxonomy is continuously reviewed and updated to reflect the most material risks faced by the Bank and is structured in three levels as shown below. The level one (L1) risk categories are an aggregation of the Bank's most material risk types as identified by the Board and they are further specified by level two (L2) risk types. The level three (L3) risk types exist where relevant for risk management effectiveness, to further clarify or break down the L2 risk types. The taxonomy also consists of Cross Taxonomy risks which can impact all risk types and must be appropriately managed.

	Aggregate risks	Financial risks				Non-Financial risks				
2LoD oversight	Local Compliance								Group Compliance	
L1 Risk	Strategic Risk	Credit Risk	Market Risk	Liquidity Risk	Pension Obligation Risk	Operational risk	Information Technology (IT) and Security Risk	Data Risk	Financial Crime	Regulatory Compliance
L2 Risk	Forecasting Risk	Lending Risk	Interest Rate Risk in the Banking Book (IRRBB)	Intraday Liquidity Risk		Products and Services Practices Risk	Confidentiality Risk	Poor data quality	Money Laundering	Treating Customers Fairly
	Strategic Execution Risk	Counterparty Credit Risk	FX Risk	Short Term Liquidity Risk		Transaction processing and execution Risk	Integrity Risk	Unfit data architecture	Terrorist Financing	Market Integrity
	Strategic Leverage Risk	Underwriting Risk		Funding Risk		Model Risk	Availability Risk	Misapplication of Data	Sanctions violation	Personal Data Protection and Confidentiality
	Capital Risk	Issuer Risk				Legal Risk			Tax Evasion	Licensing, Accreditation and Registration Req.
		Settlement Risk				Statutory Reporting and Tax Risk			External Fraud	
		Country Risk				Physical Security and Safety Risk			Internal Fraud	
						Third Party Risk			Bribery and Corruption	
						Business Continuity Risk				
Cross taxonomy risk drivers	Sustainability Risk									
	Conduct Risk									
	Group Risk									
Risk impacts	Financial									
	Reputational									
	Customer									
	Regulatory									

The 'Three Lines of Defence' Model (3LoD)

The 3LoD model is used to clarify roles and responsibilities on risk ownership, oversight and assurance across the entire Bank and identifies the functions for addressing and managing risks. To ensure sound governance and for the 3LoD to operate effectively, it is essential to have clearly defined roles and responsibilities.

Executive ownership of the 3LoD rests with the Chief Risk Officer. Material changes to the 3LoD model, should they occur, are presented to the Board Risk Committee, (BRC), as and when they arise. Colleagues also have the obligation to speak up, if something seems wrong, and, in case of an incident, take the necessary actions to make things right in collaboration with their colleagues and leader and escalate the incident in line with internal policies and instructions. The 3LoD are divided into different roles with clear segregation of duties.

First Line of Defence (1LOD)– Risk Ownership

Frontline and direct support functions

- Own risks and are accountable and responsible for the operational management and control of those risks.
- Identifies, analyses, monitors and manages risks, and report in line with policies, instructions, regulatory requirements and delegated authorities.
- Design and implement appropriate and effective controls.
- Ensure compliance with set risk appetite / tolerance thresholds and follow the risk governance structure and authorities delegated from the Board.

Second Line of Defence (2LOD) – Risk Oversight

Risk Management

- Implement and promote sound risk management through an effective ERM framework.
- Perform oversight of 1LoD's risk exposure and risk management.
- Challenge the 1LoD on its decisions, actions and activities that expose the Bank to risks. Challenge and provide oversight that processes and controls in place are properly designed and effective.
- The Compliance Risk team provides independent advice to the 1LoD on whether the day-to-day business activities and / or controls are compliant and in line with the application and implementation of governing Information, laws, rules and regulations.

Third Line of Defence – Independent Review

Internal Audit (IA)

- Provides independent and objective assurance.
- Designed to add value and improve the Bank's operations.
- Primary role is to help protect the assets, reputation and sustainability of the Bank by evaluating and improving the effectiveness of the processes used for risk management, controls and governance.

IA cooperates with External Audit. An Audit Agreement governs the division of work between the two assurance providers.

Risk culture

A strong risk culture is key to ensure that we create value for our stakeholders and remain a solid and sustainable Bank.

We serve our customers well by being risk aware and by having good risk management practices. Risk culture is shaped by employees' competencies, attitudes, behaviour, and engagement. A strong risk culture is one where all colleagues, not only the risk specialists or internal control functions, take personal responsibility for the risks associated with their role. It is also a culture where the Bank collaborates and openly discusses risks and events to allow the sharing of knowledge and lessons learnt.

The Bank wants to do the right thing and conduct its business in a way that serves the interest of its customers, lives up to regulatory requirements and complies with its own standards and culture commitments. The desired risk mind-set and behaviour is defined as follows:

- Be aware that every activity has a degree of risk, and that we can assume risk when we make decisions and changes.
- Develop strong competences, understand our role in managing risks, and observe the governing information relevant to our responsibilities.
- Be alert by detecting the risks in daily activities and understanding the potential impact they can have.
- Be proactive and take responsibility to manage risks in collaboration with colleagues and managers. Discuss them openly with colleagues and managers and / or escalate the risk and concerns to the right persons.

Integrating these behaviours in the daily work helps the Bank to strengthen the risk culture. By embedding ERM into Bank policies, processes and systems, colleagues are supported in doing the right thing. This includes HR processes, where risk and compliance behaviour is an integral part of job descriptions, target setting, training and people reviews.

It is the responsibility of leaders to drive and act as role models for sound risk culture. They must create an environment of openness and trust, encourage an open dialogue about risks and events, and continuously develop employees' risk competencies relevant to their role. The benchmark for this is set in the Risk Culture Charter, which is also referenced in job profiles.

The Bank's risk culture is reinforced by the approach to remuneration which promotes long-term sustainable performance and the importance of effective risk management. The Executive Committee (ExCo) is also responsible for promoting a strong risk culture in its areas of activity.

Risk Appetite

The underlying principle of the Bank's risk appetite is for the Bank to be a solid, and sustainable bank, committed to serving its customers through the economic cycle, even in a period of severe economic stress. In order to do this whilst also meeting its strategic objectives and the right balance between risk and return, the Bank's risk appetite specifies the types and size of risk that the organisation is willing to accept.

The Bank's risk appetite is embedded into its strategic and financial planning processes to ensure that risk is an integrated part of the strategic decision-making process in the Bank.

The Bank's Board sets, owns and reviews the Bank's risk appetite. The risk appetite consists of specific Bank wide statements and limits across all key risk categories. Certain risk appetite metrics are set by Group and the Bank can choose to set a lower appetite than that recommended by Group but not a higher appetite.

Tolerance levels are also set, which means that the Bank sets thresholds for acceptable variation. These are further specified in risk-related policies or in other separate documents such as the Bank's Risk Appetite Framework document.

Risk appetite is set on an annual basis, which allows for ongoing monitoring, management and review of the risk profile of the Bank. It is regularly considered in the respective governance committees that set limits and reviews adherence to these as per clearly defined roles and responsibilities in each committee's charter. Management Information has been constructed to identify, monitor, and report on (and recommend action, where required) the current status of key risks against the approved risk appetite.

Corporate Governance Framework (CGF)

Good corporate governance and effective risk management is a fundamental part of the culture and operations of the Bank and is an essential element of the Bank's strategy.

The CGF is comprised of the key governing committees, as set out below, that direct the Bank's activities and is supported by the various risk tools, policies and procedures used for the day to day running of the business.

The Board of Directors

The Board is responsible for determining the strategic direction of the Bank and for creating the environment and structures for risk management to operate effectively. It ensures that management has established effective and proper procedures to achieve corporate goals and to comply with regulatory requirements, internal risk management and compliance policies and procedures.

The Board establishes the Bank's overall risk appetite as well as risk appetite statements for material risks.

Board Audit Committee (BAC)

Allows Board to fulfil its oversight responsibilities relating to:

- The integrity of the Bank's Financial Statements.
- The qualifications, independence and performance of the Bank's external auditor.
- Monitoring the performance of the Bank's internal audit function.
- The business practices and ethical standards of the Bank.

Board Risk Committee (BRC)

Allows Board to fulfil its oversight responsibilities relating to:

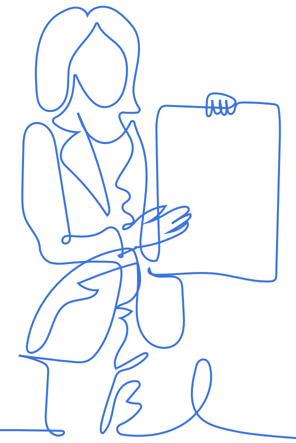
- Monitoring risk governance and assisting the Board of Directors of the Bank (the Board) in ensuring that risks are properly identified, assessed, reported and controlled and that strategy is informed by and aligned with the Bank's risk appetite.
- Oversight responsibilities relating to the safeguarding of the independence of and oversight of the performance of the risk function, in accordance with the risk control requirements for SMCR firms and the PRA requirements and the compliance function in accordance with the compliance requirements for SMCR firms.
- The Bank's overall risk profile and risk appetite, being the extent and types of risks that the Board considers acceptable for the Bank, keeping in mind current and potential risks and the operating environment.
- Ensuring that the risk appetite informs the Bank's strategy and business plans.
- The Bank's risk culture and the delivery of fair customer outcomes, reflecting the core principles of Consumer Duty.
- The Bank's compliance with legal and regulatory requirements and best practice in risk matters and internal control.
- The adequacy and effectiveness of the Bank's Enterprise Risk Management Framework.
- Monitoring the robustness and application of the policies and processes for identifying and assessing business risks and the management of those risks by the Bank.

BRC, although not exclusively, is responsible for oversight of Level 1 risks.

Board Remuneration Committee (RemCo)

Allows Board to fulfil its oversight responsibilities relating to:

- The development and implementation of the Bank's remuneration policy for all colleagues.
- Ensuring alignment of the Bank's remuneration policy to business strategy, regulatory compliance and the long-term, sustainable success of the Bank.



Board Nominations Committee (NomCo)

Allows Board to fulfil its oversight responsibilities relating to:

- Nominations and appointments of candidates to the Board of Directors and ensuring alignment of current and future Board composition to company strategy.
- Receiving assurance from the CEO in relation to the composition, knowledge, experience of the Executive Committee.
- Talent and succession planning and diversity and inclusion within the Bank.
- Ensuring that remuneration practices drive good conduct outcomes and support a diverse and inclusive workplace.
- Ensuring the firm's performance of its obligations under Fitness and Propriety in respect of its notified non-executive directors and those who perform key functions.
- Leading the development of the firm's culture by the governing body as a whole.

The Executive Committee (ExCo)

- Responsible for the strategic and day to day operational management of the Bank.
- ExCo implements the Bank's business strategy.
- Provides oversight of the Bank's systems and controls.
- Determines the Bank's priorities and targets and manages the Bank's resources.
- Ensures the core values are embedded in the organisation.

To ensure that the decision-making process is efficient, the Board and the ExCo can delegate parts of their decision-making authority (incl. lending authority) to qualified and experienced colleagues, however, accountability remains with the ExCo and / or the Board.

Authorities and responsibilities can also be delegated to committees with clearly defined Charters and consisting of members with appropriate and sufficient mandates. Delegation of authorities and responsibilities must always be clearly defined and documented.

Subsidiary risk governance committees (SRC)

Whilst ultimate oversight responsibility rests with Board Risk Committee (BRC) and Board, the Bank has various risk governance committees, (SRC's), which are each responsible for specific risk areas within the Bank. The CEO through the All-Risk Management Committee (ARMC), is responsible for the oversight and management of the underlying committees and the risks to which the Bank is exposed, ensuring these risks are managed within the Bank's risk appetite.

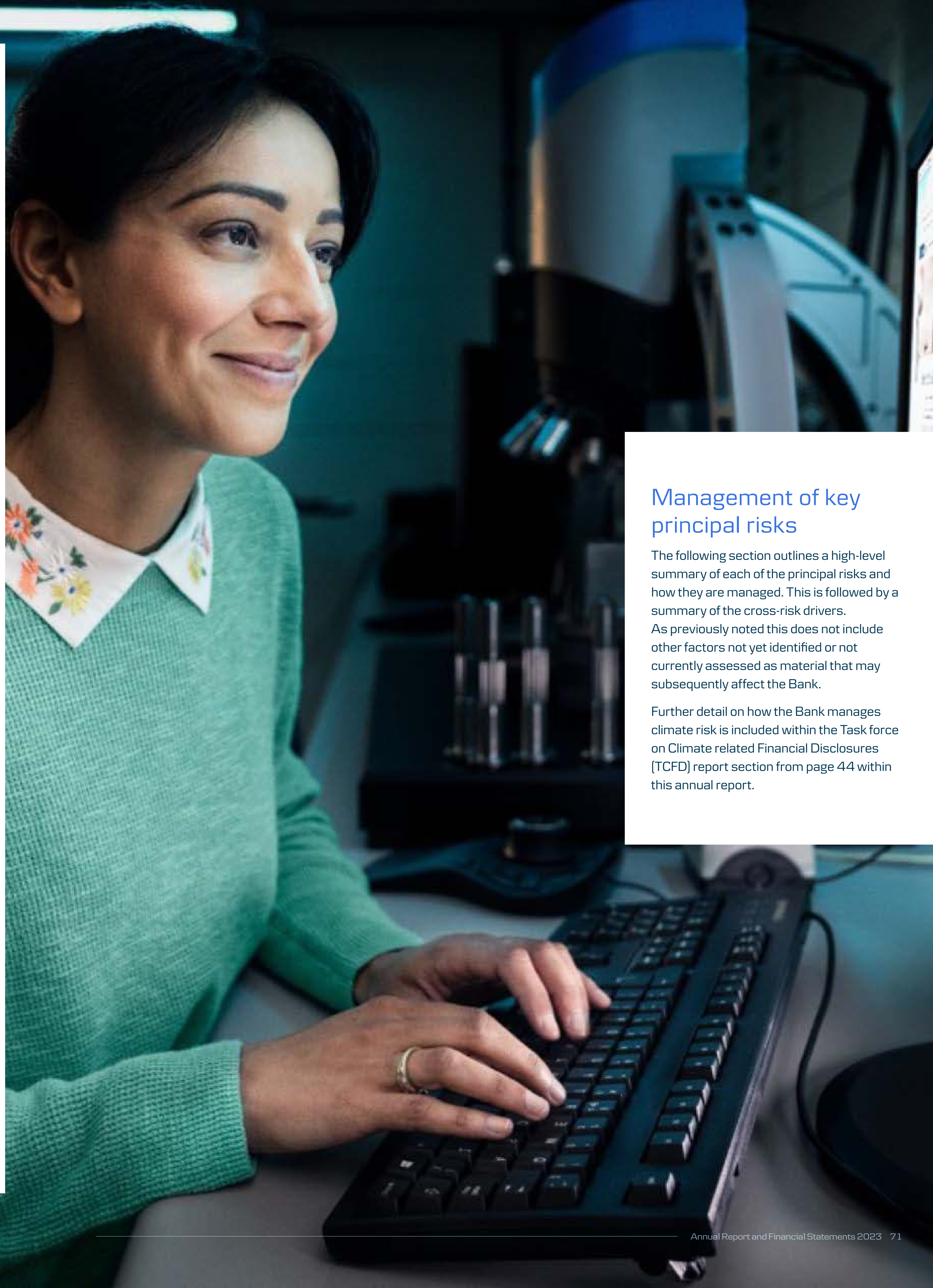
ARMC also ensures an appropriate enterprise risk view is provided for emerging and existing risks, both across the business units and within the industries that may impact on the Bank and from a Danske Bank A/S (the Group) risk perspective.

ARMC currently delegates individual risk categories to the following key governing committees. These committees are responsible for the day-to-day operational management of the area they control. The three Cross Taxonomy Risks (Conduct, Group and Sustainability) are considered at relevant SRCs. All risk committees are limited to the authority and responsibility regarding management of risk-related topics defined by their Charter.

- Commercial Management & Pricing Committee (CMPC)
- Credit Oversight Forum (COF)
- Asset and Liability Committee (ALCO)
- Pension Risk Committee (PRC)
- Operational Risk & Compliance Committee (ORCC)
- Information Technology Risk Committee (ITRC)

Principal Risks and Uncertainities	Mitigation
Strategic Risk The risk of not achieving strategic business objectives such as profit/loss targets due to internal factors (e.g., forecasting or execution capabilities, failure to manage trade-offs between risk and opportunities, ineffective capital planning etc.) or external factors (e.g., changes in customer preferences, competition, macro economy, political climate, regulation etc.). The Bank's strategic risk assessment considers strategic execution risk, financial factors including forecasting risk, excessive leverage risk and capital risk, as well as reputational risk.	See page 72
Credit Risk The risk of loss arising from the failure of a borrower, issuer, or other counterparty to meet its contractual obligation towards the Bank.	See page 73
Market Risk The risk to the value of assets, liabilities or off-balance sheet positions or the risk to income that arises from changes in market prices.	See page 75
Liquidity Risk The risk that the Bank is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.	See page 76
Pension Obligation Risk Pension obligation risk is the risk of a shortfall in the Bank's Defined Benefit Pension Scheme that necessitates the Bank having to make additional contributions to cover its pension obligations.	See page 77
Operational Risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risks.	See page 78
Information Technology and Security Risk Risk of loss due to breach of confidentiality, failure of integrity of systems and data or inappropriateness or unavailability of systems and data. This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks.	See page 79
Data Risk Risk of loss due to untimely or flawed decision making based on insufficient or inappropriate data. Insufficient or inappropriate data can occur due to misapplication of data, unfit Data Architecture, or poor data quality. The Level 2 subcategories of Data risk are defined as Poor Data Quality, Unfit Data Architecture and Misapplication of Data.	See page 79
Financial Crime Risk The risk of internal or external parties using the Group's infrastructure, on which the Bank relies, to move and conceal proceeds of criminal conduct, defraud, manipulate or circumvent established rules, laws and regulations, particularly in the areas of money laundering, terrorist financing, economic sanctions as well as bribery and corruption, fraud and tax evasion.	See page 80
Regulatory Compliance Risk The risk of or incurring regulatory, criminal or administrative sanctions, material financial loss, or loss of reputation, which the Bank may suffer as a result of its failure to comply with laws, rules and standards applicable to the Bank's activities in the areas of treating customers fairly, market integrity, data protection and confidentiality and breach of licensing, accreditation and registration requirements. We are particularly cognisant of significant regulatory change programmes such as the FCA's Consumer Duty.	See page 81

Cross Taxonomy Risks	
Sustainability Risk The Bank is exposed to ESG risks as a result of its own operations as well as those of its customers. With regard to climate impacts, the Bank has focused on mitigating those associated with Credit Risk, Pension Risk, Liquidity Risk, Market Risk, Operational Risk, Regulatory Compliance Risk, and finally Strategic Risk.	See page 82
Group Risk Group risk is the risk that the strategic success and financial position of the business may be adversely affected by its relationship and associated key reliances with the wider Group.	See page 82
Conduct Risk Conduct risk is the risk of behaving in a way that causes, or has the potential to cause, detriment to customers, the financial stability of the Bank, the Bank's reputation and / or the integrity of, and confidence in, the financial markets in which we operate.	See page 83



Management of key principal risks

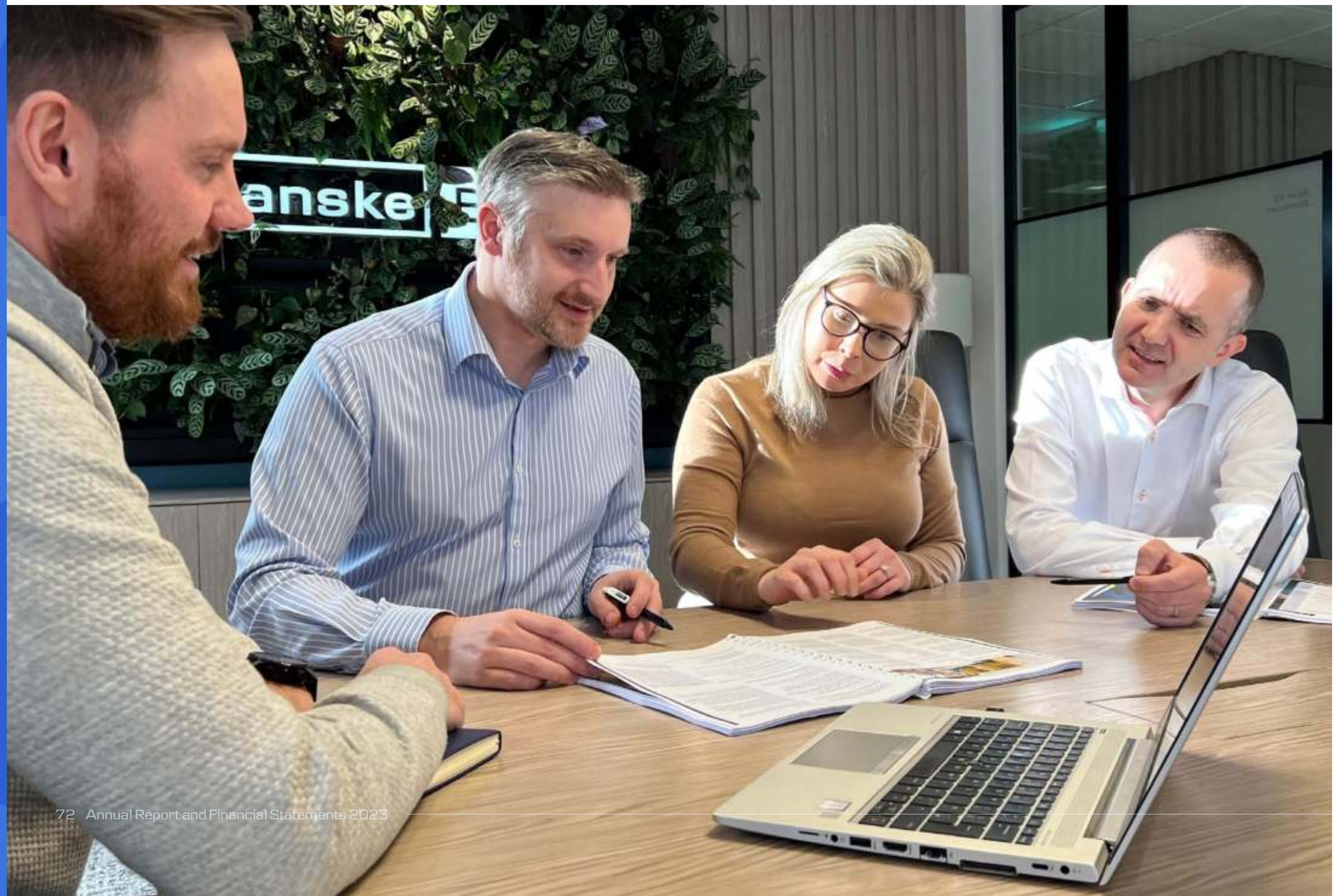
The following section outlines a high-level summary of each of the principal risks and how they are managed. This is followed by a summary of the cross-risk drivers.
As previously noted this does not include other factors not yet identified or not currently assessed as material that may subsequently affect the Bank.

Further detail on how the Bank manages climate risk is included within the Task force on Climate related Financial Disclosures (TCFD) report section from page 44 within this annual report.

Strategic Risk

Strategic Risk – Management

Definition of Strategic Risk	• The risk of not achieving strategic business objectives such as profit/loss targets due to internal factors (e.g. forecasting or execution capabilities, failure to manage trade-offs between risk and opportunities, ineffective capital planning etc.) or external factors (e.g., changes in customer preferences, competition, macro economy, political climate, regulation etc.). The Bank's strategic risk assessment considers strategic execution risk, financial factors including forecasting risk, excessive leverage risk and capital risk, as well as reputational risk.
Risk management measurement and reporting	• Key performance indicators are clearly defined and are closely and regularly monitored. • The risk is overseen by the Bank's governance committees in particular the CMPC through regular reporting on forecasting risk, strategic execution risk, excessive leverage risk (monitored at ALCO) and capital risk (monitored at ALCO) as well as performance metrics and the competitive environment. • Active management of all internal and external communications including social media and media monitoring which leads to escalation and, where required, management actions.
Risk mitigation	• The Bank mitigates strategic risk through business planning methods such as preparing a clearly defined Corporate Plan annually, within the boundaries of the Board approved risk appetite, informed by expectations of the external environment and the Bank's strategic priorities. • At an operational level regular tracking of financial performance against forecast is a key financial management process in the mitigation of strategic risk. Regular review and monitoring of the Bank's competitive environment is also completed to identify market developments. • An assessment of business risk, an element of strategic risk, including the impacts of potential strategic risk events occurring, is completed once annually with the results included in the ICAAP. • Reputational risk is mitigated through procedures in place to minimise reputational risk. • Senior management and the Board receive regular updates on the progress of risk mitigation in this area. In the event of any strategic risk scenarios threatening to develop, early remedial action would be taken.



Credit Risk

Credit Risk – Management

Definition of Credit risk	As a lending institution, credit risk is the key risk faced by the Bank. Credit risk is the risk that the Bank will incur losses as a result of a customer, bond issuer or other counterparty being unable or unwilling to meet a credit commitment that it has entered into. The risk includes but is not limited to default risk, credit concentration risk, country risk and collateral risk. At portfolio level, credit risk is assessed in relation to the degree of individual name, sector and geographic concentration. The Bank's lending portfolio remains predominantly Northern Ireland based and is diversified across industry sectors, exposure type and single name concentration risks. The Bank has continued to diversify geographically over 2023 in three selected focus areas across the Rest of the UK: • residential mortgages sold via intermediaries, • lending to social housing providers, and • syndicated lending to publicly listed entities. The Bank's prime liquid asset bond portfolio is primarily comprised UK Government securities and high-quality listed securities (e.g. bonds issued by supra-nationals and corporate covered bonds). It is diversified across a range of issuers.
Risk management measurement and reporting	• The management of Credit risk is governed by the Bank's Risk Appetite Statement as set by the Bank's Board. • Economic uncertainty has continued through 2023, with rising interest rates in response to continued elevated inflation rates, leading to further challenges for household and business finances. The Bank's focus in response to these challenges has been to support customers who have experienced financial stress during these difficult times, while taking a cautious approach to on-boarding new credit relationships. Given the external conditions, the Bank continues to closely monitor the lending book for signs of stress, identifying potentially weaker segments for management action to support these customers. • All credit transactions are assessed at origination and throughout the duration of their term for credit quality and the borrower is assigned a credit grade following analysis of the probability of default within 12 months. The use of internal credit rating models and other credit scoring tools and reference to extensive performance data from credit reference agencies, enables measurement of the relative degree of risk inherent and is central to the Credit risk assessment process. • The identification of loans for impairment assessment is driven by the Bank's Credit risk rating systems and by trigger events identified through ongoing analysis and assessment. It is the Bank's policy to provide for impairment promptly. For those loans where ongoing repayment capacity is in doubt, appropriate work out strategies are put in place, in conjunction with the respective customer, including consideration of sound conduct principles. • It is Bank policy to ensure that adequate up-to-date credit management information is available to support the management of individual account relationships and the overall loan portfolio. Information is produced on a timely basis and at a frequency interval that reflects the purpose of the report. Credit risk information at a product / sector level is reported on a monthly basis to COF, senior management and periodically to the Board. This monthly reporting includes detailed information on loan book volume, the quality of the loan book, including the profile of the lending book and new business written viewed against the Risk Appetite Statement metrics, concentrations and loan impairments. • At all times during the financial year, the Bank maintained appropriate credit controls reflecting and responding to the changing marketplace, in line with regulatory requirements.
Description of the approaches and methods adopted for determining impairment practices.	**Measurement of Expected Credit Losses** The Bank has implemented the three-stage expected credit loss (ECL) impairment model prescribed in IFRS 9. The ECL approach depends on whether an exposure's credit risk has increased significantly since origination. If the credit risk has not increased significantly, the impairment charge equals the ECL resulting from default events that are expected 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 ECL (stage 2 and 3). The ECL 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 about future economic conditions over a number of years under base case, upside and downside scenarios. The accumulated expected credit losses constitute the impairment loss 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 a key element of the credit approval process. The Bank follows a policy of mitigating credit risk by means of guarantees and / or collateralisation.

Credit Risk (continued)

Description of the approaches and methods adopted for determining impairment practices. (contiinued)

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 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, Danske Bank Group Risk Management maintain the rating and scoring models and processes.

Collateral
Collateral held as security and other credit enhancements can be summarised as follows:

- **Residential mortgages**
  Residential property is the Bank's main source of collateral on mortgage lending and means of mitigating loss in the event of the default risk inherent in its residential mortgage portfolios. All lending activities are supported by an appropriate form of valuation using either professional or indexed (subject to policy rules and confidence levels) valuations.
- **Commercial property**
  A fixed charge over commercial property is the Bank's main source of collateral on business lending and means of mitigating loss in the event of default. Collateral for the majority of commercial loans comprises first legal charges over freehold or long leasehold property. All commercial property collateral is subject to an independent, professional valuation when taken and thereafter subject to periodic review in accordance with policy requirements. The Bank also typically takes a debenture over the assets of a company when lending to businesses.
- **Non property related collateral**
  In addition to residential and commercial property-based security, the Bank also takes other forms of collateral when lending. The Bank provides asset-backed lending in the form of asset and receivables finance. Security for these exposures is held in the form of direct recourse to the underlying asset financed. In most cases where lending is to a limited entity, a debenture will be taken over the entity's assets. In some circumstances, the Bank also takes personal and corporate guarantees.

Impairment charges and non-performing loans
The Bank conducts impairment tests, assessing all credit facilities for indicators of credit impairment in accordance with IFRS.

Impairment charges for medium and large exposures displaying indicators of credit impairment (>£800k) are assessed by senior credit officers taking into account the discounted market value of collateral after a deduction of expected costs for realising collateral. When an indicator of credit impairment 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.

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

- The borrower is experiencing significant financial difficulty.
- The borrower's actions, such as default or delinquency in interest or principal payments, lead to a breach of contract.
- The borrower is 90 days past due.
- 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.
- It becomes probable that the borrower will enter bankruptcy or other financial restructuring.

The Bank's definition of default aligns with the requirements of both IFRS 9 and the regulatory definition outlined in CRR Article 178.

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 managing distressed and collections cases, the Bank will always apply due consideration to sound conduct principles.

Risk mitigation

- The Bank mitigates credit risk through the application of its Credit Policy which reflect the Bank's credit risk appetite and ongoing monitoring to ensure that its credit assessment and underwriting standards are upheld.
- The Bank carries out regular risk re-assessment on larger cases in accordance with policy.
- Credit risk mitigation includes the requirement to obtain appropriate collateral which may be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed.
- The Bank carries out regular and comprehensive reviews of its credit models and other credit assessment tools to ensure that these are performing in line with expectations, carrying out any recalibrations required.

Market Risk

Market Risk – Management

Definition of Market risk

As the Bank does not take any active proprietary positions and does not engage in any active trading in equity, debt or derivative markets, Market Risk relates only to the banking book. Market Risk is the risk that the Bank will suffer losses caused by changes in the market value of financial assets and liabilities resulting from changes in market prices or rates (interest rates, foreign exchange, equity prices, commodity prices and indices).

The primary source of market risk for the Bank is interest rate risk: the risk of losses the Bank will incur as a result of an increase or a decrease in interest rates. The operations of the Bank are subject to the risk of interest rate fluctuations, to the extent that there is a difference between the amount of interest-earning assets and interest-bearing liabilities that mature or reprice in specified periods. The primary drivers in the longer term are the Bank's fixed rate loans and mortgages, and non-maturing deposits and in the shorter term are cash balances with the BoE and other floating rate loans. The effective management of market risk is essential to the maintenance of stable earnings, the preservation of capital resources and the achievement of the Bank's strategic objectives.

Risk management measurement and reporting

- The management of Market Risk is covered by the Bank's Risk Appetite Statement and the Market Risk Policy. Market risk is monitored through the ALCO, which has primary responsibility for the oversight of the risk. Market risk positions are reported to ARMC, BRC and the Board. Day to day management of Market Risk is performed by Treasury with oversight from Treasury Risk.
- The specific types of interest rate risk include re-pricing / yield curve risk, margin compression risk (including floor risk) and option risk. The Bank calculates interest rate risk using both Earnings at Risk (EAR) and Economic Value (EV). This is performed using balance sheet simulation processes to capture the contractual and behavioural repricing of assets, liabilities and off-balance sheet items. This position is then subject to stress scenarios (interest rate shocks) to assess the sensitivity of Net Interest Income and Economic Value to interest rate stresses. These tests are undertaken across banking operations on a monthly and daily basis respectively.
- Credit spread risk arises from the potential impact of changes to the spread between the bond yield and the risk-free rate. Bonds purchased primarily as liquid assets and classified as fair value through other comprehensive income (FVOCI) are held at fair value on the balance sheet and as such, movements in the credit spreads can result in adverse impacts on the fair value of these holdings.
- Foreign Exchange risk is relevant to the Bank's activity in which it primarily acts as a counterparty to satisfy customer needs through the provision of foreign exchange services including derivative financial instruments. These transactions are hedged with Group.
- A product approval process incorporates review of product terms and conditions from a market risk perspective, to ensure compliance with existing risk appetite, policy and process.
- The Bank has a mature and detailed model risk framework under which the models used to measure and report market risk are subject to independent validation on a regular basis. Assumptions underpinning those models are also subject to regular review, with approval of key assumptions required annually by ALCO.

Risk mitigation

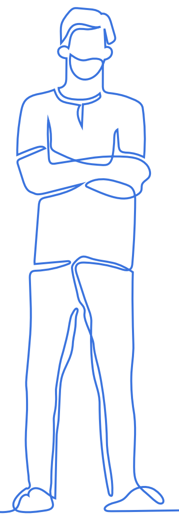
- The Bank's interest rate risk position is measured daily. The daily interest rate risk position is calculated by establishing the contractual and behavioural repricing of assets, liabilities and off-balance sheet items on the balance sheet, before modelling these cash flows and discounting them at current yield curve rates. In addition to this, the Bank runs a series of stress tests, including parallel and non-parallel yield curve stress scenarios across all tenors, in order to further monitor and manage yield curve and repricing risk in the banking book. The Bank also applies market risk stress scenarios to manage and monitor the impact of stress events in relation to net interest income sensitivity.
- A dual purpose of the market risk stress testing is to meet regulatory requirements and to ensure that the appropriate capital is held. The impact on the Bank's economic value from an immediate and sustained 200 basis points shift, up or down, in the yield curves applied to the banking book at 2023 and 2022, is shown below. The sensitivity is indicative of the magnitude and direction of exposures but is based on an immediate and sustained shift of the same magnitude across the yield curves (parallel shift).

Scenario	31 December 2023	31 December 2022
-200bps	£7.05m	£14.04m

- Fair value hedges – the Bank hedges part of its existing interest rate risk resulting from potential movements in the fair value of fixed rate assets and liabilities. The fair value of these swaps is disclosed within note 12 to the Bank's financial statements. There were no transactions for which fair value hedge accounting had to be discontinued in the year.
- Cash flow hedges – the Bank hedges a portion of the variable in future cash flows attributable to interest rate risk. The interest rate risk arises from variable interest rate assets and liabilities which are hedged using interest rate swaps. There were no transactions for which cash flow hedge accounting had to be discontinued during the year as a result of the highly probable cash flows no longer being expected to occur. The fair value of derivatives is disclosed within note 14 to the Bank's financial statements.

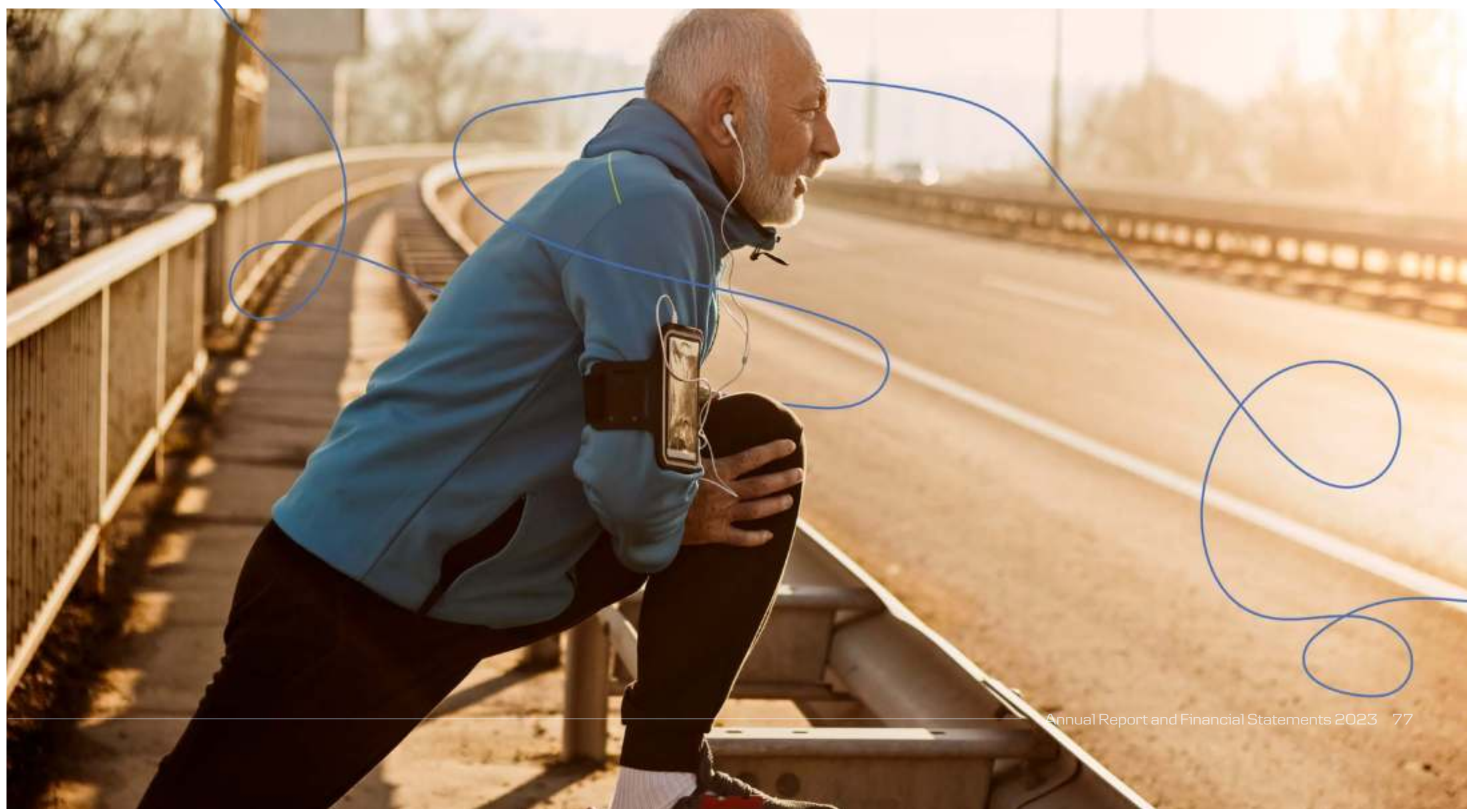
Liquidity Risk

Liquiduty Risk	
Definition of Liquidity risk	Liquidity Risk is the risk that the Bank is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. Taking on liquidity risk is an integral part of the Bank's business strategy. The Bank must always have a liquidity position that enables it to meet its obligations and strategies, in particular regulatory obligations and business strategies. The Bank has a strong, diversified funding base and a strong liquidity and funding position.
Risk management measurement and reporting	• The management of Liquidity risk is covered by the Bank's Risk Appetite Statement and the Liquidity and Funding Policy. Liquidity risk is monitored through ALCO, which has primary responsibility for the oversight of risk within the Bank's risk appetite. Liquidity risk is reported to ARMC, BRC and the Board. • In the current market environment the Bank's liquidity risk appetite is conservative and the Bank maintains a strong liquidity and funding position. The Bank is obliged to produce an ILAAP report at least annually, which details risk appetite, measurement, management and stress testing. • The Bank conducts regular liquidity risk stress testing in accordance with its liquidity stress testing policy. The Bank conducts two forms of stress tests: - Internal stress tests including a scenario specific to the Bank, a general market crisis scenario and a combination of both; and - Liquidity Coverage Ratio (LCR) regulatory stresses, ensuring that the Bank has sufficient liquidity to survive for a 30 day period. • The Risk Appetite Statement details the current Board approved limits for surplus liquidity in both internally defined and regulatory prescribed stress scenarios. Additionally, the Board has approved a risk appetite which details a maximum customer loan to deposit ratio which ensures that the Bank remains funded predominantly by customer deposits. The Bank's deposits are a valuable, stable funding source for the Bank. A material level of deposits are covered by the Financial Services Compensation Scheme, and analysis indicates a high degree of stability. • The Bank must maintain at all times a liquidity buffer sufficient to cover the need for liquidity that may arise in stressed conditions. The assets in the liquidity buffer must be freely available at all times and of a quality sufficient to ensure that they can provide liquidity to the Bank even in a stressed situation. The minimum size of the liquidity buffer is determined by internal stress test analyses and regulatory requirements. • The liquid asset portfolio is primarily comprised of cash at the Bank of England, UK Government Securities (Gilts), LCR Level 1 Supranational, Sovereign and Agency (SSA) Bonds and LCR Level 1 Covered Bonds. The Bank has diversified by investing in a broader range of European covered bond issuances, non-domestic sovereign and multilateral development banks. • The Bank seeks to increase its level of Environmental, Social and Governance ("ESG") bond holdings over time, as the market for ESG-accredited issuance increases in scale and maturity. As at year end 31 December 2023, 4% of the investment securities were green/sustainable bonds.
Risk mitigation	• The Bank mitigates Liquidity risk through the application of its comprehensive governance and limit framework which reflects the Bank's risk appetite. • Liquidity stress testing is carried out on a monthly basis, and the ILAAP assessment of liquidity risk in both business as usual and stressed conditions is updated on an annual basis. • Daily and monthly monitoring of liquidity risk positions. • The Bank carries out regular and comprehensive reviews of its liquidity risk models.



