Northern Bank Limited

Annual Report and Financial Statements

for the year ended 31 December 2022

Danske Bank

Company number: R0000568

Contents

Danske Bank 2022 – at a glance

2022 - Financial performance outcome

£273m
Total operating income

£103m
Profit before tax

£6.3bn
in customer lending activities

13.6%
Common Equity Tier 1 capital ratio

Dividend of £40m paid during the year

£3.8bn
Available liquidity

£11.2bn
in customer deposits

2022 – Other key performance outcomes

15% increase
in digital product and services offering

Helped Educate
over 7,600 young people
on money matters

Achieved Platinum in NI Environmental Benchmarking Survey

Removed fossil fuels
from all standalone branches

Accredited as 3 star
World Class Company
to work for

25% increase in lending approvals to small businesses

Over £650m
in sustainable finance lending approvals

Leading Customer Satisfaction scores from our personal and business customers

Launched Money Worries and Rising Cost of Doing Business online support hubs

Business Review

Chair's review

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

Martin Stewart
Chair

It was my privilege and honour to assume the role of Chair on 1 January 2023 following the retirement of my predecessor, Gerald Gregory, from the Board. I would like to express my sincere thanks to Gerald for his leadership over the past decade, a period in which the Bank has undergone transformative change and delivered significant growth. I would also like to thank my fellow directors for their support during my transition into the Chair role, through a turbulent economic environment.

During 2022 the impacts of the war in Ukraine brought many new challenges for businesses and households who were just starting to emerge from the pandemic with growing optimism. The war led to a disruption in supply chains, higher energy costs and heightened global uncertainty. Inflation rose throughout the year, putting pressure on household budgets and the cost of doing business.

However, the experience of the past three years has proven our ability to change and adapt in the most challenging of times. Guided by a clear purpose to help customers, colleagues and society thrive, we have shown again that when customers need us most, we are there to support them.

Our response to the challenges of 2022 was no different, and we have reacted strongly through the introduction of a wide range of customer and colleague support initiatives. At the same time, we made great progress on our strategic priorities, ending the year with a strong financial performance, leading customer satisfaction scores across both Personal and Business, and world class levels of employee engagement.

Strategic direction

With a clear vision to be the leading bank in Northern Ireland, a challenger in the rest of the UK, driving sustainability, under the leadership of Vicky Davies the Bank has continued to transform at pace to meet expectations, while maintaining our fundamental role in supporting consumers, businesses and the economy.

We are on the right path, innovating and investing for the future, enhancing our digital channel offering, investing in our people, and digitising and simplifying across every area of the business. We also made significant progress on our ambitions to help finance the transition to a sustainable future and to establish a diverse and inclusive culture that supports long-term success.

Driving sustainability

We continued to reduce our operational emissions and made good progress in our ambitions to help

Chair's review

customers to drive positive change, by providing sustainable finance and through education and awareness. The Board actively engaged with the climate change and sustainability agenda, inputting into management's plans to recognise and mitigate the risks to the business arising from climate change.

Culture and governance

The Board places great emphasis on engaging with colleagues and a series of 'Board 360 – Colleague Conversations' provided a valuable opportunity to hear first-hand from colleagues at all levels. I appreciated how open and engaged colleagues were, and it was interesting to see that the themes emerging reflected topics we regularly discuss at Board.

I was struck once again by the commitment and calibre of our colleagues and the positive culture that permeates across the organisation in terms of how we treat each other, our customers, and wider society. On behalf of the Board I would like to thank each and every colleague for the contribution they have made.

Good governance is fundamental to delivery against our five strategic priorities and acts as a catalyst for continually challenging our assumptions and risks. We have made considerable progress this year on embedding regular and meaningful stakeholder engagement into the Board calendar through our workforce engagement programme to inform Board decision making as outlined in the Section 172(1) statement. The Board remains committed to self-development to ensure constructive challenge of the executive team as they deliver our strategic plan. Building on the progress in recent years on Diversity and Inclusion at Board level and throughout the organisation, remains an area of focus.

In 2022 we also welcomed new Board members. Richard Caldwell became an Executive Director, Michele Turmore joined the Board as an Independent Non-Executive Director and Michel van Drie, Chief Information Officer, Large Corporates & Institutions, Danske Bank A/S, joined as a Non-Executive Director. Stephan Engels stepped down from the Board in June 2022 and Berit Behring resigned in January 2023. I would like to thank them both for the contribution they made during their time on the Board. Whilst Berit will leave Danske Bank A/S in August 2023, Stephan continues in his role as Group CFO and will no doubt continue to be a strong advocate for the Bank with the rest of the Group. At the beginning of 2023, we welcomed Frans Woelders, Chief Operating Officer, Danske Bank A/S, to the Board as a Non-Executive Director.

I know that the Board and local management team, will continue to prioritise putting customers at the heart of everything we do, and I look forward to us continuing to grow the business into the future.

Looking ahead

While we continue to operate through great economic uncertainty, we remain committed to our vision and purpose and believe our strategy is the right one. The Bank is well capitalised with robust funding and liquidity levels, and strongly positioned to continue to help customers as an integral part of the Northern Ireland economy.

Martin Stewart

Martin Stewart
15 March 2023

Chief Executive's review

"A strong performance in 2022 means we are well positioned to support customers through challenging economic conditions, whilst investing in products and services that continue to improve customer experience."

Vicky Davies
Chief Executive Officer

2022 presented new global, social and economic challenges, from the war in Ukraine to a cost of living pressures driven by rising energy costs and high inflation. Guided by our purpose to help customers, colleagues and society to thrive, we adapted well to the challenges and made great progress on the five strategic priorities that will help us deliver on our Vision.

In my first full year as CEO I spent a lot of time out and about listening to colleagues and to customers, and I am so proud of how our colleagues have adapted to new challenges with flexibility, purpose and commitment. They have stayed close to our customers, providing additional support for those who need it, whilst continuing to help businesses grow and people to manage their day to day finances and realise their home owning ambitions.

As the largest bank in Northern Ireland, we provide essential fuel in the tank of our local economy. Strong results mean a strong bank well positioned to help customers and colleagues through challenging times. We have proven to be a bank that is there for customers, colleagues and society during the good times, and the more difficult times.

I would like to thank our former Chair, Gerald Gregory, for his tremendous leadership over the past decade - a period in which we became a transformed bank and delivered significant growth. I look forward to working closely with our new Chair Martin Stewart, the Board and the Executive Committee in 2023.

As we move forward my focus is on navigating the Bank through these times of economic uncertainty, by remaining focused on the five strategic priorities I set out when I became Chief Executive, and being there for our customers, colleagues and society.

Helping personal customers thrive

We have over 500 colleagues across our local branches, mortgages teams and contact centres dedicated to looking after the needs of customers. I am so proud of the leading service our colleagues continue to deliver whether in our branches, on the phone or through our digital channels, and was delighted to see this reflected in leading customer satisfaction scores.

Transaction levels in the Northern Ireland housing market remained at healthy levels in the first half of 2022, with a slowing of activity in the latter months. Despite this we approved our highest ever volume of mortgages across Northern Ireland and the rest of the UK, growing through quality business.

The needs and expectations of our customers evolve, and in the last number of years, the way customers use branches has changed considerably. Digital customer adoption and usage continues to increase, and we saw a 15% increase in digital products and services. The number of customers using digital banking channels has more than doubled in recent years.

Our branches and contact centres remain hugely important to our customer offering, but as a business, we must respond to these changes, and this meant making the difficult decision to close four branches in 2022.

Helping customers who need additional support

We expect that some of our customers will use the deposits they built up during the pandemic to help with the increased cost of living, but are conscious that not all customers will have that cushion.

We proactively contacted over 16,000 customers to offer guidance and support relating to their financial circumstances. We created a Money Worries online hub for personal customers and a Rising Cost of Doing Business online hub for small business customers, both including a customer call back service supported by an expanded financial difficulties team.

In addition, we made pricing changes such as lowering unpaid item fees for personal and business customers and raising our rates of interest paid on savings.

Through our network of Vulnerability Champions and Community Bankers we are well placed to support those customers at greatest risk of harm, for example through gambling, domestic abuse or financial abuse. We continued to strengthen our relationships with organisations that help us provide better support to customers and colleagues, such as Money Advice and Pensions Service, GamCare, Hourglass and RNIB.

We also supported Ukrainian families moving to Northern Ireland through providing a streamlined account opening process to enable them to receive pay and benefits and assist with their integration into the community.

Helping businesses thrive

While 2022 has been a particularly challenging period for many businesses and a continued lack of clarity around the Northern Ireland Protocol remains an issue for some, Northern Ireland businesses are experienced in dealing with uncertainty – and many are performing well, growing and investing.

Our team of around 80 experienced business banking relationship managers, the largest in the local market, is staying close to our customers, supporting them with the challenges they may be facing, and with their growth ambitions.

We approved over £850m of business lending, with lending to small businesses up 25% year-on-year. Over £100m of lending was approved to support new corporate customers.

We are very conscious of the role we want to play in financing the transition to a more sustainable future. In addition to providing green loans and sustainability-linked lending to corporate customers, all our own relationship managers and business advisors have received carbon literacy training to support better conversations with customers.

Leveraging selected opportunities in the rest of the UK

While our core business will always be in Northern Ireland, we continued to expand our reach in selected risk-astute focus areas in the rest of the UK.

Following the successful launch of our carbon neutral mortgage through the Mortgage Advice Bureau network in selected areas of England, we delivered around £200m in mortgage lending approvals.

We remain active in the syndicated lending space in the UK and provided around £100m of lending in 2022. Another focus area continues to be the housing association sector, where we are able to leverage the knowledge and experience we have in that sector in Northern Ireland. We are now banking several of the largest housing associations in the UK, with lending approvals of around £195m in 2022.

Digitising and simplifying

We want to make it as easy as possible for customers to bank with us and that means continually investing in innovative new digital solutions and simplifying processes and products. By leveraging Group capabilities alongside building local capabilities and partnerships, we expanded our digital offering in 2022.

We simplified our personal current account range and added new features to our Mobile Bank app, allowing customers to set up their own standing orders, make international transfers, and apply online for a youth savings account or eSaver account. Customers can now also secure a mortgage decision in principle in around 10 minutes.

We became the first bank in the UK to enable businesses to view all their accounts and payments across multiple banks in one place, and introduced a digital self-service overdraft application, mandates and more options to sign digitally.

Increasing our capabilities and skills is critical to success and we invested heavily in developing both the capabilities and the tools in areas such as data and analytics and automation.

To invest and grow we must also continue to look for ways to simplify our operating model. The acquisition of our non-branch ATM network by local specialist provider, Pivotal, will allow us to free up time and resource to focus on our core banking activities.

Chief Executive's review

Helping colleagues thrive

We made great progress in becoming a more engaged, skilled and adaptive workplace, positioning us well for the future of work.

Colleague feedback is so important to us so we were delighted that more colleagues than ever completed the annual Best Companies survey. In the latest annual survey we achieved a 3 Star accreditation for the first time, reflecting 'world class' levels of workplace engagement. That's fantastic progress, and the rich colleague feedback the survey gives will enable us to continue to deliver effective change.

Our focus on growing talent within the Bank continues, with more than 100 colleagues achieving promotions in 2022. Two successful 'Learning at Work' weeks saw record attendances and we launched a new mentoring programme open to all colleagues, with over 300 relationships in place by the end of the year.

Building our future talent pool, the first cohort from our Danske Futures apprentices programme graduated in June having completed their three-year degree-led apprenticeship programme. To date 84 apprentices have begun or completed one of our apprenticeship programmes.

We invested heavily in leadership development, partnering with world leading business school, Hult Ashridge, to deliver a bespoke Adaptive Leadership programme, equipping all our people leaders with the skills to lead with purpose and agility in the face of a changing world.

We want all colleagues to feel that they belong, and to be supported during key life changes. In 2022 we introduced new policies and guiding principles around diversity and inclusion, career breaks, the menopause and transitioning at work. This complements the fantastic work led by our internal affinity groups to improve gender diversity, disability inclusion, racial equality, and LGBTQ+ inclusion. Colleagues are truly helping to drive change in these areas.

Our colleagues are not immune to the financial pressures caused by the rising cost of living. As part of our wider colleague wellbeing programme we responded by putting in place various supports such as a cost of living payment, free breakfasts for all colleagues, free period products, a retail discount scheme, mental health support, financial education and bespoke financial products.

Creating a more sustainable future

Climate change is the biggest crisis of our generation, and we recognise the role we must play in helping to tackle it. It means becoming 'greener' ourselves and helping our customers and others on the same journey.

We committed to a 50% reduction in our operational (scope 1&2) emissions by 2030, and achieved that in 2022, eight years ahead of plan. We have now set ourselves a target of being operationally net zero by 2030.

All our standalone branches are now fossil-fuel free, a year ahead of target.

We continue to benchmark well in this area, achieving Platinum level in the Business in the Community Environmental Benchmarking Survey for a fifth year, leading the way in the NI financial services sector.

But it is through supporting the sustainability approach of our customers, that we will make the greatest impact. Our ambition is for all operational and customer-related carbon emissions to be net zero by 2050, as part of the UN Net-Zero Banking Alliance.

We started on this journey with the launch of the Danske Carbon Neutral Mortgage in 2021 and by the end of 2022 these accounted for over half of all new mortgages.

Across business and personal lending in 2022 we approved over £650m in sustainable finance, including supporting our first corporate customers with 'green loans'.

To help homeowners understand how they can reduce their energy costs and their emissions, we partnered with the Energy Saving Trust to launch a free online tool.

Another 55 Danske Bank customers took part in the Climate Action Programme we co-developed with Business in the Community NI, and by empowering them to extend the programme to other partners, have enabled them to reach many more businesses.

