Northern Bank Limited

Annual Report and Financial Statements

for the year ended 31 December 2021

Company number: R0000568

Danske Bank in the UK

Northern Bank Limited t/a Danske Bank (the Bank) is one of the leading banks in Northern Ireland and is an autonomous subsidiary of Danske Bank Group. We have been helping people and businesses achieve their ambitions for over 200 years. Today we have around 1,300 full time employees and serve the needs of our personal and business customers through our branches, our regional business centres, telephone banking and a wide range of digital banking channels.

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

Contents

Business Review

Danske Bank

2021 performance highlights - at a glance

2021 - Financial performance outcome

£200m
Total operating income

£61m
Profit before tax

£6.2bn
in customer lending

14%
Common Equity Tier 1 capital ratio
Dividend of £75m paid during the year

£3.8bn
Available liquidity

9%
Customer deposit growth

2021 – Other key performance outcomes

Achieved
CORE Platinum level
in Business in the Community NI's CORE standard for responsible business

Top ten in NI
Best Companies 2021

Achieved
Platinum
in NI Environmental Benchmarking survey

Launched UK's first
Carbon Neutral Mortgage

Launched
£500m Business Growth Fund

Transformed
six more branches to further enhance our customer experience

9% increase
in digital channel logons

54% increase
in wearable payments

Introduced new
gambling control
for personal customers

Danske Bank

Chair's introduction

> *"Being a sustainable and responsible business is embedded in our culture, a culture that places how we treat each other, our customers and wider society high up the agenda"*

Gerald Gregory
Chairman

During 2021, the global Covid-19 pandemic continued to bring many challenges for the UK banking industry and for nearly every aspect of the lives of our customers and colleagues.

On behalf of the Board I would like to thank Vicky Davies, the Executive Committee and each and every colleague for their commitment to supporting our customers during the ongoing challenges of the pandemic.

The experience of the past two years has proven our ability to change and adapt in the most challenging of times - and that bodes well for our future plans.

Banks need to continue to transform at pace to meet expectations, while maintaining their fundamental role in supporting consumers, businesses and the economy.

Customers today want more; more options, including greater personalisation, faster solutions, self-service, and the ability to bank anytime and anywhere, but with immediate and effective human intervention when required.

That means continuing to be there for our customers when they need us. It also means innovating and investing for the future, enhancing our digital channel offering, continuing to invest in transformational branch upgrades, optimising our product range, investing in our people and in digitising and simplifying across every area of the business. This work will make us a more competitive bank, while ensuring we continue to meet the increasing expectations of our customers.

As a bank we also have a critical role in financing the transition to a sustainable future. Northern Ireland is an SME economy; many of our businesses are involved in supply chains across UK, Europe and beyond. With the climate agenda growing, even smaller businesses will soon need to demonstrate their own credentials very clearly. We are committed to helping Northern Ireland businesses adapt to the net zero future and to see climate action not just as a risk, but as a growth opportunity.

As a business, we have our own part to play in contributing to a more sustainable future, and have committed to reducing our Scope 1 and 2 emissions by 50% by 2030. We have already delivered significant reductions in the emissions produced through our own operations and from our branches and head office buildings, and this will continue to be an important focus for the coming years.

We are continuing to operate through a prolonged period of change and that requires strong leadership. In September 2021, we appointed a new chief executive, Vicky Davies, following the retirement of Kevin Kingston.

I would like to thank Kevin for the huge contribution he has made to the growth and cultural development of the Bank over many years. His personal commitment and strong leadership has further strengthened Danske Bank's leading position in Northern Ireland.

The Board welcomes Vicky, formerly Deputy CEO, and looks forward to supporting her on the delivery of the clear strategic plan she has set out for the Bank moving forward. The importance of bringing our people with us through this period of change and realignment of ways of working, cannot be underestimated and I have been very pleased with how she has used her engaging leadership style to communicate this widely across the organisation.

Carsten Egeris stepped down from the Board early in 2021 and I would like to thank him for the significant contribution he made, and to welcome Stephan Engels, Group CFO, to the Board. Carsten has now taken on the role as Group CEO, further strengthening our ties with the rest of the Group.

Given our scale in Northern Ireland, we have taken steps to position ourselves as both a leader in Northern Ireland and now also a challenger in Great Britain, within certain market segments. Expanding our service offering in targeted segments within the rest of the UK provides fresh opportunities for risk astute growth, while also reducing geographic risk.

We have a fundamental role to play by lending to businesses and consumers; but it's how we run our business that sets us apart. Being a sustainable and responsible business is embedded in our culture, a culture that places how we treat each other, our customers and wider society, high up the agenda. There

Chair's introduction

is no doubt that our people are our most important asset, both in the provision of financial services to our customers and in the huge amount they do to contribute to wider society.

Our commitment to good governance provides the foundation for our strategic delivery and ensures we constantly challenge our assumptions and risks. Significant progress has been made this year on stakeholder engagement and Board decision making as outlined in the Section 172(1) statement. The Board remains committed to self-development on digital, cyber and ESG to ensure constructive challenge of the executive team as they deliver our strategic plan. We also remain focused on further enhancing diversity and inclusion at Board level and throughout the organisation, building on progress in recent years.

I was particularly pleased to see the work of the Bank recognised externally by Business in the Community, when we achieved Platinum, the highest level of their CORE standard, the benchmarking standard for responsible business in Northern Ireland. In 2021 we also entered the Best Companies annual listing for the first time, benchmarking as a two star 'outstanding' place to work.

Our financial results for 2021 take into account the economic and market environment during 2021 as well as our future expectations as at 31 December 2021. Since the year-end, Russia's invasion of Ukraine has introduced additional uncertainty beyond the continuing uncertainties attaching to the Covid-19 pandemic; post Brexit trading arrangements in Northern Ireland and cost of living pressures on UK households.

Russia's invasion of Ukraine will impact on global economic growth, asset valuations, interest rate expectations and exchange rates. It will increase prices and cause supply chain issues that will impact our customers. In common with all entities across the financial sector, the extent of these impacts on the Bank are unclear at this stage.

The Bank is well capitalised with a strong funding and liquidity position and, despite the challenges and uncertainties facing all businesses, at Danske Bank we remain confident in our ability to execute on our strategic growth plans and also in the contribution we will continue to make to supporting our customers and the wider economy.

Gerald Gregory

11 March 2022

Chief Executive's review

"I see fresh opportunities and we move forward with a new purpose - to help customers, colleagues and society to thrive".

Vicky Davies
Chief Executive Officer

Through another challenging year, we continued to support our customers, colleagues and society, whilst establishing our purpose and setting a new strategy for the years ahead.

2021 was a year like no other, with the ongoing and widespread impacts of the Covid-19 pandemic. I am so proud of how our colleagues have responded with flexibility, commitment and resilience, and would like to thank them for the huge contribution they made in supporting our customers throughout the year.

It is truly an honour for me to lead this fantastic organisation on the next phase of its journey. I would like to thank our Chairman, Gerald Gregory, the rest of the Board, my predecessor Kevin Kingston, and the Executive Committee for their support while I transitioned into my new role.

As Northern Ireland's biggest bank, we are a reflection of the local economy, and I am confident that we will play a key role in its economic future. With half a million customers we have a fantastic opportunity to continue to positively impact people and businesses across Northern Ireland.

I see fresh opportunities as we move forward with a new purpose - to help customers, colleagues and society to thrive - helping people to own their own home, helping businesses get financing to grow, providing job opportunities and investing in new technology.

Helping personal customers thrive

Our colleagues have worked tirelessly throughout the COVID-19 public health crisis to ensure we support our customers, whether in our branches, on the phone or through our digital channels. It is through our colleagues work and dedication in supporting our customers that the Bank has continued to achieve leading CSAT scores.

During 2021, house prices in Northern Ireland increased strongly and transaction levels were at their highest level in years.

We responded by enhancing our offering and simplifying our processes. We became one of the first banks in the UK to reintroduce 95% loan-to-value mortgages, and followed this by launching the UK's first mortgage to be certified as carbon neutral by the Carbon Trust. We reduced our rates across our mortgage ranges for purchasers, switchers and existing customers and increased our maximum mortgage term from 30 to 35 years to help more customers, particularly first time buyers, as they seek to secure their first home.

In November we took the first step in leveraging our mortgage capabilities in Northern Ireland within the rest of the UK by launching the Danske Carbon Neutral Mortgage with three broker firms in England within the

Chief Executive's review

Mortgage Advice Bureau (MAB) network, ahead of a wider roll-out in 2022.

Many trends accelerated by the pandemic are now normalising. Digital customer adoption and usage continues to increase significantly and new ways of working are embedded, with organisations, including ours, fundamentally changing their operating models.

The way customers use branches has changed significantly as part of a longer term trend. Many customers are choosing to use different ways of banking with us.

We must respond to these changes and while this meant making the difficult decision to close four branches in 2021, our branches and contact centres remain hugely important to our customer offering. That's why in recent years we have invested around £6m in transformational branch upgrades across many locations.

Supporting customers in vulnerable circumstances

Lockdowns and social distancing restrictions introduced as a result of the public health crisis continued to impact on customers' personal and financial wellbeing. We have a network of Vulnerability Champions, dedicated Community Banker roles and a robust escalation and referral process in place for those at greatest risk of harm. We continued to engage with external partners, to introduce new practical supports and to train colleagues in how best to support our customers.

One example that stands out, is the introduction of a new gambling control option for personal customers and enhanced training and awareness to support colleagues, ensuring they have the right skills and capability to recognise and respond to customers harmed by gambling.

Helping businesses thrive

It was another challenging year for businesses, with the combined impacts of both the global pandemic and uncertainty arising from the end of the Brexit transition period. Many sectors and individual businesses are still dealing with challenging issues such as rising input costs, supply chain issues, labour shortages and energy price increases.

Small business lending, excluding government backed support loans in 2020, was up 9% year-on-year and is approaching pre-pandemic levels. Lending to larger businesses is more subdued, due to many organisations carrying excess liquidity and some delaying growth plans into 2022.

However, we're seeing businesses start their repayments on government support loans and payment holidays, and this is a positive sign. Many of our business customers have come through the pandemic strongly.

At the end of quarter one we announced the creation of a £500m business growth fund to help medium to large sized businesses grow again. We also proactively engaged in the market through an Asset Finance campaign and a drive to attract and support small businesses.

At the same time we've been leveraging our local capabilities to successfully grow our presence in GB through lending to Housing Associations and syndicated lending to Corporates.

The financial services sector has a big part to play in helping businesses and consumers transition towards a zero carbon economy. We co-developed a carbon literacy education programme for businesses with Business in the Community NI, and launched green loans for corporate and business customers.

Climate change has also been a key theme in our ongoing series of Danske Advantage thought leadership events, webinars and podcasts, working in partnership with business organisations to provide access to inspirational leaders and our own experts, such as our Head of Sustainability.

Digitisation

Covid-19 has fast-tracked the prevailing customer trends by showing customers what is possible. Logons to Danske Bank's digital channels have increased 9% year-on-year, and we are now seeing around 6.2 million log ons per month. Wearable payments, such as Apple Pay and Google Pay, are up 54% year-on-year.

Being a digital bank whilst maintaining the human touch is at the heart of the Bank's approach and is a strategic differentiator to the digital-only competitors.

To support and accelerate our digital ambitions and ensure we keep pace with customer expectations, we created a new business unit, Technology and Digital Development, bringing together a number of teams such as IT infrastructure and security, Automation and Digital Development, Data and Analytics, Customer Journey Squads and Digital Channels.

The key priorities in this area are building more local digital capability, recruiting digital talent into the business with the right skills, and partnering with different specialist external organisations.

Chief Executive's review

We are looking at every process in the Bank to see if we can digitise it. That includes reducing as much paperwork as possible, more customers signing digitally, and accessing and applying for products through our digital channels. We were the first bank in the UK with a solution for viewing business accounts from other banks, a significant enhancement to our business banking platform, District.

Helping colleagues thrive

The level of commitment and engagement by colleagues has been demonstrated by the achievement of a two star "Outstanding" accreditation in our first Best Companies survey. This successful outcome placed Danske Bank in the top 10 employers in Northern Ireland and top 30 financial services organisations across the UK.

Attracting a diverse talent pool, developing their skills and fostering a sense of purpose for employees is pivotal for organisational transformation as we move forward.

We refreshed our approach to talent, focusing on critical roles for both today and the future. We are building the future talent pool, including a series of apprentice programmes with 63 participants over four different schemes. To improve digital knowledge and skills we ran two Learning at Work Weeks that focused on building deeper, stronger and broader connections to what digital means across our business. And we're listening to our colleagues and learning from the experts to ensure that inclusivity and belonging are at the heart of what we do at Danske Bank.

We contribute to the UN Sustainable Development Goal No. 5 'Gender Equality' through our target to achieve 45% women in senior roles by 2024. By the end of 2021 we had achieved 40.6%.

We launched a race equality network, Origins, to join and collaborate with our existing affinity networks and supported a new Race at Work campaign launched by Business in the Community in partnership with the Equality Commission for Northern Ireland.

With the support of the PSNI, the Law Society of Northern Ireland, Women's Aid and Men's Advisory Project, we launched a Domestic Abuse Policy, the first policy of its kind to be published by a bank across the island of Ireland.

We added to our suite of family-friendly policies by introducing a new parental bereavement leave policy and a pregnancy loss policy.

Bringing more diverse skills into the workplace is an important part of our desire to create an inclusive workplace. We began work with the NOW Group, who support people with learning disabilities and autism into jobs with a future, on the development of a new digital academy in Northern Ireland, and opportunities for work placements within the Bank.

Supporting colleagues' resilience and wellbeing has taken on heightened importance during the last two years. A range of new wellbeing initiatives have been embraced, including 'Keeping connected' toolkits and workshops on topics like the menopause, men's health, smoking cessation, and mental health.

Creating a more sustainable future

The climate crisis is the biggest challenge of our generation; we need to act now and act fast, to contribute to a more sustainable future for Northern Ireland.

We have signed up to Business in the Community (BITC) NI's Climate Action Pledge to reduce our Scope 1 and 2 emissions by 50% by 2030, and contribute to UN Sustainable Development Goal No. 13 'Climate Action' through this target. We're making good progress, and have set a longer-term ambition to achieve Net-Zero by 2050, as part of the UN Net-Zero Banking Alliance.

This commitment is a strong demonstration of our sustainability focus, and requires us to actively reduce both our operational (Scope 1+2) and customer-related (Scope 3) carbon emissions.

We started on our journey to help customers go green through the launch of the Danske Carbon Neutral Mortgage, green loans for corporate and business customers, and the Climate Action Programme in partnership with Business in the Community.

When it comes to our own 'green' credentials, we continued to make positive progress and to lead the way in the local financial services sector, maintaining the highest level of the annual BITC NI Environmental Benchmarking Survey and being awarded the Environmental Leadership award in the annual BITC NI Responsible Business Awards.

We are on track for all our branches to be fossil-fuel free by the end of 2023 and for our company car scheme to be zero emissions by 2025. We also aim to help create a greener future through biodiversity conservation, for example through an exciting new partnership with Keep Northern Ireland Beautiful Eco-Schools NI involving the creation of biodiverse and productive gardens at local primary schools.

Helping society thrive

We continued to build on our strong position as Northern Ireland's Responsible Company of the Year 2019/20 by achieving CORE, BITC NI's corporate responsibility benchmarking standard, at Platinum level.

Chief Executive's review

This is the highest level attainable and we are one of only three organisations to have achieved it.

Through our community engagement programmes and by adopting a strong partnership approach, we help address the societal issues most relevant to our business, such as financial confidence, mental health and digital inclusion.

We supported Business in the Community's Build Back Responsibly campaign as both a Climate Champion and a Digital Champion, and donated over 100 laptops to support children with their home learning during the pandemic.

We have a fundamental responsibility to help educate young people about money in an increasingly cashless society, and will contribute to UN Sustainable Development Goal No. 4 'Quality Education' through our target to help educate 3,000 children and young people in 2022. To help achieve this we updated and relaunched MoneySmart, our financial education programme for young people.

We also relaunched our corporate volunteering programme, Danske Time to Give and 225 colleagues volunteered with a range of organisations, playing their part in tackling societal issues like biodiversity, mental health, fraud awareness and digital inclusion.

But the highlight in our community programme this year has been the success of our new charity partnership with the mental health charity AWARE NI. Thanks to highly engaged, passionate colleagues across the organisation, we've raised over £100,000 which will help equip 6,425 14-18 year olds in Northern Ireland with the knowledge and skills that they can use to maintain good mental health and build resilience.

Future development

At the time of writing, we are all extremely concerned about the human tragedy unfolding in Ukraine following the invasion by Russia. We're closely monitoring the rapidly changing situation but can already see that it will have an impact on our economy, with increases to input prices and supply chain constraints impacting both consumers and businesses. The long-term economic impact is uncertain.

However we will remain focused on supporting our colleagues and customers, simplifying processes, enhancing our offering, and adding value. And we'll take our work on the sustainability agenda to the next level.

In 2022 I am excited about getting back to business. We have a great platform to move forward from, having established our purpose and set a new strategy, with a clear vision to guide us in the years ahead – to be a leader in Northern Ireland, a challenger in Great Britain, driving sustainability.

Vicky

Vicky Davies

11 March 2022

Strategic Report

Danske Bank in the UK

Northern Bank Limited t/a Danske Bank (the Bank) is one of the leading banks in Northern Ireland and is an autonomous subsidiary of Danske Bank Group. We have been helping people and businesses achieve their ambitions for over 200 years. Today we have around 1,300 full time employees and serve the needs of our personal and business customers through our branches, our regional business centres, telephone banking and a wide range of digital banking channels.

We play a fundamental role in driving Northern Ireland's growth by lending to people and businesses. We also believe we have a fundamental responsibility to ensure we are contributing to the wider society that we serve and the local communities we are a part of. 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.

The culture of the Bank is a critical enabler in driving transformational change within a VUCA environment (volatility, uncertainty, complexity and ambiguity) and being a force for good.

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 primarily in Northern Ireland.

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 2021.

Northern Bank Limited is a wholly owned subsidiary of Danske Bank A/S ('the Group' or 'the Parent'), a company incorporated in Denmark. The Bank's 2021 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).

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 principal risk and assumptions are outlined from page 23 within the Strategic Report section. In addition, a detailed overview of the Bank's Risk Management framework and how it manages its key risks are outlined within the Risk Management section from page 42 of the Annual Report.

Further information on the Bank's Governance arrangements are outlined from page 70 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 inaugural Task force on Climate related Financial Disclosures (TCFD) report from page 30.

Our vision

'Leader in NI, challenger in GB, driving sustainability'

Our new vision statement reflects the type of Bank we want to be in the future.

This reflects the Bank's current position as the clear leader in Northern Ireland and the ambition to maintain this position across the areas of personal, business and corporate banking, plus becoming a challenger bank in Great Britain (GB), through risk astute, targeted opportunities, as well as being a driving force for sustainability wherever the Bank operates.

Our purpose

'Helping customers, colleagues and society to thrive'

Our new purpose focuses on why the Bank exists beyond creating shareholder value

The sentiment behind our purpose is that tapping the potential in people, business and society is key to driving positive change, supported by finance and knowledge as an enabler of action. The Bank is committed to having a focus on developing sustainable solutions and initiatives that contribute to delivering long-term positive impacts.

Our strategy

In 2021, under the leadership of a new CEO, 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 strategic focus is to remain a stable, strong and risk-astute Bank – consolidating our leading position in Northern Ireland, serving as a force for good in the local economy, alongside taking prudent and considered low cost growth opportunities in the rest of the UK.

Complementing this approach, the ambition is to deliver a strong future for the Bank as a more efficient, geographically diverse and digitally orientated business achieving sustainable and responsible growth and which is seen as the best place to work.

In 2021, we updated our vision and our purpose and identified five strategic priorities for our organisation.

Our five strategic priorities

In order to achieve our vision and purpose, we have five key strategic priorities that will guide our commercial activities going forward.

LEADER IN NORTHERN IRELAND
We will look to maintain our position as the clear leader in Northern Ireland across personal, business and corporate banking.

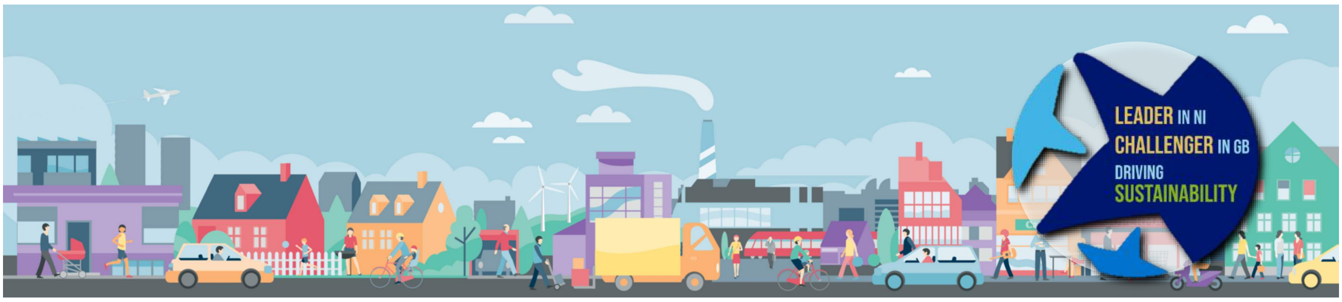
CHALLENGER IN GB
We will focus on growing our business in GB through targeted expansion across both personal and corporate banking.

BEST PLACE TO WORK
The Bank will look to become the best place to work with an improved focus on colleague experience.

DIGITISE & SIMPLIFY
The Bank will continue to build on its digital customer proposition by substantially strengthening its capabilities and embedding digital developments across the organisation

SUSTAINABLE & RESPONSIBLE
The Bank will focus on becoming more environmentally friendly and, deliver on its societal responsibilities.

Strategic report



Our progress on strategic priorities during 2021

During 2021 we updated our vision, purpose and five strategic priorities for our organisation. While these priorities mainly relate to our planned activity in 2022 and beyond, our strategic progress in 2021 can still be viewed through the lens of these priority areas.

The information below also provides more information about our ambitions going forward but also some of our key achievements from 2021.

LEADER IN NORTHERN IRELAND

The Bank continues to be recognised as the clear leader in Corporate and Business Banking in Northern Ireland with strong market shares and consistently achieving leading in customer satisfaction (CSaT).

In Q4 2021, the Bank also achieved a Personal CSaT ranking of 1st. Looking forward, the Bank aims to maintain its position as the clear leader in Northern Ireland.

Key achievements in 2021

Launched £500m Business Growth Fund

Transformed our Private Bank

50% of our meetings are now completed digitally

CHALLENGER IN GB

Due to the Bank's strong position in Northern Ireland, we believe we can build on our existing capabilities to be successful in GB and thus a strategic pillar has been established to support our ambition of becoming a challenger in GB.

Going forward, we will focus on growing our business in the rest of the UK through targeted lending expansion across both personal and corporate banking with an approach that improves our cost income ratio.

Key achievements in 2021

Launch of a Carbon Neutral mortgage proposition via brokers

Increased momentum in Housing Associations and Syndicated Lending activities

New dedicated GB & Corporate Strategy business unit formed

BEST PLACE TO WORK

As society begins to return to a place of normality after two years of the Covid-19 pandemic, we recognise how the normal ways of working have changed for our staff and, building on the progress already made in making the Bank a great place to work, we have a clear ambition to be the 'Best place to work', ensuring that continual improvements are made to enhance colleague experience.

Going forward, we will continue to engage with all colleagues across the business, encouraging further collaboration in order to maintain Danske Bank's position as a leading Northern Ireland employer.

Key achievements in 2021

Recognised as an "Outstanding" company to work for in the Best Companies Survey

Delivered over 6,000 hours of colleague training & development

Rewarded colleagues with an additional days leave on their birthday

DIGITISE & SIMPLIFY

As digital challenger banks become ever more prominent in the financial services industry, digitising our Bank is a key enabler as we seek to evolve our digital offering as customer expectations increase.

We will continue to develop innovative solutions in 2022 whilst retaining high levels of customer service across our face-to-face channels.

Key achievements in 2021

New Open Banking solution for corporate and business customers through our Business eBanking platform - District

Digital signing solutions for personal and business customers

App updates including 'view pin'; changing contactless card limits and card reordering

SUSTAINABLE & RESPONSIBLE

Operating as a sustainable and responsible business through addressing key societal issues and challenges such as climate change, mental health, financial confidence, digital inclusion, diversity and inclusion and supporting vulnerable individuals is fundamental to the Bank's success.

Looking ahead to 2022 the Bank will focus on continuous improvement building on the significant momentum generated in 2021.

Key achievements in 2021

Raised over £100,000 for our charity partner, AWARE NI

Launched the UK's first carbon neutral mortgage

As a responsible business, awarded 'Platinum' status by Business in the Community (one of only three NI firms)

2021 Financial review summary

"Profits before tax up year-on-year at £61.3m.

2021 was a challenging year characterised by the impacts of the pandemic and uncertainty arising from the end of the Brexit transition period. At Danske Bank we continued to support our customers, with a focus on helping Northern Ireland grow again".

Stephen Matchett
Deputy Chief Executive Officer
& Chief Financial Officer

Income statement – 2021 overview

	2021 £'000	2020 £'000
Net interest income	154,756	161,921
Non-interest income	45,291	43,198
Total operating income	200,047	205,119
Total Operating expenses	(153,438)	(146,616)
Profit before loan impairment charge	46,609	58,503
Loan impairment credit/(charge)	14,660	(45,426)
Profit before tax	61,269	13,077
Tax expense	(19,735)	(5,525)
Profit for the year	41,534	7,552
Net interest margin	1.34%	1.69%
Cost income ratio	75%	69%

Underlying financial performance

Profit before tax increased to £61.3m (2020: £13.1m) reflecting the progress made by the Bank in the delivery of its strategy as the economic environment continued to improve at the balance sheet date.

2021 was a challenging year for Danske Bank, impacted by the continuing COVID-19 pandemic, uncertainty arising from the end of the Brexit transition period and record low UK interest rates for the majority of the financial period.

However, as Northern Ireland's leading retail bank, Danske Bank UK has strongly focused on continuing to support our customers and helping Northern Ireland grow again, whilst at the same time, maintaining a robust and stable financial position.

Throughout 2021, the Bank has introduced several initiatives to support its customers through these challenging times, and the digital transformation of the Bank accelerated.

Overall, the 2021 full year financial results, along with the decrease in expected loss provision, robust capital position and strong liquidity base, all leave Danske Bank UK well placed to deliver on its strategic priorities in 2022 and deliver profitable growth.

2021 financial performance

The Bank recorded a statutory profit after tax of 41.5m (2020: £7.6m).

The Bank's Income Statement on page 103 provides a breakdown of the financial performance during the year ended 31 December 2021.

Net interest income decreased by 4% to £154.8m (2020: £161.9m) over the financial year, reflecting subdued lending activity, changes in the mix of the lending portfolio, margin pressures and the continued lower UK base rate environment.

Non-interest income increased by 5% to £45.3m (2020: £43.2m), reflecting the increasing customer transactional activity levels during 2021 following easing of COVID-19 pandemic safety restrictions relative to 2020.

The Bank's **Net Interest Margin** (NIM) has decreased due to the level of growth in customer deposits relative to lending and changes in the mix of assets towards lower margin lending.

Operating expenses increased by 5% to £153.4m (2020: £146.6m), primarily due to an increase in the cost of services supplied to the Bank by its parent, Danske Bank A/S.

Loan impairment losses significantly decreased during 2021 with an overall impairment credit of £14.7m (2020: charge of £45.4m). The significant decrease in the level of impairment losses reflects the Bank's assessment of the improving economic outlook at the balance sheet date, and continuing robust asset quality.

Details of the key movements in the loan impairment provisioning are further detailed in disclosure note 14 of the Financial Statements.

Consequently the **Cost Income ratio** has increased during the year to 75% (2020: 69%).

The **tax expense** for the Bank was £19.7m (2020: £5.5m), reflecting an effective tax rate of 32.2% in the current financial year (2020: 42.3%). Further detail of the Bank's tax charge is outlined in note 9 of the financial statements.

The profit attributable to the shareholders (i.e. excluding Additional Tier 1 capital holders) for the year ended 31 December 2021 amounted to £36.5m (2020: £2.5m).

Financial position – 2021 overview

	31 December 2021 £'000	31 December 2020 £'000
Assets		
Cash and balances at central bank	4,388,161	4,225,153
Investment securities	2,226,346	1,409,536
Loans and advances to customers	6,206,664	6,229,841
Defined benefit pension asset	154,208	219,679
Other assets	149,794	165,980
Total assets	13,125,173	12,250,189
Liabilities		
Due to other banks	366,611	373,032
Deposits from customers	11,161,358	10,228,137
Other liabilities	848,005	798,153
Total liabilities	12,375,974	11,399,322
Equity attributable to shareholders	749,199	850,867
Total liabilities and equity	13,125,173	12,250,189
Loan to Deposit ratio (%)	56%	61%
Common Equity Tier 1 (CET1) capital ratio (%)	14.4%	16.1%
Liquidity Coverage ratio (LCR) (%)	293%	264%

"The Bank's customer deposits rose to record levels, further enhancing the Bank's strong liquidity and funding position".

Underlying financial position

Overall, the Bank's Balance Sheet remains robust as the Northern Ireland and wider UK economy continues to recover from the impact of the COVID-19 pandemic.

During 2021, whilst customer lending remained flat overall, the Bank's customer deposits rose to record levels, further enhancing the Bank's liquidity and funding position. The Bank's Balance Sheet on page 105 provides a breakdown of the financial position at 31 December 2021.

2021 financial position

Customer deposits increased by 9% to £11.2bn (2020: £10.2bn). Whilst the rate of growth slowed in H2 2021, both business and personal customers continue to hold additional liquidity.

The Bank's **cash and balances with central banks**, which is cash placed with the Bank of England increased by 4% on the prior year to £4.4bn (2020: £4.2bn), reflecting higher levels of funding held from increases in the customer deposits.

Similarly, with increased levels of liquidity, the Bank continued to increase its portfolio of **investment securities** held during 2021 with £2.2bn held at 31 December 2021 (2020: £1.4bn).

Loans and advances to customers remained consistent year on year with lending of £6.2bn (2020: £6.2bn). The marginal decrease of 0.4% in customer lending was due to a subdued level of demand throughout the year. With more customers holding excess levels of liquidity during 2021, some customers reduced their existing debt levels whilst others did not require the same level of short-term lending facilities.

Personal lending

Mortgage lending was broadly stable as the Bank maintained pricing discipline in an uncertain and increasingly competitive environment.

Whilst the Bank experienced periods of higher customer demand, partly due to UK Stamp Duty Land tax reductions, there remained strong mortgage market competition throughout the year. The Bank continued to be selective, balancing volume, credit risk and pricing in line with the Bank's strategy of continuing to be risk astute and financial responsible.

Other personal lending volumes (i.e. credit card and overdrafts) have experienced a decrease over 2021as customers reduced their existing levels of consumer debt.

Corporate and business lending

Corporate and business term lending and overdraft volume growth remained subdued throughout 2021 primarily due to many organisations carrying excess liquidity and delays in investment and growth plans due to uncertainties arising from the current economic environment as it continues to recover from COVID-19 pandemic restrictions.

Small business lending (excluding government support loans) experienced increased demand during 2021, with lending returning close to pre-pandemic levels.

Whilst the Bank continued to support its existing corporate and business customers with lending through the various government-guaranteed lending schemes, demand for these support loans was lower than the previous year. These schemes are now closed to new lending with businesses starting to make repayments during 2021.

Great Britain lending

While Northern Ireland will always be the Bank's primary focus, 2021 saw the Bank begin to pursue small pockets of opportunity for growth in Great Britain.

On the corporate banking side, the Bank is a lender to the social housing sector in England, as well as being active in the syndicated lending space. In 2021, the Bank supported these sectors nationally through the provision of around £300m in lending.

On the personal banking side, the Bank launched its Danske Carbon neutral mortgage through select brokers in the south of England. Mortgage provision through brokers in Great Britain will be an area of targeted lending growth in 2022 and beyond.

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 £96m (2020: £120m) reflects robust asset quality, the improving economy during 2021 and the economic outlook as at 31 December 2021.

Details of the key movements in the loan impairment provisioning are further detailed in disclosure note 14 of the Financial Statements.

Overall, the **loan-to-deposit ratio** decreased to 56% (2020: 61%). We remain well positioned to support future lending growth.

The funded status of the **defined benefit pension scheme obligation** was a surplus of £154m at 31 December 2021 (2020 £220m). During 2021, a bulk annuity buy-in policy covering pension liabilities was purchased by the Scheme. This transaction, which significantly reduces the risk within the Scheme, resulted in a loss on scheme assets of £35m, which was recognised in Other comprehensive income.

A full **property revaluation** in Q4 2021 was undertaken by external valuers and this increased the net carrying value of properties by £0.6m. A previous interim property valuation was at 31 December 2020.

During 2021 the Bank disposed of five properties (2020: one property) and has four properties held for sale at 31 December 2021 (2020: one property). Details of the key movements in the properties are further detailed in disclosure note 17 of the financial statements.

Due to other banks includes £350m borrowed from the Bank of England under the Term Funding Scheme with additional incentives for SMEs (TFSME), secured against pre-positioned collateral. This funding replaced the previous £350m borrowed from the Bank of England in November 2018 under the original Term Funding Scheme.

A **net deferred tax liability** of £14m was recognised at 31 December 2021 (2020: £34m). The decrease in the net deferred tax liabilities for 2021 was primarily driven by the tax effect of the lower defined benefit pension scheme surplus at 31 December 2020 (as outlined above).

2021 capital position

The Bank remains well capitalised and this is reflected in its CET1 ratio of 14.4% (2020: 16.1%).

During the year, a dividend of £75m was paid to the Bank's ultimate parent undertaking, Danske Bank A/S (2020: £nil).

Throughout 2021, the Bank did not require any additional Minimum Requirement for Eligible Liabilities ('MREL') funds as the Bank held sufficient funds to meet the Bank of England's MREL requirements.

Page 63 provides further detail of the Bank's capital position at year ended 31 December 2021.

2021 liquidity position

The Bank continues to have a very strong funding position. The loan to deposit ratio was 56% at 31 December 2021 (2020: 61%). 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 85% (2020: 83%) of its total liabilities and shareholders' equity.

Under Capital Requirements Directive IV ('CRD IV'), the key liquidity metric is a minimum Liquidity Coverage Ratio (LCR) requirement. The LCR regulatory requirement is set at 100%. As at 31 December 2021, the Bank's LCR was 293% (2020: 264%) which remains consistently in excess of this requirement.

Page 67 provides further detail of the Bank's funding and liquidity position at year ended 31 December 2021.

Financial performance outlook

The Bank anticipates an increase in its Net Interest Margin in 2022.

Underlying non-interest income remains linked to activity levels and is expected to improve further during 2022 in line with the removal of COVID-19 restrictions and the broader economic rebound. We expect costs to stay broadly stable in 2022 with cost efficiency savings from previous actions taken being offset by further investment in digitalisation and inflation.

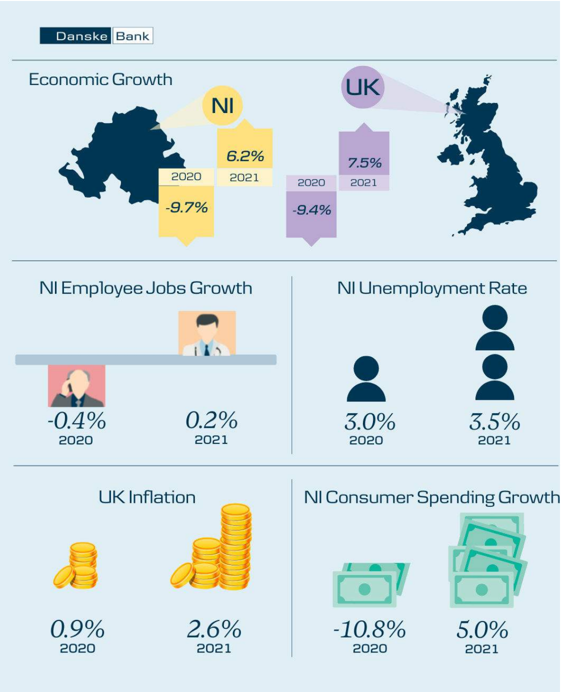
Since the year-end, Russia's invasion of Ukraine has introduced additional uncertainty beyond the continuing uncertainties attaching to the Covid-19 pandemic; post Brexit trading arrangements in Northern Ireland and cost of living pressures on UK households.