Pension Obligation Risk

Pension Obligation Risk	
Definition of Pension risk	Pension obligation risk is the risk of a shortfall in the Scheme that necessitates the Bank (the Scheme sponsor), to make additional contributions to cover its pension obligations.
Risk management measurement and reporting	• The potential for a funding deficit in the Scheme historically arose from a number of factors including: - Investments delivering a return below that required to provide the projected Scheme benefits. This could arise, for example, if there were a fall in the market value of equities held or when increases in long-term interest rates cause a fall in the value of fixed income securities held. - A change in either interest rates or inflation which causes an increase in the value of the scheme liabilities. - Scheme members living longer than expected i.e. longevity risk. • The Trustee is solely responsible for the investment of the Scheme's assets. The Trustee sets the investment principles and the funding plan. The Scheme's assets are held separately from the assets of the Bank. The Bank and the Trustee have agreed a three-year valuation cycle for obtaining a full actuarial valuation (i.e. a written report, prepared and signed by the actuary, valuing the scheme's assets and calculating its liabilities and assessing the overall scheme solvency). The purpose of the valuation is to advise the Trustee on the financial position of the Scheme. • Based on the valuation report and having obtained actuarial, financial and legal advice, the Trustee then enters into negotiations with the Bank in order to agree a schedule of contributions i.e. contributions required to meet administration costs and potential deficiency contributions. The advice obtained by the Trustee includes an independent assessment of the sponsor's covenant. • From September 2023, the risks to the Scheme arising as a result of investment, interest rate, inflation and longevity risk were significantly reduced following the completion of a journey to insure all Scheme liabilities by means of bulk annuity 'buy-in' insurance policies. Post September 2023, the residual pension obligation risk is now assessed as very low. • Given the low level of residual pension obligation risk to which the Bank is exposed, a new monitoring process has been adopted, primarily overseen by the PRC.
Risk mitigation	• Pension obligation risk had been previously partially mitigated by the purchase in 2015 and 2021 of bulk annuity 'buy-in' insurance policies, which covered all pensions in payment as at 6 October 2021 and, in addition, by the cessation to future accrual from 1 October 2018. • In September 2023, a final bulk annuity buy-in insurance policy was purchased, now covering the liabilities associated with all of the remaining Scheme members. • The Bank, through its PRC, supported by its actuarial advisor, continues to oversee residual pension obligation risk through ongoing monitoring.



Operational Risk

Operational Risk – Management

Definition of Operational risk/ Operational Resilience	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The level 2 subcategories are noted in the Risk taxonomy. Operational Resilience is defined as the ability to prevent, adapt, respond to and learn from operational disruptions in order to minimise the impact to customers and other market participants. It differs from other operational risk methodologies as it works on the assumption that operational disruption will occur. The focus is therefore on developing recovery/contingency plans designed to adapt business processes, in order to ensure continuity of service.
Risk management measurement and reporting	• The Bank seeks at all times to have optimal control of all types of Operational Risk and seeks to mitigate Operational Risk to a level consistent with its risk appetite and thresholds as set out in the Risk Appetite Statement (RAS). The Bank recognises that Operational Risk exists as an inherent part of doing business and the objective generally is not to eliminate the risk but to ensure the risk is effectively managed at an acceptable level in a cost-effective manner. • The Bank has a robust operational risk framework in place which is implemented, maintained and fully integrated into the Bank's overall risk management processes. A fundamental element of the framework is the various operational risk tools in place used to identify, assess, mitigate and manage operational risk: - Incident reporting, oversight and monitoring - 2LoD review is completed to ensure all incidents are effectively resolved and actions to prevent re-occurrence are implemented. All incidents are reviewed to ensure weaknesses or failures in controls have been mitigated and to ensure we are meeting our regulatory requirements under Consumer Duty – 'to deliver good outcomes to retail customers'. - ORIS (Operational Risk Information System) is used to capture operational event information, for events with a monetary loss/gain of £1k and above, near miss events of £35k and above or Non-Financial Risk events where there is a significant reputational, customer or regulatory impact. - Non-Financial Risk Event Escalation - Escalation process in place to ensure appropriate oversight and governance of incidents/events. - Identification and assessment of risk and controls via the Risk Control Self-Assessment (RCSA) – RCSA is a forward looking risk assessment methodology, used to assess operational risks and the effectiveness of controls to mitigate the risk. - Training – Annual e-Learning module 'Everyone is a risk manager' with focus on risk management and supports a culture where everybody works together to be compliant and manage risk. • The Bank undertakes an annual ICAAP in order to determine the appropriate level of capital it must hold to protect itself against extreme but plausible operational risk events (i.e. low likelihood, high impact 'black swan' type events). The Bank's regulatory minimum capital requirement (Pillar 1) is determined by using the standardised approach (TSA) and the Bank uses scenario analysis covering a broad range of risk scenarios across the Basel categories, to set the capital requirement for Pillar 2. • The Bank has an Operational Resilience framework in place, with the following key aspects of the framework: - Self-Assessment document outlining how the Bank complies with the regulatory requirements of Operational Resilience. - The identification of the Important Business Services (IBSs) and setting of specific impact tolerances for each of these. - The requirement to remain within impact tolerance (by 31 March 2025). - Mapping to be completed to establish what resources are needed to continue to deliver IBSs, from people and processes to technology and facilities. - Scenario testing to be completed to assess whether the Bank can remain within its impact tolerances. • There is regular reporting to senior management via the ORCC, ARMC, BRC and the Board.
Risk mitigation	The Bank has systems and processes in place to capture and analyse loss events. The data from these processes is used to identify and correct any control weaknesses. The Bank also uses root cause analysis to identify emerging themes, to prevent or reduce the impacts of recurrence and to support risk reporting and RCSAs. The Operational Risk Management System (ORMS) is the tool used to record the outputs of RCSAs. The Bank continues to enhance its operational risk management practices and to further embed the effective use of the operational risk tools.

Information Technology (IT) and Security Risk

Information Technology and Security Risk

Definition of Information Technology and Security risk	Risk of loss due to breach of confidentiality, failure of integrity of systems and data or inappropriateness or unavailability of systems and data. This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks.
Risk management measurement and reporting	• IT Operations are responsible for capturing and tracking IT risks that relate to core aspects of technology service provision (e.g. infrastructure risks; failure of core IT system; and cyber-attack). • For Danske Bank A/S based systems, management of the IT risk is also monitored through the delivery of key performance indicators agreed within a Service Level Agreement between the Bank and Danske Bank A/S. • There is regular reporting to senior management via the ITRC, BRC, and the Board. • Board approved Risk Appetite for IT and Security risk. • Group IT Risk Management policy and Security policy. • The potential impact to the business of IT disruption is considered as part of the ICAAP process, with specific consideration given to scenarios involving cyber-attacks. Regulatory developments and other guidelines (e.g. from the UK PRA, FCA, etc) are also considered when updating the IT and Security risk appetite.
Risk mitigation	• IT service level agreement, aligned to EBA Guidelines, with defined IT performance metrics that are tracked and aligned to IT and Security risk appetite. • Risk Fora – at both IT and Information Security and more broadly within the Technology & Digital Development (T&DD) business unit – active tracking and review of risks. • Continuous programme of cyber and wider infrastructure benchmarking and enhancement. • Security and Risk Framework in place including Security Health Check and IT RCSA to provide a consistent assessment process and profile of IT and Security Risks. • Security training, ethical phishing and ongoing security / fraud awareness.

Data Risk

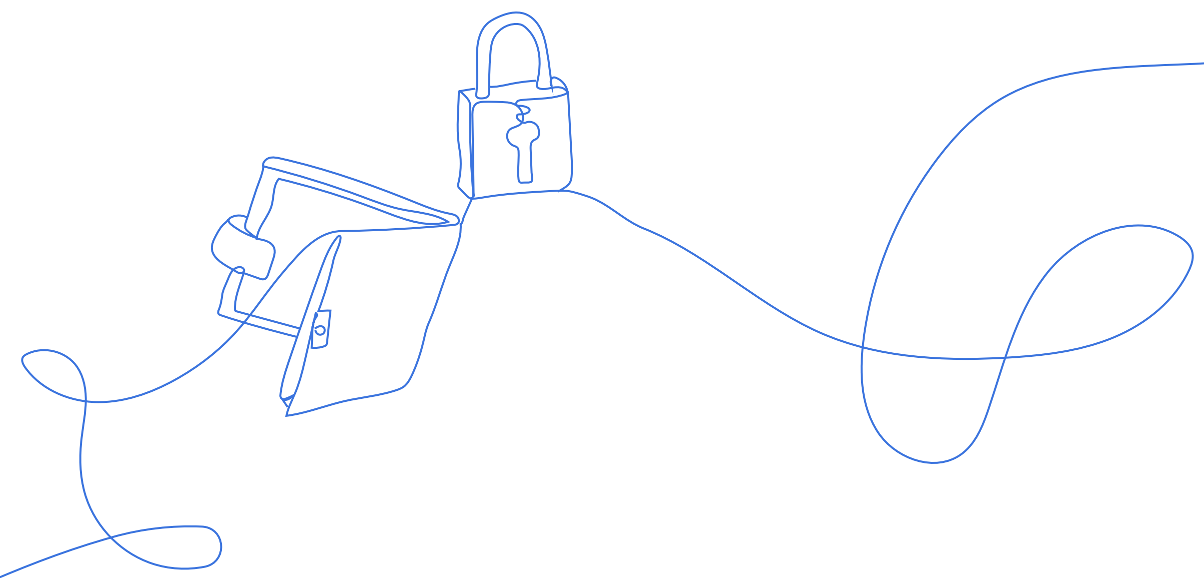
Data Risk – Management

Definition of Data risk	Risk of loss due to untimely or flawed decision making based on insufficient or inappropriate data. Insufficient or inappropriate data can occur due to misapplication of data, unfit Data Architecture, or poor data quality. The Level 2 subcategories of Data risk are defined as Poor Data Quality, Unfit Data Architecture and Misapplication of Data.
Risk management measurement and reporting	• At Danske Bank A/S activities to implement the new Data Risk Management Policy are ongoing as part of the Data Protection and Data Management Program where key governance and risk management foundations are being established for further embedding. • A Data Risk Management Framework is in development to support data risk assessment as part of the Risk and Control Self-Assessment (RCSA) process. • A Northern Bank Limited (NBL) Data Program covering data architecture, data management and data integrity is in progress, and a local Data management Taskforce has been established working towards developing a practical model to develop the maturity of the Data Risk Management Framework and operating model. • Group Data Risk Management policy adopted by NBL. • Risk Appetite for Data Risk has been developed for 2024 with a focus on Data Quality. • There is regular reporting to senior management via ORCC, BRC, and the Board. • The potential impact to the business of Data Risk is considered as part of the ICAAP process, with specific consideration given to scenarios involving Data Quality. Regulatory developments and other guidelines (e.g. from the UK PRA, FCA, etc) are also considered when updating the Data Risk appetite.
Risk mitigation	• Data Management Instruction in place to set the guidance for overall Data Management. • Quarterly reporting to ORCC. • Risk Fora at Technology & Digital Development (T&DD) level – active tracking and review of risks and program progress.

Financial Crime Risk

Financial Crime Risk – Management

Definition of Financial Crime risk	The risk of internal or external parties using the Group's infrastructure, on which the Bank relies, to move and conceal proceeds of criminal conduct, defraud, manipulate or circumvent established rules, laws and regulations, particularly in the areas of money laundering, terrorist financing, economic sanctions as well as bribery and corruption, fraud and tax evasion.
Risk management measurement and reporting	• The Bank has zero appetite for breaches of financial crime. This is measured against annually approved Key Risk Indicator metrics. • Financial Crime risk is included in a Board approved Risk Management Framework. • A '3LoD' model applies to ensure effective governance and oversight of Financial Crime risk. • Management information is used to report, monitor, and oversee the management of Financial Crime risk, with regular reporting to senior management via the ORCC, ARMC, BRC and the Board. • Suspicious activity, incidents of Financial Crime or potential Financial Crime violations are investigated and reported to the competent authorities. • The effectiveness of Financial Crime compliance is assessed and monitored through regular assurance and control testing, including audits. • Escalation mechanisms exist through the Bank's Corporate Governance Framework, Escalation Policy, and Whistleblowing Policy.
Risk mitigation	• A risk-based approach is taken to the management of Financial Crime risk to ensure that risk mitigation measures are proportionate to the level of associated Financial Crime risk. • Risk-based monitoring and screening is used to identify Financial Crime risk. • A control framework is maintained that enables effective and efficient mitigation of Financial Crime risk. • Due diligence measures are performed when establishing and maintaining relationships with customers and Third Parties. • Records relevant for Financial Crime compliance are retained to ensure auditability and investigation. • Controls are maintained to manage the Financial Crime risk associated with its Employees and potential Employees • The Bank engages, cooperates and communicates with supervisors, competent authorities and law enforcement agencies. • Regular training is provided to all staff on key Financial Crime risks.



Regulatory Compliance Risk

Regulatory Compliance Risk - Management

Definition of Regulatory risk	Regulatory Compliance risk is the risk of incurring regulatory, criminal or administrative sanctions, material financial loss, or loss of reputation, which the Bank may suffer as a result of its failure to comply with laws, rules and standards applicable to the Bank's activities in the areas of treating customers fairly, market integrity, data protection and confidentiality, breach of licensing, accreditation and registration requirements.
Risk management measurement and reporting	• The Bank has no risk appetite for failure to comply with its regulatory or legislative obligations and monitors this against annually approved Key Risk Indicator metrics. Key Risk Indicators metrics include those measuring compliance with Consumer Duty requirements. • Regulatory Compliance risk is part of the Bank's Risk Management Framework. • A 'three lines of defence' model applies. • Dedicated mailbox for all interactions with regulatory bodies with open and transparent approach taken to all communications. • Escalation mechanisms exist through the Bank's Corporate Governance Framework, Escalation Policy, and Whistleblowing Policy.
Risk mitigation	• Risk based approach to the management of Regulatory Compliance risk. • Communications with supervisory regulators are conducted in an open and transparent manner. • There is regular reporting to senior management via the ORCC, ARMC, BRC and the Board. • Key risks within the Regulatory Compliance risk family are annually risk assessed. This informs the Bank's control environment and ensures that residual risks are managed within risk appetite. • Horizon risks are monitored and assessed to ensure compliance with new regulatory requirements. • Compliance advice is provided to support the business and key initiatives. Compliance staff embedded in key projects and squads to help build compliant solutions from the outset. • Risk-based monitoring is conducted on Regulatory Compliance risk in accordance with an annually approved monitoring plan. • Regular training and awareness is given on key Regulatory Compliance risks. • Whistleblowing framework and Board appointed Whistleblowing Champion to support good compliance culture; and • Consumer Duty considerations are embedded through all areas of the organisation to ensure all associated risks are addressed or mitigated.

Cross Taxonomy Risks

Cross taxonomy risk drivers	Risk impact and key mitigating factors
Sustainability risk	Northern Bank Limited is a 100% subsidiary of Danske Bank A/s (the 'Group'). The Bank recognises that environmental, social and corporate governance (ESG) factors will affect value on creation over time as physical and transition risks emerge. Those factors across the full range of ESG considerations are increasingly coming to the fore, a trend that will expand further due to increasing reporting requirements (e.g. International Sustainability Standards Board, S1 and S2 disclosure standards expected to be implemented in the UK from January 2025). Acknowledging in particular the impacts of environmental sustainability under the guise of climate change the Bank has made a long-term commitment to managing the impacts of climate change and assisting clients, shareholders, colleagues and local communities in the transition to a low carbon economy. Evidently sustainability has far reaching implications. As a result, the Bank has taken the decision to classify Sustainability as a cross taxonomy risk in its ERM policy. At present the Bank has chosen to focus efforts mitigating environmental sustainability and climate change risk in: Credit risk, Pension risk, Liquidity risk, Market risk, Operational risk, regulatory compliance and finally Strategic risk. Climate change risk metrics have been developed to monitor these risk areas. Senior risk owners in these risk areas are all represented at the ARMC. To manage exposure to environmental sustainability and climate impacts, the Bank has embedded Sustainability risk into the risk governance processes. The Bank has implemented full metrics including Climate Risk Appetite limits and a range of Climate risk indicators as part of an overall Climate Risk Appetite Statement (RAS). These limits and indicators were in turn approved by the Board. The Corporate Plan and ICAAP all consider the Bank's environmental sustainability and climate risk appetite. Climate risk limits and indicators are discussed quarterly by COF and a wider Climate risk and strategy update is provided to ARMC half yearly. In addition, a quarterly summary update on Climate risk is incorporated into the reporting to the BRC and the Board. The Board has been identified as the ultimate approval authority for Climate risk. The Bank is aware that risk and opportunity often go hand in hand. Indeed, climate change presents a significant area of opportunity as society transitions to a low carbon economy. The Bank endeavours to develop these opportunities in a proactive way, by continually reviewing financing solutions that fall within the Bank's climate change risk appetite.
Group risk	Group risk is the risk that the financial position of the business may be adversely affected by its financial and non-financial relationship with other entities in the Group or by risks which may affect the financial position of the whole Group. The impact of Group risk is considered as part of all of the Bank's risk assessment activities and across all risk categories. The Bank has a number of key reliance points with Group for its operational stability and commercial success. The most relevant areas include continued and enhanced IT development, Financial Crime and Models. There is also a need to ensure local colleagues do not feel disconnected to Group and feel part of and understand wider Group Strategy. Management of Group risk is completed through: • Continuous positive and close engagement with key Group stakeholders to ensure appropriate level of support and investment for the Bank. • Robust oversight mechanisms in place through reporting to the various SRCs and ARMC. • Group representatives as members of the Bank's Board, one of whom is a member of Group's Executive Leadership Team. • Updates on Group from Group Board members at every Board meeting. • Annual Board Strategy Day which takes place in Copenhagen each year, at which senior Group employees present updates to the Board on specific areas of interest • The Bank's CEO attended the Group Leaders' Conference in August 2023. • Regular engagement with ELT members at Board and ExCo level. See s172 Statement on page 100 for further details of Group engagement in managing Group risk.

Cross Taxonomy Risks (continued)

Conduct risk	The Bank's Board has overseen the implementation of the FCA's Consumer Duty by the 31st July 2023 deadline, a set of higher standards of consumer protection for retail customers. The Bank embraced this opportunity to improve customer outcomes and achieve the higher standards of the Duty. The Bank's key priority remains supporting our customers during these challenging times. Conduct risk is the risk of behaving in a way that causes, or has the potential to cause, detriment to customers, the financial stability of the Bank, the Bank's reputation and / or the integrity of, and confidence in, the financial markets in which we operate. Conduct risk is a cross taxonomy risk that applies to any financial and / or non-financial risk type in the Bank's Enterprise Risk Management Framework. The Bank is committed to delivering the right outcomes for its customers by building a culture of good conduct and by having effective controls to manage risks and avoid causing foreseeable harm. The Conduct risk framework is underpinned by the Bank's 3LoD model. This ensures the effective governance and oversight of Conduct risk, as everyone has a role to play and responsibilities are clearly defined. The Conduct risk framework is made up of: • A Conduct risk appetite and key risk indicators (KRIs). • As part of the implementation of Consumer Duty 4 Consumer Duty outcome frameworks for retail customers (Products and Services, Price and Value, Customer Support and Customer Understanding) were created which support the overall Conduct risk policy. • A Conduct risk assessment and control framework, including Group wide Conduct risk assessment and monthly business unit Conduct risk outcomes RAG assessment. • The Conduct risk outcomes management information (MI) and reporting via Business Unit Risk and Control fora and governance committees, with regular onward reporting through ARMC to Board level. • Mandatory annual Conduct-risk behavioural training (CBT) and ad hoc bespoke targeted training. • 2nd and 3rd line monitoring programme to assess the adequacy and effectiveness of the Conduct risk framework to identify any deficiencies and assess remedial actions to address these. Delivering good outcomes for our customers is central to our governance, culture and behaviour.

Funding & Liquidity Management

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

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

Liquidity requirements and resources

The Bank remained in compliance with its key regulatory liquidity requirements in 2023. The key components of the Bank's funding and liquidity strategy are as follows:

- To ensure sufficient liquidity is available to support planned growth in lending under BAU conditions;
- To effectively manage the Bank's liquidity risk and remain within liquidity risk appetite under stressed conditions;
- To ensure that liquidity is available at a cost that supports the provision of lending at returns on capital that achieve Bank and Group targets;
- Where possible, manage / mitigate volatility in funding costs; and
- Ensure the funding position is also consistent with the effective management of interest rate risk in the banking book (IRRBB).

The Bank is predominantly funded by Personal and Business Customers. Customer funding is augmented by the issuance of AT1 capital and other debt securities to the Parent. The Bank also has access to the BoE Term Funding Scheme with additional incentives for SMEs (TFSME).

Funding and liquidity risks are subject to a range of measures contained within the Bank's RAS and a series of limits agreed by ALCO. These measures provide a short and long-term view of risks under both normal and stressed conditions. The measures focus on: cash outflows and inflows under stress; concentration risks; asset encumbrance; and readiness of mitigating actions.

Liquidity risk exposures are subject to assessment under both regulatory and internal requirements. The volume and quality of the Bank's liquid asset portfolio is defined through a series of stress tests across a range of time horizons and stress conditions. The High-Quality Liquid Asset (HQLA) requirement is quantified as the outflow of funds under a series of stress scenarios less the impact of inflows from assets. Stress cash outflow assumptions have been established for individual liquidity risk drivers across idiosyncratic, market-wide and combination stresses.

Internal Liquidity Adequacy Assessment Process (ILAAP)

Liquidity within the Bank is managed in accordance with the ILAAP, which is approved by the Board. The Treasury function is responsible for the development and execution of strategy subject to oversight from the Risk function. In relation to funding and liquidity risk, the primary management committee is ALCO. The Bank continues to maintain its strong funding and liquidity position and seeks to achieve an appropriate balance between profitability, liquidity risk and capital optimisation.

The ILAAP includes details and agreement of the Bank's assumptions to be applied in terms of the internal stress test over a 90 day period. These include assumptions around deposit and other funding outflows, inflows from lending and the Bank's HQLA and outflows caused by off balance sheet risk. The assumptions used to calculate regulatory LCR over 30 days are also included.

Further, the funding plan is agreed and approved within the ILAAP. It establishes an acceptable level of funding risk which is approved by the Board and is consistent with risk appetite and the Bank's strategic objectives. The development of the Bank's funding plan is informed by the requirements of the Bank's financial risk policy standards. A series of metrics is used across the Bank to measure risk exposures, including funding ratios, limits to concentration risk and maximum levels of encumbrance.

Monitoring and Reporting

Liquidity is actively monitored by the Bank, with reporting conducted through ALCO and the ARMC. In a stress situation or in adverse conditions, the level of monitoring and reporting is increased commensurate with the nature of the stress event, as was demonstrated in response to the COVID pandemic in recent years.

Monitoring and control processes are in place against internal and regulatory liquidity requirements. The Bank monitors a range of market and internal early warning indicators on a routine basis for early signs of liquidity risk in the market or specific to the Bank or Group. These indicators cover a mixture of quantitative and qualitative measures including variation of customer balances, measurement against stress requirements and monitoring of the macroeconomic environment.

Mitigation

The Bank holds a portfolio of HQLA that can be utilised to raise funding in times of stress. The size of the HQLA portfolio is calibrated based on a view of potential outflows under both systemic and idiosyncratic stress events. In addition, the Bank can use the repo market to generate funds and can also participate in BoE operations through the Sterling Monetary Framework (SMF). The Bank has several sources of funding which are well-diversified in terms of the type of product, counterparty and term structure. The Bank does not make use of external wholesale funding markets to raise funding for growth, but does issue instruments to Group when required to meet capital requirements while also providing a source of funds.

The Bank has access to funding via the TFSME, secured against pre-positioned collateral. This scheme provides cost-effective funds to banks to support additional lending to the real economy and incentivise lending to SMEs during a period of economic disruption.

The funding plan includes an assessment of the Bank's capacity for raising funds from its primary sources, thereby mitigating funding risk.

Funding & Liquidity Management (continued)

Refinancing risks are carefully managed and are subject to controls overseen by ALCO. The funding plan includes embedded TFSME repayment profiles designed to manage refinancing risk.

The recovery plan has been established for management of an escalated liquidity requirement, if the Bank or Group experiences either restricted access to funding or a significant increase in the withdrawal of funds. The plan identifies triggers for escalation, assesses capacity, details the action required, allocates the key tasks to individuals, provides a timeframe and defines a management committee to manage the action plan.

The Bank operates a Funds Transfer Pricing system to ensure that liquidity risk is a factor in the pricing of loans and deposits.

Liquid assets (unaudited)

The quantity and quality of the Bank's liquid assets are calibrated to the Board's view of liquidity risk appetite and remain at a prudent level above regulatory requirements.

The LCR increased to 309% (pillar 1+ 2) during the year (2022: 290%) but remains comfortably above the regulatory requirement and risk appetite.

The liquid asset portfolio provides a buffer against sudden and potentially sharp outflows of funds. Liquid assets must therefore be high quality so they can be realised for cash and cannot be encumbered for any other purpose (e.g. to provide collateral for payments systems).

The volume and quality of the Bank's liquid asset portfolio is considered through a series of internal stress tests across a range of time horizons and stress conditions, including most recently the Bank's view of liquidity risk in the context of recessionary fears and the cost of living challenges. The Bank ensures a liquidity surplus is held, during normal market conditions, above the most severe of these scenarios. Stress cash outflow assumptions have been established for individual liquidity risk drivers and are approved annually by the Board as part of the ILAAP.

The key risk driver assumptions applied to the scenarios are:

Retail funding	Severe unexpected withdrawal of retail deposits by customers arising from redemption or refinancing risk. No additional deposit inflows are assumed.
Unutilised commitments	Cash outflows during the period of stress as a result of unutilised commitments such as mortgage pipeline, undrawn credit card facilities and loan facility commitments. Lending outflows, over and above contractual obligations that are honoured as the Bank preserves ongoing viability.
Intra-day	Other participants in the payment systems withhold or delay payments or customers increase transactions resulting in reduced liquidity.
Liquid assets	The liquidity portfolio value is reduced, reflecting stressed market conditions.

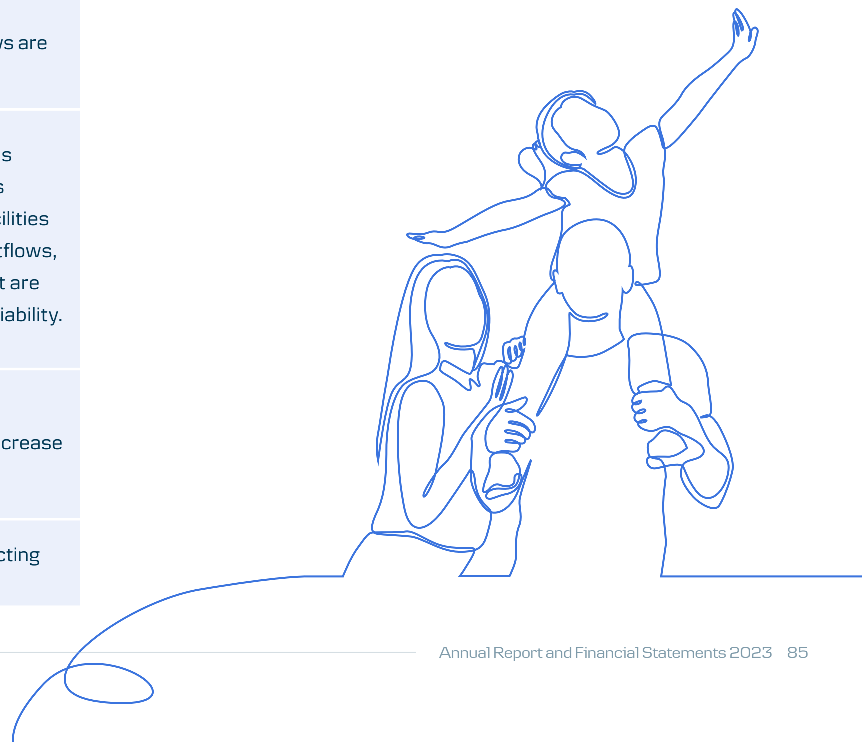
As at 31 December 2023, the Bank held eligible liquid assets well in excess of 100% of net stress outflows, as defined through internal risk appetite.

Note	31 December 2023 £'000	31 December 2022 £'000
Level 1		
Cash and balances at central bank	2,411	2,529
UK government treasury bills and gilts	1,111	677
Other debt securities	2,162	2,548
Total level 1	5,684	5,754
Total level 2	-	-
Total LCR eligible assets	5,684	5,754

Before investing in any security, an assessment is completed for both the credit quality and the treatment for liquidity purposes. ALCO oversees the composition of the liquid asset portfolio. For further information on the fair value hierarchy for financial instruments, see note 38 of the Financial Statements.

Cash and balances with central banks is outlined in note 12 of the Financial Statements. Included within the cash held at central bank is £777m (2022: £721m) of cash held on deposit which is deemed to be encumbered. The primary nature of this encumbrance is to meet the Bank's obligations under the Scottish and Northern Ireland Banknote Regulations 2009, to fund reserve collateral account requirements under the terms of membership to certain transactional payments schemes and to meet the Cash Ratio Deposit requirements mandated under the Bank of England Act 1998.

In addition, financial assets include £38m of encumbered UK government treasury bills and gilts to support Operational Continuity in Resolution. The Net Stable Funding Ratio (NSFR) as at 31 December 2023 is 203% (2022: 217%).



Capital Management

The Bank manages its capital position to ensure that it has sufficient capital resources to cover the risks of its business, its future strategies and to comply with its regulatory capital requirement.

Capital adequacy and its effective management is critical to the Bank's ability to operate and grow its business, and pursue its strategy. The Bank's business and financial condition could be adversely affected if it is not able to manage its capital effectively or if the amount or quality of capital held is insufficient.

Capital requirements and capital resources

The Bank remained in compliance with its regulatory capital requirement in 2023. The key components of the Bank's capital strategy are as follows:

- Maintain capital resources above both current and expected future risk appetite and regulatory capital requirements, taking into account the current and forecast economic environment, and the Bank's strategy and business plans; and
- Apply an appropriate mix of capital instruments that supports the optimisation of profitability and/or shareholder returns whilst also meeting all necessary regulatory and risk appetite requirements.

Capital requirements are determined by the Capital Requirements Directive (CRD V) and Capital Requirements Regulations (CRR II) as well as firm specific requirements imposed by the PRA. The minimum requirements are typically driven by credit risk, market risk and operational risk, and also require stress-absorbing capital buffers.

The Bank's minimum total capital requirement is 9.10%.

A countercyclical capital buffer (CCyB) is also required, reflecting the countercyclical buffer rates applicable to the exposures held by the Bank.

The Bank of England Financial Policy Committee increased the CCyB from 1% to 2% in June 2023. The Bank's capital plan, prepared as part of the ICAAP, considers proposed changes to the regulatory capital requirements of the Bank.

In December 2023, the Bank met its capital requirements with both CET1 and AT1 capital resources. The Bank did not need to issue any additional capital instruments in 2023.

Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP is performed by the Bank on an annual basis. This process facilitates the Board and senior management in adequately identifying, measuring and monitoring the Bank's risk profile.

The Bank uses macroeconomic stress tests in the ICAAP for the purpose of projecting its solvency need and actual capital level in various stress scenarios. Base case projections are prepared in line with the Bank's Corporate Plan, and the stress scenarios are prepared based on two severe but plausible macroeconomic scenarios.

The ICAAP process demonstrates that the Bank has sufficient capital under both the base and stress case scenarios to support its business and achieve its objectives whilst continuing to meet its regulatory capital requirements and Board approved capital risk appetite.

The Board approved ICAAP Report and supporting documentation are submitted to the PRA and are subject to regulatory review as part of the PRA's Supervisory Review and Evaluation Process.

Stress testing and capital planning

The Bank uses stress testing as a key risk management tool to gain a better understanding of its risk profile and its resilience to internal and external shocks. In addition, stress testing provides a key input to the Bank's capital assessments and related risk management and measurement assumptions.

Stress testing is performed in order to ensure that the Bank, on a forward-looking basis, is sufficiently capitalised to cover all material risks arising from the chosen business strategy.

The Bank's stress testing looks into the development of the Bank's capital resources and requirements under a five year base case scenario and comprehensive adverse scenarios. All the projections take into account the anticipated impact of new regulation.

Furthermore, the loss capacity of the Bank is estimated, and reverse stress testing is conducted to identify events that can result in the Bank's business model becoming unviable.

Through the stresses, the Bank determines the extent to which additional capital is required 'today' to absorb the potential losses and the deterioration in the Bank's capital position, ultimately to determine its internally assessed capital buffer needs.

The main purpose of the Bank's capital planning is to strike the right balance between having enough capital to withstand severe stresses while at the same time not accumulating excessive amounts of capital hindering competitive returns. The Bank meets this purpose by adhering to prudent capital targets in the projections and distributing excess capital to its shareholder through dividends.

The capital plan represents a forward-looking view on expected capital distributions and capital structure. The capital plan is based on the financial projections and risk weighted exposure amount (REA) forecasts, and the future effects of regulation within the projection period are also included. In this way the Bank's strategy and changes in the surroundings, such as macroeconomic environment and regulation, is a natural and integrated part of the Bank's capital planning.

Capital management reporting

The Bank monitors and reports the capital position monthly and quarterly. Reporting includes a suite of early warning indicators and measurement against risk appetite and is reviewed by ALCO. Capital management information is also reviewed by BRC and the Board.

Minimum Requirements for Own Funds and Eligible Liabilities

In June 2018, the Bank of England outlined its approach to setting a Minimum Requirement for own funds and Eligible Liabilities for UK banks, building societies and large investment firms. MREL is the minimum amount of equity and subordinated debt a firm must maintain to support an effective resolution strategy. This is separate to the capital requirements set by the PRA. The PRA has determined that the Bank meets the criteria for holding MREL resources due to its current provision of critical services in the Northern Ireland economy.

The Bank is required to hold internal MREL equivalent to two times its Pillar 1 and Pillar 2A (excluding capital buffers), with a PRA prescribed scaling factor applied.

CRD and CRR developments

The CRD and CRR continue to evolve through amendments to current regulations and the adoption of new technical standards.

On 1 January 2022, the UK version of CRR II (the Regime) came into effect, having been postponed from 28 June 2021. The Regime is largely based on the EU CRR II but with some deviations from it where necessary to reflect the number, size and nature of UK credit institutions and the structure and operation of the UK market.

In December 2017, the Basel Committee on Banking Supervision (BCBS) published 'Basel III: Finalising post-crisis reforms', also known as Basel IV. A key objective of the revisions to the Basel III Framework is to reduce excessive variability of risk weighted assets.

Revisions to the standardised approach to credit risk, the credit valuation adjustment (CVA), market risk and operational risk frameworks were due to be implemented from 1 January 2022, however in light of the economic uncertainty as a result of COVID-19, the implementation has been delayed until 1 July 2025. In November 2022, the PRA published CP16/22 "Implementation of the Basel III Standards".

The Bank is currently assessing the impact of the PRA's proposal and actively monitors the developments in the capital regulations and seeks to effectively comply with new requirements.

Capital and leverage position (unaudited)

The Bank remains well capitalised and this is reflected in its total capital ratio of 19.6% (2022: 18.0%).

The Bank is no longer subject to a regulatory leverage ratio requirement, but instead a supervisory expectation to maintain a leverage ratio above 3.25%.

In addition, the leverage exposure measure excludes central bank reserves and the government guaranteed lending through Bounce Back Loans (BBLs). This has resulted in an increase in the leverage ratio to 7.4% at 31 December 2023 (2022: 6.7%).

Capital and leverage position (unaudited) (continued)

Key capital and leverage ratios at 31 December 2023 and 2022 are set out below:

	31 December 2023	31 December 2022
Common Equity Tier 1 ratio	15.6%	13.6%
Tier 1 ratio	19.6%	18.0%
Total capital ratio	19.6%	18.0%
Total Capital Requirement (TCR)	9.1%	10.1%
Leverage ratio	7.4%	6.7%

Regulatory capital (unaudited)

The following table details the Bank's capital regulatory capital at 31 December 2023 and 2022.

	31 December 2023 £'000	31 December 2022 £'000
Common Equity Tier 1 capital		
Permanent share capital	218,170	218,170
Retained earnings	149,826	90,580
Profit yet to be verified for inclusion in regulatory capital	(41,357)	(36,673)
Share premium account	306,590	306,590
Revaluation reserve	32,506	33,418
Reserve for Investment securities - Hold to collect and sell	(2,970)	(29,070)
IFRS 9 transitional adjustment	6,088	19,074
Less : pension fund asset (net of tax)	(4,804)	(56,167)
Less : deferred tax asset ineligible for Common Equity Tier 1 capital	(44,514)	(39,946)
Less : prudent valuation adjustment	(1,048)	(1,224)
Less : intangible asset	(1,608)	(522)
Less: Non-performing loans minimum loss coverage	-	(112)
Total Common Equity Tier 1 capital after deductions	616,879	504,118
Additional Tier 1 (AT1) capital		
AT1 capital instrument	226,895	225,953
AT1 regulatory restriction (1)	(69,728)	(63,347)
CRD V compliant instrument	157,167	162,606
Total capital after deductions	774,046	666,724

Note

(1) The PRA expects the Bank's Total Capital Requirement (Pillar 1 and Pillar 2A) to be met with at least 56% CET1 capital, no more than 44% Additional Tier 1 capital and no more than 25% Tier 2 capital.

Capital Management (continued)

Risk weighted exposure amounts (unaudited)

The following table details the Bank's risk weighted exposure amounts at 31 December 2023 and 2022.

	31 December 2023 £'000	31 December 2022 £'000
Credit risk	3,546,324	3,317,928
Operational risk	401,329	376,579
Market risk	20	24
Credit value adjustment	-	-
Total risk-weighted exposure amount	3,947,673	3,694,531

Minimum Pillar 1 capital requirement (unaudited)

The following table details the Bank's minimum Pillar 1 regulatory capital requirement at 31 December 2023 and 2022.

	31 December 2023 £'000	31 December 2022 £'000
Credit risk	283,706	265,434
Operational risk	32,106	30,126
Market risk	2	2
Credit value adjustment	-	-
Minimum Pillar 1 capital requirements	315,814	295,562

Regulatory capital to statutory total equity reconciliation (unaudited)

The following table reconciles the Bank's regulatory capital resources to the statutory total equity position at 31 December 2023 and 2022.

	31 December 2023 £'000	31 December 2022 £'000
Regulatory Common Equity Tier 1 capital	616,879	504,119
Add back:		
- Pension fund asset (net of tax)	4,804	56,165
- Deferred tax relying on future profitability	44,514	39,946
- Profit yet to be verified for inclusion in regulatory capital	41,357	36,673
- Intangible assets	1,608	522
- Cash flow hedge reserve	(1,676)	(8,449)
AT1 capital	226,895	225,953
IFRS 9 transitional adjustment	(6,088)	(19,074)
Prudent valuation adjustment	1,048	1,224
Non-performing loans minimum loss coverage	-	113
Statutory total equity	929,341	837,192

Minimum Requirements for Own Funds and Eligible Liabilities (unaudited)

	31 December 2023 £'000	31 December 2022 £'000
Total capital resources	774,046	666,724
Add: AT1 / Tier 2 capital restricted for regulatory capital purposes	69,728	63,347
Add: MREL eligible non-preferred senior debt issued	130,000	130,000
Less: CET 1 capital applied to meet Pillar 2B requirement	(177,645)	(129,753)
MREL eligible resources	796,129	730,018
MREL requirement	538,857	498,762
MREL ratio	148%	146%

GOVERNANCE

Corporate Governance Statement

30% of our board in Q4 2023 was female

For the year ended 31 December 2023, under The Companies (Miscellaneous Reporting) Regulations 2018, the Bank has adopted the Wates principles for large private companies as an appropriate framework when making a disclosure about its corporate governance arrangements.

Each of the six Wates Principles has been considered individually within the context of the Bank's specific circumstances and a short supporting statement is set out below to explain how each principle has been applied to achieve better outcomes.