We entered an exciting partnership with the Woodland Trust, to support the creation of new, native woodland in Northern Ireland through the charity's Woodland Carbon Scheme. The trees we'll plant together will help us to mitigate our business emissions, both helping us to reduce the impact of our operations on the environment as well as boosting biodiversity.

Danske Bank

Chief Executive's review

Helping society thrive

Through our core community programmes and working with many local partners in the voluntary sector, we help make a difference on the most relevant societal issues to our business, such as financial confidence, mental health and scam awareness.

Following a revamp of our Money Smart financial education programme, colleagues across the Bank helped teach more than 7,600 children and young people, face to face in classrooms, about money and budgeting - our highest level on record.

Volunteers from Danske also helped around 7,500 13-year-olds make informed education and career choices through a series of events organised by social enterprise, 4C UR Future.

In total, 432 colleagues volunteered 2,566 hours through our Danske Time to Give volunteering programme, supporting many local charities and community groups in addressing issues like the cost of living challenges, biodiversity, mental health, scam awareness, disability inclusion and digital inclusion.

We were delighted to receive an Investors in Mental Health award in recognition of our contribution to promoting positive mental health in Northern Ireland through our partnership with local charity AWARE NI. In our second year of partnership this included colleagues helping to raise almost £82,000 which will help equip more 14-18-year-olds in Northern Ireland with the knowledge and skills to maintain good mental health, and to develop a new programme for a younger age group.

At the same time, we've been agile in responding to the major global or local societal issues most relevant to our colleagues and customers. In 2022 this included, for example, fundraising and donating food and clothing to support Ukraine, colleagues helping Ukrainian refugees with CV skills, volunteering at food banks and toy appeals, and more.

Future development

The economic outlook for the UK remains uncertain and we know that for some customers 2023 will be challenging. We are well prepared for an economic downturn and will remain close to customers so we can provide additional support where and when it's needed.

At the same time, we will continue to build an even better bank for the future, a future I feel positive about. We will continue to help businesses through high quality and responsible lending, supporting businesses to grow and create jobs, as well as helping people to manage their day to day finances, save for the future and achieve their home-owning ambitions.

We have a clear vision to guide us and the right strategy in place to help customers, colleagues and society thrive.

Vicky

Vicky Davies
15 March 2023

Strategic Report

Danske Bank in the UK

Northern Bank Limited t/a Danske Bank (the Bank) is the largest bank in Northern Ireland and is an autonomous subsidiary of the Danske Bank Group (the '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 via a combination of digital and physical channels which include local branches and regional business centres, as well as telephone banking support.

We play a fundamental role in driving Northern Ireland's growth by lending to people and businesses, as well as, on a targeted basis, in the rest of the UK. We also believe we have a fundamental responsibility to ensure we are contributing to the wider society that we serve and 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).

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

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

Principal activities

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

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

Basis of presentation

The Directors of Northern Bank Limited present their Strategic Report for the year ended 31 December 2022.

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 2022 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 Risk Management framework, principal risk and assumptions and how it manages these key risks are outlined within the Risk Management section from page 24 of the Annual Report.

Further information on the Bank's Governance arrangements are outlined from page 82 of the Annual Report, including the Bank's section 172(1) statement.

Climate reporting

Being a sustainable bank and playing an active part in helping our customers transition to a new low carbon economy is at the heart of the Bank's strategic ambitions. This is further outlined in the Bank's Task force on Climate related Financial Disclosures (TCFD) report from page 57.

Our vision

'Leader in NI, Challenger in Rest of the UK, Driving sustainability'

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

This reflects our ambition to be the leader in Northern Ireland across all areas of personal and business banking as well as a leader in society, alongside becoming a challenger bank in the Rest of the UK in selected risk astute focus areas, being a driving force for sustainability wherever the Bank operates.

Our purpose

'Helping customers, colleagues and society to thrive'

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

People and society are at the heart of our business and therefore drive the sentiment behind our purpose. We want to positively impact people and businesses, help secure a prosperous and sustainable future for the places we operate in and play our part in addressing key societal issues. This purpose is particularly important during these challenging economic times.

Our strategy

In 2022, the Bank's Board and Executive Committee considered the longer-term goals of the organisation and the type of Bank we want to be in the future.

Our long-term strategic focus is to remain a stable, strong and risk-astute Bank – consolidating our position in Northern Ireland, serving as a force for good in the local economy, plus taking prudent and considered low cost selective quality growth opportunities in the Rest of the UK.

Complementing this approach, the ambition remains to deliver a strong future for the Bank as a more efficient, geographically diverse (with Northern Ireland remaining the core region) and digitally orientated business achieving sustainable and responsible growth while operating as the best place to work.

Our five strategic priorities

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

LEADER IN NORTHERN IRELAND
We aim to continue to be the leading bank in Northern Ireland within both the personal and corporate & business banking segments as well as a leader in society

CHALLENGER IN REST OF THE UK
We will focus on growing our business in the Rest of the UK in selected risk astute focus areas across personal and corporate banking

BEST PLACE TO WORK
The Bank will look to become the best place to work with a strong focus on colleague experience and engagement

DIGITISE & SIMPLIFY
We will continue to build on our digital customer and colleague propositions by substantially strengthening our capabilities and embedding digital developments and simplification initiatives across the organisation

SUSTAINABLE & RESPONSIBLE
The Bank will focus on tackling climate-related issues and delivering on its wider societal responsibilities

Delivering our strategic priorities during 2022

In 2022, the Bank's commercial activities were aligned to its 5 strategic priorities and positive progress was made within each area over the course of the year, as the Bank worked to achieve its vision. These priorities will continue to guide our activities during 2023.

The following section explores each strategic priority in more detail, highlighting some of our key achievements from 2022 and our ambitions for 2023.

LEADER IN NORTHERN IRELAND

In 2022, the Bank continued to aspire to be the clear leader in Northern Ireland for personal customers by providing a strong service offering through its digital, branch and telephony channels whilst also aiming to be the number one choice for mortgage lending.

Within the corporate and business banking segment, the Bank maintained its clear leading position, benefiting from the strength of its skilled relationship managers and supported by a leading digital platform.

Looking forward, the Bank aims to be the clear leader in Northern Ireland across both the personal and corporate & business banking segments, as well as remaining a leader in society.

Key achievements in 2022

Over £590m in mortgage lending approvals

Over £850m in corporate & business lending approvals

28% year-on-year increase in personal loan drawdowns

Asset Finance drawdowns up 23% year-on-year

Supported Ukranian families in Northern Ireland with banking requirements

Launched 'Money Worries' and 'Rising Cost of Doing Business' online hubs

CHALLENGER IN REST OF THE UK

In 2022, the Bank continued to pursue selected risk-astute opportunities within the Rest of the UK, in three primary focus areas, building on our strong position in Northern Ireland.

During the year the Bank remained active in the UK syndicated lending market and in lending to housing associations. Following an initial-roll out late in 2021, in 2022 the Bank further extended the reach of its carbon neutral mortgage into selected areas of England through the Mortgage Advice Bureau network. Dedicated customer facing teams developed strong networks and relationships, helping to achieve commercial success.

Going forward, our ambition remains to do quality business, growing in a steady and controlled manner.

Key achievements in 2022

Over £200m of rest of UK mortgage lending approvals

Registered over 700 mortgage brokers

Onboarded new corporate customers in the rest of the UK

Around £195m of rest of UK housing association lending approvals

Over £100m of rest of UK syndicated lending drawn

Delivered first sustainability linked syndicated lending facility

BEST PLACE TO WORK

In 2022, the Bank made substantial progress towards its ambition to be a best place to work within the UK, positioning itself well to succeed in a changing work environment, growing to become a more engaged, higher skilled and adaptive workplace.

Looking forward to 2023, the Bank will continue to focus on developing its people and culture and aims to be recognised as a leading employer across UK financial services and local, Northern Ireland-based companies.

Key achievements in 2022

Awarded a 3 star accreditation in Best Companies survey, as a 'World Class' company to work for

Over 300 colleagues involved in mentoring relationships

Supported colleagues with responding to Cost of Living pressures

Embedded Adaptive Leadership techniques throughout the organisation

Over 80 staff participated in degree-level apprenticeship programmes

Introduced a range of progressive people policies such as menopause and transitioning at work

DIGITISE & SIMPLIFY

The Bank's digital transformation journey continued to evolve during 2022, through building out our technological, digital and data capabilities to deliver a range of digital solutions, both internally and externally.

Moving into 2023, we will continue to develop digital solutions for both our colleagues and customers and identify processes to be simplified where possible, whilst maintaining a high level of support across physical channels.

Key achievements in 2022

Introduced a Decision in Principle tool for potential new mortgage customers

Enabled international transfer functionality through our mobile app

Enabled businesses to view all their accounts and payments across multiple banks in one place

Digital onboarding introduced for Youth Savings and esaver accounts

Introduced a digital self-service overdraft application, mandates and more options to sign digitally

Simplified our Personal Current Account range

SUSTAINABLE & RESPONSIBLE

Operating as a sustainable and responsible business is fundamental to the success and future of the Bank. In 2022, the Bank continued to strengthen its focus and impact as a sustainable and responsible lender.

In 2023, the Bank will continue on its journey to help its customers and itself 'go green' and maintain its market leading approach to repsonsible business.

Key achievements in 2022

Raised over £80,000 for our charity partner, AWARE NI

Over £650m in sustainable finance lending approvals

Proactive outreach to over 16,000 customers to offer financial guidance and support

Over 2,500 volunteering hours through our Danske Time to Give programme

Achieved Platinum level in annual BITC Environmental Benchmarking survey

Delivered Climate Action Programme to 55 large businesses

2022 Financial review summary

"Our focus is on remaining a stable, strong and risk-astute bank, consolidating our market-leading position alongside pursuing prudent low-cost selected growth opportunities in the rest of the UK.

This is supported by a strong performance in 2022, with income and profitability both improved and costs maintained below the 2021 level."

Stephen Matchett
Deputy Chief Executive Officer
& Chief Financial Officer

Our ambition is to deliver sustainable and responsible growth as a more efficient and digitally-orientated business.

The Bank's residential mortgage book grew in 2022, supported by a strong product and service proposition that includes the UK's first ever carbon-neutral mortgage.

Throughout 2022, the Bank continued to enhance its digital proposition for both personal and business customers. As a result of accelerating digital adoption by customers, with more than 6.5 million digital channel logons each month, we reduced our branch network with the closure of four branches and agreed the acquisition of our offsite ATM network by an established local provider. Through these and other actions, the Bank's costs in 2022 were maintained below the level of costs in 2021 despite inflationary pressure.

£103.3m
Profit before tax
(2021: £61.3m)

1.82%
Net interest margin
(2021:1.34%)

+2.1% loan growth
(2021: -0.4%)

Underlying financial performance

Despite the ongoing economic uncertainties throughout 2022, profit before tax increased to £103.3m (2021: £61.3m) reflecting the progress made by the Bank in the delivery of its strategy, with actions taken in response to higher interest rates and increased transactional activity supporting a strong income performance.

As Northern Ireland's largest bank, we have strongly focused on continuing to support personal and business customers, whilst at the same time, maintaining a robust and stable financial position.

Overall, our 2022 full year financial results, resilient balance sheet, robust capital position and strong liquidity base, all leave us well placed to support customers and deliver on our strategic priorities in 2023 and deliver profitable growth, despite the uncertain economic outlook.

Income Statement – 2022 Overview

	2022 £'000	2021 £'000
Net interest income	218,817	154,756
Non-interest income	54,688	45,291
Total operating income	273,505	200,047
Total Operating expenses	(150,345)	(153,438)
Profit before loan impairment charge	123,160	46,609
Loan impairment (charge)/credit	(19,859)	14,660
Profit before tax	103,301	61,269
Tax	109	(19,735)
Profit for the year	103,410	41,534
Net interest margin	1.82%	1.34%
Cost income ratio	54%	75%

Underlying financial performance

The Bank recorded a statutory **profit after tax** of 103.4m (2021: £41.5m).

The Bank's Income Statement on page 115 provides a breakdown of the financial performance during the year ended 31 December 2022.

Key performance indicators

Net interest income increased by 41.3% to £218.8m (2021: £154.8m) over the financial year, with a stronger net interest margin of 1.82% (2021: 1.34%).

The increase in the **Net Interest Margin** (NIM) was primarily driven by action taken in response to increases in the UK bank rate during the financial year, supported by a continued focus by the Bank in optimising its strong liquidity position with further purchases of highly rated investment securities.

Non-interest income increased by 20.7% to £54.7m (2021: £45.3m), reflecting the higher customer transactional activity levels during 2022 following the removal of all final COVID-19 restrictions in quarter 1 of 2022.

Operating expenses decreased by 2% to £150.3m (2021: £153.4m) through a continued focus on cost management, including costs incurred for services supplied to the Bank by its parent, Danske Bank A/S.

Overall, the **Cost Income ratio** has decreased during the year to 54% (2021: 75%).

Loan impairment losses increased during 2022 with an overall impairment charge of £19.9m (2021: credit of £14.7m). During quarter 4 of the financial year, the Bank revised its macroeconomic scenarios used for IFRS 9 modelling. The updated scenarios applied reflected our Chief Economist's assessment of the deteriorating economic outlook.

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

A current **tax charge** of £24.5m (2021: £16.1m) was recognised in the financial year in respect of tax liability payable on the Bank's 2022 profits.

During 2022, a deferred tax credit of £24.6m (2021: £3.6m charge) was recognised primarily reflecting additional historical tax losses recognised and the banking surcharge rate reduction. For reporting purposes, the deferred tax credit is netted against the current year tax charge. 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 2022 amounted to £91.0m (2021: £36.5m).

Financial performance outlook

We anticipate an increase in our Net Interest Margin in 2023, and although costs are expected to rise reflecting inflationary pressures this will be partially mitigated by ongoing cost management including further investment in digitalisation.