Russia's invasion of Ukraine will impact on global economic growth, asset valuations, interest rate expectations and exchange rates. It will increase prices and cause supply chain issues that will impact our customers. In common with all entities across the financial sector, the extent of these impacts on the Bank are unclear at this stage.

The Bank will remain focused on supporting our customers and making banking easier for them, while also developing new opportunities for business growth.

2021 Economic review summary

2021 marked a year of recovery for the UK and Northern Ireland economies from the sharp drops in output that resulted from the coronavirus pandemic in 2020. However, Covid-19 continued to affect the economy throughout the year.



2021 economic environment

The restrictions in place during the first part of 2021 led to a fall in economic activity levels, though not to the same extent as during the previous year. Then, as restrictions were gradually eased, economic growth rates moved back into positive territory from the second quarter of the year onwards.

The UK economy grew by 7.5% in 2021 and in its Northern Ireland Quarterly Sectoral Forecasts 2021 Q4 report, Danske Bank estimated that the Northern Ireland economy expanded by around 6.2% in 2021.

The labour market in Northern Ireland remained in a relatively strong position throughout the year as the economic recovery progressed, despite the ending of the Coronavirus Job Retention Scheme in September 2021. The average unemployment rate in 2021 was 3.5%, higher than the 3.0% observed in 2020 but still relatively low. The unemployment rate in 2021 Q4 was just 2.7%, signalling the tightness of the labour market at the end of the year. Other metrics have also signalled the relative strength of the labour market. In December 2021 the number of payrolled employees was 4.8% higher than in December 2020 and in its Northern Ireland Quarterly Sectoral Forecasts 2021 Q4 report, Danske Bank projected that the average annual number of employee jobs in Northern Ireland increased by 0.2% in 2021. The wider UK labour market was also relatively strong in 2021, with unemployment averaging 4.5% across the year, the same as in 2020.

One theme which emerged, particularly in the second half of the year, was high inflation. The UK CPI inflation rate averaged 2.6% in 2021. In January, the rate of price rises was just 0.7% but in December the inflation rate was 5.4%, significantly above the Bank of England's 2% target rate. This rise in inflation was brought about by a number of factors including higher energy prices and supply chain disruption contributing to an increase in the price of goods.

In response to the rise in inflation, the Bank of England's Monetary Policy Committee increased Bank Rate to 0.25% in December 2021. On average over the year, Bank Rate in 2021 was 0.11% which was lower than the 0.23% in 2020.

The housing market in Northern Ireland and the wider UK had a strong year in 2021. The average rate of house price growth across the UK was 9.9% in 2021. In Northern Ireland, house prices increased by 10.7% between the third quarter of 2020 and the third quarter of 2021.

Economic outlook

The pace of growth is likely to be relatively subdued in the first quarter of 2022 partly due to the impacts of the Omicron coronavirus variant but growth is expected to be higher in the second quarter of the year and remain positive throughout 2022.

Inflation is expected to remain above the Bank of England's target throughout 2022. While inflation remains high it will put pressure on real wage growth and erode households' purchasing power, weighing down on the rate of growth of consumer spending.

Monetary policy is also expected to tighten further as we move through 2022 and businesses in the UK and Northern Ireland are continuing to adjust to the changes brought about by Brexit. However, while posing challenges for businesses seeking to recruit staff, the strong labour market could give some support to consumer spending at a time when other factors, such as high inflation, are likely to hold it back.

In its Northern Ireland Quarterly Sectoral Forecasts 2021 Q4 report, Danske Bank projected that the Northern Ireland economy would expand by around 4% in 2022 and that the UK economy would grow by about 4.2%.

However, it is important to note that there is considerable uncertainty around the economic outlook - with the coronavirus pandemic, political instability, inflationary pressures and Russia's invasion of Ukraine all factors that will impact the economy in 2022.

Non-financial information statement

The Bank is required to comply with the Non-Financial Reporting requirements outlined within sections 414CA and 414CB of the Companies Act 2006.

As the Bank develops more comprehensive disclosures in line with emerging recommendations and principles, the purpose of the following table is to provide an overview of how the Bank's policies and management of key non-financial areas meet the Companies Act requirements. The Bank's principal risks are outlined on page 23, with the Bank's Enterprise Risk Management framework and how the Bank manages its principal risks from pages 49 to 69.

All Bank colleagues are subject to the requirements outlined below.

Reporting requirement	Summary	Policies
 **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. The Bank's progress on meeting its ambition to be the "Best Place to Work", along with other colleague support initiatives are outlined within the Chief Executive's review from page 7of this Annual Report.	• Code of conduct policy • Fit and proper • Succession and talent management policy • Remuneration policy • Diversity and inclusion policy • Domestic Abuse policy • Danske Families (suite of family-friendly policies which saw enhanced financial provision introduced in 2021, along with the introduction of inclusive Pregnancy Loss and Parental Bereavement Leave Policies)
 **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.	• Slavery and human trafficking statement • Data privacy policy • IT risk management policy • IT security policy • Supplier code of conduct
 **Environmental matters**	The Bank is committed to playing its part in responding to the climate crisis and wants to encourage positive behavioural change among our customers, colleagues and wider society. Our strategic response includes seeking to minimise the negative impact of our own environmental footprint, responding to regulatory change, developing innovative new climate focused products and looking at ways we can enhance the natural environment. Progress on how the Bank is responding to the global challenge of sustainability and climate change is detailed within the Task force on Climate-related Financial Disclosures (TCFD) report section from page 30 of this Annual Report.	• Climate Change Position Statement • Sustainable finance policy

Strategic report

Reporting requirement	Summary	Policies
 **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 has continued to ensure banking is accessible for everyone, investing in improvements to customer services and supporting initiatives to help enable business growth. In addition, the Bank has continued its strong commitment to its local communities through a wide range of initiatives. Outreach to our most vulnerable customers continued throughout 2021 via the Check in and Chat initiative, as well as provision of payment holidays and Pay As You Grow (PAYG) options to support our customers through the impact of the pandemic. The Bank has also launched a gambling block functionality to help customers control their spending. Throughout 2021, the Bank's social initiatives included sponsorship of local sports, programmes to help build financial confidence in young people, and partnering with local charity AWARE NI. Further details of the Bank's responsibilities in supporting its customers and community are outlined within the Chief Executive's review from page 7 of this Annual Report.	• 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.	• Financial Crime Policy • Whistleblowing policy • Market abuse policy • Conflicts of interest policy • Outsourcing and third party risk management policy • Anti-money laundering /CTF 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's Enterprise Risk Management (ERM) is outlined from page 43	
Description of principal risks and impact on business activity	The Bank's principal risks, key controls and mitigating factors are outlined from page 49	
Description of the business model	The Bank's strategy is outlined from page 13.	
Non-financial key performance indicators	Non-financial key performance indicators are outlined in our strategic priorities (page 13), our TCFD Report (page 30) and within the Chief Executive's Review (page 7).	

Principal risks and uncertainties

High-level risk principles

These principles are a qualitative statement of the Bank's core risk ethos:

"Sound business and risk management supporting an acceptable level of risk. An overall conservative risk appetite controlled within tolerance. A strong risk and governance culture across the three lines of defence"

Sound business and risk management…	Ensuring overall sound business and risk management of the Bank and ensuring that it acts in the best interests of shareholders and customers; treating customers fairly and delivering fair customer outcomes
…supporting an acceptable level of risk.	Supporting the promotion of an acceptable level of risk across all risk types
An overall conservative risk appetite…	The Bank has a conservative risk appetite across all risk types reflected through the implementation of specific risk limits. The Board seeks 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
…controlled within tolerances.	Controlling risks within tolerances set to ensure that financial or non-financial exposures do not cause material damage to the Bank
A strong risk and governance culture…	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
…across the three lines of defence.	The three lines of defence model, which includes placing primary risk ownership with the business units and independent risk oversight with Risk Management, with Internal Audit assessing the risk framework and internal control environment

The Bank has made several changes to the Enterprise Risk Management taxonomy this year ensuring closer alignment to the Danske Bank Group taxonomy. Conduct risk is now classified as a cross taxonomy risk and key risk driver. This move reiterates the Bank's view of Conduct as a key aspect of regulatory focus across all business areas. Sustainability risk (previously Climate change risk) has also become a key risk driver and a cross taxonomy risk recognising the far-reaching implications of this risk category.

Risk appetite

The Board's setting and review of the Bank's risk appetite is an ongoing process achieved via its approval of key risk frameworks, policies, documents (Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment Process (ILAAP)) and the ongoing monitoring of the Bank's performance. This provides context for the Board's subsequent review of the Corporate Plan and strategic activities within the Bank and the inherent risks therein.

Primary risks and drivers

The Bank's ten key risks: Credit risk, Market risk, Liquidity Funding & Capital risks, Pension risk, Operational risk, Model risk, Financial Crime risk, Regulatory Compliance risk, Financial Control and Strategic risk and Technology and Data risk; with controls and mitigating factors, are set out below with the three risk drivers: Conduct risk, Sustainability and climate risk, and Reputational 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.

Whilst this section provides a summary of key risks and uncertainties, 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.

Strategic report

Primary risks	Outlook	Key controls and mitigating factors
Credit risk The risk of loss arising from the failure of a borrower or obligor to meet its contractual obligation towards the Bank. Credit risk includes default risk, recovery risk, concentration risk and credit residual risk (i.e. failure of the Bank's credit assessment tools).	↔ Stable risk	• Board approved Risk Appetite Limits within a specific Risk Appetite Framework for the provision for credit; • Board endorsed Group Credit Policy and credit parameters set for the Bank's markets and for various borrower types, and sectors, aligned to the Bank's credit appetite limits; • A formal governance structure to monitor credit quality and activity ensure compliance with policies and limits including reporting to the Bank's Credit Oversight Forum (COF) and Board Risk Committee (BRC) / Board; • Responsible lending practices and active portfolio management applied in accordance within the Bank's Risk Appetite Framework; • A range of Delegated Lending Authorities (DLAs) issued to many of the Bank's customer facing staff based on their role, skills, competency and experience; • Active management of multiple credit risk concentrations through structured analysis and review; • Annual (or more frequent if required) reviews of business facilities; • Active co-management of certain commercial exposures to manage specific risk; • Dedicated work-out teams focused on the co-management of exposures, with the objective of restoring the credit quality to within appetite limits; • Dedicated Insolvency and Recoveries team focused on achieving optimal outcomes for the Bank and its customers; • Regular reviews of credit assessment underwriting metrics and tools (e.g. credit models) ensuring operation in accordance with expectations by testing and validation. Performance is reviewed by a dedicated sub-committee of COF; and • Continual assessment of training needs, development and skill sets of Bank employees engaged in customer interaction and credit risk management activities.
Market risk The risk of loss in on and off-balance sheet positions arising from adverse movements in market prices. The sources of market risk for the Bank are interest rate risk and foreign exchange risk.	↑ Increasing risk	• Board approved Risk Appetite limits within a specific Risk Appetite Framework for market risk; • Daily and monthly monitoring of market risk positions; • Dynamic interest rate risk hedging strategy-making use of natural offsets in the balance sheet, supplemented with derivative financial instruments and debt securities; and • The Bank does not trade in derivatives. Derivatives are only entered into to manage net open positions deriving from transactions with customers or for hedging.
Liquidity, Funding & Capital risk: The risk of not having sufficient liquidity and funding which can result in having to issue instruments at excessive costs, inability to pursue the business strategy, or failing payment obligations.	↔ Stable risk	• Board approved Risk Appetite Framework limits within a specific Risk Appetite Framework for liquidity, funding and capital risk; • Daily and monthly monitoring of liquidity and funding risk positions; • Comprehensive liquidity and funding strategy to ensure the Bank continues to maintain a strong, stable funding base in both business as usual and stressed conditions; • Monthly monitoring of capital positions; • Capital plans supported by stress testing to ensure that the Bank maintains a strong capital base; • Detailed plans in place to ensure the Bank complies with MREL requirements; and • Annual ICAAP and ILAAP assessment process (including regulatory stress scenarios) for review, challenge and oversight by senior management and the Bank's Regulator.

Strategic report

Primary risks	Outlook	*Key controls and mitigating factors*
Pension 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.	↔ Stable risk	• Board approved Risk Appetite limits for Pension Risk; • Quarterly monitoring of asset and liability positions; • Pension risk has been significantly mitigated by the closure of the Scheme to new members in 2004, the purchase of bulk buy-in annuities in 2015 and 2021 which cover all pensions in payment as at July 2021, and by the cessation of future accrual from 1 October 2018; and • The Bank's strategic focus for pension risk is to continue to review and oversee implementation of strategies to reduce pension risk.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risks. Operational risk includes Product & Services practices, Process & Reporting management, Employment practices & workplace safety, Damage to physical assets, Outsourcing risk & Third Party risk, Legal risk and Business Continuity risk.	↔ Stable risk	• Board approved Risk Appetite Framework and limits; • Group Non-Financial Risk framework and policy (GNFR) which sets out the principles and standards of operational risk management in the Group; • Continuous review and reporting of operational risks arising from Covid-19 support through 'Disruptive risk assessments' completed for the most critical services and updated on a regular basis; • Improving Operational Resilience through the successful implementation of a remote 'working from home' model for all, but essential to on site staff, ensuring continuity of service; • Monitoring and management of outsourced supplier relationships to ensure agreed service levels are met; • The Bank has established an Outsourcing and Third Party Risk Management Committee, supported by robust policies and frameworks; • Business Continuity framework in place. This ensures the Bank can respond to, recover and learn from any unplanned operational disruption; • A Board approved people strategy to enable us to create the right culture and colleague experience; our leaders are equipped with a future orientated mind-set and skill-set, aligned with our Best Place to Work ambition and new hybrid working model; • Focus on digital ability, colleague skills and talent, to enable our people to perform at their best; • A diversity, inclusion and sustainability goal that every colleague feels significant and valued; • Governance framework including People Board, Nominations Committee and Remuneration Committee builds capability for the future of work whilst ensuring compliance with legal and regulatory requirements with regard to the reward framework; • Regular monitoring and reporting to senior management via the Operational Risk & Compliance Committee (ORCC), All Risk Management Committee (ARMC), Board Risk Committee (BRC), and the Board; and • Delivery of new products and services as part of the Bank's business strategy with assessment of the operational risks prior to implementation via the RCSA methodology.

Primary risks	Outlook	Key controls and mitigating factors
Model risk Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk includes model design error, model usage error and data and other input limitations.	↔ Stable risk	• The Model Risk policy sets out the principles and standards of Model risk management in the Bank. The policy defines roles and responsibilities, tiering approach for models (High, Medium and Low risk) and principles for development, use, control, reporting and validation of models; • A comprehensive Model Risk Management Framework to ensure existing or emerging model risks are identified and mitigated effectively and efficiently. Model Risk Instructions in place for High and Medium Risk Models; • Risk Governance processes have been strengthened to manage model risk. At Group level there is oversight of models by specialist functions and at local level by Treasury risk; • Models are reviewed at regular intervals depending on the materiality of the model and the impact to the Bank; and • Performance of models and any mitigants are reported to various committees including the Board and Board Risk Committee (BRC).
Financial Crime risk The risk of internal or external parties using the Group's infrastructure, products and services 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.	↔ Stable risk	• Zero appetite for breach of financial crime obligations; • Inclusion of Financial Crime Risk as a Level 1 risk within Board approved Risk Management Framework; • Risk based approach to the management of Financial Crime Risk including significant investment in the Customer Protection Centre; • Open and transparent communications with supervisory regulators; • Regular reporting to senior management and Board members via the Operational Risk & Compliance Committee (ORCC), Board Risk Committee (BRC), and the Board; • Monitoring, assessment and reporting of financial crime horizon risks to ensure the Bank meets new regulatory requirements; • Financial Crime risk advice to support business and key initiatives; • Risk-based Financial Crime monitoring by an independent monitoring team; • Annual training and awareness programme; • Whistleblowing framework plus Board appointed Whistleblowing Champion to support open and positive anti-financial crime risk culture; and • Continual investment in technical solutions to combat financial crime across the Group.
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.	↔ Stable risk	• No appetite for failure to comply with regulatory or legislative obligations; • Risk based approach to the management of the Regulatory Compliance Risk; • Open and transparent communications with supervisory regulators; • Regular reporting to senior management via the Operational Risk & Compliance Committee (ORCC), Board Risk Committee (BRC), and the Board; • Monitoring, assessment and reporting of horizon risks to ensure the Bank meets new regulatory requirements; • Compliance advice to support business and key initiatives; • Risk-based Regulatory Compliance Risk monitoring by an independent monitoring team; • Annual training and awareness programme; and • Whistleblowing framework and Board appointed Whistleblowing Champion to support a strong compliance culture.

Primary risks	Outlook	Key controls and mitigating factors
Financial control and Strategic risk The risk of opportunity loss arising from possible changes in general business conditions such as market environment, customer behaviour, the Bank's (or Group's) reputation and technological progress to which the Bank may not be able to adjust sufficiently quickly. The Bank's business risk assessment also considers reputational risk.	↑ Increasing risk	• A clearly defined Corporate Plan, within the boundaries of the Board approved risk appetite, is prepared annually. This Corporate Plan is based on a balanced growth of lending and deposits with a stable funding profile that is appropriate for the asset mix; • Regular reporting on progress against Corporate Plan at Board and Commercial Management and Pricing Committee (CMPC); • Formal assessment of risk completed once annually with the results included in the ICAAP; • A Risk Appetite Framework is in place and aligned with the Group's overall strategy; • Review and monitoring of the Bank's competitive environment to identify market developments, using external research and economic updates; • Active management of all internal and external communications; and • Key performance indicators are clearly defined and are closely and regularly monitored.
Technology & Data risk The potential that a given threat will exploit vulnerabilities of an asset or group of assets and thereby cause harm to the Bank. It includes data and system risk such as unforced failures in technical infrastructure or data integrity.	↔ Stable risk	• Board approved Risk Appetite for Technology and Data risk; • Group IT Risk Management policy and Security policy; • Quarterly reporting to IT Risk Committee (ITRC); • CRO (Chief Risk Officer) reporting quarterly to Board Risk Committee (BRC) and the Board; • Other reporting on IT risks to BRC and Board as necessary; • IT service level agreement, aligned to EBA Guidelines, with defined IT performance metrics that are tracked and aligned to Technology risk appetite; • Risk Forums – at both IT and Information Security and more broadly Technology & Digital Development (T&DD) risk level – active tracking of risks; • Continuous programme of cyber and wider infrastructure benchmarking and enhancement; • Security and risk framework in place including Security Health Check to provide a consistent technology assessment process and profile Technology Risk; and • Security training, ethical phishing and ongoing security / fraud awareness.

Key risk drivers

Primary risk drivers	Risk impact and key mitigating factors
Conduct risk	The Bank is committed to ensuring the activities of the firm and its employees comply with the FCA's rules and principles and that a focus on fair customer outcomes is embedded within its culture. Conduct risk is defined as a cross taxonomy risk driver that applies to any financial and / or non-financial risk type in the Bank's Enterprise Risk Management Framework and can arise and materialise across all risk types. The Bank recognises the importance of identifying and understanding Conduct risks as they emerge and acknowledges the responsibility of each individual, Executive and Board Committee to consider customer impact in all of its activities, with roles and responsibilities clearly documented within the Three Lines of Defence model. The effective management of Conduct Risk is embedded in a defined risk governance framework and is made up of: • A conduct risk appetite and key risk indicators (KRIs); • A conduct risk policy;

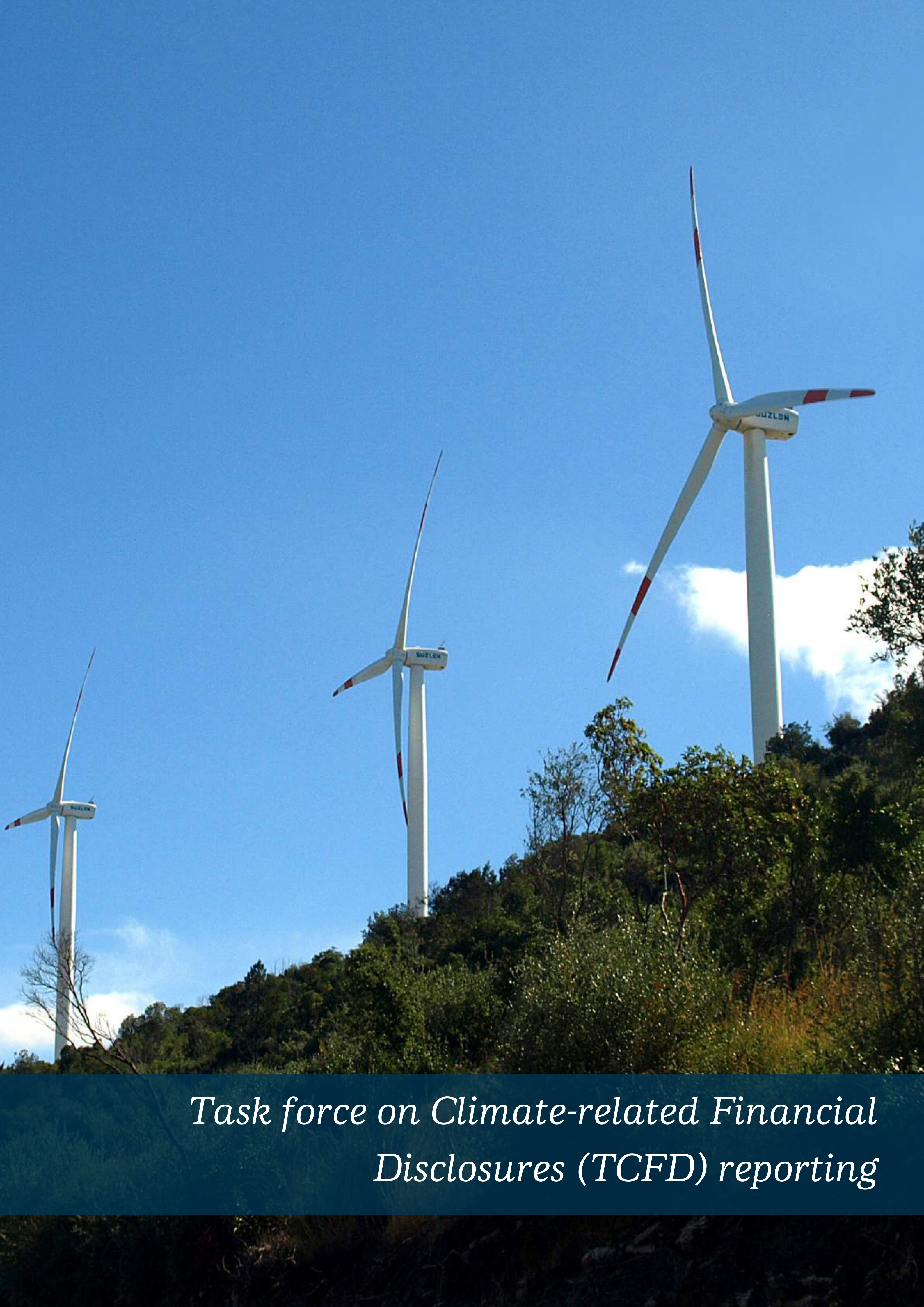
Primary risk drivers	Risk impact and key mitigating factors
Conduct risk (continued)	• A conduct risk assessment and control framework, including monthly business unit conduct risk outcomes RAG assessment; • The conduct risk outcomes management information (MI); • Conduct risk Programme, created to help manage conduct risk and drive cultural change; • Conduct risk assessments embedded within corporate planning, annual product attestations and change management processes; • Escalation and consideration of conduct risks and their impacts previously via the Conduct Risk Committee (CRC), and now through consideration of Conduct Risk in all Bank committees with regular onward reporting through All Risk Management Committee (ARMC) to Board level; • 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; identify any deficiencies and assess remedial actions to address these; and • Performance management assessment equally weighted on "what" staff achieve and "how" they achieve it, encouraging positive behaviours and a conduct-centric culture. The Bank remains cognisant of the new and heightened conduct risk challenges created by the coronavirus pandemic and the resulting operational changes and ways of working and is committed to ensure conduct and culture will remain a key focus in all of its activities. This continues to be monitored at Executive level via the Bank's subsidiary risk committees.
Sustainability and climate risk	The Bank is aware of the impact of climate change over time as physical and transition risks emerge. As a result the Bank is dedicated to managing the impacts of climate change and assisting clients, shareholders, employees and local communities in the transition to a low carbon economy. The Bank has formalised this priority through various long-term targets focusing on reaching net zero by 2050 and establishing meaningful interim targets both regarding internal operations and wider community and client engagement to guarantee its successful achievement. Building upon initial risk analysis in 2020 the Bank has continued to carry out scenario and gap analyses to identify key risks at a more granular level using flood mapping for the Bank's own properties, EPC risk rating analysis on the mortgage portfolio and identifying high risk sectors amongst the Corporate & Business portfolio. In recognition of TCFD recommendations for year-on-year enhancement of climate risk management, the Bank has conducted its first climate-specific risk control self-assessment (RCSA), looking at the non-financial risks that climate change presents to the Bank. The findings of this assessment will inform and help to support the Bank's upcoming climate change measures and activities. This inclusion of climate risk in the RCSA process will become the new standard for the Bank, annually expanding our understanding and consideration of climate-related risks as they emerge and evolve. Ostensibly climate change has far reaching implications. As a result, the Bank has taken the decision to prioritise sustainability and climate risk as one of the Bank's Strategic top five priorities. The Bank's current focus in mitigating the risks presented by climate change centres around: Credit risk; Pension risk; Liquidity, Funding and Capital risk; Operational risk and Financial Control & Strategic Risk. As such, a number of risk appetite limits, along with climate risk indicators have now been implemented. All Risk Management Committee (ARMC) remains responsible for monitoring and overseeing climate related risks and ensuring the Bank embeds suitable measures into the governance process. To manage exposure to climate impacts, the Bank has embedded climate risk into the risk governance processes. Climate risk is included in the 2021 Risk Management Framework with clear assignment of climate risk management responsibilities. Furthermore, the Board approved climate risk metrics which will aid the evolution of the climate risk limits included in Risk Appetite Statement (RAS). The Corporate Plan, ILAAP and ICAAP for 2021 all consider the Banks climate risk appetite. The Bank recognises that the shift to the low carbon economy presents both risks and opportunities. We are proactively supporting customers in their transition journeys through innovative financing solutions such as the Carbon Neutral Mortgage and Green Loans launched in Q3 and Q4 of 2021 respectively

Primary risk drivers	Risk impact and key mitigating factors
Reputational risk	The Covid-19 pandemic is still playing a dominant role in everyone's lives, and the Bank has continued to run its operations efficiently. Mortgage and small business lending has remained at acceptable levels, however lending to larger businesses has been more subdued, due to many organisations carrying excess liquidity and some delaying growth plans into 2022. To help mitigate against the risk of a stagnating economy the Bank initiated a 'Helping Northern Ireland grow again' strategy. In Personal Banking we became one of the first banks in the UK to re-introduce 95% loan-to-value mortgages, increased our maximum mortgage term from 30 to 35 years and reduced our rates across mortgage ranges. In Corporate & Business Banking we introduced a £500 million 'Helping Northern Ireland grow again' fund targeted at medium to large sized businesses. Alongside this activity we ran a 'Helping Northern Ireland grow again' advertising campaign across the year, with focus areas that included small business, asset finance and mortgages. Running alongside the pandemic as a key societal issue was the strong focus on the need for the business community to play its part in the global fight against climate change. In reaction to this we introduced the UK's first ever carbon neutral mortgage. This product, certified by the Carbon Trust, was showcased at the global COP26 conference in Glasgow. The Bank now has in place a dedicated Sustainability team, based in Belfast, and strategic plans to make strong progress in this area moving forward. Danske Bank Group is still responding to justified criticism of its management of AML issues in Estonia. The issue has had limited impact locally, but remains a watch point with future international enforcement actions still expected. Another prevailing risk is the implementation of the Northern Ireland protocol arrangements as a result of Brexit. The Bank has carried out a number of actions required of it to ensure compliance with Brexit outcomes. Reputational risk is a cross taxonomy risk that is monitored in a number of ways, including: • The Communications team monitoring reputational risk indicators daily using media monitoring systems and procedures, as well as social media surveillance. • Regular reporting on reputational risk to the Commercial Management and Pricing Committee and the Board • Structured incident response teams and associated governance to manage material reputational risks as and when required • Consideration of reputational risk in second line Risk Monitoring activities. Crisis communications plans are regularly tested and updated. The Bank continues to plan for known and unknown reputational risks, alongside positioning itself as a key stakeholder in 'Helping Northern Ireland grow again' - with the economic outlook continuing to improve.

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

Fiona Sturgess
Company secretary

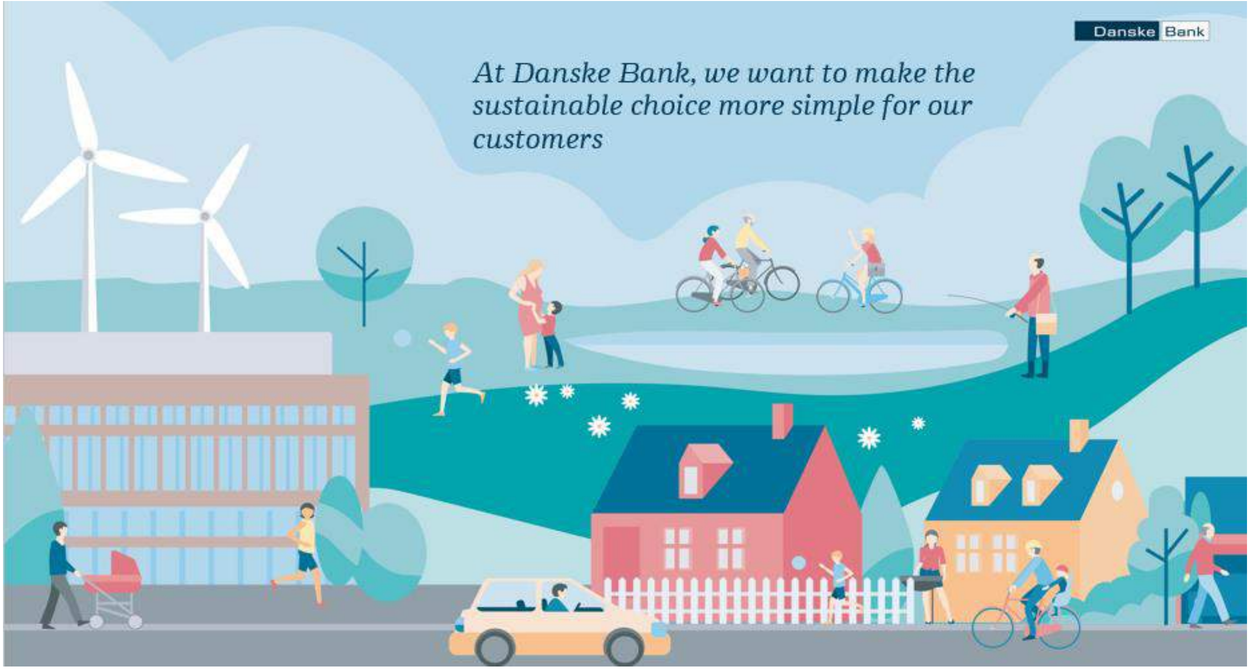
11 March 2022



Task force on Climate-related Financial Disclosures (TCFD) reporting

Task force on Climate related Financial Disclosures

Our key climate aspirations



"Becoming 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"

Chris Martin
Head of Sustainability

Our climate commitments

Our Purpose is 'Helping customers, colleagues & society thrive' and the impacts and opportunities arising from sustainability and climate change are a key focus within our overall strategy.

Being 'Sustainable & Responsible' is one of the Bank's five key strategic priorities recognising that we have a key role to play in the transition to a low carbon future.

Becoming 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.

Business in the Community – Signatory Climate Action Pledge NI	+£2bn	UN environment programme finance initiative	100%
50% reduction in scope 1 & 2 emissions by 2030	Sustainable lending by 2026	Net Zero: all operational and financed emissions by 2050	Branches fossil fuel free by 2023

Our inaugural TCFD report outlines the work we have been doing in this area and some of our ambitions for the years ahead.

TCFD – the four core elements

The Bank has been working hard this year to both 'go green ourselves' and to 'help our customers go green' and are pleased to present our inaugural Task force on Climate related Financial Disclosures (TCFD) report which outlines our progress and plans in this area.

Governance	Strategy	Risk Management	Metrics & Targets
The Banks approach to governance around climate-related risks and opportunities	The actual and potential impacts of climate-related risks and opportunities on the Bank's businesses, strategy, and financial planning	The Bank's approach to identification, assessment and management of climate-related risks	The metrics and targets used to assess and manage relevant climate-related risks and opportunities
Find out more on **page 34**	Find out more on **page 34**	Find out more on **page 36**	Find out more on **page 40**

Our TCFD implementation plan progress

The Bank has developed an implementation plan which aligns with the four pillars of the TCFD recommendations, i.e., governance, strategy, risk, and metrics & targets.

TCFD recommendation		2021 progress	Future focus
Governance	**a) Describe the Board's oversight of the climate-related risks & opportunities (see page 34).** **b) Describe management's role in assessing and managing climate related risks & opportunities (see page 34).**	• Climate management responsibilities refined across relevant committees with sustainability incorporated within ARMC, BRC and ultimately the Board agenda. • Climate included in the ICAAP, ILAAP, RAS and the Corporate Plan. • Head of Climate Risk & Strategy role changed to Head of Sustainability with sustainability team embedded within Corporate & Business Banking in order to enhance the Bank's efforts on climate change and the decarbonisation of customers via the development of green products and services.	• Enhanced climate scenario analysis. • Incorporate outcomes from scenario analysis into major strategic decisions. • Establish scenario analysis bespoke for the specificities of the Bank's key sectors and market areas.

Task force on Climate related Financial Disclosures

TCFD recommendation		2021 progress	Future focus

Strategy	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term (see page 35).
	
	b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning (see page 35).
	
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario (see page 35).
		• Completed assessment of physical risk in the mortgage portfolio.
		• Climate risk is disaggregated within the Bank by sector, business function and likelihood.
		• Initial Scenario Analysis of mortgage portfolio, Bank properties and agriculture portfolio.
		• Develop and deliver strategic responses to:
		  • Client engagement
		  • Green products.
		• Enhanced sectoral and geographic breakdown of climate risk and emissions production completed.
			• Growth of the Sustainability team.
			• Expand scenario analysis to aid portfolio-level assessment of transition and physical risk.
			• Continue expanding strategic responses to:
			  • Client engagement.
			  • Green products and solutions
			• Mature approach to scenario analysis.
			• Further portfolio-level strategic responses to ensure climate resilience.
			• Enhance measurement of the likelihood and impact of short, medium and long term climate risks.

Risk Management	a) Describe the organisation's processes for identifying and assessing climate related risks (see page 36-38). b) Describe the organisation's processes for managing climate-related risks (see page 36-40). c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management (see page 36-40).	• Climate-related risks identified as cross-taxonomy risk type that impacts across the Bank's principal risks (see Principal risk and uncertainties section at page 28 throughout the Management of key principal risks from page 49). • Climate risk training provided to Board, Executive Committee and wider staff with 84% receiving virtual training. • Alignment with Danske Group Environmental, Social & Governance (ESG) policy. • Adoption of Danske Group Sustainable Finance Policy.	• Enhance customer level ESG Risk Assessment. • Enhance and expand scenario analysis and stress testing used to assess and prioritise climate risks. • Ongoing review and update of climate appetite and metrics. • All relationship managers have received climate training to enhance the Bank's climate client engagement. • Further climate training. • Expand depth of ESG Risk assessment.
Metrics and targets	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process (see page 40). b) Disclose Scope 1, Scope 2 and if appropriate Scope 3 GHG emissions and the related risks (see page 40-41). c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets (see page 40-41).	• Implement the BITC Climate Action Pledge: Scope 1 and 2 emissions reduction. • Initial estimate of Scope 3 emissions undertaken. • Sustainable finance target of £2 billion by 2026. • Joined the Race to Zero and committed to achieving Net-Zero emissions by 2050.	• Develop deeper understanding of financed emissions. • Establish net-zero pathways for high climate risk sectors. • Increase the relative % of green assets at a portfolio level.

Task force on Climate related Financial Disclosures

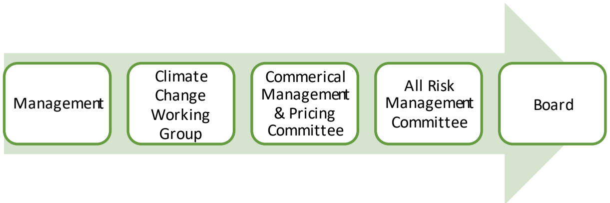
Governance

Our climate governance frameworks

The flow diagrams below outline 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 risk and opportunity.