Purpose and Leadership

An effective Board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

As Northern Ireland's largest bank, we have been helping people and businesses achieve their ambitions for 200 years. We support financial stability by running a profitable business, conducting our activities in a responsible manner and making our time and expertise available for the benefit of the communities that we serve.

The Bank's Purpose is to help customers, colleagues and society thrive and our Vision is to be a Leader in Northern Ireland, growing in the Rest of the UK, driving sustainability. These focus areas form the framework of our Corporate Plan, which is developed on an annual basis by management under the Board's direction.

The Board is committed to a culture of strong ethical behaviour as embodied in our core values - which together are central to the Bank's Vision of being a Leader in NI, growing in the Rest of UK, driving sustainability.

Our Culture Wheel articulates the behaviours that are critical for the future success of our business. The wellbeing of our colleagues, customers and wider society lies at the heart of what we do and ensures alignment of our wellbeing strategy with our people strategy and overall corporate responsibility agenda.

Board composition

Effective Board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual Directors having sufficient capacity to make a valuable contribution. The size of a Board should be guided by the scale and complexity of the company.

The Bank has a separate Chair and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Bank is effectively maintained. The Chair plays a pivotal role in creating the conditions for overall Board and individual Director effectiveness and ensuring that the Board is effective in its task of setting and implementing the Bank's direction and strategy.

The Board comprises a Chair, Chief Executive Officer, two Executive Directors, two Group Directors and four Independent Non-Executive Directors. The size and composition of the Board is appropriate to the Bank's size, nature and complexity of the business.

The combination of skills of the Directors is considered suitable for the nature of the organisation; Independent Non-Executive Directors bring experience in banking and finance, audit and technology, in addition to perspectives and challenge from outside the banking industry. There is an appropriate mix of local, national and international directors who bring a blend of local Northern Ireland, wider UK and international experience. Additionally, the Board continues to improve its gender balance noting that by quarter four 2023 gender diversity on the Board was 30% female. It is also worthy of note that the position of CEO is held by a female for the first time in the Bank's 200-year history. This is reflective of best practice in that the Bank now has at least one woman in the role of Chair, CEO, SID and CFO. In 2021, the Board Nominations Committee demonstrated its commitment to gender diversity by agreeing a gender diversity target of at least 40% of Board seats to be held by women by 2025 with gender parity by 2030 – the Bank remains committed to making progress against this target.

The Directors have equal voting rights when making decisions, except the Chair, who has the casting vote. All Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the Bank's expense.

There is open debate and constructive challenge at meetings, with Board members demonstrating good engagement with the business and a sound understanding of the Bank's strategy and associated risks and challenges.

The duties of the Board are executed partially through committees. The Independent Non-Executive Directors are members of and act as chairs of relevant committees so that they are able to challenge and influence a broad range of areas across the Bank.

Directors update their skills, knowledge and familiarity with the Bank by meeting with senior management, visiting operations and by attending appropriate internal and external seminars and training courses. There is an induction programme for all new Directors which is tailored to their specific experience and knowledge and which provides access to all parts of the business, including access to the Bank's sole shareholder, Danske Bank A/S (the 'Group').

Director responsibilities

The Board and individual Directors should have a clear understanding of their accountability and responsibilities. The Board's policies and procedures should support effective decision-making and independent challenge.

Each Board member has a clear understanding of their accountability and responsibilities. The Board has a programme of at least six principal meetings every year and whilst Board oversight is always maintained, key decisions are made by the individuals and committees with the most appropriate knowledge and industry experience.

At each Board meeting, all Directors are asked to declare any potential conflicts of interest. These declarations are collated by the Company Secretary and where there are potential conflicts, appropriate safeguards are implemented.

In addition, certain governance responsibilities are delegated to other Board committees (Audit, Risk, Remuneration and Nominations). Membership of these committees is comprised entirely of Independent Non-Executive Directors who support effective decision-making and independent challenge.

The Independent Non-Executive Directors are wholly independent in that they have no material business or relationships with the Bank that might influence their independence or judgement.

There is a process in place for regular Board effectiveness reviews to seek independent, objective advice on the effectiveness of the Board's decision-making, its structure, its people and its processes. The Board undertook a formal effectiveness review facilitated by an independent external adviser in 2023, with results to be tabled to the Board in early 2024. Between externally facilitated assessments, the Board conducts informal self-assessments which the Board considers important in the identification of key areas for future improvements, focus and for strengthening its overall performance. The next informal self-assessment of the Board is due to be carried out in 2024.

Opportunity and risk

A Board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

The promotion of the long-term sustainable success of the Bank is fundamental to the Bank's 5-year Corporate Plan which is updated each year, under Board direction. It is the view of the Board that the long-term future of the Bank will be about retaining our leadership position in Northern Ireland as our core home market alongside geographical diversification in the Rest of the UK in targeted areas of focus with increased digitalisation to support an efficient and effective suite of customer propositions.

At Board level, oversight of risk is delegated to the Board Risk Committee, which meets at least four times per year, the membership of which is comprised entirely of Independent Non-Executive Directors, ensuring there is appropriate accountability to stakeholders. There is also a well-established Corporate Governance Framework which establishes oversight for the identification and mitigation of risks across the Bank.

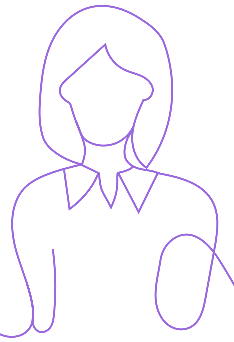
Remuneration

A Board should promote executive remuneration structures aligned to the long-term sustainable success of the company, taking into account pay and conditions elsewhere in the company.

The Board of the Bank has an established Remuneration Committee (RemCo), which is currently chaired by an Independent Non-Executive Director. The RemCo is instrumental in the Board's fulfilment of its governance responsibilities relating 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 Board is committed to creating an environment at all levels in the Bank which enables people to perform and develop their abilities and potential.

A diverse workplace which does not attach specific importance to; age, community background or country of origin, disability, gender, nationality, political opinion, religious belief, or sexuality, ensures that we are able to attract talented employees who will contribute to the Bank's success and better reflects our diverse customer base. Annually, the RemCo prepares a Remuneration Report which is published on our website www.danskebank.co.uk.



Stakeholder relationships and engagement

Directors should foster effective shareholder relationships aligned to the company's purpose. The Board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

The Board has strong relationships with Danske Bank A/S, its sole shareholder, with two Executives of Danske Bank A/S appointed as Directors of Northern Bank Limited. At each Board meeting, the Board is provided with an update in relation to Danske Bank A/S and the Board regularly receives updates from Group stakeholders across areas including Finance, IT and Risk. These stakeholders also provide inputs to the Bank's Corporate Planning process and are integral parts of delivering developments for the Bank.

Close dialogue with stakeholders is an integral and natural part of the Bank's operations. Senior leaders welcome dialogue with all external stakeholders, representatives of government and other leading figures within Northern Ireland and beyond and engage in a constructive manner, and from a long-term perspective. This approach is driven by an ambition to create value, commitment to transparency and the core values of integrity and collaboration.

Listening to, and empowering employees is critical to achieving the Bank's Vision. Formally, employees have a voice through the annual Best Companies Surveys. The outputs from these employee surveys inform the People Board (a group of senior employees who support the Bank's ExCo in shaping and delivering the people strategy in collaboration with HR) and business unit action plans. In addition, regular Senior Leaders' Updates, Digital Roadshows and Bank-wide CEO Updates are delivered to employees across the Bank and provide a briefing on the Bank's performance and allow individuals to raise questions and provide feedback. In 2023 the strategy for increased Director engagement with the workforce has continued through Branch, Departmental and Site visits, Thought Leadership Sessions, Informal lunches, and the 'Board 360 – Colleague Conversations' sessions which were held at six monthly intervals during 2023.

Northern Bank Pension Trust Limited is the corporate Trustee of the Northern Bank Pension Scheme. Although a wholly-owned subsidiary, the Trustee operates independently of the Bank and in accordance with pension regulations. The Bank, as sponsor of the Scheme, maintains a constructive and open relationship with PAN Trustees, the professional trustee firm which assumed the role of trustee of the Scheme on 1 September 2022, replacing the previous trustee Board. This support, provided by the Bank facilitates good governance and decision-making, which is in the interests of all Scheme stakeholders.

The Bank's website, intranet and social media channels provide extensive and up-to-date news on recent developments impacting our customers, colleagues, partners and the society. We advocate the benefits of running a responsible business and encourage others to follow.

Section 172 (1) Statement

The members of the Board of Directors of Northern Bank Limited consider, both individually and collectively, that they have acted to promote the success of the Bank taking into account the needs of customers, colleagues, members and other stakeholders and the Bank's wider role in society.

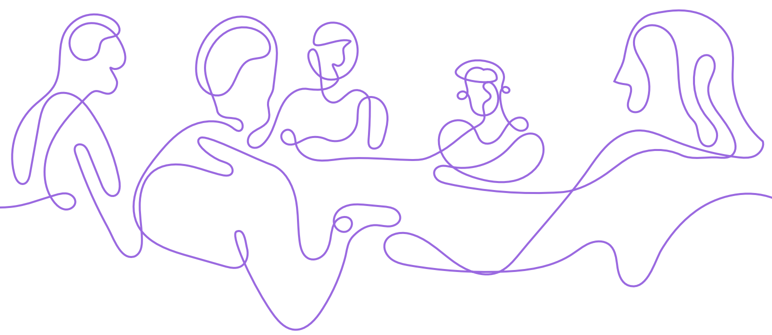
In doing so they have taken into account the following matters set out in s172 (1) (a) to (f) of the Companies Act 2006:

- **A** The likely consequences of any decision in the long-term
- **B** The interests of the company's employees
- **C** The need to foster the company's business relationships with suppliers, customers and others
- **D** The impact of the company's operations on the community and the environment
- **E** The desirability of the company maintaining a reputation for high standards of business conduct
- **F** The need to act fairly as between members of the company

The Board is mindful that the long-term success of the Bank is critically dependent on the way we work with a large number of notable stakeholders. The following pages set out our focus on the key relationships and show how engagement with them is addressed by the Board of Directors (or Board committees) to help inform the Bank's decision-making. It is important for all members of the Board to gain sufficient understanding of the issues relating to stakeholders so that their views are taken into account in Board discussions.

A robust corporate governance framework (CGF) is in place to ensure that stakeholder considerations are captured and enhancements made to strengthen the views of our stakeholders in the boardroom.

Further information is set out in the Bank's Corporate Governance Statement, on page 91.



Our customers

s172(1)(c)(d)(e)

The users of our financial products and services.

We have c.520,000 Personal Customers and Business Customers.

We are enhancing our customer experience to attract new and retain loyal customers.

Form of engagement

At Board level:

The Bank has a number of dedicated teams that focus on delivering positive customer outcomes. This includes our Conduct and Customer Experience team, with the Head of Conduct reporting to the Bank's All Risk Management Committee on a quarterly basis and updates provided to Board on a regular basis in relation to Conduct and taking actions to improve our Customer Satisfaction and Likelihood to Recommend Key Performance Indicators (KPI).

At Business level:

The Bank uses customer feedback and insights as a core input to help shape strategic decisions utilising independent customer research, satisfaction surveys, mystery shopping and impact assessments.

The Bank continues to utilise cross-functional collaboration to drive enhancements across key journeys. Additionally, the Bank's Technology and Data Development Team provide key insights and analytics on customer behaviour to shape decisions and identify needs.

One particular focus for the Bank is supporting customers in vulnerable circumstances. External partnerships and stakeholder engagement with vulnerable customer representative groups are key facets of this work to ensure our services are accessible to all our customers.

How stakeholders influence the Board agenda and long term decision making

Customer satisfaction scores and feedback received influences decision-making at Board level. This has been reflected with 'customers' being at the heart of the Bank's Purpose to help customers, colleagues and society to thrive.

The Bank aims to be the first choice for helping our customers and businesses to achieve their financial goals in Northern Ireland.

As part of an ongoing multi-year programme, the Bank remains committed to offering customers a choice in how they engage with us and that reflects the varying needs of our customer base. The growth of digital banking supports our investment plans in these areas, but the Bank continues to recognise the importance of branch services to the communities it serves and the resulting benefits to the Bank of providing a network that covers all of the major towns across Northern Ireland with at least one branch in each county.

In 2023, the Bank continued to focus on customers in vulnerable circumstances, working with a wide range of external partners to improve the support we offer to all customers. Additionally, throughout 2023, the Bank has been focused on implementing and embedding Consumer Duty throughout its business.

Our people

s172(1)(b)(e)

We create an inclusive and supportive environment in which our people can make a positive contribution, develop their careers and reach their potential.

During 2023 the Bank had an average of c.1,281 full time equivalent employees.

Form of engagement

At Board level:

Colleagues are a core pillar in the Bank's strategy and form a fundamental part of the Board-approved Corporate Plan. The Board receives regular updates on progress against the Bank's Colleague-focused strategic objectives and KPIs in addition to an annual update on our People Plan agenda provided by the Human Resources (HR) Director and regular people-focused discussions at Board Committees.

To facilitate engagement, the Board continues to support the operation of a People Board including Executive Committee members. In 2023 Board members engaged in the 'Board 360 – Colleague Conversations' programme, meeting colleagues from our business and participating in open conversations where insights were shared from both a Board and a colleague perspective.

At Business level:

2023 saw a continuation of the Bank's approach to engaging colleagues, promoting ideation and seeking feedback, utilising colleague ideas to drive solutions and implement change.

Their views are taken into account throughout the Bank's Corporate Planning process, in which the HR Director plays a key role as a member of the Executive Committee.

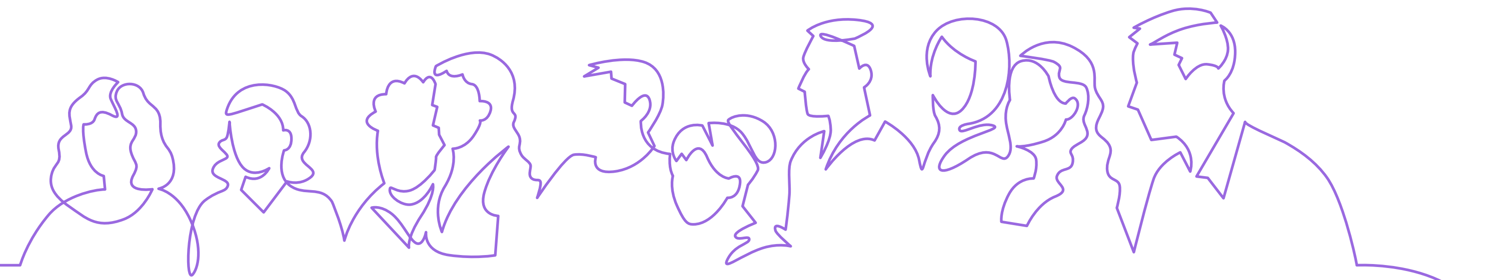
Regular and ongoing discussions, at 1-2-1 and team level, divisional two-way update sessions, CEO and Executive Committee updates and the Best Companies engagement survey drive a culture of openness, collaboration and continuous improvement.

How stakeholders influence the Board agenda and long term decision making

During 2023 the Bank has delivered an extensive range of colleague initiatives to motivate, engage and support high performance, retain key talent and support our colleagues through the ongoing cost of living challenges, culminating in recognition by Best Companies as a top 100 employer in the UK.

In September 2023 we conducted an Employee Engagement Temperature Check using the Best Companies survey framework. The survey generated an 88% response rate and provided data analytics which enables targeted people solutions and planning at an organisational and team level. More detailed information on the Best Companies survey included in the Sustainable and Responsible Business Report on page 36.

More information on early careers; continuous development; leadership development; colleague reward; financial wellbeing; and diversity, inclusion and wellbeing is included in the Sustainable and Responsible Business Report on page 36.



Our suppliers

s172(1)(c)(e)

Provide our goods and services which we rely on to deliver for our customers.

Form of engagement

At Board level:

Board considers and discusses reports on matters of importance regarding the supply of goods and services. They are also advised when adverse incidents that affect the Bank's ongoing operations are live and have been resolved.

At Business level:

The Bank has robust procurement policies (including sustainability metrics within the Bank's due diligence process, as well as responsible sourcing and supply chain resilience criteria) and manages its obligations under outsourcing in accordance with applicable guidelines.

Supplier/Stakeholder meetings are conducted on a regular basis in accordance with the Bank's policy on outsourcing. The Bank maintains service level agreements with its parent Danske Bank A/S for the provision of key services to the Bank such as IT. The Bank actively manages all of its third-party relationships, including those with its parent Danske Bank A/S. This includes regular relationship management meetings, performance tracking, risk assessments and business continuity planning.

How stakeholders influence the Board agenda and long term decision making

The Board approves the Modern Slavery Statement annually and we expect all our suppliers to be compliant with the Modern Slavery Act. We work closely with our suppliers and peers to build on our knowledge and promote best practice particularly in relation to anti-bribery and corruption.

The Bank fully recognises the importance of each of its third-party relationships, and how these relationships contribute to both its success and the stability of the Northern Ireland economy. Since 2019 the Bank has significantly enhanced its outsourcing and third-party management framework.

All new third-party relationships are subject to robust on-boarding processes in order to ensure that every relationship complies with all relevant regulatory requirements and procurement industry best practices. An important part of this due diligence is ensuring that the ESG objectives of the third party are aligned to those of the Bank e.g. sustainability, bribery and corruption, modern slavery etc. This due diligence extends to material arrangements through the supply chain and via its parent Danske Bank A/S.

Our regulators

s172(1)(c)

The FCA and the Bank of England (including its subsidiary, the PRA), regulate our business.

Form of engagement

At Board level:

It is the Bank's policy to interact with the Regulators in an open and cooperative way. Members of the Board meet with the FCA and PRA as required. The Regulatory Reporting Committee meets quarterly and is attended by one member of the Board. The PRA also receive copies of Board papers. The PRA attended the November Board meeting to outline the findings from the Post Summary Meetings.

At Business level:

We submit an extensive range of returns to the Regulators on all areas of the business as and when required. Senior management regularly engage with the Regulators to ensure all submitted returns are complete, accurate, consistent, timely and in compliance with the Regulators' requirement. The Bank's Chief Risk Officer meets with the PRA on a regular basis to ensure there is a high degree of open engagement and, in addition, the Regulators undertake visits and reviews covering specific topics of interest.

Members of the Board also meet the PRA to ensure that the culture of open engagement is reflected at Board level.

How stakeholders influence the Board agenda and long term decision making

Feedback received from the Regulators influences decision making at Board level including areas of critical importance such as the review and approval of risk appetite and setting key regulatory requirements in relation to capital, liquidity etc.

In relation to climate-related reporting, the Bank proactively takes account of expectations outlined by the Regulator in their Supervisory statements and Dear CEO letter publications.

The Bank aims to maintain our positive relationship with the Regulators by following an approach of early and regular engagement regarding such decisions. The PRA attended the November 2023 Board meeting to discuss current areas of regulatory focus.

Our community and the environment

S172(1)(d

We recognise our role supporting our local community as one of Northern Ireland's largest companies and employers.

The Bank is conscious of the scale of our impact on Northern Ireland's path to a more sustainable future, noting our role in financing a portion of Northern Ireland's emissions. As a result, we are keenly aware of the need to manage our impact on the environment and as a result, there is a strong desire for the Bank to be the local leader on global issues.

Form of engagement

At Board level:

Society is a core pillar of the Bank's strategy, forming a core part of the Board-approved Corporate Plan, and firmly embedded in the culture of the Bank. The Board is regularly updated on progress against the Bank's Society-focused strategic objectives and KPIs in addition to receiving an annual update on our Society agenda and quarterly updates on specific topics such as Climate Change.

At Business level:

The Bank's Sustainable & Responsible Board meets quarterly, and is chaired by our Chief Executive Officer (CEO). The Bank's CEO, Vicky Davies, has highlighted sustainability as a core priority for the organisation. The Bank's environmental impact, both direct and indirect, is a key factor in decision-making. We recognise both the UK's policy announcements in addition to the EU's guidance in relation to the Non-Financial Reporting Directive, which encourages reporting in this area and we are committed to using the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) to ensure that we maintain the highest environmental reporting standards.

We are committed to supporting local communities and do so through our charity initiatives, volunteering, sponsorships and financial education programmes.

How stakeholders influence the Board agenda and long term decision making

The Bank's Corporate Plan recognises this focus by including strategic objectives and selected Key Performance Indicators aimed at supporting our local community and the environment within the Board-level Balanced Scorecard that is reviewed at each Board meeting.

The Board is committed to increasing the prominence of climate change considerations at both senior management and Board levels in 2023 and beyond.

Positive outcomes resulting from our community programmes are summarised in our Sustainable and Responsible Business Report on page 40:

Business relationships and conduct

s172(1)(c)

The Bank conducts its business responsibly, protecting customer interests resulting in appropriate customer outcomes, ensuring regulatory compliance and high standards of professional conduct.

Form of engagement

At Board level:

The Bank's Corporate Governance Framework (CGF) allows the Board and management to assess and monitor culture. The Board has oversight of the culture and the standards of business culture promulgated throughout the Bank, with an assessment of the culture within the organisation presented to Board Risk Committee and Board.

At Business level:

Acting responsibly and ethically, our Responsibility Policy governs and outlines our approach to conducting our business in a responsible and transparent manner and is an integral part of daily decision-making through strategies, policies, targets, business procedures and processes. Corporate Responsibility is an integral part of our core business through our Vision and strategy. This provides the strategic framework including KPIs and reporting.

High standards of professional conduct are communicated via our Code of Conduct and also workforce training in areas such as anti-bribery and corruption, Anti-Money Laundering (AML) and ethics.

The Bank has a dedicated Conduct and Customer Experience team led by a Senior Manager who reports quarterly into the Bank's All Risk Management Committee which is attended by Executive Committee members. In addition the Head of Conduct is a member of the Bank's Credit Oversight Forum (COF); Commercial Pricing and Management Committee (CMPC) and Operational Risk & Compliance Committee (ORCC).

How stakeholders influence the Board agenda and long term decision making

The Board is committed to embedding the section 172(1) factors in the culture of the business and decision making at all levels of management. This is evidenced by the empowerment of sub committees and management teams for each key stakeholder group.

Throughout 2023, Astrid Grey, one of the Bank's independent non-executive directors has continued to act as the Board's 'Consumer Duty Champion' and Michael Black, the Bank's Senior Independent Director has continued in his role as 'Whistleblowing Champion'.

Our company and its parent

s172(1)(f)

As a strong, stable and predictable bank, we seek to create long-term value through the delivery of sustainable returns. Through the delivery of our Corporate Plan, the Bank aims to optimise returns, support our Parent, and invest in the business in an efficient and cost-effective way.

Form of engagement

At Board level:

The Bank, its Executive Management and Board are closely engaged with our Parent, Danske Bank A/S. The Bank's Board includes two Group Directors (one of whom is a member of the Group's Executive Leadership Team).

Group updates are also provided by these two Directors to the Bank's Board. The Bank's Executive Committee is closely aligned to Group counterparts and through regular Board updates provides insight into Group interactions. At senior decision-making level we share with Group a strategic vision to promote the success of the Bank for the benefit of all its Stakeholders.

There has been increased engagement with Group colleagues during 2023 including the visit of the Chair of the Board of Danske Bank A/S, Martin Blessing to the Bank's Head Office in Belfast as well as meetings between the CEO and Chair of the Board with the Group CEO, Chair of Group Board and members of the Group Executive Leadership team.

At Business level:

The Bank held its annual Strategy Day and Board Meeting at its parent site in Copenhagen in September 2023, at which senior Group employees presented updates to the Board on specific areas of interest. The Bank's CEO attended the Group Leaders' Conference in August 2023.

In addition to Bank employees, the Board regularly receives updates from Group stakeholders across areas notably IT and Risk. These stakeholders also provide inputs to the Bank's Corporate Planning process and are integral parts of delivering developments for the Bank.

How stakeholders influence the Board agenda and long term decision making

The Board is focused on leveraging and strengthening relationships with Group, through our participation in Group wide initiatives, knowledge sharing with Group on UK developments, for instance, in the areas of regulation, digital developments and by sharing best practice on areas such as Customer Satisfaction, Sustainability and Diversity & Inclusion.

The Board in its decision-making process takes into account the impacts of the decision on the return to the Group on its capital investment in the company.

The Board also considers annually whether a dividend should be paid from surplus capital.

Below are examples of how the Directors have had regard to the matters set out in s172 (1) (a) – (f) when discharging their duties under s172 during Board discussions and when making principal decisions:

DECISION:

Climate change

The Bank's climate strategy is designed to develop sector specific responses in order to further our twin objectives of 'Going Green Ourselves' and 'Helping Customers Go Green'.

STAKEHOLDERS:

Our people | Our parent | Our suppliers | Our regulators | Our customers | Our community and the environment

CONSIDERATIONS MADE:

The Board recognise the need to take a materiality-based approach to the Bank's ongoing response to climate change. Noting the significant contribution to NI's overall greenhouse gas emissions, its position as the largest portion of the Bank's scope 3 financed emissions and the scale of the Bank's lending, the Board endorsed in Q2 2023 the ongoing sustainability based strategic approach to the agriculture sector. This strategic approach, developed to help the Bank to support the sector in its climate transition is underpinned by a focus on policy, education, data and solutions such as the Agriculture Sustainability Fund' initially launched in 2022.

Additionally, in Q4 2023 the Board demonstrated its continued commitment to driving the sustainability agenda by discussing the impacts and implementation of new International Sustainability Standards Board requirements relating to sustainability reporting and disclosures ensuring the Bank continues to successfully meet its sustainability obligations, advances its Corporate Responsibility ethos and further solidifies the Bank's role as a sustainability leader in the local market.

DECISION:

Consumer Duty

The Bank's preparations for the introduction of Consumer Duty were closely monitored by Board throughout 2023 via specific regular updates to both Board Risk Committee and Board covering operational preparedness and external developments and through the appointment of a Board level Consumer Duty Champion.

STAKEHOLDERS:

Our people | Our regulators | Our customers

CONSIDERATIONS MADE:

As part of the Bank's ongoing work to achieve substantive compliance with the requirements of Consumer Duty by 31 July 2023, Board provided guidance and support to management through the appointment of Astrid Grey (independent non-executive director) as the Board Level Consumer Duty Champion and through regular discussions at Board Risk Committee and Board.

We implemented a bank wide, cross functional programme sponsored by a member of the Bank's Executive Committee and led by a Senior Manager with considerable conduct experience to assess preparedness for the introduction of Consumer Duty across the Bank and to identify and implement appropriate actions to ensure good outcomes for customers under 6 workstreams – Products, Services, Governance, Communications, Management Information and IT Changes. Resulting actions included updating documentation, implementing systems changes, educating colleagues on Consumer Duty requirements and communicating enhancements to our products, processes and procedures to our customers. There has been regular engagement throughout the life of the programme with the Consumer Duty Champion, who provided support, guidance and a board level perspective on the requirements of Consumer Duty.

The Bank has also participated in industry fora (e.g. UK Finance, FCA sessions) and engaged with third party consultancy EY in relation to Consumer Duty implementation on a number of topics, as well as two thematic reviews. Additionally, the Bank's 3rd line of defence, Group Internal Audit (GIA), provided independent assurance across our Consumer Duty related activities.

The Board Risk Committee and Board were continually updated on progress and as a result of the considerable work undertaken across the Bank, Board was comfortable to conclude that the Bank had achieved substantive compliance with the requirements of Consumer Duty by 31 July 2023.

Post July 2023, the Board received updates on the ongoing work of the Consumer Duty programme to improve current processes and journeys to deliver better outcomes for customers and progress on key ongoing actions. In November 2023, the Board also confirmed its support for regular Board level updates on Consumer Duty in advance of the first annual attestation on compliance with Consumer Duty in 2024.

DECISION:

External Board Effectiveness Review

The Bank appointed Halex Consulting Limited to conduct its three yearly Board Effectiveness Review following a robust tender process. Throughout the process, the emphasis of the Board was on being open to feedback and external insights on best practice to ensure the Bank has a Board which is well placed to ensure the long-term success of the Bank.

STAKEHOLDERS:

Our people | Our parent | Our suppliers | Our regulators | Our customers | Our community and the environment

CONSIDERATIONS MADE:

In 2023, following a robust tender process, the Board approved the appointment of Halex Consulting to conduct its three yearly external Board Effectiveness Review, in accordance with best practice.

From June 2023, Halex carried out a comprehensive review of the performance of the Board, its committees and its members to assess effectiveness and performance against best practice and external benchmarking data .

The review comprised four key components:

- Board and Committee paper review
- Board Benchmarking Survey completed by the Board and key stakeholders
- Interviews with Board members and key stakeholders
- Board and Committee meeting observations

At the conclusion of their review, Halex prepared a detailed report outlining their findings and highlighting areas of focus for the Board. The report was presented to the Board meeting in January 2024. Overall, the Board was considered to be performing well, scoring in the top quartile against a peer group of 66 financial sector firms. Board dynamics, including the relationships between non-executive and executives are considered to be good with all voices being heard and no individual or group seeking to dominate proceedings, which is reflective of best practice. In reaching its conclusions, the interests of the Bank's customers were a key consideration for Halex, particularly the ability of the Board to lead a business that would be recognised as having a strong customer focus.

Key areas of focus for the Board as a result of Halex's review relate to:

- Board composition and diversity
- Connections with the Bank's parent, Danske Bank A/S
- Information flows from Board Committees to Board

Action plans for each of the Board Committees were presented to and agreed by the relevant Board Committee. Progress against the action plans will be monitored by the Company Secretary throughout 2024 and regular progress updates provided to Board to ensure continued focus on the performance of the Board. The next external Board Effectiveness Review will take place in 2026, with annual self-assessments carried out in the intervening years to align to best practice.

DECISION:

Good Food Fund

The Bank was one of the driving forces behind a new Good Food Fund for schools launched by Business in the Community, which compliments ongoing activities to support our local communities.

STAKEHOLDERS:

Our people

Our customers

Our community and the environment

Considerations made:

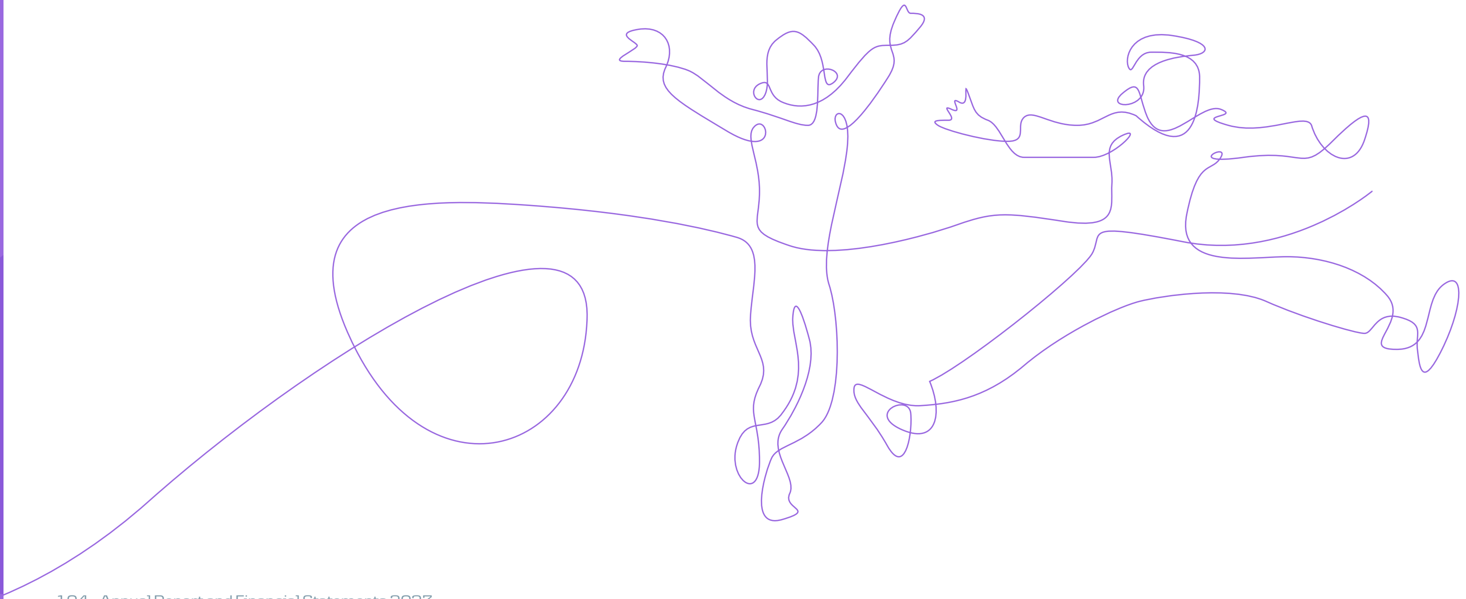
The Board endorsed the Bank's decision to make a corporate donation, alongside Belfast Harbour, to establish the Good Food Fund to help tackle the issue of hunger in Northern Ireland. Specifically designed to support primary school children, with the aim of helping more than 10,000 young people until the end of 2023, it provided a safe and secure mechanism for businesses to work collaboratively and provide much-needed support quickly.

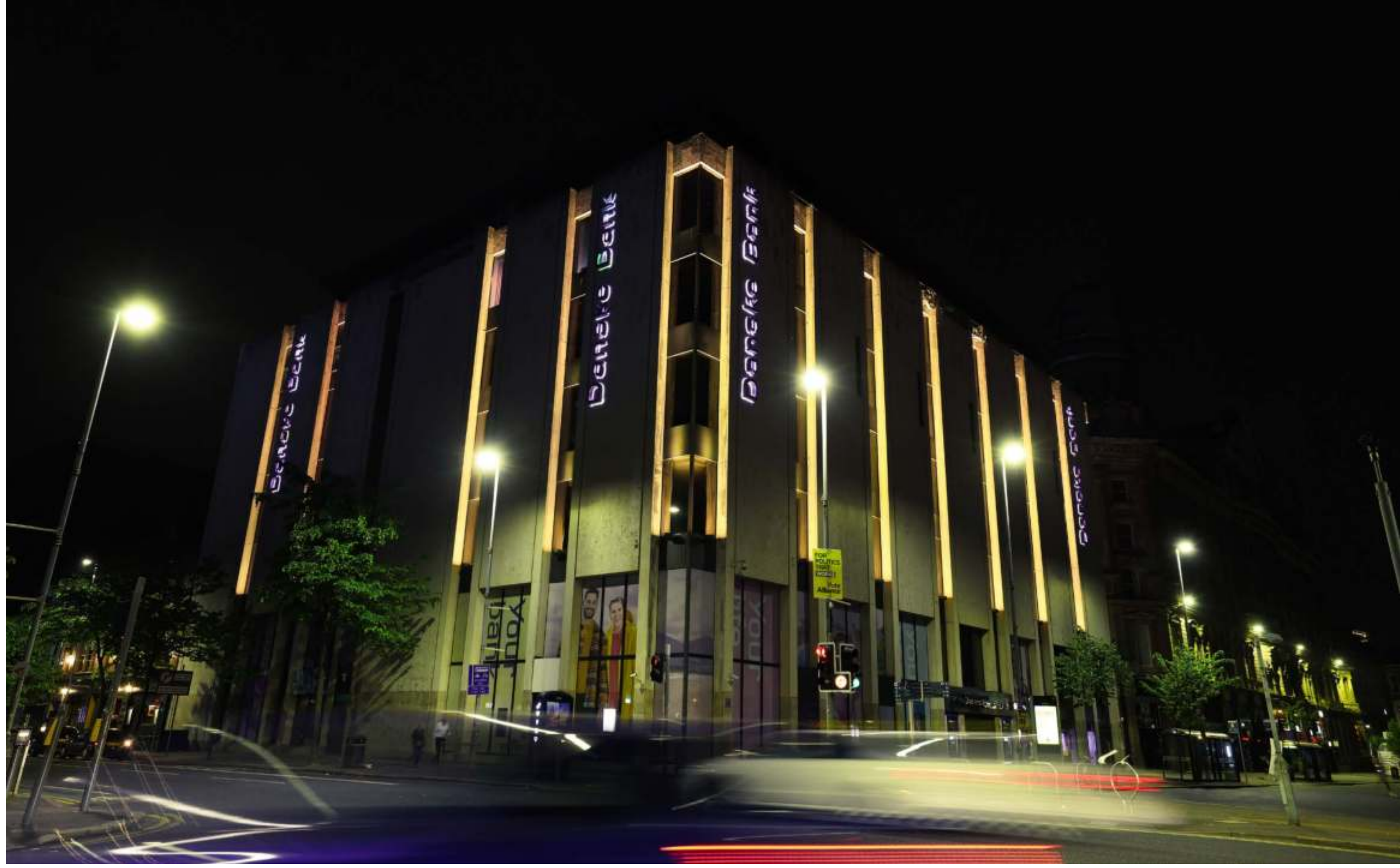
The provision of the breakfasts came at a time of continued cost-of-living challenges and real concern around children getting adequate nutrition. As leading Business in the Community members, Danske Bank and Belfast Harbour both made corporate donations to establish the fund with further funding sought from the wider business community. The donations were used to fund primarily breakfast clubs, classroom grab-and-go breakfasts and white goods.

The Bank also formed part of a taskforce made up of member representatives to help guide the work of the Good Food Fund. This represents one of the many initiatives undertaken, with the endorsement of the Board, to support local communities via a range of financial and non-financial measures including, volunteering, fundraising for the Bank's Charity Partner 'Aware', provision of financial support from the Employees Charity Group and donating food and clothing etc.

The Board continues to monitor the impact of the ongoing cost of living challenges on society in general, taking these impacts into account when considering how best to support our customers, colleagues and local communities who are all impacted by the volatile and challenging environment.

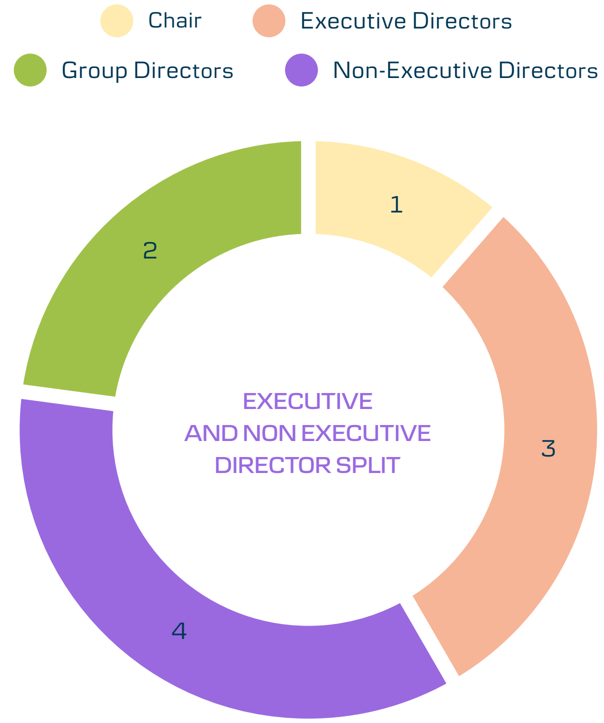
Positive outcomes resulting from our donations are summarised in our Sustainable and Responsible Business Report on page 40.

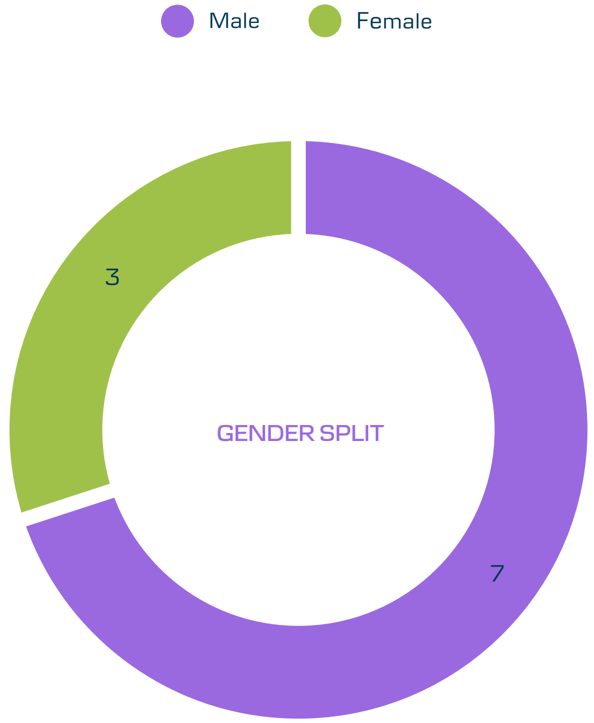




OUR BOARD OF DIRECTORS

Membership and Composition





Board of Directors

KEY:

REM	Renumeration Committee	AUDIT	Audit Committee	NONE	None
NOM	Nominations Committee	RISK	Risk Committee		Committee Chair

BOARD CHAIR

Martin Stewart

Chair of the Board

Appointed:

January 2020 and assumed the role of Chair on 1 January 2023

Committee Membership:

NOM REM RISK AUDIT

Experience:

Board-level Business Leader, Non-Executive Director and Board Advisor. Former Head Regulator for UK Domestic Banks, and Director for UK Banks, Building Societies & Credit Unions at the Bank of England's Prudential Regulation Authority (PRA).