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

Financial position– 2022 overview

	31 December 2022 £'000	31 December 2021 £'000
Assets		
Cash and balances at central bank	3,350,828	4,388,161
Investment securities	3,369,156	2,226,346
Loans and advances to customers	6,334,707	6,206,664
Defined benefit pension asset	78,009	154,208
Other assets	287,691	149,794
Total assets	13,420,391	13,125,173
Liabilities		
Deposits from customers	11,229,589	11,161,358
Due to other banks	404,807	366,611
Other liabilities	948,803	848,005
Total liabilities	12,583,199	12,375,974
Equity attributable to shareholders	837,192	749,199
Total liabilities and equity	13,420,391	13,125,173
Loan to Deposit ratio (%)	56%	56%
Common Equity Tier 1 (CET1) capital ratio (%)	13.6%	14.4%
Liquidity Coverage ratio (LCR) (%)	290%	293%

Underlying financial position

Overall, the Bank's Balance Sheet remained robust throughout 2022 with total net assets of £13.4bn (2021: £13.1bn).

Whilst competition within the UK retail lending market remains significant, we achieved growth within our customer lending book, driven by mortgage activity. Whilst customer deposits remained flat year on year, the level of deposits held remained at record levels, maintaining our strong liquidity and funding position. The Bank's Balance Sheet on page 117 provides a breakdown of the financial position at 31 December 2022.

Key performance indicators

Loans and advances to customers increased year on year to £6.3bn at 31 December 2022 (2021: £6.2bn).

Personal lending in Northern Ireland

Our residential mortgage book grew in 2022, supported by a strong product and service proposition that included the UK's first ever carbon-neutral mortgage.

The Bank provided over £590m of mortgage lending approvals in Northern Ireland, helping thousands of individuals and families to realise their home owning ambitions. 97% of these customers opted for a fixed rate mortgage product, with 70% of them choosing a 5 year-fix.

We expect the local mortgage market to slow in 2023. However, given the relatively limited supply of housing in Northern Ireland, versus other parts of the UK, we believe demand will remain at sustained, albeit reduced, levels.

The Bank continued to be selective, balancing volume, credit risk and pricing in line with our strategy of continuing to be risk astute and financially responsible. As such, the Bank's affordability assessments for new mortgages incorporated the impact of inflationary pressures and higher interest rates.

Other personal lending volumes (i.e. credit card and overdrafts) also experienced an increase over 2022 in line with the recovery of UK consumer spending post pandemic.

Corporate and business lending in Northern Ireland

2022 was a challenging year for businesses on a number of fronts - such as rising energy costs, borrowing costs, staff retention issues, Brexit, supply chain challenges and changes in demand. Overall the total volume growth of corporate and business term lending and overdrafts in Northern Ireland remained subdued throughout 2022.

With customers continuing to hold excess levels of liquidity during 2022, some businesses have continued reducing their existing debt levels and / or delayed investment decisions during 2022.

However, many businesses in Northern Ireland are experienced at dealing with uncertainty, and we remain well placed to support them.

In 2022 the Bank approved £850m of business lending. Lending approvals for small businesses were up 25% year-on-year and the Bank provided over £100m of lending approvals to support new corporate customers.

Rest of UK lending

While Northern Ireland will always be the Bank's primary focus, in 2022 we continued to pursue selected, risk-astute focus areas in the rest of the UK.

On the corporate banking side, we continued to focus our lending strategy towards the social housing sector in England, as well as being active in the syndicated lending space. This remains an area of opportunity for future targeted lending growth.

On the personal banking side, the Bank experienced strong growth in the Danske Carbon neutral mortgage through selected brokers in the south of England. Mortgage provision through brokers in the rest of the UK remains an area of targeted lending growth in 2023 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 increase in the provision for expected credit losses to £103m (2021: £96m) reflects the forecasted deterioration in the UK economic outlook. The Bank economic forecasts indicate an increasing cost of living challenge for some retail customers during 2023, as well as financial pressures for some business industry sectors. 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 remained at 56% (2021: 56%). Danske Bank remains well positioned to support future lending growth.

Customer deposits marginally increased by 0.6% to £11.2bn (2021: £11.2bn). Whilst the Bank continues to hold record levels of customer deposits, the Bank is aware that the purchasing power of its customers is being squeezed by high inflation and we expect that some customers will begin to use the deposits built up during the pandemic to help with the increased cost of living and cost of doing business.

The Bank's **cash and balances with central banks**, which is cash placed with the Bank of England decreased by 23.6% on the prior year to £3.4bn (2021: £4.4bn) as the Bank sought other options to optimise its return on surplus liquidity held. Consequently, the Bank continued to increase its portfolio of **investment securities** held during 2022 with £3.4bn held at 31 December 2022 (2021: £2.2bn).

Despite the significant market volatility experienced during the current financial year, the funded status of the **defined benefit pension scheme obligation** remained strong with a surplus of £78m at 31 December 2022 (2021 £154m). The valuation of the Bank's defined benefit pension scheme requires management to make several assumptions. The assumption applied at 31 December 2022 are outlined further in disclosure note 24 of the financial statements.

An interim **property revaluation** in quarter 4 2022 was undertaken by external valuers and this increased the net carrying value of properties by £0.2m (2021: £0.6m). A previous full property valuation was carried out during quarter 4 2021.

2022 capital position

The Bank remains well capitalised and this is reflected in its CET1 ratio of 13.6% (2021: 14.4%).

During the year, a dividend of £40m was paid to the Bank's ultimate parent undertaking, Danske Bank A/S (2021: £75m).

In addition, in quarter 4 of the financial year, the Bank issued £130m non-preferred senior debt to its parent to meet the Bank of England's Minimum Requirement for Eligible Liabilities ('MREL') requirements (2021: £nil).

Page 51 provides further detail of the Bank's capital position at year ended 31 December 2022.

2022 liquidity position

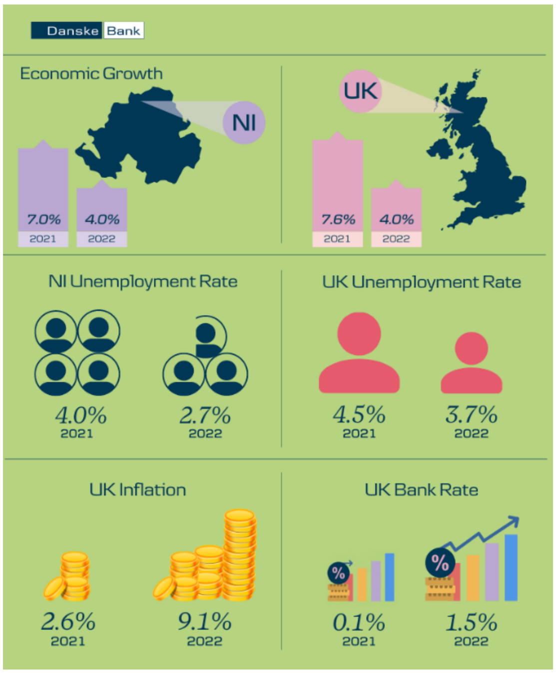
The Bank continues to have a very strong funding position. The loan to deposit ratio was 56% at 31 December 2022 (2021: 56%). Regulatory liquidity requirements were met at all times throughout the year.

A substantial amount of the Bank's funding is from customer deposit balances, which makes up 84% (2021: 85%) of its total liabilities and shareholders' equity.

Page 55 provides further detail of the Bank's funding and liquidity position at year ended 31 December 2022.

2022 Economic review summary

2022 was a relatively challenging year for the UK and Northern Ireland economies as a sharp rise in inflation weighed on economic activity and there was considerable uncertainty resulting from the war in Ukraine, changes to the economic policy environment and a lack of clarity around the future of the Northern Ireland Protocol.



2022 economic environment

2022 saw a number of factors combine to adversely impact the economy. High inflation, a tightening of monetary policy, low consumer confidence and elevated uncertainty all weighed on economic output during the year.

Despite the challenges, the UK economy grew by 4.0% in 2022 and in its Northern Ireland Quarterly Sectoral Forecasts 2022 Q4 report, Danske Bank estimated that the Northern Ireland economy would expand by around 4.0%. These growth rates are relatively high by historical standards but reflect an element of recovery in annual output levels from the economic impacts of the coronavirus pandemic.

Inflation in the UK increased sharply in 2022 as factors including high energy prices, increased food prices, supply chain disruption and domestic influences – such as wage increases – combined to put upward pressure on the prices of many goods and services across the economy. The UK CPI inflation rate averaged 9.1% in 2022. In January, the annual rate of price rises was 5.5% but in December the inflation rate had increased to 10.5%, with the rate reaching as high as 11.1% in October. Inflation was significantly above the Bank of England's 2% target rate throughout the year and exerted a squeeze on household purchasing power.

In response to the high rates of inflation, the Bank of England's Monetary Policy Committee increased Bank Rate on a number of occasions during 2022. At the end of January, Bank Rate was 0.25% but it had risen to 3.5% by the end of December. On average over the year, Bank Rate in 2022 was 1.5% which was higher than the 0.1% in 2021. Tighter monetary policy can depress activity levels as it makes borrowing more expensive for households and businesses.

Fiscal policy in the UK was particularly fluid in 2022, particularly over the last few months of the year. The UK Government announced a range of expansionary fiscal measures in September, the majority of which were then reversed in October before a wider re-evaluation of fiscal policy within the Autumn Statement in November.

The labour markets in Northern Ireland and the wider UK performed relatively strongly in 2022. Across the wider UK, the unemployment rate averaged 3.7% in 2022, down from 4.5% in 2021 and the employment rate rose from 75.1% in 2021 to 75.6% in 2022. In Northern Ireland, the average unemployment rate fell from 4.0% in 2021 to 2.7% in 2022 and the employment rate increased from 68.4% in 2021 to 70.6% in 2022.

The housing market in Northern Ireland and the wider UK had a strong year in 2022. The average rate of house price growth across the UK was 10.4% in 2022. In Northern Ireland, house prices increased by 10.1%.

Economic outlook

Annual economic output is expected to fall in Northern Ireland and in the wider UK in 2023.

Inflation is projected to decline during 2023 but it is still likely to exceed its 2% target. As such, real income growth and household spending power are expected to remain under pressure and annual consumer spending is likely to decline.

Monetary policy has tightened further at the start of 2023 with the Monetary Policy Committee increasing Bank Rate to 4% at its February 2023 meeting.

The UK Government has been supporting households with their energy bills but the nature of this will change during 2023. Other fiscal policy measures planned for 2023 include the rise in the rate of Corporation Tax and the continued freeze in income tax thresholds.

Unemployment is expected to rise in 2023 but is still projected to be relatively low compared with historical unemployment rates and when considered against the challenging economic backdrop. While this is unlikely to offset the squeeze on household spending power, it should give consumer expenditure some support.

In its Northern Ireland Quarterly Sectoral Forecasts 2022 Q4 report, Danske Bank projected that the Northern Ireland economy would contract by around 1% in 2023 and that economic output in the wider UK would decline by about 0.9%.

However, it is important to note that there is considerable uncertainty around the economic outlook for 2023.

Non-financial and sustainability information statement

The Bank is required to comply with the Non-Financial Reporting and Sustainability 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 27, with the Bank's Enterprise Risk Management framework and how the Bank manages its principal risks from pages 25 to 50.

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 7 of 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 including 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
 **Social matters**	The Bank plays a fundamental role in society by lending to people and businesses, in turn helping to drive economic growth. The Bank is committed to ensuring banking is accessible for everyone, investing in improvements to customer services and supporting initiatives to help enable business growth. In addition, the Bank has continued its strong commitment to its local communities through a wide range of initiatives including outreach to our most vulnerable customers and those experiencing gambling-related financial harms. The Bank was the first in the UK to offer customers the choice of a Gambling Spend Limit, building on the Gambling Block functionality to help customers control their spending and minimise harm. The Bank responded to the cost-of-living challenges by proactively contacting customers who were struggling to offer them support and practical advice. Danske Bank created the 'Money Worries' and 'Rising Cost of Doing business' hubs on its website that offer budgeting advice, including help for those worried about paying bills and making credit commitments. The Hubs allow both business and personal customers to request to speak to financial difficulties specialists and get tailored advice. Throughout 2022, the Bank's social initiatives included sponsorship of local sports, programmes to help build financial confidence in young people, delivery of the Money Smart educational programme 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

Strategic report

Reporting requirement	Summary	Policies
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 is structured around twin objectives of 'Going Green Ourselves' and 'Helping Customers Go Green'. 'Going Green Ourselves', 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. 'Helping Customers Go Green', includes supporting customers in the transition to a low carbon economy through a range of sustainability education, support and tools complemented by innovative sustainability focused products and services. 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 57 of this Annual Report.	• Climate Change Position Statement • Sustainable finance policy
Anti-corruption and anti-bribery matters	The Bank has a responsibility to make banking accessible for everyone, helping to keep its customers safe from fraud and cyber crime, investing in improvements to customer services and supporting initiatives to help enable business growth. The Bank adheres to the Bribery Act 2010 and supports a zero tolerance approach to bribery by any person associated with it, whether acting in the UK or abroad. The Bank strives to conduct our business with integrity, skill, care and diligence, promoting a culture of transparency by being co-operative and open in all matters.	• Financial Crime Policy • Whistleblowing policy • Market abuse policy • Conflicts of interest policy • Outsourcing and third party risk management policy • Anti-money laundering /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 25	
Description of principal risks and impact on business activity	The Bank's principal risks, key controls and mitigating factors are outlined from page 27	
Description of the business model	The Bank's model and strategy is outlined from page 13.	
Non-financial key performance indicators	Non-financial key performance indicators are outlined in our strategic priorities (page 13), our TCFD Report (page 57) and within the Chief Executive's Review (page 7).	

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

Fiona Sturgess
Company secretary
15 March 2023

Risk Management Report

Risk management report

"At Danske Bank, our qualitative statement of the Bank's core risk ethos is:

Sound business and risk management supporting an overall conservative risk appetite, controlled within pre-defined risk limits. A strong risk and governance culture across the three lines of defence."