Governance process for Climate Risk

Governance process for Climate Opportunity



Governance Structures

The Climate Change Working Group fulfilled its initial purpose of functioning as a Launchpad for the Bank to consider the impacts of climate change on the Bank's operations and customers. This year a sustainability team has been formally established dedicated to further facilitate the progress of the Bank's work in the area of Climate Change. This team is managed by the Bank's Head of Sustainability, who is certified Carbon Literate, and reports to the Managing Director, Corporate & Business Banking and holder of senior management responsibility for climate change.

Within climate risk governance, sustainability is overseen by All Risk Management Committee (ARMC) which is chaired by the Bank's Chief Financial Officer (CFO), and Deputy CEO, and which the Bank's Chief Executive Officer (CEO) and Chief Risk Officer (CRO) also attend. Where material credit risks are identified, they are also reviewed by the Credit Oversight Forum (COF) which also includes the CFO, CEO and CRO.

Board Risk Committee (BRC), chaired by a non-executive director and attended by the Bank's CEO, CFO and CRO, provides further oversight of the management of climate risk. Where there are climate opportunities, the sustainability team reports to Commercial Management and Pricing Committee (CMPC), chaired by the Bank's Managing Director of Commercial & GB Strategy. CMPC is overseen by ARMC and BRC.

This climate risk monitoring is ongoing and from 2022 onwards, the sustainability team will also report to COF quarterly and to ARMC and BRC half yearly to review new risks and considerations and assess progress against the metrics and Key Performance Indicators (KPIs) set. These risk assessments and monitoring, alongside the opportunities presented through CMPC half yearly, are then used to inform strategy in the area as outlined on page 35. Alongside these regular reports, the sustainability team also presents to the relevant committee on an adhoc basis as and when apparent risks and opportunities arise.

Training

In 2021 the Bank has continued to deliver climate risk training to the Board, the Executive Committee and members of the Climate Change Working Group. 84% of bank staff have participated in climate change and sustainability sessions delivered by the Head of Sustainability while mandatory e-learning for all employees on climate change and sustainability was introduced in June.

Corporate & Business relationship managers have also had specific training from the sustainability team to prepare them for conversations with customers regarding climate change and sustainability.

The Bank is aiming to build our climate training year on year to enhance our wider climate management capabilities. Further, working in partnership with BITC, the Bank extended our training to the wider community by conducting a successful Carbon Literacy pilot project for six of our most carbon-intense clients, engaging them in climate awareness and routes for climate risk mitigation.

Strategy

Our obligation to clients, shareholders, employees and local communities

Climate change has the potential to significantly impact the UK, including the Bank and its customers, most notably through physical and transition risks which are outlined further on pages 36-40, leading to stranded businesses and assets. The risk has started to be measured through flood mapping and emissions estimates which have allowed the identification of high ESG risk sectors, properties and regions.

Aligning with our ethos of corporate responsibility, we seek to ensure our clients, shareholders, employees, and local communities are protected against the potential detriment of climate change. The Bank is committed to continually developing its management of the short (within 5 years), medium (within 10 years) and long-term (within 25 years) impacts of climate change in line with the TCFD recommendations.

Climate change has gained a central role within the Bank's strategy, becoming one of the Bank's five strategic priorities. This prioritisation has been further

Task force on Climate related Financial Disclosures

evidenced with the planned expansion of the sustainability team in 2022 and with staff across the Bank receiving training in the area to further understanding in all areas of the organisation.

The Bank's sustainability strategy is built on two main objectives, namely to 'go green ourselves' and to 'help our customers go green'. Those objectives are supported by three key elements, which make up our climate strategy:

Our climate strategy

Risk and compliance	• ESG and climate risk assessment • Climate due diligence • Climate risk appetite • Climate risk governance
Growth and impact	• Client engagement on climate risks and opportunities • Innovative climate focused product development • Collaboration with key stakeholders
Responsible business	• Operational impact • Sustainability initiatives • Employee engagement and training

Climate strategy: Risk and compliance

The Bank maintains a strong commitment to identifying, assessing and managing short, medium and long term climate related risks and opportunities as they emerge. The Bank's current climate strategy seeks to enhance understanding of actual and potential climate impacts. Our work has been informed by a report commissioned from external partner Baringa in 2020, which assisted in the identification of climate risks and opportunities across the Bank's risk taxonomy. Key areas of interest included the credit risk approach to climate change and in particular the development of the Bank's approach to climate change product development which has underpinned the Bank's progress.

In 2021, climate metrics have been included in the Bank's Risk Appetite Statement. Climate factors have been included within the due diligence for our procurement procedures, to ensure that third parties have considered climate-related risks and emissions. This updated, climate considerate due diligence process will direct and inform our outsourcing choices. Furthermore, it is expected that the climate strategy will evolve over time to appropriately account for all material risks and opportunities.

To further consider the risks to the Bank presented by climate change and to inform and underpin the Bank's strategic direction and financial planning, the Bank has further developed scenario analysis in 2021, considering Agriculture, given NGFS aligned 1.5°C and 2°C temperature rises, and Residential Mortgages given a 2°C scenario. With these two sectors of the Bank's book making up 95% of the identified high climate risk sectors, the Bank has quantitatively assessed a vast majority of its portfolio. These scenarios and the analysis which followed is outlined on pages 36-40. This scenario analysis showed that there was no material impact of the risks and as such no additional capital was required for impairments.

Looking to the future: increasing ambition

As part of the Danske Bank Group, the Bank has been carbon neutral since 2009. This has been achieved by reducing the CO_2 emissions, purchasing carbon credits along with utilisation of renewable energy and the installation of fossil fuel alternatives. However, in order to reduce our emissions and achieve the aim presented by our net-zero commitment, the Bank must also reduce both the upstream and downstream scope 3 emissions of the organisation. In 2021 the Bank carried out an initial estimate of Scope 3 emissions across a number of priority sectors within the lending portfolio using the Green House Gas Protocol Scope 3 estimator tool. This work will be expanded in 2022 to begin to estimate financed emissions across the entire portfolio in order to inform and direct the Bank's climate strategy.

Climate strategy: Growth and impact

CMPC is the governance committee which identifies and seeks to facilitate opportunities for growth and impact in the Bank's strategic approach to climate change considerations. Having identified transition risk based on EPC ratings as a concern within the mortgage portfolio, the Bank sought to encourage customers to purchase more sustainable homes through new product development and initiatives. Recognising the need to support customers in this transition, during 2021 we launched the UK's first certified Carbon Neutral mortgage (certified by the Carbon Trust) to provide a new, sustainable mortgage product to help our personal customers. This product is offered for homes with an EPC rating of A, B or C to incentivise customers to purchase homes with a lower transition risk. This product is also a response to a greater customer demand for products and services which have

Task force on Climate related Financial Disclosures

sustainability and climate considerations, thus allowing the Bank to make the most of the market opportunity.

With transition risks also identified as a concern in the Corporate and Business portfolio, the Bank considered how Relationship Managers could engage with customers to help them to adapt and prepare for a low carbon economy. The Bank has therefore, planned Carbon Literacy Accreditation training for all relationship managers within Q1 of 2022. We have also been supporting our Corporate & Business customers through the provision of the Danske Climate Action Programme, developed in collaboration with Business in the Community (BITC). The programme takes customers through a structured series of carbon literacy accreditations, carbon foot printing and climate transition strategy workshops culminating in a commitment to the BITC Climate Action Pledge. In Q4 of 2021, green loans were released which leverage the Danske Bank Group, ICMA aligned Green Bond Framework, to provide Corporate & Business customers with the finance required to undertake climate transition projects.

Looking to the future: increasing ambition

The Bank is seeking to expand and further develop our suite of climate awareness products, tools and services, which will support both Personal and Business customers as they transition towards a net-zero carbon future, as the Bank seeks to reduce its own financed transition risk. These plans include expansion of the Climate Action Programme to engage businesses in thinking about their transition towards becoming more sustainable, further utilisation of the Danske Bank Group ESG tool and the expansion of products for both Corporate & Business and Personal customers.

Climate Strategy: Responsible business

With a key objective of 'going green ourselves' the Bank has continued to work towards more sustainable operations and on developing partnerships which contribute to our ambitions in this area. We continue to represent the financial services industry in Northern Ireland as part of the BITC Climate Steering Group and continue to hold Platinum status in the Northern Ireland Environmental Benchmarking survey alongside achieving the Northern Ireland Business & Biodiversity charter.

This year we won the 2021 Northern Ireland Environmental Leadership Award recognising our ongoing actions and activities in championing climate and environmental issues within the Northern Ireland business community.

In 2021, the Bank has developed new external partnerships such as Eco-Schools through which 11 productive gardens have been created. In order to assist employees within the Bank make sustainable commuting choices we launched a cycle to work scheme and revised our car scheme moving to hybrid and electric vehicles. The Bank has also continued to invest in property renovation to become more efficient, reaching the landmark of 80% of branches becoming fossil fuel free this year.

In order to become greener, the Bank has also started considerations within the supply chain, with third parties Due Diligence now including climate considerations. Additionally, the Bank has started monitoring the climate risk associated with pension scheme investments, and given consideration to the responsibility and sustainability thereof.

Looking to the future: increasing ambition

For 2022 and beyond we have ambitions to expand our environmental and bio-diversity partnerships along with accelerating our operational net-zero delivery. To that end, from 1st Jan 2022 our car scheme will offer eligible employees electric vehicles only ensuring that our employee fleet is zero emissions by 2025. We have earmarked further investment in our properties to achieve 100% fossil fuel free branch network by 2023.

We are actively working on new partnerships in areas such as youth climate engagement and tree planting which will allow us to positively impact on climate and environmental issues outside of our core operations and customer base.

Risk Management

Identifying and assessing physical & transition risk

Climate is identified as a risk driver within the Bank, and as such the risks presented thereby are cross cutting in nature. Building on the significant work of the prior year, the Bank has continued to work throughout 2021 to map climate risks to the traditional risk taxonomy. This resulted in the categorisation of physical and transition risk climate impacts on traditional risk types as low, medium or high:

Physical Risk

- **Low physical risk impact**: Market Risk, Liquidity, Funding & Capital Risk, Model Risk, Financial Crime Risk, Regulatory Risk, Financial Control & Strategic Risk and Pension Risk (based on Scheme's investment portfolio).
- **Medium physical risk impact**: Credit Risk and Conduct Risk.
- **High physical risk impact**: Operational Risk.

Transition Risk

- **Low transition risk impact**: Market Risk, Liquidity, Funding & Capital Risk, Model Risk, Financial Crime Risk, Regulatory Risk, Operational Risk, Financial Control & Strategic Risk and Conduct Risk
- **Medium transition risk impact**: Pension Risk (based on Scheme's investment portfolio).
- **High transition risk impact**: Credit Risk.

Task force on Climate related Financial Disclosures

This risk taxonomy remains valid and 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 to alleviate the risks presented.

The key physical risk currently being considered is flooding as a result of climate change. This presents a risk not only to the Bank's own properties, but also to the businesses financed and in particular the 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 property portfolio, 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 particularly 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 within 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 more costly to run and require more renovation, increasing the probability of default for customers in the D-G rating band. Valuation variance depending on EPC rating in the future could also further increase the number of collateral shortfalls as some homes would struggle to hold their value.

Throughout 2021 the Bank further improved its monitoring of the physical risks of climate change on internal operations, Personal Banking and Corporate & Business Banking by carrying out flood mapping of all its associated premises and properties within Northern Ireland. Flood mapping such as this will enable us to identify individual properties and customers that may need assistance, without relying on the event occurring first. This has provided the Bank with a good understanding of where risks lie, supporting it to direct its climate mitigation and adaptation efforts to the most vulnerable areas and better facilitate the development of high-impact solutions for both its own operations and customers. The Bank also undertook scenario analysis using both transition and physical risks across the lending portfolio to further identify and understand credit risks arising from climate change.

Managing physical and transition risk

During 2021 the Bank adopted the Danske Bank Group Sustainable Finance policy, which governs the Bank's approach to sustainable finance and confirms our commitment to responsible banking practices, along with a number of position statements outlining the Group's approach on sectors considered high ESG such as weapons, fossil fuels, forestry, agriculture and metals & mining and setting total exposure caps within each.

The Bank has also incorporated climate-specific due diligence metrics into its procurement process for outsourced services looking at 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. This process also looks at the steps, systems, process and practices in place to reduce emissions and environmental impacts implemented by each potential third party.

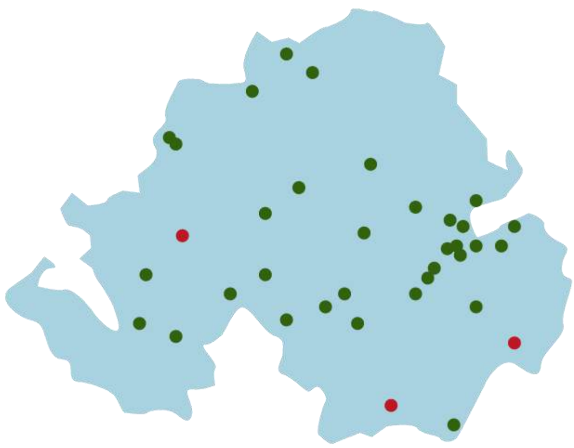
The Bank has identified that 0.16% of Corporate & Business lending is made up of carbon intensive assets and business models, whilst the identification of key sustainable assets and customers has commenced. These will be factored into risk considerations with the Bank focused on supporting customers in the move away from carbon assets towards green assets.

Looking to the future: increasing ambition

In line with the PRA Policy Statement [SS3/19], which requires that UK banks develop scenario analysis and stress testing to identify climate risks that will affect the viability of the Bank's business model, the Bank has already conducted its preliminary scenario analyses with initial work taking place on the agricultural loan book and the home loan book. The Bank intends to continue disclosing the results of further scenario analyses in each Annual Report from this year onwards and continue to increase our ambitions into the future.

Flood mapping results

Regarding the Bank's own operations, the flood mapping has identified only two branches currently at risk of flooding and, consequently, possessing the greatest risk to service disruption for customers, with one additional branch classified as a future risk, all in relation to river-related flooding. The Bank's branch network with regard to flood risk is shown below on the flood map.



This year's flood mapping work has provided an initial basis for the Bank to manage the physical risk

Task force on Climate related Financial Disclosures

presented by climate change by identifying the most-vulnerable properties in our portfolio and enabling the Bank to establish climate conscious BCPs and appropriate sustainable due diligence function in our procurement process. Acknowledging the risk to procured services, the Bank also analysed the flood risk to a number of material third-party suppliers based within Northern Ireland, none of which were at present or future flooding risk based on their current locations.

Within the residential mortgage book at 31 December 2021, 617 mortgaged residential properties (1.92%) are currently at risk of flooding with 802 (2.49%) properties potentially at risk in the event of a 2°C temperature rise due to climate change.

Risk assessments and Scenario Analysis

Risk Control Self-Assessment

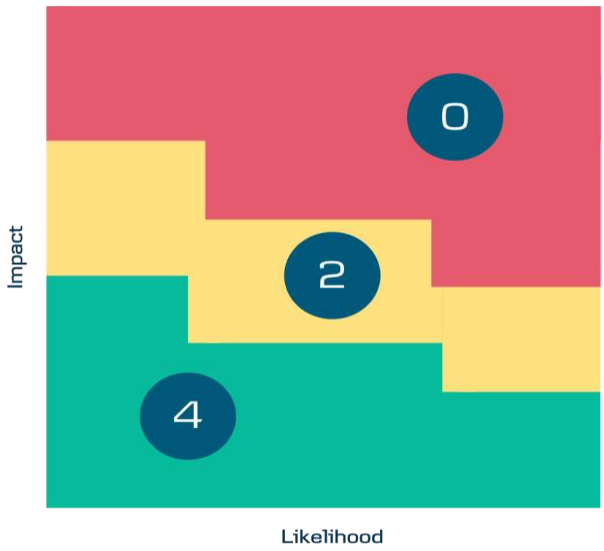
Alongside flood mapping, this year the Bank ran a dedicated climate-related Risk Control Self-Assessment (RCSA) which evaluated the non-financial risks to the Bank from the effects of climate change and expanded on the work on the BCPs. This assessment has contributed to the Bank's understanding of climate-related risks within the operational risk management of the Bank. The RCSA considered the physical risks emerging from climate change which included: loss of head office functions due to extreme weather, loss of branch premises due to extreme weather, loss of branch services due to extreme weather and loss of outsourced services due to extreme weather. Two further risks surrounding data were also identified as: inability to produce appropriate climate related products and services due to poor data and inability to meet reporting requirements due to poor or lack of data.

The RCSA reviewed the risks, the controls and mitigations in place and the residual risk given the measures introduced by the Bank. To ensure a holistic approach, the RCSA tool uses the same categories and ratings for all risks, mitigations and controls entered. This allows comparison and analysis between different risks. The climate risks were reviewed using these five categories which were: Likelihood, Customer Impact, Financial Impact, Regulatory Impact and Reputational Impact. Further, the assessment assigned risk owners to each of the risks to provide clear ownership and governance for each risk and the monitoring of the controls in place.

Having identified the risks and the controls and mitigations, the RCSA scored two of the risks with a 'Medium' risk score and the four other risks with a 'Low' risk score. The two risks identified as medium risk were the loss of outsourced services and poor data leading to inappropriate products and services. The four other risks outlined above were all identified as low risk. When identified and assessed, these risks along with the controls and mitigations in place are stored and maintained within the Operational Risk Management System (ORMS) alongside the other risks from other areas in the organisation.

The Bank has produced an initial climate-related risk heat map, the result of this year's RCSA work:

Residual risk heat map:



Scenario analysis

In order to inform strategy, manage risk and comply with regulatory requirements, the Bank has started the work of scenario analysis. Scenario analyses was undertaken on the Banks residential mortgage book, identifying the transition risk which was driven by EPC rating and physical risk driven by a 2°C temperature rise. Scenario analysis was further utilised across the agricultural loan book to examine the potential physical and transition risks associated with climate change given NGFS 1.5°C and 2°C scenarios.

Residential Mortgages

Building on the scenario analysis in 2020, both transition and physical risk analysis on mortgaged properties was carried out on updated exposures for 2021.

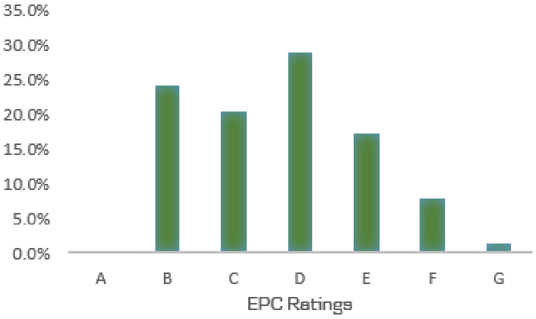
Due to the ongoing focus on carbon footprints and emissions reductions, residential properties with poor EPC ratings face higher running costs, reducing desirability and the potential for variation in the value of these properties, while physical risks also have the potential to have negative impacts on property values.

Within the residential mortgage portfolio, there was a sizeable minority of properties which did not have an EPC rating or certificate, as well as another small proportion of properties which could not be matched to an EPC rating, leaving a total of 42.2% of the portfolio without a certificate. This figure is consistent with the percentage of residential properties across Northern Ireland which are currently without an EPC certificate.

Task force on Climate related Financial Disclosures

The chart below shows the granular breakdown of residential properties for which an EPC rating is held:

Granular breakdown of residential properties EPC ratings



Despite the relatively large proportion of properties which do not have a valid EPC certificate, data extrapolation was utilised to obtain proxy EPC ratings for the unknown properties which could be used within scenario analysis. This brought the unknown proportion of the residential mortgage book down to just 12.4% of properties. It also allowed the stresses applied to give a fuller picture of the potential scenario impacts on the lending portfolio.

Transition Risk Scenario

When analysing transition risk within the portfolio, the potential for EPC linked valuation variance was used to determine the impact on the overall LTV of the Bank's mortgage portfolio. This was calculated against an EPC C rated property benchmark as below:

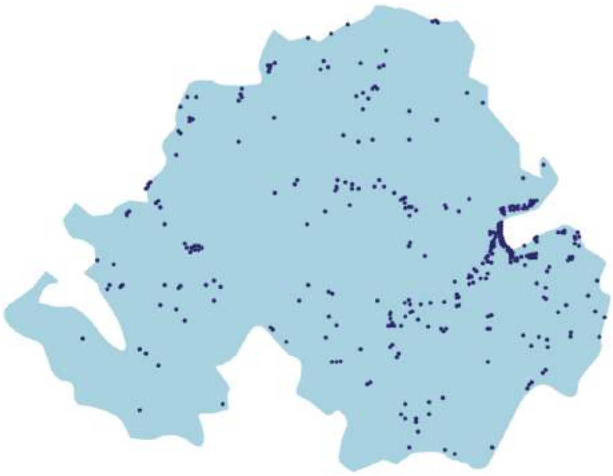
EPC Rating	Valuation Variance
C	-
D	- 3%
E	-6%
F	-11%
G	-26%

When these reductions were applied, there was a small uplift in the Expected Credit Loss (ECL) figure, however, this will have minimal impact on exposure at default or collateral levels. Therefore the change was not sufficient to require additional impairment provisions, above what is currently held against residential mortgages.

Physical Risk Scenario

Within the Home loan book, flood mapping was carried out to identify the current and potential risk of flooding based on the year 2080, given a 2°C rise. It was identified that flooding to residential properties could lead to a devaluation of collateral. The mapping exercise undertaken was configured using flood data provided by the Department for Agriculture, Environment and Rural affairs with resulting devaluation potential quantified as 24.9% for river flooding and 21.1% for coastal flooding.

The analysis is shown below along with an example of the flood map which has identified all current and potential flood risks within the current mortgage portfolio.



	Number of mortgaged properties
Current River Flood Risk	561
Climate Change River Flood Risk	720
Current Tidal Flood Risk	56
Climate Change Tidal Flood Risk	83
% of Total mortgages at Risk	2.5%

When the scenario stress was applied to the property values, an insignificant ECL impact was noted. Management assessment concluded that given the level of variability in the underlying assumptions, no uplift to the ECL should be made in the current year.

Combined Transition & Physical Risk Scenario

In order to expand on the scenario analysis across the home loan book, a third stress was then added with a combined valuation variance caused by both flooding and EPC. The valuation variances are shown below.

EPC Rating	No Flood Risk	Costal Variance	River Variance
A	-	-21%	-25%
B	-	-21%	-25%
C	-	-21%	-25%
D	-3%	-23%	-27%
E	-6%	-25%	-29%
F	-11%	-29%	-33%
G	-26%	-41%	-44%

When this scenario was applied to the residential mortgage portfolio, the results showed an insignificant ECL impact. Given the level of variability in the underlying assumptions applied, management have assessed that no uplift to the ECL should be made in the current year.

Corporate & Business

The Bank completed the identification of those Corporate & Business sectors that are most vulnerable to climate-related risks. This assessment shows that the agriculture sector is by far the banks largest at-risk sector. The breakdown of the high risk sectors identified is shown below:

Sector	% of Corporate & Business High Risk Exposure	% of Total Bank Exposure
Agriculture	77.3%	9.5%
Chemicals	6.7%	0.8%
Metals & Mining	8.3%	1.0%
Oil & Gas	<0.1%	<0.1%
Power Generation	7.6%	0.9%
Refining & Marketing	<0.1%	<0.1%

The most immediate climate risk for agriculture within Northern Ireland is the transition risk arising from society's shift towards a low-carbon economy. Due to political pressure to reduce emissions and limit the carbon footprint of the sector, there is the potential for future CO2 taxes to be implemented. As in 2020, this was the primary scenario analysed within the agricultural loan book, leveraging the support and expertise of Danske Bank Group colleagues and analysis to identify potential risks which may arise and to mitigate against these. NGFS 1.5°C 2°C were used to identify an average carbon tax range with the lower bound being identified at £70 tCO2 and the upper bound of taxes at £180 tCO2, in alignment with the Danish Climate Council reduction pathway.

The scenario analysis identified the potential impact of different levels of carbon tax could have on the credit quality and earnings of clients. The carbon tax scenarios applied led to an increase in the probability of default, and showed an uplift in ECL as shown.

Scenario	PD (%)	ECL (£'m)	ECL Uplift (£'m)
Current	4.8	4.8	N/A
Lower Bound Tax	19.5	11.5	6.7
Upper Bound Tax	41.2	25.7	20.9

Despite the rise in ECL, key assumptions within the analysis are based on the view that there are no price increases over the period, customers do not react to the carbon tax nor is there any form of government support as the carbon tax is rolled out, each of which are considered highly unlikely. Therefore, the carbon taxes did not have the materiality to increase the required impairment provisions.

Metrics and targets

The Bank is acutely aware of the importance of understanding our own contributions to climate change and the emissions impact it is responsible for.

Climate risk metrics

The Board approved climate risk metrics will aid the evolution of the Climate risk limits included in the Bank's RAS, as well as providing KPIs for the Board to monitor ongoing progress. The Bank has now developed quantifiable targets for all standalone branches to become fossil fuel free by 2023.

Notwithstanding the formal commitment to reduce scope 1 & 2 emissions by 50% by 2030 the Bank has an ambition to accelerate this, achieving a 100% reduction in Scope 1 emissions by 2026. In addition, an ambition has been set to deliver over £2 billion in sustainable finance in the same period.

The recent commitment of Danske Bank Group to the Race to Zero has further solidified the Bank's dedication to emissions reductions. In line with reporting best practices, the Bank has conducted an initial total emissions impact assessment covering not only its scope 1 and 2 emissions as in 2020, but also an estimation of key scope 3 financed emissions.

At this stage, the Bank has not developed sectoral or granular aggregated limits as a result of climate risks, however considerations are made by the relevant committees based on the trend analysis of climate risk measures.

Emissions

The Bank met its 2020 target to decrease energy consumption by 25% compared to 2015 levels. In December 2020, the Bank was the first bank in Northern Ireland to sign the BITC NI Climate Action Pledge, which commits the Bank to reducing Scope 1 and 2 emissions by 50% by 2030 (compared to 2015 levels). When examining the scope 1 emissions in 2021, there is a 18.1% reduction since 2015 and a 12.1% reduction between 2020 and 2021.

Task force on Climate related Financial Disclosures

Operational Emissions (market-based calculation)

	Heating	Electricity	Air Travel	Car Travel	Paper Use
2021 Emissions (tCO2e)	502	-	22	26	47
2021 Energy Use (mWh	2,090	2,727	-	-	-
2020 Emissions (tCO2e)	*571*	-	*75*	*111*	*62*
2020 Energy Use (mWh)	*2,576*	*3,155*	-	-	-
2015 Emissions (tCO2e)	*613*	-	*892*	*192*	*217*
2015 Energy Use (mWh)	*3,320*	*4,878*	-	-	-

More information is detailed within the Streamlined Energy and Carbon Reporting disclosure table within the Directors Report.

Customer Emissions

Building on the achievements of prior years, this year emissions work has specifically targeted financed emissions within the high risk sectors set out by UNEP FI Net Zero Banking Alliance and across the residential mortgage book where there is an EPC certificate. This focus on scope 3 emissions will help to inform the tools and products offered in the future as well as providing a starting point for the Bank in understanding their total emissions and the challenge ahead in reaching net-zero.

It is also of particular importance as this has the greatest transition and physical risk with few short-term risks foreseen in the next 12 months. However, in the medium term, government policy could place levies on sectors that are particularly carbon intensive. It also gives an indication of the long-term risk over the next 15 to 20 years as the bank seeks to move towards net zero including scope 3 financed emissions.

In conducting this impact assessment, the Bank followed the recommendations set out under the UNEP FI and established an account of our GHG emissions using the Green House Gas Protocol's Scope 3 Evaluator Tool in order to estimate the financed emissions within the Bank's Corporate & Business exposures. The total exposure within UNEP FI high risk sectors currently makes up 3.6% of the total Corporate & Business lending and the high risk sectors within this portion of the portfolio are outlined below. When collating the data for residential mortgage emissions, the emissions provided on the EPC certificate were used in calculations. It should be noted that the emissions calculations were carried out using exposures from the Corporate & Business portfolio as at October 2021 and from the residential mortgage portfolio as at November 2021.

*Corporate & Business High Risk Sector Emissions**

Sector	% of High Risk Exposure	% of High Risk Emissions
Air transport	0.4%	0.4%
Freight transport	40.8%	19.8%
Oil & Gas	2.9%	2.0%
Passenger transport	30.2%	14.7%
Steel manufacture	1.1%	1.1%
Utilities	20.2%	57.2%
Water transport	4.4%	4.8%

*Exposures as at 31/10/2021

*Residential Mortgage Emissions***

EPC Rating	% of Residential Mortgage Portfolio	% of Residential Mortgage Emissions
A	0.1%	0.0%
B	14.3%	0.9%
C	12.2%	6.8%
D	17.2%	36.1%
E	10.2%	33.6%
F	4.6%	16.4%
G	0.8%	6.1%
Total	59.3%	100%

** Exposures as at 30/11/2021

Risk Management

Enterprise Risk Management

Enterprise Risk Management (ERM) is the holistic management of risk in order to achieve the Bank's strategic objectives and ensure accountability.

All activities of the Bank involve risks which makes risk management the responsibility of all employees. As a financial institution in a dynamic environment, the Bank faces a range of both external and internal risks that fluctuate over time.

ERM sets out the Bank's common standards for how it coordinates its activities to identify and respond to the risks it faces.

Purpose and scope

In the Bank we acknowledge the importance of a strong internal control framework. The purpose of ERM is to articulate and implement a comprehensive risk management approach across the Bank. ERM ensures complete coverage in our risk management activities, by embedding practical methods and skills to manage the key risks we face as an organisation. ERM enables robust and proactive identification, prioritisation, and management of risks and issues, which supports the Bank in achieving its strategic business objectives and delivering sustainable outcomes for customers and society.

ERM is supported by risk policies, and instructions which govern each risk type. The scope of ERM specifies the Bank's overall standards for the following areas:

- **People and risk culture**: Outlining the risk mind-set and the required competences that the Bank wants to underpin its risk management and strategy execution.
- **Risk taxonomy**: Defining material risks across the Bank and providing a common language and definition for these risks to ensure appropriate ownership, management and control.
- **Risk appetite**: Outlining the Bank's forward-looking risk profile by specifying the types and size of risks that it is willing to take in pursuit of the Bank's strategy.
- **Roles and responsibilities**: Defining the segregation of duties across the Three Lines of Defence (LoD) in terms of risk ownership, oversight and assurance throughout the organisation.
- **Risk governance**: Outlining the structure and policies that ensure and monitor effective decision making across the Bank. This includes proper consideration of risks, adequate delegation of mandates and responsibilities and suitable escalation routes.
- **Data and reporting**: Defining the structures we apply to ensure timely, accurate and complete risk reporting at enterprise level.

The Bank recognises the importance of having a strong risk culture to ensure it creates value for its customers and remains a solid, balanced and predictable bank.

The Bank serves its customers well by being risk aware and by having good risk management practices, such as making informed decisions and containing risks within defined risk appetites. Risk culture refers to people's competencies, attitudes and behaviour. The Bank aims to foster a strong risk culture by embedding ERM in the organisation, developing the required skillsets to manage risks and by promoting a behaviour matching its core values.

Risk culture

A strong risk culture is a 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 practises, such as making informed decisions and containing risks within defined risk appetites. Risk culture is shaped by employees' competences, attitudes, behaviour, and engagement. A strong risk culture is fostered by embedding ERM in the Bank, developing the right skillsets to manage risks, and by promoting a sound behaviour.

Doing business comes with risk, and identifying and managing risks is an integral part of everything that the Bank does. A strong risk culture is one where all employees, 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 in order to share knowledge and lessons learned.

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. When the situation is complicated or not obvious, a strong risk culture is one where everyone in the Bank works together, and helps each other out. 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, employees 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.

Risk management

Risk competencies

The Bank's risk culture is fostered by a workforce of highly skilled people who collaborate with each other to do the right thing.

Doing the right thing requires the Bank to acquire the necessary expertise. This means competencies which facilitate risk awareness and risk management in alignment with the Bank's risk appetite and internal policies. Competencies and capabilities are developed by setting clear expectations to leaders and employees, by offering tailored risk and compliance training, and by co-creating risk management tools and processes.

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 and performance reviews.

Each employee must strive to increasingly understand the risks associated with their tasks and take personal responsibility to manage these in collaboration with their colleagues. Training offers support to employees in building strong risk and compliance competencies. Training is continuously monitored and adjusted to meet the training needs of the Bank. A broad range of risk and compliance training including team exercises are provided to enable employees to continuously improve the way we work and improve dialogue on lessons learned.

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 responsible for promoting a strong risk culture in their areas of activity.

Risk taxonomy

In the Bank, the risk taxonomy structures and visualises the most material risk types applicable in order to facilitate the proactive management of risks.

By clearly categorising and describing its risks, the Bank helps align its risk language and terminology in order to i) identify and categorise the risks, ii) define responsibility for setting standards, iii) set the risk appetite iv) structure risk escalation and reporting, and v) manage the risks. The taxonomy is continuously reviewed and updated to reflect the most material risks faced by the Bank.

The taxonomy is structured in a hierarchy of three levels. 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.

Risk categories and risk types

The diagram below provides an overview of risk taxonomy setting out the risk categories and underlying material risk types.

Furthermore the taxonomy consists of cross-taxonomy risks which are risks that either materialise in association with or compound the risk impact of the L1, L2 or L3 risks. A cross-taxonomy risk is an additional source of risk and must be managed as an integral part of the L1, L2 and L3 risks.

L1 Risk	Credit Risk	Market Risk	Liquidity & Capital Risk	Model Risk	Operational Risk	Technology and Data Risk	Financial Control & Strategic Risk	Financial Crime Risk	Regulatory Compliance Risk
L2 Risk	Lending Risk	Trading Related Market Risk	Intraday Liquidity Risk	Model design error	Products & Services Practices	Availability Risk	Strategy Formulation	Money Laundering	Treating Customers Fairly
	Specialised Lending Risk	xVA Related Market Risk	Short Term Liquidity Risk	Model usage error	Process & Reporting errors	Data Integrity Risk	Strategy Execution	Terrorist Financing	Market Integrity
	Counterpart Credit Risk	Non-trading portfolio market Risk	Funding Risk	Data or other input limitations	Employment Practices & Workplace Safety	Confidentiality Risk	Accounting Standards	Economic Sanctions	Data Protection & Confidentiality
	Underwriting Risk	Benefit Pension Plan Market Risk	Excessive Leverage Risk		Damage to physical assets		Danske Bank Group Tax Risk	Client Tax Evasion	Licensing, Accreditation and Registration
	Issuer Risk		Capitalisation Risk		Outsourcing & 3rd Party Risk			External Fraud	
	Settlement Risk				Legal Risk			Internal Fraud	
	Country Risk				Business Continuity Risk			Bribery and Corruption	

Cross-taxonomy risk types		
Sustainability Risk	Reputational Risk	Conduct Risk

Risk management

Risk appetite

The Bank's risk appetite specifies the types and size of risk that the organisation is willing to accept in order to meet its strategic objectives and serve its customers through the economic cycle.

As a financial institution, the Bank takes as well as avoids and transfers risk in order to achieve its strategic objectives while ensuring the right balance between risk and return.

The underlying principle of the Bank's risk appetite is that the Bank wants to be a solid, and sustainable bank, committed to serving its customers through the economic cycle, even in a period of severe economic stress.

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 and owns the Bank's risk appetite, which is communicated through qualitative and quantitative statements. 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.

Further limits are set in support of the risk appetite where deemed appropriate by the Bank's ARMC.

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.

Breaches and expected breaches of risk appetite statements are reported to the Committee that owns and sets the respective risk appetite / tolerance statement and follows the escalation path further on to the Board and Regulators where relevant. The Bank's Recovery Plan outlines the contingency and recovery trigger levels aligned with the risk appetite limits / tolerance and defines actions to be executed for the recovery process when these limits are breached.

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 monitored in the respective governance committees that set limits and review adherence to these. Risk Appetite is embedded in the organisation's strategic and financial planning processes to ensure that risk is an integrated part of the strategic decision-making process.

MI 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. Board and Board Risk Committee receive monthly updates on high level KPIs, while subsidiary risk committees review performance against lower level, more detailed KPIs.

All governing bodies, including risk committees and boards, have clearly defined charters in place to direct governance activities and responsibilities in relation to risk appetite setting and monitoring. This is supported by robust Schedules of Submissions (SoS) for all bodies, to provide full transparency of risk reporting.