External Appointments:

Chair of Board Risk Committee at Coventry Building Society and consultant to governments, regulators, investors and financial services businesses.

EXECUTIVE DIRECTORS

Vicky Davies

Executive Director & Chief Executive Officer

Appointed:

November 2016 and assumed the role of CEO on 1 September 2021

Committee Membership:

NONE

Experience:

20 years' experience in senior roles in Financial Services in RBS and Danske Bank, having started her career as a management consultant with Accenture and with experience in industry working under Private Equity ownership.

External Appointments:

Non-Executive Director of UK Finance, Non-Executive Director of the Northern Ireland Chamber of Commerce, Chair of the Advisory Board of Business in the Community Northern Ireland, and Trustee of Business in the Community in the UK.

Stephen Matchett

Executive Director, Deputy Chief Executive Officer & Chief Financial Officer

Appointed:

June 2015

Committee Membership:

NONE

Experience:

Over 20 years' experience in financial services in senior roles with Bank of Ireland including CFO for Bank of Ireland's UK activities, having started his career in accountancy with Deloitte and subsequently PWC.

External Appointments:

Member of the CBI's UK Financial Services Council and acts as an advisor to the Northern Ireland Audit Office.

Richard Caldwell

Executive Director, MD, GB & Corporate Strategy

Appointed:

September 2022

Committee Membership:

NONE

Experience:

Over 25 years' experience in financial services having held Executive positions in both Personal and Business Banking and currently Managing Director, GB & Corporate Strategy, with overall responsibility for the Bank's Corporate Strategy.

External Appointments:

Trustee of a national charity, Kidney Care UK, where he is a member of the Board, Audit, Risk and Remuneration committees.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Michael Black

Senior Independent Director

Appointed:

April 2016

Committee Membership:

AUDIT RISK NOM

Experience:

Chartered Accountant (FCA) whose career includes roles in Corporate Finance and the high-tech industry, including roles as Finance Director, Managing Director and General Manager. Michael is also Head of Corporate Development at NearForm, a software and digital consultancy firm.

External Appointments:

Michael's current non-executive/advisory portfolio includes Chair roles in software and technology companies.

Astrid Grey

Independent Non-Executive Director

Appointed:

February 2020

Committee Membership:

RISK NOM REM AUDIT

Experience:

Risk professional with almost 30 years in Financial Services in Investment and Commercial banking globally, in a variety of senior roles in both Deutsche Bank and Lloyds Banking Group.

External Appointments:

Non-Executive Director, Deputy Chair and Chair of Board Risk Committee at CAF Bank and Chair of the Risk Committee and the Senior Independent Director of HSBC Innovation Bank Ltd.

Alastair Hamilton

Independent Non-Executive Director

Appointed:

May 2020

Committee Membership:

RISK NOM

Experience:

Former Chief Executive of Invest NI, Northern Ireland's trade and investment agency and served for a year as Chief Economic Advisor to the First Minister of Northern Ireland. Prior to joining Invest NI, he held a number of senior management positions at BT.

External Appointments:

Director of FP Mission Society Africa, an NGO which operates in Kenya and Uganda.

Michele Turmore

Independent Non-Executive Director

Appointed:

December 2022

Committee Membership:

REM NOM RISK

Experience:

During over 40 years in Financial Services, Michele has held a number of leadership and Executive roles at Lloyds, TSB, Harrods and Allica Banks across IT, Digital & Operations, Retail & Commercial, Credit & Operational Risk, Programme Change and Insurance & Wealth Management.

External Appointments:

Non-Executive Director and Chair of the Remuneration Committee at Shawbrook Bank and Chair of the Risk Committee at Davies Broking Services Ltd, Davies Intermediary Support Services Ltd and Davies MGA Services Ltd (Davies Insurance Group).

GROUP DIRECTORS

Frans Woelders

Group Director

Appointed:

March 2023

Committee Membership:

NONE

Experience:

30 years financial services experience in a variety of roles in Operations, IT and Retail Banking within the ABN AMRO Group as well as two years as Chief Digital Officer, Personal Banking with Royal Bank of Scotland, prior to joining Danske Bank A/S as Chief Operating Officer and a member of the Executive Leadership Team.

External Appointments:

No current appointments.

Michel van Drie

Group Director

Appointed:

October 2022

Committee Membership:

NONE

Experience:

30 years international financial services experience in a variety of senior roles principally within ABN AMRO Bank NV including Head of Retail Daily Banking, Head of IT Solutions/CIO Retail Commercial Banking & Functions and Head of Operations. He joined Danske Bank in 2021 as Chief Operating Officer, Technology & Services, Large Corporates & Institutions.

External Appointments:

No current appointments.

OTHER CORPORATE GOVERNANCE INFORMATION

Company Secretary	Fiona Sturgess
Registered Office	Donegall Square West, Belfast, BT1 6JS
Registered Company Number	R0000568
Independent Auditors	Deloitte (NI) Limited, Chartered Accountants and Statutory Auditor, Lincoln Building, 27-45 Great Victoria Street, Belfast, BT2 7SL

Executive Committee

Vicky Davies
CEO

- Joined Danske Bank in 2012
- CEO since September 2021
- Previously MD, Strategy & Corporate Development & Deputy CEO
- Prior Experience in RBS & Accenture
- 20 years FS Experience
- MBA from INSEAD & Certified Bank Director

Stephen Matchett
Deputy CEO & CFO

- Joined Danske Bank in 2014 as Chief Financial Officer
- Deputy CEO since 2019
- Qualified Accountant at Deloitte & PWC
- Significant prior experience in Bank of Ireland (UK) plc
- Over 20 years FS Experience

Richard Caldwell
MD, GB & Corporate Strategy

- Joined Danske Bank in 1996
- MD, GB & Corporate Strategy since 2021
- Previously MD, Strategy & Corporate Development
- 27 years FS Experience
- Certified Bank Director

Shaun McAnee
MD, Corporate & Business Banking

- Joined Danske Bank in 2012
- MD, Corporate & Business Banking since 2015
- Previously MD, Corporate Banking
- Prior Experience in RBS
- 37 years FS Experience
- MBA from Ulster University

Caroline van der Feltz
HR Director

- Joined Danske Bank in 2015 as HR Director
- Previous Experience in RBS and Reckitt Benckiser
- 25 years FS Experience
- Chartered Fellow CIPD, Board FSSC
- IOD and CIPD HR Director of Year

Liam Curran
Chief Information Officer

- Joined Danske Bank in 1997
- CIO since 2021
- Previously Head of Operations from 2017
- 25 years FS Experience
- Certified Bank Director
- MBA from Ulster University

Phil Smyth
Chief Risk Officer

- Joined Danske Bank in 2012
- CRO since 2020
- Previously Head of Internal Audit at Danske from 2012 – 2017
- Qualified Accountant at Deloitte and Certified Bank Director
- Board Member of IOD NI

Aisling Press
MD, Personal Banking

- Joined Danske Bank in 2016
- MD, Personal Banking since 2020
- 36 years FS Experience including 29 at AIB Bank prior to Danske
- IOD Certified Director & DIP IOD
- Board Member of SistersIn
- MSC in Executive Leadership

Vicki Hassan
Operations Director

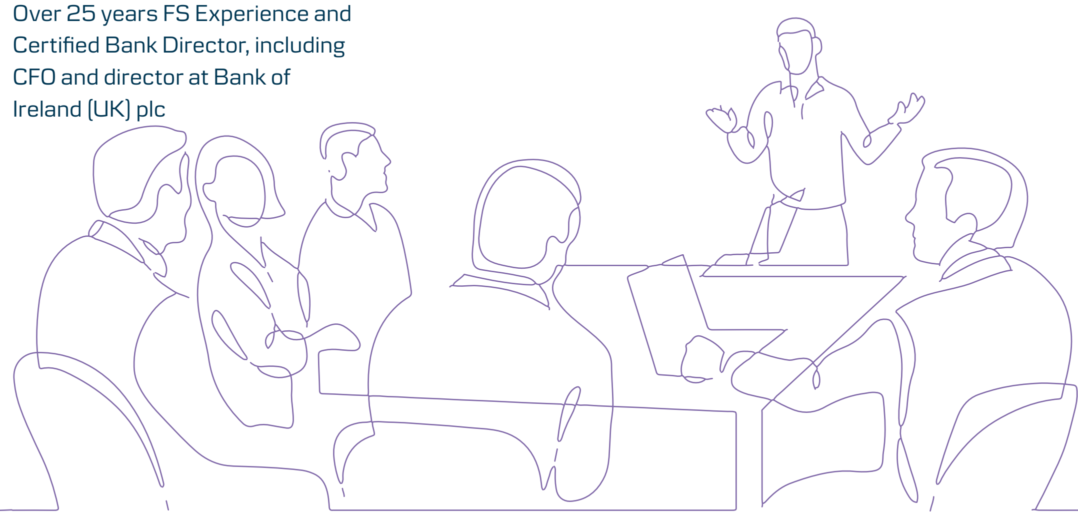
- Joined Danske Bank in 2013
- Operations Director since 2021
- Previously Head of Strategic Initiatives and Head of Transaction Banking & Fraud Management
- Prior Experience in RBS
- 33 years FS Experience

Danny Stinton
Commercial Development Director

- Joined Danske Bank in 1996
- Commercial Director since 2021
- Previously Head of Specialist Business, Senior Strategy Manager and Head of Customer Journeys
- 27 years FS experience

Thomas McAreavey
Deputy Chief Risk Officer

- Joined Danske Bank in 2023
- Deputy CRO since 2023
- Qualified Accountant with PWC
- Over 25 years FS Experience and Certified Bank Director, including CFO and director at Bank of Ireland (UK) plc



REPORT OF THE DIRECTORS

Introduction

The Directors of Northern Bank Limited (the "Bank") submit their annual report and audited financial statements (Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement) for the year ended 31 December 2023.

The Bank's profits, strategic highlights, business developments and management of risk are set out in the Strategic Report, together with information outlined in sections pertaining to Sustainability and Responsible Business Report, TCFD, Risk Management and Governance; along with the Financial Statements.

Financial performance

The Bank's profit after tax was £156.7m for the year ended 31 December 2023 (2022: £103.4m). The Bank's financial performance is further detailed within the Income Statement.

Dividends

The Directors paid no interim dividend during the year (2022: £40,000,000). The Directors do not recommend the payment of a final dividend in respect of this financial year (2022: £Nil).

Financial instruments

The financial instruments are detailed within note 14 of the Financial Statements. Information regarding financial risk management objectives and policies in relation to the use of financial instruments can be found in the Risk Management report from page 75.

Political donations

No political donations were made by the Bank during the 2023 financial year (2022: £Nil).

Foreign branches

The Bank does not operate any foreign branches outside of the UK.

Directors and Directors' interests

The Directors at the year end and to the date of this report were:

- Berit Behring (resigned 16/01/23)
- Michael Black
- Richard Caldwell
- Vicky Davies
- Astrid Grey
- Alastair Hamilton
- Stephen Matchett
- Martin Stewart
- Michele Turmore
- Michel van Drie
- Frans Woelders (appointed 13/03/23)

The Articles of Association do not require the Directors to retire by rotation.

No Director had any disclosable interest in the shares of any Danske Bank Group company.

Directors' liabilities

In terms of section 236 of the Companies Act 2006, the Bank paid a premium for a contract insuring the Directors and officers of Northern Bank Limited, its subsidiaries and controlled entities against personal liabilities which may arise in the course of the performance of their duties, as well as protecting the Bank itself to the extent that it is obligated to indemnify Directors and officers for such liability.

Corporate responsibility

As outlined within the Bank's Strategic Report, the Bank makes a significant and positive contribution to the local Northern Ireland economy by supporting its customers and investing in the communities in which it operates.

The Bank participates in a number of charitable and voluntary sector initiatives whereby employees raise funds and provide volunteering days for community causes.

The Bank is also highly conscious of its impact on the environment and has taken a range of steps to reduce its energy consumption as detailed within the TCFD section from page 44 of this Annual Report.

Corporate governance statement

The Bank has in place its own governance arrangements which are deemed to be appropriate for a company of its size and nature. Further details on the Bank's Corporate Governance Statement are outlined from page 91 of this Annual Report.

Stakeholder engagement

The Directors understand the need to foster the Bank's business relationships with suppliers, customers and others, and have set out the effect of that regard, including on the principal decisions taken by the Bank during the financial year, in the Section 172(1) statement (outlined from page 94 of this Annual Report).

Employee engagement

The Bank carries out an information programme to keep colleagues informed of business objectives and results. This is achieved through regular meetings, Yammer posts, intranet articles and specially commissioned videos as well as training courses for staff.

The Bank consults employees and their representatives within the Financial Services Union on a regular basis so that the views of Bank colleagues are considered in making decisions which are likely to affect their interests.

The results of the Bank's consultation with its employees on principal decisions made are set out in the Section 172(1) statement (outlined from page 96 of this Annual Report).

Additionally, the Bank uses the Best Companies Survey as a means of gaining views from employees on a range of topics.

Employment policies

The Bank fully supports and complies with all legislation which is designed to promote equality of opportunity.

It is the policy of the Bank to promote equality of employment opportunities by giving full and fair consideration to applications from disabled people for vacancies where particular job requirements are considered to be within their ability.

If existing employees become disabled, every effort is made to retain them within the workforce, wherever reasonable and practicable. The Bank also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

Research and developments activities

The Bank does not undertake formal research and development activities although it does invest in products and services in in the ordinary course of business.

Risk management

The Bank's principal risk and uncertainties are contained in the Risk Management section (outlined from page 70 of this Annual Report).

Bribery Act 2010

The Bank adheres to the Bribery Act 2010 and supports a zero tolerance approach to bribery by any person associated with it whether acting in the UK or abroad.

Streamlined Energy and Carbon Reporting

The Bank's Greenhouse Gas (GHG) reporting aligns with the Streamlined Energy and Carbon Reporting regulations.
The following table reports the Bank's GHG emissions, energy use and an intensity ratio. The emission intensity ratio is based upon a 'full – time employee' measure, this being the common metric to benchmark the Bank's emissions performance against other organisations.

The Bank has been calculating and setting targets against our energy use and GHG emissions since 2015. Building upon emissions reduction initiatives since 2015, adaptations and enhancements to heating systems and appliances have continued across the branch network. At the end of 2023 , we have converted our last remaining oil reliant buildings to natural gas as a first interim step towards integrating bio-gas solutions when commercially available in the Northern Ireland Market.

All organisations within Danske Bank Group calculate their GHG emissions using the GHG Protocol (revised edition), the pre-eminent standard for measuring and reporting emissions.

GHG emissions and energy usage data for period 1 January to 31 December(1)

	2023	2022	2021
Emissions from combustion (Scope 1 - tonnes of CO2e)(2)(3)	159	204	415
Emissions from electricity purchased for own use, including for the purposes of transport (Location - based Scope 2 - tonnes of CO2e)(4)	598	539	578
Emissions from electricity purchased for own use, including for the purposes of transport, taking into account contractual agreements (Market - based Scope 2 - tonnes of CO2e)(5)	-	-	-
Emissions from business travel and paper usage (Scope 3 -tonnes of CO2e)(6)	198	116	89
Total Market – based tonnes of CO2e	**357**	**320**	**504**
Total emissions per full-time employee (tonnes of CO2e/Full Time Equivalent)	0.11	0.16	0.32
Total energy use (7) (kWh) (8)	3.70m	3.76m	4.72m

1. Emissions calculated by using IEA and DEFRA emission factors. 2023 emissions figures have been verified by a third party.
2. CO2e: carbon dioxide equivalent.
3. Scope 1: emissions from electricity, heat and steam generated within the organisational boundaries.
4. Scope 2 Location- based: emissions originating from the electricity grid delivered directly for the suppliers.
5. Scope 2 Market- based: emissions from electricity where contractual agreements have been considered. Emissions removed due to Guarantees by Origin and International Renewable Energy Certificates.
6. Scope 3: emissions from purchased goods and services, paper, and business travel (includes air transport and employee car use).
7. Total Energy Use: only accounts for Scope 1 and 2.
8. kWh: kilowatt hour.

Further information about how the Bank calculates emissions is detailed within the Danske Bank Group Sustainability Report and Fact Book at www.danskebank.com

Future developments

Going forward, the Bank will continue to leverage from its strong competitive position in Northern Ireland as our core home market alongside geographical diversification in the Rest of the UK in targeted areas of focus with increased digitalisation to support an efficient and effective range of competitive banking products and services.

Going Concern

The Bank's Directors have made an assessment of the Bank's ability to continue as a going concern and are satisfied that the Bank has the resources to continue in business for the foreseeable future.

The "Principal risks and uncertainties" section in the Risk Management section of the Annual Report describe the risks the Bank is exposed to and how they are managed.

The Bank's use of the going concern basis for preparation of the accounts is discussed in note 1(a) of the Bank's financial statements on page 132.

Post balance sheet events

These are described in note 41 to the financial statements.

Disclosure of information to the auditor

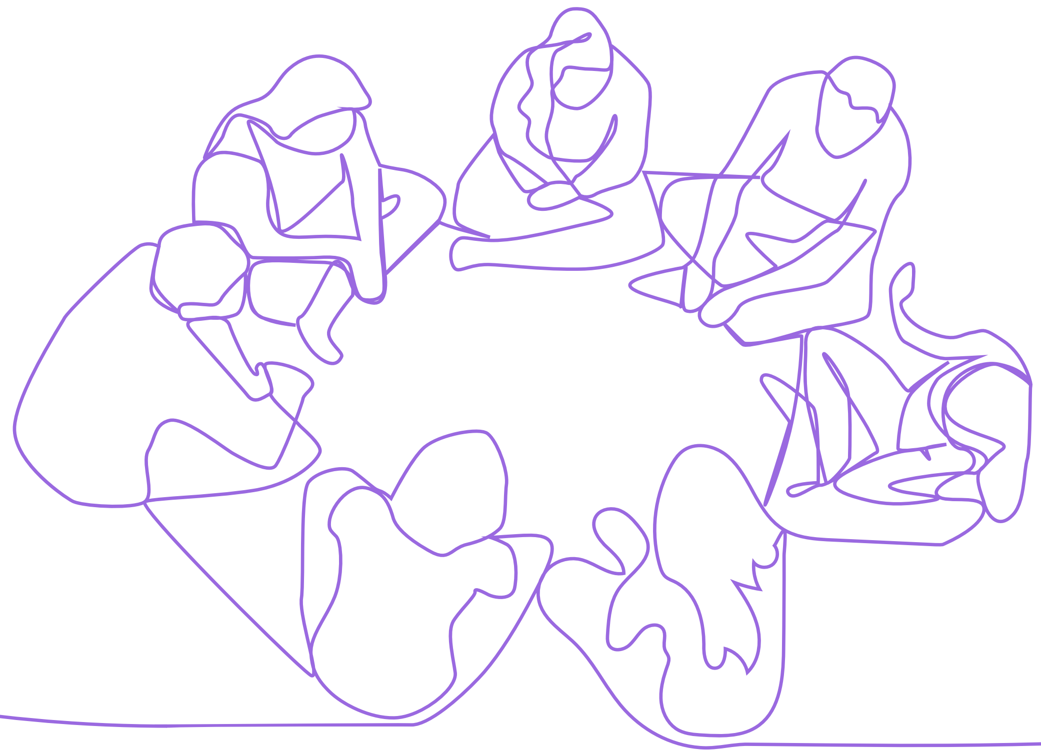
The Directors who hold office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each Director has taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information. The Directors have pleasure in submitting their annual report and audited Financial Statements for the year ended 31 December 2023 to the shareholder.

Auditor

Pursuant to section 487, the auditor will be deemed to be reappointed and Deloitte (NI) Limited will therefore continue in office.

The Report of the Directors approved by order of the Board and signed on behalf of the Board of Directors.

Fiona Sturgess
Company Secretary
22 March 2024



Danske Bank

FINANCIAL STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with the UK adopted International Accounting standards. Under Company Law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these Financial Statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Statement of Directors' Responsibilities is approved by order of the Board and signed on behalf of the Board of Directors

V.A. Davies

Vicky Davies

Executive Director and Chief Executive Officer
22 March 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHERN BANK LIMITED

REPORT OF THE AUDIT OF FINANCIAL STATEMENTS

1. Opinion

In our opinion the financial statements of Northern Bank Limited (the 'Bank'):

- Give a true and fair view of the state of the Bank's affairs as at 31 December 2023 and of its profit for the year then ended;
- Have been properly prepared in accordance with united kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Other Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Cash Flow Statement;
- the material accounting policy information; and
- the related notes 1 to 42.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law.
Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Bank.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters
The key audit matters that we identified in the current year were:

- Expected credit losses on loans and advances to customers;
- Valuation and recoverability of the deferred tax asset; and
- Valuation of defined benefit pension scheme obligations.

Within this report, key audit matters are identified as follows:

! NEWLY IDENTIFIED

INCREASED LEVEL OF RISK

SIMILAR LEVEL OF RISK

DECREASED LEVEL OF RISK

Materiality	The materiality that we used in the current year was £9,019,000 which was determined on the basis of total equity.
Scoping	We determined the scope of our audit by updating our understanding of the Bank and its operating environment, including the identification of key controls, and assessing the risks of material misstatement.
Significant changes in our approach	There were no significant changes to our audit approach.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the going concern assessment prepared by the Bank;
- Evaluating the design and determining the implementation of the relevant controls in place over the approval of the Bank's forecasts;
- Evaluating the financial forecast prepared by the Bank, including considering whether key assumptions used in the preparation of the forecast are reasonable and whether the forecast reflects the estimated economic impacts of risks relating to the Bank,
- Evaluating the Bank's ability to forecast accurately based on assessment of the historical accuracy of forecasts;
- Evaluating the Bank's latest capital and liquidity plans (including the Internal Capital Adequacy Assessment Process ('ICAAP') and Individual Liquidity Adequacy Assessment Process ('ILAAP')), and related stress tests, to assess financial position; and
- Concluding on the adequacy of the financial statement disclosures relating to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. EXPECTED CREDIT LOSSES ON LOANS AND ADVANCES TO CUSTOMERS

Key audit matter description

As required by IFRS 9 "Financial Instruments", losses on financial assets which are recognised at amortised cost are recognised on an expected credit loss basis. Expected credit losses ('ECLs') are required to incorporate forward-looking information, reflecting management's view of potential future economic environments. The complexity involved in the calculations require management to develop methodologies involving the use of significant judgements. This includes the risk that:

- Inappropriate valuation of collateral is used, or other significant cash flows used, in the individually assessed stage 3 provision calculations are materially misstated;
- Key assumptions used within the expected credit loss models do not accurately reflect the behaviour of the loan portfolio and the macro-economic environment, thus leading to an inappropriate valuation of ECLs;
- Significant increases in credit risk are not identified, resulting in inaccurate staging classification under IFRS 9; and
- Post model adjustments are not accurate, complete or valued appropriately.

At 31 December 2023, the ECL on loans and advances to customers was £88.0 million (2022: £98.3 million), representing a coverage level of 1.3% on a total portfolio of £6,828 million (2022: 1.5% on a total portfolio of £6,433 million). Measurement of the ECL allowance on loans and advances to customers is a key audit matter as the assumptions used in determining the ECL are highly subjective due to the level of judgement applied by management. The most significant judgements include:

Independent Auditor's Report to the members of Northern Bank Limited

Key audit matter description (continued)

- Determining the criteria for a significant increase in credit risk and for being classified as credit impaired;
- Accounting interpretations and assumptions used to build the models that calculate the ECL;
- The determination of key assumptions, including collateral valuation and cashflow timings, used in discounted cash flows ("DCFs") of individually assessed loans;
- The completeness and accuracy of data used to calculate the ECL;
- The completeness and valuation of post-model adjustments determined by Management for certain higher risk portfolios and to address known model limitations; and
- Establishing the number and relative weightings for forward looking macroeconomic scenarios applied in measuring the ECL. This is highly subjective given that such assumptions are subject to significant uncertainty related to future economic outcomes, including the cost of living crisis and the knock-on impact on customers' ability to meet their repayments. This results in a wide range of possible outcomes.

The Bank's accounting policy for (ECLs) is disclosed in note 1(d) to the financial statements. The key sources of estimation uncertainty in relation to ECLs are disclosed in note 1(b) to the financial statements and further disclosures are presented in notes 16 and 17 to the financial statements.

How the scope of our audit responded to the key audit matter

We tested the operating effectiveness of key controls supporting the calculation of ECLs on loan and advances to customers focusing on:

- Model development, validation and approval to ensure compliance with IFRS 9 requirements;
- Governance and approval of the output of IFRS 9 models;
- Review and approval of key assumptions, judgements and macroeconomic forward-looking information used in the models; and
- Front line credit monitoring and assessment controls including individual case file reviews.

Our testing of key controls included evaluating the design, determining the implementation testing and testing the operating effectiveness of the controls, as well as an evaluation of IT system controls, management review controls and governance controls.

Furthermore, we evaluated the design and determined the implementation of key controls supporting the governance and approval of post-model adjustments recorded by management.

We understood and critically assessed the ECL models developed by the Bank. Our group audit team in Denmark used credit-modelling specialists to challenge the judgements and assumptions supporting the ECL requirements. These included assumptions used in the ECL models applied in stage allocation, calculation of probability of default and methods applied to derive loss given default rates.

We assessed the reasonableness of the forward-looking information incorporated into the impairment calculations including assessing management's experts. We challenged the multiple macroeconomic scenarios chosen and the weightings applied. This included benchmarking the reasonableness of economic data used to recognised external data sources.

We considered material post-model adjustments applied by Management to address model and data limitations. We challenged the rationale for these adjustments and performed testing on their calculation and application.

We tested a risk-based sample of manually rated loans (focusing our significant risk on those stage 2 loans closest to default) to ensure that they were included in the correct stage in accordance with the Bank's methodology and IFRS 9.

How the scope of our audit responded to the key audit matter (Continued)	In examining a sample of individually assessed Stage 3 loans, we challenged management on the judgements made regarding the application of default policy, collateral valuation and realisation time frames; and examined the credit risk function's analysis of data at a portfolio level. Where appropriate, this work involved assessing third party valuations of collateral, internal valuation guidelines, and external expert reports on borrowers' business plans. This allowed us to determine whether appropriate valuation methodologies were employed and to assess the objectivity of the external experts used. We evaluated the adequacy of disclosures made in the financial statements. In particular, we focused on challenging management that the disclosures were sufficiently clear in highlighting the significant uncertainties that exist in respect of the ECL allowance and the sensitivity of the allowance to changes in the underlying assumptions.
Key observations	Based on the evidence obtained, we found that the ECLs on loans and advances to customers are within a range we consider to be reasonable.

5.2. VALUATION AND RECOVERABILITY OF THE DEFERRED TAX ASSET

Key audit matter description	The assessment of the conditions for the recognition of a deferred tax asset is a critical Management judgement, given the inherent uncertainties associated with projecting profitability over a long time period. This is highly subjective given the significant uncertainty related to future economic outcomes. The Bank has recognised a net deferred tax asset at 31 December 2023 of £55.4 million (2022: £36.5 million). This comprises a gross deferred tax asset of £56.9 million (2022: £46.2 million) and a gross deferred tax liability of £1.5 million (2022: £9.6 million). The gross deferred tax asset includes £43.1 million (2022: £37.3 million) which has been recognised in respect of brought forward tax losses. This is based on the Bank's forecast profitability over a period of 5 years ending 31 December 2028 (2022: 5 years ending 31 December 2027). Owing to increased forecasted profitability, there are no unrecognised brought forward tax losses. The 5-year period supporting the recognition is consistent with the period that the Bank prepares its strategic plan for, including profit, capital and liquidity forecasts, and which management have concluded can be forecast with reasonable certainty. The key audit matter relates to the Management judgement involved in the recognition and measurement of the deferred tax asset. The Bank's accounting policy for deferred tax is disclosed in note 1(d), the key sources of estimation uncertainty in relation to the recognition of the deferred tax asset are disclosed in note 1(b) and further disclosures are presented in note 23 to the financial statements.
How the scope of our audit responded to the key audit matter	We assessed the policy, process and governance in place over the recognition of the deferred tax asset. This included evaluating the design and determining the implementation of controls over the completeness and accuracy of the year-end tax calculations and the forecast financial information. We challenged the key assumptions, both positive and negative, included in the calculation of the asset recognised, including the recovery period selected. We assessed the ability of the Bank to recover the asset by evaluating future approved profit forecasts.

How the scope of our audit responded to the key audit matter (Continued)	We recalculated the deferred tax asset based on future profit forecasts and challenged whether the recovery period selected was appropriate and independently benchmarked the recognition policy against peer banks and industry norms.
Key observations	Based on the evidence obtained, we found that the assumptions used by Management in the recognition of the deferred tax asset are within a range we consider to be reasonable.

5.3. VALUATION OF DEFINED BENEFIT PENSION SCHEME OBLIGATIONS

Key audit matter description	Determining the key assumptions used to calculate the present value of defined benefit pension scheme obligations of £767.2 million (2022: £763.2 million) included in the pension surplus requires significant management judgement in relation to discount rates, inflation rates and mortality assumptions. This presents a risk that the principal assumptions used to determine the valuation of the pension scheme obligations are not supportable and the valuation is inaccurate. There is a high degree of estimation and judgement in the calculation of defined benefit obligations. A material change in the liability can result from small movements in the underlying actuarial assumptions, specifically the discount rates, mortality assumptions and inflation rates. The key audit matter is that the recognition and measurement of defined benefit obligations is inappropriate. The Bank's accounting policy for pension scheme obligations is disclosed in note 1(d) to the financial statements. The key sources of estimation uncertainty in relation to the defined benefit pension scheme are disclosed in note 1(b) to the financial statements and further disclosures are presented in note 27 to the financial statements.
How the scope of our audit responded to the key audit matter	We evaluated the design and determined the implementation of controls over the valuation of the pension scheme obligations. We utilised Deloitte actuarial specialists as part of our team to assist us in challenging the appropriateness of actuarial assumptions with particular focus on the discount rate, mortality rates and inflation rates. Our work included inquiries of management and their actuaries to understand the processes and assumptions used in calculating defined benefit obligations. We benchmarked the key assumptions that underpin the pension scheme obligations, being discount rate, inflation rate and mortality rate. We evaluated and assessed the adequacy of disclosures made in the financial statements, including disclosures of the assumptions and sensitivity of the defined benefit obligations to changes in the underlying assumptions.
Key observations	Based on the evidence obtained, we concluded that assumptions used by Management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable when considered as a whole.

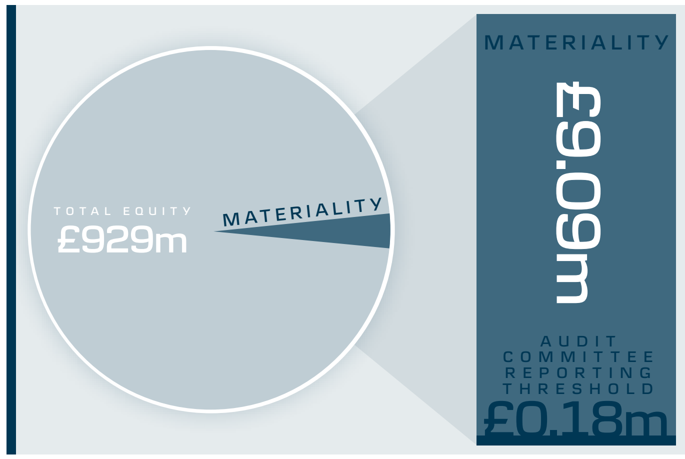
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£9,019,000 (2022: £8,556,000)
Basis for determining materiality	1% of total equity (2022: 1% of total equity).
Rationale for the benchmark applied	We have considered total equity to be a critical component for determining materiality as it is one of the principal measures for users of the financial statements in assessing the Bank's financial position. We have considered quantitative and qualitative factors such as our understanding the entity and its environment, history of misstatements, complexity of the Bank and the reliability of the control environment.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2022: 70%). In determining performance materiality, we considered the following factors:

a. Our understanding of the Bank and its environment;
b. The reliability of the Bank's internal control over financial reporting and whether we were able to rely on controls; and
c. The nature, volume and size of misstatements (both corrected and uncorrected) in the previous audit.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £180,000 (2022: £174,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

We determined the scope of our audit by updating our understanding of the Bank and its operating environment, including the identification of key controls, and assessing the risks of material misstatement.

There have been no significant changes to the scope of our audit compared to the prior year.

7.2. Our consideration of climate-related risks

In planning our audit, we have considered the potential impacts of the climate-related risks identified by management on the Bank's business and its financial statements.

The Bank has set out its strategic ambition on climate and the related risks and governance processes on page 82 (within the Risk Management report) and page 49 (within the TCFD disclosures) of the annual report. Management have identified whilst the impact of both the physical and transitional risks of climate change provide a source of significant uncertainty, the Bank does not consider there to be a material impact on its estimates within the financial statements.

As part of our audit, we have made inquiries of management to understand their process for considering the impact of climate-related risks. In addition, we are required to read the Bank's disclosure of climate related information in the front half of the annual report, including the Climate-Related Financial Disclosures (CFD) listed on page 30 and the TCFD disclosures listed on pages 44-63, to consider whether they are materially inconsistent with the financial statements or knowledge obtained in the audit. We did not identify any material inconsistencies as a result of these procedures.

7.3. Working with other auditors

Given the centralised nature of certain processes and controls across the Danske Bank Group, we worked with the group audit team in Denmark to perform procedures over: general IT controls, certain group wide controls, derivatives and hedging, and model driven ECL impairments. These procedures were performed to local materiality.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Independent Auditor's Report to the members of Northern Bank Limited

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Bank's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, legal counsel, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Bank's sector;
- any matters we identified having obtained and reviewed the Bank's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of expected credit losses on loans and advances to customers, valuation and recoverability of the deferred tax asset, valuation of defined pension scheme obligations, and revenue recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Bank operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation, tax legislation, as well as the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA') regulatory requirements.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Bank's ability to operate or to avoid a material penalty. These included the Bank's liquidity and capital requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of expected credit losses on loans and advances to customers, valuation and recoverability of the deferred tax asset, and the valuation of defined pension scheme obligations as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- Enquiring of management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the bank's primary regulators, the Prudential Regulatory Authority and the Financial Conduct Authority;
- In addressing the presumed risk of fraud in revenue recognition, evaluating the design and determining the implementation of controls in place to ensure that manual journals are appropriately reviewed before posting, as well as testing the appropriateness of manual journal entries made to revenue, with emphasis on those journal entries made near or after year end; and
- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.
We have nothing to report in respect of this matter.

We have nothing to report in respect of these matters.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors in 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 December 2015 to 31 December 2023.

Independent Auditor's Report to the members of Northern Bank Limited

14.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose.

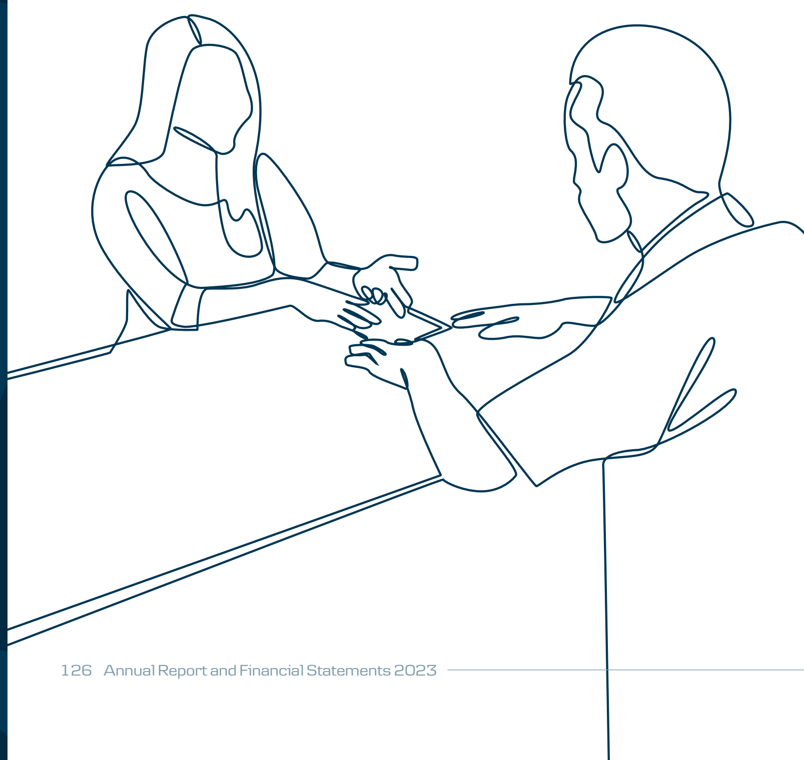
To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Niamh Geraghty

Niamh Geraghty, FCA (Senior statutory auditor)
For and on behalf of Deloitte (NI) Limited
Chartered Accountants and Statutory Audit Firm
Statutory Auditor
Lincoln Building
27-45 Great Victoria Street
Belfast, Northern Ireland
22 March 2024

Index of disclosure notes to the financial statements

for the year ended 31 December 2023



Income Statement

for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Interest and similar income	2	456,611	242,626
Interest expense	2	(159,585)	(23,809)
Net interest income		297,026	218,817
Fee and commission income	3	46,020	46,232
Fee and commission expense	3	(7,532)	(5,684)
Net trading income	2	(3,805)	11,706
Other operating income	4	1,812	2,434
Non-interest income		36,495	54,688
Operating income		333,521	273,505
Operating expenses	5	(157,020)	(146,981)
Depreciation and amortisation expense	10	(3,646)	(3,364)
Profit before loan impairment credit /(charge)		172,855	123,160
Loan impairment credit /(charge)	16	13,105	(19,859)
Profit before tax		185,960	103,301
Tax (charge)/credit	11	(29,241)	109
Profit for the year		156,719	103,410
Portion attributable to:			
- Shareholders of Northern Bank Limited		136,036	91,053
- Additional tier 1 capital holders		20,683	12,357
		156,719	103,410

All material items dealt with in arriving at the profit before tax relate to continuing activities.

The notes on pages 132 to 194 form part of these Financial Statements.

Statement of Other Comprehensive Income
for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Profit for the year		156,719	103,410
Items that will not be reclassified to profit or loss			
Changes in defined retirement benefit scheme			
- Actuarial loss recognised in retirement benefit scheme	27	(106,904)	(80,050)
- Taxation impact	23	29,931	20,049
Changes in valuation of properties			
- (Loss) / gain on property revaluation	20	(1,155)	243
- Taxation impact	23	426	677
Items that may be reclassified subsequently to profit or loss			
Change in reserve for investment securities at fair value			
- Unrealised value adjustments of investment securities at fair value		21,919	(36,724)
- Transfer to the income statement on disposal (pre-tax)	2	14,330	-
- Taxation impact	23	(10,149)	10,100
Change in cash flow hedge reserve			
- Gains / (losses) during the year	14e	9,406	(8,578)
- Taxation impact	23	(2,633)	2,244
Total other comprehensive income (net of tax)		(44,829)	(92,039)
Total comprehensive income for the year (net of tax)		111,890	11,371
Portion attributable to:			
Shareholders of Northern Bank Limited		91,207	(986)
Additional tier 1 capital holders		20,683	12,357
Total comprehensive income for the year (net of tax)		111,890	11,371

The notes on pages 132 to 194 form part of these Financial Statements.