Philip Smyth
Chief Risk Officer

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; delivering good customer outcomes by acting in good faith to avoid foreseeable harm and enable and support our customers
…supporting an overall conservative risk appetite, controlled within pre-defined risk limits.	Supporting the promotion of an acceptable level of risk across all risk types. The Bank has a conservative risk appetite across all risk types reflected through the implementation of specific risk limits, ensuring that financial or non-financial exposures do not cause material harm to the Bank. 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
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.

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.

Risk management report

- **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.

Risk culture

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

We serve our customers well by being risk aware and by having good risk management 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 colleagues, not only the risk specialists or internal control functions, take personal responsibility for the risks associated with their role. It is also a culture where the Bank collaborates and openly discusses risks and events 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, colleagues are supported in doing the right thing. This includes HR processes, where risk and compliance behaviour is an integral part of job descriptions, target setting, training and people reviews.

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.

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 management report

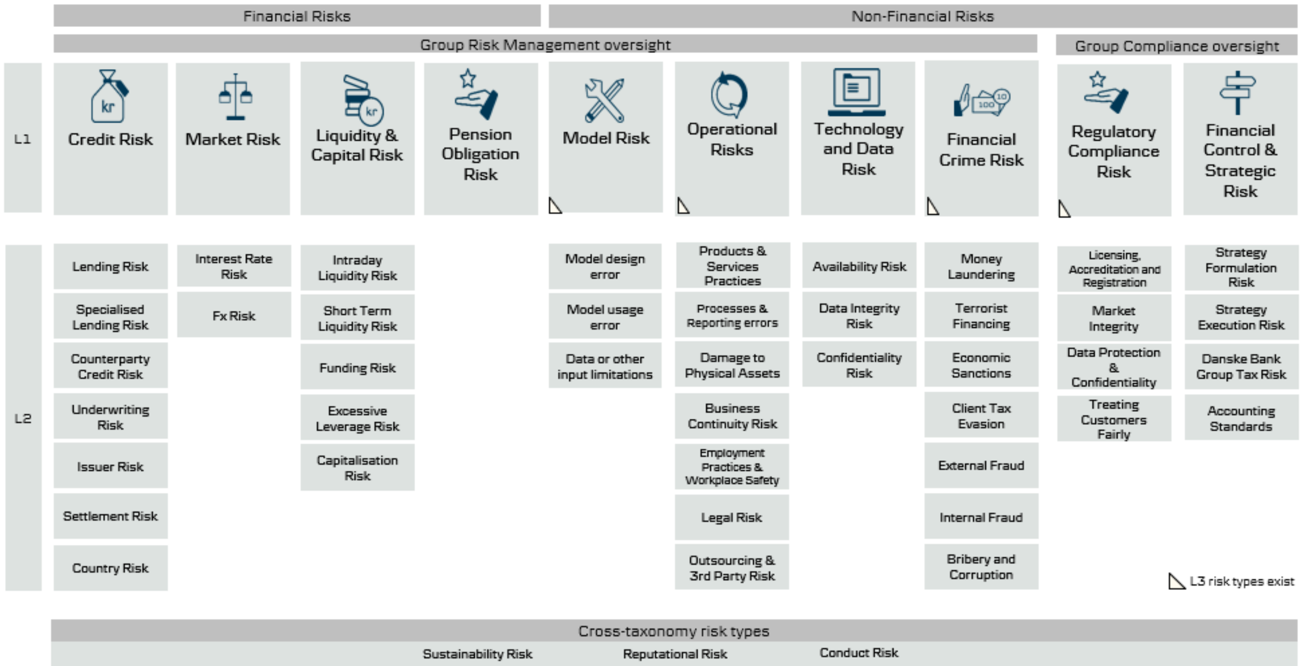
Risk taxonomy

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 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.



Principal risks and uncertainties

Primary risks and drivers

As outlined above, the Bank's ten key risks with controls and mitigating factors, are set out below:

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

In addition, there are three cross-taxonomy risks have also been identified that manifest through the Bank's principal risks. These are:

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

Further details of how each of the primary risks could impact the Bank, as well as details of how the Bank seeks to mitigate the impact of these risks is outlined from page 36.

Risk management report

Primary risks and outlook assessment summary

Whilst the following table 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.

Primary risk drivers	Outlook	Risk impact & 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).	↑ Increasing risk	For more information, see page 37
Market risk The risk to the value of assets, liabilities or off-balance sheet positions or the risk to income that arises from changes in market prices.	↔ Stable risk	For more information, see page 40
Liquidity & Capital risk *Liquidity risk* The risk that the Bank is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. *Capital risk* The risk that the Bank has an insufficient level or composition of capital to support its normal business activities and to meet its regulatory capital requirements under normal operating environments and stressed conditions (both actual and as defined for internal planning or regulatory testing purposes).	↔ Stable risk	For more information, see page 42
Pension obligation risk Pension obligation risk is the risk of a shortfall in the Bank's Defined Benefit Pension Scheme that necessitates the Bank having to make additional contributions to cover its pension obligations.	↔ Stable risk	For more information, see page 44
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	For more information, see page 45
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 errors, Employment practices & workplace safety, Damage to physical assets, Outsourcing & Third Party risk, Legal risk and Business Continuity risk.	↔ Stable risk	For more information, see page 46

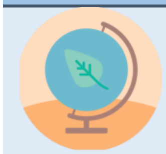
Risk management report

Primary risk drivers	Outlook	Risk impact & mitigating factors
Technology and Data risk Risk of loss due to breach of confidentiality, failure of integrity of systems and data or inappropriateness or unavailability of systems and data. This includes security risks resulting from inadequate or failed internal processes or external events including cyber-attacks or inadequate physical security.	↔ Stable risk	For more information, see page 47
Financial Crime risk The risk of internal or external parties using the Group's infrastructure, on which the Bank relies, to move and conceal proceeds of criminal conduct, defraud, manipulate or circumvent established rules, laws and regulations, particularly in the areas of money laundering, terrorist financing, economic sanctions as well as bribery and corruption, fraud and tax evasion.	↔ Stable risk	For more information, see page 48
Regulatory Compliance risk The risk of or incurring regulatory, criminal or administrative sanctions, material financial loss, or loss of reputation, which the Bank may suffer as a result of its failure to comply with laws, rules and standards applicable to the Bank's activities in the areas of treating customers fairly, market integrity, data protection and confidentiality and breach of licensing, accreditation and registration requirements. We are particularly cognisant of significant regulatory change programmes such as the FCA's New Consumer Duty.	↔ Stable risk	For more information, see page 49
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 Financial Control and Strategic risk assessment also considers reputational risk.	↔ Stable risk	For more information, see page 50

Cross taxonomy risks

Cross taxonomy risk drivers	Risk impact and key mitigating factors
 **Sustainability risk**	The Bank recognises that environmental, social and corporate governance (ESG) factors will effect value creation over time as physical and transition risks emerge. The Bank has made a long-term commitment to managing the impacts of climate change and assisting clients, shareholders, employees and local communities in the transition to a low carbon economy. Evidently climate change has far reaching implications. As a result the Bank has taken the decision to classify Climate risk as a risk driver in its Risk Management Framework (RMF). At present the Bank has chosen to focus efforts on mitigating climate change risk in: Credit risk; Pension risk; Liquidity, Funding and Capital risk, Operational risk and finally Financial control & strategic risk. Climate change risk metrics have been developed to monitor these five risk areas. Senior risk owners in these five risk areas are all represented at the All Risk Management Committee (ARMC). To manage exposure to climate impacts, the Bank has embedded Climate risk into the risk governance processes. For example, the RMF describes the Bank's risk taxonomy and ultimately assigns responsibility for managing Climate risk management. The Bank has implemented full metrics including Climate Risk Appetite limits and a range of Climate risk indicators as part of an overall Climate Risk Appetite Statement (RAS). These limits and indicators were in turn approved by the Board.

Risk management report

Cross taxonomy risk drivers	Risk impact and key mitigating factors
 **Sustainability risk (continued)**	The Corporate Plan, the ILAAP and ICAAP all consider the Banks Climate risk appetite. Climate risk limits and indicators are discussed quarterly by the Bank's Credit Oversight Forum (COF) and a wider Climate risk and strategy update is provided to ARMC half yearly. In addition a quarterly summary update on Climate risk is incorporated into the reporting to the Board Risk Committee and the Board. The Board has been identified as the ultimate approval authority for Climate risk. The Bank is aware that risk and opportunity often go hand in hand. Indeed climate change presents a significant area of opportunity as society transitions to a low carbon economy. The Bank endeavours to develop these opportunities in a proactive way, by continually reviewing financing solutions that fall within the Bank's climate change risk appetite.
 **Reputational risk and Group risk**	There is inherent, prevailing Reputational risk for the Bank given the negative economic environment brought about by multiple factors, including the war in Ukraine, higher energy costs and record levels of inflation. A wider cost-of-living challenge has developed throughout the year, which has had an adverse impact on the Northern Ireland economy and on our customers. In response to the high levels of inflation, in 2022 the Bank of England raised UK bank rates from 0.25% to 3.5%. The central bank has also predicted that a recession is ahead of us. Despite economic conditions, the recurring UK bank rate rises in 2022 have supported an increase in net interest income for the Bank, driving higher profits. This in itself brings its own Reputational risk of banks being seen to profit as cost of living challenges impact across society. Deposits remain at record high levels, but we are now seeing them starting to flatten. Households' purchasing power is being squeezed by high inflation and we expect that some of our customers will use the deposits they built up during the pandemic to help with the increased cost of living. We are very conscious of the impact rising inflation and interest rates is having on our customers. A senior cost-of-living steering committee has met within the Bank regularly during the year to ensure we continue to build on, and monitor, the Bank's response to the cost-of-living challenges. In 2022 we have proactively outreached to over 16,000 customers offering guidance and support directly relating to their financial circumstances. We have also created 'Money Worries' online hub offering advice and assistance to those worried about the financial impacts of the increased cost of living. The hub includes a customer call back service for those who want to talk through any concerns they have with one of our advisors. In addition, we have lowered unpaid item fees for personal and business customers from £7.50 to £1.50 and have been raising our rates of interest paid on savings. To support customers, we also continue to focus on making banking easier for them by improving our digital solutions. Digital banking trends are accelerating, with strong levels of log-ons to our digital channels every month. Given the increased cost of living, many customers are focused on tracking their expenditure and we are seeing the Spending Overview facility on our App being accessed more than ever. The Danske Bank Group has continued to respond to criticism of its management of historic AML issues in Estonia and in December 2022 a large fine was imposed by the US authorities. This long-awaited fine was in line with market expectations, and it is expected that the Group can now move forward positively from this reputational issue. Another prevailing risk is the implementation of the UK / EU trade agreement and in particular the Northern Ireland protocol arrangements, which continue to bring uncertainty for the Bank and customers. As a result of the disagreement over the Northern Ireland protocol the local Stormont government has collapsed. The Bank continues to maintain close relationships with politicians, and industry and consumer representative groups, to ensure, as the largest bank in Northern Ireland, that our voice is the dominant one from the sector. Reputational risk is monitored daily across the business, in addition to regular reporting to senior management and Board.

Risk management report

<table>
<tr><th>Cross taxonomy risk drivers</th><th>Risk impact and key mitigating factors</th></tr>
<tr><td>
Conduct risk</td><td>
Conduct risk is the risk of behaving in a way that causes, or has the potential to cause, detriment to customers, the financial stability of the Bank, the Bank's reputation and / or the integrity of, and confidence in, the financial markets in which we operate.
Conduct risk has risen in profile and is a cross taxonomy risk driver that applies to any financial and / or non-financial risk type in the Bank's Enterprise Risk Management Framework.
The Bank is committed to ensuring the activities of the firm and its employees comply with the FCA's rules and expectations in relation to Conduct risk and that a focus on good customer outcomes is embedded within its culture.
The Conduct risk framework is owned and determined by the Senior Manager, Regulatory Risk and is based on the concept of Three Lines of Defence, which is an important element in ensuring the effective governance and oversight of Conduct risk. The Three Lines of Defence model ensures everyone has a role to play and that roles and responsibilities are clearly documented.
The Conduct risk framework is made up of:

A conduct risk appetite and key risk indicators (KRIs);
A conduct risk policy;
A conduct risk assessment and control framework, including annual Group wide conduct risk assessment and monthly business unit conduct risk outcomes RAG assessment;
The conduct risk outcomes management information (MI);
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;
Mandatory annual conduct-risk behavioural training (CBT) and ad hoc bespoke targeted training; and
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.

The Bank recognises the importance of identifying and understanding Conduct risks as they emerge and acknowledge the responsibility of each individual, Executive and Board Committee to consider the customer impact in all of its activities in order to embed good conduct culture within the Bank and support delivery of good customer outcomes. Additionally, the Bank's Board will oversee the implementation of higher standards of consumer protection for retail customers as the Bank works through the requirements of Consumer Duty ahead of July 2023. The Bank is embracing this opportunity to focus on customer outcomes and has mobilised an extensive programme to embed the higher standards of the Duty.
The Bank will continue to focus on the emerging conduct risks during these uncertain times – rising inflation, increasing energy prices and the cost of living challenges squeezing customer budgets and putting pressures on businesses since the onset of the pandemic. Ensuring customers receive appropriate support remains the Bank's key priority.
</td></tr>
</table>

Risk management report

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 reviews 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.

Management Information has been constructed to identify, monitor, and report on (and recommend action, where required) the current status of key risks against the approved risk appetite. Board receive monthly updates on high level KPIs, while subsidiary risk committees review performance against lower level, more detailed KPIs and limits.

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 report

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 good 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 Level 1 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; and
- ensure the core values are embedded in the organisation;

Subsidiary risk governing committees (SRC)

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 2022, the ARMC has delegated individual risk categories to the following key governing committees. It should be noted that the three Cross Cutting Risks (Conduct, Reputational and Sustainability) are considered at relevant SRCs.