Corporate Governance Framework (CGF)

The BRC is responsible for the overall sound business and risk management of the Bank and for ensuring that it acts in the best interests of shareholders and customers. 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 that direct the Bank's activities and is supported by the risk tools, policies and procedures the Bank employs for the day to day running of the business.

The BRC determines the overall risk management framework of the Bank and has, through the Chief Executive Officer and the ARMC, delegated the implementation of the risk management framework to the individual governing committees. As a result individual committees are responsible for recommending the Bank's risk appetite to the Board, as well as risk identification, assessment, control and monitoring in respect of the specific risk categories delegated to that committee.

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 has established the Bank's overall risk appetite as well as risk appetite statements for material risks.

Board Audit Committee (BAC)

The BAC is instrumental in the Board's fulfilment of 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; and
- the business practices and ethical standards of the Bank.

Risk management

Board Risk Committee (BRC)

The Risk Committee of the Board of Directors is instrumental in the Board's fulfilment of its oversight responsibilities relating to:

- 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;
- the Bank's risk culture and fair customer outcomes;
- the Bank's compliance with legal and regulatory requirements and best practice in risk matters and internal control;
- approving the adequacy and effectiveness of the Bank's risk management framework which shall cover principles, policies, guidelines, instructions, methodologies, systems, processes, procedures and people; and
- 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

In particular, but not exclusively, the BRC is responsible for oversight of L1 risks.

Board Remuneration Committee (RemCo)

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

Board Nomination Committee (NomCo)

The NomCo is responsible for overseeing nominations and appointments of candidates to the Board of Directors; receiving assurance from the CEO in relation to the composition, knowledge, experience of the Executive Committee; and overseeing talent and succession planning and diversity and inclusion within the Bank.

The Executive Committee (ExCo)

ExCo is responsible for the strategic and day to day operational management of the Bank. Within this remit, 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. In broad terms the ExCo will:

- recommend and implement strategy;
- manage priorities, targets and resources;
- share key strategic and operational management information;
- ensure the core values are embedded in the organisation; and
- consider the risk of treating customers unfairly or delivering inappropriate outcomes.

Subsidiary risk governing committees

The Bank has various risk governance committees which are each responsible for specific risk areas within the Bank. The CEO through the ARMC is responsible for the oversight and management of the underlying committees and the overall risks to which the Bank is exposed.

The ARMC is a sub-committee of ExCo. The purpose of ARMC is to provide oversight and take overall responsibility for the risks associated with the Bank ensuring the risks are managed within the Bank's risk appetite. Layering on top of the activities of the individual risk governing committees, the ARMC 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.

During 2021, the ARMC has delegated individual risk categories to the following key governing committees:

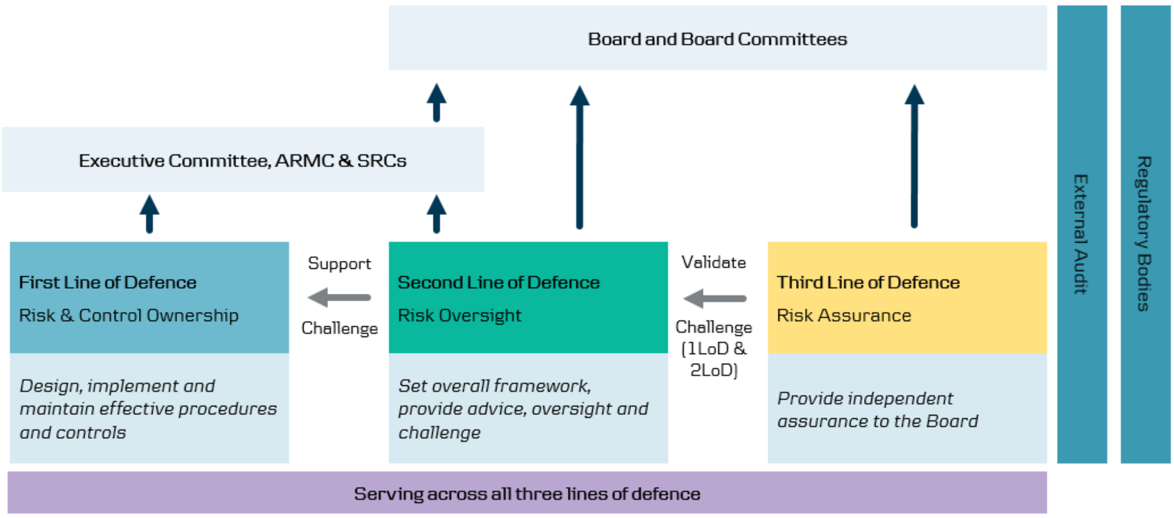
Risk committee	Type of risk
Operational Risk and Compliance Committee (ORCC)	- Operational risk - Regulatory compliance risk - Financial crime risk
Information Technology Risk Committee (ITRC)	- Technology and data risk
Asset and Liability Committee (ALCO)	- Liquidity & capital risk - Market risk
Credit Oversight Forum (COF)	- Credit risk - Model risk
Commercial Management and Pricing Committee (CMPC)	- Financial control & strategic risk - Reputational risk
Change Control Committee (CCC)	- All risks in relation to change management projects
Conduct Risk Committee (CRC)	- Conduct risk
Pension Risk Committee (PRC)	- Pension obligation risk

Risk management

Roles and responsibilities - The 'Three Lines of Defence' concept (3LoD)

Roles and responsibilities are divided between the Three Lines of Defence to clarify roles and responsibilities on risk ownership, oversight and assurance across the organisational units of the Bank. The Bank uses the 'Three Lines of Defence' model in identifying the functions for addressing and managing risks. To ensure sound governance and for the Three Lines of Defence to operate effectively, it is essential to have clearly defined roles and responsibilities.

Executive ownership of The Three Lines of Defence rests with the Chief Risk Officer. Material changes to the 3LoD concept, should they occur, are presented to the BRC as and when they arise. As outlined below, all employees are responsible for contributing to the management of risks within the scope of their role and responsibilities. The Three Lines of Defence are divided into different roles with clear segregation of duties; risk ownership, oversight and assurance.



First Line of Defence

The 1LoD consists of the frontline and direct support functions. Business activities as well as internal activities come with risk. The 1LoD generating the risk, owns the risks and is accountable and responsible for their operational management and control.

The risk owner is the senior manager who has the line responsibility for the activity, product or service generating the risk. This implies that the risk owner must have the mandate and resources to remedy, mitigate or solve any risk issue within his/her risk ownership without needing permission from other stakeholders within 1LoD. Such remediation could be done by strengthening the processes or controls, discontinuing a service or taking products off shelf.

Risk taking and risk acceptance decisions are risk owner responsibilities and must be done within set risk appetite/tolerance thresholds and follow the risk governance structure and authorities delegated from the Board.

The 1LoD must ensure that risks are identified, analysed, measured, monitored, managed, and reported in line with policies, instructions, regulatory requirements and delegated authorities. The 1LoD creates, implements, and maintains operational procedures and controls. The 1LoD must identify applicable legislation in the jurisdictions of operation. The 1LoD monitors and reports, within the established governance structure, that they operate according to their procedures and are able to document compliance to applicable legislation in the jurisdictions of operation. Legal within 1LoD is responsible for providing objective independent legal advice to all three lines of defence and advising on the legal interpretation of legislation and regulations applicable within the Bank.

Each employee has the obligation to pro-actively identify and act upon risks associated with their role, to escalate if s/he has inadequate resources to mitigate a risk that s/he believes requires mitigation and to request risk acceptance by the appropriate decision body, if the risk level exceeds risk appetite and tolerance set by the Bank or within a specific organisational unit. Employees 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.

Relationship with the 2LoD

In general, risk policies and instructions are defined by the 2LoD. In instances where a 1LoD Specialist Function set risk standards or methods at policy or instruction level, the 2LoD is to be engaged to challenge the policy or instruction to ensure its authority and effectiveness for risk management.

Risk management

Second Line of Defence

Risk Management (RM) forms the 2LoD. RM facilitates the implementation of sound risk management throughout the Bank and has responsibility from an oversight and challenge perspective to further identifying, monitoring, analysing, measuring, managing and reporting on risks and forming a holistic view on all risks. It challenges and provides oversight that processes and controls are in place, are properly designed and effective. Furthermore, RM challenge and sanction the credit proposals from 1LoD, in line with the Bank's DLA structure.

The 2LoD must perform oversight of 1LoD's risk exposure and its risk management, and they can challenge the 1LoD on its decisions, actions and activities that expose the bank to risks.

The 2LoD does not make risk generating 'business decisions' unless in respect of the risks the 2LoD generate themselves in the performance of their duties. All activities in the Bank, both business and internal activities, can expose the bank to non-financial risk.

Hence, 2LoD functions, can also expose the Bank to non-financial risk. The risk ownership (accountability) sits with the most senior leader in the 2LoD unit that generates the risk.

2LoD may ultimately veto a proposed 1LoD business decision if it falls outside of the agreed risk-appetite/tolerance thresholds, or is not aligned with the Bank's standards or compliant with relevant regulatory requirements. In the event of a veto by 2LoD the relevant decision is suspended in order to allow the relevant 1LoD decision maker(s) to seek to remedy the circumstances on which the veto is based and, if agreement cannot be reached between the 1LoD and 2LoD as to the appropriate remedy, the decision should be escalated according to the relevant reporting line. The 2LoD is independent of the 1LoD, such that it can report directly to the Board, independently of the ExCo. For the avoidance of doubt, challenge, sanctioning and veto by the 2LoD do not constitute business decisions in and of itself.

Risk oversight

Each risk area within the Risk Management department is responsible for overseeing the relevant risks and for providing advice, guidance and challenge to the 1LoD. There is a central Risk Monitoring Team which provides specific, point in time monitoring across all risk areas.

Primary responsibility for developing appropriate systems and controls to provide day-to-day oversight of laws, rules and regulations relevant to other areas of the ERM are undertaken by a combination of functions with specific knowledge of those areas (e.g. Risk Management, HR, Legal, etc.).

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.

Relationship with the 1LoD

In some cases, the 2LoD performs activities which in principle belong to the 1LoD. These are activities where the 2LoD is effectively managing the controls for the risk type. Such cases are required to be clearly documented by the 2LoD, including reason for the decision and assurance on how the 1LoD remains the risk owner. In such cases, independent assurance reviews must be performed by impartial units.

Third Line of Defence

Group Internal Audit (GIA) forms the 3LoD. The purpose, nature and scope of GIA's work is set by the Terms of Reference adopted by the BAC. According to this, GIA is an independent and objective assurance entity designed to add value and improve the Bank's operations. Its primary role is to help protect the assets, reputation and sustainability of the Bank. GIA does this by evaluating and improving the effectiveness of the processes used for risk management, controls and governance.

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

Risk Governance

In the Bank risk governance means ensuring consistent, transparent, and efficient decision-making processes through policies and the monitoring and escalation of risks. Decision-making processes comprise of how decisions are made, who makes decisions, and how decisions are documented.

Decision-making authorities

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 employees. However, notwithstanding any such delegation, 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.

Business decisions that actively incur financial or non-financial risk are taken by the 1LoD, either through individual mandates or through a formal Committee. The 2LoD and the 3LoD should not, in line with their duties, make risk incurring business decisions. The 2LoD may challenge, sanction and ultimately veto proposals and decisions within 1LoD, but must stay independent and hence not approve any such proposals and decisions.

Risk Committees

Risk committees are established to provide effective governance and oversight of the Bank's risks appetite limits, risk framework, and risk decisions. In this regard, risk committees facilitate effective discussions and decision-making in relation to risks and issues faced by the Bank. Furthermore, risk committees support

Risk management

appropriate reporting, escalation, and documentation of risks. The committee structure is organised to cover all relevant risks within specific business units, internal functions, and to provide a specialised focus on managing a specific risk type in the Bank. All risk committees are limited to the authority and responsibility regarding management of risk-related topics defined by their Charters. The key principles for risk committees set standards for how they are established and approved, their duties and reporting structure, as well as their minimum escalation requirements.

Policies

Policies set the overall objectives and standards for managing risks, while respecting regulatory, legal and internal requirements. Policies must be implemented throughout the Bank to ensure that Bank employees can understand and efficiently meet the policies' objectives and standards. Policies are supported by instructions and business procedures.

As a minimum, there should be a policy for each L1 risk in the risk taxonomy.

Instructions

Instructions provide clarity on how to achieve the principles and requirements outlined in the associated policy. Instructions describe the roles and responsibilities, governance or risk mitigation in further detail, and instructions are based on the principles of the associated policy.

Business procedures

A business procedure describes significant activities in an end-to-end process and outlines the requirements from legislations, regulations and internal policies that must be complied with throughout the process.

A business procedure states which organisational entity, persons or groups of persons are to carry out the individual tasks and sub-tasks, and shall as far as possible contain instructions on any relevant reporting needs (i.e. what should be reported and to whom) as well as escalation procedures (if relevant).

Data and reporting

Data

Data and reporting standards should ensure that the risk exposure can be reported, analysed and communicated in a transparent, consistent and comparable way in the relevant dimensions.

Data integrity must be assured through the application of governance standards and controls. 2LoD risk type responsible functions set the standards for how risk data must be reported and quality assured within a risk type.

Data aggregation must be documented and auditable, comparable across time, geographical regions, and organisational units.

Data availability must be ensured, so that data is stored accessibly for as long as it is needed for business, risk management or regulatory purposes.

Data confidentiality must be ensured as data should only be available to employees with a reasonable business or regulatory need.

Data Ownership must be defined within the business and staff areas, focusing on roles and responsibilities for the data created and cared for within the area.

Reporting

Risk owners must report their exposure to relevant risk types in line with specific risk policies and instructions.

In reporting to senior management (ExCo, Board), the 2LoD must include their view e.g. by relating to limits and tolerances set by the Board, and provide their independent view and judgement such that decision makers can utilise this.

Management of key principal risks

The Bank is exposed to a number of principal risks which are reviewed in the Strategic Report.

The following section outlines a high-level summary of how each of the following principal risks is managed.

- Credit risk;
- Market risk;
- Liquidity, funding and capital risk;
- Pension risk;
- Model risk;
- Operational risk;
- Financial crime risk
- Regulatory risk;
- Technology & data risk; and
- Financial control & strategic risk

As noted on page 44, three cross-taxonomy risks have also been identified that manifest through the Bank's principal risks. These are:

- Conduct risk;
- Sustainability and climate risk; and
- Reputational risk

Further detail on how the Bank manages climate risk are included within the TCFD report section.

As noted within the Strategic Report, whilst this section provides an overview of how each principal key risk is managed, it should not be regarded as a complete and comprehensive statement of all mitigation techniques applied across the Bank.

Credit Risk

- As a lending institution, credit risk is the key risk faced by the Bank.
- The Bank seeks opportunities to provide appropriately remunerated credit facilities to borrowers who are assessed as having the capacity to service and discharge their obligations and to allow growth in the volume of credit assets in line with the Bank's risk appetite and to provide a solid foundation for sustained growth in earnings and shareholder value.
- The impact of the COVID-19 crisis has continued to be an overriding feature in the business and economic environment during the past year and the Bank's focus has been to support businesses that have experienced disrupted cash flow during these challenging times. Whilst there are some signs of 'green shoots' in specific industry sectors, market conditions remain subdued with concerns around the longer term impacts of the pandemic. There are also recent concerns around the impact of rising fuel prices and potential supply issues coupled with potential changes to the Northern Ireland protocol in relation to trading arrangements with the EU.
- The Bank's lending portfolio remains predominantly Northern Ireland based and is diversified across industry sectors, exposure type and single name concentration risks.
- At all times during the financial year, the Bank maintained appropriate credit controls reflecting and responding to the changing market place, in line with regulatory requirements.

<table>
<tr><th colspan="2">Credit Risk - Management</th></tr>
<tr><td>Definition of Credit risk</td><td>Credit risk is the risk that the Bank will incur losses as a result of a customer or counterparty being unable or unwilling to meet a credit exposure commitment that it has entered into.

At portfolio level, credit risk is assessed in relation to the degree of individual name, sector and geographic concentration. It comprises both drawn exposures and exposures the Bank has committed to extend. Credit risk can comprise any of the following areas:

Default risk
Default risk is the risk that individuals, companies, financial institutions, sovereigns or state institutions will be unable to meet the required payments on their debt obligations. Default may be as a result of one or a number of factors including, but not limited to:
• deterioration in a borrower's capacity to service their credit obligation;
• deterioration in macroeconomic or general market conditions;
• regulatory change, or technological development that causes an abrupt deterioration in credit quality;
• environmental factors that impact on the credit quality of the counterparty; and
• a natural or manmade disaster.

The Bank proposes to implement the new regulatory Definition of Default with effect from January 2022 with new policy changes in relation to the identification of customers falling within the latter definition (in terms of accounts 'past due' and 'unlikeliness to pay'), to become effective from this date.

Country risk
Country risk is the risk that sovereign or other counterparties within a country may be unable, unwilling or precluded from fulfilling their obligations due to changing political, financial or economic circumstances such that a loss may arise.

Migration risk
Migration risk is the potential for loss due to an internal / external ratings downgrade which signals a change in the credit quality of the loan exposure.

Collateral risk
Collateral risk is the risk of loss arising from a change in the value or enforceability of security held in respect of a transaction with credit risk.

Credit concentration risk
Credit concentration risk is the risk of loss due to exposure to a single entity, or group of entities, engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Undue concentrations could lead to increased or unexpected volatility in the Bank's expected financial outcomes. As the Bank's primary market is Northern Ireland, its loan book presents a material concentration of credit risk in relation to Country concentration risk.</td></tr>
</table>

Risk management

Credit Risk - Management	
Definition of Credit risk (continued)	**Climate risk** Climate risk is an increasingly important component of the Bank's overall risk framework and the Bank's has continued to include climate risk as a cross-taxonomy risk type, embedding climate risk considerations across various aspects of customer lending and credit risk management practices. The rollout of the digital system across the Danske Bank Group to manage the ESG risk assessment of individual credit customers is progressing according to plan, with new features and data points being added on an ongoing basis. The ESG risk assessments allowed for additional risk reporting and monitoring of high-risk customers to be implemented in 2021. Furthermore, the Bank worked with Danske Bank Group to focus on testing and applying a variety of standardised climate scenarios and on developing methodologies for using longer-time horizons, including those that examine how climate stress testing can be further advanced. Other examples of how the Bank is working to further embed climate risk considerations into its credit assessment and monitoring processes are provided within the Bank's TCFD report. **Credit related commitments** The Bank classifies and manages credit related commitments that are not reflected as loans and advances on the balance sheet, as follows: • Guarantees and irrevocable standby letters of credit: irrevocable commitments by the Bank to make payments at a future date, in specified circumstances, on behalf of a customer. These instruments are assessed on the same basis as loans for credit approval and management. • Commitments: unused elements of authorised credit in the form of loans, guarantees or letters of credit, where the Bank is potentially exposed to loss in an amount equal to the total unused commitments.
Risk management measurement and reporting	• The Bank's credit strategy is to underwrite credit risk within a clearly defined Board approved risk appetite and risk governance framework through the extension of credit to customers and financial counterparties in a manner that results in an appropriate return for the risks taken and on the capital deployed while operating within prudent Board approved risk parameters, and to maximise recoveries on loans that become distressed. • The management of credit risk is governed by the Bank's Risk Appetite Statement within its Risk Management Framework as set by the Bank's Board. • The Bank's credit risk appetite forms part of the Bank's wider Risk Appetite and represents the level and types of risk the Bank is prepared to take in pursuit of our strategy (i.e. the profile sought for each asset class). It is measured through reference to quantitative limits and key performance indicators (KPIs) relating to credit asset quality and concentration on any particular market/asset sectors. It is set on the basis of the present make-up of the Bank's lending book and current market conditions. • The core values and principles governing the provision of credit are also contained in the Bank's Credit policy. Each staff member involved in developing customer relationships and / or assessing or managing credit, has a responsibility to ensure compliance with these policies. Procedures for the approval and monitoring of exceptions to policy are also included in the policy documents. • It is Bank policy to ensure that adequate up-to-date credit management information is available to support the credit 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 senior management via the Bank's Credit Oversight Forum (COF) and periodically to the Bank's 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. • COF ensures that the Bank's credit management framework, credit risk appetite and associated policies remain effective. The Committee has oversight of the quality, composition and concentrations of the credit risk portfolio and considers strategies to adjust the portfolio to react to changes in market conditions.

Credit Risk - Management	
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 in IFRS 9. The impairment charge for ECL depends on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the impairment charge equals the ECL resulting from default events that are possible within the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or the loan is in default, the impairment charge equals the lifetime 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. The estimation of ECL involves forecasting future economic conditions over a number of years under base case, upside and downside scenarios. The accumulated impairment charges constitute the allowance account. **Credit process** The credit process ensures that loans are granted within customers' financial capacity and that distressed and non-performing loans are identified at an early stage and managed proactively. Assessing a customer's financial capacity is an element of the credit approval proces s. The Bank follows a policy of mitigating credit risk by means of guarantees and / or collateralisation. The credit control environment verifies that credit facilities granted are in compliance with credit policies and directives and in alignment with the Group's Credit Risk Appetite. Credit exposures are monitored so that credit plans and / or forbearance measures can be applied for distressed loans and impairment charges can be calculated for non-performing loans. **Rating and scoring** The Bank uses a number of models to assess the PD, LGD and EAD of respective customer's probability of default of customers in various segments. Corporate and financial customers are classified by rating models, while small business customers and personal customers are classified by scoring models. Under an outsourcing arrangement, 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. 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 (i.e. >£800k) are assessed by senior credit officers taking into account the discounted market value of the collateral assets after a deduction of the costs of realising the assets. When an indicator of credit

Risk management

Credit Risk - Management	
Description of the approaches and methods adopted for determining impairment practices (continued)	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; and • It becomes probable that the borrower will enter bankruptcy or other financial restructuring. 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.

Risk mitigation	• The Bank has established processes for the granting of credit. These include:
	  ◦ Board approved Risk Appetite Limits within a specific Risk Appetite Framework for the provision for credit;
	  ◦ Board endorsed Group Credit Policy and credit parameters set for the Bank's market area and for various borrower types, and sectors, aligned to the Bank's credit appetite limits;
	  ◦ A formal governance structure to monitor credit quality and activity ensure compliance with policies and limits including reporting to the Bank's Credit Oversight Forum (COF) and Board Risk Committee (BRC) / Board;
	  ◦ Responsible lending practices and active portfolio management applied in accordance within the Bank's Risk Appetite Framework;
	  ◦ A range of Delegated Lending Authorities (DLAs) issued to many of the Bank's customer facing staff based on their role, skills, competency and experience;
	  ◦ Active management of multiple credit risk concentrations through structured analysis and review;
	  ◦ Minimum annual reviews of business facilities;
	• Active co-management of certain commercial exposures to manage specific risk;
	• Dedicated work-out teams focused on the co-management of exposures, with the objective of restoring the credit quality to within appetite limits;
	• Dedicated Insolvency and Recoveries team focused on achieving optimal outcomes for the Bank and its customers;
	• Regular reviews of credit assessment underwriting metrics and tools (e.g. credit models) ensuring operation in accordance with expectations by testing and validation. Performance is reviewed by a dedicated sub-committee of Credit Oversight Forum; and
	• Continual assessment of training needs, development and skill sets of Bank employees engaged in customer interaction and credit risk management activities.

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.
- The sources of market risk for the Bank are interest rate risk and foreign exchange risk.
- The primary sources of Interest Rate Risk in the long term derive from the Bank's fixed rate loans and mortgages, and non-maturing deposits, with additional short term risk through holding cash with the BoE and other floating rate loans.
- Interest rate risk management is primarily performed through natural offsets in the Bank's balance sheet, with additional derivative financial instruments and debt securities where required.
- The Bank has limited foreign exchange risk where it acts as a counterparty to satisfy the needs of business and corporate banking customers.

Risk management

Market Risk - Management	
Definition of Market risk	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. Ineffective management could have an adverse impact on the Bank's net interest margin and profitability.
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 risk within the Bank's risk appetite. Market risk is reported to ARMC, BRC and the Board. Day to day management of market risk is performed by Treasury. • The specific types of interest rate risk include re-pricing / yield curve risk, basis 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 market risk stresses. These tests are undertaken across banking operations on a daily and monthly basis. • The results of balance sheet simulations, together with other balance sheet risk management information and strategies, are presented and reviewed at ALCO and at scheduled Board meetings. Limits are applied at Board and ALCO level. • 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 a full range of foreign exchange and interest rate related services including derivative financial instruments. These transactions are hedged with the parent. • 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 and approval of key assumptions is required annually by ALCO. • The interest rate benchmark (London Inter-Bank Offered rate) LIBOR ceased at the end of 2021. The Bank ceased issuing new facilities on GBP LIBOR by the end of Q1-2021. As at end 2021 the Bank had migrated 99.8% of the back-book Business and Corporate Banking products that were previously priced with LIBOR (or to a smaller extent other IBORs) to replacement reference rates. A small number of residual accounts will be moved to synthetic LIBOR at the next roll-over in 2022. The Bank's LIBOR fixed rate swaps and LIBOR linked bonds held in its Liquid Asset Buffer were all converted to SONIA swaps and SONIA linked bonds in 2021.
Risk mitigation	• Market risks are overseen by ALCO with delegation for day-to-day management given to Treasury. The Board will approve an interest rate strategy at least annually. Treasury uses a number of techniques and products to manage market risks including interest rate swaps and fixed and floating rate bonds in addition to natural offsetting of assets and liabilities; • 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; and • 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 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 12 to the Bank's financial statements.

Risk management

Liquidity, Funding & Capital Risk

- Taking on liquidity risk is an integral part of the Bank's business strategy. By its nature, there will be a mismatch between the terms associated with lending and those associated with deposits.
- 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 position.
- The Bank conducts intensive stress testing, forecasting and planning to support liquidity and funding risk management.

Liquidity, Funding and Capital Risk - Management	
Definition of Liquidity, funding & capital risk	Liquidity and funding risk is the risk of not having sufficient liquidity and funding which can result in having to issue instruments at excessive costs, inability to pursue the business strategy, or failing payment obligations.

Risk management measurement and reporting	• The management of Liquidity and Funding risk is covered by the Bank's Risk Appetite Statement and the Liquidity and Funding Risk Policy. Liquidity and Funding risk is monitored through ALCO, which has primary responsibility for the oversight of risk within the Bank's risk appetite. Liquidity and Funding 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 three standard scenarios: a scenario specific to the Bank, a general market crisis scenario and a combination of both; and
	    • 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 minimum customer loan to deposit ratio. This risk appetite is designed to prevent aggressive asset growth being funded by excessive levels of wholesale funds, which could prove volatile in a stressed situation. Retail deposits are a valuable, stable funding source for the Bank. Most of the retail deposits are covered by the Financial Services Compensation Scheme, and analysis indicates that they are indeed stable over time.
	• The Bank must maintain at all times a liquidity buffer sufficient to cover the need for liquidity that may arise over a period of both normal and 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. In particular, the Bank must comply with the PRA regulatory requirement to maintain a liquidity buffer based on LCR requirements. The assets held within the liquidity buffer must comply with Articles 6-19 of the European Commission Delegated Regulation (EU) 2015/61 (Delegated Act), dated 10 October 2014, at all times.
	• The liquid asset portfolio is primarily comprised of cash at the Bank of England, UK Government Securities (Gilts) and listed securities. The Bank has evolved its approach to managing and reducing the cost of the LAB while still holding high quality, low risk liquid assets, by broadening the composition of the portfolio. 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 Environment, 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 2021, 4% of the investment securities were green/sustainable bonds.

Risk mitigation	• The Bank mitigates liquidity and funding risk through the application of its comprehensive governance and limit framework which reflects the Bank's market risk appetite; • Liquidity and funding 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 and funding risk positions; and • The Bank carries out regular and comprehensive reviews of its liquidity and funding risk models.

Risk management

Pension Risk

- The Bank's defined benefit pension scheme (the "Scheme") creates the risk of a deficit if the value of assets falls or the value of liabilities increases, or if scheme members live longer than expected (longevity risk).
- The Bank's scheme is currently in surplus and longevity risk has been substantially mitigated through the purchase of bulk buy-in annuity policies.
- Pension Risk is subject to limits and targets set by the Board, and monitored through the Pension Risk Committee.

Pension Risk – Management	
Definition of Pension risk	The Bank's defined benefit pension scheme (the "Scheme") creates the risk of a deficit if the value of assets falls or the value of liabilities increases. The Scheme is currently in surplus and longevity risk has been substantially mitigated through the purchase of bulk buy-in annuity policies. Pension Risk is subject to limits and targets set by the Board, and monitored through the Pension Risk Committee.

Risk management measurement and reporting	• The management of pension risk is covered by the Bank's Risk Appetite Statement and the Pension Risk Policy. Pension risk is monitored by the Pension Risk Committee, which has primary responsibility for the oversight of pension risk within the Bank's risk appetite. Pension risk is reported to ARMC, BRC and the Board. Day-to-day oversight of pension risk is performed by Treasury.
	• The potential for a deficit in a defined benefit plan arises from a number of factors which could include:
	    ◦ Investments delivering a return below that required to provide the projected plan benefits. This could arise, for example, when there is 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; and
	    ◦ Scheme members living longer than expected i.e. longevity risk.
	• The trustees are solely responsible for the investment of the Scheme's assets. The trustees set the investment principles and the funding plan. The Scheme 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 plan solvency). The purpose of the valuation is to advise the trustees on the financial position of the Scheme and on the appropriate level of future contributions to be paid by participating employers.
	• Based on the report and having obtained actuarial, financial and legal advice, the trustees enter 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 given includes an independent assessment of the sponsor's covenant.
	• The Scheme is currently reporting an IAS 19 surplus, and risk has been further mitigated by the purchase in 2021 of two bulk buy-in annuities. The combination of these bulk buy-in annuities together with the one acquired in 2015 means that all pensions in payment up to July 2021 are now covered by these annuities.
	• Pension risk is assessed by way of an economic capital model that takes into account potential variations in factors, using a Value-at-Risk measure. The Board has defined risk targets for the Bank's defined benefit pension fund. The Bank uses quarterly risk reports that analyse the financial status of the Scheme by means of sensitivity analysis and the Value-at-Risk measure. The Bank has fixed limits for risk exposure levels.
	• The Bank's strategic focus for pension risk is to continue to review and oversee implementation of strategies to reduce pension risk.

Risk mitigation	• The Bank mitigates pension risk through the application of its comprehensive governance and limit framework which reflects the Bank's pension risk appetite. • The Bank has appointed an actuarial advisor to support in the measurement and management of pension risk. • The Trustee of the Northern Bank Pension Scheme recognise the risks presented by climate change and ESG factors, reflecting these considerations in the development and implementation of the Scheme's investment strategy, and through the exercise of stewardship of their asset manager. • The Bank carries out regular and comprehensive reviews of its pension risk models.

Model Risk

- The Bank has a number of models which cover credit models (e.g. Probability Default, Loss Given Default, Exposure at Default) and non-credit models (e.g. Finance Models).
- The Bank has developed a central inventory to record all model information which includes model tiering, last validation date and model owner.
- Models are continually reviewed and validated via an annual validation process.
- The EBA and PRA have published guidelines for a new definition of default, to be implemented. As the definition of default is a fundamental part of the operation of the Bank's probability of default (PD) models, a major project has been instigated to implement this.

<table>
<tr><th colspan="2">Model Risk – Management</th></tr>
<tr><td>Definition of Model risk</td><td>A model refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.

Model risk includes model design error, model usage error and data and other input limitations.</td></tr>
<tr><td>Risk management measurement and reporting</td><td>• The Model Risk Framework governs the management of model risk and covers the following key components –
    • Model Risk Policy;
    • Model Risk Appetite;
    • Model Governance;
    • Model Documentation;
    • Model Inventory;
    • Model Risk Assessment; and
    • Model Performance and Reporting.
• Model performance is reviewed on a regular basis and reported to Credit Models Committee for credit models and other subsidiary risk committees for non-credit models.
• Models and their performance is also reported to the BRC at least on an annual basis outlining residual risks for all high / medium risk models.
• Models are validated by an independent model validation unit who provide a view of the performance of these models. The models are reviewed from both a qualitative and quantitative perspective. The validation process collates quantitative performance ratings and qualitative performance ratings on different aspects of the models. These two performance ratings are aggregated to give an overall performance assessment. The quantitative performance as well as the qualitative performance are built using several blocks e.g. concentration, segmentation, ranking and precision.</td></tr>
<tr><td>Risk mitigation</td><td>• The Bank mitigates model risk by reviewing model performance on an ongoing basis and reporting any issues to relevant committees;
• Risk Appetite is in place to ensure high risk issues are highlighted to BRC and the Board;
• The relevant model developer maintains a close dialogue with the model owner in the Model Management Framework to identify any emerging risks;
• The model developer works with model owners as well as business units in the development of models, including final written signoff on model documentation;
• Detailed model development and maintenance guidelines are in place;
• Mandatory four eye review in all model approval phases, incorporated in the technical system setup where possible; and
• Detailed monitoring setup on a monthly basis, overviewing model decisions.</td></tr>
</table>

Risk management

Operational Risk

- The Bank seeks to operate an effective framework for the identification, assessment, mitigation and control of operational risk.
- The Bank continues to enhance its operational risk management practices and to further embed the effective use of the operational risk tools.
- Plans are in place to enhance the control environment and risk identification assessment.

<table>
<tr><th colspan="2">Operational Risk - Management</th></tr>
<tr><td>Definition of Operational risk</td><td>Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The key sub-classes of operational risk are defined as follows: products & services practices, process & reporting management, employment practices and workplace safety, damage to physical assets, outsourcing & third party risk, legal risk and business continuity risk.</td></tr>
<tr><td>Risk management measurement and reporting</td><td>
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 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 operates an Operational Risk Framework which defines its approach to managing operational risk and consists of:

Board approved Operational risk appetite;
Operational risk policy, procedures and tools;
Embedding Risk Control Self Assessment (RCSA) methodology;
Risk identification, assessment and treatment approaches monitored via the Risk Mitigation Acceptance process;
Incident reporting, oversight and monitoring;
Operational Risk training; and
Operational risk management information analysis and reporting.

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 exposures. The Bank's regulatory minimum capital requirement (Pillar 1) is determined by using the standardised approach (TSA) and the Bank uses scenario analysis to set the capital requirement for Pillar 2.
</td></tr>
<tr><td>Risk mitigation</td><td>
Board approved Risk Appetite Framework and limits;
Group Non-Financial Risk framework and policy (GNFR) which sets out the principles and standards of operational risk management in the Group;
Continuous review and reporting of operational risks arising from Covid-19 support through 'Disruptive risk assessments' completed for the most critical services and updated on a regular basis;
Improving Operational Resilience through the successful implementation of a remote 'working from home' model for all, but essential to on site staff, ensuring continuity of service;
Monitoring and management of outsourced supplier relationships to ensure agreed service levels are met;
The Bank has established an Outsourcing and Third Party Risk Management Committee, supported by robust policies and frameworks;
Business Continuity framework in place. This ensures the Bank can respond to, recover and learn from any unplanned operational disruption;
A Board approved people strategy to enable us to create the right culture and colleague experience; our leaders are equipped with a future orientated mind-set and skill-set, aligned with our Best Place to Work ambition and new hybrid working model;
Focus on digital ability, colleague skills and talent, to enable our people to perform at their best;
A diversity, inclusion and sustainability goal that every colleague feels significant and valued;
Governance framework including, People Board, Nominations Committee and Remuneration Committee builds capability for the future of work whilst ensuring compliance with legal and regulatory requirements with regard to the reward framework;
</td></tr>
</table>

Risk management

Operational Risk - Management	
	• Regular monitoring and reporting to senior management via the Operational Risk & Compliance Committee (ORCC), All Risk Management Committee (ARMC), Board Risk Committee (BRC), and the Board; • Delivery of new products and services as part of the Bank's business strategy with assessment of the operational risks prior to implementation via the RCSA methodology; and • During 2021, the Bank has been working alongside the Danske Bank Group to construct a focussed scenario based on the standardised scenarios outlined by the Network for Greening the Financial System (NGFS). In 2021, the Bank's ICAAP considered a 'secondary' high-level scenario that could impact the Bank and the environment in which it operates. Building on the Bank's existing compliance with the PRA expectations, further analysis and development will be undertaken in 2022 into further climate related sector specific scenarios, to enhance the quantitative assessment of the potential balance sheet impact.