Balance Sheet
as at 31 December 2023

	Note	31 December 2023 £'000	31 December 2022 £'000
ASSETS			
Cash and balances at central bank	12	3,299,543	3,350,828
Items in the course of collection from other banks		41,191	32,139
Due from other banks	13	10,283	41,711
Derivative financial instruments	14	75,457	89,324
Investment securities	15	3,367,408	3,369,156
Investment in subsidiaries	18	250	250
Loans and advances to customers	16	6,739,732	6,334,707
Intangible assets	19	1,608	522
Property, plant and equipment	20	36,823	38,822
Right-of-use asset	21	4,783	4,618
Assets held for sale	22	588	707
Defined benefit pension asset	27	4,804	78,009
Current tax assets		1,314	6,785
Deferred tax asset	23	55,404	36,533
Other assets	24	58,179	36,280
Total assets		13,697,367	13,420,391
LIABILITIES			
Due to other banks	25	431,125	404,807
Items in course of transmission to other banks		44,130	26,068
Derivative financial instruments	14	48,519	82,808
Deposits from customers	26	11,333,715	11,229,589
Notes in circulation		711,125	664,728
Other liabilities	28	68,156	43,049
Provisions	30	1,256	2,150
Subordinated debt instruments	31	130,000	130,000
Total liabilities		12,768,026	12,583,199
EQUITY			
Share capital	33	218,170	218,170
Other equity instruments	34	226,895	225,953
Share premium account		306,590	306,590
Revaluation reserve		32,506	33,418
Reserve for investment securities at fair value		(2,970)	(29,070)
Cash flow hedge reserve		(1,676)	(8,449)
Retained earnings		149,826	90,580
Total equity and shareholders' equity		929,341	837,192
Total liabilities and equity		13,697,367	13,420,391

The notes on pages 132 to 194 form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 22 March 2024 and were signed on its behalf by:

V.A. Davies

Vicky Davies
Director and Chief Executive Officer

Stephen Matchett

Stephen Matchett
Director, Deputy Chief Executive Officer and Chief Financial Officer

Northern Bank Limited, Company Number: R0000568, 22 March 2024

Statement of Changes in Equity

for the year ended 31 December 2023

	Note	Share Capital	Share Premium	Revaluation Reserve	Cash flow Hedge reserve	Reserve for Securities at Fair value	Retained Earnings	Total attributable to Shareholders of Northern Bank	Total attributable to Additional tier 1 Capital holders	Total Equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2022		218,170	306,590	33,892	(2,115)	(2,446)	98,134	652,225	96,974	749,199
Profit for the year		-	-	-	-	-	91,053	91,053	12,357	103,410
Other comprehensive income/(loss):										
- Actuarial loss recognised in retirement benefit scheme	27	-	-	-	-	-	(80,050)	(80,050)	-	(80,050)
- Transfer re property disposals		-	-	(1,394)	-	-	1,394	-	-	-
- Property revaluation	20	-	-	243	-	-	-	243	-	243
- Investment securities at fair value		-	-	-	-	(36,724)	-	(36,724)	-	(36,724)
- Cash flow hedge reserve	14e	-	-	-	(8,578)	-	-	(8,578)	-	(8,578)
- Taxation impact	23	-	-	677	2,244	10,100	20,049	33,070	-	33,070
Total other comprehensive income/(loss)		-	-	(474)	(6,334)	(26,624)	(58,607)	(92,039)	-	(92,039)
Total comprehensive income for the year		-	-	(474)	(6,334)	(26,624)	32,446	(986)	12,357	11,371
Transactions with owners:										
Dividends paid to shareholders		-	-	-	-	-	(40,000)	(40,000)	-	(40,000)
AT1 issuance	34	-	-	-	-	-	-	-	222,000	222,000
AT1 redemption	34	-	-	-	-	-	-	-	(96,000)	(96,000)
AT1 distributions paid		-	-	-	-	-	-	-	(9,378)	(9,378)
At 31 December 2022		218,170	306,590	33,418	(8,449)	(29,070)	90,580	611,239	225,953	837,192
Profit for the year		-	-	-	-	-	136,036	136,036	20,683	156,719
Other comprehensive income/(loss):										
- Actuarial loss recognised in retirement benefit scheme	27	-	-	-	-	-	(106,904)	(106,904)	-	(106,904)
- Transfer re property disposals		-	-	(183)	-	-	183	-	-	-
- Property revaluation	20	-	-	(1,155)	-	-	-	(1,155)	-	(1,155)
- Changes in fair value		-	-	-	-	21,919	-	21,919	-	21,919
- Transfer to income statement		-	-	-	-	14,330	-	14,330	-	14,330
- Cash flow hedge reserve	14e	-	-	-	9,406	-	-	9,406	-	9,406
- Taxation impact	23	-	-	426	(2,633)	(10,149)	29,931	17,575	-	17.575
Total other comprehensive income/(loss)		-	-	(912)	6,773	26,100	(76,790)	(44,829)	-	(44,829)
Total comprehensive income for the year		-	-	(912)	6,773	26,100	59,246	91,207	20,683	111,890
Transactions with owners:										
Dividends paid to shareholders		-	-	-	-	-	-	-	-	-
AT1 issuance	34	-	-	-	-	-	-	-	-	-
AT1 redemption	34	-	-	-	-	-	-	-	-	-
AT1 distributions paid		-	-	-	-	-	-	-	(19,741)	(19,741)
At 31 December 2023		218,170	306,590	32,506	(1,676)	(2,970)	149,826	702,446	226,895	929,341

The notes on pages 132 to 194 form part of these Financial Statements.

Cash flow Statement

for the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Cash flow from operating activities			
Profit on ordinary activities before tax		185,960	103,301
Adjusted for operating activities			
- Amortisation of investment securities		(12,291)	5,212
- Amortisation of intangible assets	19	485	94
- Depreciation of property, plant and equipment	20	2,027	2,115
- Depreciation of right-of-use asset	21	1,134	1,155
- Loan impairment (credit) / charge	16	(13,105)	19,859
- Other non-cash items		21,058	(14,873)
- Defined benefit pension scheme expense	27	(2,298)	(1,755)
- Defined benefit pension scheme contributions	27	(31,401)	(2,096)
- Tax paid		(25,067)	(22,947)
Adjusted for changes in operating assets and liabilities			
- Net changes in Items in transit		9,010	501
- Net changes in loans and advances to customers		(391,920)	(147,902)
- Net changes in derivative financial instruments		(11,016)	(28,995)
- Net changes in due to other banks	25	26,318	38,196
- Net changes in deposits		104,126	68,231
- Net changes in notes in circulation		46,397	30,692
- Net changes in other assets / liabilities		(19,029)	10,065
Net cash flow provided by operating activities		(236,114)	(29,212)
Cash flow from investing activities			
Purchase of investments - hold to collect		(439,077)	(1,113,378)
Maturity of investments - hold to collect		343,800	135,000
Purchase of investments - hold to collect and sell		(316,956)	(365,859)
Maturity and sale of Investments – hold to collect and sell		462,521	159,491
Acquisition of intangible assets	19	(1,571)	(582)
Acquisition of tangible fixed assets	20	(1,363)	(1,130)
Proceeds from sale of tangible fixed assets		285	2,318
Net cash flow provided by investing activities		47,639	(1,184,140)
Cash flow from financing activities			
Redemption of subordinated debt		-	(126,000)
Issue of subordinated debt instruments (non-senior securities)	31	-	130,000
Dividends paid to shareholders		-	(40,000)
Payments of interest to AT1 capital holders		(19,741)	(9,377)
Redemption of AT1 capital	34	-	(96,000)
Increase in AT1 capital	34	-	222,000
Principal portion of finance lease payments		(999)	(981)
Net cash flow provided by financing activities		(20,740)	79,642
Net change in cash and cash equivalents		(82,713)	(1,043,645)
Reconciliation of movement in cash and cash equivalents			
Cash and cash equivalents, beginning of year		3,392,539	4,436,184
Net change in cash and cash equivalents		(82,713)	(1,043,645)
Cash and cash equivalents, end of year		3,309,826	3,392,539
Reconciliation to the closing cash and cash equivalents held			
Cash assets and demand deposits with central banks			
-mandatory deposits	12	1,563,354	1,499,913
-non mandatory deposits	12	1,736,189	1,850,915
Deposits with credit institutions and central banks - with terms shorter than 3 months	13	10,283	41,711
Cash and cash equivalents, end of year		3,309,826	3,392,539

The notes on pages 132 to 194 form part of these Financial Statements.

Notes to the financial statements
for the year ended 31 December 2023

Note 1 – Basis of preparation

This section sets out the Bank's accounting policies that relate to the Financial Statements, together with details of significant accounting estimates and the impact of changes and forthcoming changes to accounting policies and presentation.

(a) General information

Northern Bank Limited is a private company limited by shares that is domiciled and incorporated in the UK. Its registered office is in Northern Ireland as set out on page 109.

The Bank's Financial Statements have been prepared on the going concern basis, in accordance with UK adopted international accounting standards (IAS) and with applicable interpretations (International Financial Reporting Interpretations Committee), issued by the IASB as adopted by the UK as applied in accordance with the provisions of the Companies Act 2006.

The Bank is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Danske Bank A/S. All subsidiaries of Northern Bank Limited are dormant (Note 18).

For the purpose of clarity, the primary Financial Statements and the notes to the Financial Statements are prepared using the concepts of materiality and relevance. This means that line items not considered material in terms of quantitative and qualitative measures or relevant to financial statement users are aggregated and presented together with other items in the primary Financial Statements. Similarly, information not considered material is not presented in the notes.

Notes to the financial statements
for the year ended 31 December 2023

Note 1 – Basis of preparation (continued) (a) General information (continued)

Basis of measurement

The Financial Statements of the Bank have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and financial instruments that are measured at fair value.

Currency of presentation

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

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future.

The Bank's business activities and strategy, together with the factors likely to affect its future development, performance and position, and how they are managed, are set out in the Risk Management section included within the Annual Report, together with "Principal risks and uncertainties" in the Strategic Report. As a consequence, the Directors believe that the Bank is well placed to manage its business risks successfully.

In assessing the Bank's going concern at 31 December 2023, the Directors have considered the following key matters, as summarised below:

Capital

The Bank operates detailed capital forecasting models which show that a surplus over the Total Capital Requirement is maintained under both base and stress scenarios. The Bank's capital ratios and total capital resources remain in excess of the PRA requirements and internal stress testing indicates the Bank can withstand a severe economic stress. In addition, the Bank's MREL ratio at 31 December 2023 exceeds its internal MREL requirements.

Based on the outcome of the Bank's capital assessment, it is the Directors' view that the Bank has sufficient capital for the next 12 months and for the foreseeable future.

Funding and liquidity

The Bank operates detailed funding and liquidity forecasting models which show that, under both base and stress scenarios, the Bank would maintain sufficient funding and liquidity, including sufficient collateral for further funding if required from the Bank of England. In addition, the Bank continues to maintain a conservative customer loan to deposit ratio.

Based on the outcome of the Bank's liquidity and funding assessment, it is the Directors' view that the Bank has sufficient liquidity for the next 12 months and for the foreseeable future.

The Bank's shareholder

For capital, funding and liquidity purposes, the Bank is managed on a standalone basis and is subject to regular and rigorous monitoring.

The Bank's shareholder, Danske Bank A/S, is its sole shareholder, provider of capital and a major supplier of IT and other services under outsourcing agreements.

The Bank's Directors note that the directors of Danske Bank A/S have concluded that there are no material uncertainties that may cast significant doubt about Danske Bank A/S' ability to continue as a going concern and that it is appropriate to prepare financial statements on a going concern basis. The audit report for Danske Bank A/s was signed on 2 February 2024 and was not qualified and did not contain an emphasis of matter paragraph in respect of going concern.

Directors' conclusion

On the basis of the assessment outlined above, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Segmental reporting

A business segment is defined as a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is defined as a group of assets and operations engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Bank's business is organised as one operating segment and as such, the assets, liabilities and results of the Bank are derived from the business of banking and other related financial services in the UK. The Bank has no material operations outside the UK and therefore no geographical information is presented. Revenues from no one single customer are greater than 10% of the Bank's total income.

Translation of transactions in foreign currency

Transactions in foreign currency are translated at the exchange rate on the transaction date. Gains and losses on exchange rate differences between the transaction date and the settlement date are recognised in the income statement.

Monetary assets and liabilities in foreign currency are translated at the exchange rates at the balance sheet date. Exchange rate adjustments of monetary assets and liabilities arising as a result of differences in the exchange rates at the transaction date and at the balance sheet date are recognised in the income statement. Non-monetary assets and liabilities in foreign currency that are subsequently revalued at fair value are translated at the exchange rates at the date of revaluation. Exchange rate adjustments are included in the fair value adjustment of an asset or liability. Other non-monetary items in foreign currency are translated at the exchange rates at the transaction date.

Note 1 – Basis of preparation (continued) (b) Critical accounting judgements and key sources of estimation uncertainty

In preparing the Financial Statements, the Bank makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities.

The estimates and judgements that have had the most significant effect on the amounts recognised in the Bank's Financial Statements are set out below.

Area	Judgements	Estimates
(i) Measurement of expected credit losses on loans measured at amortised cost	• Significant increase in credit risk (SICR) • Valuation of collateral held as security • Post Model Adjustments (PMAs)	• Economic scenarios and associated scenario weightings
(ii) Recognition of deferred tax asset	• Whether sufficient taxable profits will be generated in future years to recover deferred tax asset.	n/a
(iii) Defined benefit pension obligation	n/a	• Discount rate • Inflation assumptions • Mortality assumptions

(i) Measurement of expected credit losses on loans measured at amortised cost

The three-stage expected credit loss impairment model in IFRS 9 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 or otherwise impaired, the impairment charge equals the lifetime expected credit losses (stages 2 and 3). In determining the impairment for expected credit losses, management exercises judgement and uses estimates and assumptions as explained below.

SICR assessment – transfer from stage 1 to stage 2

The classification of facilities between stage 1 and 2 for the purpose of calculating expected credit losses depends on whether the credit risk has increased significantly since initial recognition.

The assessment of whether credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporates forward-looking information. A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

- For facilities originated below 1% in PD: An increase in the facility's 12-month PD of at least 0.5 percentage points and doubling up of the facility's lifetime PD since origination; and
- For facilities originated above 1% in PD: An increase in the facility's 12 month PD of 2 percentage points or doubling up of the facility's lifetime PD since origination.

In addition, facilities that are more than 30 days past due are moved to stage 2.

Finally, customers subject to forbearance measures are placed in stage 2, if the Bank in the most likely outcome, expects no loss.

Stage 3 (credit impaired facilities)

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, being granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and (e) the purchase or origination of a financial asset at a high rate of discount that reflects the incurred credit loss. The Bank's definition of default aligns with the requirements of both IFRS 9 and the regulatory definition outlined in CRR Article 178. It may not be possible to identify a single individual event – instead, the combined effect of several events may cause the financial asset to become credit-impaired. All credit-impaired facilities are placed in rating category 11 (default).

Post model adjustments

Management applies judgement when determining the need for post-model adjustments (PMAs). At 31 December 2023, the total PMA amounted to £15,500,000 (2022: £19,100,000), and is included within the total ECL allowance account of £92,604,000 (2022: £103,009,000).

Note 1 – Basis of preparation (continued) (b) Critical accounting judgements and key sources of estimation uncertainty (continued)

The PMAs relate primarily to the following two areas:

Personal Banking Customers:
The Bank continues to take a forward-looking view of customers that may be impacted by financial pressures as a result of high levels of inflation and rising interest rates; squeezing household finances. A segment of customers deemed to have low affordability, or indicators of financial distress at credit reference agencies, has been identified by the Bank. Where these customers are not already deemed credit impaired, an adjustment has been made to ECL calculations by downgrading customer credit grades to a level considered more representative of current risks. The PMA amount held represents the difference between the Bank's modelled ECL approach and the adjusted ECL calculation for this segment of customers.

Business Banking Customers:
The uncertain economic conditions also has an impact on Business Customers, in particular SME businesses and those operating in industries which are heavily reliant on discretionary consumer spending, where a reduction in demand may coincide with increasing operating costs. The Bank has recognised these specific challenges in the setting of a PMA to allow for future cash flow pressures on Business Customers.

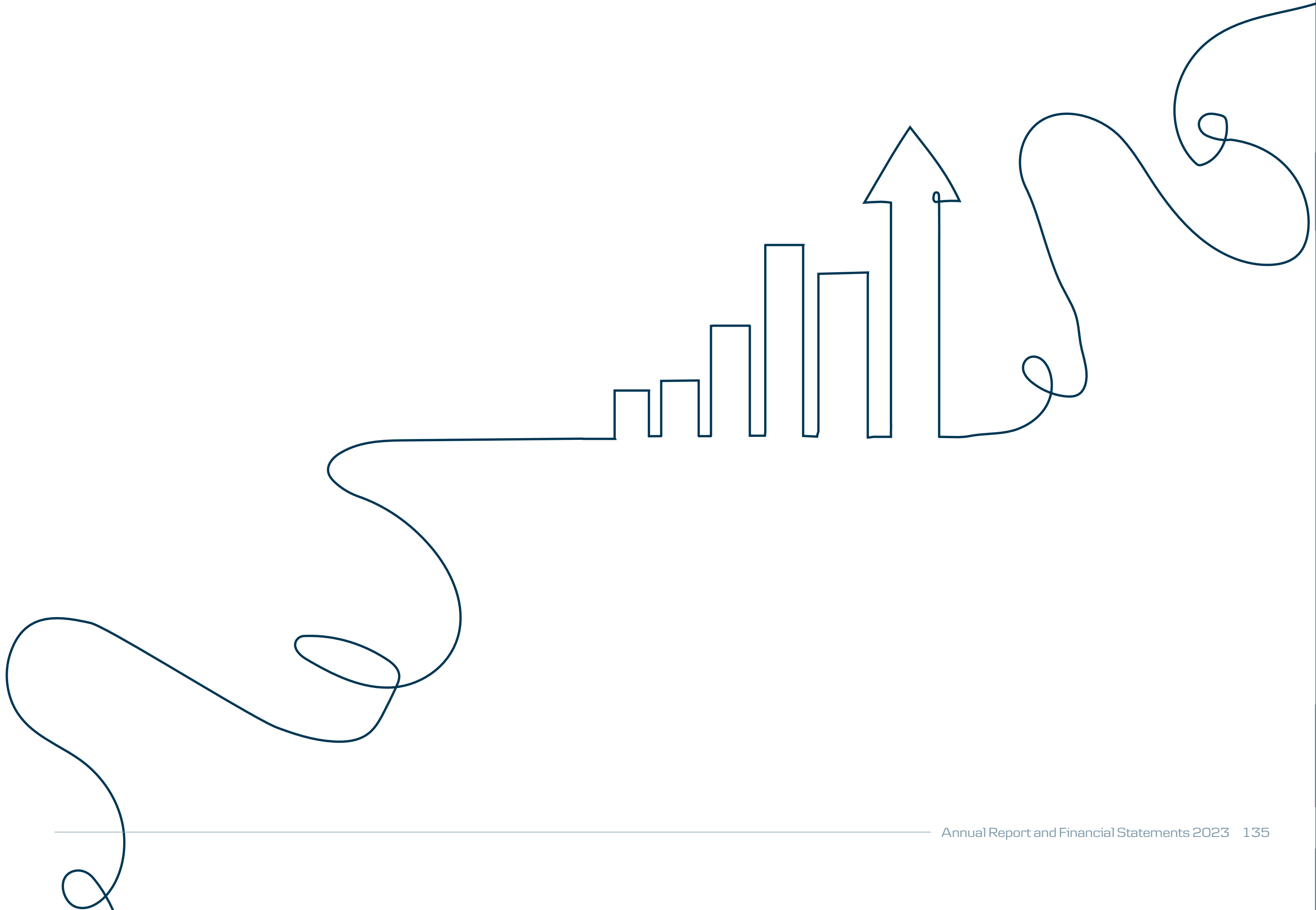
Note 16 provides more details on post model adjustments applied at 31 December 2023.

Economic scenarios

In determining the expected credit losses, management is required to exercise judgement in defining what is considered a significant increase in credit risk (SICR). 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. Such forecasts are subject to management judgement and those judgements may be sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to a carrying amount in future financial periods.

The incorporation of forward-looking elements reflects the expectations of the Bank's senior management and involves the creation of scenarios (base case, upside scenario and downside scenario), including an estimate of the probability of each scenario materialising. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the expected credit losses.

The base case scenario is the primary forward-looking economic information driving the calculation of expected credit loss. Expected credit loss is also estimated under the upside and downside macroeconomic scenarios. The scenarios reflect the economic outlook as at 31 December 2023. For the year ended 31 December 2023 the base case scenario enters the calculation with a probability of 50%, the downside scenario with a probability of 40% and the upside scenario with a probability of 10%.



Note 1 – Basis of preparation (continued) (b) Critical accounting judgements and key sources of estimation uncertainty (continued)

(i) Measurement of expected credit losses on loans measured at amortised cost (continued)

The table below shows the average macroeconomic assumptions over the period 2024-2026 under the three scenarios considered and which were used to determine the Expected Credit Loss (ECL) at 31 December 2023.

Economic Assumption	Measurement	Base Case	Upside scenario	Downside scenario
Northern Ireland GVA	Annual % change	1.0	1.2	0.4
Northern Ireland unemployment rate	Annual average	3.6	3.4	5.2
Northern Ireland consumer expenditure	Annual % change	1.0	1.2	0.4
Northern Ireland house prices	Annual % change	(1.2)	(0.3)	(2.4)
UK CPI inflation rate	Annual average	2.5	2.4	3.0
Bank of England Bank Rate	Annual average	3.9	3.7	5.4

The table below gives the average prior year macroeconomic assumptions in the period 2023-2025 under the three scenarios considered which were used to determine the ECL (Expected Credit Loss) at 31 December 2022.

Economic assumption	Measurement	Case Base	Upside scenario	Downside scenario
Northern Ireland GVA	Annual % change	0.4	0.8	(0.4)
Northern Ireland unemployment rate	Annual average	4.1	3.9	5.5
Northern Ireland consumer expenditure	Annual % change	0.5	0.9	(0.1)
Northern Ireland house prices	Annual % change	(1.6)	0.7	(5.0)
UK CPI inflation rate	Annual average	3.9	3.7	4.8
Bank of England Bank Rate	Annual average	3.5	3.1	4.2

Based on these assessments, the allowance account at 31 December 2023 amounted to £96,604,000 (2022: £103,009,000). If the base case scenario was assigned a probability of 100%, the impact on the allowance account (excluding any stage 3 impairments manually assessed by credit officers) would be a decrease of £3,721,000 (2022: decrease of £6,325,000).

Similarly, excluding the impact of any stage 3 impairments which are assessed manually by credit officers, the allowance account would increase by £6,068,000 (2022: increase of £10,735,000) if the downside scenario was assigned a probability of 100%, and the allowance account would decrease by £5,668,000 (2022: decrease of £11,316,000) if the upside scenario was assigned a probability of 100%.

Scenario sensitivities are primarily driven by both the changes in the macroeconomic assumptions applied at each year end (as outlined in the macroeconomic assumptions tables) and the probability weightings applied to each scenario in the assessment of the allowance account as at 31 December 2023. However, it should be noted that the expected credit losses in the individual scenarios do not represent ECL forecasts.

Note 17 and the section on credit risk in the risk management notes provide more details on expected credit losses. At 31 December 2023, loans and advances to customers accounted for about 49.2% of total assets (2022: 47.2%).

The base case, upside and downside scenarios included in the 2023 forward looking information are described below:

Base case scenario

Economic assumption	Measurement	2024	2025	2026
Northern Ireland GVA	Annual % change	0.3	1.2	1.6
Northern Ireland unemployment rate	Annual average	3.2	3.7	4.0
Northern Ireland consumer expenditure	Annual % change	0.3	1.2	1.6
Northern Ireland house prices	Annual % change	(5.0)	(1.0)	2.5
UK CPI inflation rate	Annual average	3.4	2.0	2.0
Bank of England Bank Rate	Annual average	4.9	3.6	3.2

Under the base case, the economic environment remains relatively subdued in the short-term as above-target inflation and the tighter monetary policy environment weigh down on economic performance. However, the economy continues to display some resilience with annual economic growth remaining positive throughout the scenario horizon.

Note 1 – Basis of preparation (continued) (b) Critical accounting judgements and key sources of estimation uncertainty (continued)

(i) Measurement of expected credit losses on loans measured at amortised cost (continued)

Under the base case, the Northern Ireland economy is assumed to grow by 0.3% in 2024 with the rate of growth improving in 2025 and 2026. High levels of economic and political uncertainty are assumed to persist in the short-term.

Inflation is assumed to continue to trend downwards but to take time to return to its 2% target. Under the base case, inflation is assumed to average 3.4% in 2024 then settle at its 2% target rate in annual terms over the rest of the horizon period.

Given the modest rates of economic growth assumed as well as the challenges resulting from above-target inflation and high interest rates, the unemployment rate in Northern Ireland is assumed to rise.

With high inflation squeezing consumers' finances, higher interest rates and economic uncertainty persisting, demand for housing in the base case is assumed to fall.

Upside scenario

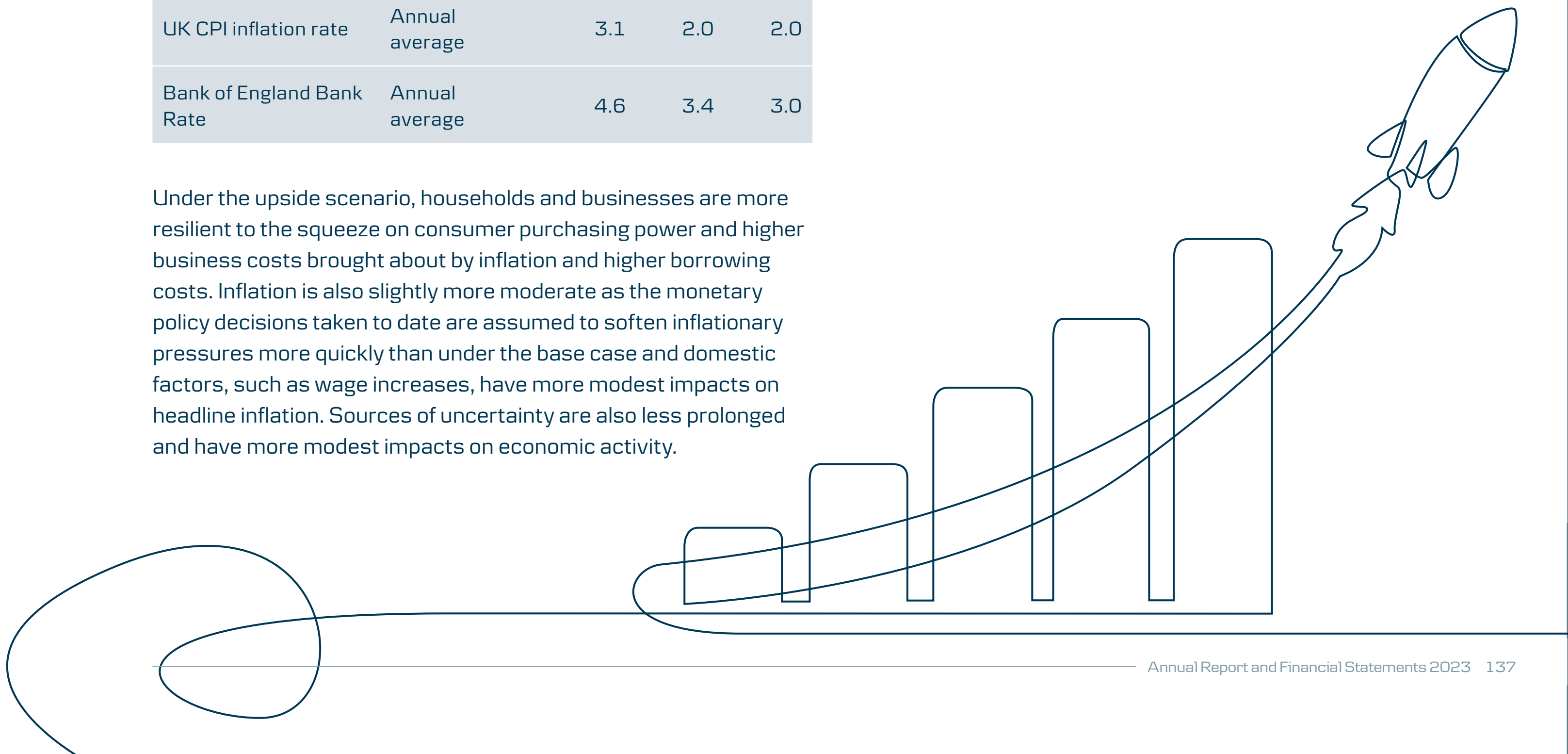
Economic assumption	Measurement	2024	2025	2026
Northern Ireland GVA	Annual % change	0.5	1.4	1.7
Northern Ireland unemployment rate	Annual average	3.0	3.5	3.8
Northern Ireland consumer expenditure	Annual % change	0.5	1.4	1.7
Northern Ireland house prices	Annual % change	(3.4)	(0.2)	2.8
UK CPI inflation rate	Annual average	3.1	2.0	2.0
Bank of England Bank Rate	Annual average	4.6	3.4	3.0

Under the upside scenario, households and businesses are more resilient to the squeeze on consumer purchasing power and higher business costs brought about by inflation and higher borrowing costs. Inflation is also slightly more moderate as the monetary policy decisions taken to date are assumed to soften inflationary pressures more quickly than under the base case and domestic factors, such as wage increases, have more modest impacts on headline inflation. Sources of uncertainty are also less prolonged and have more modest impacts on economic activity.

Downside scenario

Economic assumption	Measurement	2024	2025	2026
Northern Ireland GVA	Annual % change	(0.5)	0.4	1.4
Northern Ireland un-employment rate	Annual average	4.8	6.0	5.0
Northern Ireland consumer expenditure	Annual % change	(0.5)	0.4	1.4
Northern Ireland house prices	Annual % change	(7.0)	(2.5)	2.2
UK CPI inflation rate	Annual average	4.4	2.5	2.0
Bank of England Bank Rate	Annual average	5.9	5.5	4.7

Under the downside scenario, annual output contracts in 2024 as inflation is higher and more persistent, weighing down further on household spending power as challenges related to energy and broader prices are more severe. Monetary policy tightens even further and higher borrowing costs weigh on activity while consumer and business confidence are particularly affected by inflation, high interest rates, elevated uncertainty levels and the weaker performance of the economy.



Note 1 – Basis of preparation (continued) (b) Critical accounting judgements and key sources of estimation uncertainty (continued)

(ii) Recognition of deferred tax asset

Within the calculation of the deferred tax asset, the Bank recognises a deferred tax asset of £43,145,000 (2022: £37,311,000) on its unused tax losses carried forward. This is recognised the extent it is assessed there will be sufficient future taxable profits against which losses can be used and/or sufficient taxable temporary differences (relating to the same tax authority). As the recognition of the deferred tax asset relies on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward, it requires significant estimates to be made about the projection of medium term future profitability because of the period over which recovery extends. If future profits increased by 10% per annum (p.a.), this would have no tax impact, as the deferred tax asset is recognised in full (2022: £4,234,000). If future profits decreased by 10% p.a., this would lead to a decrease of £1,685,000 (2022: £4,234,000)

In assessing the future profitability of the Bank, the Board has considered a range of positive and negative evidence for this purpose. Among this evidence, the principal positive factors include:

- management actions taken to return the Bank back to a normalised earnings level (as observed in recent trading activities from 2014 – 2022);
- the absence of any expiry date for tax losses; and
- external forecasts for Northern Ireland which indicate continued economic recovery.

The Board considered negative evidence and the inherent uncertainties in any medium term financial assumptions and projections, including:

- the quantum of profits required to be earned and the period over which it is projected that the tax losses will be utilised;
- the challenges of forecasting over the medium term, taking account of the level of competition, market dynamics and resultant margin and funding pressures; and
- the recent taxation changes and the likelihood of future developments and their impact on profitability and utilisation.

As a deferred tax asset is recognised in full for the carried forward tax losses, if the time period for expected profits was increased by one year, there would be no impact on the deferred tax asset (2022: £9.4m). However, if the time period was decreased by one year this would lead to a decrease in the deferred tax asset of £6.4m (2022: £9.4m).

(iii) Defined benefit pension scheme

As disclosed in note 27 the Bank operates a defined benefit pension scheme. The Scheme held assets of £772,004,000 (2022: £841,209,000) and liabilities of £767,200,000, (2022: £763,200,000) at the year ended 31 December 2023.

Overall, the Bank recognised an overall pension scheme surplus at 31 December 2023 of £4,804,000 (2022: £78,009,000).

It is the Bank's assessment that it holds an unconditional right to a refund of surplus assets assuming the full settlement of Scheme liabilities in the event of a Scheme wind-up. Furthermore, in the ordinary course of business, neither the Bank nor the Scheme Trustees have the rights to unilaterally wind up, or otherwise augment the benefit due to members of the Scheme. Based on these rights, any net surplus in the Scheme is recognised in full.

The year end recognition of the liabilities under this scheme require a number of significant assumptions to be made including discount rate, price inflation (RPI measure) and post retirement longevity of scheme members.

These assumptions are made by the Bank in conjunction with the scheme's actuary and the Directors are of the view that any estimation should be in line with consensus opinion. Information on the sensitivity of significant actuarial assumptions is given in note 27.

Sustainability risk

The Bank may be exposed to sustainability risk as a result of current or future environmental, social and governance (ESG) events or conditions, and are considered external factors that can impact existing risks. Sustainability risk is therefore considered a cross-cutting driver of existing risks as outlined in the Ban's risk taxonomy, which can further exacerbate the risks the Bank is already facing.

Credit risk is deemed to be the risk type most materially affected by sustainability risk in the long term, of which climate risk is currently the most urgent of all ESG-related drivers capable of affecting the Bank's credit risk. From a financial materiality perspective, climate-related risks have been deemed most relevant for the Bank's lending activities. Climate risk pertains to transition risks, which are the risks associated with shifting to a low-carbon economy, and to physical risks arising from projected climate changes, including both long-term shifts (chronic changes) and event-driven changes (acute changes) to weather patterns.

The Bank takes a risk-based approach in prioritising risk management efforts for credit portfolios that are likely to be most exposed to transition and physical risks. For that purpose, the Bank's climate risk heat map is based on a mix of qualitative and quantitative input to define the credit exposures most exposed to transition and physical risks. The climate heat map gives an indication of the size of the exposure at risk and not the expected stress effects such as impairment charges. Such quantitative measures are to be assessed through scenario analysis and future stress testing.

Climate scenario analysis is already being performed following the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) for key sectors for both transition risk and physical risk, such as for the agriculture and property portfolios.

Note 1 – Basis of preparation (continued) (b) Critical accounting judgements and key sources of estimation uncertainty (continued)

Sustainability risk (continued)

The Bank will continue to refine the climate risk heat map as more climate risk data becomes available to support the identification of both transition and physical risks for the purpose of determining financial materiality, however, conclusions have not led to adjustments to staging or expected credit losses, as the impacts either manifest over a longer time period than loan maturities, or as transition risks are concentrated on sectors with downside risks recognised in the bank's expected credit losses, for example in the agriculture portfolio.

Overall, whilst the impact of both the physical and transitional risks of climate change provide a source of uncertainty, the Bank does not consider there to be a significant impact on its estimates within these financial statements.Overall, whilst the impact of both the physical and transitional risks of climate change provide a source of uncertainty, the Bank does not consider there to be a significant impact on its estimates within these financial statements.

c) Changes and forthcoming changes to accounting policies and presentation

Changes to basis of significant accounting policies and presentation during the year

On 1 January 2023, the Bank implemented the amendments to IAS 1, IAS 8 and IAS 12.

The implementation of the amendments to IFRSs had no impact on the financial statements. The sections below explain in further details the changes to accounting policies and presentation implemented.

Amendment to IAS 1, Presentation of financial statements

The amendment to IAS 1 requires disclosure of material accounting policy information, rather than significant accounting policies. Accounting policy information is considered to be material if users of the financial statements need it to understand other material information in the financial statements. If immaterial accounting policy information is disclosed, it should not obscure material accounting policy information.

The amendment has no impact on the financial statements.

Amendment to IAS 8, Accounting policies, changes in accounting estimates and errors

The amendment introduces a definition of accounting estimates – monetary amounts in financial statements that are subject to measurement uncertainty – and clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. Similarly, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

The amendment has no impact on the financial statements.

Amendment to IAS 12, Income taxes

The first amendment to IAS 12 clarifies how entities should account for deferred tax on assets and liabilities arising from a single transaction such as leases liabilities and right-of-use assets or decommissioning obligations and property, plant and equipment.

The main change is that the initial recognition exemption in IAS 12 does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

This amendment has no impact on the financial statements.

The second amendment, IASB amends the scope of IAS 12 to clarify that the Standard applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two model rules published by the OECD, including tax law that implements qualified domestic minimum top-up taxes described in those rules.

This amendment introduces a temporary exception to the accounting requirements for deferred taxes in IAS 12, so that an entity would neither recognise nor disclose information about deferred tax assets and liabilities related to Pillar Two income taxes.

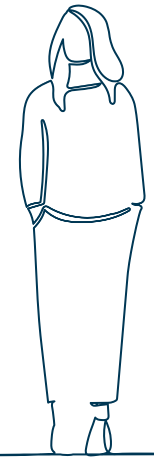
Following this amendment, the Bank is required to disclose that it has applied the exception and to disclose separately its current tax expense (income) related to Pillar Two income taxes.

The Bank has adopted this amendment and the amendment has no impact on the financial statements.

Standards and interpretations not yet in force

The International Accounting Standards Board (IASB) has issued amendments to existing international accounting standards (IAS 1, IAS 7, IAS 21, IFRS 7 and IFRS 16), that have not yet come into force.

None of the amendments is expected to have a significant impact on the Bank's financial statements.



Note 1 – Basis of preparation (continued)

(d) Accounting policies

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash assets and balances with central bank and other banks, which can be withdrawn on demand. It also comprises balances with an original maturity of less than three months.

Derivative financial instruments and hedge accounting

All derivatives are recognised on the balance sheet at fair value on trade date and are classified as hedging. The carrying value of a derivative is measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank makes use of derivative instruments to manage exposures to interest rates and foreign currency, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet the specified criteria.

Hedge accounting – Fair value hedges

Where derivatives are designated to hedge the exposure of changes in the fair value of an asset or liability to changes in market interest rates, a fair value hedge accounting relationship is established. Once a financial asset or liability has been designated as a hedged item in a fair value hedge, it will remain as a hedged item for the remainder of its fixed rate life.

For hedged assets to which a fixed rate of interest applies for a specified period of time starting at the commencement date of the agreement, future interest payments are split into swap rate and a customer margin and into periods of time. By entering into swaps with matching payment profiles in the same currencies and for the same periods, the Bank hedges the risk at portfolio level from the commencement date of the hedged items.

For hedged liabilities, macro fair value hedge accounting has been applied to a portfolio of core deposits ('portfolio fair value hedge'). Swaps (upon inception) are designated as hedging instruments to an amount of core deposits from the total portfolio equal to the amount of swaps.

The carrying value of the hedged item on initial designation is adjusted for the fair value attributable to the hedged risk. Subsequently, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in the fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability.

Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement on an effective interest basis over the remaining life of the asset or liability.

The fair values of the hedged items and the hedging derivatives are measured at frequent intervals to ensure that changes in the fair value of the hedged items lie within a band of 80-125% of the changes in the fair value of the hedging derivatives.

The Bank measures its portfolio fair value hedge of core deposits in accordance with IAS39 as adopted by the UK (commonly referred to as the "EU carve out"), which allows such macro fair value hedge accounting to be applied to a portfolio of core deposits, and further, relaxes effectiveness testing so that an under hedged position does not lead to hedge ineffectiveness.

When a fixed interest rate risk is hedged in a hedge that qualifies for fair value hedge accounting, the fair value changes of the hedged interest risk is further presented in the income statement under Net trading income.

Hedge ineffectiveness may exist as a result of the fair value change of the hedged items being measured based on the interest rate curve relevant for each hedged item while the fair value of the hedging derivatives is measured based on a swap curve. Further, while the fixed leg of the hedging derivatives will match the profile of the hedged items, a small amount of ineffectiveness will arise from the floating leg of the swaps.

Hedge accounting - Cash flow hedges

The Bank hedges a portion of the variability in future cash flows attributable to interest rate risk. The interest rate risk arises from variable interest rate assets which are hedged using interest rate swaps.

The fair value of derivatives is disclosed in note 14.

Sale and repurchase agreements

Assets sold subject to repurchase agreements (repos) are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in due to banks.

Securities purchased under agreements to resell ("reverse repos") are treated as collateralised loans and recorded as due from banks.

The difference between sale and repurchase price is treated as interest and recognised in the income statement over the life of the agreement. Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements.

Investment securities - Financial assets measured at Amortised Cost (AMC)

The financial assets consist of bonds held within a business model for the purpose of collecting the contractual cash flows (hold to collect) and with cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that passes the SPPI test in IFRS 9). The bonds are measured at amortised cost.

Note 1 – Basis of preparation (continued)
(d) Accounting policies (continued)

Investment securities - Financial assets measured at AMC (continued)

The bonds are subject to the expected credit loss model in IFRS 9 as described in note 17. The interest rate risk on fixed-rate bonds is not hedged.

Investment securities - Financial assets measured at FVOCI

The financial assets comprise of bonds only, and primarily bonds listed in a liquid market. The bonds are held within a business model for the purpose of collecting contractual cash flows and selling (hold to collect and sell).

The bonds have cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that passes the SPPI test in IFRS 9). FVOCI results in the assets being recognised at fair value in the balance sheet and at amortised cost in the income statement, including the recognition of expected credit losses as described in note 17. Hence, gains and losses, except for expected credit losses and foreign exchanges gains and losses, are recognised in other comprehensive income until the bond is derecognised.

When bonds are sold unrealised value adjustments recognised under Other comprehensive income are reclassified to the income statement and presented under Net trading income. The Bank recognises interest income according to the effective interest method, including amortisation of the difference between cost and the redemption value over the term to maturity of the bonds.

Investment in subsidiary undertakings

Shares in subsidiary undertakings are stated in the Bank's balance sheet at original cost less any necessary provision for impairment. Losses relating to the impairment in the value of shares in subsidiary undertakings are recognised in the income statement.

Classification and measurement of financial assets and financial liabilities under IFRS 9

Under IFRS 9, financial assets are classified on the basis of the business model adopted for managing the assets and on their contractual cash flow characteristics (including embedded derivatives, if any) into one of the following measurement categories:

- Amortised cost (AMC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

Financial assets are measured at AMC if they are held within a business model for the purpose of collecting contractual cash flows (hold to collect) and if cash flows are solely payments of principal and interest on the principal amount outstanding.