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* *Whilst Credit Model risks will be overseen by COF, ARMC retains ultimate oversight for Model risk
Commercial Management and Pricing Committee (CMPC)	- Financial control & strategic Risk
Pension Risk Committee (PRC)	- Pension obligation risk

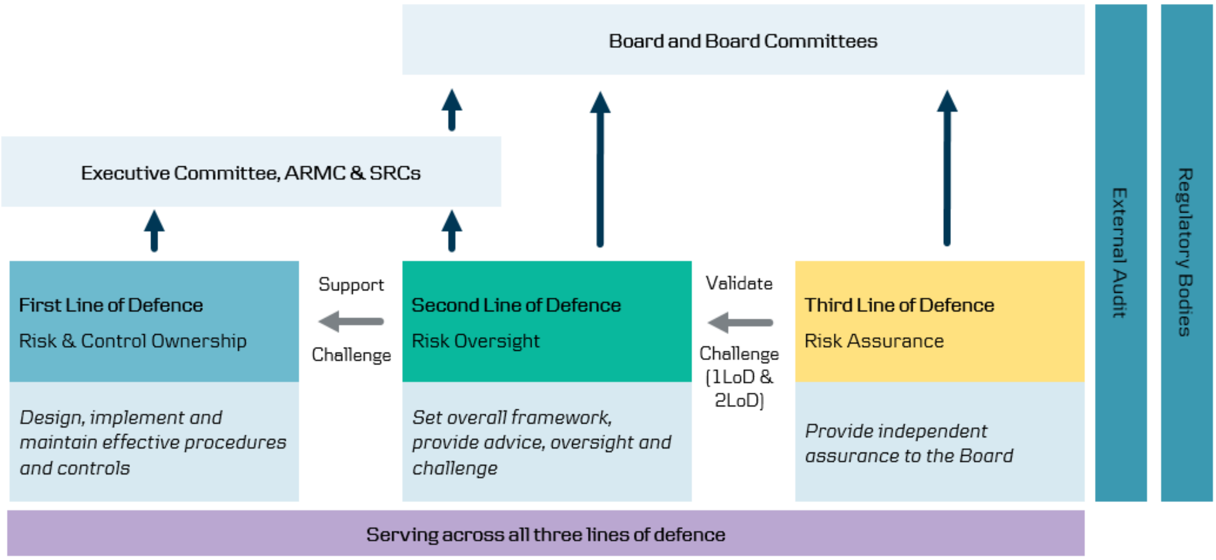
Danske Bank

Risk management report

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 customer facing 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 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 their risk ownership without needing permission from other stakeholders within 1LoD.

Risk taking and risk acceptance decisions are risk owner responsibilities and must be conducted 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 with 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 they have inadequate resources to mitigate a risk that they believe 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 report

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 Delegated Lending Authority (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.

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 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.

Risk management report

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 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

As outlined above, 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 are managed.

As previously outlined, whilst this section of the Annual Report 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.

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.

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

Credit Risk

- As a lending institution, credit risk is the key risk faced by the Bank.
- The impact of economic uncertainty, caused by the war in Ukraine, rising energy costs and global supply chain issues, has led to heightened challenges for household and business finances over 2022. The Bank's focus in response to these challenges has been to support customers who have experienced financial stress during these difficult times, while taking a cautious approach to on-boarding new credit relationships. A lack of certainty around the UK / EU trade agreement and NI protocol arrangements continues to cause further concerns for NI businesses;
- The Bank's lending portfolio remains predominantly Northern Ireland based and is diversified across industry sectors, exposure type and single name concentration risks. The Bank has continued to further diversify geographically over 2022 in three selected focus areas in other areas of the UK. In 2022 the Bank expanded lending to include residential mortgages via brokers in England (subsequent to an initial roll out late in 2021), and continued to lend to social housing providers and to provide syndicated lending to publicly listed entities in the rest of the UK;
- 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;
- Performance across the lending portfolios has been robust, and low direct levels of stress has been observed on the book. However, looking forward some portfolio deterioration may be expected, especially considering high inflation and rising interest rates; and
- The Bank has completed a number of stress tests to identify weaker segments of the book and appropriate management action to support these customers, given macro-economic conditions. At all times during the financial year, the Bank has continually reviewed its lending strategy and maintained appropriate credit controls reflecting and responding to the changing market place, in line with regulatory requirements.

Credit Risk – Management	
Definition of Credit risk	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. The risk includes but is not limited to default risk, credit concentration risk, country risk and collateral risk. At portfolio level, credit risk is assessed in relation to the degree of individual name, sector and geographic concentration.
Risk management measurement and reporting	• 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. • All credit transactions are assessed at origination and throughout the duration of their term for credit quality and the borrower is assigned a credit grade following analysis of the probability of default within 12 months. The use of internal credit rating models and other credit scoring tools and reference to extensive performance data from credit reference agencies, enables measurement of the relative degree of risk inherent and is central to the Credit risk assessment process. • The identification of loans for impairment assessment is driven by the Bank's Credit risk rating systems and by trigger events identified through ongoing analysis and assessment. It is the Bank's policy to provide for impairment promptly. For those loans where ongoing repayment capacity is in doubt, appropriate work out strategies are put in place, in conjunction with the respective customer, including consideration of sound conduct principles. • It is Bank policy to ensure that adequate up-to-date credit management information is available to support the 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 and periodically to the Board. This monthly reporting includes detailed information on loan book volume, the quality of the loan book, including the profile of the lending book and new business written viewed against the Risk Appetite Statement metrics, concentrations and loan impairments.

Risk management report

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 a key element of the credit approval process. The Bank also 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.

Risk management report

Credit Risk – Management	
Description of the approaches and methods adopted for determining impairment practices (continued)	Impairment charges for medium and large exposures displaying indicators of credit impairment (>£800k) are assessed by senior credit officers taking into account the discounted market value of the collateral assets after a deduction of the costs of realising the assets. When an indicator of credit impairment exists for a facility, the Bank applies it to all of the customer's facilities and calculates the impairment charge on the basis of the total customer exposure. Evidence of credit impairment of loans and advances exists if at least one of the following events has occurred: • The borrower is experiencing significant financial difficulty; • The borrower's actions, such as default or delinquency in interest or principal payments, lead to a breach of contract; • The borrower is 90 days past due; • The Bank, for reasons relating to the borrower's financial difficulty, grants to the borrower a concession that the Bank would not otherwise have granted; and • It becomes probable that the borrower will enter bankruptcy or other financial restructuring. The Bank's definition of default aligns with the requirements of both IFRS 9 and the regulatory definition outlined in CRR Article 178. Loans and advances that are considered uncollectible are written off. Write-offs are debited to the allowance account. Loans and advances are written off once the usual collection procedure has been completed and the loss on the individual loan or advance can be calculated. In managing distressed and collections cases, the Bank will always apply due consideration to sound conduct principles.
Risk mitigation	• The Bank mitigates credit risk through the application of its comprehensive Credit Policy which reflect the Bank's credit risk appetite and ongoing monitoring to ensure that its credit assessment and underwriting standards are upheld. • The Bank carries out regular risk re-assessment on larger cases in accordance with policy. • Credit risk mitigation includes the requirement to obtain appropriate collateral which may be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed. • The Bank carries out regular and comprehensive reviews of its credit models and other credit assessment tools to ensure that these are performing in line with expectations, carrying out any recalibrations required.

Market Risk

- 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, Credit Spread 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 is subject to credit spread risk from bonds in the liquid asset buffer held at fair value on the balance sheet.
- The Bank has limited Foreign Exchange risk where it acts as a counterparty to satisfy the needs of business and corporate banking customers.

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.
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 positions are reported to ARMC, BRC and the Board. Day to day management of market risk is performed by Treasury with oversight from Treasury Risk. • The specific types of interest rate risk include re-pricing / yield curve risk, 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 monthly and daily basis respectively. • 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. • Credit spread risk arises from the potential impact of changes to the spread between the bond yield and swap rates. Bonds purchased primarily as liquid assets and classified as fair value through other comprehensive income (FVOCI) are held at fair value on the balance sheet and as such, movements in the credit spreads can result in adverse impacts on the fair value of these holdings.

Market Risk – Management	
Risk management measurement and reporting (continued)	• 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.
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 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 variable in future cash flows attributable to interest rate risk. The interest rate risk arises from variable interest rate assets and liabilities which are hedged using interest rate swaps. There were no transactions for which cash flow hedge accounting had to be discontinued during the year as a result of the highly probable cash flows no longer being expected to occur. The fair value of derivatives is disclosed within note 12 to the Bank's financial statements.

Risk management report

Liquidity & 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 and funding position.
- The Bank conducts intensive stress testing, forecasting and planning to support liquidity and capital risk management.

Liquidity and Capital Risk – Management	
Definition of Liquidity & Capital risk	Liquidity Risk is the risk that the Bank is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets. Capital risk is the risk that the Bank has an insufficient level or composition of capital to support its normal business activities and to meet its regulatory capital requirements under normal operating environments and stressed conditions.

Risk management measurement and reporting	• The management of Liquidity risk is covered by the Bank's Risk Appetite Statement and the Liquidity and Funding policy and Capital policy respectively. Liquidity and Capital risk is monitored through ALCO, which has primary responsibility for the oversight of risk within the Bank's risk appetite. Liquidity and Capital 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 position. The Bank is obliged to produce an ILAAP report at least annually, which details risk appetite, measurement, management and stress testing.
	
	• The ICAAP is performed by the Bank on an annual basis. The ICAAP process facilitates the Board and senior management in adequately identifying, measuring and monitoring the Bank's risk profile. 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.
	
	• 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
	  ◦ Liquidity Coverage Ratio (LCR) regulatory stresses, ensuring that the Bank has sufficient liquidity to survive for a 30 day period.
	
	• The Risk Appetite Statement details the current Board approved limits for surplus liquidity in both internally defined and regulatory prescribed stress scenarios. Additionally, the Board has approved a risk appetite which details a 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

Risk management report

Liquidity and Capital Risk – Management	
	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 Liquid Asset Buffer (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 2022, 4% of the investment securities were green/sustainable bonds.
Risk mitigation	• The Bank mitigates Liquidity and Capital risk through the application of its comprehensive governance and limit framework which reflects the Bank's risk appetite; • Liquidity stress testing is carried out on a monthly basis, and the ILAAP assessment of liquidity risk in both business as usual and stressed conditions is updated on an annual basis; • Capital 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; • Daily and monthly monitoring of liquidity risk positions; • Monthly monitoring of capital positions; and • The Bank carries out regular and comprehensive reviews of its liquidity and capital risk models.

Danske Bank

Risk management report

Pension Obligation 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 on a funding basis and longevity risk has been partially mitigated through the purchase of a bulk buy-in annuity.
- Pension obligation risk is subject to limits and targets set by the Board and monitored through the Pension Risk Committee.

Pension Obligation Risk – Management	
Definition of Pension risk	Pension obligation risk is the risk of a shortfall in the Bank's defined benefit pension scheme that necessitates the Bank to make additional contributions to cover its pension obligations.

Risk management measurement and reporting	• The management of Pension obligation risk is covered by the Bank's Risk Appetite Statement and the Pension risk Policy. Pension obligation risk is monitored by the Pension Risk Committee, which has primary responsibility for the oversight of risk within the Bank's risk appetite. Pension obligation risk is reported to ARMC, BRC and the Board. Day-to-day oversight of Pension obligation risk is performed by Finance.
	• The potential for a funding 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 Trustee is solely responsible for the investment of the Scheme's assets. The Trustee 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 plan's assets and calculating its liabilities and assessing the overall plan solvency). The purpose of the valuation is to advise the Trustee on the financial position of the Scheme.
	• Based on the report and having obtained actuarial, financial and legal advice, the Trustee enters into negotiations with the Bank in order to agree a schedule of contributions i.e. contributions required to meet administration costs and potential deficiency contributions. The advice given includes an independent assessment of the sponsor's covenant.
	• Pension obligation 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 obligation risk is to continue to review and oversee implementation of strategies to reduce pension risk.

Risk mitigation	• The Bank, supported by its actuarial advisor, mitigates pension obligation risk through the application of its comprehensive governance and limit framework which reflects the Bank's pension risk appetite. • The risk has been further mitigated by the purchase in 2015 and 2021 of bulk buy-in annuities which cover all pensions in payment to retirees as at 6 October 2021 and, in addition, by the cessation of future accrual from 1 October 2018. • During 2022, the Bank appointed a professional sole corporate trustee company as Trustee. The appointment of the sole corporate trustee, who will be able to call on their experience of other schemes, is expected to result in a more integrated governance model, able to respond better to known and anticipated future requirements in an increasingly onerous regulatory environment.

Danske Bank

Risk management report

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, observations raised during validations, Model Developer and Model Owner.
- Models are continually reviewed and independently validated as per the annual validation process.
- The UK PRA have published guidelines for a new definition of default, which went live in January 2022. As the definition of default is a fundamental part of the operation of the Bank's probability of default (PD) models, and loss given default (LGD) models, a major project has been instigated to redevelop all models to take into account the new definition.

Model Risk – Management	
Definition of Model risk	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. These may also arise from errors in the development, implementation or use of models. If not managed properly, in addition to financial losses or forgone income due to wrong business decisions, model risk can lead to censure from supervisors and regulators and severe damage to the reputation of the Bank, harming business efforts to attract new and keep existing clients.
Risk management measurement and reporting	• The management of model risk is governed by the Bank's Risk Appetite Statement within its Risk Management Framework as set by the Bank's Board. • Models 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 which provides 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.
Risk mitigation	• The Bank mitigates model risk by reviewing model performance on an ongoing basis and reporting any issues to relevant committees; • 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 (Decision Models).