Financial Crime Risk

- The Bank has no appetite for breaches of financial crime obligations.
- The Bank has included Financial Crime Risk as a Level 1 risk within the Board approved Risk Management Framework.
- A Group 'Roadmap' is underway to enhance core Financial Crime platform and framework capabilities.
- The Bank has project governance structures in place to manage post-Brexit changes to UK Financial Crime requirements.

Financial Crime Risk – Management	
Definition of Financial Crime risk	The risk of internal or external parties using the Group's infrastructure, products and services 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 as a Level 1 risk in a Board approved Risk Management Framework. • A 'Three Lines of Defence' model applies. • 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; • Communications with supervisory regulators are conducted in an open and transparent manner; • There is regular reporting to senior management via the ORCC, BRC and the Board; • Key taxonomy risks within Financial Crime risk 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 meet new regulatory requirements; • Financial Crime advice is provided to business areas and key initiatives; • Risk-based monitoring is conducted on Financial Crime risk in accordance with an annually approved monitoring plan; and • Regular training and awareness is provided to all staff on key Financial Crime risks.

Risk management

Regulatory Risk

- The Bank has no appetite for failure to comply with regulatory or legislative obligations.
- The Bank has included Regulatory Compliance Risk as a Level 1 risk within the Board approved Risk Management Framework.
- The Bank has put in place project governance structures to manage key risk drivers of LIBOR transition, EBA Outsourcing Guidelines, and PSD2.
- The Bank has enhanced its focus on forbearance risks during the financial year.

Regulatory 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 Group or Bank may suffer as a result of their failure to comply with laws, rules and standards applicable to their activities in the areas of treating customers fairly, market integrity, data protection & confidentiality, and breach of licensing, accreditation and registration.
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. • Regulatory Compliance risk is a Level 1 risk within the Bank's Risk Management Framework. • A 'three lines of defence' model applies. • 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, BRC and the Board; • Key risks within the Regulatory Compliance risk family are frequently risk assessed. This informs the Bank of the health of its control environment and ensures that residual risks are managed within risk appetite; • Horizon risks are monitoring and assessed to ensure compliance with new regulatory requirements; • Compliance advice is provided to support the business and key initiatives; • 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; and • Whistleblowing framework and Board appointed Whistleblowing Champion to support good compliance culture.

Technology & Data Risk (formerly IT Risk)

- On an annual basis Technology and Data risk is reviewed by the Board as part of an annual cycle of review which includes the Bank's Risk Management Framework and also the review of the Bank's Risk Appetite Statement including the policies forming part of the Bank's framework.
- The potential impact to the business of IT failure is considered as part of the ICAAP process, with specific consideration given to scenarios involving IT failure.
- Regulatory developments and other guidelines (e.g. from the Prudential Regulatory Authority, Financial Conduct Authority) are also considered when updating the IT risk appetite.

Technology & Data Risk - Management	
Definition of Technology & Data risk	Technology and data risk is the business impact associated with IT risk and relates to the potential for any resulting significant business impact which may result in direct customer detriment, reputational damage and /or regulatory fines. The risk may arise as a result of process/governance failures; technology failure – e.g. errors within core infrastructure that underpins technology-enabled services; planned change initiatives – i.e. the introduction of new or changed products or services; supplier performance issues; or direct cyber attack.
Risk management measurement and reporting	• IT & Information Security team 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 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. • Meanwhile, business areas across the Bank are also responsible (through the RCSA process) for capturing and tracking IT risks that relate to their particular processes, products and services. In some cases common IT risks can be aggregated up to 'top of Bank' level. • These risks are overseen by the various business areas through monthly risk forums (chaired by embedded risk managers in the business areas).
Risk mitigation	• Board approved Risk Appetite for Technology risk; • Group IT Risk Management policy and Security policy; • Quarterly reporting to IT Risk Committee (ITRC); • CRO (Chief Risk Officer) reporting quarterly to Board Risk Committee (BRC) and the Board; • Other reporting on IT risks to Board Risk Committee (BRC) and Board as necessary; • IT service level agreement, aligned to EBA Guidelines, with defined IT performance metrics that are tracked and aligned to Technology risk appetite; • Risk Forums – at both IT and Information Security and more broadly Technology & Digital Development (T&DD) level – 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 to provide a consistent technology assessment process and profile Technology Risk; and • Security training, ethical phishing and ongoing security / fraud awareness.

Risk management

Financial Control and Strategic risk

- On an annual basis the Bank reviews its strategic objectives and focus in preparation of its Corporate Plan which is approved by the Board and serves as the basis for managing Financial Control and Strategic risk.
- Longer term viability is monitored through the ICAAP which is completed annually to formally assess the potential impact of Financial Control and Strategic risk on the Bank's business model, this process identifies whether additional capital should be held in the event these risks materialise.
- The UK banking sector remains competitive, coupled with the prolonged low interest rate environment, this continues to put increasing pressure on margins affecting the Bank's ability to generate target returns.

Financial Control and Strategic Risk - Management	
Definition of Financial Control and Strategic risk	Financial Control and Strategic risk is defined as the risk of opportunity loss arising from possible changes in general business conditions such as market environment, customer behaviour, the Bank's (or Group's) reputation and technological progress to which the Bank may not be able to adjust sufficiently quickly. The Bank's Financial Control and Strategic risk assessment also considers reputational risk.

Risk management measurement and reporting	• The Bank's annual Corporate Strategy is approved at Board level and defines the business strategy and key performance indicators for the Bank
	• Key performance indicators are clearly defined for each business unit and are closely and regularly monitored.
	• Ongoing progress of the Bank's strategic and commercial performance outcomes is provided at each meeting of the Board for review and challenge by the Board.
	• Ongoing financial performance is provided at each meeting of the Board for review and challenge by the Board.
	• Active management of all internal and external communications including social media and media monitoring which leads to escalation and, where required, management actions.
	• Financial control and business risk is overseen monthly by the Bank's Commercial Management & Pricing Committee (CMPC). Regular oversight monitoring by CMPC includes:
	  ◦ Ongoing monitoring of performance including market and competitor benchmarking;
	  ◦ Annual product attestation process to ensure products continue to perform as intended and adequately meet customer needs;
	  ◦ Annual approval of Marketing Plan and monthly review of Marketing activity; and
	  ◦ Tracking of product and channel performance.

Risk mitigation	• The Bank mitigates Financial Control and 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 actual volumes and margins against forecast is a key financial management process in the mitigation of Financial Control and Strategic risk. Regular review and monitoring of the Bank's competitive environment is also completed to identify market developments, using external research and economic updates as required; • A formal assessment of Financial Control and Strategic risk is completed once annually with the results included in the ICAAP; • Reputational risk, a cross taxonomy risk impacting upon business risk, is mitigated through policies and procedures, formal monitoring and reporting to minimise reputational risk; and • Senior management, CMPC and the Board, receive regular updates on the progress of risk mitigation in this area. In the event of any of these Financial Control and Strategic risk scenarios threatening to develop, early remedial action would be taken.

Danske Bank

Risk management

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 2021. 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) and Capital Requirements Regulations (CRR) 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.

On 1 January 2021, the Bank's minimum total capital requirement was reduced from 10.55% to 10.06%.

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 have maintained the CCyB at 0% during 2021. The Bank's capital plan, prepared as part of the ICAAP, considers proposed changes to the regulatory capital requirements of the Bank.

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 and capital 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.

Risk management

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.

From 1 January 2020, the Bank is required to hold internal MREL equivalent to 18% of total Risk-weighted Exposure Amount (REA), with a PRA prescribed scaling factor applied. This is expected to hold, subject to annual review, until 1 January 2023, when the Bank will be 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. During 2021, the Bank held sufficient capital resources to meet its MREL requirement.

CRD and CRR developments

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

On 7 June 2019, the amendments to the existing CRD IV (now CRD V) and the CRR (now CRR II), as well as the related EU BRRD and the SRM Regulation were published in the Official Journal of the EU and entered into force on 27 June 2019. The majority of the changes impacting capital contained in the amended CRR (e.g. binding leverage requirement and amended SME supporting factor) were due to become applicable from 28 June 2021.

On 26 June 2020, as a result of the COVID-19 pandemic, a regulation making targeted amendments to the CRR and CRR II was published in the Official Journal of the EU (CRR II Quick Fix Package). The aim of the package was to ensure that banks could continue to lend money to support the economy and help mitigate the significant economic impact of COVID-19.

The CRR II Quick Fix package sets out exceptional temporary measures to alleviate the immediate impact of COVID-19-related developments, by adapting the timeline of the application of international accounting standards on banks' capital, by treating more favourably public guarantees granted during this crisis, by postponing the date of application of the leverage ratio buffer and by excluding certain exposures from the calculation of the leverage ratio. The package also advances the date of application of several agreed measures that incentivise banks to finance small and medium enterprises (SMEs) and infrastructure projects.

On 16 November 2020, HM Treasury (HMT), the PRA and the FCA published a joint statement on the implementation of the prudential reforms contained within the Financial Services Bill. The statement set out that the UK version of CRR II (the Regime) would be delayed from 28 June 2021 to 1 January 2022. The Regime will be largely based on the EU CRR II but potentially deviate 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) 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, in March 2020 the BCBS announced that it would delay the implementation of Basel IV until January 2023.

On 27 October 2021, the European Commission published the EU Banking Package 2021, which included proposals for key amendments to the CRR, referred to as CRR3/CRDVI. In addition, the Commission proposed to further delay the implementation of Basel IV until 1 January 2025. The Bank is currently assessing the impact of these revisions and awaiting further guidance from the PRA on the timeline for the implementation of Basel IV within the UK. The Bank actively monitors these developments and seeks to effectively comply with the new requirements when finalised.

Capital and leverage position (unaudited)

The Bank remains well capitalised and this is reflected in its total capital ratio of 18.8% (2020: 20.7%).

During the year, a dividend of £75m was paid to the Bank's ultimate parent undertaking, Danske Bank A/S (2020: £0m). As a result, the Bank's Common Equity Tier 1 (CET1) ratio (on a UK PRA basis) decreased from 16.1% in December 2020 to 14.4% in December 2021.

On 8 October 2021, the FPC and PRA jointly published PS21/21 The UK Leverage Ratio Framework, with an implementation date for certain requirements of 1 January 2022. As a result, the Bank will not be 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 will exclude central bank reserves and Bounce Bank Loans. This will have the impact of increasing the leverage ratio from 4.2% on 31 December 2021 to 6.6%.

Risk management

Capital and leverage position (unaudited) (continued)

Key capital and leverage ratios at 31 December 2021 and 2020 are set out below:

	31 December 2021	31 December 2020
Common Equity Tier 1 ratio	14.4%	16.1%
Tier 1 ratio	16.3%	18.1%
Total capital ratio	18.8%	20.7%
Total Capital Requirement (TCR)	10.1%	10.6%
Leverage ratio	4.2%	5.2%

Regulatory capital (unaudited)

The following table details the Bank's capital regulatory capital at 31 December 2021 and 2020.

	31 December 2021 £'000	31 December 2020 £'000
Common Equity Tier 1 capital		
Permanent share capital	218,170	218,170
Retained earnings	98,134	182,282
Profit yet to be verified for inclusion in regulatory capital	(41,534)	(7,552)
Share premium account	306,590	306,590
Revaluation reserve	33,892	34,965
Reserve for Investment securities - Hold to collect and sell	(2,446)	7,190
IFRS 9 transitional adjustment	11,685	24,545
Less : pension fund asset (net of tax)	(103,320)	(160,365)
Less : deferred tax asset ineligible for Common Equity Tier 1 capital	(24,316)	(19,329)
Less : prudent valuation adjustment	(673)	(505)
Less : intangible asset	(34)	(157)
Less: Non-performing loans minimum loss coverage	(42)	-
Total Common Equity Tier 1 capital after deductions	496,106	585,834
Additional Tier 1 (AT1) capital		
AT1 capital instrument	96,974	96,958
AT1 regulatory restriction (1)	(31,789)	(25,063)
CRD IV compliant instrument	65,185	71,895
Tier 2 capital		
Subordinated loan debt	126,000	126,000
Subordinated loan regulatory restriction (1)	(39,088)	(30,141)
Dated CRD IV compliant subordinated loan instruments	86,912	95,859
Total capital after deductions	648,203	753,588

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.

Risk management

Risk weighted exposure amounts (unaudited)

The following table details the Bank's risk weighted exposure amounts at 31 December 2021 and 2020.

	31 December 2021 £'000	31 December 2020 £'000
Credit risk	3,090,753	3,249,042
Operational risk	364,961	384,135
Market risk	21	-
Credit value adjustment	-	1,301
Total risk-weighted exposure amount	3,455,735	3,634,478

Minimum Pillar 1 capital requirement (unaudited)

The following table details the Bank's minimum Pillar 1 regulatory capital requirement at 31 December 2021 and 2020.

	31 December 2021 £'000	31 December 2020 £'000
Credit risk	247,260	259,923
Operational risk	29,197	30,731
Market risk	2	-
Credit value adjustment	-	104
Minimum Pillar 1 capital requirements	276,459	290,758

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 2021 and 2020.

	31 December 2021 £'000	31 December 2020 £'000
Regulatory Common Equity Tier 1 capital	496,106	585,834
Add back:		
- Pension fund asset (net of tax)	103,320	160,365
- Deferred tax relying on future profitability	24,316	19,329
- Profit yet to be verified for inclusion in regulatory capital	41,534	7,553
- Intangible assets	34	157
- Cash flow hedge reserve	(2,115)	4,711
AT1 capital	96,974	96,958
IFRS 9 transitional adjustment	(11,685)	(24,545)
Prudent valuation adjustment	673	505
Non-performing loans minimum loss coverage	42	-
Statutory total equity	749,199	850,867

Funding and 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 2021. 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 subordinated debt 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 and market-wide 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 All Risk Management Committee. 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 demonstrated in response to COVID-19.

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 daily variation of customer balances, measurement against stress requirements and monitoring of the macroeconomic environment.

Risk management

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 Term Funding Scheme with additional incentives for SMEs (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 caused by COVID-19.

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

Refinancing risks are carefully managed and are subject to controls overseen by ALCO. The funding plan includes embedded TFS and 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 wholesale 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, with a key purpose of such a system being 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 moved from 264% to 293% (pillar 1 + 2) during the year and remains comfortably above the regulatory requirement and risk appetite. The increase reflects the continued growth in customer deposits across the year relative to lending volume.

	31 December 2021 £'000	31 December 2020 £'000
Eligible liquidity buffer	**5,763**	4,852
Net stress outflow	**1,951**	1,819
Pillar 2 add-on	**50**	50
Surplus	**3,762**	2,983
Liquidity coverage ratio	**293%**	264%

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 due to impacts of COVID-19 and the UK's withdrawal from the EU. 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.

Risk management

As at 31 December 2021, the Bank held eligible liquid assets well in excess of 100% of net stress outflows, as defined through internal risk appetite.

	31 December 2021 £'000	31 December 2020 £'000
Level 1		
Cash and balances at central bank	**3,598**	3,482
UK government treasury bills and gilts	**418**	266
Other debt securities	**1,762**	1,122
Total level 1	**5,778**	4,689
Total level 2	**-**	-
Total LCR eligible assets	**5,778**	4,689

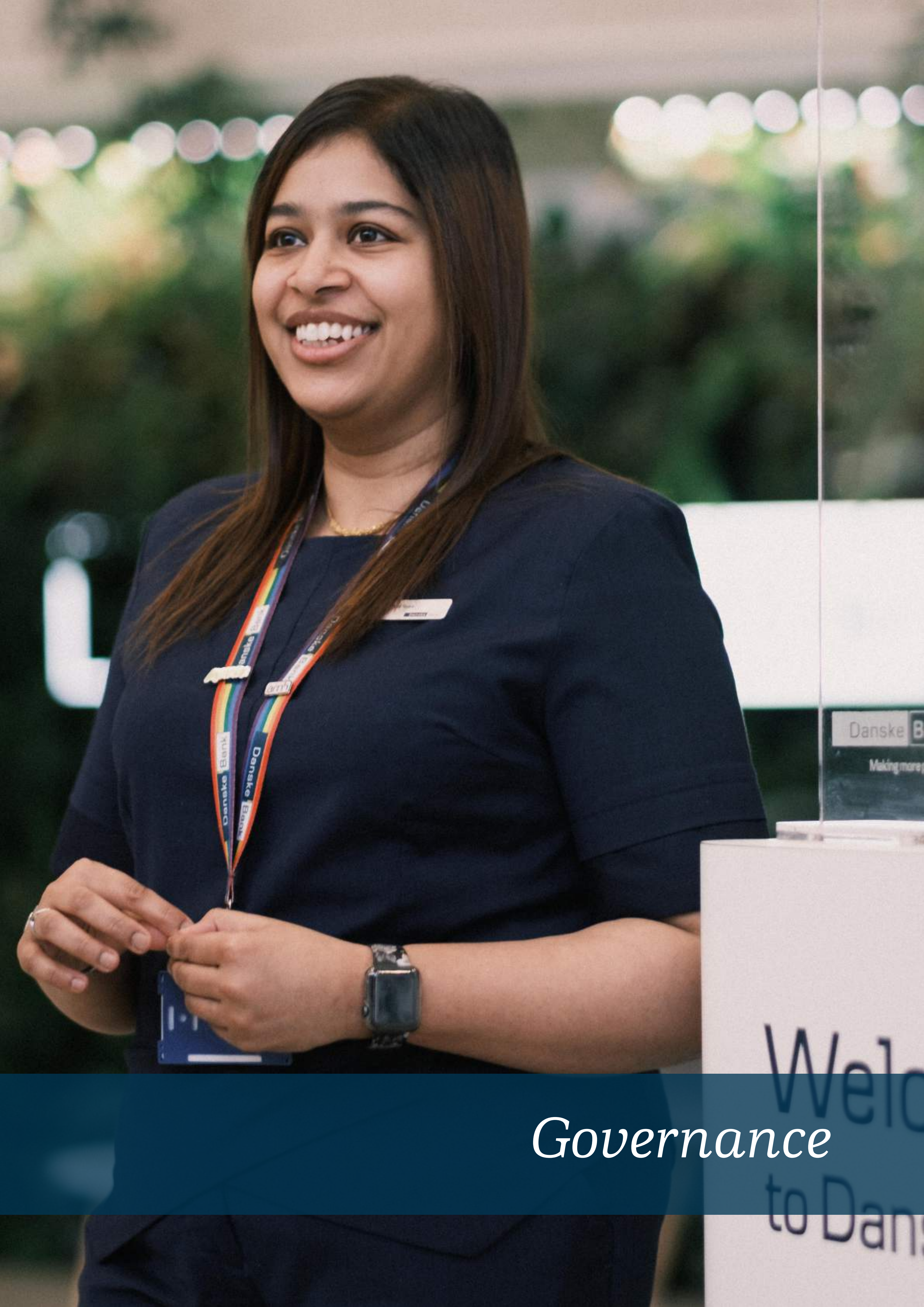
Before investing in any security, an assessment is completed for both the credit quality and the treatment for liquidity purposes. ALCO oversees the composition of the liquid asset portfolio.

For further information on the fair value hierarchy for financial instruments, see note 31 of the Financial Statements.

Cash and balances with central banks is outlined in note 10 of the Financial Statements. Included within the cash held at central bank is £728m (2020: £687m) 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 £37m of encumbered UK government treasury bills and gilts to support Operational Continuity in Resolution.

A binding Net Stable Funding Ratio (NSFR) requirement is due to come into force in Q1 2022. Based on the PRA current net stable funding requirements, the ratio as at 31 December 2021 is 213% (2020: 199%).



Governance

Directors and other corporate governance information

Non-Executive Chairman	Gerald Gregory	[R] [A] [N] [RE]
Non-Executive Directors	Berit Behring	[D]
	Michael Black	[R] [A] [N]
	Carsten Egeriis (resigned 1 January 2021)	[D]
	Stephan Engels (appointed 9 February 2021)	[D]
	Astrid Grey	[R] [A] [N] [RE]
	Alistair Hamilton	[R] [N]
	Martin Stewart	[R] [A] [N] [RE]
Executive Directors	Vicky Davies	
	Stephen Matchett	
	Kevin Kingston (resigned 31 December 2021)	

[R]	Member of Risk Committee
[A]	Member of Audit Committee
[RE]	Member of Remuneration Committee
[N]	Member of Nominations Committee
[D]	Member of Executive Leadership Team of the Parent

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	Chief Executive Officer
	Kevin Kingston	Chief Executive Officer (resigned 31 August 2021)
	Stephen Matchett	Deputy Chief Executive Officer & Chief Financial Officer
	Richard Caldwell	Managing Director, GB & Corporate Strategy
	Liam Curran	Chief Information Officer
	Vicki Hassan	Operations Director
	Shaun McAnee	Managing Director, Corporate and Business Banking
	Aisling Press	Managing Director, Personal Banking
	Philip Smyth	Chief Risk Officer
	Danny Stinton	Commercial Development Director
	Caroline Van Der Feltz	HR Director

Our Board of Directors – Executive members

Vicky Davies

Executive Director and Chief Executive Officer

Vicky joined the Bank in 2012, has been a member of the Board since 2016 and assumed the role of CEO in 2021.

An experienced Board Director, she has a proven track record of developing and leading strategic change. Her leadership approach is defined by her strong commercial acumen, alongside an ability to create and communicate vision and strategy in a way that others can readily understand.

Vicky has 17 years' experience in senior roles in Financial Services in RBS and Danske Bank, having started her career as a management consultant with Accenture.

Vicky is a certified Bank Director and has an MBA from Institut Européen d'Administration des Affaires (INSEAD). She also sits on the Board of Northern Ireland Chamber of Commerce and on the advisory Board of Business in the Community NI.

Stephen Matchett

Executive Director, Deputy Chief Executive Officer and Chief Financial Officer

Stephen joined the Bank in 2014.

As the Bank's Chief Financial Officer Stephen has executive responsibility for finance, treasury and legal within the Bank.

Stephen's background is in accountancy practice with Deloitte and subsequently PwC followed by 13 years with Bank of Ireland during which he held a number of finance, risk and operations related roles up to and including CFO for Bank of Ireland's UK activities and executive director on the Board of a number of Bank of Ireland companies including Bank of Ireland (UK) plc and First Rate Exchange Services Limited, a foreign exchange joint venture with the UK Post Office.

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

Board of Directors – Non-executive members

Gerald Gregory

Non-Executive Chairman of the Board and Chair of Board Nominations Committee

Gerald is the Chairman of the Bank's Board of Directors.

He has significant and detailed experience in financial services having held a number of senior executive and non-executive positions in the sector in the UK, including that of Managing Director of a large Mutual.

In addition to his role with the Bank, Gerald is Senior Independent Director, Chair of Board Risk Committee & Chair of Remuneration Committee of Gatehouse Bank plc.

Martin Stewart

Senior Independent Director and Chair of Board Remuneration Committee

Martin is a Board-level Business Leader, Non-Executive Director, Board Advisor and Central Government Policy Advisor, expert in influencing complex regulatory change for the public and private sectors, to deliver a safe and sound financial system, while driving economic growth. As the Head Regulator for UK Domestic Banks, he was part of the UK senior team that moved into the public sector post-financial crisis to reform global banking. As Director for UK Banks, Building Societies & Credit Unions at the Bank of England's Prudential Regulation Authority (PRA), he oversaw 600+ firms, the authorisation of new UK Banks and was a member of the Executive Team responsible for PRA public policy. He also led the review of UK public policy to lower barriers into UK banking in 2013, enabling entry of 17 new banks to the market in the following 5 years.

In addition to his role in the Bank, his current non-executive/advisory portfolio includes Chair of Board Risk Committee Coventry Building Society and consultant to governments, regulators, investors and financial services businesses.

Michael Black

Non-Executive Director and Chair of Board Audit Committee

Michael is a 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 of NearForm, a digital software and consultancy firm.

In addition to his role in the Bank, Michael's current non-executive/advisory portfolio includes Non-Executive Director roles in Software and Software developments companies.

Astrid Grey

Non-Executive Director and Chair of Board Risk Committee

Astrid is an experienced international Risk professional with extensive and proven expertise across all risk disciplines and related controls in Investment and Commercial banking globally, combined with a successful track record at designing and delivering large scale change programs to enhance capabilities and performance. During almost 30 years in Financial Services, Astrid has held a variety of senior roles and has been a member of the Risk Committees in both Deutsche Bank and Lloyds Banking Group.

Astrid has a Bachelors Degree in International Business and a Master in International Affairs. Astrid is also a Non-Executive Director of Hampshire Trust Bank and non-executive director, chair of the board risk committee and Deputy Chair of CAF Bank Limited.

Alastair Hamilton

Non-Executive Director

Alastair is the former Chief Executive of Invest NI. He led the trade and investment agency for over 10 years and throughout his tenure he played a key role in developing and implementing economic strategies during and after the financial crisis, helping home-grown companies to expand and successfully attracting major foreign direct investment into Northern Ireland. Prior to joining Invest NI, he held a number of senior management positions at BT, including Director of BT Health, Director of BT Business and Managing Director of BT Business Ireland. During this time, Alastair also served for a year on secondment as Chief Economic Advisor to the First Minister of Northern Ireland.

Alastair has a strong academic record holding a qualification in Telecommunications and Electronics, a Diploma in Company Direction, Chartered Director status with the Institute of Directors and a Doctor of Science in Economics (Honoris Causa). In addition, Alastair has held a number of other offices including: Council Member for the Northern Ireland Chamber of Commerce; Member of the Committee of Business in the Community NI; Confederation of British Industry (CBI) NI Council Member; Chair of the Economic Affairs Committee of CBI NI and Vice President of the Northern Ireland Chamber of Commerce.

Stephan Engels

Director

Stephan is a member of the Executive Leadership Team and Chief Financial Officer, Danske Bank A/S.

Stephan joined Danske Bank A/S in 2019, having over 30 years' international experience across various industries, including financial services. Over this period he has held a variety of roles across several institutions including Daimler Benz AG, Debis AG, Debis AirFinance B.V, DaimlerChrysler Bank AG, DaimlerChrysler Services AG, Daimler AG, Commerzbank AG and the Danske Bank Group. Stephan has an MA in Business Administration from the University of St.Gallen, Switzerland and he has participated in leadership programmes including Managing Global Opportunities (Harvard Business School).

Berit Behring

Director

Berit is a member of the Executive Leadership Team and Head of Large Corporates & institutions, Danske Bank A/S.

She joined Danske Bank A/S in 2007, and has almost 30 years financial services experience having held a variety of roles across several institutions including: Handelsbanken Capital markets; BNP Paribas; ABN AMRO Bank N.V; Nordea and the Danske Bank Group. She has held a number of other offices including: Member of the Board of Swedish Bankers Association and member of the Board of Danske Hypotek. She has held a number of other offices including: member of the Board of Swedish Bankers Association and member of the Board of Danske Hypotek.

Corporate Governance Statement

For the year ended 31 December 2021, 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 biggest bank, we have been helping people and businesses achieve their ambitions for over 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 new purpose, and ultimately its vision, is to help customers, colleagues and society thrive and to be a Leader in Northern Ireland, challenger in GB, driving sustainability. These three 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, challenger in GB, 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 Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Bank is effectively maintained. The Chairman 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 Chairman, Chief Executive Officer, Deputy Chief Executive Officer, two Group Non-Executive 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 and the Board continues to improve its gender balance noting that by quarter four 2021 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 & 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 Directors have equal voting rights when making decisions, except the Chairman, 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.

Governance

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 to 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 seven 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 last undertook a formal effectiveness review facilitated by an independent external adviser in 2020. Between externally facilitated assessments, the Board has conducted informal self-assessments which the Board considers important in the identification of key areas for future improvements, focus and for strengthening its overall performance. An informal self-assessment of the Board was carried out in 2021.

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 geographical diversification in the rest of the UK whilst retaining our leadership position in Northern Ireland as our core home market along 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 RemCo, which is chaired by the Senior Independent 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**.

Governance

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 want to 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 are responsible for shaping and delivering the people strategy in collaboration with HR) and business unit action plans. In addition, regular employee Roadshows and Updates are delivered to employees across Northern Ireland and provide a briefing on the Bank's performance and allow individuals to raise questions and provide feedback. In 2021 the Nominations Committee agreed a strategy for increased Non-Executive Director engagement with the workforce through a series of 'Meet the Board' articles on the Bank's intranet, Branch and Site visits, Thought Leadership Sessions, Informal lunches, coffee catch-ups and the creation of a Workforce Engagement Panel 'Board 360' which will hold its first meeting in 2022.

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 the Trustee (usually through the Chairman of the Trustee Board). The Trustee Directors comprise individuals nominated either by Scheme members or by the Bank. This support, provided by the Bank, ensures diversity of knowledge and skills on the Trustee Board, thereby facilitating 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. In January 2021, the Bank published its third annual Responsible Business Report, which highlights our contribution to the wider society that we serve and the local communities we are a part of, in areas such as diversity and inclusion, sustainability and climate change.

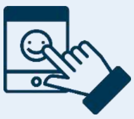
Section 172(1) statement

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, and
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 table below sets out our focus on the key relationships and shows 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 every stakeholder 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.

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
 **Our customers** s172(1)(c)(d)(e) The users of our financial products and services. We have c.475k personal customers and c.40k business customers. We are enhancing our customer experience to attract new and retain loyal customers.	***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 that reports to the Executive Committee on a monthly basis and updates are provided to Board on a regular basis in relation to Conduct and managing 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 investment decisions utilising independent customer research, satisfaction surveys, mystery shopping and impact assessments. The Bank continues to operate cross-functional Customer Journey Squads 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.	Customer satisfaction scores and feedback received influences decision-making at Board level. This has been reflected with 'customers' being one of the Bank's four 2021 strategic pillars, which are a fundamental part of the Bank's Corporate Plan. The Bank aims to be the first choice for helping our customers and businesses to achieve their financial goals in Northern Ireland. Every employee of the Bank has improving customer satisfaction as a core, and significant, element of their KPIs. As part of an ongoing multi-year programme, the Bank remains committed to delivering a distribution network that meets 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 the Northern Ireland with at least one branch in each county. In 2021, 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.

Governance

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
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. At the end of December 2021, the Bank had c.1,300 full time equivalent employees.	***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. To facilitate engagement, the Board continues to support the operation of a People Board including Executive Committee members. ***At Business level:*** Our people are a fundamental asset of our business and play a key role in the success of the Bank. 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. Engagement with our people takes many forms with regular and ongoing discussions, both at 1-2-1 and team level, divisional 2-way update sessions, CEO and Executive Committee updates and the Best Companies Survey.	During 2021 the Bank has delivered Board approved colleague initiatives to motivate, engage and support high performance and retain key talent. The launch of the Best Companies survey in February 2021 generated a response rate of 80%, providing significant insights into employee engagement, and informing key areas of focus as we strive to achieve our strategic ambition of a place in the "Sunday Times Top 100 Companies to Work For" listing. The Bank was recognised as an "Outstanding" company to work for, receiving two star accreditation with an overall score of 711.9 (two star), well ahead of the end of year ambition of 659.5 (one star). The Bank was ranked 10th in the Regional Employer category against all participating companies with employees in Northern Ireland, and 21st in the UK Financial Services sector. This score sits just 8 points short of a listing in the Top 100 Best Place to Work For. **Early careers** In 2021 the Bank continued with our apprenticeship programme called Danske Futures, and developed a new Tech Futures apprenticeship which focuses on growing the 8 IT related skills and technology. This supplements the other degree led programmes including Leading on Customer Operation. The Bank will continue to grow the apprentice population to strengthen talent pipelines. Our Graduate Programme has also provided us with a positive talent pipeline into some of our key roles across the Bank and internal Academies have been established, to give colleagues the opportunities for structured learning and building capabilities across the Bank. **Continuous development** Investing in professional development remains a key component of our strategy. Additionally, we have made a commitment to our colleagues to provide them with a mentor, should they wish, to support their development. The Bank ran two Learning At Work Weeks in May and November which focused on building deeper, stronger and broader connections to what digital means across the organisation. We have promoted online sustainability training for all staff, including Board and ExCo, and promoted climate champions and green leaders across all levels of the Bank's community. Currently, 84% of all Bank employees have received online sustainability training. **Leadership development** The Bank continued to build on virtual leadership interventions, established in 2020 at the outbreak of the pandemic, to best equip all of our leaders to operate effectively in the new operating environment. Our Navigator programme has been designed to support those "new to leadership" through a blend of resources and virtual workshops. Leadership development programmes and interventions are in place to support all key milestones in a leadership journey and the Bank has made these even more accessible by switching to virtual formats.

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
		Diversity and wellbeing The Bank's commitment to embracing diversity and creating an inclusive culture where differences are seen as a strength and where people feel valued and realise their full potential, has been reflected in the retention of the Silver Diversity Chartermark and the Women in Finance Chartership. We have expanded the Bank's Belong portfolio, with the launch of the Origins diversity strand focussing on ethnicity. Our commitment to helping our employees manage their physical and mental wellbeing has been reflected in the breadth of wellbeing initiatives that the Bank has put in place, leveraging our external partners, particularly the Bank's Charity Partner Aware and Benenden to provide a range of support. As an organisation that prides itself on how we care for and treat each other, how we support our colleagues in difficult or distressing circumstances is critical. The Bank has introduced new Domestic Abuse, Pregnancy Loss and Parental Bereavement Policies to ensure that colleagues and their families have access to information, support and advice, should they need it. A range of new wellbeing initiatives have been embraced, including "Keeping connected" toolkits and workshops, workshops on Menopause, Men's Health, Smoking Cessation clinics, enhancing the range of digital resources available and mental health champion training. Throughout the COVID 19 pandemic, the Bank put in place a wide range of measures to support our teams both practically and emotionally. The Bank procured COVID-19 tests to ensure our staff can be tested in the comfort of their own home rather than travel to Public Health Agency (PHA) test sites and the Bank has continued to provide a winter flu vaccination service free to staff. In addition, the Bank took up the Department of Health's invitation to participate in the Northern Ireland Asymptomatic Testing Programme. **Managing performance** During 2021 the Bank continued to embed its new approach to managing performance – focused equally on both 'What' and 'How' elements of performance. A comprehensive set of communications and workshops continue to be delivered to support the successful embedding of this new approach and a dynamic reporting tool developed.

Governance

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
Our suppliers s172(1)(c)(e) Provide our goods and services which we rely on to deliver for our customers.	***At Board level:*** Reports are submitted to the Board 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 which were revised in 2021 (further including sustainability metrics into 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 European Banking Authority (EBA) 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 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. Our suppliers provide the Bank with a range of key goods and services that directly or indirectly help us to deliver for our customers and society. During the COVID-19 pandemic, we explored ways to support our suppliers during this difficult period and were the first member of the Danske Bank Group to implement procedures to ensure the accelerated payment of our suppliers' invoices with this continuing in 2021. Danske Bank UK was awarded a Fast Payer Accreditation by the UK Good Business Pays Campaign during 2021 for our commitment paying over 95% of our suppliers within 30 days.
Our regulators s172(1)(c) The FCA and the Bank of England (including its subsidiary, the PRA), regulate our business.	***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 on a regular basis. The Regulatory Reporting Committee meets quarterly and is attended by one member of the Board. The FCA and PRA also receive copies of Board papers. ***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' requirements. The Bank's Chief Risk Officer meets with the PRA on a fortnightly 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.	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. The Bank aims to maintain our positive relationship with the Regulators by following an approach of early and regular engagement regarding such decisions. The Regulator attended the December Board meeting (virtually) to discuss current areas of regulatory focus.

Governance

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
Our community and the environment S172(1)(d)(e) We recognise our role supporting our local community as one of Northern Ireland's leading businesses and employers. The Bank is conscious of the scale of our impact on Northern Ireland's path to a more sustainable future, noting we currently finance c15% 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.	***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 updates on specific topics such as Climate Change etc. ***At Business level***: The Bank's Responsible Business Board meets quarterly, and is chaired by our Chief Executive Officer (CEO). The Bank's new 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 Climate Change 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.	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 2021 and beyond. Positive outcomes resulting from our community programmes include: - Achieving the recently introduced Platinum level (the highest level) in BITC's CORE responsible business standard; - Retaining Platinum level in BITC's NI Environmental Benchmarking Survey for the third year; - Achieving Silver level in Northern Ireland Gender Diversity Charter Mark; - Our Charity partner Aware has benefited from our £100k in fundraising and support through volunteering, a virtual charity shop and donations to help tackle teenage mental health across Northern Ireland; - As part of our Check in and Chat programme, we have made over 19,900 calls, 610 referrals to third party support agencies and sent out 765 step-by-step guides; - Our employees Charity Group donated £23,000 to multiple small charities across Northern Ireland in 2021; - Platinum (the highest) in BITC's Business & Biodiversity Charter; - Environmental Leadership Award as part of BITC's flagship annual Responsible Business Awards; and - BITC Climate Champion and signatory to the BITC Climate Pledge.
Business relationships and conduct s172(1)(e) The Bank conducts its business responsibly, protecting customer interests resulting in appropriate customer outcomes, ensuring regulatory compliance and high standards of professional conduct.	***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. ***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	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. The Bank's focus on conducting its business responsibly is highlighted in the Bank's third annual Responsible Business Report on our website **www.danskebank.co.uk**.