Financial assets are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling (hold to collect and sell) and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the assets being recognised at fair value in the balance sheet and at AMC in the income statement. Hence, gains and losses, except for expected credit losses and foreign exchange gains and losses, are recognised in other comprehensive income until the financial asset is derecognised. When the financial asset is derecognised the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

All other financial assets are mandatorily measured at FVPL including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding. Generally, financial liabilities are measured at amortised cost with bifurcation of embedded derivatives not closely related to the host contract.

Financial assets measured at fair value comprise derivatives, the trading portfolio and liabilities designated at fair value through profit or loss under the fair value option. Value adjustments relating to the inherent credit risk of financial liabilities designated at fair value are recognised in other comprehensive income unless this leads to an accounting mismatch.

The SPPI test (solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being "hold to collect" and "hold to collect and sell" relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent repayment.

The interest must represent only consideration for the time value of money, credit risk, other basic lending risks and a profit margin consistent with basic lending features. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVPL.

In general, the SPPI test of the Bank's portfolios of financial assets, that are "hold to collect" or "hold to collect and sell", have contractual cash flows that are consistent with the SPPI test, i.e. they have basic lending features.

Loans and advances to customers

Loans and advances include overdrafts, credit card lending, invoice financing, housing loans, lease finance and other term lending.

At initial recognition, loans and advances are measured at fair value plus transaction costs less origination fees and other charges that are an integral part of the effective interest rate on loans. This usually corresponds to the amount disbursed to the customer. Subsequently, they are measured at amortised cost, using the effective interest method, less any impairment charges for expected credit losses. The difference between the value at initial recognition and the redemption value is amortised over the term to maturity as part of the effective interest and recognised under Interest income. If fixed-rate loans and advances and amounts due are hedged effectively by derivatives, the fair value of the hedged interest rate risk is added to the amortised cost of the assets.

Note 1 – Basis of preparation (continued)
(d) Accounting policies (continued)

Loans and advances to customers (continued)

The impairment for expected credit losses depends on whether the credit risk has increased significantly since initial recognition and follows a three stage model:

Stage 1: 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 2: If the credit risk has increased significantly, the loan is transferred to stage 2 and an impairment charge equal to the lifetime expected credit losses is recognised;

Stage 3: If the loan is in default or otherwise credit impaired, it is transferred to stage 3, for which the impairment charge continues to equal the lifetime expected credit losses but with interest income being recognised on the net carrying amount.

The expected credit loss is calculated for all individual facilities as a function of the PD, the EAD and the LGD and incorporates forwards looking elements. For facilities in stage 2 and 3, the lifetime expected credit losses cover the expected remaining lifetime of a facility. Expected credit loss impairments are booked in an allowance account and allocated to individual exposures.

Hire purchase and leasing agreements to customers

Leases entered into by the Bank as lessor, where the Bank transfers substantially all the risks and rewards of ownership to the lessee, are classified as finance leases.

The leased asset is not held on the Bank's balance sheet and instead, a finance lease is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Interest income is recognised in interest receivable, allocated to accounting periods to reflect a constant periodic rate of return.

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.

Intangible assets

Software acquired is measured at cost, including expenses incurred to make a software application ready to use. Software acquired is amortised over its expected useful life, usually three years, according to the straight line method. Software is tested for impairment if indications of impairment exist and is written down to its value in use.

Property, plant and equipment

All freehold and long-term leasehold land and buildings are revalued annually on an open market basis by the Directors to reflect current market values, based on advice received from independent valuers. In addition, full independent valuations are carried out on a three year cycle on an open market basis, including directly attributable acquisition costs but without deducting expected selling costs. Revaluation increments are credited to the revaluation reserve, unless these reverse deficits on revaluations that were charged to the income statement in prior years. To the extent that they reverse previous revaluation gains, revaluation losses are charged against the revaluation reserve. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

All other items of property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to acquisition.

Property, plant and equipment carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of (i) the asset's fair value less costs to sell and (ii) the asset's value in use.

With the exception of freehold land, all items of property, plant and equipment are depreciated or amortised using the straight-line method, at rates appropriate to their estimated useful life to the Bank.

The estimated useful life is 20-50 years for property and 3-10 years for plant and equipment.

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains or losses on the disposal of property, plant and equipment, which are determined as the difference between the net sale proceeds and the carrying amount at the time of, sale are included in the income statement. Any realised amounts in the asset revaluation reserve are transferred directly to retained earnings.

Right-of-use lease assets and lease liabilities

The Bank recognises a right-of-use asset and a lease liability at the commencement date, for all lease agreements, that the Bank has entered into as lessee, except short-term leases and leases of low value assets. The lease liability is initially measured as the present value of the future payments from lease components, discounted using the incremental borrowing rate for the individual lease. The lease liability is subsequently measured by increasing the carrying amount, to reflect interest and by reducing the carrying amount to reflect the lease payments made.

Note 1 – Basis of preparation (continued)
(d) Accounting policies (continued)

Right-of-use lease assets and lease liabilities (continued)

Further, lease liabilities are changed when remeasurements are needed, with the corresponding adjustment to the related right-of-use asset.

Gain or loss from a lease modification, not accounted for as a separate lease, is recognised in profit and loss. The initial right-of-use asset comprises the amount of the initial measurement of the lease liability, lease payments made at or before the commencement date, initial direct costs and costs to restore the underlying asset. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset.

Operating leases

Operating leases consist of lease commitments with a term of less than 12 months together with lease commitments for low value assets.

Assets held for sale

Assets held for sale are tangible assets actively marketed for sale within 12 months. Such assets are measured at the lower of their carrying amount at the time of reclassification and their fair value less expected costs to sell and are no longer depreciated.

Provisions and contingent liabilities

Provisions are recognised when a legal or constructive obligation exists as a result of past events and it is probable that an outflow of economic benefit will be necessary to settle the obligation and it can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is considered material.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed, unless their likelihood of occurrence is considered remote.

Loan commitments and guarantees

The Bank issues a number of loan commitments and guarantees. Such instruments are valued at the higher of the received premium amortised over the life of the individual obligation and the provision made, if any. If an instrument is likely to result in a payment obligation, a liability is recognised under 'other liabilities' corresponding to the present value of expected payments. Loan commitments are discounted in accordance with the interest terms. Loan commitments and guarantees are subject to the expected credit loss impairment model in IFRS 9.

Subordinated debt instruments

The issued bonds consist of non-preferred senior bonds issued by the Bank. The non-preferred senior bonds are initially measured at fair value and subsequently measured at amortised cost.

Share capital

Share capital represents funds raised by issuing shares in return for cash or other consideration. When shares are issued at a premium, whether for cash or otherwise, the excess in the amount received over par value of the shares is transferred to the share premium account.

Additional Tier 1 capital

The capital issued includes no contractual obligation to deliver cash or another financial asset to the holders, as the Bank may, at its sole discretion, omit payment of interest and principal payments to the bondholders. As a result the issue does not qualify as a financial liability according to IAS 32. The net amount received at the time of issue is recognised as an increase in equity. Interest payments are accounted for as dividends, which are recognised directly in equity at the time the payment obligation arises. If the Bank chooses to redeem the bonds, equity will be reduced by the redemption amount at the time of redemption. Amounts received or paid for the sale or acquisition of Additional Tier 1 capital instruments are recognised directly in equity, similarly to holdings of own shares. The reserve includes the net proceeds at the time of issuance and accrued interest not yet paid to holders of the capital.

Staff costs

This item includes salaries, performance-based pay, expenses for share-based payments, pension costs and other remuneration. Salaries and other remuneration the Bank expects to pay are expensed when the employees render the services. Performance-based remuneration is expensed as it is earned.

Pension costs

Employees of the Bank are entitled to benefits on retirement, disability or death from the Bank's pension plans. The Bank operates both defined benefit and defined contribution pension schemes.

Defined contribution pension scheme

The Bank's obligation for contributions to these plans is recognised as an expense in the income statement as incurred.

Defined benefit pension scheme

The defined benefit scheme provided defined benefits based on years of service and career averaged revalued earnings up until 30 September 2018. A liability or asset in respect of the defined benefit scheme is recognised in the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the defined benefit scheme assets at the reporting date. The present value of the defined benefit obligation for the scheme is

Note 1 – Basis of preparation (continued)
(d) Accounting policies (continued)

Defined benefit pension scheme (continued)

discounted by high quality corporate bond rates that have maturity dates approximating to the terms of the Bank's defined benefit obligation.

The Bank's policy where actuarial remeasurements arise is to fully recognise such amounts directly in retained earnings through the statement of comprehensive income, in the period in which they occur. Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions.

Share-based payments

Part of the performance-based remuneration for the year is paid in the form of conditional shares. Rights to conditional shares vest up to seven years after the grant date, provided that the employee, with the exception of retirement, has not resigned from the Bank.

In addition to this requirement, the vesting of rights is conditional on certain targets being met.

The fair value of share-based payments at the grant date is expensed over the vesting period with the intrinsic value expensed in the year in which the share-based payments are earned and the time value, if any, is accrued over the remaining service period. Expenses are set off against shareholders' equity. Subsequent fair value adjustments are not recognised in the income statement.

Taxation - Current tax

Current tax assets and liabilities are recognised in the balance sheet as the estimated tax payable on the profit for the year adjusted for prepaid tax and prior-year tax payables and receivables. Tax assets and liabilities are offset if the Bank has a legally enforceable right to set off such assets and liabilities and intends either to settle the assets and liabilities on a net basis or to realise the assets and settle the liabilities simultaneously.

Taxation - Deferred tax

Deferred tax on all temporary differences between the tax base of assets and liabilities and their carrying amounts is accounted for in accordance with the balance sheet liability method. Deferred tax is measured on the basis of the tax regulations and rates that, according to the rules in force at the balance sheet date, are applicable at the time the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of adopted changes in tax rates are recognised in the income statement on the basis of expected cash flows. Tax assets arising from unused tax losses are recognised where, it is more likely than not that, there will be sufficient future taxable profits and/or sufficient taxable temporary differences against which losses can be used.

Deferred tax assets and liabilities are offset when they relate to the same tax jurisdiction. Current and deferred tax is calculated on the profit for the year, and adjustments of prior-year tax charges are recognised in the income statement. Tax on items recognised in Other comprehensive income is recognised in other comprehensive income. Similarly, tax on items recognised in equity is recognised in equity.

Interest income and expenses

Interest income and expenses arising from interest-bearing financial instruments measured at amortised cost and bonds at fair value through Other comprehensive income are recognised according to the EIR method on the basis of the cost of the individual financial instrument. Interest includes amortised amounts of fees that are an integral part of the effective yield on a financial instrument, such as origination fees, and amortised differences between cost and redemption price, if any.

Interest on financial instruments included in stage 3 for the calculation of expected credit losses is recognised on the basis of the carrying amount (net of impairment charges). The interest rate risk on some fixed rate loans and advances to customers recognised at amortised cost is hedged by derivatives using fair value hedge accounting.

Note 14 provides more information on hedge accounting. Interest income calculated using the effective interest method and presented as a separate line item in the income statement excludes the impact from hedge accounting. Further, interest income and expenses includes interest on financial instruments measured at fair value through profit or loss.

Net trading income

Net trading income includes realised and unrealised capital gains and losses on financial assets and financial liabilities recognised at fair value through profit or loss.

For financial assets and liabilities subject to fair value hedge accounting, the fair value adjustments of the hedged financial instrument and the hedging instruments are recognised in Net trading income. Therefore, any hedge ineffectiveness is presented in Net trading income.

Fee income and expenses

Fees and commissions arise across a wide range of products and services offered to support customers. Other fee activities include interchange fees, ATM fees and other intermediary fees.

Fee income is recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services. The Bank identifies the performance obligation agreed with the customer and the consideration, and recognises income in line with the transfer of services, the performance obligation, agreed with the customer.

For each performance obligation identified, the Bank determines at contract inception whether it satisfies the performance obligation over time or at a point in time, whether the consideration is fixed or variable, including whether consideration is constrained due, for instance, to external factors outside the Bank's influence. Consideration is subsequently allocated to the identified performance obligation. Incremental costs incurred to generate fee and commission income are charged to fees and commissions expense as they are incurred.

Note 2 – Net interest and Net trading income

The breakdown of interest income, interest expense and net trading income is analysed by balance sheet item.

	2023 £'000	2022 £'000
Interest income		
Financial assets at amortised cost:		
Loans and advances to customers	257,656	166,993
Due from other banks and central bank	139,951	51,591
Investment securities - hold to collect	47,062	16,618
Investment securities - hold to collect and sell	34,962	12,288
Interest income on defined benefit pension scheme surplus (Note 27)	3,900	2,900
	483,531	250,390
Financial portfolios at fair value:		
Derivative financial instruments	(26,920)	(7,764)
Total interest income	456,611	242,626
Interest expense		
Deposits from customers	106,280	12,701
Due to other banks	44,144	9,346
Subordinated debt	-	930
Non - preferred senior debt	9,041	707
Interest expense on lease liabilities	120	125
Total interest expense	159,585	23,809
Net interest income	297,026	218,817
Net trading income		
Margin on foreign exchange brokerage	10,546	10,212
Losses on disposal of investment securities - hold to collect and sell	(14,330)	-
Breakage of derivative financial instruments	1,211	1,800
Other trading losses	(1,232)	(306)
Total net trading income	(3,805)	11,706

Note 3 – Fee income and expenses

The breakdown of fee income and fee expenses is analysed by underlying activity.

	2023 £'000	2022 £'000
Fee income		
Financing (loans, advances and guarantees)	6,236	6,187
Services (payment services)	39,681	39,908
Investment (securities trading)	103	137
Total	46,020	46,232
Fee expenses		
Financing (loans, advances and guarantees)	689	779
Services (payment services)	6,716	4,834
Investment (securities trading)	127	71
Total	7,532	5,684

Note 4 – Other operating income

Other income includes rental income, income derived from invoice finance activity, profit on sale of tangible property, plant & equipment and other sundry income.

	2023 £'000	2022 £'000
Other operating income	1,812	2,434
Total	1,812	2,434

Note 5 – Operating expenses

Operating expenses includes staff costs along with the costs incurred to deliver retail banking services to the Bank's customers.

Staff costs include all gross salaries, related social security costs and pension contributions attributable to those employees directly employed by the Bank. The average number of full-time equivalent employees of the Bank during the year is outlined in note 6.

Operating expenses include net recharges from Danske Bank A/S of £46,752,000 (2022: £42,183,000). Such recharges relate to services provided by Danske Bank A/S under a number of service level agreements.

The Bank received no grant income during 2023 (2022: £nil).

	2023 £'000	2022 £'000
Staff costs		
- wages and salaries	51,937	48,951
- social security costs	5,684	5,847
- pension costs (note 27)	8,172	7,661
Total	65,793	62,459
Property and infrastructure	6,671	7,144
Technology and communications	20,424	19,204
Other administrative expenses	64,132	58,174
Total	157,020	146,981

Note 6 – Employee numbers

The average number of full time equivalent UK employees of the Bank during the year was made up as follows:

	2023	2022
Managers	416	402
Clerical staff	865	865
Total	1,281	1,267

Note 7 – Auditor's remuneration

Auditor's remuneration	2023 £'000	2022 £'000
Audit of these Financial Statements		
- Audit fee	188	151
- IFRS reporting requirements	43	44
Amounts receivable by the auditor and their associates in respect of:		
- Audit of the financial statements of subsidiary companies	-	31
- Other assurance services	82	135
Total	313	361

The Bank's Board Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors. Audit related services consist of fees in connection with accounting matters and regulatory compliance-based work.

Note 8 – Share based payments

Effective from 2015, the Bank has granted rights to conditional shares - under the bonus structure for material risk takers - as part of their variable remuneration. Rights to Danske Bank A/S shares for material risk takers vest up to seven years after being granted, provided that the employee, with the exception of retirement, has not resigned from the Bank. In addition to this requirement and before pay-out of deferred shares, back testing is conducted to assess whether the initial criteria for granting the bonus are still considered fulfilled, whether the Danske Bank A/S economic situation has deteriorated significantly and whether the individual has proven fit and proper. The fair value of the conditional shares is calculated as the share price at grant date less the payment made by the employee (if any).

	2023 Weighted average exercise price DKK	2023 Number of conditional shares	2022 Weighted average exercise price DKK	2022 Number of conditional shares
Outstanding at the beginning of the year	0.00	104,585	0.00	64,578
Granted during the year	0.00	17,380	0.00	62,485
Exercised during the year	0.00	(76,335)	0.00	(21,238)
Forfeited during the year	0.00	-	0.00	(1,240)
Expired during the year	0.00	-	0.00	-
Outstanding at the end of the year	0.00	45,630	0.00	104,585
Exercisable at the end of year		-		-

The weighted average share price at the date of exercise of the conditional shares during the year was DKK 150.30. The conditional shares at 31 December 2023 had a weighted average exercise price of DKK 0.00 and a weighted average remaining contractual life of between one to two years. As at 31 December 2023 there were 45,630 conditional shares with an exercise price of DKK 0.00. During the year ended 31 December 2023, conditional shares were granted in April 2023.

There was a charge in the year in respect of share based payments of £310,000 (2022: charge £335,000).

Note 9 – Directors' emoluments

The remuneration of the Directors' is set out below in aggregate in accordance with accounting standard IAS 24 – 'Related Party Transactions'.

	2023 £'000	2022 £'000
Aggregate emoluments	2,046	1,673
Bank pension contributions to Danske Bank Master Trust Plan	47	21
Total	2,093	1,694

In addition to the amounts shown above, social security costs were payable in respect of emoluments to Directors amounting to £287,000 (2022: £237,000). This includes £108,000 in respect of the emoluments of the highest paid Director in the year ended 31 December 2023 (2022: £85,000). Where Non-Executive Directors are employed by Danske Group, they are remunerated for their services by Danske Bank A/S.

Of the Directors who held office during the financial year, two Directors (2022: two) held conditional shares and 7,308 were exercised during the year (2022: 2,096 shares). Further details of the conditional shares granted to material risk takers as part of their variable remuneration are disclosed in note 8 of the Financial Statements. For the year ended 31 December 2023 the total emoluments disclosed do not include the value of shares or share rights awarded under long term incentive schemes in accordance with Schedule 5 paragraph 1(3)(a) of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

During the year two Directors (2022: two) accrued pension benefits through the Danske Bank Master Trust Pension Plan (the Bank's defined contribution scheme). No Director (2022: None) accrued retirement benefits under the Bank's defined benefit pension scheme (scheme closed to future accrual in 2018).

The aggregate emoluments (including benefits in kind, exercised conditional share payments and pension contributions paid by the Bank) of the highest paid Director were £704,000 (2022: £573,000).

Note 10 – Other disclosable items included within operating profit

The Bank's profit after tax for the financial year amounted to £156,719,000 (2022: £103,410,000). Profit for the period has been arrived at after charging / (crediting) the following disclosable items:

	2023 £'000	2022 £'000
Income Aggregate amounts receivable including capital repayments under finance leases and hire purchase contracts - net of capital repayments £137,902,000 (2022: £124,616,000)	13,599	8,854
Charges		
Depreciation of tangible fixed assets (Note 20)	2,027	2,115
Depreciation of right-of-use assets (Note 21)	1,134	1,155
Amortisation of intangible fixed assets (Note 19)	485	94
Gain on disposal of property, plant and equipment	(493)	(1,048)
Expenses relating to short term and low value leases (including hire of IT and other equipment)	292	357

Notes to the financial statements
for the year ended 31 December 2023

Note 11 – Taxation expense

The breakdown provides analysis of the Bank's tax charge for the year and its effective tax rate.
Current tax relates to expected tax to be paid on the profit or loss for the year, whereas deferred tax relates to temporary differences between the tax base of assets and liabilities and their carrying amount in the Balance Sheet.

Current tax	2023 £'000	2022 £'000
UK corporation tax		
Current year	26,403	12,464
Current year - corporation tax surcharge on Banking profits	3,582	5,398
Adjustment in respect of prior years	552	(608)
	30,537	17,254
Deferred tax (Note 23)		
Current year	13,943	(798)
Adjustment in respect of prior years	427	769
Recognition of tax losses in the year	(15,666)	(17,334)
	(1,296)	(17,363)
Tax charge / (credit)	29,241	(109)

The effective taxation rate for the year ended 31 December 2023 is a charge of 15.7% (2022: credit of 0.1%).
The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23.52% (which is an average rate for the financial year 2023). A reconciliation from the expense implied by the standard rate to the actual tax expense is as follows:

	2023 £'000	2022 £'000
Profit on ordinary activities before tax	185,960	103,301
Tax charge based on the standard rate of Corporation Tax in the UK of 23.52% (2022: 19.0%)	43,738	19,627
Effects of:		
Expenses not deductible for tax purposes	(4,374)	(1,373)
Rate differences	452	1,151
Adjustments in respect of prior years	979	161
Recognition of tax losses in the year	(15,666)	(17,334)
Effect of corporation tax surcharge on Banking profits	4,112	(2,341)
Tax charge / (credit)	29,241	(109)

The 2023 statutory rate of UK corporation tax is an average rate of 23.52% following the enactment of the Finance Act 2021 whereby the statutory rate of UK corporation tax increased from 19% to 25% from 1 April 2023. This enacted increase is reflected in the valuation at 31 December 2023. Finance Act (No.2) 2015 introduced the Bank Surcharge from 1 January 2016, being an 8% charge on taxable profits above £25m for Danske Bank Group operations in the UK before the offset of brought forward losses or group relief. However, on 27 October 2021, the Chancellor announced that the Bank Surcharge would reduce from 8% to 3% on UK group profits in excess of £100m from 1 April 2023 onwards. This rate change is reflected in the valuation at 31 December 2023. The Bank has applied the temporary exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Bank neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

On 11 July 2023, the UK government enacted the Pillar Two income taxes legislation effective from 1 January 2024. Under the legislation, the parent company will be required to pay, in the United Kingdom, top-up tax on profits of its UK entities that are taxed at an effective tax rate of less than 15%. The Bank does not currently generate profits in jurisdictions at rates of below 15% therefore the Bank is not currently expecting a cost to arise as a result of this legislative change. This information is based on the profits and tax expense determined as part of the preparation of the financial statements. Because not all of the adjustments that would have been required by the legislation were made, the actual impact Pillar Two income taxes legislation would have had on the Bank's results if it had been in effect for the year ending 31 December 2023, may have been significantly different.

Note 11 – Taxation expense (continued)

The impact of the corporation tax rate change, restriction on loss utilisation, and the impact of management's concurrent reassessment of the recoverability of deferred tax asset is discussed in Note 23 deferred tax.

Note 12 – Cash and balances at central bank

Cash assets and balances at central bank are stated at amortised cost.

	2023 £'000	2022 £'000
Cash Assets	490,505	467,933
Balances at central bank	2,809,038	2,882,895
Total	3,299,543	3,350,828

Cash and balances at central bank include mandatory deposits of £1,563,354,000 (2022: £1,499,913,000) which are not available for the Bank's day-to-day activities. Balances at central bank include cash ratio deposits which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998.

Note 13 – Due from other banks

Amounts due from other banks are held with the objective of collecting the contractual cash flows and therefore classified as "hold to collect" under IFRS 9. These amounts have basic lending features with the contractual cash flows solely representing the repayment of principal and interest on the principal amount outstanding (i.e. the SPPI test). As a result, these amounts are recognised at amortised cost.

	2023 £'000	2022 £'000
Amounts due from other banks	10,283	41,711
Analysed by remaining maturity: -on demand or at short notice	10,283	41,711
Amounts include: Due from parent and fellow subsidiary undertakings	9,093	39,719

Note 14 – Derivative financial instruments

The Bank's management of Market Risk is detailed on page 75 within the Risk Management section of the Annual Report.

Note 14(a) Derivative portfolio assets

	2023 £'000	2022 £'000
Derivatives with positive fair value	75,457	89,324

Note 14(b) – Derivative portfolio liabilities

	2023 £'000	2022 £'000
Derivatives with negative fair value	48,519	82,808

Note 14 – Derivative financial instruments (continued)

Note 14(c) – Use of derivative financial instruments

The Bank uses derivatives to hedge positions created by customer transactions. The Bank does not trade in any financial instruments including derivatives and therefore does not have a trading book.

The most common type of interest rate and currency derivatives used by the Bank are:

- Swaps;
- Forwards; and
- Options

Derivatives are recognised and measured at fair value. Some of the Bank's assets and liabilities carry fixed rates. Generally, such items are recognised at amortised cost. The Bank uses fair value hedge accounting if the interest rate risk on fixed rate financial assets or liabilities is hedged by derivatives (see note 14(d)). Some of the Bank's assets carry floating rates. The Bank uses cash flow hedge accounting if the exposure to variability in interest rates is hedged by derivatives (see note 14(e)).

	Positive fair value		Negative fair value	
Derivatives - hedging At 31 December 2023	**Notional Amount £'000**	**Carrying Amount £'000**	**Notional Amount £'000**	**Carrying Amount £'000**
Currency contracts				
Forwards	**629,768**	**11,713**	**366,923**	**8,481**
Interest rate contracts				
Swaps	**811,647**	**63,729**	**843,575**	**40,023**
Options	**1,390**	**15**	**1,390**	**15**
Total derivatives	**1,442,805**	**75,457**	**1,211,888**	**48,519**
Counterparty				
Ultimate parent and fellow subsidiary undertakings	**1,293,261**	**71,998**	**1,053,607**	**43,172**
Other	**149,544**	**3,459**	**158,281**	**5,347**
Total derivatives	**1,442,805**	**75,457**	**1,211,888**	**48,519**

	Positive fair value		Negative fair value	
Derivatives - hedging At 31 December 2022	Notional Amount £'000	Carrying Amount £'000	Notional Amount £'000	Carrying Amount £'000
Currency contracts				
Forwards	535,487	21,135	428,174	17,651
Interest rate contracts				
Swaps	457,135	68,158	1,297,775	65,126
Options	1,488	31	1,488	31
Total derivatives	994,110	89,324	1,727,437	82,808
Counterparty				
Ultimate parent and fellow subsidiary undertakings	753,656	74,295	1,606,719	79,258
Other	240,454	15,029	120,718	3,550
Total derivatives	994,110	89,324	1,727,437	82,808

Note 14 – Derivative financial instruments (continued)

Note 14(d) – Fair value hedge accounting

The Bank manages the fixed interest rate risk on financial assets and liabilities measured at amortised cost as a combination of economic hedges (matching of interest rate risk from assets and liabilities at amortised cost) and hedges using interest rate swaps. Where derivatives are designated to hedge the exposure of changes in the fair value of an asset or liability to changes in market interest rates, a fair value hedge accounting relationship is established. Once a financial asset or liability has been designated as a hedged item in a fair value hedge, it will remain as a hedged item for the remainder of its fixed rate life.

For hedged assets to which a fixed rate of interest applies for a specified period of time starting at the commencement date of the agreement, future interest payments are split into swap rate and a customer margin and into periods of time. By entering into swaps with matching payment profiles in the same currencies and for the same periods, the Bank hedges the risk at portfolio level from the commencement date of the hedged items.

For hedged liabilities, macro fair value hedge accounting has been applied to a portfolio of core deposits. Swaps (upon inception) have been designated as hedging instruments to an amount of core deposits from the total portfolio equal to the amount of swaps.

The fair values of the hedged items and the hedging derivatives are measured at frequent intervals to ensure that changes in the fair value of the hedged items lie within a band of 80-125% of the changes in the fair value of the hedging derivatives.

Hedge ineffectiveness may exist as a result of the fair value change of the hedged items being measured based on the interest rate curve relevant for each hedged item while the fair value of the hedging derivatives is measured based on a swap curve. Further, while the fixed leg of the hedging derivatives will match the profile of the hedged items, a small amount of ineffectiveness will arise from the floating leg of the swaps.

Fair value adjustments of fixed rate assets and corresponding hedging derivatives

At 31 December 2023, the carrying amounts of effectively hedged fixed rate assets were £423,071,000 (2022: £393,111,000). The table below shows the movement in the fair value adjustments of the assets and the corresponding fair value movement of the hedging derivatives. The value adjustments have been recognised in the Income Statement as Net trading income.

	2023 £'000	2022 £'000
Effect of interest rate asset hedging on profit		
Hedged loans and advances to customers	**19,731**	(66,872)
Hedging derivatives	**(19,369)**	66,544
Hedge Ineffectiveness	**362**	(328)

Fair value adjustments of core deposits and corresponding hedging derivatives

At 31 December 2023, the balance of effectively hedged core deposits was £867,533,000 (2022: £965,193,000). The table below shows the movement in the fair value adjustments to these deposits and the corresponding fair value movement of the hedging derivatives. The value adjustments have been recognised in the Income Statement as Net trading income.

	2023 £'000	2022 £'000
Effect of interest rate asset hedging on profit		
Hedged customer deposits	**(37,340)**	43,054
Hedging derivatives	**37,147**	(43,075)
Hedge Ineffectiveness	**(193)**	(21)

Note 14 – Derivative financial instruments (continued)

Note 14(e) – Cash flow hedge accounting

The exposure to variability in cash flows attributable to interest rate risk associated with some floating rate assets is hedged by derivatives. The Bank operates two cash flow hedges; one to hedge variable rate term loans, and a second to hedge floating rate bonds. A portfolio cash flow hedge approach has been adopted for both hedges, and effectiveness is assessed on a monthly basis by means of a capacity test.

	Positive Fair Value		Negative Fair Value	
At 31 December 2023	Notional Amount £'000	Carrying Amount £'000	Notional Amount £'000	Carrying Amount £'000
Cash flow hedges	30,000	1,912	160,000	5,123

	Positive Fair Value		Negative Fair Value	
At 31 December 2022	Notional Amount £'000	Carrying Amount £'000	Notional Amount £'000	Carrying Amount £'000
Cash flow hedges	-	-	275,250	12,516

There is no change to the accounting for the hedged item and the derivative is carried at fair value, with the full amount of changes in fair value reported in Other comprehensive income.

	2023 £'000	2022 £'000
Derivatives held as cash flow hedges	190,000	275,250

	2023 £'000	2022 £'000
Gain/(loss) recognised in Other Comprehensive Income for the year	9,406	(8,578)

The cash flow hedge reserve within the Statement of Changes in Equity represents the cumulative post-tax gains and losses on derivatives designated as cash flow hedging instruments that will be recycled to the Income Statement when the hedged items affect profit or loss. As at 31 December 2023, the cash flow hedge reserve reflected a cumulative loss of £2,328,000 (2022: £11,735,000 loss). This was offset by a deferred tax asset of £652,000 (2022: £3,286,000 asset).

Note 15 – Investment securities

The liquidity portfolio is part of the overall balance sheet management approach which seeks to optimise the balance sheet composition, to manage the Bank's liquidity buffer and to hedge the IRRBB. The management of the IRRBB is carried out through a combination of hedges with derivatives and partly through matching of the duration on the fixed interest rate deposits (the interest risk on core deposits) with investment securities with a matching duration.

SPPI test applied for bonds at FVOCI or AMC

The SPPI test is applied for each bond to assess that the contractual cash flows represent repayment of principal amount and interest on the principal amount outstanding. Bonds that are included in the portfolios at FVOCI or AMC are generally plain 'vanilla' bonds that:

- have a fixed maturity, i.e. no perpetual bonds;
- do not have terms that introduce exposure to risk or volatility, e.g. by a yield that refers to changes in equity or commodity prices;
- are not subordinated or convertible bonds; and
- can be prepaid (e.g. at par plus accrued interest), with the fair value of the prepayment option being insignificant at initial recognition.

In general, this will be the case if the premium / discount to the contractual par amount is insignificant at initial recognition.

Note 15(a) – Hold to collect (securities measured at amortised cost)

The bonds are primarily UK government securities and highly rated covered, sovereign supernational and agency bonds.

Investment securities	2023 £'000	2022 £'000
- Listed investments	2,403,390	2,294,601
Unamortised discounts on investment securities	(59,840)	(40,929)

This portfolio includes the part of the liquidity bond portfolio that collects contractual cash flows under a 'hold to collect' business model, (i.e. with the purpose of generating a return until maturity). Further, the bonds included in the portfolio have contractual cash flows that pass the SPPI test.

The performance is measured based on the collection of the contractual cash flows. The fair value of the portfolio is monitored for liquidity purposes as the bonds can be used in repo transactions. Sales from the portfolio are infrequent. When sales are made they reflect:

- sales close to maturity (the proceeds from the sale approximate the collection of contractual cash flows);
- sales are managed to risk concentration; and
- sales due to increase in credit risk above a certain level (i.e. outside the investment policy).

Note 15(b) – Hold to collect and sell (securities measured FVOCI)

The portfolio comprises primarily highly rated covered, sovereign, supernational and agency bonds.

Investment securities	2023 £'000	2022 £'000
- Listed investments	964,018	1,074,555

This portfolio includes the part of the liquidity bond portfolio where both the collection of the contractual cash flows and sales are an integrated part of achieving the objectives with the acquired bond portfolio. Further, the bonds included in the portfolio have contractual cash flows that pass the SPPI test.

The performance of the portfolio is measured on a combination of the collection of the contractual cash flows and sales proceeds. Sales typically occur when market opportunities arise, or when there is a need to adjust the portfolio to hedge part of the interest rate risk on the Bank's core deposits. There is no objective of short-term profit taking, and the performance reporting related to this portfolio reflects a combination of the collection of the contractual cash flows and realising fair value market changes. The business model is therefore 'hold to collect and sell'.

Note 15 – Investment securities (continued)

Note 15(b) – Hold to collect and sell (securities measured FVOCI) (Continued)

The Reserve for securities held at fair value reserve within the Statement of Changes in Equity represents the unrealised fair value adjustments (other than expected credit losses), and foreign exchange gains and losses, of investment securities measured at fair value through Other comprehensive income. Unrealised fair value adjustments of hedged interest rate risks that qualify for fair value hedge accounting are recognised in the Income statement and are not included in the reserve. When investment securities are sold, the Bank reclassifies unreduced value adjustments from the reserve to the Income statement.

Note 16 – Loans and advances to customers

Loans and advances to customers are held with the objective of collecting the contractual cash flows and therefore classified as “held to collect” under IFRS 9. These loans and advances have basic lending features with the contractual cash flows solely representing the repayment of principal and interest on the principal amount outstanding (i.e. the SPPI test).

Loans and advances to customers are stated at amortised cost:

	2023 £'000	2022 £'000
Analysed by remaining maturity:		
- on demand or at short notice	1,124,341	1,132,459
- 3 months or less	153,227	169,738
- over 3 months but less than 1 year	436,264	387,904
- over 1 year but less than 5 years	1,717,770	1,681,260
- over 5 years	3,396,143	3,061,681
Gross carrying amount	6,827,745	6,433,042
ECL allowance account	(88,013)	(98,335)
Net carrying amount	6,739,732	6,334,707

Note 16 – Loans and advances to customers (continued)

Reconciliation of loans and advances to customers at amortised cost:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount at 1 January 2023	5,480,235	758,653	194,154	6,433,042
Transferred from Stage 1 to Stage 2	(193,303)	193,303	-	-
Transferred from Stage 2 to Stage 1	366,137	(366,137)	-	-
Transferred from Stage 3 to other stages	2,381	16,147	(18,528)	-
Transferred to Stage 3 from other stages	(18,764)	(22,281)	41,045	-
New assets [1]	1,286,292	42,963	39,240	1,368,495
Assets derecognised [1]	(705,498)	(86,793)	(24,661)	(816,952)
Assets written-off	-	(3)	(2,173)	(2,176)
Other changes in net exposure [2]	(102,164)	(45,952)	(6,548)	(154,664)
Gross carrying amount at 31 December 2023[3]	6,115,316	489,900	222,529	6,827,745

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount at 1 January 2022	5,501,521	479,569	316,083	6,297,173
Transferred from Stage 1 to Stage 2	(330,727)	330,727	-	-
Transferred from Stage 2 to Stage 1	152,818	(152,818)	-	-
Transferred from Stage 3 to other stages	7,108	55,557	(62,665)	-
Transferred to Stage 3 from other stages	(6,438)	(19,060)	25,498	-
New assets [1]	1,423,886	185,701	7,127	1,616,714
Assets derecognised [1]	(1,003,992)	(52,983)	(54,385)	(1,111,360)
Assets written-off	-	-	(15,594)	(15,594)
Other changes in net exposure [2]	(263,941)	(68,040)	(21,910)	(353,891)
Gross carrying amount at 31 December 2022	5,480,235	758,653	194,154	6,433,042

Notes:
The transfer of the gross carrying amounts between ECL stages has been disclosed on an annual basis.
(1) Revolving credit facilities on renewal are included as new assets and assets derecognised in the above reconciliation.
(2) Other changes in net exposure include customer repayments, interest applied to lending and foreign exchange movements.
(3) Included within Stage 3 exposures are originated credit impaired exposures of £17,439,000 (2022: £12,223,000).

Note 16 – Loans and advances to customers (continued)

Classification and measurement – The SPPI test (solely payment of principal and interest on the principal amount outstanding)

Each loan is assessed to establish if the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest shall represent consideration for the time value of money, credit risk, other basic lending risks and profit margin consistent with basic lending features, only. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the loan is mandatorily recognised at fair value through profit or loss. Features that are not genuine do not affect the classification. A feature is not genuine if it affects the contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

In general, the SPPI test of the Bank's portfolios of loans covers, for instance, the following elements:

- Compensation for the time value of money. For some of the Bank's variable rate loans, the market standard for these loans is that the reset frequency and the tenor of the reference rate do not match. It has been assessed that the mismatch does not significantly modify the compensation for the time value of money. No loans have interest rates that are leveraged or linked to, for instance, the development in share prices;
- Prepayment options are consistent with the SPPI test, if the prepayment amount represents the principal amount outstanding, accrued interest and may include a reasonable compensation for the early repayment;
- Extension options are consistent with the SPPI test, if the cash flows during the extension period represent cash flows that are solely payments of principal and interest on the principal amount outstanding;
- Compensation for credit risk and other basic lending risks. The interest rate includes a credit margin to compensate the Bank for the credit risk, and may be fixed initially. The Bank does not incorporate profit sharing agreements, for example by contractual terms that increase the credit margin if the customer's earnings increases;
- Non-recourse features. In general, the Bank does not grant loans that legally are non-recourse; and
- Non-payment is not a breach of contract. The Bank does not grant loans where non-payment would not constitute a breach of contract.

Financial instruments in scope of the expected credit loss impairment model in IFRS 9

Impairments for expected credit losses apply to all financial assets recognised at amortised cost or at fair value through Other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. As a result, the Bank's expected credit loss model also applies to bond portfolios included in the line item Investment securities.

Significant increase in credit risk (SICR) (transfer from stage 1 to stage 2)

The classification of facilities between stage 1 and 2 for the purpose of calculating expected credit losses depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporates forward-looking information. A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

- For facilities originated below 1% in PD: An increase in the facility's 12-month PD of at least 0.5 percentage points and doubling up of the facility's lifetime PD since origination; and
- For facilities originated above 1% in PD: An increase in the facility's 12 month PD of 2 percentage points or doubling up of the facility's lifetime PD since origination.

In addition, facilities that are more than 30 days past due are moved to stage 2.

Finally, customers subject to forbearance measures are placed in stage 2, if the Bank in the most likely outcome, expects no loss.

Stage 3 (credit impaired facilities)

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, been granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and (e) the purchase or origination of a financial asset at a high rate of discount that reflects the incurred credit loss. The Bank's definition of default aligns with the requirements of both IFRS 9 and the regulatory definition outlined in CRR Article 178. It may not be possible to identify a single individual event – instead, the combined effect of several events may cause the financial asset to become credit-impaired. All credit-impaired facilities are placed in rating category 11 (default).

Notes to the financial statements
for the year ended 31 December 2023

Note 16 – Loans and advances to customers (continued)

Definition of default

The definition of default is used in the measurement of expected credit losses and the assessment to determine movements between stages. The Bank implemented a new, more harmonised approach to applying the definition of default in 2022. According to the revised definition of default, all stage 3 exposures are considered to be in default. This is applicable for exposures that are in default due to either the 90 days past due default trigger or the unlikeliness to pay default triggers. For exposures classified as in default, there exists a probation period which must be passed before exposures can be reclassified as not in default. To pass the probation period and leave default exposures must return to good order and continue to not meet any of the default triggers continually for a required period of time. For exposures exiting default with the aid of forbearance, the period of time in probation amounts to 12 months, for exposures exiting default without the aid of forbearance the period amounts to 3 months.

The Bank continues its programme to redevelop all credit risk PD and LGD models to reflect the definition of default. At December 2022 a post model adjustment of £5,000,000 was held to allow for the impacts of the redevelopment. During 2023 the post model adjustment has been released and replaced by an in-model adjustment within the IFRS9 ECL model calculation. At December 2023 the impact of this adjustment on the Bank's ECL totalled £5,200,000.

Purchased or originated credit-impaired facilities (POCI)

A facility that is credit-impaired at initial recognition is classified as a POCI financial asset. This is the case if the financial asset is purchased or originated at a deep discount that reflects the incurred credit losses. For such assets, lifetime expected credit losses are recognised for the remaining lifetime of the asset. In general, the Bank does not purchase credit-impaired financial assets and the category therefore relates to originated credit-impaired facilities, typically originated in relation to forbearance measures. The majority of POCI financial assets relate to coronavirus pandemic measures whereby the Bank supported a number of its existing Business Customers with additional lending through the UK Government-backed loan schemes (i.e. CBILS and BBLS). At time of application and drawdown, some of these existing customers were already classified as credit-impaired and consequently under IFRS 9, the associated lending is classified as a POCI financial asset.