Risk management report

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.
- Work continues to enhance the control environment and risk identification assessment.

Operational Risk - Management	
Definition of Operational risk	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 errors, Employment Practices and Workplace Safety, Damage to Physical Assets, Outsourcing & Third Party risk, Legal risk and Business Continuity risk.

Risk management measurement and reporting	• The Bank seeks at all times to have optimal control of all types of Operational Risk and seeks to mitigate Operational Risk to a level consistent with its risk appetite and thresholds as set out in the Risk Appetite Statement (RAS). The Bank recognises that Operational Risk exists as an inherent part of doing business and the objective generally is not to eliminate the risk but to ensure the risk is effectively managed at an acceptable level in a cost effective manner.
	• The Bank operates an Operational Risk Framework which defines its approach to managing Operational Risk and consists of:
	  ◦ Operational Risk appetite;
	  ◦ Non-Financial risk policy, procedures and tools;
	  ◦ Identification and assessment of risk and controls via the Risk Control Self Assessment (RCSA) methodology;
	  ◦ Risk Mitigation Acceptance (RMA) process;
	  ◦ Incident reporting, oversight and monitoring;
	  ◦ Operational risk management information analysis and reporting;
	  ◦ Non-lending loss events of £1k and above are recorded within the Operational Risk Information System (ORIS);
	  ◦ Escalation process in place to ensure appropriate oversight and governance.
	  ◦ Specific Operational risk approval limits in place as described within the MODs document (Management of Operating Delegations); and
	  ◦ Individual 1LoD reporting and oversight with review and challenge completed by all 2LoD on all events - this enables analysis of the root cause and appropriate mitigating actions and controls to prevent recurrence.
	• 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.

Risk mitigation	• The Bank has systems and processes in place to capture and analyse loss events. The data from these processes is used to identify and correct any control weaknesses. The Bank also uses root cause analysis to identify emerging themes, to prevent or reduce the impacts of recurrence and to support risk reporting and risk and control self-assessments (RCSA). The Bank utilises an operational risk management system (ORMS) to record the outputs of RCSAs.

Technology and Data Risk

- On an annual basis Technology and Data risks are 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 disruption is considered as part of the ICAAP process, with specific consideration given to scenarios involving cyber-attacks; and
- Regulatory developments and other guidelines (e.g., from the UK PRA, FCA, etc) are also considered when updating the Technology and Data risk appetite.

Technology and Data Risk – Management	
Definition of Technology and Data risk	Technology and Data risk is the business impact associated with IT risk and relates to availability, integrity or confidentiality of systems and data 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. system failures within core infrastructure that underpins technology-enabled services; inadequate change management – i.e. the introduction of new or changed products or services; supplier performance issues; or direct cyber-attack.
Risk management measurement and reporting	• IT Operations are responsible for capturing and tracking IT risks that relate to core aspects of technology service provision (e.g. infrastructure risks; failure of core IT system; and cyber-attack). • For Danske 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 for capturing and tracking IT risks that relate to their particular processes, products and services. These risks are overseen by the various business areas through monthly risk forums (chaired by embedded risk managers in the business areas).
Risk mitigation	• There is regular reporting to senior management via the Information Technology Risk Committee (ITRC), Board Risk Committee (BRC), and the Board; and • Board approved Risk Appetite for Technology risk • Group IT Risk Management policy and Security policy; • Quarterly reporting to IT Risk Committee (ITRC); • Quarterly summary update as part of the overall reporting 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 report

Financial Crime Risk

- The Bank has no appetite for breaches of financial crime obligations.
- The Bank has included Financial Crime Risk within the Board approved Risk Management Framework.
- The Bank continues to operate a local Financial Crime Framework, but it relies on the wider Group systems for certain activities, for example relating to transaction screening. A Group 'Roadmap' is underway to continue to enhance core Financial Crime platform and framework capabilities.

Financial Crime Risk – Management	
Definition of Financial Crime risk	The risk of internal or external parties using the Group's infrastructure, on which the Bank relies, to move and conceal proceeds of criminal conduct, defraud, manipulate or circumvent established rules, laws and regulations, particularly in the areas of money laundering, terrorist financing, economic sanctions as well as bribery and corruption, fraud and tax evasion.
Risk management measurement and reporting	• The Bank has zero appetite for breaches of financial crime. This is measured against annually approved Key Risk Indicator metrics. • Financial Crime risk is included in a Board approved Risk Management Framework. • A 'Three Lines of Defence' model applies. • The first line Customer Protection Centre has targets for ongoing due diligence and enhanced due diligence to help ensure appropriate ongoing review and challenge of customer data and justified reason. • Customers are risk scored on a high / medium / low risk model for financial crime which drives the level of review and control applied. • There are set policies and measurement processes for specific cohorts of customers which present increased financial crime risk, such as restricted customers and politically exposed persons. • 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; • Know your customer requirements are in place at onboarding, at trigger events and through ongoing review to ensure financial crime risks are known and mitigated; • Quality assurance in place locally for all onboarding to ensure financial crime risks mitigated; • Transaction monitoring systems in place to identify and escalate financial crime risks; • Sanctions screening systems in place to stop transactions at source; • Defined processes in place for creation of unusual activity reports and review prior to escalation as suspicious activity reports if required; • 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 report

Regulatory Compliance Risk

- The Bank has no appetite for failure to comply with regulatory or legislative obligations.
- The Bank has included Regulatory Compliance Risk within Board approved Risk Management Framework.
- The Bank has put in place project governance structures in place to manage implementation of FCA's Consumer Duty, and emerging risks generated by cost of living issues.

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

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.

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	• Key performance indicators are clearly defined for each business unit and are closely and regularly monitored. • Active management of all internal and external communications including social media and media monitoring which leads to escalation and, where required, management actions. • The risk is overseen by the Bank's governance committees in particular the Commercial & Pricing Committee (CMPC) through regular reporting on performance, competitive environment, new or emerging market trends and technological advances.
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 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. This is tabled to the Bank's CMPC; • A formal assessment of Financial Control and Strategic risk is completed once annually with the results included in the ICAAP; • Reputational risk is mitigated through policies and procedures in place to minimise reputational risk; and • Senior management 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.

Risk management report

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 2022. The key components of the Bank's capital strategy are as follows:

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

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

The Bank's minimum total capital requirement is 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 increased the CCyB from 0% to 1% in December 2022. The Bank's capital plan, prepared as part of the ICAAP, considers proposed changes to the regulatory capital requirements of the Bank.

In December 2022, the Bank met its capital requirements with both CET1 and AT1 capital resources. During 2022, following Regulatory approval, the Bank called £126m of Tier 2 instruments and the £96m of AT1 instruments and re-issued £222m of AT1 instruments in two tranches, £126m and £96m at Term Sonia plus 465bps.

In addition to improving the Bank's capital quality and Return on Equity, the capital restructure was required as part of the migration of the interest index rate from LIBOR to SONIA. In addition, the first tranche of the Bank's Tier 2 capital of £100m had its first call date in January 2022 and was within 5 years' maturity, therefore would be impacted by the regulatory amortisation of these instruments.

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

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

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

Stress testing and capital planning

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

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

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

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

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

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

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

Capital management reporting

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

Minimum Requirements for Own Funds and Eligible Liabilities

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

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 has been held, 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. The Bank issued £130m of MREL eligible resources in November 2022 in order to meet the uplift in the MREL requirement from 1 January 2023. As the Bank projects future distributions of excess capital to its shareholder through dividends, further issuances of MREL eligible resources are projected.

CRD and CRR developments

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

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

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

Revisions to the standardised approach to credit risk, the credit valuation adjustment (CVA) and operational risk frameworks were due to be implemented from 1 January 2022, however in light of the economic uncertainty as a result of COVID-19, the implementation has been delayed until 1 January 2025. In November 2022, the PRA published CP16/22 "Implementation of the Basel III Standards". The Bank is currently assessing the impact of the PRA's proposal and actively monitors the developments in the capital regulations and seeks to effectively comply with new requirements.

Capital and leverage position (unaudited)

The Bank remains well capitalised and this is reflected in its total capital ratio of 18.0% (2021: 18.8%).

During the year, a dividend of £40m was paid to the Bank's ultimate parent undertaking, Danske Bank A/S (2021: £75m). As a result, the Bank's Common Equity Tier 1 (CET1) ratio (on a UK PRA basis) decreased from 14.4% in December 2021 to 13.6% in December 2022.

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

In addition, the leverage exposure measure excludes central bank reserves and the government guaranteed lending through Bounce Bank Loans (BBLs). This has resulted in an increase in the leverage ratio to 6.7% at 31 December 2022 (2021: 4.2%).

Risk management report

Capital and leverage position (unaudited) (continued)

Key capital and leverage ratios at 31 December 2022 and 2021 are set out below:

	31 December 2022	31 December 2021
Common Equity Tier 1 ratio	13.6%	14.4%
Tier 1 ratio	18.0%	16.3%
Total capital ratio	18.0%	18.8%
Total Capital Requirement (TCR)	10.1%	10.1%
Leverage ratio	6.7%	4.2%

Regulatory capital (unaudited)

The following table details the Bank's capital regulatory capital at 31 December 2022 and 2021.

	31 December 2022 £'000	31 December 2021 £'000
Common Equity Tier 1 capital		
Permanent share capital	218,170	218,170
Retained earnings	90,580	98,134
Profit yet to be verified for inclusion in regulatory capital	(36,673)	(41,534)
Share premium account	306,590	306,590
Revaluation reserve	33,418	33,892
Reserve for Investment securities - Hold to collect and sell	(29,070)	(2,446)
IFRS 9 transitional adjustment	19,074	11,685
Less : pension fund asset (net of tax)	(56,167)	(103,320)
Less : deferred tax asset ineligible for Common Equity Tier 1 capital	(39,946)	(24,316)
Less : prudent valuation adjustment	(1,224)	(673)
Less : intangible asset	(522)	(34)
Less: Non-performing loans minimum loss coverage	(112)	(42)
Total Common Equity Tier 1 capital after deductions	504,118	496,106
Additional Tier 1 (AT1) capital		
AT1 capital instrument	225,953	96,974
AT1 regulatory restriction (1)	(63,347)	(31,789)
CRD V compliant instrument	162,606	65,185
Tier 2 capital		
Subordinated loan debt	-	126,000
Subordinated loan regulatory restriction(1)	-	(39,088)
Dated CRD IV compliant subordinated loan instruments	-	86,912
Total capital after deductions	666,724	648,203

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 report

Risk weighted exposure amounts (unaudited)

The following table details the Bank's risk weighted exposure amounts at 31 December 2022 and 2021.

	31 December 2022 £'000	31 December 2021 £'000
Credit risk	3,317,928	3,090,753
Operational risk	376,579	364,961
Market risk	24	21
Credit value adjustment	-	-
Total risk-weighted exposure amount	3,694,531	3,455,735

Minimum Pillar 1 capital requirement (unaudited)

The following table details the Bank's minimum Pillar 1 regulatory capital requirement at 31 December 2022 and 2021.

	31 December 2022 £'000	31 December 2021 £'000
Credit risk	265,434	247,260
Operational risk	30,126	29,197
Market risk	2	2
Credit value adjustment	-	-
Minimum Pillar 1 capital requirements	295,562	276,459

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 2022 and 2021.

	31 December 2022 £'000	31 December 2021 £'000
Regulatory Common Equity Tier 1 capital	504,119	496,106
Add back:		
- Pension fund asset (net of tax)	56,165	103,320
- Deferred tax relying on future profitability	39,946	24,316
- Profit yet to be verified for inclusion in regulatory capital	36,673	41,534
- Intangible assets	522	34
- Cash flow hedge reserve	(8,449)	(2,115)
AT1 capital	225,953	96,974
IFRS 9 transitional adjustment	(19,074)	(11,685)
Prudent valuation adjustment	1,224	673
Non-performing loans minimum loss coverage	112	42
Statutory total equity	837,191	749,199

Minimum Requirements for Own Funds and Eligible Liabilities (unaudited)

	31 December 2022 £'000	31 December 2021 £'000
Total capital resources	666,724	648,203
Add: AT1 / Tier 2 capital restricted for regulatory capital purposes	63,347	70,877
Add: MREL eligible non-preferred senior debt issued	130,000	-
Less: CET 1 capital applied to meet Pillar 2B requirement	(129,753)	(95,826)
	730,071	719,080
MREL requirement	498,762	466,524
MREL ratio	146%	134%

Funding & liquidity management

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

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

Liquidity requirements and resources

The Bank remained in compliance with its key regulatory liquidity requirements in 2022. 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 to the Parent. The Bank also has access to the BoE Term Funding Scheme with additional incentives for SMEs (TFSME).

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

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

Internal Liquidity Adequacy Assessment Process (ILAAP)

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

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

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

Monitoring and Reporting

Liquidity is actively monitored by the Bank, with reporting conducted through ALCO and the 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 was 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 variation of customer balances, measurement against stress requirements and monitoring of the macroeconomic environment.

Mitigation

The Bank holds a portfolio of HQLA that can be utilised to raise funding in times of stress. The size of the HQLA portfolio is calibrated based on a view of potential outflows under both systemic and idiosyncratic stress events. In addition, the Bank can use the repo market to generate funds and can also participate in BoE operations through the Sterling Monetary Framework (SMF). The Bank has several sources of funding which are well-diversified in terms of the type of product, counterparty and term structure. The Bank does not

Risk management report

make use of external wholesale funding markets to raise funding for growth, but does issue instruments to Group when required to meet capital requirements while also providing a source of funds.

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

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

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

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

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

Liquid assets (unaudited)

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

The LCR marginally reduced to 290% (pillar 1 + 2) during the year (2021: 293%) but remains comfortably above the regulatory requirement and risk appetite. The change reflects the continued growth in customer deposits across the year relative to lending volume.

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

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

The key risk driver assumptions applied to the scenarios are:

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

As at 31 December 2022, the Bank held eligible liquid assets well in excess of 100% of net stress outflows, as defined through internal risk appetite.