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
	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 into the Bank's Conduct Committee which is attended by Executive Committee members.	
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.	***At Board level:*** The Bank, its Executive Management and Board are closely engaged with our Parent. The Bank's Board includes two Group Directors (both of whom are members 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. The Bank has historically had an annual Board Meeting at its parent site in Copenhagen, at which senior Group employees present updates to the Board on specific areas of interest; given the ongoing COVID-19 restrictions, this meeting has not taken place since 2019. The Bank's two Executive Directors virtually attended the Group Leaders Conference in November 2021. In addition to Bank employees, the Board regularly receives updates from Group stakeholders across areas notably 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.	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, robotics and automation and by taking a leading role in driving sustainability. 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 (see principal decision section of the S172 statement). In addition, the Bank's Chairman, CEO and Deputy CEO visited Copenhagen in October, holding meetings with the new Group CEO, the Chairman of the Board of Danske Bank A/S and presented the Bank's strategy to the Danske Bank Board, who were supportive of the strategic direction of the Bank. The Bank's CEO and Deputy CEO also presented an update to the Group Executive Leadership Team on the Bank's performance and strategy in October 2021.

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:

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

Decision	Stakeholder	Considerations made
Climate change Following Board's prioritisation of the identification of physical and transition climate change risks that materially impact the Bank's clients, shareholders, employees and local communities, both in the short and long term in 2020, during 2021 the Board endorsed the Bank's twin objectives of 'Going Green Ourselves' and 'Helping Customers Go Green'. This enabled management to successfully deliver a range of initiatives across the three elements of the Bank's climate strategy - 'Risk & Compliance', 'Growth & Impact' and 'Responsible Business'.		In 2021, the Board endorsed management's decision to move responsibility for climate risk and strategy from Risk Management to Corporate & Business Banking to facilitate a more active engagement in the Bank's decarbonisation and support our customers' green pathways through product and service development. This has enabled the Bank's Head of Sustainability (formerly Head of Climate Risk & Strategy) and the wider Sustainability team to deliver more value for the Bank's sustainability goals, retaining a risk element while also gaining greater remit to support all parts of the Bank. As part of the Bank's work on fully embedding climate related regulatory requirements by 31 December 2021, the Board approved the Sustainable Finance Policy which governs the Bank's approach to sustainable finance and integration of sustainability factors into our financial solutions, processes and guidance. Cognisant of the opportunity for the Bank to help customers with financing the transition to a sustainable low carbon economy and society, the Board approved the introduction of the Carbon Neutral Mortgage in Q3 2021 for personal customers and the Green Loan for Business and Corporate customers in Q4 2021. Additionally, the Board demonstrated its continued commitment to driving the sustainability agenda by supporting the Bank's continued engagement with Business in the Community to support businesses in Northern Ireland in their transition towards more climate friendly and socially responsible operations, as well as advancing the Bank's Corporate Responsibility ethos. The Board has also been fully supportive of the Bank's involvement with the Race to Zero movement which the Bank has been committed to, with Danske Bank Group signing the pledge in Q4 2021. Participation in this alliance commits the Bank to achieving net zero emissions by 2050 not only in its own operations but across its portfolio of financed emissions, having a wider community impact and further solidifying the Bank's role as a sustainability leader in the local market.
Engaging with colleagues As a result of the creation of the Board Nominations Committee, Board has sought to develop a programme of regular colleague engagement to ensure that the colleague voice is properly represented in the Boardroom.		Regular and open engagement with colleagues has been a key area of focus for the Board during the course of 2021, with Board members keen to ensure that the colleague voice was appropriately represented in the Boardroom. At the inaugural meeting of the Board Nominations Committee in September 2021, Board agreed various measures to ensure that regular and open engagement with colleagues was prioritised. As a result, an engagement plan has been developed which reflects the significance which Board are attaching to engaging with colleagues throughout the Bank – a 'Meet the Board' article was published on the Bank's intranet followed by articles spotlighting the Non Executive Directors in order to improve colleague awareness of Board members (this series will continue into 2022). There have been 'Coffee catch ups' with individual directors, informal lunches with Board members and thought leadership lectures delivered by members of the Board. These activities will continue throughout 2022 and will be supplemented by branch/department visits by Directors and the creation of 'Board 360' an informal colleague engagement forum where the Board members can listen to colleagues thoughts, views and ideas. Board considered it important that a formal feedback loop was created to ensure that colleague views were taken

Decision	Stakeholder	Considerations made
		into thinking at Board meetings and as a result, updates from 'Board 360' have been included in the Rolling Board Agenda for 2022. In addition, the Board supported the inclusion of regular Board level review sessions during 2022 to ensure the effectiveness of the engagement with colleagues and its impact on Board decision making.
CEO appointment The Bank appointed a new CEO in September 2021 following consideration by the Board of a number of internal and external candidates. Throughout the process, the emphasis of the Board was on ensuring that the new CEO embodied the culture and values of the organisation and had a vision to ensure the long term success of the Bank.		The Board and subsequently the Bank's parent, approved the appointment of Vicky Davies as CEO with effect from 1 September 2021. Throughout the process, the Board placed stakeholder interests at the core of its objectives in the search for Kevin Kingston's successor. The Board Nominations Committee, on behalf of the Board, approved a role profile which required candidates to demonstrate alignment with the Bank's culture and values with a clear vision for the Bank that would deliver long term sustainable growth to the business for the benefit of its parent and stakeholders. A robust search process was undertaken, using an external recruitment firm and involving the consideration of both internal and external candidates. Vicky Davies was identified as the strongest candidate on the basis of the role profile and following a robust interview process, which speaks to the strength of Board and Executive Succession Planning within the Bank. In reaching its decision, the interests of the Bank's customers were a key consideration for the Board, particularly each candidate's ability to lead a business that would be recognised as having a strong customer focus. The Board also ensured that colleague interests were taken into account when agreeing the role profile used to assess potential candidates. These required candidates to demonstrate the attributes needed to lead the culture and values of the Bank. The Board ensured that the Bank's regulators, another of its key stakeholder groups, were kept regularly apprised of progress during the search. The Board will continue to ensure that its nominations process for appointments to the Board is based on the principles of fairness, respect and inclusion and that all nominations and appointments to the Board are made on the basis of individual competence, skills and expertise measured against individual objective criteria and taking into account a broad range of stakeholder interests.
Dividend payment The decision to make the payment of a dividend to the Bank's parent was taken following stakeholder feedback, including the regulator, and extensive consideration and discussion at both management and Board level.		The Board considered the feasibility of payment of a dividend in the context of the ongoing economic impacts of the global COVID-19 pandemic and the expectations of the regulator, along with the impact on the Danske Bank Group, the Bank's sole shareholder. The management team consulted with internal and external advisers, with approaches by other financial institutions considered, and engaged with the regulators. The Board considered the fact that the PRA and the European Systemic Risk Board (ERSB) allowed for the resumption of dividend payments in 2021. The Board also looked at various financial scenarios in the light of the global pandemic, to ascertain if payment of a dividend was appropriate in the current year as part of the Bank's capital strategy. In making their decision, Directors took into account the Bank's strong capital position, achieved through organic capital build and optimising its capital usage, and noted that notwithstanding the payment of a dividend to the Bank's parent there remains sufficient surplus capital to support the Corporate Planning process and the continuing, albeit reduced, Covid related uncertainty. The Board will continue to take the views of the Bank's shareholder and the regulator into account in considering the making of dividend payments, whilst promoting the long-term sustainable success of the Bank.

Report of the Directors

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 2021.

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

Financial performance

The Bank's profit after tax was £41.5m for the year ended 31 December 2021 (2020: £7.6m). The Bank's financial performance is further detailed within the Income Statement.

Dividends

The Directors paid an interim dividend of £75,000,000 during the year (2020: £Nil). The Directors do not recommend the payment of a final dividend in respect of this financial year (2020: £Nil).

Financial instruments

The financial instruments are detailed within note 12 of the Financial Statements.

Political donations

No political donations were made by the Bank during the 2021 financial year (2020: £Nil).

Foreign branches

The Bank does not operate any foreign branches outside of Northern Ireland and Great Britain.

Directors and Directors' interests

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

- Berit Behring
- Michael Black
- Vicky Davies
- Stephan Engels
- Gerard Gregory
- Astrid Grey
- Alastair Hamilton
- Stephen Matchett
- Martin Stewart

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 good social 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.

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 (outlined from page 77 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 80 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 contained in the Strategic 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.

Risk management

The Bank's principal risk and uncertainties are contained in the Strategic Report from page 23. Information on the Bank's risk management framework can be found in the Risk Management section (outlined from 49 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.

Future developments

Going forward, the Bank will continue to leverage from its strong competitive position by expanding its range of competitive banking products and services in the Northern Ireland and GB markets, to support the growth of the Bank and its customers.

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, with this year being the second year that emissions and energy use have been formally reported. 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 the 2021 year, 80% of stand-alone branch properties are now fossil fuel free with heat pumps replacing former oil or gas boilers.

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

Consistent across the Danske Bank Group, the approach to reporting energy consumption emissions is from 1 October in the previous year to 30 September in the reporting year.

GHG emissions and energy usage data for period 1 October to 30 September (1)

	2021	2020	2019	2018	2017
Emissions from combustion (Scope 1 - tonnes of CO2e)(2)(3)	502	571	465	515	501
Emissions from electricity purchased for own use, including for the purposes of transport (Location - based Scope 2 - tonnes of CO2e)(4)	513	900	1,259	1,523	1,685
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)	95	249	428	616	669
Total Market – based tonnes of CO2e	597	820	893	1,131	1,170
Total emissions per full-time employee (tonnes of CO2e/Full Time Equivalent)	0.41	0.61	0.63	0.82	0.83
Total energy use (7) (kWh) (8)	4.82m	5.73m	5.83m	6.37m	6.35m

Notes:

(1) Emissions calculated by using IEA and DEFRA emission factors. 2019 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**

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 Strategic Report and the "Risk management" section of the Annual Report describe the risks the Bank is exposed to and how they are managed.

The key factors considered in the going concern assessment were:

- *Capital and profitability* - the expected future profitability and thus self-sufficiency from a capital perspective of the Bank. The current Corporate Plan and ICAAP demonstrate that the Bank is expected to generate profits in excess of the capital required for projected lending growth; and

- *Liquidity* - at 31 December 2021 the portfolio of liquid assets was £5.8bn and significantly in excess of that required to meet the most stressful liquidity scenario. The Bank's loan book is fully funded by customer deposits and the Bank has a low loan to deposit ratio of 56%.

The Directors have assessed the ongoing impact of the current COVID-19 pandemic and remain satisfied that the Bank's response will continue to mitigate the short term financial threats as well as deliver longer term business resilience to protect key stakeholders.

The Directors have taken into consideration the additional uncertainty arising as a result of Russia's invasion of Ukraine. As a consequence, the Directors believe the Bank is well placed to manage its business risks successfully.

After making enquiries, 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.

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 2021 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

11 March 2022

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

Vicky Davies
Executive Director and Chief Executive Officer

11 March 2022

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

Report on the audit of the 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 2021 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 related notes 1 to 44.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs (and their applicable interpretations) 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 £7,492,000, 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:

- 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 (such as those related to Covid-19 and Brexit);
- Evaluating management'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 ICAAP (Internal Capital Adequacy Assessment Process(and ILAAP (Individual Liquidity Adequacy Assessment Process)), and related stress tests, to assess financial position; and
- Reviewing the disclosures included in the financial statements on going concern and financial viability, and, through our audit procedures, assessing whether they are appropriate.

Based on the audit procedures 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 calculation of ECLs 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; • 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 2021, the ECL on loans and advances to customers was £90.5 million (2020: £108.1 million), representing a coverage level of 1.4% on a total portfolio of £6,297 million

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

	(2020: 1.7% on a total portfolio of £6,338 million). Measurement of the ECL on loans and advances to customers is a key audit matter as the assumptions used in the ECL models are highly subjective due to the level of judgement applied by management. The most significant judgements include: • Determining the criteria for a significant increase in credit risk and for being classified as credit impaired; • Choosing the appropriate models and assumptions for measuring ECL, with key assumptions being probability of default and loss given default; • Key assumptions, including collateral valuation, haircuts and cashflow timings, used in discounted cash-flows ('DCFs') of individually assessed Stage 3 loans; • The determination of post model adjustments; 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 potential longer-term impacts of COVID-19, instability at a local government level and the nature of trading arrangements between NI and the wider UK and European Union post Brexit. This results in a wide range of possible outcomes. The Bank's accounting policy for expected credit loss (ECL) 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 14 and 39 to the financial statements.
How the scope of our audit responded to the key audit matter	We understood and tested key controls supporting the calculation of ECLs on loans and advances to customers focusing on: • model development, validation and approval to ensure compliance with IFRS 9 requirements; • review and approval of key assumptions, judgements and forward-looking information used in the models; • front line credit monitoring and assessment controls; and • review and approval of post model adjustments. Our testing of key controls included design and implementation testing, operating effectiveness testing, an evaluation of IT system controls, management review controls and governance controls. 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 also challenged the multiple economic scenarios chosen and the weightings applied. This included benchmarking the economic data used to recognised external data sources. We critically assessed the policies and processes surrounding the calculation of post model adjustments, and challenged the completeness and accuracy of all significant overlays attributed by management. 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. In examining a sample of individually assessed Stage 3 loans cases, we challenged management on the judgements made regarding the application of default policy, collateral valuation and realisation time frames; and examined the credit risk functions 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

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

	the significant uncertainties that exist in respect of ECL allowances and the sensitivity of the allowance to changes in the underlying assumptions.
Key observations	Based on the audit procedures performed, we concluded that the data and assumptions used by management in loan impairment provisioning are within a range we consider to be reasonable.

5.2. Valuation and recoverability of the deferred tax asset

Key audit matter description	The risk that projection of profitability over a long time period presents inherent uncertainty, involving significant management judgements and may lead to inappropriate valuation of deferred tax assets, specifically those in relation to brought forward tax losses. The Bank has recognised a net deferred tax liability at 31 December 2021 of £13.9 million (2020: liability of £34.1 million). This comprises a gross deferred tax asset of £37.8 million (2020: £32 million) and a gross deferred tax liability of £51.7 million (2020: £66.2 million). The gross deferred tax asset includes £24.3 million (2020: £19.3 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 2026 (2020: 5 years ending 31 December 2025). No asset has been recognised in respect of tax losses where utilisation is uncertain after this date. 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 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 20 to the financial statements.
How the scope of our audit responded to the key audit matter	We evaluated management's analysis supporting the recoverability of deferred tax losses and valuation of the deferred tax asset. 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 challenged the adjustments recorded by management relating to non-taxable expenditure made to the accounting profit to determine the taxable profit for accuracy. We assessed the ability of the Bank to recover the asset by evaluating future approved profit forecasts, including discussing them with management. 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. We agreed the accounting profit used in the model to the approved strategic plan for the years ending 31 December 2022 to 31 December 2026, and evaluated the adjustments to derive taxable profit for reasonableness. We evaluated the adequacy of financial statement disclosures for accuracy and completeness.
Key observations	Based on the audit procedures performed, we concluded 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 £1,230 million (2020: £1,251 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.

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

	We note that the selection of the discount, mortality and inflation rates has a large impact on the overall valuation as set out in the sensitivity analysis in note 24 to the financial statements. The Bank's accounting policy for pension costs 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.
How the scope of our audit responded to the key audit matter	We evaluated the design and determined the implementation of controls over the completeness and accuracy of the valuation of the pension obligations. We utilised Deloitte actuarial specialists as part of our team to assist us in evaluating the appropriateness of actuarial assumptions with particular focus on the discount rate, mortality rates and inflation rates. Our work included inquiries of management and the Bank's external actuaries to understand the processes and assumptions used in calculating defined benefit pension obligations. We benchmarked the key assumptions that underpin the pension obligations, being discount rate, inflation rate and mortality rate, to ensure that they are reasonable and supportable. 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 audit procedures performed, we concluded that the set of assumptions used by the Bank (when considered as a whole) is reasonable and towards the middle of the range we have observed in the industry.

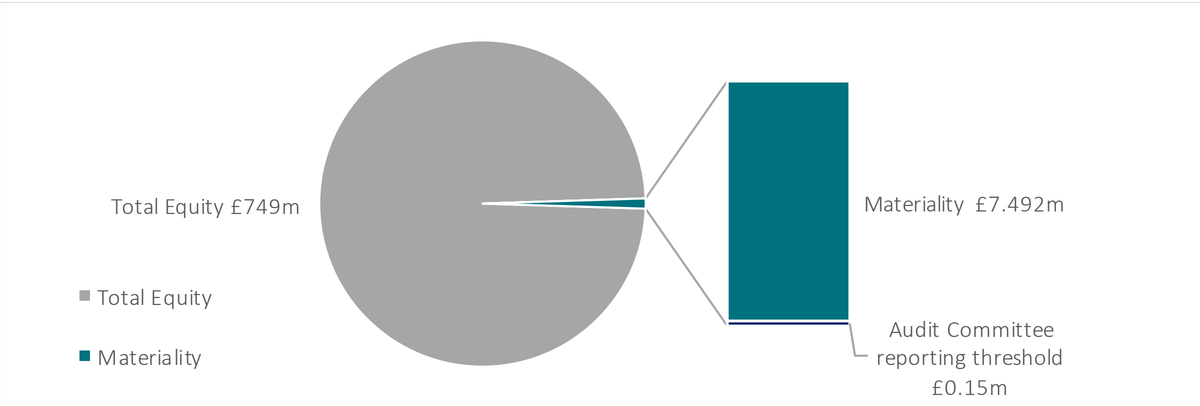
6. Our application of materiality

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	£7,492,000 (2020: £5,000,000)
Basis for determining materiality	1% of total equity (2020: 0.59% of total equity).
Rationale for the benchmark applied	Following a benchmarking exercise against peer banks, we consider 1% total equity to be an appropriate benchmark for setting materiality.



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 2021 audit (2020: 70%). In determining performance materiality, we considered the following factors:

a. the quality of the control environment and whether we were able to rely on controls;
b. the nature, volume and size of misstatements (corrected and/or uncorrected) in the previous audit; and
c. factors resulting in higher fraud risk or engagement risk (including consideration of the Banks Anti-money laundering procedures).

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £150,000 (2020: £100,000), 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

The Bank has developed an implementation plan to align with the four pillars of the TCFD recommendations. The Bank has disclosed its awareness of the impact of climate change on value creation over time as physical and transition risks emerge. As a result, the Bank is dedicated to managing the impacts of climate change and has formalised this priority through various long-term targets focusing on reaching net zero by 2050 and establishing meaningful interim targets both regarding internal operations and wider community and client engagement. The Bank has carried out scenario and gap analysis to identify key risks at a more granular level. Many of the impacts arising will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgements and estimates for the current period under the requirements of UK adopted international accounting standards, IFRS as adopted by the European Union and as issued by the IASB.

We held discussions with the Bank to understand the impact of climate change and the initial risk analysis performed to identify key risks impacting upon the financial statements in the longer term.
Our procedures on the TCFD and climate risk disclosures consisted solely of considering whether they are materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

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, and the group audit team were supervised via regular calls and a visit to Copenhagen to review the work performed.

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.

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.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the entity's financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that the use of the going concern basis of accounting is appropriate and no material uncertainties have been identified, we report these conclusions in the auditor's report. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e. gives a true and fair view).

The auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the FRC's Ethical Standard, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For public interest entities, other listed entities, entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, and other entities subject to the governance requirements of The Companies (Miscellaneous Reporting) Regulations 2018, the auditor is required to include in the auditor's report an explanation of how the auditor evaluated management's assessment of the entity's ability to continue as a going concern and, where relevant, key observations arising with respect to that evaluation.

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;
- the Bank's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal audit, legal counsel and the audit committee about their own identification and assessment of the risks of irregularities;
- 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; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team including relevant internal specialists, including tax, 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 ECL provisions (including the use of post model adjustments), valuation and recoverability of the deferred tax asset, valuation of defined pension obligations, revenue recognition and management override of controls. 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 FCA and 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, such as 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, valuation and recoverability of the deferred tax asset, and the valuation of defined pension 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, 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; and
- 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 risk of fraud in revenue recognition, we challenged the inputs to and any changes to the assumptions used by management in the calculation of the effective interest rate (EIR) used to determine interest received, which included testing the accuracy and completeness of historical information used by the Bank in determining the behavioural life of fees integral to the yield which are included in the EIR applied, and performed journal entry testing over manual adjustments made to revenue account codes to assess the business rationale for such transactions.

In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated 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.

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 7 years, covering the years ending 31 December 2015 to 31 December 2021.

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, FCA (Senior statutory auditor)
For and on behalf of Deloitte (NI) Limited
Statutory Auditor
Belfast, Northern Ireland
11 March 2022

Income Statement
for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Interest and similar income		160,651	175,408
Interest expense		(5,895)	(13,487)
Net interest income	2	154,756	161,921
Fee and commission income	3	40,835	38,701
Fee and commission expense	3	(5,841)	(5,306)
Net trading income	2	8,962	7,850
Other operating income	4	1,335	1,953
Non-interest income		45,291	43,198
Operating income		200,047	205,119
Operating expenses	5	(150,005)	(142,240)
Depreciation and amortisation expense	6	(3,433)	(4,376)
Profit before loan impairment credit / (charge)		46,609	58,503
Loan impairment credit / (charge)	14	14,660	(45,426)
Profit before tax		61,269	13,077
Tax expense	9	(19,735)	(5,525)
Profit for the year		41,534	7,552
Portion attributable to:			
- Shareholders of Northern Bank Limited		36,549	2,526
- Additional Tier 1 capital holders		4,985	5,026
		41,534	7,552

All material items dealt with in arriving at the profit on ordinary activities before tax relate to continuing activities.

The notes on pages 108 to 164 form part of these Financial Statements.

Statement of Other Comprehensive Income for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Profit for the year		41,534	7,552
Items that will not be reclassified to profit or loss			
Other comprehensive income / (loss):			
- Actuarial (loss) / gain recognised in retirement benefit scheme	24	(69,792)	19,865
- Tax on actuarial loss / (gain) recognised in retirement benefit scheme	20	23,032	(5,364)
- Gain / (loss) on property revaluation	17, 19	571	(954)
- Tax on property revaluation transferred to revaluation reserve	20	(581)	73
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		(13,500)	7,724
- Tax	20	3,864	(2,128)
Change in cash flow hedge reserve			
- (Losses) / gains during the year	12e	(9,611)	3,612
- Tax	20	2,784	(1,032)
Total other comprehensive income		(63,233)	21,796
Total comprehensive income for the year		(21,699)	29,348
Portion attributable to:			
Shareholders of Northern Bank Limited		(26,684)	24,322
Additional Tier 1 capital holders		4,985	5,026
Total comprehensive income for the year		(21,699)	29,348

The notes on pages 108 to 164 form part of these Financial Statements.

Balance Sheet
as at 31 December 2021

	Note	31 December 2021 £'000	31 December 2020 £'000
Assets			
Cash and balances at central bank	10	4,388,161	4,225,153
Items in the course of collection from other banks		21,839	20,190
Due from other banks	11	48,023	50,639
Derivative financial instruments	12	8,586	17,284
Investment securities	13	2,226,346	1,409,536
Loans and advances to customers	14	6,206,664	6,229,841
Investment in subsidiaries	15	250	250
Intangible assets	16	34	157
Property, plant and equipment	17	40,272	41,818
Right-of-use asset	18	4,253	5,568
Assets held for sale	19	1,399	360
Defined benefit pension asset	24	154,208	219,679
Current tax assets		1,092	3,008
Other assets	21	24,046	26,706
Total assets		13,125,173	12,250,189
Liabilities			
Due to other banks	22	366,611	373,032
Items in course of transmission to other banks		15,267	12,147
Derivative financial instruments	12	22,487	28,199
Deposits from customers	23	11,161,358	10,228,137
Notes in circulation		634,036	557,942
Deferred tax liabilities	20	13,900	34,194
Other liabilities	25	33,558	36,317
Provisions	26	2,757	3,354
Subordinated debt	27	126,000	126,000
Total liabilities		12,375,974	11,399,322
Equity			
Share capital	32	218,170	218,170
Other equity instruments	35	96,974	96,958
Share premium account		306,590	306,590
Revaluation reserve		33,892	34,965
Reserve for investment securities at fair value	33	(2,446)	7,190
Cash flow hedge reserve	34	(2,115)	4,712
Retained earnings		98,134	182,282
Total equity and shareholders' equity		749,199	850,867
Total liabilities and equity		13,125,173	12,250,189

The notes on pages 108 to 164 form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 11 March 2022 and were signed on its behalf by:

Vicky Davies
Director and Chief Executive Officer

Stephen Matchett
Director, Deputy Chief Executive Officer
and Chief Financial Officer

Company Number: R0000568

Danske Bank

Statement of Changes in Equity for the year ended 31 December 2021

	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 2020		218,170	306,590	35,906	2,132	1,594	165,194	729,586	97,069	826,655
Profit for the year		-	-	-	-	-	2,526	2,526	5,026	7,552
Other comprehensive income/(loss):										
- Actuarial gain recognised in retirement benefit scheme	24	-	-	-	-	-	19,865	19,865	-	19,865
- Transfer re property disposals		-	-	(60)	-	-	60	-	-	-
- Property revaluation	17	-	-	(954)	-	-	-	(954)	-	(954)
- Investment securities at fair value		-	-	-	-	7,724	-	7,724	-	7,724
- Change in cash flow hedge reserve	12e	-	-	-	3,612	-	-	3,612	-	3,612
- Tax	20	-	-	73	(1,032)	(2,128)	(5,363)	(8,450)	-	(8,450)
Total other comprehensive income/(loss)		-	-	(941)	2,580	5,596	14,562	21,797	-	21,797
Total comprehensive income for the year		-	-	(941)	2,580	5,596	14,562	24,323	5,026	29,349
Transactions with owners:										
Dividends paid		-	-	-	-	-	-	-	-	-
Paid interest on Additional Tier 1 capital		-	-	-	-	-	-	-	(5,137)	(5,137)
		-	-	-	-	-	-	-	(5,137)	(5,137)
At 31 December 2020		218,170	306,590	34,965	4,712	7,190	182,282	753,909	96,958	850,867
Profit for the year		-	-	-	-	-	36,549	36,549	4,985	41,534
Other comprehensive income/(loss):										
- Actuarial loss recognised in retirement benefit scheme	24	-	-	-	-	-	(69,792)	(69,792)	-	(69,792)
- Transfer re property disposals		-	-	(1,063)	-	-	1,063	-	-	-
- Property revaluation	17	-	-	571	-	-	-	571	-	571
- Investment securities at fair value		-	-	-	-	(13,500)	-	(13,500)	-	(13,500)
- Change in cash flow hedge reserve	12e	-	-	-	(9,611)	-	-	(9,611)	-	(9,611)
- Tax	20	-	-	(581)	2,784	3,864	23,032	29,099	-	29,099
Total other comprehensive income/(loss)		-	-	(1,073)	(6,827)	(9,636)	(45,697)	(63,233)	-	(63,233)
Total comprehensive income for the year		-	-	(1,073)	(6,827)	(9,636)	(9,148)	(26,684)	4,985	(21,699)
Transactions with owners:										
Dividends paid		-	-	-	-	-	(75,000)	(75,000)	-	(75,000)
Paid interest on Additional Tier 1 capital		-	-	-	-	-		-	(4,969)	(4,969)
		-	-	-	-	-	(75,000)	(75,000)	(4,969)	(79,969)
At 31 December 2021		218,170	306,590	33,892	(2,115)	(2,446)	98,134	652,225	96,974	749,199

The notes on pages 108 to 164 form part of these Financial Statements.

Danske Bank

Cash flow Statement for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flow from operating activities			
Profit before tax		61,269	13,077
Adjustments for:			
Tax paid		(9,014)	(10,081)
Adjustment for non-cash operating items:			
Amortisation of investment securities		10,295	450
Amortisation of intangible assets	16	123	141
Depreciation of property, plant and equipment	17	2,138	2,935
Depreciation of right-of-use asset	18	1,172	1,300
Loan impairment charges	14	(14,660)	45,426
Net defined benefit pension credit	24	(2,251)	(2,822)
Other non-cash items		9	17,777
Cash flow from operations before changes in operating assets and liabilities		49,081	68,203
Cash flow from operating capital			
Cash and balances at central bank - mandatory deposits	10	(153,243)	(97,260)
Items in transit		1,471	11,030
Loans and advances to customers		37,837	(166,855)
Derivative financial instruments		(6,625)	7,683
Due to other banks	22	(6,421)	8
Deposits		933,221	2,136,597
Notes in circulation		76,094	85,974
Defined benefit pension contributions	24	(2,070)	(1,109)
Other assets / liabilities		259	2,330
Cash flow from operating assets and liabilities		880,523	1,978,398
Cash flow from investing activities			
Maturity of investments - hold to collect		150,000	186,000
Sale of investments - hold to collect		-	-
Sale of investments - hold to collect and sell		255,005	145,354
Purchase of investments - hold to collect		(943,850)	(127,567)
Purchase of investments - hold to collect and sell		(301,761)	(287,543)
Acquisition of intangible assets	16	-	(86)
Acquisition of tangible assets	17	(2,112)	(1,441)
Sale of tangible fixed assets		1,301	106
Cash flow from investing activities		(841,417)	(85,177)
Cash flow from financing activities			
Dividends paid to shareholders		(75,000)	-
Payments of interest to AT1 capital holders		(4,970)	(5,137)
Principal portion of finance lease payments		(1,068)	(1,113)
Cash flow from financing activities		(81,038)	(6,250)
Cash and cash equivalents, beginning of year		2,962,528	1,007,354
Net change in cash and cash equivalents		7,149	1,955,174
Cash and cash equivalents, end of year		2,969,677	2,962,528
Cash in hand and demand deposits with central banks - non mandatory deposits	10	2,921,654	2,911,889
Deposits with credit institutions and central banks - with terms shorter than 3 months	11	48,023	50,639
Total		2,969,677	2,962,528

The notes on pages 108 to 164 form part of these Financial Statements.

Note 1 – Basis of preparation

(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 71.

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 15).

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.

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.

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.

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 risk 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 2021, the Directors have considered a range of factors including the current net asset position, the Bank’s corporate plan and strategy, and internal stress testing and scenario analysis of the Bank’s capital and liquidity position. In addition, the Directors have assessed the ongoing impact of the ongoing COVID-19 pandemic and remain satisfied that the Bank’s response will continue to mitigate the short term financial threats as well as deliver longer term business resilience to protect key stakeholders.

Assessments have concluded that the Bank has sufficient capital and liquidity for the next 12 months and for the foreseeable future.

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 2021 exceeds its internal MREL requirements.

For capital, funding and liquidity purposes, the Bank is managed on a standalone basis and is subject to regular and rigorous monitoring. The Bank continues to hold a strong customer loan to deposit ratio.

After making enquiries, 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.

Note 1 – Basis of preparation

(b) Significant accounting estimates

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.

There are no critical accounting judgements and the key sources of estimation uncertainty are set out below.

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 (stage 2 and 3). In determining the impairment for expected credit losses, management exercises judgement and uses estimates and assumptions as explained below.

In determining the expected credit losses, management is required to exercise judgement in defining what is considered a significant increase in credit risk. 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 and downside), including an assessment of the probability for each scenario. 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 an upside and a downside macroeconomic scenario. The scenarios reflect the economic outlook as at 31 December 2021. For the year ended 31 December 2021 the base case scenario enters the calculation with a probability of 60%, the downside scenario with a probability of 30% and the upside scenario with a probability of 10%.

The table below gives the average current year macroeconomic assumptions in the period 2022-2024 under the three scenarios considered.

Economic assumption	Measurement	Base Case	Upside scenario	Downside scenario
Northern Ireland Gross Value Added (GVA)	Annual % change	2.8	3.1	2.2
Northern Ireland unemployment rate	Annual average	4.5	4.2	6.0
Northern Ireland consumer expenditure	Annual % change	3.2	3.3	2.3
Northern Ireland house prices	Annual % change	1.8	2.6	(2.4)
UK CPI (Consumer Price Index) inflation rate	Annual average	2.9	2.7	3.1
Bank of England Bank Rate	Annual average	0.6	0.6	0.5

The table below gives the average prior year macroeconomic assumptions in the period 2021-2023 under the three scenarios considered which were used to determine the ECL (Expected Credit Loss) at 31 December 2020.

Economic assumption	Measurement	Base Case	Upside scenario	Downside scenario
Northern Ireland GVA	Annual % change	3.3	4.0	2.6
Northern Ireland unemployment rate	Annual average	6.8	6.3	8.1
Northern Ireland consumer expenditure	Annual % change	3.8	4.5	3.1
Northern Ireland house prices	Annual % change	(0.7)	0.7	(2.5)
UK CPI inflation rate	Annual average	2.1	2.2	2.1
Bank of England Bank Rate	Annual average	0.1	0.1	(0.1)

Note 1 – Basis of preparation (continued)

Based on these assessments, the allowance account at 31 December 2021 amounted to £95,982,000 (2020: £120,369,000). 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 £3,777,000 (2020: decrease of £303,000).

Similarly, excluding the impact of any stage 3 impairments which are assessed manually by credit officers, the allowance account would increase by £9,135,000 (2020: increase of £8,118,000) if the downside scenario was assigned a probability of 100%, and the allowance account would decrease by £4,741,000 (2020: decrease of £4,143,000) 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 assumption tables) and the macroeconomic assumptions and probability weightings applied to each scenario in the assessment of the allowance account as at 31 December 2021. However, it shall be noted that the expected credit losses in the individual scenarios does not represent expected credit loss (ECL) forecasts.

Note 39 and the section on credit risk in the risk management notes provide more details on expected credit losses. At 31 December 2021, loans and advances to customers accounted for about 47.3% of total assets (2020: 50.9%).

Recognition of deferred tax asset

A deferred tax asset of £24,316,000 (2020: £19,329,000) is recognised for unused tax losses to the extent that (defined for this purpose as more likely than not) 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/decreased by 10% per annum (p.a.), this would lead to an increase/decrease in the deferred tax asset of £2,180,000.

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 - 2020);
- 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.

From 1 April 2016, only 25% of the Bank's taxable profits can be relieved by brought forward losses. This has increased the horizon over which losses can be used. As a result, the Bank has restricted the deferred tax asset such that it only reflects those losses that can be relieved against expected profits for the five year period to 31 December 2026 i.e. the current corporate planning horizon. If the time period for expected profits was increased/decreased by one year this would lead to an increase/decrease in the deferred tax asset of £5.0m.

Defined benefit pension scheme

As disclosed in note 24 the Bank operates a defined benefit pension scheme. The Scheme held assets of £1,384,408,000 (2020: £1,470,179,000) and liabilities of £1,230,200,000, (2020: £1,250,500,000) at the year ended 31 December 2021. Overall, the Bank recognised an overall pension scheme surplus at 31 December 2021 of £154,208,000 (2020: £219,679,000).

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 24.

Note 1 – Basis of preparation (continued)

(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 2021, the Bank implemented amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Interest Rate Benchmark Reform, phase 2) and IFRS 16 (Covid-19 Related Rent Concessions).

The implementation of the amendments to IFRSs had no impact on the financial statements.

Interest Rate Benchmark Reform – phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

In August 2020, the IASB issued amendments to various standards to cover the effects on financial statements when old interest rate benchmarks are replaced by alternative benchmark rates as a result of the benchmark reform.

The amendments introduce a practical expedient to account for a change to the basis for determination of the contractual cash flows at the date on which interest rate benchmarks are altered or replaced.