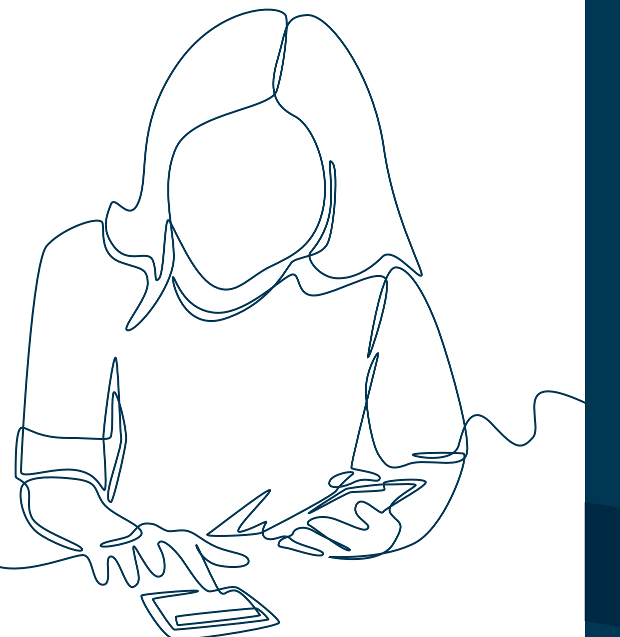
Calculation of expected credit losses

The expected credit loss is calculated for all individual facilities as a function of the PD, EAD and the LGD. In general, the Bank's IFRS 9 impairment models and parameters draw on the Bank's internal models in order to ensure alignment of models across the Bank. Models and calculations have been developed specifically for IFRS 9 purposes, including models for lifetime PD, prepayment and forward-looking LGD. All expected credit loss impairments are allocated to individual exposures. For significant loans in stage 3, the Bank determines the expected credit losses individually.

Regarding sustainability and climate risks, a climate risk heat map has been designed which gives an indication of the size of the Bank's credit exposure to climate risk, and not the expected stress impacts such as impact on expected credit losses. Such quantitative measures are to be assessed through scenario analysis and future stress testing. Climate scenario analysis is being performed for key sectors, however the methodology is still in its infancy and the Bank's climate stress testing capabilities will continuously be enhanced to better assess potential future loss levels. Conclusions have not led to adjustments to staging or expected credit losses, as the impacts either manifest over a longer time period than loan maturities, or as transition risks are concentrated on sectors with downside risks recognised in the bank's expected credit losses. Further information can be found in the 'Task force on Climate related Financial Disclosures' (TCFD) section of the Annual Report.

Expected remaining lifetime

For most facilities, the expected lifetime is limited to the remaining contractual maturity and is adjusted for expected prepayment. For exposures with weak credit quality, the likelihood of prepayment is not included. For exposures that include both a loan and an undrawn commitment, and where a contractual ability to demand prepayment and cancellation of the undrawn commitment do not limit the Bank's exposure to credit losses to the contractual notice period, the expected lifetime is the period during which the Bank expects to be exposed to credit losses. This period is estimated on the basis of the normal credit risk management actions. Products identified as in scope of an expected lifetime longer than the remaining contractual maturity include credit cards, overdraft balances and certain revolving credit facilities.



Note 16 – Loans and advances to customers (continued)

Calculation of ECL for financial assets not included in ECL model

In limited circumstances, the Bank performs an ECL calculation for certain portfolios of financial assets that do not go through the automated impairment process and therefore require manual calculation. At 31 December 2023 £3,830,000 was recognised for such financial assets (2022: £7,800,000).

Incorporation of forward-looking information

The forward-looking elements of the calculation reflect the current unbiased expectations of the Bank's senior management. The process consists of the creation of macroeconomic scenarios (base case, upside and downside), including an assessment of the probability of each scenario by the Bank's Chief Economist, the review and sign-off of the scenarios (through the Bank's Credit Oversight Forum) and a process for adjusting scenarios given new information during the quarter.

The purpose of using multiple scenarios is to model the non-linear impact of the assumptions about macroeconomic factors on the expected credit losses. Management's approval of scenarios can include adjustments to the scenarios, probability weighting and management overlays to cover the outlook for particular high-risk portfolios. The approved scenarios are used to calculate the impairment levels.

Technically, the forward-looking information is used directly in the PDs through an estimate of general changes to the PDs and the LGDs in the expected credit loss calculation. However, for significant exposures in stage 3, an individual assessment of the scenarios, changes to expected credit losses and the related probabilities is performed by senior credit officers. The forward-looking information is based on a three year forecast period converging to steady state in year seven.

Consideration of sustainability and climate related risks

In addition to providing loans in a fair and responsible manner, the Bank has started to integrate sustainability and Environmental, Social and Governance (ESG) considerations into its lending practices. Sectors that are recognised to have elevated ESG risks are also specified in the Credit Policy and are subject to periodic review.

As outlined above, the Bank has started to assess and quantify the financial impact of climate-related risks in the lending portfolio in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This means reviewing selected sectors using climate scenarios to measure the sensitivity of the portfolio to climate-related risks with the aim of covering key sectors over time.

Work to date has focused on the 'Sixth Carbon Budget' which presents a number of pathways scenarios towards a net zero future by 2050. This has included establishing the potential impact on the Bank's capital of certain stress scenarios based on increased impairment/costs associated with lending to certain industries vulnerable to short term adverse change from climate risk factors and also where the value of collateral held by the Bank for lending may be open to question due to climatic factors (flooding risk etc.)

Work to date has indicated that the vulnerability to any increased impairments in the short term is low and hence these factors have not been incorporated within the impairment calculation models, at this juncture. However the position remains under review with any adaptations to be introduced as work develops.

The Bank is aware of the need to consider and disclose the financial implications arising from climate change including the impact on businesses, strategy and financial planning. Planning is underway to develop this analysis as part of a wider transition plan process.

Write-off policy

Loans that are considered uncollectible are written off. Write-offs are debited to the allowance account. Loans are written off once the usual collection procedure has been completed and the loss on the individual loan can be calculated. Full write-off of a loss is only recognised when the customer is formally notified that they no longer have a contractual obligation.

Modification

When a loan is modified the Bank assesses whether the modification results in derecognition. This depends on whether the changes to the contractual cash flows or other contractual terms are significant or not, or whether they are as a result of the Interest Rate Benchmark Reform.

A change in the contractual cash flows that is required by the reform is accounted for by updating the effective interest rate, without recognising a gain or loss. This can only be applied if the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

Otherwise, if the changes are not related to the reform and are significant, the modification is accounted for as derecognition of the original loan and recognition of a new loan. If the changes are not significant, the modification is accounted for as a modification of the original loan. The assessment is based on the following considerations:

- The Bank differentiates between changes in the cash flows or other terms within the original contract and modifications of the contract, i.e. a new contract.
- In general, a significant modification is defined as a full credit process, a pricing decision and the signing of a new contract.
- An assessment of whether the modification is caused as a forbearance measure or made on commercial terms.

If the financial asset is not derecognised, the original effective interest rate remains unchanged, and the net present value of the changed contractual cash flows represents the gross carrying amount of the financial asset after the modification. The difference between the net present value of the original contractual cash flows and the modified contractual cash flows is recognised in the Income statement as a modification gain or loss.

Note 16 – Loans and advances to customers (continued)

Modification (continued)

The derecognition gain or loss represents the difference between the carrying amount of the original financial asset and the initial carrying amount of the new financial asset plus/minus any cash payments between the parties in relation to the modification.

Modifications in the form of forbearance measures include interest reduction schedules, interest only schedules, temporary payment holidays, term extensions, cancellation of outstanding fees, waiver of covenant enforcement and debt forgiveness.

For modifications that are not significant, the modification loss is recognised in the income statement within loan impairment charges.

In terms of stage allocation, a modification that leads to derecognition of the initial loan and recognition of a new loan, the loan will (unless the new loan is credit-impaired at initial recognition) be recognised in stage 1 at initial recognition, i.e. the initial credit risk is reset. If the replacing loan is considered an amendment to the original loan, the initial credit risk is not reset. Loans modified as part of the Bank's forbearance policy, where the modification does not result in derecognition, the loss allowance on the forborne loans will generally only be measured based on 12-months expected credit losses when there is evidence of the borrower's improved repayment behaviour.

When a loan in stage 3 is modified, and the modification results in derecognition, the Bank assesses if the new loan is originated credit impaired. The assessment includes factors such as whether the customer's repayment behaviour has improved significantly prior to the modification or not and whether the pricing on the new loan reflects the actual credit risk. New loans that are originated credit impaired remain under a lifetime ECL calculation for the remaining term of the exposure.

Post model adjustments

Management applies judgement when determining the need for post-model adjustments (PMAs). At 31 December 2023, the total PMA amounted to £15,500,000 (2022: £19,100,000), and is included within the total ECL allowance account of £92,604,000 (2022: £103,009,000).

The PMAs relate primarily to the following two areas:

Personal Banking Customers:
The Bank continues to take a forward looking view of customers that may be impacted by financial pressures as a result of high levels of inflation and rising interest rates; squeezing household finances. A segment of customers deemed to have low affordability, or indicators of financial distress at credit reference agencies, has been identified by the Bank. Where these customers are not already deemed credit impaired, an adjustment has been made to ECL calculations by downgrading customer credit grades to a level considered more representative of current risks. The PMA amount held represents the difference between the Bank's modelled ECL approach and the adjusted ECL calculation for this segment of customers.

Business Banking Customers:
The uncertain economic conditions also have an impact on Business Customers, in particular SME businesses and those operating in industries which are heavily reliant on discretionary consumer spending, where a reduction in demand may coincide with increasing operating costs. The industry sectors identified as at the highest risk are; commercial real estate, hotels, restaurants and leisure, retailing, consumer goods, automotive, transportation, construction and building materials. The Bank has recognised the specific challenges for these sectors in the setting of a PMA to allow for increasing cash flow pressures on Business Customers. The PMA amount has been quantified through analysis of the impact of a moderate downgrade to credit grades for customers operating in these sectors, alongside a further minor downgrade to SME customers operating in other sectors. The ECL impact of these downgrades are subsequently held in the PMA.

The table below provides a quantitative summary of the PMA amounts:

	2023 £'000	2022 £'000
Personal banking cost of living pressures	8,000	9,100
Business banking financial pressures	7,500	5,000
Other adjustments made outside ECL model	-	5,000
Total	15,500	19,100

Post model adjustments are reviewed on a quarterly basis with the need for PMA amounts reassessed and re-quantified as required. The total PMA amount is held across stages, with the amount held in each stage determined by an assessment of the underlying drivers of PMA amounts. At 31 December 2023 the allocation of these PMA amounts was £3,100,000 in stage 1 and £12,400,000 in stage 2.

Note 16 – Loans and advances to customers (continued)

Reconciliation of total allowance account

The allowance account below is reconciled by measurement category. The allowance account for loans at amortised cost is credited against the related loans, whereas the allowance account related to loan commitments and guarantees is recognised as a liability and presented under Other liabilities. The transfer between ECL stages has been disclosed on a monthly basis.

	Stage 1 £'000	Stage 2 £'000	Stage3 £'000	Total £'000
ECL allowance account at 1 January 2023	**13,322**	**38,399**	**51,288**	**103,009**
Charge for the year				
- transferred from Stage 1 during the year	-	270	26	296
- transferred from Stage 2 during the year	7,283	-	1,201	8,484
- transferred from Stage 3 during the year	434	2,582	-	3,016
- transferred to Stage 1 during the year	-	(7,283)	(434)	(7,717)
- transferred to Stage 2 during the year	(270)	-	(2,582)	(2,852)
- transferred to Stage 3 during the year	(26)	(1,201)	-	(1,227)
- ECL on new assets [2]	3,913	1,862	5,648	11,423
- ECL on assets derecognised [2]	(581)	(3,359)	(6,045)	(9,985)
Impact of net remeasurement of ECL (incl. changes in models)	(3,464)	(6,997)	(4,871)	(15,332)
Impact of net remeasurement of ECL (Stage Change)	(7,170)	2,014	7,218	2,062
Recovery of amounts written off in previous years	-	-	(1,273)	(1,273)
	119	(12,112)	(1,112)	(13,105)
Write-offs/recoveries applied to the allowance account				
- Write-offs debited to the allowance account	-	(3)	(2,173)	(2,176)
- Recoveries of amounts written off in previous years	-	-	1,273	1,273
Foreign exchange and other adjustments	18	111	3,474	3,603
As at 31 December 2023[1]	**13,459**	**26,395**	**52,750**	**92,604**

Notes:

(1) Included within the Stage 3 ECL balance is £859,000 relating to originated credit impaired exposures (2022: £945,000)

(2) Revolving credit facilities on renewal are included as new assets and assets derecognised in the above reconciliation

Note 16 – Loans and advances to customers (continued)

Reconciliation of total allowance account (continued)

	Stage 1 £'000	Stage 2 £'000	Stage3 £'000	Total £'000
ECL allowance account at 1 January 2022	5,210	9,258	81,514	95,982
Charge for the year				
- transferred from Stage 1 during the year	-	2,085	83	2,168
- transferred from Stage 2 during the year	808	-	2,042	2,850
- transferred from Stage 3 during the year	60	3,544	-	3,604
- transferred to Stage 1 during the year	-	(808)	(60)	(868)
- transferred to Stage 2 during the year	(2,085)	-	(3,544)	(5,629)
- transferred to Stage 3 during the year	(83)	(2,042)	-	(2,125)
- ECL on new assets	1,133	522	485	2,140
- ECL on assets derecognised	(237)	(463)	(3,401)	(4,101)
Impact of net remeasurement of ECL (incl. changes in models)	8,510	20,944	(16,551)	12,903
Impact of net remeasurement of ECL (Stage Change)	-	5,357	4,221	9,578
Recovery of amounts written off in previous years	-	-	(661)	(661)
	8,106	29,139	(17,386)	19,859
Write-offs/recoveries applied to the allowance account				
- Write-offs debited to the allowance account	-	(13)	(15,581)	(15,594)
- Recoveries of amounts written off in previous years	-	-	661	661
Foreign exchange and other adjustments	6	15	2,080	2,101
As at 31 December 2022	13,322	38,399	51,288	103,009

Allowance account analysis by balance sheet items:

Loan impairment charges include impairment charges for expected credit losses against loans, lease receivables, investment securities, certain loan commitments and financial guarantee contracts.

	2023 £'000	2022 £'000
Due from credit institutions and central banks	**117**	219
Derivative financial instruments	**32**	92
Loans at amortised cost	**88,013**	98,335
Loan commitments and guarantees	**4,442**	4,363
Total	**92,604**	103,009

For information on significant accounting estimates related to expected credit losses, see note 1(b).

Note 17 – Credit risk exposures

a) Credit risk

The Bank offers loans, credits, guarantees and other products as part of its business model and thus takes on credit risk. The Bank grants credits on the basis of information about customers' individual financial circumstances and monitors their financial situation with the aim of assessing whether the basis for granting credit facilities has changed. Facilities should adhere to the guidelines outlined in the Bank's Credit Policy, including the Principles of Responsible Lending. The Principles of Responsible Lending focus on customers' understanding of the consequences of borrowing, on an assessment of their needs and ability to repay, and on possible conflicts with the Bank's ethical guidelines. Facilities should match customers' financial situation, including their earnings, capital and assets, and business volume with the Bank to a reasonable degree, and customers must be able to substantiate their repayment ability. In order to mitigate credit risk, the Bank uses collateral, guarantees and covenants.

b) Credit exposure

Credit exposure consists of on-balance sheet and off-balance-sheet items that carry credit risk. Whilst the majority of credit risk derives from exposure arising from lending activities in the form of secured and unsecured loans, the overall management of credit risk also covers credit exposures arising from certain treasury related activities (i.e. counterparty risk on derivatives, intergroup funding and credit risk from investment security positions). Credit risk arising from treasury related exposures is further analysed in note 17(c).

Breakdown of credit exposure

	Lending activities	Counterparty derivatives	Inter group	Other	Total
At 31 December 2023	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance sheet items					
Balances at central bank	2,809,038	-	-	-	2,809,038
Items in the course of collection from other banks	41,191	-	-	-	41,191
Due from other banks	1,190	-	9,093	-	10,283
Derivative financial instruments	-	75,457	-	-	75,457
Investment securities- hold to collect	-	-	-	2,403,390	2,403,390
Investment securities - hold to collect and sell	-	-	-	964,018	964,018
Loans and advances at amortised cost	6,739,732	-	-	-	6,739,732
Investment in subsidiaries	-	-	250	-	250
Off-balance sheet items					
Guarantees	108,062	-	-	-	108,062
Irrevocable loan commitments shorter than 1 year	607,893	-	-	-	607,893
Irrevocable loan commitments longer than 1 year	864,647	-	-	-	864,647
Total	**11,171,753**	**75,457**	**9,343**	**3,367,408**	**14,623,961**

	Lending activities	Counterparty derivatives	Inter group	Other	Total
At 31 December 2022	£'000	£'000	£'000	£'000	£'000
Balance sheet items					
Balances at central bank	2,882,895	-	-	-	2,882,895
Items in the course of collection from other banks	32,139	-	-	-	32,139
Due from other banks	1,992	-	39,719	-	41,711
Derivative financial instruments	-	89,324	-	-	89,324
Investment securities- hold to collect	-	-	-	2,294,601	2,294,601
Investment securities - hold to collect and sell	-	-	-	1,074,555	1,074,555
Loans and advances at amortised cost	6,334,707	-	-	-	6,334,707
Investment in subsidiaries	-	-	250	-	250
Off-balance sheet items					
Guarantees	103,757	-	-	-	103,757
Irrevocable loan commitments shorter than 1 year	645,966	-	-	-	645,966
Irrevocable loan commitments longer than 1 year	733,366	-	-	-	733,366
Total	10,734,822	89,324	39,969	3,369,156	14,233,271

Note 17 – Credit risk exposures (continued)

b) Credit exposure (continued)

Credit exposure from lending activities

Credit exposure from lending activities in the Bank's banking business includes loans, amounts due from credit institutions and central banks, guarantees and irrevocable loan commitments. The exposure is measured net of expected credit losses. For reporting purposes, all collateral values are net of haircuts and capped at the exposure amount.

Classification of customers

The main objectives of risk classification are to rank the Bank's customers according to risk and to estimate each customer's PD. As part of the credit process, the Bank classifies customers according to risk and updates their classifications upon receipt of new information. Risk classification comprises rating and credit scoring of customers. While rating all large customers, the Bank uses fully automated and statistically based scoring models for small customers such as Personal Customers and small businesses. Credit scores are updated monthly in a process subject to automated controls.

The Bank has developed a number of classification models to assess customer PD and to classify customers in various segments.

In its credit risk management, the Bank uses point-in-time (PIT) PD estimates for risk classification. These PIT PD estimates express a customer's probability of default in the current economic situation. The Bank's classification scale consists of 11 main rating categories with fixed PD bands. During a downturn, a customer's PIT PD may increase, and the customer may migrate to a lower rating category. The effect from a downturn is thus larger when PIT PD is used than if the classification were based on through-the-cycle (TTC) PD, which the Bank uses to calculate the risk of exposure amount for credit risk.

The classification of facilities between stage 1 and 2 for the purpose of calculating expected credit loss impairments under IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether the credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporate forward-looking information.

A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

- For facilities originated below 1% in PD: An increase in the facility's 12-month PD of at least 0.5 percentage points since initial recognition and a doubling in the facility's lifetime PD since origination
- For facilities originated above 1% in PD: An increase in the facility's 12-month PD of 2 percentage points since origination or a doubling of the facility's lifetime PD since origination

In addition, facilities that are more than 30 days past due are moved to stage 2. 30 days past due is considered a backstop. Finally, customers subject to forbearance measures are placed in stage 2 if the Bank, in the most likely outcome, expects no loss, or if the customers are subject to the two-year probation period for performing forborne exposures.

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, been granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and (e) the purchase or origination of a financial asset at a high rate of discount that reflects the incurred credit loss. It may not be possible to identify a single individual event – instead, the combined effect of several events may cause the financial asset to become credit-impaired. All credit-impaired facilities are placed in rating category 11 (default).

Exposures which are considered to be in default for regulatory purposes will always be considered stage 3 under IFRS 9. This applies both to 90-days past-due considerations and unlikely-to-pay factors leading to regulatory default.

Expected credit losses

The expected credit loss is calculated for all individual facilities as a function of the PD, EAD and the LGD. For exposures in stage 1, 12 months expected credit losses are recognised. For exposures in stage 2-3, lifetime expected credit losses are recognised.

Note 17 – Credit risk exposures (continued)

b) Credit exposure (continued)

Credit portfolio broken down by rating category and stages

In the table below the rating category 11 represent credit impaired assets.

			31 December 2023 Gross Exposure				31 December 2022 Gross Exposure			
Rating	PD Upper level	PD Lower level	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
1	-	0.01	56,218	1	-	56,219	531,490	1,257	-	532,747
2	0.01	0.03	307,326	1,463	-	308,789	791,599	3,096	-	794,695
3	0.03	0.06	4,442,572	4,833	-	4,447,405	4,539,584	4,938	-	4,544,522
4	0.06	0.14	2,218,879	7,322	-	2,226,201	1,985,863	7,610	-	1,993,473
5	0.14	0.31	1,635,635	44,098	-	1,679,733	965,190	58,644	-	1,023,834
6	0.31	0.63	987,673	68,881	-	1,056,554	533,227	104,092	-	637,319
7	0.63	1.90	692,427	164,915	-	857,342	439,081	287,726	-	726,807
8	1.90	7.98	128,330	175,404	-	303,734	23,951	287,335	-	311,286
9	7.98	25.70	22,651	41,806	-	64,457	94	23,473	-	23,567
10	25.70	99.99	9,680	22,440	-	32,120	55	45,060	-	45,115
11	100.00	100.00	-	-	231,771	231,771	-	-	204,374	204,374
Total			10,501,391	531,163	231,771	11,264,325	9,810,134	823,231	204,374	10,837,739

			31 December 2023 Expected Credit Loss (ECL)				31 December 2022 Expected Credit Loss (ECL)			
Rat-ing	PD Upper level	PD Lower level	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
1	-	0.01	33	-	-	33	505	30	-	535
2	0.01	0.03	189	39	-	228	775	74	-	849
3	0.03	0.06	2,756	142	-	2,898	4,595	122	-	4,717
4	0.06	0.14	2,397	218	-	2,615	2,598	191	-	2,789
5	0.14	0.31	1,911	1,295	-	3,206	1,484	2,116	-	3,600
6	0.31	0.63	1,792	2,329	-	4,121	1,323	4,065	-	5,388
7	0.63	1.90	3,626	6,925	-	10,551	1,863	11,366	-	13,229
8	1.90	7.98	598	9,756	-	10,354	178	14,487	-	14,665
9	7.98	25.70	61	3,596	-	3,657	1	2,767	-	2,768
10	25.70	99.99	64	2,095	-	2,159	-	3,177	-	3,177
11	100.00	100.00	-	-	52,750	52,750	-	-	51,200	51,200
Total			13,427	26,395	52,750	92,572	13,322	38,395	51,200	102,917

			31 December 2023 Net Exposure				31 December 2022 Net Exposure			
Rat-ing	PD Upper level	PD Lower level	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
1	-	0.01	56,185	1	-	56,186	503,985	1,227	-	532,212
2	0.01	0.03	307,137	1,424	-	308,561	790,824	3,022	-	793,846
3	0.03	0.06	4,439,816	4,691	-	4,444,507	4,534,989	4,816	-	4,539,805
4	0.06	0.14	2,216,482	7,104	-	2,223,586	1,983,265	7,419	-	1,990,684
5	0.14	0.31	1,633,724	42,803	-	1,676,527	963,706	56,528	-	1,020,234
6	0.31	0.63	985,881	66,552	-	1,052,433	531,904	100,027	-	631,931
7	0.63	1.90	688,801	157,990	-	846,791	437,218	276,360	-	713,578
8	1.90	7.98	127,732	165,648	-	293,380	23,773	272,848	-	296,621
9	7.98	25.70	22,590	38,210	-	60,800	93	20,706	-	20,799
10	25.70	99.99	9,616	20,345	-	29,961	55	41,883	-	41,938
11	100.00	100.00	-	-	179,021	179,021	-	-	153,174	153,174
Total			10,487,964	504,768	179,021	11,171,753	9,796,812	784,836	153,174	10,734,822

Note 17 – Credit risk exposures (continued)

b) Credit exposure (continued)

Credit portfolio broken down by rating category and stages (continued)

			31 December 2023 Net Exposure (uncollateralised)				31 December 2022 Net Exposure (uncollateralised)			
Rating	PD Upper level	PD Lower level	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
1	-	0.01	4,790	-	-	4,790	141,368	-	-	141,368
2	0.01	0.03	66,493	32	-	66,525	96,348	314	-	96,662
3	0.03	0.06	3,930,906	806	-	3,931,712	4,037,588	135	-	4,037,723
4	0.06	0.14	945,833	1,324	-	947,157	691,828	379	-	692,207
5	0.14	0.31	419,389	622	-	420,011	297,163	2,106	-	299,269
6	0.31	0.63	203,987	9,579	-	213,566	130,937	23,509	-	154,446
7	0.63	1.90	199,380	27,505	-	226,885	118,846	40,017	-	158,863
8	1.90	7.98	32,670	23,735	-	56,405	5,560	43,982	-	49,542
9	7.98	25.70	2,021	5,452	-	7,473	34	3,264	-	3,298
10	25.70	99.99	4,487	987	-	5,474	1	-	-	1
11	100.00	100.00	-	-	37,083	37,083	-	-	22,101	22,101
Total			5,809,956	70,042	37,083	5,917,081	5,519,673	113,706	22,101	5,655,480

Non-performing loans

The gross exposure from non-performing loans and advances to customers amounted to £219,597,000 at 31 December 2023 (2022: £205,612,000).

Credit exposure broken down by industry and stages

The table below breaks down credit exposure by industry. The industry segmentation follows the classification principles of the Statistical Classification of Economic Activities in the European Community (NACE) Standard that has been adapted to the Bank's business risk approach used for the active management of the credit portfolio.

	31 December 2023 Gross Exposure				31 December 2022 Gross Exposure			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Public institutions	3,524,674	268	39	3,524,981	3,594,742	194	43	3,594,979
Agriculture	384,378	77,324	19,727	481,429	395,058	73,628	20,825	489,511
Commercial property	396,382	73,890	50,256	520,528	273,617	194,942	65,072	533,631
Non-profit and associations	1,005,584	1,856	813	1,008,253	907,719	3,903	972	912,594
Personal customers	3,318,798	199,503	49,351	3,567,652	2,932,008	363,100	49,703	3,344,811
Business customers	1,832,648	178,322	111,585	2,122,555	1,706,990	187,464	67,759	1,962,213
Other	38,927	-	-	38,927	-	-	-	-
Total	10,501,391	531,163	231,771	11,264,325	9,810,134	823,231	204,374	10,837,739

Note 17 – Credit risk exposures (continued)

b) Credit exposure (continued)

Credit portfolio broken down by rating category and stages (continued)

	31 December 2023 Expected Credit Loss (ECL)				31 December 2022 Expected Credit Loss (ECL)			
	Stage 1 £000	**Stage 2 £000**	**Stage 3 £000**	**Total £000**	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Public institutions	**116**	**121**	**8**	**245**	3,244	2	8	3,254
Agriculture	**901**	**3,641**	**3,394**	**7,936**	708	1,901	3,540	6,149
Commercial property	**1,453**	**4,683**	**11,224**	**17,360**	1,061	10,073	13,429	24,563
Non-profit and associations	**2,415**	**161**	**654**	**3,230**	1,132	157	683	1,972
Personal customers	**3,666**	**9,668**	**17,164**	**30,498**	3,611	18,350	16,487	38,448
Business customers	**4,875**	**8,121**	**20,306**	**33,302**	3,566	7,912	17,053	28,531
Other	**1**	**-**	**-**	**1**	-	-	-	-
Total	13,427	26,395	52,750	92,572	13,322	38,395	51,200	102,917

	31 December 2023 Net exposure				31 December 2022 Net exposure			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Public institutions	**3,524,558**	**147**	**31**	**3,524,736**	3,591,498	192	35	3,591,725
Agriculture	**383,477**	**73,683**	**16,333**	**473,493**	394,350	71,727	17,285	483,362
Commercial property	**394,929**	**69,207**	**39,032**	**503,168**	272,556	184,869	51,643	509,068
Non-profit and associations	**1,003,169**	**1,695**	**159**	**1,005,023**	906,587	3,746	289	910,622
Personal customers	**3,315,132**	**189,835**	**32,187**	**3,537,154**	2,928,397	344,750	33,216	3,306,363
Business customers	**1,827,773**	**170,201**	**91,279**	**2,089,253**	1,703,424	179,552	50,706	1,933,682
Other	**38,926**	**-**	**-**	**38,926**	-	-	-	-
Total	10,487,964	504,768	179,021	11,171,753	9,796,812	784,836	153,174	10,734,822

	31 December 2023 Net Exposure (uncollateralised)				31 December 2022 Net Exposure (uncollateralised)			
	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Public institutions	**3,524,540**	**148**	**-**	**3,524,688**	3,591,477	193	-	3,591,670
Agriculture	**117,473**	**8,539**	**489**	**126,501**	120,895	13,152	882	134,929
Commercial property	**54,305**	**11,386**	**10,905**	**76,596**	88,476	31,087	21,189	140,752
Non-profit and associations	**504,240**	**716**	**35**	**504,991**	446,464	1,168	30	447,662
Personal customers	**415,096**	**18,491**	**-**	**433,587**	336,587	31,971	-	368,558
Business customers	**1,155,375**	**30,762**	**25,654**	**1,211,791**	935,774	36,135	-	971,909
Other	**38,927**	**-**	**-**	**38,927**	-	-	-	-
Total	5,809,956	70,042	37,083	5,917,081	5,519,673	113,706	22,101	5,655,480

For financial assets that are credit impaired (stage 3) at 31 December 2023, £141,938,000 of collateral is held as security against these exposures (2022: £131,073,000).

Note 17 – Credit risk exposures (continued)

b) Credit exposure (continued)

Concentration risk

The Bank has implemented a set of frameworks to manage concentration risk encountered by the Bank. These frameworks improve risk control limits and guide points which cover single-name borrower concentration, industry sector concentration and geographical concentration.

Industry sector concentration	The Industry Concentration 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 concentration	The Country Risk 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 Great Britain and Northern Ireland as being within its risk appetite as this risk is inherent to the Bank's business model.
Single-name borrower concentration	The Bank has set internal limits regarding its maximum exposure to a single name in the context of the total customer lending and 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.

Collateral

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

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

The market value of collateral is subject to a haircut. The haircut reflects the risk that the Bank will not be able to obtain the estimated market value upon the sale of the individual asset in a distressed situation. The haircut applied depends on the type of collateral.

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

Collateral value by type (after haircut):

	2023 £'000	2022 £'000
Real estate/property		
- Personal	**3,102,916**	2,937,131
- Commercial	**1,279,046**	1,196,298
- Agricultural	**264,359**	238,932
Equipment	**213,639**	261,980
Guarantees	**224,681**	292,680
Deposits	**21,613**	26,114
Other assets	**148,418**	126,566
Total collateral	5,254,672	5,079,701
Total unsecured credit exposure	5,917,081	5,655,480
Unsecured portion of credit exposure (%)	53%	53%

Note 17 – Credit risk exposures (continued)

b) Credit exposure (continued)

Past due amounts (no evidence of credit impairment):

	Total past due amounts		Total due under loans	
	2023 £'000	2022 £'000	2023 £'000	2022 £'000
6-30 days	307	400	5,601	5,005
31-60 days	208	45	3,363	3,525
> 60 days	612	1,010	3,838	5,347
Total past due amounts	1,127	1,455		
Total due under loans			12,802	13,877

Measurement of credit risk

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality.
The following credit classifications have been used:

Good upper	Strong credit with no weakness evident.
Good lower	Satisfactory credit with weakness evident.
Marginal	The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.
Vulnerable	Credit where repayment is in jeopardy from normal cash flows and may be dependent on other sources.
Impaired	A loan is credit impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event/events has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires a Stage 3 impairment provision to be recognised in the Income statement.

The portfolio of good, marginal, vulnerable and impaired loans and advances to customers (pre impairment provisions) is as follows:

Neither past due nor stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2023 £'000	2023 £'000	2023 £'000	2023 £'000	2023 £'000
Good upper	2,148,115	58,862	924,259	1,447,453	4,578,689
Good lower	928,671	17,287	240,540	474,886	1,661,384
Marginal	148,498	4,693	45,048	68,510	266,749
Vulnerable	45,964	2,235	11,539	25,854	85,592
Total : Neither past due nor Stage 3 impaired	3,271,248	83,077	1,221,386	2,016,703	6,592,414

Neither past due nor stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2022 £'000	2022 £'000	2022 £'000	2022 £'000	2022 £'000
Good upper	2,426,049	59,711	839,083	1,501,433	4,826,276
Good lower	459,236	13,781	229,764	357,904	1,060,685
Marginal	165,902	5,561	33,426	70,456	275,345
Vulnerable	5,600	289	9,023	47,792	62,704
Total : Neither past due nor Stage 3 impaired	3,056,787	79,342	1,111,296	1,977,585	6,225,010

Note 17 – Credit risk exposures (continued)

b) Credit exposure (continued)

Measurement of credit risk (continued)

Six days plus past due not Stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2023 £'000	2023 £'000	2023 £'000	2023 £'000	2023 £'000
Good upper	1,658	120	4	119	1,901
Good lower	2,085	190	1,057	238	3,570
Marginal	1,978	124	50	1,041	3,193
Vulnerable	2,972	364	157	645	4,138
Total : Neither past due nor Stage 3 impaired	8,693	798	1,268	2,043	12,802

Six days plus past due not Stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2022 £'000	2022 £'000	2022 £'000	2022 £'000	2022 £'000
Good upper	2,488	177	894	250	3,809
Good lower	588	224	77	2,980	3,869
Marginal	2,613	159	184	568	3,524
Vulnerable	2,321	116	99	139	2,675
Total : Neither past due nor Stage 3 impaired	8,010	676	1,254	3,937	13,877

Stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2023 £'000	2023 £'000	2023 £'000	2023 £'000	2023 £'000
Total : Stage 3 impaired	44,896	4,440	64,442	108,751	222,529

Stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2022 £'000	2022 £'000	2022 £'000	2022 £'000	2022 £'000
Total : Stage 3 impaired	28,934	20,604	78,319	66,298	194,155

Gross loans and receivables	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2023 £'000	2023 £'000	2023 £'000	2023 £'000	2023 £'000
Good upper	2,149,773	58,982	924,263	1,447,572	4,580,590
Good lower	930,756	17,477	241,597	475,124	1,664,954
Marginal	150,476	4,817	45,098	69,551	269,942
Vulnerable	48,935	2,599	11,696	26,500	89,730
Impaired	44,896	4,441	64,442	108,750	222,529
Gross loans and receivables	3,324,836	88,316	1,287,096	2,127,497	6,827,745

Note 17 – Credit risk exposures (continued)
b) Credit exposure (continued)

Measurement of credit risk (continued)

Gross loans and receivables	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2022 £'000	2022 £'000	2022 £'000	2022 £'000	2022 £'000
Good upper	2,428,537	59,888	839,977	1,501,684	4,830,086
Good lower	459,824	14,005	229,841	360,884	1,064,554
Marginal	168,515	5,720	33,610	71,024	278,869
Vulnerable	7,920	405	9,122	47,931	65,378
Impaired	28,934	20,604	78,319	66,298	194,155
Gross loans and receivables	3,093,730	100,622	1,190,869	2,047,821	6,433,042

Forbearance

Forbearance occurs when a concession is made on the contractual terms of a loan in response to the actual or apparent financial stress of a borrower with the purpose of avoiding default, foreclosure or repossession. The Bank operates a policy of providing forbearance to both its Personal and Business Customers when it is appropriate to the individual's circumstances. The concession can be granted on a permanent or temporary basis following an assessment of the customer's individual circumstances and ability to pay.

The Bank operates a range of forbearance measures across its retail home loan portfolio when customers have been identified as experiencing, or likely to experience, a period of financial difficulty or distress. The Bank considers that forbearance takes place when a concession is granted to a customer with affordable terms and conditions that are more suitable to the customer's current circumstances than those originally contracted for. The Bank remains committed to ensuring that any forbearance strategy agreed with the customer is both affordable and sustainable for the customer with the ultimate aim of minimising the risk of losses for the Bank and its customers.

The Bank makes every effort to follow its principles of treating customers fairly by working with customers at as early a stage as possible in times of distress in order to find a mutually acceptable solution for both the customer and the Bank.

The Bank has signed up to the Mortgage Charter, introduced by the UK Government in July 2023, as a response to the cost-of-living challenges faced by some consumers. Under the Mortgage Charter, customers worried about their mortgage repayments can contact the Bank for help and guidance, without any impact on their credit file.

The Bank will support customers who are up-to-date with payments to switch to a new mortgage deal at the end of their existing fixed rate deal without another affordability check, allows customers to switch to a new deal up to six months before their current rate comes to an end, and allows customers up to date with their payments to either switch to interest-only payments for six months, or extend their mortgage term to reduce their monthly payments (giving customers the option to revert to their original term within 6 months). Whilst customer availing of the measures offered under the Mortgage Charter has been low, the Bank continues to use internal and external data to identify and correspond with customers that may be in financial challenges.

The Bank utilises a range of forbearance measures for retail home loan customers which are in arrears or facing potential arrears on contractual loan repayments, determined on a case by case basis.

Note 17 – Credit risk exposures (continued)
b) Credit exposure (continued)

Forbearance (continued)

Variation forbearance In this case, the Bank may consider a temporary variation to the customer's contract with the Bank for an agreed period of time. This may be appropriate where the financial hardship experienced by the customer is deemed to be temporary in nature. After the agreed period of forbearance, it would be expected that the customer would return to the terms of their existing contract with the Bank.

Renegotiation forbearance This involves a renegotiation of the customer's contract with the Bank, following normal credit assessment, which can include a change to one or more of the following:
- structure;
- repayment amount;
- interest rate;
- term; and
- collateral

Post default mutual agreement This is applicable to customers who have defaulted and the Bank seeks to put in place a mutually acceptable arrangement with the customer to avoid repossession. This may include one or more of the following:
- accepting an agreed minimum payment over a period of time pending receipt of funds to repay the debt from a defined source e.g. pending receipt of a lump sum; and
- providing the customer with time to effect a voluntary sale of the property.

The table below summarises the forbearance arrangements in place together with the loan balances and impairment provisions associated with those arrangements.

Forbearance for Personal Mortgage Customers

As at 31 December 2023	Number of loans	Loan balance	% of total mortgage portfolio	Impairment allowance	% Coverage
		£'000	%	£'000	%
Variation forbearance	62	4,677	0.1%	677	14.5%
Renegotiation forbearance	5	519	0.0%	30	5.7%
Post default mutual agreement	36	3,821	0.1%	1,179	30.8%
Gross loans and receivables	103	9,017	0.3%	1,886	20.9%

As at 31 December 2022	Number of loans	Loan balance	% of total mortgage portfolio	Impairment allowance	% Coverage
		£'000	%	£'000	%
Variation forbearance	148	12,325	0.4%	1,718	13.9%
Renegotiation forbearance	5	737	0.0%	45	6.1%
Post default mutual agreement	61	5,080	0.2%	1,571	30.9%
Gross loans and receivables	214	18,142	0.6%	3,334	18.4%

Where a customer has unsecured personal borrowings of £1,000 or more, the normal approach would be to restructure the debt into a personal loan if affordability can be demonstrated in line with normal criteria. In these cases the personal loan is not considered a forbearance case.

Where a customer has unsecured personal borrowings of less than £1,000 and is experiencing difficulties the main solution is to agree a repayment plan with the customer to repay the debt over a period of time.

Forbearance for Business Customers

Forbearance measures have been provided to 252 Business Customers as at 31 December 2023 (2022: 264), having associated facilities of £62m (2022: £78m). £58m of forborne facilities are credit impaired, with the remaining £4m classified in stage 2. The total ECL associated with forborne facilities is £13.7m (2022: £13.8m).

Note 17 – Credit risk exposures (continued)

c) Exposure to counterparty risk (derivatives) and credit exposure from other trading and investing activities

	2023 £'000	2022 £'000
Counterparty risk		
- Derivatives with positive fair value	75,457	89,324
Credit exposure from other trading and investing activities		
- Investment securities - hold to collect	2,403,390	2,294,601
- Investment securities - hold to collect and sell	964,018	1,074,555
Investment in subsidiaries	250	250
Total	3,443,115	3,458,730

d) Exposure to Investment securities
As outlined in note 15, Investment securities are made up of UK government gilts and highly rated covered, sovereign, super-national and agency bonds.