	31 December 2022 £'000	31 December 2021 £'000
Level 1		
Cash and balances at central bank	**2,529**	3,598
UK government treasury bills and gilts	**677**	418
Other debt securities	**2,548**	1,762
Total level 1	**5,754**	5,778
Total level 2	**-**	-
Total LCR eligible assets	**5,754**	5,778

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 £721m (2021: £728m) of cash held on deposit which is deemed to be encumbered. The primary nature of this encumbrance is to meet the Bank's obligations under the Scottish and Northern Ireland Banknote Regulations 2009, to fund reserve collateral account requirements under the terms of membership to certain transactional payments schemes and to meet the Cash Ratio Deposit requirements mandated under the Bank of England Act 1998.

In addition, financial assets include £38m of encumbered UK government treasury bills and gilts to support Operational Continuity in Resolution. A binding Net Stable Funding Ratio (NSFR) requirement is came into force in Q1 2022. The ratio as at 31 December 2022 is 217% (2021: 213%).

Task force

on Climate-related Financial Disclosures (TCFD)

TCFD reporting

Our climate commitments

Our Purpose is 'Helping customers, colleagues & society thrive' and the risks and opportunities arising from sustainability and climate change are a key focus within our overall strategy and are reflective of the Bank's vision which includes 'driving sustainability'.

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
70% reduction achieved as at 31 December 2022	£679m sustainable lending approved as at 31 December 2022	Operational emissions reduced to 204 tonnes as at 31 December 2022	100% of standalone branches fossil fuel free as at 31 December 2022

In our 2021 disclosures we outlined some of our key climate commitments. Our 2022 report aims to outline some of the progress we have made and the steps we are taking to deliver on our 'Sustainable & Responsible' strategic objective

TCFD – the four core pillars

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 second 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 Bank's 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 61	Find out more on page 63	Find out more on page 73	Find out more on page 77

TCFD reporting

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 management, and metrics & targets.

TCFD recommendation		2022 progress	Future focus
Governance	**a) Describe the Board's oversight of the climate-related risks & opportunities (see page 61).** **b) Describe management's role in assessing and managing climate related risks & opportunities (see page 61).**	• Oversight and monitoring of climate-related risk and opportunity is clearly integrated into both Board and Board committee roles & responsibilities with regular reporting in place through the quarterly CRO report and half-yearly sustainability risk update • Board level decision and discussion on climate strategy, risk appetite, reporting and climate opportunities • Enhanced executive level reporting across subsidiary risk committees with SMF function continuing to sit with MD, Corporate & Business Banking • Expanded stress testing capabilities to incorporate multiple time and temperature horizons for key sectors	• Continued oversight of progress on climate ambitions and management of climate-related risk • Ongoing incorporation of outcomes from scenario analysis into major strategic decisions • Continued knowledge building at Board level to support ongoing climate-related risk management • Further development and embedding of climate actions to support ongoing development and execution of climate transition plans

Strategy	**a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term (see page 63).**
	
	b) Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning (see page 64).
	
	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 68).
		• Risks & opportunities across the short, medium, and long term continue to be incorporated within the Bank's overall climate strategy
		• Climate risk remains disaggregated within the Bank by sector, business function and likelihood
		• Expanded scenario analysis to support risk management, strategy, and planning
		• Ongoing development and delivery of strategic responses to:
		  • Client engagement
		  • Green products.
		• Strategic review of approach to agriculture undertaken
			• Continued growth of the Sustainability team
			• Ongoing expansion of NGFS aligned scenario analysis
			• Continued development of product, services, and solutions to support customer's climate transition and reduce level of financed emissions
			• Further portfolio-level strategic responses to ensure climate resilience
			• Continue to address challenges created by lack of granular climate data

TCFD reporting

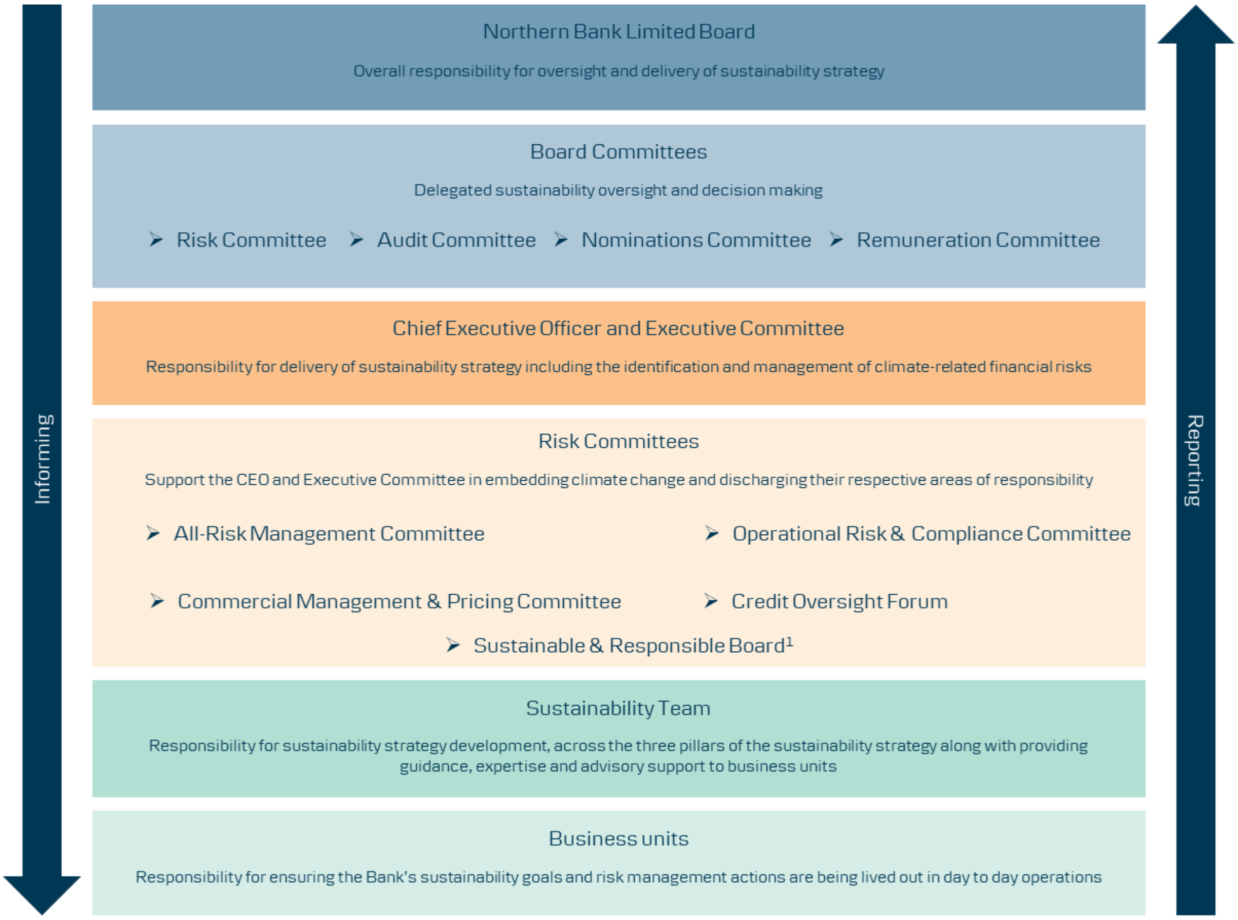
TCFD recommendation		2022 progress	Future focus
Risk Management	**a) Describe the organisation's processes for identifying and assessing climate related risks (see page 73).** **b) Describe the organisation's processes for managing climate-related risks (see page 75).** **c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management (see page 75).**	• Sustainability risks (including climate-related risks) are identified as cross-cutting risk type that impacts across the Bank's principal risks (see Principal risk and uncertainties section at page 29 • Climate risk training provided to Board, Executive Committee, and wider staff through a range or workshops and interactive sessions • Review and refinement of the Bank's climate risk sector Heat Map • All Corporate & Business Banking relationship managers have undertaken Carbon Literacy accreditation to enhance the Bank's climate client engagement	• Continue to enhance customer level ESG Risk Assessment and embed on-boarding guidelines • Enhance and expand scenario analysis and stress testing used to assess and prioritise climate risks • Ongoing review and update of climate appetite and metrics • Further climate training • Expand depth of ESG Risk assessment to ensure climate-related risk is integrated across business processes and captured at customer level within lending decision making
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 77).** **b) Disclose Scope 1, Scope 2 and if appropriate Scope 3 GHG emissions and the related risks (see page 77).** **c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets (see page 77).**	• Achieved the Business in the Community (BITC) Climate Action Pledge: Scope 1 and 2 emissions reduction 8 years ahead of target • Refined Scope 3 financed emissions calculations and aligned to Partnership for Carbon Accounting Financials (PCAF) standard • Initial assessment of emissions impacts of both home working and employee commuting • Reviewed and refined metrics and targets for use in both risk management and corporate planning purposes	• Enhance scope of financed emissions analysis • Establish net-zero pathways for high climate risk sectors • Seek to capture customer level emissions information • Expand scope 3 emissions data to widen capture of supply chain factors

Governance

Our climate governance frameworks

Our climate governance framework overview

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



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

Ongoing performance monitoring is achieved by the inclusion of climate and sustainability KPIs within the Board scorecard, which is updated and reviewed by the Board at each of its six meetings throughout the year (see Metrics & Targets page 22).

Board Risk Committee (BRC), chaired by an independent non-executive director and attended by the Bank's Chief Executive Officer (CEO) and Chief Risk Officer (CRO), provides further oversight of the management of climate risk. Climate risk is integrated into the overall CRO report which is presented to BRC and Board quarterly providing regular oversight of key trends and risk management actions. Climate-related risk management policies and risk appetite statement are reviewed annually by BRC.

Sustainability is overseen by All Risk Management Committee (ARMC) which is chaired by the Bank's Deputy CEO & Chief Financial Officer (CFO), and which the Bank's CEO and 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. As part of ongoing climate risk monitoring the sustainability team 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 Risk Indicators (KRIs) set.

TCFD reporting

These risk assessments and monitoring are then used to inform strategy in the area as outlined on page 65. Alongside this regular reporting pattern, the sustainability team also presents to the relevant committees on an ad hoc basis as and when apparent risks and opportunities arise.

Where there are climate opportunities, the sustainability team reports to Commercial Management and Pricing Committee (CMPC), chaired by the Bank's MD, GB & Corporate Strategy.

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

In addition to regular committee updates the sustainability team contribute to the Bank's annual Corporate Planning process ensuring that climate risks and opportunities are captured and considered within top of bank strategy, business planning and budgeting at Board level.

The Bank's management are informed about climate-related issues from both risk and opportunity perspectives through the risk management committees with established pathways for each:

Governance process for Climate Risk

Governance process for Climate Opportunity

Climate Change Roles & Responsibilities

The Bank's CEO has ultimate responsibility for climate-related risks and opportunities affecting the Bank. The CEO is supported in this by the wider Executive team and in particular the Managing Director, Corporate & Business Banking, holder of SMF responsibility for climate change. The Managing Director, Corporate & Business Banking is in turn supported by our sustainability team. This team is managed by the Bank's Head of Sustainability and is responsible for the development of the Bank's sustainability strategy, net zero transition plan and ensuring climate change related risks & opportunities are identified and addressed across the Bank's risk taxonomy. Positioning responsibility for climate change within the Corporate & Business Banking area of the Bank recognises the need to balance the necessity for a climate risk focused approach with the requirement to accelerate transition through proactive customer engagement.

Training

The Bank recognises the need to continue to build on climate awareness, skills, and competencies across all areas of the business including among colleagues, the Executive Committee and the Board.

During this year sessions have been facilitated with the Board and Executive Committee taking a deeper dive into climate drivers and enhancing members carbon literacy. In addition, the Bank made use of the 'Chapter Zero Board Scorecard' to assess effectiveness, identify gaps and facilitate discussion.

As part of the induction programme for any new Non-Executive Directors they have a one-to-one session with the Head of Sustainability which covers the Bank's climate and sustainability structures, governance pathways, strategy, risk management actions and details of actions to identify and leverage climate opportunities.

Recognising the need to ensure all colleagues have an understanding of climate change over 20 training sessions have been facilitated by the Sustainability Team across a range of Bank departments and teams. While climate and sustainability awareness training has also been integrated into the development pathways for our Customer Advisors, Danske Futures Apprentices, and participants of our Graduate Programme.

Remuneration

Performance measures associated with climate-related targets are integrated into the KPI scorecard of employees. In addition, the achievement of 2022 sustainability targets relating to scope 1 & 2 emissions reductions and sustainable finance lending have been integrated into the reward scheme for all managerial level employees. See the 'Metrics & Targets' section from page 77 for summary of targets and performance.

TCFD reporting

Strategy

Our obligation to clients, shareholders, colleagues 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 page 64 potentially leading to stranded businesses and assets.

The Bank's purpose is to '*Help Customers, Colleagues and Society to Thrive*', aligning our climate change response with this purpose we seek to ensure our clients, shareholders, colleagues, and local communities are protected against the potential detriment of climate change. This approach is fully aligned with the 'driving sustainability' focus of the Bank's vision.

The Bank recognise that climate change is one of the most urgent challenges facing society and we believe that we have a key role to play in facilitating the transition to a low-carbon economy in our chosen areas of operation. While our long-term objective is to achieve net-zero by 2050 our transition journey to realising this outcome has been developed during 2022 with a range of guiding principles, execution areas and enablers defined in order to confirm our focused delivery channels and establish medium term ambitions.

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

Description of time horizons

In working to deliver on our climate strategy the Bank considers the impacts of climate change across short (within 5 years), medium (within 10 years) and long-term (by 2050) time horizons and is committed to developing its management of key physical and transition risks arising across each of these horizons.