Under the practical expedient, a change to the determination of the contractual cash flows is applied prospectively by altering the effective interest rate, i.e. not leading to a modification gain or loss recognised in the income statement. To be applicable for the practical expedient, a change must meet two conditions: (a) the change is a direct consequence of the reform and (b) the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

The amendments further introduce reliefs from existing hedge accounting requirements. The reliefs include that hedge accounting would not discontinue solely due to the benchmark reform and that, for the retrospective effectiveness test for fair value hedges under IAS 39, the cumulative fair value changes of the hedged item and the hedging instrument may be reset to zero to minimise the risk that a hedge will fail the retrospective effectiveness test when the benchmark transitions to an alternate benchmark. The amendments further require that the hedging relationships and documentations are amended to reflect changes in the hedged item, the hedging instrument and the hedged risk (which do not represent a discontinuation of the existing hedge). The implementation has been applied retrospectively without restatement of prior periods. The implementation of the amendments had no impact on shareholders' equity at 1 January 2021.

COVID-19 related rent concessions (amendments to IFRS 16)

The amendment introduces a practical expedient under which a lessee may elect not to assess whether a COVID-19 related rent concession meets the definition of a modification. The Bank has not been granted any concessions, and the amendment has no impact on shareholders' equity at 1 January 2021.

Standards and interpretations not yet in force

The International Accounting Standards Board (IASB) has issued one new accounting standard (IFRS 17) and amendments to existing international accounting standards (IFRS 1, IFRS 3, IFRS 9, IFRS 16, IAS 1, IAS 8, IAS 12,IAS 16 and IAS 37), that have not yet come into force.

The IASB has issued a number of other minor amendments to IFRSs that are not mandatory for the current reporting year and have not been early adopted by the Bank.

The new and amended IFRS changes listed above are not expected to affect the Bank's future financial reporting.

.

Note 1 – Basis of preparation (continued)

(d) Accounting policies

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.

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.

Fair value hedge

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.

In June 2021, a portfolio fair value hedge of core deposits was implemented in accordance with IAS39 as adopted by the UK. This version of IAS 39, referred to as the “EU carve out” version, allows 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.

Cash flow hedge

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 12.

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 exchanges 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.

Note 1 – Basis of preparation (continued)

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.

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.

Investment securities - Financial assets measured at 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. Interest income is recognised 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. The bonds are subject to the expected credit loss model in IFRS 9 as described in note 39. The interest rate risk on fixed-rate bonds is not hedged.

Note 1 – Basis of preparation (continued)

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 39. 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 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. 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.

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.

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.

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. 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.

Note 1 – Basis of preparation (continued)

Operating leases

Operating leases consist of lease commitments with a term of less than 12 months together with lease commitments for low value assets.

Subordinated debt

Subordinated debt is a liability in the form of subordinated loan capital and other capital investments which, in case of the Bank's voluntary or compulsory winding-up, will not be repaid until the claims of its ordinary creditors have been met.

Subordinated debt is measured at amortised cost.

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.

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.

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 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

Note 1 – Basis of preparation (continued)

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.

Shares 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.

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 12 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

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. 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.

	2021 £'000	2020 £'000
Interest income		
Financial assets at amortised cost:		
Due from other banks and central bank	4,565	5,557
Investment securities - hold to collect	4,791	4,499
Investment securities - hold to collect and sell	5,423	6,426
Loans and advances to customers	144,089	156,095
Interest income on defined benefit pension scheme surplus (Note 24)	3,300	4,000
	162,168	176,577
Financial portfolios at fair value:		
Derivative financial instruments	(1,517)	(1,169)
Total interest income	160,651	175,408
Interest expense		
Due to other banks	653	1,343
Deposits from customers	2,819	8,988
Subordinated debt	2,316	3,023
Interest expense on lease liabilities	107	133
Total interest expense	5,895	13,487
Net interest income	154,756	161,921
Net trading income		
Foreign Exchange Brokerage	7,251	6,449
Financial Assets at Fair Value	(460)	386
Breakage of Instruments	2,171	1,016
	8,962	7,850

Note 3 – Fee income and expenses

The breakdown of fee income and fee expenses is analysed by underlying activity.

	2021 £'000	2020 £'000
Fee income		
Financing (loans, advances and guarantees)	5,054	5,080
Investment (securities trading)	113	35
Services (payment services)	35,668	33,586
Total	40,835	38,701
Fee expenses		
Financing (loans, advances and guarantees)	833	970
Investment (securities trading)	124	103
Services (payment services)	4,884	4,233
Total	5,841	5,306

Note 4 – Other operating income

Other income includes rental income, invoice finance income, profit on sale of tangible property, plant & equipment and other sundry income.

	2021 £'000	2020 £'000
Other income	1,335	1,953
Total	1,335	1,953

Note 5 – Operating expenses

Operating expenses includes staff costs along with the costs incurred to deliver retail banking services to the Bank's customers.

Operating expenses include net recharges from Danske Bank A/S of £47,390,000 (2020: £43,448,000). Such recharges relate to services provided by Danske Bank A/S under a number of service level agreements.

The average number of full time equivalent employees of the Bank during the year is outlined in note 41.

	2021 £'000	2020 £'000
Staff costs		
- wages and salaries	46,064	45,112
- social security costs	4,595	4,728
- pension costs		
- defined benefit cost (Note 24)	-	-
- past service cost (Note 24)	-	180
- defined contribution (Note 24)	7,711	7,676
	58,370	57,696
Property related expenses	7,487	7,410
Information technology expenses	21,156	26,721
Administrative expenses	62,992	50,413
Total	150,005	142,240

Note 6 – Disclosable items included within operating profit

This is stated after:	2021 £'000	2020 £'000
Income		
Aggregate amounts receivable under finance leases and hire purchase contacts (net of depreciation £120,618,000 (2020: £115,299,000))	7,004	8,163
Charges		
Depreciation of tangible fixed assets (Note 17)	2,138	2,935
Depreciation of right-of-use assets (Note 18)	1,172	1,300
Amortisation of intangible fixed assets (Note 16)	123	141
(Gain) / Loss on disposal of property, plant and equipment	(247)	(6)
Expenses relating to short term and low value leases (including hire of computers and equipment)	635	626

Note 7 – Auditor's remuneration

Auditor's remuneration	2021 £'000	2020 £'000
Audit of these Financial Statements		
- Audit fee	141	138
- IFRS reporting requirements	41	40
Amounts receivable by the auditor and their associates in respect of:		
- Audit of the financial statements of subsidiary companies	29	28
- Other assurance services	51	50
	262	256

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 – Directors' emoluments

	2021 £'000	2020 £'000
Aggregate emoluments	2,100	1,982
Bank pension contributions to Danske Bank Master Trust Plan	10	17
	2,110	1,999

In addition to the amounts shown above, social security costs were payable in respect of emoluments to Directors amounting to £284,000 (2020: £263,000). This includes £108,000 in respect of the emoluments of the highest paid Director in the year ended 31 December 2021 (2020: £95,000). 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, three Directors (2020: three) held conditional shares and 5,668 were exercised during the year (2020: 6,054 shares). Further details are disclosed in note 42 of the Financial Statements. For the year ended 31 December 2021 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.

Two Directors (2020: Two) are members of the Danske Bank Master Trust Plan (the Bank's defined contribution scheme) and no Directors (2020: None) are members of the Bank's defined benefit pension scheme. During the year employer contributions of £10,000 (2020: £17,000) were made to the pension savings of one Director (2020: two).

The aggregate emoluments (including benefits in kind and pension contributions paid by the Bank) of the highest paid Director were £767,000 (2020: £714,000). Of these emoluments, The highest paid Director exercised conditional shares during the year.

Note 9 – 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.

	2021 £'000	2020 £'000
Current tax		
UK corporation tax		
Current year	8,024	(1)
Current year - corporation tax surcharge on Banking profits	2,905	-
Adjustment in respect of prior years	1	(111)
	10,930	(112)
Deferred tax note (Note 20)		
Current year	11,558	4,647
Adjustment in respect of prior years	(517)	(94)
(Recognition) / derecognition of tax losses in the year	(2,236)	1,084
	8,805	5,637
Tax charge	19,735	5,525

The effective taxation rate for the year ended 31 December 2021 is a charge of 32.2% (2020: 42.3%).

The tax assessed for the year differs from the standard rate of corporation tax in the UK. A reconciliation from the expense implied by the standard rate to the actual tax expense is as follows:

	2021 £'000	2020 £'000
Profit on ordinary activities before tax	61,269	13,077
Tax charge based on the standard rate of Corporation Tax in the UK of 19% (2020: 19.0%)	11,641	2,485
Effects of:		
Expenses not deductible for tax purposes	827	249
Rate differences	6,372	761
Adjustments in respect of prior years	(518)	(205)
(Recognition) / derecognition of tax losses in the year	(2,236)	1,084
Effect of corporation tax surcharge on Banking profits	3,649	1,151
	19,735	5,525

The 2021 statutory rate of UK corporation tax is 19%. Following the enactment of the Finance Act 2021, the statutory rate of UK corporation tax will increase from 19% to 25% from 1 April 2023. This enacted increase is reflected in the valuation at 31 December 2021.

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. On 27 October 2021, the Chancellor announced that the Bank Surcharge will reduce from 8% to 3% on UK group profits in excess of £100m from April 2023 onwards. However, this announcement was not substantively enacted as at 31 December 2021 and therefore any potential benefit arising has not yet been recognised.

The United Kingdom left the European Union on 1 January 2021. In line with expectations, this event has not had a material impact on the tax balances included in the Financial Statements.

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 20 deferred tax.

Note 10 – Cash and balances at central bank

	2021 £'000	2020 £'000
Cash in hand	443,526	404,238
Balances at central bank	3,944,635	3,820,915
	4,388,161	4,225,153

Cash and balances at central bank include mandatory deposits of £1,466,507,000 (2020: £1,313,264,000) 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 11 – 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.

Amounts due from other banks are stated at amortised cost.

	2021 £'000	2020 £'000
Amounts due from other banks	48,023	50,639

	2021 £'000	2020 £'000
Analysed by remaining maturity:		
- on demand or at short notice	48,023	50,639

	2021 £'000	2020 £'000
Amounts include:		
Due from parent and fellow subsidiary undertakings	46,625	48,087

Note 12 – Trading portfolio assets and liabilities

Note 12(a) – Trading portfolio assets

	2021 £'000	2020 £'000
Derivatives with positive fair value	8,586	17,284

Note 12(b) – Trading portfolio liabilities

	2021 £'000	2020 £'000
Derivatives with negative fair value	22,487	28,199

Note 12 – Trading portfolio assets and liabilities (continued)

Note 12(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. 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.

	Positive Fair Value		Negative Fair Value	
Derivatives - hedging At 31 December 2021	**Notional Amount £'000**	**Carrying Amount £'000**	**Notional Amount £'000**	**Carrying Amount £'000**
Currency contracts				
Forwards	143,494	5,160	407,462	10,018
Interest rate contracts				
Swaps	649,017	3,422	1,227,182	12,465
Options	1,580	4	1,580	4
Total derivatives	794,091	8,586	1,636,224	22,487
Counterparty				
Ultimate parent and fellow subsidiary undertakings	725,626	6,245	1,530,087	18,340
Other	68,465	2,341	106,137	4,147
Total	794,091	8,586	1,636,224	22,487

	Positive Fair Value		Negative Fair Value	
Derivatives - hedging At 31 December 2020	Notional Amount £'000	Carrying Amount £'000	Notional Amount £'000	Carrying Amount £'000
Currency contracts				
Forwards	324,438	9,726	430,406	11,143
Interest rate contracts				
Swaps	450,177	7,557	450,224	17,055
Options	2,582	1	13,116	1
Total derivatives	777,197	17,284	893,746	28,199
Counterparty				
Ultimate parent and fellow subsidiary undertakings	670,854	14,025	744,307	20,503
Other	106,343	3,259	149,439	7,696
Total	777,197	17,284	893,746	28,199

Note 12 – Trading portfolio assets and liabilities (continued)

Note 12(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 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.

Since June 2021, fair value hedge accounting has been extended to 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 2021, the carrying amounts of effectively hedged fixed rate assets were £456,842,000 (2020: £460,338,000). 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.

	2021 £'000	2020 £'000
Effect of interest rate asset hedging on profit		
Hedged loans and advances to customers	(16,343)	7,868
Hedging derivatives	16,125	(7,679)
Total	(218)	189

Fair value adjustments of core deposits and corresponding hedging derivatives

At 31 December 2021, the balance of effectively hedged core deposits was £833,247,000 (2020: Nil). 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.

	2021 £'000	2020 £'000
Effect of interest rate asset hedging on profit		
Hedged customer deposits	6,753	-
Hedging derivatives	(6,749)	-
Total	4	-

Note 12 – Trading portfolio assets and liabilities (continued)

Note 12(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. In addition to the cash flow hedge of variable rate term loans, a second cash flow hedge was implemented in February 2021 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 2021	Notional Amount £'000	Carrying Amount £'000	Notional Amount £'000	Carrying Amount £'000
Cash flow hedges	170,000	564	200,250	3,487

There is no change to the accounting for the hedged item and the derivative is carried at fair value, with changes in value reported in Other comprehensive income to the extent that the hedge is effective.

	2021 £'000	2020 £'000
Derivatives held as cash flow hedges	370,250	446,000

	2021 £'000	2020 £'000
(Losses)/gains recognised in Other Comprehensive Income for the year	(9,611)	3,612

Note 12(f) – Impact of Interest Rate Benchmark reform on hedge accounting

The Interest Rate Benchmark Reform sought to replace existing benchmark IBORs with alternative risk-free rates. During the fourth quarter of 2019, the Bank early adopted the Phase 1 amendments to IAS 39 issued by IASB (Interest Rate Benchmark Reform) which, for the assessment of effectiveness of such hedges, assumes that the benchmark reform will not alter the cash flows. Throughout 2020 and while uncertainty remained in 2021, the Bank continued to apply IBOR reform (Phase 1) temporary reliefs.

In August 2020, the IASB issued Phase 2 of its amendments to IAS39 (Interest Rate Benchmark Reform) effective for annual periods beginning on or after 1 January 2021. Phase 2 focuses on replacement issues and enables entities to reflect the effects of transitioning to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Bank made use of the reliefs provided in the Phase 2 amendments to IAS 39 in the following hedge relationships:

Fair Value Hedges of Fixed Rate Loans:
The Receive legs of the swaps hedging fixed rate loans were amended from referencing GBP LIBOR to reference SONIA on an economically equivalent basis. The designated risk hedged by the swaps was amended to be the exposure to changes in the fair value of the loans to changes in SONIA as opposed to the exposure to changes in the fair value of the loans to changes in LIBOR.

Cash Flow Hedge of Floating Rate Term Loans:
As LIBOR reform impacted both the hedged items and the hedging instruments of this hedge relationship, (LIBOR loans and LIBOR swaps), the designated hedged risk of the loans was changed to SONIA from LIBOR as the hedging instruments were replaced by SONIA swaps. The swaps were closed out and replaced on the same terms.

Note 13 – Investment securities

The liquidity portfolio is part of the balance sheet management to optimise the balance sheet composition, to hedge the IRRBB and to manage the Bank's liquidity need. 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) and with investment securities with a matching duration.

Note 13(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.

	2021 £'000	2020 £'000
Investment securities		
- Listed investments	1,318,484	531,555
Unamortised premiums / (discounts) on investment securities	17,004	6,555

This portfolio includes the part of the liquidity bond portfolio that is held in a business model being 'hold to collect' the contractual cash flows, (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 13(b) – Hold to collect and sell (securities measured FVOCI)

The portfolio comprises primarily highly rated covered, sovereign, supernational and agency bonds.

	2021 £'000	2020 £'000
Investment securities		
- Listed investments	907,862	877,981

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'.

SPPI test applied for bonds at FVOCI or AMC

The SPPI test is applied for each bond to assess that the contractual cash flows represents 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 14 – 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.

	2021 £'000	2020 £'000
Analysed by remaining maturity:		
- on demand or at short notice	1,104,287	1,005,592
- 3 months or less	411,821	309,459
- over 3 months but less than 1 year	456,254	390,343
- over 1 year but less than 5 years	1,576,838	1,725,350
- over 5 years	2,747,973	2,907,227
	6,297,173	6,337,971
Allowance account	(90,509)	(108,130)
	6,206,664	6,229,841

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 2021	5,263,981	551,088	522,902	6,337,971
Transferred from Stage 1 to Stage 2	(100,856)	100,856	-	-
Transferred from Stage 2 to Stage 1	185,307	(185,307)	-	-
Transferred from Stage 3 to other stages	46,869	89,639	(136,508)	-
Transferred to Stage 3 from other stages	(11,023)	(23,255)	34,278	-
New assets (1)	1,430,282	110,390	146,282	1,686,954
Assets derecognised (1)	(954,741)	(132,842)	(180,149)	(1,267,732)
Assets written-off	-	-	(12,591)	(12,591)
Other changes in net exposure (2)	(358,298)	(31,000)	(58,131)	(447,429)
Gross carrying amount at 31 December 2021 (3)	5,501,521	479,569	316,083	6,297,173

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount at 1 January 2020	5,365,249	614,747	207,801	6,187,797
Transferred from Stage 1 to Stage 2	(253,938)	253,938	-	-
Transferred from Stage 2 to Stage 1	194,495	(194,495)	-	-
Transferred from Stage 3 to other stages	997	4,204	(5,201)	-
Transferred to Stage 3 from other stages	(182,479)	(113,421)	295,900	-
New assets (1)	1,125,337	137,964	117,365	1,380,666
Assets derecognised (1)	(786,951)	(118,501)	(18,844)	(924,296)
Assets written-off	-	-	(10,836)	(10,836)
Other changes in net exposure (2)	(198,729)	(33,348)	(63,283)	(295,360)
Gross carrying amount at 31 December 2020	5,263,981	551,088	522,902	6,337,971

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 £16,218,000 (2020: £16,600,000).

Note 14 – 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 (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. 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. Credit-impaired facilities are placed in rating category 10 or 11. For rating category 11 (default), all exposures are classified as stage 3.

Note 14 – 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 definition of default is also used for internal credit risk management and capital adequacy purposes.

To support a more harmonised approach regarding the application of the definition of default, the Prudential Regulation Authority (PRA) has issued the Policy statement PS7/19 'Credit Risk: the definition of default'. The Bank has early implemented the new requirements related to the definition of default ahead of January 2022 in order to align the existing definition of default to the new requirements outlined in the PRA Policy Statement.

According to the revised definition of default, exposures that are considered in default are also considered Stage 3 exposures. 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. The newly implemented definition of default has been incorporated in post -model adjustments for 2021, with a £8,000,000 post-model adjustment relating to the new definition of default.

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. During the COVID-19 pandemic, 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 functio n 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 wi th 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.

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) 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 scen arios, probability weighting and management overlays to cover the outlook for particular high-risk portfolios, which are not provided by the Bank's macroeconomists or other model constraints. The approved scenarios are used to calculate the impairment levels.

Note 14 – Loans and advances to customers (continued)

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 are 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.

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; and
- 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.

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.

Note 14 – Loans and advances to customers (continued)

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. At 31 December 2021, the post model adjustments amounted to £12,851,000 (2020: £6,154,000). The post model adjustments related primarily to the following types of risk:

- Specific macroeconomic risks (i.e. whereby certain macroeconomic risks on certain industries are not fully captured by the ECL model);
- Process related (i.e. whereby the credit risk assessment process has identified an underestimation of the ECL); and
- Upcoming model changes that will impact the ECL model. Currently this only covers the revised definition of default, which was implemented in January 2022.

Given the impact on the ECL calculation from post-model adjustments, the table below provides a quantitative summary by the types of risk:

	2021 £'000	2020 £'000
Specific macroeconomic risks	3,000	1,400
Process related	1,851	4,754
Upcoming model changes	8,000	-
Total	12,851	6,154

Note 14 – 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	Stage 3 £'000	Total £'000
ECL allowance account at 1 January 2021	13,113	14,449	92,806	120,368
Charge for the year				
- transferred from Stage 1 during the year	-	1,581	159	1,740
- transferred from Stage 2 during the year	2,040	-	6,891	8,931
- transferred from Stage 3 during the year	332	9,244	-	9,576
- transferred to Stage 1 during the year	-	(2,040)	(332)	(2,372)
- transferred to Stage 2 during the year	(1,581)	-	(9,244)	(10,825)
- transferred to Stage 3 during the year	(159)	(6,891)	-	(7,050)
- ECL on new assets (2)	1,337	553	1,203	3,093
- ECL on assets derecognised (2)	(82)	(422)	(1,918)	(2,422)
Impact of net remeasurement of ECL (incl. changes in models)	(9,783)	(2,209)	8,374	(3,618)
Impact of net remeasurement of ECL (Stage Change)	-	(5,002)	(5,561)	(10,563)
Recovery of amounts written off in previous years	-	-	(1,150)	(1,150)
	(7,896)	(5,186)	(1,578)	(14,660)
Write-offs/recoveries applied to the allowance account				
- Write-offs debited to the allowance account	-	(3)	(12,588)	(12,591)
- Recoveries of amounts written off in previous years	-	-	1,150	1,150
Foreign exchange and other adjustments	(7)	(2)	1,724	1,715
As at 31 December 2021 (1)	5,210	9,258	81,514	95,982

Notes:

(1) Included within the Stage 3 ECL balance is £900,000 relating to originated credit impaired exposures
(2) Revolving credit facilities on renewal are included as new assets and assets derecognised in the above reconciliation

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
ECL allowance account at 1 January 2020	7,436	16,290	59,555	83,281
Charge for the year				
- transferred from Stage 1 during the year	-	7,614	1,903	9,517
- transferred from Stage 2 during the year	3,864	-	14,603	18,467
- transferred from Stage 3 during the year	412	5,080	-	5,492
- transferred to Stage 1 during the year	-	(3,864)	(412)	(4,276)
- transferred to Stage 2 during the year	(7,614)	-	(5,080)	(12,694)
- transferred to Stage 3 during the year	(1,903)	(14,603)	-	(16,506)
- ECL on new assets	1,223	637	578	2,438
- ECL on assets derecognised	(2,060)	(14,256)	(11,100)	(27,416)
Impact of net remeasurement of ECL (incl. changes in models)	11,753	3,784	18,638	34,175
Impact of net remeasurement of ECL (Stage Change)	-	13,694	23,386	37,080
Recovery of amounts written off in previous years			(851)	(851)
	5,675	(1,914)	41,665	45,426
Write-offs/recoveries applied to the allowance account				
- Write-offs debited to the allowance account	-	-	(10,836)	(10,836)
- Recoveries of amounts written off in previous years	-	-	851	851
Foreign exchange and other adjustments	2	73	1,571	1,646
As at 31 December 2020	13,113	14,449	92,806	120,368

Note 14 – Loans and advances to customers (continued)

Allowance account analysis by balance sheet items:

	2021 £'000	2020 £'000
Due from credit institutions and central banks	160	925
Derivative financial instruments	67	71
Loans at amortised cost	90,509	108,130
Loan commitments and guarantees	5,246	11,243
Total	95,982	120,369

Loan impairment charges include impairment charges for expected credit losses against loans, lease receivables, investment securities, certain loan commitments and financial guarantee contracts. For information on significant accounting estimates related to expected credit losses, see note 1(b).

Note 15 – Investment in subsidiaries

	2020 £'000	2020 £'000
Ordinary shares 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	% of equity share capital and voting rights held	Company number
Northern Bank Factors Limited	Ordinary	Northern Ireland	100%	NI 13062
Northern Bank Nominees Limited	Ordinary	Northern Ireland	100%	NI 4468
Northern Bank Pension Trust Limited	Ordinary	Northern Ireland	100%	NI 3155
Northern Bank Executor and Trustee Company Limited	Ordinary	Northern Ireland	100%	NI 4467

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 16 – Intangible assets

Intangible assets primarily consist of IT software assets.

	2021 £'000	2020 £'000
Cost at beginning of year	694	608
Additions	-	86
Disposal	(274)	-
Cost at end of year	420	694
Accumulated amortisation at beginning of year	537	396
Amortisation charge for the year	123	141
Disposal	(274)	-
Accumulated amortisation at end of year	386	537
Net book value at end of year	34	157

Note 17 – Property, plant and equipment

	Freehold land and buildings	Leasehold properties >50 years unexpired	Leasehold properties <50 years unexpired	Other fixtures & equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost at 1 January 2021	8,558	25,270	4,120	26,813	64,761
Additions	-	-	865	1,247	2,112
Disposals	-	-	-	(492)	(492)
Transferred to assets held for sale	(1,045)	(1,050)	-	(1,186)	(3,281)
Revaluation	(298)	130	(10)	-	(178)
Cost at 31 December 2021	7,215	24,350	4,975	26,382	62,922
Accumulated depreciation at 1 January	38	373	2,079	20,453	22,943
Depreciation charge for the year	138	601	399	1,000	2,138
Accumulated depreciation on disposals	(1)	-	-	(493)	(494)
Transferred to assets held for sale	(2)	(1)	-	(1,186)	(1,189)
Revaluation	(140)	(603)	(5)	-	(748)
Accumulated depreciation at 31 December	33	370	2,473	19,774	22,650
Net book value at 31 December 2021	7,182	23,980	2,502	6,608	40,272

	Freehold land and buildings	Leasehold properties >50 years unexpired	Leasehold properties <50 years unexpired	Other fixtures & equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost at 1 January 2020	9,851	25,928	4,017	29,997	69,793
Additions	-	-	107	1,334	1,441
Disposals	-	-	-	(4,518)	(4,518)
Transferred to assets held for sale	-	-	-	-	-
Revaluation	(1,293)	(658)	(4)	-	(1,955)
Cost at 31 December 2020	8,558	25,270	4,120	26,813	64,761
Accumulated depreciation at 1 January	103	304	1,662	23,482	25,551
Depreciation charge for the year	180	842	424	1,489	2,935
Accumulated depreciation on disposals	-	-	-	(4,518)	(4,518)
Transferred to assets held for sale	-	-	-	-	-
Revaluation	(245)	(773)	(7)	-	(1,025)
Accumulated depreciation at 31 December	38	373	2,079	20,453	22,943
Net book value at 31 December 2020	8,520	24,897	2,041	6,360	41,818

Freehold and leasehold properties where the original lease is more than thirty years, are revalued on a three year cycle. A full 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 2021. 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 17 – Property, plant and equipment (continued)

Land and buildings occupied for own activities:

	2021 £'000	2020 £'000
Open market value - at 1 January	35,458	37,727
Additions	865	107
Transfers to assets for sale	(2,092)	-
Revaluation gain / (loss)	571	(930)
Depreciation charge	(1,138)	(1,446)
Open market value – at 31 December	33,664	35,458

See note 31 for further information on the classification of land and buildings valued at open market value within the fair value hierarchy.

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:

	2021 £'000	2020 £'000
Cost	18,899	20,420
Accumulated depreciation	(16,569)	(18,561)
Net book value	2,330	1,859

Note 18 – Right-of-use assets

	2021 £'000	2020 £'000
Net book value	4,253	5,568

Right-of-use lease assets are in respect of buildings. The depreciation charge is £1,172,000 (2020: £1,300,000). The interest expense on the corresponding lease liability is £107,000 (2020: £133,000). There were no additions and no significant impairment losses incurred in respect of the right-of-use lease assets. Expenses relating to leases of low value assets are set out in note 38.

Note 19 – Assets held for sale

	2021 £'000	2020 £'000
Assets held for sale	1,399	360

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. Five properties were sold during the year (2020: one).

Note 20 – Deferred tax

Movement in net deferred tax liability

	2021 £'000	2020 £'000
At 1 January	(34,194)	(20,106)
Recognised in the income statement (Note 9)	(8,805)	(5,637)
Recognised directly in equity:		
- Actuarial (loss) / gain on defined benefit pension obligation	23,032	(5,364)
- Investment securities hold to collect and sell	3,864	(2,128)
- Cash flow hedge reserve	2,784	(1,032)
- Transfer to revaluation reserve	(581)	73
At 31 December	(13,900)	(34,194)

The Bank recognises deferred tax attributable to the following items:

	2021 £'000	2020 £'000
Deferred tax assets		
Tax losses carried forward	24,316	19,329
Accelerated capital allowances	6,084	4,836
Other timing differences	7,410	7,844
	37,810	32,009
Deferred tax liabilities		
Defined benefit pension obligation	50,888	59,313
Net gain on revaluation of properties	3,069	2,488
Investment securities - hold to collect and sell	(1,205)	2,659
Cash flow hedge reserve	(1,042)	1,743
	51,710	66,203
Net deferred tax liability	(13,900)	(34,194)

At 31 December 2021, the Bank has an unrecognised deferred tax asset of £33,000,000 (2020: £26,779,000) representing trading losses with a gross value of £132,001,000 (2020: £140,943,000). Consistent with previous reporting periods, a deferred tax asset has not been recognised in respect of these losses as the Directors have insufficient certainty over their recoverability in the foreseeable future. Under current UK tax legislation there is no prescribed time period for loss utilisation, however, the UK tax environment for banks has been unsettled in recent years and subject to repeated change and increased restrictions, principally on the use of historic losses. Notably since 1 April 2016, only 25% of a bank's profits can be relieved by brought forward losses, significantly extending the timeframe taken to realise value for existing tax losses.

The 2021 statutory rate of UK corporation tax is 19%. Following the enactment of the Finance Act 2021, the statutory rate of UK corporation tax will increase 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 will reduce from 8% to 3% on UK group profits in excess of £100m from April 2023 onwards. However, this announcement was not substantively enacted at 31 December 2021 and therefore any potential benefit arising has not yet been recognised. The current deferred tax liability held in relation to the Bank Surcharge is £8.8m.

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. The combined impact of the legislative rate changes outlined above and the Directors' reassessment of the recoverability horizon, results in a deferred tax benefit of £7,019,000 within a total deferred tax charge of £8,805,000.

Note 21 – Other assets

	2021 £'000	2020 £'000
Accrued interest	17,503	16,422
Prepayments	6,543	10,284
	24,046	26,706

Note 22 – Due to other banks

	2021 £'000	2020 £'000
Transaction balances with other banks	16,611	23,032
Term Funding Scheme (Bank of England) [1]	350,000	350,000
	366,611	373,032

	2021 £'000	2020 £'000
Analysed by remaining maturity:		
- on demand	16,611	23,032
- over 1 year but less than 5 years	350,000	350,000
	366,611	373,032

	2021 £'000	2020 £'000
Amounts include:		
Due to parent and fellow subsidiary undertakings	11,821	12,387

Notes:

[1] £350m was 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. This replaced the previous £350m borrowed from the Bank of England in November 2018 under the original Term Funding Scheme which was settled during the 2021 financial year.

Note 23 – Deposits from customers

	2021 £'000	2020 £'000
Current accounts	6,911,719	6,297,678
Demand deposits	3,584,873	3,246,410
Term deposits	664,766	684,049
	11,161,358	10,228,137

	2021 £'000	2020 £'000
Analysed by remaining maturity:		
- on demand	10,496,592	9,544,087
- 3 months or less	517,250	431,816
- over 3 months but less than 1 year	137,677	241,077
- over 1 year but less than 5 years	9,839	11,157
	11,161,358	10,228,137

	2021 £'000	2020 £'000
Amounts include:		
Due to parent and fellow subsidiary undertakings	250	250

Note 24 - Pension asset

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 2021 was £7,711,000 (2020: £7,676,000). 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 will be made to the Danske Bank Master Trust Plan.

During 2021, a bulk annuity buy-in policy covering pension liabilities of £215 million was purchased in relation to the Scheme. This transaction resulted in a loss on Scheme assets of £35 million, which was recognised in Other comprehensive income, as the liabilities under IFRS were lower than the premium paid.

As a result of this and the previous buy-in policy purchase in 2015, the Scheme is no longer exposed to inflation risk or longevity risk in respect of any pensions in payment on 30 July 2021.

Actuarial valuation of the Northern Bank Defined Benefit Pension Scheme

The latest triennial funding valuation was carried out as at 31 December 2018. The results of this valuation were updated by an independent actuary to an IAS 19 basis and the major assumptions used were:

	2021 % p.a.	2020 % p.a.
Inflation (RPI)	3.35	2.75
Inflation (CPI)	2.75	2.15
Rate of future increase in salaries	N/A	N/A
Rate of increase for pre-1997 pensions in payment	2.00	1.65
Rate of increase for 1997-2008 pensions in payment	3.15	2.65
Rate of increase for post-2008 pensions in payment	2.10	1.80
Discount rate	1.90	1.50
Post retirement mortality		
Current pensioners at 60 - males (years)	28.80	28.80
Current pensioners at 60 - females (years)	30.50	30.50
Future pensioners at 60 - males (years)	30.20	30.30
Future pensioners at 60 - females (years)	32.00	32.00

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.

The expected defined benefit pension fund contribution to be paid by the Bank in the year ending 31 December 2022 is £1,100,000. Members no longer make contributions to the defined benefit scheme following Scheme closure on 30 September 2018.

Note 24 - Pension asset (continued)

Scheme asset information

	Market Value 31 December 2021 £'000	Market Value 31 December 2020 £'000
Equity securities	43,222	61,215
Debt securities	172,860	182,385
Real estate/property	37,560	37,190
Other	3,589	1,551
Managed Account	310,738	536,593
Buy-in annuity policies	816,439	651,245
Fair value of Scheme assets	1,384,408	1,470,179

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

	2021 £'000	2020 £'000
Fair value of Scheme assets at beginning of year	1,470,179	1,367,283
Interest income on Scheme assets	21,600	27,500
Return on Scheme assets (less) / greater than discount rate	(54,369)	130,802
Employers' and employees' contributions paid into the Scheme		
- participating employers	2,070	1,109
Benefits paid by the Scheme	(54,023)	(55,517)
Administration costs paid	(1,049)	(998)
Fair value of Scheme assets at end of year	1,384,408	1,470,179

Movement in present value of defined benefit obligation

	2021 £'000	2020 £'000
Defined benefit obligation at beginning of year	1,250,500	1,171,400
Gross current service cost		
- the Bank	-	-
- other participating employers	-	-
- contributions paid by members	-	-
Past service costs		
- the Bank	-	180
Interest cost on the defined benefit obligation	18,300	23,500
Actuarial loss / (gain) - experience	7,631	(3,998)
Actuarial loss / (gain) - demographic assumptions	6,760	1,140
Actuarial loss / (gain) - financial assumptions	1,032	113,795
Benefits paid by the Scheme	(54,023)	(55,517)
Defined benefit pension obligation at end of year	1,230,200	1,250,500

Note 24 - Pension asset (continued)

Reconciliation of pension asset to the Balance Sheet

	2021 £'000	2020 £'000
Analysis of defined benefit obligation by status		
- Active members	-	-
- Deferred pensioner members	532,700	526,100
- Pensioners	697,500	724,400
Present value of defined benefit obligation	1,230,200	1,250,500
Fair value of Scheme assets	1,384,408	1,470,179
Net defined benefit asset	154,208	219,679

Movement in pension asset

	2021 £'000	2020 £'000
Net defined benefit asset at beginning of year	219,679	195,883
Service cost (including past service costs)		
- the Bank	-	(180)
- other participating employers	-	-
Administration costs incurred over the year	(1,049)	(998)
Net interest on net defined benefit asset	3,300	4,000
Employers' contributions		
- the Bank	2,070	1,109
- other participating employers	-	-
Re-measurement effects recognised in Other Comprehensive Income (OCI)	(69,792)	19,865
Net defined benefit asset at end of year	154,208	219,679

Scheme expense recognised in the Income Statement

	2021 £'000	2020 £'000
Current service cost		
- the Bank included within operating expenses	-	-
- other participating employers	-	-
Past service cost and curtailments (including Guaranteed Minimum Pension)	-	180
Net interest on net defined benefit asset	(3,300)	(4,000)
Administration costs incurred during the year	1,049	998
Scheme expense	(2,251)	(2,822)

Amount recognised in OCI

	2021 £'000	2020 £'000
Return on Scheme assets less / (greater) than discount rate	54,369	(130,802)
Actuarial loss / (gain) due to liability experience	7,631	(3,998)
Actuarial loss due to assumption changes	7,792	114,935
Re-measurement effects recognised in OCI – loss / (gain)	69,792	(19,865)

Note 24 - Pension asset (continued)

Actual return on Scheme assets

	2021 £'000	2020 £'000
Interest income on Scheme assets	21,600	27,500
Return on Scheme assets (less) / greater than discount rate	(54,369)	130,802
Actual return on Scheme assets	(32,769)	158,302

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 management of risk associated within the key assumptions is outlined further below:

	Change in assumption	Increase in assumption £'000	Decrease in assumption £'000
Discount rate	0.50%	(100,000)	115,000
Price inflation (RPI measure) (1)	0.50%	60,000	(61,000)
Pension increases (2)	0.50%	41,000	(44,000)
Post retirement longevity	1 year	51,000	(51,000)

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.

Future cash flows of the Scheme and plan characteristics

The Scheme's liabilities represent the long-term obligations which will be paid from plan assets.