Note 18 – Investment in subsidiaries

	2023 £'000	2022 £'000
Investment in subsidiaries	250	250

There was no movement on shares and investments in subsidiary undertakings this year or in the previous year. Investments in subsidiary undertakings are included at historical cost.

The subsidiary undertakings of the Bank are:

	Share class	Country of registration / origination	Country of registration / origination	Company number
Northern Bank Factors Limited	Ordinary	Northern Ireland	100%	NI 013062
Northern Bank Nominees Limited	Ordinary	Northern Ireland	100%	NI 004468
Northern Bank Pension Trust Limited	Ordinary	Northern Ireland	100%	NI 003155
Northern Bank Executor and Trustee Company Limited	Ordinary	Northern Ireland	100%	NI 004467

All subsidiary undertakings are unlisted with a registered office at Donegall Square West, Belfast BT1 6JS. These subsidiaries of the Bank are dormant and are expected to remain dormant in the future.

Note 19 – Intangible assets

Intangible assets primarily consist of IT software assets.

	2023 £'000	2022 £'000
Cost at beginning of year	668	420
Additions	1,571	582
Disposal	(86)	(334)
Cost at 31 December 2023	2,153	668
Accumulated amortisation at beginning of year	146	386
Amortisation charge for the year	485	94
Amortisation charge for the year on disposals	(86)	(334)
Accumulated amortisation at 31 December 2023	545	146
Net book value at end of year	1,608	522

Note 20 – Property, plant and equipment

	Freehold land and buildings	Leasehold properties	Other fixtures & equipment	Total
	£'000	£'000	£'000	£'000
Cost at 1 January 2023	6,460	29,507	25,927	61,894
Additions	-	1,303	60	1,363
Disposals	-	-	(173)	(173)
Transferred to assets held for sale	(181)	-	(65)	(246)
Revaluation	(247)	(1,565)	-	(1,812)
Cost at 31 December 2023	6,032	29,245	25,749	61,026
Accumulated depreciation at 1 January	38	3,287	19,747	23,072
Depreciation charge for the year	103	938	986	2,027
Accumulated depreciation on disposals	-	-	(174)	(174)
Transferred to assets held for sale	-	-	(65)	(65)
Revaluation	(98)	(559)	-	(657)
Accumulated depreciation at 31 December 2023	43	3,666	20,494	24,203
Net book value at 31 December 2023	5,989	25,579	5,255	36,823

	Freehold land and buildings	Leasehold properties	Other fixtures & equipment	Total
	£'000	£'000	£'000	£'000
Cost at 1 January 2022	7,215	29,325	26,382	62,922
Additions	-	480	650	1,130
Disposals	-	-	(802)	(802)
Transferred to assets held for sale	(625)	-	(303)	(928)
Revaluation	(130)	(298)	-	(428)
Cost at 31 December 2022	6,460	29,507	25,927	61,894
Accumulated depreciation at 1 January	33	2,843	19,774	22,650
Depreciation charge for the year	121	999	995	2,115
Accumulated depreciation on disposals	-	-	(801)	(801)
Transferred to assets held for sale	-	-	(221)	(221)
Revaluation	(116)	(555)	-	(671)
Accumulated depreciation at 31 December 2022	38	3,287	19,747	23,072
Net book value at 31 December 2022	6,422	26,220	6,180	38,822

Freehold and leasehold properties where the original lease is more than thirty years, are revalued on a three year cycle. An interim valuation was carried out by external qualified valuers (as defined in the Royal Institution of Chartered Surveyors (RICS) "RICS Valuation Standards 6th Edition"), Osborne King, Chartered Surveyors as at 31 December 2023. The basis of valuation is existing use value and the professional valuations have been made in accordance with RICS Practice Statements and Guidance notes. The valuation method remains consistent with the previous financial year.

Note 20 – Property, plant and equipment (continued)

Land and buildings occupied for own activities:

	2023 £'000	2022 £'000
Open market value - at 1 January	32,642	33,664
Additions	1,303	480
Transfers to assets for sale	(181)	(625)
Revaluation (loss) / gain	(1,155)	243
Depreciation charge	(1,041)	(1,120)
Open market value – at 31 December	31,568	32,642

See note 38 for further information on the classification of land and buildings valued at open market value within the fair value hierarchy.

Land and buildings on historic cost basis:

On the historical cost basis, freehold and leasehold land and buildings (excluding properties transferred into Assets held for sale) would have been included as follows:

	2023 £'000	2022 £'000
Cost	20,809	19,641
Accumulated depreciation	(17,729)	(17,518)
Net book value	3,080	2,123

Note 21 – Right-of-use assets

	2023 £'000	2022 £'000
Opening balance - at 1 January	4,618	4,253
Right-of-use asset additions	1,145	-
Modifications to existing right-of-use agreements	154	1,520
Depreciation charge	(1,134)	(1,155)
Closing balance – at 31 December	4,783	4,618

Lease modifications are regularly made to lease agreements during a financial year. In such circumstances, these changes do not constitute a new agreement but adaptions or amendments to an existing contact.

The interest expense on the corresponding lease liability is £120,000 (2022: £125,000). Expenses relating to leases of low value assets are set out in note 29.

Note 22 – Assets held for sale

	2023 £'000	2022 £'000
Assets held for sale	588	707

Assets held for sale are measured at the lower of cost and fair value less expected costs to sell. Properties held for sale consist of properties which have been closed as part of a review of the business. One property was sold during the year (2022: four).

Note 23 – Deferred tax

Movement in net deferred tax asset / (liability)	2023 £'000	2022 £'000
At 1 January	36,533	(13,900)
Recognised in the income statement (note 11)	1,296	17,363
Recognised directly in equity:		
-Actuarial loss on defined benefit pension obligation	29,931	20,049
-Investment securities-hold to collect and sell	(10,149)	10,100
-Cash flow hedge reserve	(2,633)	2,244
-Transfer to revaluation reserve	426	677
At 31 December	55,404	36,533

The Bank recognises deferred tax attributable to the following items:

	2023 £'000	2022 £'000
Deferred tax assets		
Tax losses carried forward	43,145	37,311
Accelerated capital allowances	4,085	3,587
Other timing differences	9,678	5,278
	56,908	46,176
Deferred tax liabilities		
Defined benefit pension obligation	1,345	21,842
Net gain on revaluation of properties	1,966	2,392
Investment securities - hold to collect and sell	(1,155)	(11,305)
Cash flow hedge reserve	(652)	(3,286)
	1,504	9,643
Net deferred tax asset	55,404	36,533

As at 31 December 2023 a deferred tax asset of £43,145,000 is recognised in full on the carried forward tax losses of £172,581,000. At the previous year end, there was an unrecognised deferred tax asset of £15,666,000 as the Directors had insufficient certainty over their recoverability in the foreseeable future. However, due to revisions in the future economic outlook in 2023, the Directors have assessed these carried forward tax losses will now be fully utilised.

The 2023 statutory rate of UK corporation tax is an average rate of 23.52% following the enactment of the Finance Act 2021, whereby the statutory rate of UK corporation tax has increased from 19% to 25% from 1 April 2023. In accordance with IAS 12, these rates are taken into account in assessing the value at which assets are expected to be realised and liabilities settled.

On 27 October 2021, the Chancellor announced that the Bank Surcharge would reduce from 8% to 3% on UK group profits in excess of £100m from 1 April 2023 onwards. This rate change is reflected in the valuation at 31 December 2023.

As a result and in accordance with IAS 12, the Directors have assessed the recoverability of the deferred tax asset, and have chosen to recognise deferred tax assets relating to those losses that the Bank expects to utilise within the Bank's current corporate planning horizon. This results in a deferred tax benefit of £15,666,000 within a total deferred tax benefit of £1,296,000.

Note 24 – Other assets

	2023 £'000	2022 £'000
Accrued interest receivable	42,663	30,644
Prepayments and other receivables	6,816	5,636
Amounts due from related undertakings (note 39)	8,700	-
Total	58,179	36,280

Note 25 – Due to other banks

	2023 £'000	2022 £'000
Transaction balances with other banks	81,125	54,807
Term Funding Scheme (Bank of England)	350,000	350,000
Total	431,125	404,807

Analysed by remaining maturity:	2023 £'000	2022 £'000
- on demand	81,125	54,807
- over 1 year but less than 5 years	350,000	350,000
Total	431,125	404,807

Amounts include:	2023 £'000	2022 £'000
Due to parent and fellow subsidiary undertakings	76,620	50,399

Due to other banks includes £350m borrowed from the Bank of England in October 2021 under the Term Funding Scheme with additional incentives for SMEs ('TFSME'), secured against pre-positioned collateral.

Note 26 – Deposits from customers

	2023 £'000	2022 £'000
Current accounts	6,325,340	6,815,605
Demand deposits	3,540,600	3,622,201
Term deposits	1,467,775	791,783
	11,333,715	11,229,589

	2023 £'000	2022 £'000
Analysed by remaining maturity:		
-on demand	9,856,601	10,437,805
-3 months or less	769,236	599,453
-over 3 months but less than 1 year	681,655	180,424
-over 1 year but less than 5 years	26,223	11,907
	11,333,715	11,229,589

Amounts include:	2023 £'000	2022 £'000
Due to parent and fellow subsidiary undertakings	250	250

Note 27 - Pension obligation

Danske Bank Master Trust Pension Plan

The Bank operates one defined contribution pension scheme for future pension accrual, the Danske Bank Master Trust Plan (the 'Master Trust'). In relation to this defined contribution scheme, the pension charge for the Bank for the year to 31 December 2023 was £8,172,000 (2022: £7,661,000). There were no outstanding contributions or prepayments made in the current or prior financial year in respect of the defined contribution scheme.

Northern Bank Defined Benefit Pension Scheme

The Bank operates a defined benefit scheme (the 'Scheme') within which benefits built up before 1 January 2008 are linked to final salary and benefits built up after this date are based on career average earnings. With effect from 1 January 2004, the Scheme was closed to new members and a sponsored stand- alone defined contribution pension scheme was created for new staff. This did not affect the pension arrangements of existing employees.

The Scheme closed to future accrual on 30 September 2018. All future contributions from the date of cessation of accrual are made to the Master Trust. As a result of the purchase of bulk buy-in annuity policies in 2015, 2021 and 2023, the Scheme is no longer exposed to interest, inflation or longevity risk in respect of all pension benefits. Following the purchase of the bulk annuity buy-in policy in 2023, buy-ins now cover all deferred and pensioner member benefits. The buy-ins are insured on unequalised Guaranteed Minimum Pension ("GMP") benefits and we have reflected this in the buy-in annuity policy asset value at 31 December 2023, while including an allowance for GMP equalisation in the defined benefit obligation. A small amount of invested assets remain to cover any data cleansing required and ongoing Scheme operating expenses.

The Scheme's liabilities have increased by c.0.5% over the year as a result of the fall in corporate bond yields, partially offset by the fall in expected future inflation, leading to lower deferred revaluation and pension increases in payment than assumed at the previous year-end.

The Scheme's assets have fallen by c.8% predominantly as a result of the final buy-in policy purchased in September 2023. As the cost to purchase this policy was significant, the Scheme surplus has reduced significantly. However, despite the lower surplus position, the Bank and the Scheme benefit from reduced risk (as referenced above) due to a better matched asset. In order to facilitate the purchase of the buy-in policy, the Bank made an additional one-off contribution to the Scheme, of £30,000,000.

Actuarial valuation of the Northern Bank Defined Benefit Pension Scheme

The latest triennial funding valuation was carried out as at 31 December 2021. The preliminary results of this valuation were updated by an independent actuary to an IAS 19 basis and the major assumptions used were:

The Bank recognises deferred tax attributable to the following items:	2023 % p.a.	2022 % p.a.
Inflation (RPI)	3.05	3.20
Inflation (CPI)	2.50	2.60
Rate of future increase in salaries	N/A	N/A
Rate of increase for pre-1997 pensions in payment	1.90	1.95
Rate of increase for 1997-2008 pensions in payment	2.90	3.05
Rate of increase for post-2008 pensions in payment	2.00	2.05
Discount rate	4.70	4.95
Post retirement mortality		
-Current pensioners at 60 - males (years)	28.40	28.80
-Current pensioners at 60 - females (years)	30.40	30.60
-Future pensioners at 60 - males (years)	30.00	30.20
-Future pensioners at 60 - females (years)	31.80	32.00

Note 27 - Pension obligation (continued)

Actuarial valuation of the Northern Bank Defined Benefit Pension Scheme (continued)

The assumptions used by the actuary are the best estimate chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Given the surplus and on the basis that the Scheme's liabilities are now fully insured, the Bank is not expected to contribute towards the Scheme for the year ending 31 December 2024, however this will be kept under review. Members no longer make contributions to the defined benefit scheme following Scheme closure on 30 September 2018.

Scheme asset information	Market Value 31 December 2023 £'000	Market Value 31 December 2022 £'000
Equity securities	-	25,810
Debt securities	-	116,988
Real estate/property (net of associated borrowing)*	(350)	39,180
Other	3,789	1,730
Managed Account	1,743	116,492
Buy-in annuity policies	766,822	541,009
Fair value of Scheme assets	772,004	841,209

* Reflects the market value of the property held less a short-term borrowing facility from the Scheme's sponsor.

The Scheme has not invested in any of the Bank's own financial instruments nor in other assets used by the Bank.

Movement in fair value of Scheme assets	2023 £'000	2022 £'000
Fair value of Scheme assets at beginning of year	841,209	1,384,408
Interest income on Scheme assets	40,500	25,700
Return on Scheme assets less than discount rate	(100,294)	(522,947)
Employers' and employees' contributions paid into the Scheme - participating employers	31,401	2,096
Benefits paid by the Scheme	(39,210)	(46,903)
Administration costs paid	(1,602)	(1,145)
Fair value of Scheme assets at end of year	772,004	841,209

Movement in present value of defined benefit obligation	2023 £'000	2022 £'000
Defined benefit obligation at beginning of year	763,200	1,230,200
Interest cost on the defined benefit obligation	36,600	22,800
Actuarial loss - experience	8,400	24,900
Actuarial (gain) - demographic assumptions	(16,500)	(10,297)
Actuarial loss / (gain) - financial assumptions	14,710	(457,500)
Benefits paid by the Scheme	(39,210)	(46,903)
Defined benefit pension obligation at end of year	767,200	763,200

Note 27 - Pension obligation (continued)

Reconciliation of pension asset to the Balance Sheet	2023 £'000	2022 £'000
Analysis of defined benefit obligation by status		
- Active members	-	-
- Deferred pensioner members	231,100	224,800
- Pensioners	536,100	538,400
Present value of defined benefit obligation	767,200	763,200
Fair value of Scheme assets	772,004	841,209
Net defined benefit asset	4,804	78,009

Movement in pension asset	2023 £'000	2022 £'000
Net defined benefit asset at beginning of year	78,009	154,208
Service cost (including past service costs)	-	-
Administration costs incurred over the year	(1,602)	(1,145)
Net interest on net defined benefit asset	3,900	2,900
Employers' contributions		
- the Bank	31,401	2,096
- other participating employers	-	-
Re-measurement effects recognised in Other Comprehensive Income (OCI)	(106,904)	(80,050)
Net defined benefit asset at end of year	4,804	78,009

Scheme expense recognised in the Income Statement	2023 £'000	2022 £'000
Net interest on net defined benefit asset	(3,900)	(2,900)
Administration costs incurred during the year	1,602	1,145
Scheme expense	(2,298)	(1,755)

Amount recognised in OCI	2023 £'000	2022 £'000
Return on Scheme assets less than discount rate	100,294	522,947
Actuarial loss due to liability experience	8,400	24,900
Actuarial gain due to assumption changes	(1,790)	(467,797)
Re-measurement effects recognised in OCI – net losses	106,904	80,050

Note 27 - Pension obligation (continued)

Actual return on Scheme assets	2023 £'000	2022 £'000
Interest income on Scheme assets	40,500	25,700
Return on Scheme assets less than discount rate	(100,294)	(522,947)
Actual return on Scheme assets	(59,794)	(497,247)

Sensitivity of the Scheme to key assumptions

Changes in assumptions may have an impact to the Scheme's assets and defined benefit obligation (DBO). The table below highlights the sensitivity of the value of the DBO to changes in the key assumptions. Following the purchase of the bulk annuity buy-in policy in 2023, buy-ins now cover 100% of the deferred and pensioner member benefits with the exception of GMP equalisation. Therefore, any changes in the value of the DBO would be matched by a very similar change in the Scheme's asset value and the surplus position would be largely unchanged.

	Change in assumption	Increase in assumption £'000	Decrease in assumption £'000
Discount rate	0.50%	(47,000)	52,000
Price inflation (RPI measure) [1]	0.50%	28,000	(27,000)
Pension increases [2]	0.50%	22,000	(22,000)
Post retirement longevity	1 year	25,000	(25,000)

Notes:
[1] Including consistent change to the pension increases, CPI related increases in deferment
[2] Derived assuming RPI has increased and decreased by 0.5% per annum respectively. This does not include a consistent change to any CPI related increases in deferment.

	2023 £'000	2022 £'000
Maturity profile of Defined Benefit Obligation		
- Expected benefit payments during fiscal year ending 31 December 2024	40,100	48,000
- Expected benefit payments during fiscal year ending 31 December 2025	41,000	49,100
- Expected benefit payments during fiscal year ending 31 December 2026	41,900	50,200
- Expected benefit payments during fiscal year ending 31 December 2027	42,800	51,400
- Expected benefit payments during fiscal year ending 31 December 2028	43,800	52,600
- Expected benefit payments during fiscal year ending 31 December 2029 through to 2033	234,100	282,000

	2023 £'000	2022 £'000
Weighted average duration of Defined Benefit Obligation	13	14

Note 27 - Pension obligation (continued)

Scheme risks

The Bank is exposed to a number of risks relating to the Scheme including assumptions not borne out in practice. The most significant risks include asset volatility, change in bond yields, inflation risk and longevity risk. However, following the purchase of the bulk annuity buy-in policy in 2023, the Scheme's buy-in policies now cover 100% of the deferred and pensioner member benefits (with the exception of GMP equalisation). Therefore, any changes in the value of the DBO would be matched by a very similar change in the Scheme's asset value and the surplus position would be largely unchanged. As such, the Bank's exposure to such risks has been materially reduced in the current financial year.

Note 28 – Other liabilities

	2023 £'000	2022 £'000
Accrued interest	24,008	5,569
Provision for off balance sheet financial guarantees and loan commitments	4,442	4,363
Accruals and sundry payables	35,029	28,716
Lease liabilities	4,677	4,401
Total	68,156	43,049

The Bank has issued a number of loan commitments and guarantee instruments. If an instrument is likely to result in a payment obligation, a liability is recognised corresponding to the present value of expected payments.

Note 29 – Leasing

As Lessee

Lease liabilities broken down by expected due date:

	2023 £'000	2022 £'000
Analysed by remaining maturity:		
Less than 1 year	751	959
More than 1 year	3,926	3,442
Total lease liabilities at end of period	4,677	4,401

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at a rate based on the cost of funding. The maturity analysis of the lease liabilities in the table below is on a discounted basis.

	2023 £'000	2022 £'000
Future minimum payments		
- within 1 year	906	1,106
- between 1 and 5 years	3,023	2,953
- over 5 years	1,341	694
	5,270	4,753
Less finance charges	(593)	(352)
Total lease liabilities at end of period	4,677	4,401

Note 29 – Leasing (continued)

As Lessor

The Bank leases a variety of assets to third parties under finance lease arrangements, including vehicles and general plant and machinery. The costs of assets acquired by the Bank during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £15,709,000 (2022: £10,945,000) and £137,527,000 (2022: £131,273,000) respectively.

The net investment in finance lease and hire purchase receivables is included within total loans and advances to customers (note 16).

	2023 £'000	2022 £'000
Gross investment in finance lease and hire purchase receivables		
Due within one year	12,915	13,073
Due within one to five years	230,662	202,504
Due after five years	32,739	25,313
Total gross investment in finance lease receivables	276,316	240,890
Unearned income	(21,731)	(15,210)
Net investment in finance lease and hire purchase receivables	254,585	225,680

Within the Bank, at 31 December 2023, there are impairment provisions of £371,000 (2022: £369,000) in relation to finance lease customer exposure and impairment provisions of £2,158,000 (2022: £3,330,000) in relation to hire purchase customer exposure.

Operating leases

Operating leases consist of lease commitments with a term of less than twelve months together with lease commitments for low value assets. Property leases over twelve months are recognised as right-of-use assets (note 21).

	2023 £'000	2022 £'000
Where the Bank is the lessee the future minimum lease payments under non-cancellable operating leases are:		
- within 1 year	-	47
- between 1 and 5 years	-	-
- over 5 years	-	-
Total	-	47

Note 30 – Provisions

Provisions includes costs arising in respect of a number of legal actions, customer redress and claims arising in the ordinary course of the Bank's business, together with exit costs from property leases following the application of IFRS 16.

	2023 £'000	2022 £'000
At 1 January 2023	2,150	2,757
Charge to income statement	307	1,270
Released unutilised	(300)	(1,670)
Provisions utilised	(901)	(207)
At 31 December 2023	1,256	2,150

	2023 £'000	2022 £'000
Analysed by remaining maturity:		
Less than 1 year	596	1,390
More than 1 year	660	760
Total	1,256	2,150

Notes to the financial statements
for the year ended 31 December 2023

Note 31 – Subordinated debt instruments

Senior non-preferred securities issued

	2023 £'000	2022 £'000
At 1 January	130,000	-
Issuance during the year	-	130,000
Balance at 31 December	130,000	130,000

On 28 November 2022, £130,000,000 of MREL eligible senior non-preferred securities were issued to Danske Bank A/S. The rate of interest applied to these instruments is 230bps over the 3 month term SONIA rate. These securities may be redeemed by the issuer, Northern Bank Limited, subject to regulatory approval and giving the appropriate notice on 28 November 2025 or on each interest payment date thereafter. In the absence of this, Northern Bank Limited must redeem these securities on the maturity date which is 28 November 2026.

Note 32 – Contingent liabilities and commitments

Contingent liabilities consist of possible liabilities arising from past events. The existence of such liabilities will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Bank's control. Contingent liabilities that can, but are not likely to, result in an outflow of economic resources are disclosed.

Note 32(a) - Financial contingent liabilities

The Bank uses a variety of loan-related financial instruments to meet customers' financial requirements. Instruments include loan offers and other credit facilities, guarantees and instruments not recognised in the balance sheet. If an instrument is likely to result in a payment obligation, a liability is recognised under other liabilities corresponding to the present value of expected payments.

	2023 £'000	2022 £'000
Contingent liabilities		
Guarantees and irrevocable letters of credit	108,062	103,757
Commitments		
Irrevocable loan commitments shorter than 1 year	607,893	645,966
Irrevocable loan commitments longer than 1 year	864,647	733,366
Total lease liabilities at end of period	1,472,540	1,379,332

Note 32(b) – Other contingent liabilities

The Bank is named in and is defending a number of legal actions arising in the ordinary course of business. The current provision is deemed adequate based on the known facts and circumstances of each case (note 30).

Note 32(c)– Capital commitments

The Bank had £100,000 future capital expenditure which had been contracted but not provided for in the Financial Statements at 31 December 2023 (2022: £Nil).

Note 33 – Share capital

Allotted, called up and fully paid	2023 £'000	2022 £'000
Ordinary shares of £1 each - equity at 31 December	218,170	218,170

The share capital consists of shares of a nominal value of £1 each. All shares carry the same rights therefore there is only one class of share.

Note 34 – Other equity instruments

	2023 £'000	2022 £'000
At 1 January	225,953	96,974
AT 1 Issuance during the year	-	222,000
AT1 Redemption during the year	-	(96,000)
Movement in accrued interest	942	2,979
At 31 December	226,895	225,953

At the end of 2023, the total nominal value of issued Additional Tier 1 capital amounted to £222,000,000 (2022: £222,000,000). Capital notes of £222,000,000 were issued on the 12 April 2022. Capital notes of £80,000,000 (issued on 12 January 2015) and £16,000,000 (issued 19 December 2017) were redeemed on 12 April 2022 and 20 June 2022 respectively following regulatory approval.

The Bank may, at its sole discretion, omit interest and principal payments to bond holders. Any interest payments must be paid out of retained earnings of the Bank. The Additional Tier 1 capital will be written down temporarily if the CET1 ratio falls below 7% for the Bank (or Danske Bank Group). The CET1 ratio at 31 December 2023 is disclosed in the Capital Management Section of the Risk Management Report. In respect of capital notes issued, interest is paid at a rate of 465 bps over the 3-month term SONIA rate for capital notes issued on 12 April 2022.

Note 35 – Contractual dates of financial liabilities

The contractual due dates of financial liabilities are broken down by maturity time bands in the table below. The maturity analysis is based on the earliest date on which the Bank can be required to pay and does not reflect the expected due date. The Risk Management section provide further information about the Bank's liquidity risk management.

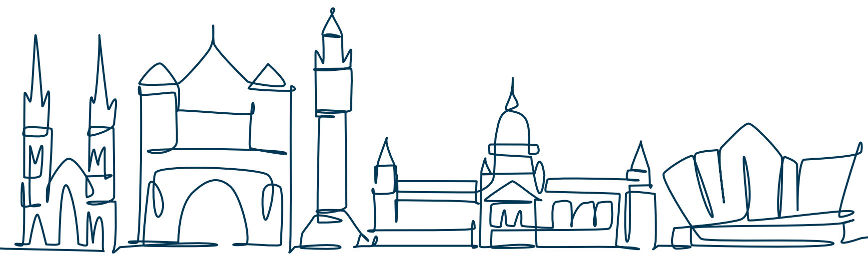
At 31 December 2023	On demand £'000	Not more than three months £'000	More than three months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000
Liabilities					
Due to other banks	81,125	-	-	350,000	-
Deposits from customers	9,856,601	769,236	681,655	26,223	-
Derivative financial instruments	-	5,175	13,860	25,946	3,538
Financial lease liabilities	-	-	751	2,690	1,236
Notes in circulation	711,125	-	-	-	-
Subordinated debt instruments	-	-	-	130,000	-
	10,648,851	774,411	696,266	534,859	4,774
Off balance sheet items					
Contingent liabilities	108,062	-	-	-	-
Commitments	1,472,540	-	-	-	-
	1,580,602	-	-	-	-

At 31 December 2022	On demand £'000	Not more than three months £'000	More than three months but not more than one year £'000	More than one year but not more than five years £'000	More than five years £'000
Liabilities					
Due to other banks	54,807	-	-	350,000	-
Deposits from customers	10,437,805	599,453	180,424	11,907	-
Derivative financial instruments	-	4,279	22,312	56,093	124
Financial lease liabilities	-	-	959	2,778	664
Notes in circulation	664,728	-	-	-	-
Subordinated debt instruments	-	-	-	130,000	-
	11,157,340	603,732	203,695	550,778	788
Off balance sheet items					
Contingent liabilities	103,757	-	-	-	-
Commitments	1,379,332	-	-	-	-
	1,483,089	-	-	-	-

For liabilities with variable cash flows, for example variable rate financial liabilities, disclosure is based on the contractual conditions at the balance sheet date.

Usually deposits are contractually very short term funding but, in practice, they are considered a stable funding source as amounts disbursed largely equal amounts received. A number of loan commitments and guarantees expire without being utilised. Loan commitments and guarantees are included at the earliest date on which the Bank can be required to pay.

For guarantees, included within contingent liabilities, to result in a payment obligation to the Bank, a number of individual conditions must be met. As it is not possible to breakdown the earliest dates on which such conditions are met by maturity bands, all guarantees are included in the 'on demand' column.



Note 36 – Balance sheet items analysed by expected date

The Bank presents the balance sheet items in order of liquidity instead of distinguishing between current and non-current items. The table below shows the balance sheet items expected to mature within the year (current) and after more than one year (non-current).

	2023 <1 year £'000	2023 >1 year £'000	2022 <1 year £'000	2022 >1 year £'000
Assets				
Cash and balances at central bank	1,736,190	1,563,353	1,850,915	1,499,913
Items in the course of collection from other banks	41,191	-	32,139	-
Due from other banks	10,283	-	37,515	4,196
Derivative financial instruments	8,492	66,965	15,975	73,349
Investment securities - hold to collect	421,469	1,981,921	382,877	1,911,724
Investment securities - hold to collect and sell	147,482	816,536	263,448	811,107
Loans and advances to customers	1,591,502	5,148,230	1,376,772	4,957,935
Investment in subsidiaries	-	250	-	250
Intangible assets	-	1,608	5	517
Property, plant and equipment	-	36,823	-	38,822
Right-of-use asset	1,303	3,480	1,066	3,552
Assets held for sale	588	-	707	-
Defined benefit pension asset	-	4,804	-	78,009
Current tax assets	1,314	-	6,785	-
Deferred tax asset	12,884	42,520	6,367	30,166
Other assets	58,179	-	36,280	-
Total assets	4,030,877	9,666,490	4,010,851	9,409,540

	2023 <1 year £'000	2023 >1 year £'000	2022 <1 year £'000	2022 >1 year £'000
Liabilities				
Due to other banks	81,125	350,000	54,807	350,000
Items in course of transmission to other banks	44,130	-	26,068	-
Derivative financial instruments	19,034	29,485	26,590	56,218
Deposits from customers	6,461,103	4,872,612	5,591,796	5,637,793
Notes in circulation		711,125	-	664,728
Provisions	596	660	1,390	760
Other liabilities	57,825	10,331	33,426	9,623
Subordinated debt instruments	-	130,000	-	130,000
Total liabilities	6,663,813	6,104,213	5,734,077	6,849,122

The analysis by remaining maturity of loans and advances to customers is based on contractual maturity dates, which are the earliest dates on which repayment can be demanded. Past experience would indicate repayment frequently takes place prior to contractual maturity dates.

Deposits include fixed term deposits and demand deposits. Fixed term deposits are recognised according to maturity. Demand deposits have short contractual maturities but are considered a stable funding source with an expected maturity of more than one year.

Notes to the financial statements
for the year ended 31 December 2023

Note 37 – Offsetting of financial assets and liabilities

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.

At 31 December 2023	Gross amount £'000	Legal right of offset £'000	Further offsetting, master netting agreement £'000	Collateral / offset £'000	Net amount £'000
Financial assets					
Cash and balances at central bank	3,299,543	-	-	(711,125)	2,588,418
Due from other banks	10,283	-	(9,093)	-	1,190
Derivatives with positive fair value	75,457	-	(43,172)	-	32,285
Loans and advances to customers	6,739,732	(732,616)	-	-	6,007,116

At 31 December 2023	£'000	£'000	£'000	£'000	£'000
Financial liabilities					
Due to other banks	431,125	-	(9,093)	-	422,032
Derivatives with negative fair value	48,519	-	(43,172)	-	5,347
Deposits from customers	11,333,715	(732,616)	-	-	10,601,099
Notes in circulation	711,125	-	-	(711,125)	-

At 31 December 2022	Gross amount £'000	Legal right of offset £'000	Further offsetting, master netting agreement £'000	Collateral / offset £'000	Net amount £'000
Financial assets					
Cash and balances at central bank	3,350,828	-	-	(664,728)	2,686,100
Due from other banks	41,711	-	(5,523)	-	36,188
Derivatives with positive fair value	89,324	-	(74,295)	-	15,029
Loans and advances to customers	6,334,707	(707,249)	-	-	5,627,458

At 31 December 2022	£'000	£'000	£'000	£'000	£'000
Financial liabilities					
Due to other banks	404,807	-	(5,523)	-	399,284
Derivatives with negative fair value	82,808	-	(74,295)	-	8,513
Deposits from customers	11,229,589	(707,249)	-	-	10,522,340
Notes in circulation	664,728	-	-	(664,728)	-

Note 38 – Fair value information for financial instruments

Financial instruments are carried in the balance sheet at fair value or amortised cost. The Bank breaks down its financial instruments by valuation method (Note 1 provides additional information).

(a) Financial instruments at fair value

The only financial instruments that are recognised at fair value are derivatives and investment securities - hold to collect and sell.

The fair value is the amount for which a financial asset or a financial liability can be exchanged between knowledgeable, willing parties. Fair value is measured on the basis of the following hierarchy:

The fair value hierarchy

Level 1	Quoted price (level 1) consists of financial instruments that are quoted in an active market. The Bank uses the price quoted in the principal market.
Level 2	Valuation based on observable input (level 2) consists of financial instruments valued substantially on the basis of observable input other than a quoted price for the instrument itself. If a financial instrument is quoted in a market that is not active, the Bank bases its measurement on the most recent transaction price. Adjustment is made for subsequent changes in market conditions, for instance, by including transactions in similar financial instruments that are assumed to be motivated by normal business considerations. For a number of financial assets and liabilities, no market exists and in such cases, the Bank uses recent transactions, in similar instruments and discounted cash flows or other generally accepted estimation and valuation techniques based on market conditions at the balance sheet date, to calculate an estimated value.
Level 3	Valuation based on significant non-observable input (level 3). The valuation of certain financial instruments is based substantially on non-observable input.

If, at the balance sheet date, a financial instrument's classification differs from its classification at the beginning of the year, the classification of the instrument changes. Such changes are considered to have taken place at the balance sheet date.

Valuation techniques

The most frequently used valuation techniques include the pricing of transactions with future settlement and swap models that apply present value calculations, credit pricing models and options models, such as Black & Scholes models. As part of the Bank's control environment, valuation models are validated by units that are independent of the business units that develop the models and trade in the products covered by the models. Validation is made to test the implementation, quality and operating stability of models to ensure that the models can be used for pricing and risk management of financial products.

The valuation of investment securities - hold to collect and sell is based on quotations on an active market.

The value of derivatives, primarily long-term contracts, is determined on observable yields extrapolated using yield curves for the full duration of the contracts.

Amortisation of initial margin

If, at the time of acquisition, a difference arises between the model value of a financial instrument, calculated on the basis of non-observable input and actual cost (day-one profit or loss), and the difference is not the result of transaction costs, the Bank adjusts model parameters to actual cost to take the initial margin into account. The valuation of derivatives thus includes amortisation of the value of initial margins over the remaining term to maturity. The initial margins cover such elements as future administrative expenses, capital consumption, funding costs and initial credit risk.

	2023 £'000	2022 £'000
Unamortised initial margins at 1 January	493	178
Amortised to the income statement during the year	(814)	(780)
Initial margins on new derivatives contracts	741	1,095
Terminated derivatives contracts	-	-
Unamortised initial margins at 31 December	421	493

Note 38 – Fair value information for financial instruments (continued)

(a) Financial instruments at fair value (continued)

Analysis of fair value hierarchy levels:

At 31 December 2023	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Investment securities - hold to collect and sell	964,018	-	-	964,018
Interest rate and equity contracts	-	63,309	12	63,231
Currency contracts	-	12,136	-	12,136
Land and buildings	-	-	31,568	31,568
Total	964,018	75,445	31,580	1,070,953
Financial liabilities				
Interest rate and equity contracts	-	40,026	12	40,038
Currency contracts	-	8,481	-	8,481
Total	-	48,507	12	48,519

At 31 December 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Investment securities - hold to collect and sell	1,074,555	-	-	1,074,555
Interest rate and equity contracts	-	68,158	31	68,189
Currency contracts	-	21,135	-	21,135
Land and buildings	-	-	32,642	32,642
Total	1,074,555	89,293	32,673	1,196,521
Financial liabilities				
Interest rate and equity contracts	-	65,126	31	65,157
Currency contracts	-	17,651	-	17,651
Total	-	82,777	31	82,808

Derivatives valued on the basis of non-observable input:

	2023 £'000	2022 £'000
Fair value at 1 January	31	4
Acquisitions	(19)	27
Sale and redemption	-	-
Fair value at 31 December	12	31

The value adjustment through the income statement is recognised under Net trading income.

(b) Financial instruments at amortised cost

In this section, the fair value of financial instruments recognised at amortised cost is presented. The fair value is based on quoted market prices, if available. If quoted prices are not available, the value is approximated to reflect the price that would have been fixed, had the terms been agreed at the balance sheet date.

The fair values disclosed below are determined on the basis of the following principles:

Investment securities - hold to collect and sell

Quoted prices in an active market exist for these financial instruments.

Note 38 – Fair value information for financial instruments (continued)

(b) Financial instruments at amortised cost (continued)

Other financial instruments

The determination of the fair value of financial instruments recognised at amortised cost is based on the following preconditions relating to interest rate risk:

- For a number of the Bank's loans, the interest rate depends on the standard variable rate set by the Bank. The rate is adjusted only upon certain changes in market conditions. Such loans are considered to carry interest at a variable rate, as the standard variable rate applied by the Bank at any time applies to both new and existing arrangements.

- The interest rate risk on some fixed-rate financial assets is hedged by derivatives. The Bank uses the interest rate risk on core free funds and investment securities to manage the remaining interest rate risk.

For financial instruments that are only to a limited extent influenced by changes in credit risk, the amortised cost, including the adjustment for the fair value hedge accounting of the interest rate risk, is a reasonable approximation of fair value. This is the case for due from / to other banks, cash and balances at central bank and deposits from customers.

It is assessed that the expected credit loss impairment model used for loans measured at amortised cost is a reasonable proxy for the fair value of the credit risk.

In the table below, fair value is presented for classes of financial instruments for which the carrying amount is not a reasonable approximation of fair value.

At 31 December 2023	Carrying amount £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets					
Investment securities (Note 15)	2,403,390	2,332,309	2,332,309	-	-
Total	2,403,390	2,332,309	2,332,309	-	-

At 31 December 2022	Carrying amount £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets					
Investment securities (Note 15)	2,294,601	2,170,952	2,170,952	-	-
Total	2,294,601	2,170,952	2,170,952	-	-

Note 39 – Related party transactions

a) Transactions with Directors, Executive Committee members and their close family members

Directors, Executive Committee members, their close family members and companies which they control have undertaken the following transactions with the Bank in the normal course of business. The transactions were made on the same terms and conditions as applicable to other Bank employees, or on normal commercial terms.

	Persons 2023 Number	Amount 2023 £'000	Persons 2022 Number	Amount 2022 £'000
Loans - balance at 31 December				
Directors	5	17,582	5	19,791
Executive Committee	7	955	5	862
	12	18,537	10	20,653
Deposits - balance at 31 December				
Directors	5	5,280	5	5,643
Executive Committee	8	535	7	368
	13	5,815	12	6,011

No credit impairment has been identified in respect of loans provided to the Directors or Executive Committee members. Furthermore, no debts were written off or forgiven during the year ended 31 December 2023 (2022: £nil).

Included in the above are 23 individual loan facilities (2022: 19) totalling £17,582,000 (2022: £19,791,000) made to the Directors, their close family members and / or any companies which they or a close family member control. The maximum aggregate amount outstanding during the year in respect of these loans was £23,819,000 (2022: £25,268,000).

b) Directors' Interests

None of the Directors had any other disclosable interests in the shares or debentures of any UK group undertaking at the end of the year, or were granted or exercised any right to subscribe for shares in, or debentures of, any UK group undertaking during the year.

c) Northern Bank Defined Benefit Pension Scheme

The Bank has transactions with the Northern Bank Defined Benefit Pension Scheme, as detailed in note 27. Following changes to the Scheme's secretariat arrangements, there were no charges in respect of administration costs to the Scheme during 2023 (2022: £101,000).

In addition, during the current financial year the Bank agreed to provide the Pension Scheme with bridging finance through an interest-free loan facility of £8,700,000. This funding was used towards the cost of acquiring the Scheme's final bulk annuity buy-in policy. The facility has been provided on a short-term basis and the Scheme currently anticipates repayment of this loan, in full, prior to 31 December 2024 (pending the disposal of its remaining property asset). In the event that repayment does not occur before this date, the Bank reserves the right to apply a rate of interest at its own discretion (including on a commercial terms basis).

d) Other related party transactions

In the normal course of business the Bank maintains accounts and conducts transactions with other members of the Danske Bank Group. This business is conducted at prevailing market rates and terms and includes deposits taken and placed, interest rate and foreign exchange swaps and the provision of technology and other services. The Bank has taken advantage of the exemption not to disclose full details of these transactions as the Bank is a wholly owned subsidiary of Danske Bank Group and the consolidated financial statements of the Danske Bank Group are publicly available. Note 5 provides further details of recharges made by Danske Bank Group.

Note 40 – Pillar 3 disclosure reporting

The Bank's capital position is set out from page 86 and applies all relevant Capital Requirements Directive V requirements that were in force during 2023. The Bank does not publish Pillar 3 disclosure reporting on an individual basis, on the basis that it does not meet the Capital Requirement Regulations 2 definition of 'large institution'.

Note 41 – Post balance sheet events

There have been no significant events between the financial year end and the date of the approval of the financial statements which would require a change to or additional disclosure in the financial statements.

Note 42– Ultimate parent undertaking

The ultimate parent undertaking, and ultimate controlling party, is Danske Bank A/S, a company incorporated in Denmark. This company also heads the smallest and the largest group in which the results of the Group are consolidated.

Copies of Danske Bank Group's financial statements may be obtained from Danske Bank A/S, Holmens Kanal 2-12, DK 1092, Copenhagen, Denmark.

From 1 April 2024, Danske Bank Group's financial statements may be obtained from Danske Bank A/S, Bernstorffsgade 40, DK 1577 Copenhagen, Denmark.

Danske Bank