	2021 £'000	2020 £'000
Maturity profile of Defined Benefit Obligation		
- Expected benefit payments during fiscal year ending 31 December 2022	57,700	56,600
- Expected benefit payments during fiscal year ending 31 December 2023	56,600	57,700
- Expected benefit payments during fiscal year ending 31 December 2024	57,900	58,800
- Expected benefit payments during fiscal year ending 31 December 2025	59,300	59,900
- Expected benefit payments during fiscal year ending 31 December 2026	60,700	61,100
- Expected benefit payments during fiscal year ending 31 December 2027 through 31 December 2031	325,600	323,800

	2021 Years	2020 Years
Weighted average duration of Defined Benefit Obligation	17	18

Note 24 - Pension asset (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 are as follows:

Asset volatility There is a risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the Scheme's DBO. The Scheme holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term but give exposure to volatility and risk in the short-term.

Changes in bond yields A decrease in the corporate bond yields will increase the value placed on the Scheme's DBO, although this will be partially offset by any increase in the value of the Scheme's corporate bond holdings.

Inflation risk Part of the Scheme's DBO is linked to inflation where higher inflation will lead to a higher value being placed on the DBO. Some of the Scheme's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.

Longevity risk An increase in life expectancy will lead to an increased value being placed on the Scheme DBO. Future mortality rates cannot be predicted with certainty.

Note 25 – Other liabilities

	2021 £'000	2020 £'000
Accrued interest	2,329	1,772
Provision for off balance sheet financial guarantees and loan commitments	5,246	11,243
Accruals and sundry creditors	22,050	18,208
Lease liabilities	3,933	5,094
	33,558	36,317

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.

Lease liabilities broken down by expected due date:

	2021 £'000	2020 £'000
Analysed by remaining maturity:		
Less than 1 year	880	1,248
More than 1 year	3,053	3,846
Total lease liabilities at end of period	3,933	5,094

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 ba sis.

	2021 £'000	2020 £'000
Future minimum payments		
- within 1 year	964	1,245
- between 1 and 5 years	2,893	3,315
- over 5 years	315	880
	4,172	5,440
Less finance charges	(239)	(346)
	3,933	5,094

Note 26 – Provisions

	2021 £'000	2020 £'000
At 1 January	3,354	5,038
Charge to income statement	3,304	1,122
Released unutilised	(724)	(347)
Provisions utilised	(3,177)	(2,459)
At 31 December	2,757	3,354

	2021 £'000	2020 £'000
Analysed by remaining maturity:		
Less than 1 year	1,972	2,469
More than 1 year	785	885
Total	2,757	3,354

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.

Note 27 – Subordinated debt

	2021 £'000	2020 £'000
Balance at 31 December	126,000	126,000

On 12 January 2015 £100,000,000 of CRD IV compliant subordinated instruments were issued to Danske Bank A/S. The rate of interest applied to these instruments is 200bps (basis points) over the synthetic 3 month LIBOR rate. The subordinated instruments are dated loan capital and, subject to regulatory approval, currently callable on any interest payment date from 12 January 2022.

On 19 December 2017, £26,000,000 of CRD IV compliant subordinated instruments were issued to Danske Bank A/S. The rate of interest applied to these instruments is 140bps over the synthetic 3 month LIBOR rate. The subordinated instruments are dated loan capital and may be redeemed by the issuer, Northern Bank Limited, subject to regulatory approval and giving the appropriate notice on 19 December 2024 or on each interest payment date thereafter. In the absence of this, Northern Bank Limited must redeem the Tier 2 instrument on the maturity date which is 19 December 2029.

Note 28 – 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).

	2021 < 1 year £'000	2021 > 1 year £'000	2020 < 1 year £'000	2020 > 1 year £'000
Assets				
Cash and balances at central bank	2,921,654	1,466,507	2,911,889	1,313,264
Items in the course of collection from other banks	21,839	-	20,190	-
Due from other banks	38,248	9,775	43,153	7,486
Derivative financial instruments	4,507	4,079	8,087	9,197
Investment securities - hold to collect	135,358	1,183,126	151,323	380,232
Investment securities - hold to collect and sell	138,116	769,746	231,235	646,746
Loans and advances to customers	2,179,100	4,027,564	2,114,656	4,115,185
Investment in subsidiaries	-	250	-	250
Intangible assets	-	34	-	156
Property, plant and equipment	-	40,272	-	41,818
Right-of-use asset	1,009	3,244	1,303	4,267
Assets held for sale	1,399	-	360	-
Defined benefit pension asset	-	154,208	-	219,679
Current tax assets	1,092	-	3,008	-
Other assets	24,046	-	26,405	300
Total assets	5,466,368	7,658,805	5,511,609	6,738,580

	2021 < 1 year £'000	2021 > 1 year £'000	2020 < 1 year £'000	2020 > 1 year £'000
Liabilities				
Due to other banks	16,611	350,000	23,032	350,000
Items in course of transmission to other banks	15,267	-	12,147	-
Derivative financial instruments	8,719	13,768	9,062	19,137
Deposits from customers	6,800,504	4,360,854	7,210,043	3,018,094
Notes in circulation	-	634,036	-	557,942
Deferred tax liabilities	(2,064)	15,964	(2,222)	36,416
Provisions	1,972	785	2,469	885
Other liabilities	23,664	9,894	19,593	16,724
Subordinated debt	-	126,000	-	126,000
Total liabilities	6,864,673	5,511,301	7,274,124	4,125,198

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.

Note 29 – 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 sections on liquidity risk in the Strategic Report and the Risk Management section provide information about the Bank's liquidity risk and liquidity risk management.

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years
At 31 December 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Liabilities					
Due to other banks	16,611	-	-	350,000	-
Deposits from customers	10,496,592	517,250	137,677	9,839	-
Derivative financial instruments	-	6,026	2,693	11,555	2,213
Financial lease liabilities	-	-	880	2,740	313
Notes in circulation	634,036	-	-	-	-
Subordinated debt	-	100,000	-	-	26,000
	11,147,239	623,276	141,250	374,134	28,526
Off balance sheet items					
Contingent liabilities	105,864	-	-	-	-
Commitments	1,113,571	-	-	-	-
	1,219,435	-	-	-	-
At 31 December 2020	£'000	£'000	£'000	£'000	£'000
Liabilities					
Due to other banks	23,032	-	-	350,000	-
Deposits from customers	9,544,087	431,816	241,077	11,157	-
Derivative financial instruments	-	5,284	3,777	8,398	10,739
Financial lease liabilities	-	-	1,138	3,094	863
Notes in circulation	557,942	-	-	-	-
Subordinated debt	-	-	-	100,000	26,000
	10,125,061	437,100	245,992	472,649	37,602
Off balance sheet items					
Contingent liabilities	84,715	-	-	-	-
Commitments	1,106,123	-	-	-	-
	1,190,838	-	-	-	-

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 30 – Offsetting of financial assets and liabilities

There is no offsetting of financial assets and liabilities in the Financial Statements. In the event the counterparty o r 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.

	Gross amount	Legal right of offset	Further offsetting, master netting agreement	Collateral / offset	Net amount
At 31 December 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial assets					
Cash and balances at central bank	4,388,161	-	-	(634,036)	3,754,125
Due from other banks	48,023	-	(6,849)	-	41,174
Derivatives with positive fair value	8,586	-	(6,245)	-	2,341
Loans and advances to customers	6,206,664	(590,881)	-	-	5,615,783

At 31 December 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial liabilities					
Due to other banks	366,611	-	(6,849)	-	359,762
Derivatives with negative fair value	22,487	-	(6,245)	-	16,242
Deposits from customers	11,161,358	(590,881)	-	-	10,570,477
Finance lease liabilities	3,933	-	-	-	3,933
Notes in circulation	634,036	-	-	(634,036)	-

	Gross amount	Legal right of offset	Further offsetting, master netting agreement	Collateral / offset	Net amount
At 31 December 2020	£'000	£'000	£'000	£'000	£'000
Financial assets					
Cash and balances at central bank	4,226,074	-	-	(557,942)	3,668,132
Due from other banks	50,642	-	(12,386)	-	38,256
Derivatives with positive fair value	17,284	-	(14,025)	(700)	2,559
Loans and advances to customers	6,229,841	(620,675)	-	-	5,609,166

At 31 December 2020	£'000	£'000	£'000	£'000	£'000
Financial liabilities					
Due to other banks	373,032	-	(12,386)	-	360,646
Derivatives with negative fair value	28,199	-	(14,025)	(700)	13,474
Deposits from customers	10,228,137	(620,675)	-	-	9,607,462
Finance lease liabilities	5,094	-	-	-	5,094
Notes in circulation	557,942	-	-	(557,942)	-

Note 31 – 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.

	2021 £'000	2020 £'000
Unamortised initial margins at 1 January	217	301
Amortised to the income statement during the year	(583)	(803)
Initial margins on new derivatives contracts	549	752
Terminated derivatives contracts	(5)	(33)
Unamortised initial margins at 31 December	178	217

Note 31 – Fair value information for financial instruments (continued)

(a) Financial instruments at fair value (continued)

Analysis of fair value hierarchy levels:

At 31 December 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Investment securities - hold to collect and sell	907,862	-	-	907,862
Interest rate and equity contracts	-	3,422	4	3,426
Currency contracts	-	5,160	-	5,160
Land and buildings	-	-	33,664	33,664
Total	907,862	8,582	33,668	950,112
Financial liabilities				
Interest rate and equity contracts	-	12,465	4	12,469
Currency contracts	-	10,018	-	10,018
Total	-	22,483	4	22,487

At 31 December 2020	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Investment securities - hold to collect and sell	877,981	-	-	877,981
Interest rate and equity contracts	-	7,557	1	7,558
Currency contracts	-	9,726	-	9,726
Land and buildings	-	-	35,458	35,458
Total	877,981	17,284	35,459	930,723
Financial liabilities				
Interest rate and equity contracts	-	17,055	1	17,056
Currency contracts	-	11,143	-	11,143
Total	-	28,198	1	28,199

Derivatives valued on the basis of non-observable input:

	2021 £'000	2020 £'000
Fair value at 1 January	1	2
Acquisitions	3	-
Sale and redemption	-	(1)
Fair value at 31 December	4	1

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 31 – 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, includi ng 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.

	Carrying amount £'000	**Fair Value £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial assets					
Investment securities (Note 13)	1,318,484	1,301,712	1,301,712	-	-
At 31 December 2021	1,318,484	1,301,712	1,301,712	-	-

	Carrying amount £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets					
Investment securities (Note 13)	531,555	538,896	538,896	-	-
At 31 December 2020	531,555	538,896	538,896	-	-

Note 32 – Share capital

	2021 £'000	2020 £'000
Allotted, called up and fully paid		
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 33 – Reserve for investment securities at fair value

The reserve covers unrealised fair value adjustment, 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 34 – Cash flow hedge reserve

The cash flow hedge reserve 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 2021, the cash flow hedge reserve reflected a cumulative loss of £3,157,000 (2020: £6,455,000 gain). This was offset by a deferred tax asset of £1,042,000 (2020: £1,743,000 liability).

Note 35 – Additional Tier 1 capital

At the end of 2021, the total nominal value of issued Additional Tier 1 capital amounted to £96,000,000 (2020: £96,000,000). Capital notes of £16,000,000 were issued on 19 December 2017 and £80,000,000 issued on 12 January 2015. At 31 December 2021, an interest payable amount of £974,000 was accrued in respect of these capital instruments (2020: £958,000).

	2021 £'000	2020 £'000
At 1 January	**96,958**	97,069
Movement in accrued interest	**16**	(111)
At 31 December	**96,974**	96,958

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 2021 is disclosed in the Strategic Report. In respect of the capital notes issued, interest is paid at a rate of 525 bps over the synthetic 3 month LIBOR rate for capital notes issued on 12 January 2015 and 355 bps over 3 month LIBOR for the capital notes issued on 19 December 2017. The capital notes of £16,000,000 issued in December 2017 are now redeemable at par (subject to regulatory approval). The remaining capital notes of £80,000,000 may be redeemed at part from December 2022 (subject to regulatory approval).

Note 36 – Contingent liabilities

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.

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.

	2021 £'000	2020 £'000
Contingent liabilities		
Guarantees and irrevocable letters of credit	**105,864**	84,715
Commitments		
Irrevocable loan commitments shorter than 1 year	**583,802**	630,563
Irrevocable loan commitments longer than 1 year	**529,769**	475,560
	1,113,571	1,106,123

Note 36 – Contingent liabilities (continued)

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 37 – Capital commitments

The Bank had no future capital expenditure which had been contracted but not provided for in the Financial Statements at 31 December 2021 (2020: £Nil).

Note 38 – Lease receivables

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 £10,527,000 (2020: £9,101,000) and £102,956,000 (2020: £73,549,000) respectively.

The total closing gross balances of finance leases and hire purchase contracts were £19,017,000 (2020: £17,865,000) and £179,650,000 (2020: £181,385,000) respectively. The net investment in finance lease and hire purchase receivables is included within total loans and advances to customers (note 14).

Finance lease and hire purchase receivable

	2021 £'000	2020 £'000
Gross investment in finance lease and hire purchase receivables		
Due within one year	14,611	14,747
Due within one to five years	175,120	168,498
Due after five years	18,263	24,248
Total gross investment in finance lease receivables	207,994	207,493
Unearned income	(9,327)	(8,243)
Net investment in finance lease and hire purchase receivables	198,667	199,250

Within the Bank, at 31 December 2021, there are impairment provisions of £235,000 (2020: £307,000) in relation to finance lease customer exposure and impairment provisions of £3,325,000 (2020: £4,101,000) 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 18).

	2021 £'000	2020 £'000
Operating lease expiring		
- within 1 year	219	285
- in 1 - 5 years	85	99
- after 5 years	-	-
	304	384

Note 38 – Lease receivables (continued)

Operating leases (continued)

	2021 £'000	2020 £'000
Where the Bank is the lessee the future minimum lease payments under non-cancellable operating leases are:		
- within 1 year	287	384
- between 1 and 5 years	36	118
- over 5 years	-	-
	323	502

Note 39 – 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 are further analysed in note 39(c).

Breakdown of credit exposure

At 31 December 2021	Lending activities £'000	Counterparty risk derivatives £'000	Inter group £'000	Other £'000	Total £'000
Balance sheet items					
Balances at central bank	3,944,635	-	-	-	3,944,635
Items in the course of collection from other banks	21,839	-	-	-	21,839
Due from other banks	1,398	-	46,625	-	48,023
Trading portfolio assets	-	8,586	-	-	8,586
Investment securities- hold to collect	-	-	-	1,318,484	1,318,484
Investment securities - hold to collect and sell	-	-	-	907,862	907,862
Loans and advances at amortised cost	6,206,664	-	-	-	6,206,664
Investment in subsidiaries	-	-	250	-	250
Off-balance sheet items					
Guarantees	105,864	-	-	-	105,864
Irrevocable loan commitments shorter than 1 year	583,802	-	-	-	583,802
Irrevocable loan commitments longer than 1 year	529,769	-	-	-	529,769
Total	11,393,971	8,586	46,875	2,226,346	13,675,778

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Breakdown of credit exposure

At 31 December 2020	Lending activities £'000	Counterparty risk derivatives £'000	Inter group £'000	Other £'000	Total £'000
Balance sheet items					
Balances at central bank	3,820,915	-	-	-	3,820,915
Items in the course of collection from other banks	20,190	-	-	-	20,190
Due from other banks	2,552	-	48,087	-	50,639
Trading portfolio assets	-	17,284	-	-	17,284
Investment securities- hold to collect	-	-	-	531,555	531,555
Investment securities - hold to collect and sell	-	-	-	877,981	877,981
Loans and advances at amortised cost	6,229,841	-	-	-	6,229,841
Investment in subsidiaries	-	-	250	-	250
Off-balance sheet items					
Guarantees	84,715	-	-	-	84,715
Irrevocable loan commitments shorter than 1 year	630,563	-	-	-	630,563
Irrevocable loan commitments longer than 1 year	475,560	-	-	-	475,560
Total	11,264,336	17,284	48,337	1,409,536	12,739,493

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.

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

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; and (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation. It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial asset to become credit-impaired. Credit impaired facilities are placed in rating category 10 or 11. For customers in rating category 10, the stage 3 classification only appli es to customers where a loss is expected in the most likely scenario. For rating category 11 (default), all exposures are classified as stage 3.

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 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Credit portfolio broken down by rating category and stages

In the table below the rating categories 10 and 11 represent credit impaired assets.

			31 December 2021 Gross Exposure				31 December 2020 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	797,295	41,109	453	838,857	605,168	4,345	1	609,515
2	0.01	0.03	778,006	21,794	5	799,805	783,049	7,977	113	791,139
3	0.03	0.06	5,354,335	18,245	58	5,372,638	4,993,779	7,960	565	5,002,305
4	0.06	0.14	1,782,314	22,360	449	1,805,123	1,846,344	14,567	1,644	1,862,554
5	0.14	0.31	871,389	23,411	289	895,089	799,582	19,991	11,473	831,047
6	0.31	0.63	515,355	22,666	578	538,599	582,255	31,643	7,601	621,499
7	0.63	1.90	377,978	108,978	1,845	488,801	434,993	140,760	5,114	580,866
8	1.90	7.98	161,201	196,417	2,390	360,008	112,831	305,489	9,584	427,904
9	7.98	25.70	3,353	25,891	1,500	30,744	2,029	38,685	6,257	46,971
10	25.70	99.99	2,638	30,874	195,076	228,588	2,184	88,322	369,730	460,236
11	100.00	100.00	13	19	131,602	131,634	305	479	149,885	150,669
Total			10,643,877	511,764	334,245	11,489,886	10,162,519	660,219	561,967	11,384,705

			31 December 2021 Expected Credit Loss (ECL)				31 December 2020 Expected Credit Loss (ECL)			
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	319	397	-	716	204	691	1	896
2	0.01	0.03	13	5	-	18	93	6	-	99
3	0.03	0.06	130	11	-	141	1,150	17	-	1,167
4	0.06	0.14	2,680	22	-	2,702	5,321	70	1	5,392
5	0.14	0.31	278	44	-	322	1,631	150	2	1,784
6	0.31	0.63	384	76	-	460	2,336	654	537	3,527
7	0.63	1.90	655	2,855	2	3,512	1,355	2,582	124	4,061
8	1.90	7.98	626	2,696	7	3,329	944	7,257	779	8,980
9	7.98	25.70	58	1,742	395	2,195	8	1,470	691	2,170
10	25.70	99.99	-	1,410	23,389	24,799	1	1,552	32,407	33,961
11	100.00	100.00	-	-	57,721	57,721	-	1	58,261	58,262
Total			5,143	9,258	81,514	95,915	13,043	14,450	92,805	120,298

			31 December 2021 Net Exposure				31 December 2020 Net 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	796,976	40,711	453	838,140	604,965	3,654	-	608,619
2	0.01	0.03	777,993	21,790	5	799,788	782,956	7,971	113	791,040
3	0.03	0.06	5,354,205	18,234	58	5,372,497	4,992,630	7,943	565	5,001,138
4	0.06	0.14	1,779,634	22,338	449	1,802,421	1,841,023	14,497	1,643	1,857,162
5	0.14	0.31	871,111	23,368	289	894,768	797,951	19,841	11,471	829,263
6	0.31	0.63	514,971	22,590	578	538,139	579,919	30,989	7,064	617,972
7	0.63	1.90	377,323	106,123	1,843	485,289	433,638	138,178	4,989	576,805
8	1.90	7.98	160,575	193,722	2,383	356,680	111,887	298,232	8,805	418,924
9	7.98	25.70	3,295	24,148	1,105	28,548	2,021	37,215	5,566	44,801
10	25.70	99.99	2,638	29,464	171,687	203,789	2,183	86,769	337,323	426,276
11	100.00	100.00	13	19	73,880	73,912	305	479	91,623	92,407
Total			10,638,734	502,507	252,730	11,393,971	10,149,476	645,769	469,163	11,264,408

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Credit portfolio broken down by rating category and stages (continued)

			31 December 2021 Net Exposure (excluding collateral)				31 December 2020 Net Exposure (excluding collateral)			
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	344,826	6,718	6	351,550	243,976	1,416	-	245,392
2	0.01	0.03	119,253	1,966	2	121,221	137,332	495	42	137,869
3	0.03	0.06	4,886,227	2,686	-	4,888,913	4,551,908	1,569	449	4,553,927
4	0.06	0.14	615,580	3,679	1	619,260	650,332	1,953	564	652,849
5	0.14	0.31	229,647	3,463	5	233,115	215,392	5,727	10,501	231,620
6	0.31	0.63	131,781	4,282	1	136,064	178,782	9,179	1,684	189,645
7	0.63	1.90	93,921	19,860	61	113,842	121,441	37,165	1,157	159,763
8	1.90	7.98	21,461	31,270	123	52,854	26,365	82,439	2,298	111,102
9	7.98	25.70	810	3,383	80	4,273	390	6,462	559	7,411
10	25.70	99.99	2,638	7,936	15,520	26,094	8	38,578	38,333	76,919
11	100.00	100.00	13	19	14,662	14,694	98	46	19,443	19,587
Total			6,446,157	85,262	30,461	6,561,880	6,126,024	185,029	75,032	6,386,084

Non-performing loans

The net exposure from non-performing loans and advances to customers amounted to £325,673,000 at 31 December 2021 (2020: £543,158,000).

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 2021 Gross Exposure				31 December 2020 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	4,520,685	248	46	4,520,979	4,312,603	393	100	4,313,096
Agriculture	433,422	63,008	36,510	532,940	425,599	55,983	98,550	580,133
Commercial property	369,271	48,683	95,736	513,690	371,795	96,765	133,461	602,021
Non-profit and associations	732,952	2,748	1,027	736,727	570,169	3,446	4,902	578,517
Personal customers	2,764,520	273,941	45,249	3,083,710	2,813,931	284,195	62,706	3,160,832
Business customers	1,799,790	123,136	155,677	2,078,603	1,619,021	217,985	262,134	2,099,139
Other	23,237	-	-	23,237	49,402	1,452	114	50,968
Total	10,643,877	511,764	334,245	11,489,886	10,162,519	660,219	561,967	11,384,705

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Credit exposure broken down by industry and stages (continued)

	31 December 2021 Expected Credit Loss (ECL)				31 December 2020 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	160	1	7	168	7	4	24	35
Agriculture	298	1,440	7,426	9,164	570	284	8,323	9,177
Commercial property	395	1,225	28,631	30,251	469	1,473	25,612	27,554
Non-profit and associations	174	103	660	937	1,408	390	1,625	3,423
Personal customers	778	2,350	16,219	19,347	3,723	6,712	17,103	27,538
Business customers	3,338	4,139	28,571	36,048	6,866	5,588	40,118	52,572
Other	-	-	-	-	-	-	-	-
Total	5,143	9,258	81,514	95,915	13,043	14,450	92,805	120,298

	31 December 2021 Net exposure				31 December 2020 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	4,520,525	248	38	4,520,811	4,312,596	390	76	4,313,061
Agriculture	433,124	61,568	29,084	523,776	425,029	55,699	90,228	570,955
Commercial property	368,876	47,458	67,105	483,439	371,326	95,292	107,849	574,467
Non-profit and associations	732,778	2,645	367	735,790	568,761	3,056	3,276	575,094
Personal customers	2,763,742	271,591	29,030	3,064,363	2,810,208	277,483	45,603	3,133,294
Business customers	1,796,452	118,997	127,106	2,042,555	1,612,154	212,397	222,016	2,046,567
Other	23,237	-	-	23,237	49,402	1,452	114	50,968
Total	10.638.734	502,507	252,730	11,393,971	10,149,476	645,769	469,163	11,264,408

	31 December 2021 Net exposure (excluding collateral)				31 December 2020 Net exposure (excluding collateral)			
	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
Public institutions	4,520,453	211	-	4,520,664	4,312,519	340	76	4,312,935
Agriculture	126,509	9,269	2,061	137,839	129,562	20,896	15,653	166,111
Commercial property	72,431	7,301	20,935	100,667	58,067	16,102	20,809	94,977
Non-profit and associations	339,745	1,220	34	340,999	247,021	1,507	524	249,052
Personal customers	341,063	37,404	77	378,544	468,410	50,019	4,905	523,334
Business customers	1,022,719	29,857	7,354	1,059,930	861,043	94,714	32,951	988,707
Other	23,237	-	-	23,237	49,402	1,452	114	50,968
Total	6,446,157	85,262	30,461	6,561,880	6,126,024	185,029	75,032	6,386,084

For financial assets that are credit impaired (stage 3) at 31 December 2021, £222,795,000 of collateral is held as security against these exposures (2020: £392,429,000).

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.

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Concentration risk (continued)

These limits are set as part of the Bank's credit risk appetite and form part of the Bank's risk strategy.

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):

	2021 £’000	2020 £’000
Real estate/property		
- Personal	2,684,776	2,609,165
- Commercial	1,129,368	1,161,344
- Agricultural	259,973	289,026
Equipment	298,067	354,839
Guarantees	372,182	363,140
Deposits	16,564	19,225
Other assets	71,162	81,586
Total collateral	4,832,092	4,878,323
Total unsecured credit exposure	6,561,880	6,386,084
Unsecured portion of credit exposure (%)	58%	57%

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Past due amounts (no evidence of credit impairment):

	Total past due amounts		Total due under loans	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
6-30 days	**503**	279	**5,976**	5,326
31-60 days	**508**	325	**13,893**	8,219
> 60 days	**1,250**	858	**7,327**	5,804
Total past due amounts	**2,261**	1,463		
Total due under loans			**27,196**	19,349

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**
	2021 £'000	**2021 £'000**	**2021 £'000**	**2021 £'000**	**2021 £'000**
Good upper	**2,367,115**	**55,302**	**745,293**	**1,493,994**	**4,661,704**
Good lower	**277,481**	**13,061**	**191,748**	**430,127**	**912,417**
Marginal	**202,606**	**5,858**	**47,174**	**80,078**	**335,716**
Vulnerable	**9,479**	**685**	**13,051**	**26,445**	**49,660**
Total: Neither past due nor Stage 3 impaired	**2,856,681**	**74,906**	**997,266**	**2,030,644**	**5,959,497**

Neither past due nor stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2020 £'000	2020 £'000	2020 £'000	2020 £'000	2020 £'000
Good upper	305,886	15,763	263,949	429,697	1,015,295
Good lower	2,315,188	54,099	574,550	1,360,740	4,304,578
Marginal	209,845	6,479	45,200	124,343	385,867
Vulnerable	44,121	1,392	19,480	26,603	91,596
Total: Neither past due nor Stage 3 impaired	2,875,041	77,732	903,179	1,941,384	5,797,336

Note 39 – 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
	2021	2021	2021	2021	2021
	£'000	£'000	£'000	£'000	£'000
Good upper	3,893	120	133	310	4,456
Good lower	1,038	154	3,759	320	5,271
Marginal	2,225	108	137	1,085	3,555
Vulnerable	501	28	40	284	853
Total : Neither past due nor Stage 3 impaired	7,657	410	4,069	1,999	14,135

Six days plus past due not Stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2020	2020	2020	2020	2020
	£'000	£'000	£'000	£'000	£'000
Good upper	1,664	211	1	92	1,967
Good lower	2,783	121	57	4,851	7,812
Marginal	2,071	143	162	514	2,890
Vulnerable	1,206	28	5	8	1,248
Total : Neither past due nor Stage 3 impaired	7,725	503	226	5,465	13,918

Stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2021	2021	2021	2021	2021
	£'000	£'000	£'000	£'000	£'000
Total : Stage 3 impaired	22,049	23,200	111,155	167,137	323,541

Stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2020	2020	2020	2020	2020
	£'000	£'000	£'000	£'000	£'000
Total : Stage 3 impaired	55,906	6,665	163,963	300,184	526,718

Gross loans and receivables	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2021	2021	2021	2021	2021
	£'000	£'000	£'000	£'000	£'000
Good upper	2,371,008	55,422	745,427	1,494,302	4,666,159
Good lower	278,519	13,215	195,508	430,447	917,689
Marginal	204,831	5,966	47,311	81,163	339,271
Vulnerable	9,980	713	13,091	26,729	50,513
Impaired	22,049	23,200	111,155	167,137	323,541
Gross loans and receivables	2,886,387	98,516	1,112,492	2,199,778	6,297,173

Note 39 – 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
	2020	2020	2020	2020	2020
	£'000	£'000	£'000	£'000	£'000
Good upper	307,550	15,973	263,950	429,789	1,017,262
Good lower	2,317,971	54,220	574,608	1,365,591	4,312,390
Marginal	211,916	6,622	45,362	124,857	388,757
Vulnerable	45,328	1,420	19,485	26,611	92,844
Impaired	55,906	6,665	163,963	300,184	526,718
Gross loans and receivables	2,938,672	84,900	1,067,367	2,247,032	6,337,972

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.

In response to the COVID-19 pandemic, the Bank's forbearance practices were updated in relation to customers affected by the COVID-19 crisis and the Bank is following regulatory guidance in this area. This included provision to ensure that any concessions due to the COVID-19 crisis were considered forbearance only if they relate to the customer's long-term financial position being further weakened by the outbreak. Short-term concessions to otherwise creditworthy customers impacted by the COVID-19 crisis were not considered forbearance.

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 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Forbearance (continued)

The type of forbearance offered by the Bank normally falls into three types or strands:

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 customers

As at 31 December 2021	Number of loans	Loan balance	% of total mortgage portfolio	Impairment allowance	% Coverage
		£'000	%	£'000	%
Variation forbearance	177	14,110	0.5%	1,177	8.3%
Renegotiation forbearance	2	440	0.0%	14	3.2%
Post default mutual agreement	33	4,470	0.2%	1,224	27.4%
Gross loans and receivables	212	19,020	0.6%	2,415	12.7%

As at 31 December 2020	Number of loans	Loan balance	% of total mortgage portfolio	Impairment allowance	% Coverage
		£'000	%	£'000	%
Variation forbearance	1,173	122,688	4.1%	4,275	3.5%
Renegotiation forbearance	2	453	0.0%	5	1.1%
Post default mutual agreement	14	1,558	0.1%	67	4.3%
Gross loans and receivables	1,189	124,699	4.2%	4,347	3.5%

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Forbearance (continued)

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 are provided to 306 business customers as at 31 December 2021, having associated facilities of £147m. 215 of these cases were related to the provision of Bounce Bank Loans (BBLs) and 41 cases related to the provision of Coronavirus Business Interruption Loan Scheme (CBILs), provided under the Government's' guarantee scheme in relation to the COVID-19 pandemic (i.e. between 80% to 100% government backed collateral). Therefore, the associated ECL on these exposures are minimal.

c) Exposure to counterparty risk (derivatives) and credit exposure from other trading and investing activities

	2021 £'000	2020 £'000
Counterparty risk		
- Derivatives with positive fair value	**8,586**	17,284
Credit exposure from other trading and investing activities		
- Investment securities - hold to collect	**1,318,484**	531,555
- Investment securities - hold to collect and sell	**907,862**	877,981
Investment in subsidiaries	**250**	250
Total	**2,235,182**	1,427,070

d) Exposure to Investment securities

Investment securities are made up of UK government gilts and highly rated covered, sovereign, super -national and agency bonds.

Note 40 – 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 2021 Number	Amount 2021 £'000	Persons 2020 Number	Amount 2020 £'000
Loans - balance at 31 December				
Directors	5	17,710	4	16,174
Executive Committee	7	1,118	5	623
	12	18,828	9	16,797
Deposits - balance at 31 December				
Directors	5	19,207	5	18,792
Executive Committee	8	639	6	387
	13	19,846	11	19,179

No credit impairment has been identified in respect of loans provided to Executive Committee members. Furthermore, no debts were written off or forgiven during the year ended 31 December 2021 (2020: £nil).

Included in the above are eleven individual loan facilities (2020: nine) totalling £17,710,000 (2020: £16,174,000) 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 £20,910,000 (2020: £18,962,000).

b) 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) 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 Grou p are publicly available. Note 5 provides further details of recharges made by Danske Bank Group.

The Bank has transactions with the Northern Bank Defined Benefit Pension Scheme, as detailed in note 24. The Bank charges the Scheme with the cost of administration which amounted to £85,000 in the year ended 31 December 2021 (2020: £81,000).

Note 41 – Employees

The average number of full time equivalent UK employees of the Bank during the year was made up as follows:

	2021 Number	2020 Number
Managers	392	384
Clerical staff	903	957
Total	1,295	1,341

Note 42 – 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).

	2021 Weighted average exercise price DKK	2021 Number of conditional shares	2020 Weighted average exercise price DKK	2020 Number of conditional shares
Outstanding at the beginning of the year	0.00	82,340	0.00	44,080
Granted during the year	0.00	-	0.00	64,655
Exercised during the year	0.00	(17,762)	0.00	(25,854)
Forfeited during the year	0.00	-	0.00	(541)
Expired during the year	0.00	-	0.00	-
Outstanding at the end of the year	0.00	64,578	0.00	82,340
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 109.58. The conditional shares at 31 December 2021 had a weighted average exercise price of DKK 0.00 and a weighted average remaining contractual life of 1.5 years. As at 31 December 2021 there were 64,577 conditional shares with an exercise price of DKK 0.00. No conditional shares were granted during the year ended 31 December 2021.

There was a charge in the year in respect of share based payments of £850,000 (2020: release £301,000).

Note 43 – 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 44– 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.

Glossary of terms

ALCO	Asset and Liability Committee
AMC	Amortised Cost
AML	Anti-Money Laundering
ARMC	All Risk Management Committee
AT1	Additional Tier 1
BAC	Board Audit Committee
BBLS	Bounce Back Loan scheme
BCBS	Basel Committee on Banking Supervision
BCP	Business Continuity Planning
BITC	Business in the Community
BPS	Basis points
BRC	Board Risk Committee
CBILS	Coronavirus Business Interruption Loan scheme
CBT	Conduct-risk behaviour training
CCC	Change Control Committee
CCyB	Countercyclical Capital Buffer
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CGF	Corporate Governance Framework
CLBILS	Coronavirus Large Business Interruption Loan Scheme
CMPC	Commercial Management and Pricing Committee
COF	Credit Oversight Forum
COVID-19	Coronavirus disease 2019
CPI	Consumer Price Index
CRC	Conduct Risk Committee
CRD	Capital Requirements Directive
CRO	Chief Risk Officer
CRR	Capital Requirement Regulations
CSaT	Customer Satisfaction
DBO	Defined Benefit Obligation
DLA	Delegated lending authorities
EAD	Exposure at Default
EAR	Earnings at Risk
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Loss
EIR	Effective interest risk
EPC	Energy Performance Certificate
ERM	Enterprise Risk Management
ESG	Environmental, Social and Governance
EU	European Union
EVE	Economic Value of Equity
ExCo	The Executive Committee
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FVOCI	Fair value though other comprehensive income
FVTPL	Fair value through profit or loss
GHG	Greenhouse Gas
GIA	Group Internal Audit
GMP	Guaranteed Minimum Pension
GVA	Gross Value Added
HR	Human Resources
IAS	International Accounting Standard

Danske Bank

Glossary of terms

IASB	International Accounting Standards Board
IBORS	Inter-Bank Offered Rates
ICAAP	Internal Capital Adequacy Assessment Process
ILAAP	Individual Liquidity Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IT	Information Technology
ITRC	Information Technology Risk Committee
KPI	Key performance indicator
LAB	Liquid Asset Buffer
LCR	Liquidity Coverage Ratio
LIBOR	London Inter-Bank Offered Rate
LGD	Loss Given Default
LoD	Lines of Defence
MAB	Mortgage Advice Bureau
MI	Management Information
MREL	Minimum Requirement for Eligible Liabilities
NIM	Net Interest Margin
OCI	Other Comprehensive Income
ORCC	Operational Risk and Compliance Committee
ORMS	Operational Risk Management System
PAYG	Pay As You Grow
PD	Probability of Default
PIN	Personal Identification Number
PPE	Personal Protective Equipment
PPI	Payment protection insurance
PRA	Prudential Regulation Authority
PRC	Pension Risk Committee
RAG	Red, Amber, Green
RAS	Risk Appetite Statement
RCSA	Risk Control Self-Assessment
REA	Risk-weighted exposure amount
RemCo	Board Remuneration Committee
RICS	Royal Institution of Charted Surveyors
RPI	Retail Price Index
SMEs	Small and Medium Enterprises
SMF	Sterling Monetary Framework
SoS	Schedule of Submissions
SPPI	Solely Payment of Principle and Interest on the Principle Amount Outstanding
TCFD	Taskforce on Climate-Related Financial Disclosures
TSA	Standardised Approach under the CRR