While climate related risks are more likely to materialise over the medium to long term, during 2022 we have been engaging with customers who are already facing transition risk challenges arising from both market and policy related factors. Given the broadly SME make-up of the NI economy, many businesses are already being influenced by the journeys of their key national and international customers towards net-zero. Changing customer behaviours, increased interest in emissions data and shifts in consumer preferences are all serving to accelerate the transition risks faced by many of our customers. In addition, the policy landscape in Northern Ireland is changing with a Climate Change Act now signed into law committing Northern Ireland to achieve net-zero by 2050. Businesses are awaiting further information on how this long-term commitment will translate into short and medium term policy implementation and change.

From a physical risk perspective. 2022 has seen record temperatures across much of Europe and an increase in frequency of significant weather events. As it is likely that these physical risk factors will continue to increase in the medium to long term, Northern Ireland will face increased impacts in key economic areas such as agriculture.

The Bank aims to analyse these key risk factors through an annual heat mapping process, details of which are provided on page 64, which assists with the identification of sectors at increased risk of impacts from climate change and facilitates the integration of appropriate response into the Bank's climate and sustainability strategy.

Danske Bank

TCFD reporting

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

TCFD reporting

Over the next 12-24 months the Bank aims to expand its scoping of both climate related risk and opportunities with a view to performing quantifiable analysis of the financial impacts arising.

Our climate strategy progress

Our climate strategy is summarised by our two 'Climate Transition' strategic objectives underpinned by our three 'Delivery Channels' and can be visualised as shown:

Climate change has gained a central role within the Bank's strategy, becoming one of its five strategic priorities reflecting both the risk impacts of climate change and the opportunities arising. As outlined above the Bank has established both medium and long term ambitions aligned to the three delivery channels of our climate strategy. These ambitions help to frame the potential opportunities that we believe arise as part of our response to managing and mitigating the potential physical and transition risks reviewed.

Potential Opportunity	Description	Expected time horizon	Potential impacts
Enhance data insights and modelling	Support both the Bank and its customers in understanding potential physical and transition risks arising from climate change e.g., flood analysis; property linked energy costs	Short - Medium	Reduced risks from impacted customers and assets Increased lending through demand for transition finance
Expanded coverage of scope 3 emissions	Enhance capture and measurement of scope 3 emissions across the value chain including supplier emissions	Medium	Increased understanding facilitating improved alignment across risk and strategy Added value for supply chain in addressing their own emissions
Increased levels of sustainable finance for Corporate & Business customers	Support businesses making the transition to a low-carbon economy through a range of both general and targeted funding	Short – Medium	Increased balance sheet volumes through demand for sustainable lending solutions that support customer transition Reduced balance sheet risks from highly impacted sectors and high-carbon industries
Expanded range of sustainable products and services for Personal customers	Products and services for Personal customers to assist understanding and awareness of the impact of high-emission, low energy homes and how they can make positive changes	Short – Medium	Increased balance sheet volumes through demand for sustainable lending solutions that support customer transition Reduced balance sheet risks from potential reduction in asset values of high-emission, low energy homes
Accelerate delivery of net-zero operational emissions	Convert two remaining properties continuing to utilise fossil fuels to renewable energy sources	Short	Increased expenditure to support emissions reduction and achievement of net-zero across scopes 1 & 2
Expand climate transition partnerships	Both develop existing and forge new partnerships with like-minded organisations seeking to drive climate transition across our chosen areas of operation	Short – Medium – Long	Increased expenditure to support climate transition activities in our chosen markets Increased understanding of climate factor for colleagues involved in partnership programmes Enhanced external insights into climate challenges which can inform our risk and strategic response

TCFD reporting

Translating risk to strategy – transitioning the Bank's mortgage portfolio

The overall purpose of our climate strategy is to ensure a joined-up approach to climate risk management and mitigation. This involves the identification of climate-related risks and opportunities and their subsequent integration into the Bank's business strategy and financial planning process, with the ultimate aim of delivering on both short, medium and long term climate goals and ambitions.

While a range of actions, initiatives and activities are underway or in development under each of the three pillars of our climate strategy, it is our ambition that they should always combine to drive positive long-term action and change for both the Bank and our customers.

The development and implementation journey of our Carbon Neutral Mortgage is an example of this.

Risk & Compliance

Mortgage lending on residential properties dominates both the exposures and financed emissions related to the Bank's personal customers

Residential properties are susceptible to both transition (rising energy costs) and physical (flooding, storms etc.) risks arising from climate change

Scenario analysis confirms that failing to respond to those risks could have a negative impact on asset values and lending performance within the Bank's portfolio

Growth & Impact

Having identified transition risk based on Energy Performance Certificate (EPC) ratings as a concern within the mortgage portfolio and recognising the need to support customers in their transition the Bank chose to invest in the development of our Carbon Neutral Mortgage

The purpose of this mortgage is to encourage customers to choose more energy efficient, low emissions EPC A-C rated properties when buying or moving home. A tangible example of *'Helping Customers Go Green'*.

The ambition to manage climate-related transition risk arising from residential homes, informed the Bank's strategy in relation to its expansion into the wider UK mortgage market with a decision to make the Carbon Neutral Mortgage the only product available in this market area.

Responsible Business

While attracting an increased number of low emission EPC A-C properties will in the medium to long term aid the Bank's net-zero ambitions in relation to financed emissions, the Bank recognises that it continually needs to review and reduce operational linked emissions

Forming a partnership with The Carbon Trust, enabled a detailed emissions foot-printing of the Bank's mortgage process to be completed. As part of the Carbon Trust's product certification the Bank has committed to reduce those emissions annually which contributes to our long-term net-zero goal. This in turn contributes to *'Going Green Ourselves'*

In addition, all emissions arising from each Carbon Neutral Mortgage are fully offset in line with standards laid down by the Carbon Trust

As a result, this is the UK's first certified Carbon Neutral mortgage

Associated Metrics & Targets

	December 2021	December 2022
Reduce overall volume of EPC D-G mortgages	67%	62%
Increase flow of EPC A-C mortgages (volume)	21%	55%
Increase the Bank's volume of sustainable lending	-	+£650m

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 and to utilise risks identified in key sectors to inform development of new products, services and solutions which serve to both manage those risks and contribute to our long term strategic target of achieving net-zero by 2050. Key areas of interest in this regard includes 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. Examples of these actions can be found on page 65.

Climate metrics continue to be included in the Bank's Risk Appetite Statement and a range of climate risk indicators, metrics and targets are monitored and reported across the various governance channels.

Developing Climate Skills

The Bank recognises the need to enhance the skills, knowledge, and expertise of key relationship managers as part of ensuring they can both recognise and respond to key climate risks and also support customers with climate transition activities.

With that in mind during the first half of 2022 the Bank engaged Business in the Community to deliver Carbon Literacy Project accredited training to over 100 of the Bank's Corporate & Business relationship managers.

Each relationship manager completed a full day's carbon literacy workshop which included making both personal and business unit team commitments to reduce their own carbon footprints.

Upon successful completion each relationship manager received their accreditation from the Carbon Literacy Project.

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 continues to utilise scenario analysis, particularly in relation to those sectors which have been identified as being of higher risk of impact from climate change and which have a more material position in terms of their proportion of the Bank's overall lending. These scenarios and the analysis which followed is outlined on page 69. This scenario analysis showed that no additional capital was required for impairments.

Climate strategy: Growth and impact

Recognising the range of both physical and transition risks arising from climate change and reviewing their impact across the Bank's lending exposures also provides insight into areas where the Bank can support customer transition and net-zero alignment through the development of a range of products, services, and solutions. With a non-complex range of lending exposures split across both Personal and Corporate & Business customers, the Bank can identify those sectors which may require support in relation climate transition. From a Personal Banking perspective, the majority of the Bank's 'scope 3 financed emissions' are attributable to our residential mortgage lending while from a Corporate & Business perspective Agriculture contributes the highest levels of financed emissions. More detail on the Bank's scope 3 financed emissions is on page 77.

Enabling Climate Action

With transition, risks identified as a concern in the Corporate and Business portfolio, and with businesses increasingly being challenged on their climate transition plans and net-zero pathways by their customers the Bank considered how Relationship Managers could engage with customers to help them to adapt and prepare for a low carbon economy.

While the Bank can provide Green Loans to support business transition, rather than simply focusing on products, it has instead worked to build awareness and provide education and skills to customers to assist in their climate journeys.

To achieve this, we have developed the Danske Climate Action Programme, in collaboration with Business in the Community (BITC). The programme takes customers through a structured series of carbon literacy accreditation, carbon foot printing and climate transition strategy workshops culminating in a commitment to the BITC Climate Action Pledge.

The programme provides a foundational basis for business in Northern Ireland to commence their climate transition journeys, to build their initial climate strategy and to commence identification of climate related risks and opportunities within their own business.

Having concluded an initial pilot in 2021 and recognising the benefits the programme could bring to the wider NI business landscape, the Bank agreed with BITC that it should make the programme available to non-Danske Bank customers.

As a result, during 2022 over 110 business of various sizes have benefited from their involvement in the programme and many have commenced their own climate transition journeys as a result. From the over 110 participants more than 50 were Danske Bank Corporate & Business banking customers.

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Climate Strategy: Responsible business

With a key objective of *'going green ourselves'* the Bank has continued to work towards more sustainable operations and 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 NI Environmental Benchmarking survey, alongside achieving the NI Business & Biodiversity charter.

We have continued to build and develop our external partnerships such as Eco-Schools through which a further 11 productive gardens have been created during 2022 ensuring that young people in Northern Ireland get the opportunity for hands on outdoor learning.

One of the primary objectives of the Bank has been to reduce its own scope 1 and scope 2 emissions as part of its journey towards operational net-zero by 2030 (operational net-zero refers to the Bank's scope 1 and 2 absolute emissions only as an interim step towards net-zero including scope 3 emissions by 2050. Scope 3 financed emissions targets will be a mix of intensity based and absolute methods). For over 7 years all the Bank's electricity requirements have come from 100% certified renewable sources. The Bank has also been investing in property renovation to become more energy efficient, installing renewable energy generation where applicable and transitioning away from a reliance on fossil fuels. As a result of this investment 100% of the Bank's standalone branches are now fossil fuel free and overall scope 1 and 2 emissions have fallen by 70% since 2015.

Widening the focus on our operational emissions and in order to become greener, the Bank has embedded climate considerations within the supply chain for third party due diligence and we continue to monitor the climate risk associated with pension scheme investments, and give consideration to the responsibility and sustainability thereof.

New partnerships have been developed this year with the Woodland Trust and Young Enterprise.

The Young Enterprise partnership sees the Bank supporting a leading local enterprise education charity, Young Enterprise, as Patron of their Business Beginnings Programme. Business Beginnings powered by Danske Bank is a business development programme for primary school pupils targeting over 4000 pupils each year. Pupils follow a seven session programme to learn how to develop a product and business plan, raise capital, market their product, and manage their finances. The Bank has introduced a sustainable focus to the programme by launching the Danske Bank Sustainability Challenge whereby each term pupils are encouraged to create eco-friendly and sustainable businesses with a prize for the best idea. The Business Beginnings programme helps the Bank to play a role in supporting the next generation of young business leaders by placing a strong emphasis on educating young people on sustainable business practices.

Colleagues have been invited to experience the Business Beginnings programme through various volunteering opportunities either as a Business Beginnings Mentor, Judge, or speaker.

Promoting biodiversity

The Bank recognises that the scale of change necessary as part of climate transition requires increased collaboration and partnership across a variety of sectors.

On that basis during 2022 we entered a partnership with the Woodland Trust under their Woodland Carbon scheme. The partnership allows the Bank to work with the Woodland Trust, the UK's leading woodland conservation charity, to work towards mitigating its business emissions over their lifetime. This involves planting thousands of trees across Northern Ireland – equating to 6,000 tonnes of CO2.

The scheme also enables Danske colleagues to use their volunteering time to plant trees, which will enhance the landscape, create important wildlife habitats, and promote biodiversity. All of which is taking place in the context of Northern Ireland being recognised as one of the least wooded regions in Europe.

Stress Testing and Scenario analysis

During 2022 the Bank's Sustainability Team have built on previous climate related stress testing by working to refine those areas and sectors which are at higher risk of climate impacts and have the potential to materially impact on the Bank in the medium and long term. Part of this development has been to leverage sector focused scenario analysis based on the standardised scenarios outlined by the Network for Greening the Financial System (NGFS).

The Bank has been gradually enhancing its capabilities in this area and this will continue to evolve with the appointment of a specific sustainability 'insights & analytics' role to commence early 2023.

During 2022 the Bank undertook a review of its climate risk heat map designed to identify those lending exposures which were at higher material risk of impacts from climate change. With the Bank's lending exposures split across both Personal customers (49%) and Corporate & Business customers (51%) the heat mapping exercise incorporated factors such as: external ESG scoring, levels of incremental direct and indirect emissions costs, incremental low carbon capital expenditure, potential changes in revenue, contribution of emissions in Northern Ireland (NI) and likely sector impacts arising from the NI Climate Change Act.

Exposures to Personal customers are dominated by residential mortgages which represent 96% of total exposures to this part of the Bank. This is a sector which demonstrates physical risk potential to residential housing from flood (both river and coastal), storms and subsidence. Alongside this is the transition risk posed by rising energy costs and the need to retrofit inefficient, high emissions properties. On that basis and given the materiality of this exposure to the Bank's overall lending, residential mortgages remain a core focus of our stress testing and scenario analysis.

A key factor for stress testing and scenario analysis of our Corporate & Business exposures is understanding where we have significant concentrations of credit exposure to carbon-related assets. The implication here is that the sectors within these groups are also those that are more likely to be impacted by climate risks. The Bank's Heat Map exercise identified several sub-sectors as being of higher risk to the Bank, namely, Agriculture, Real Estate Management & Development, Chemicals, Metals & Mining, Automotive & Components and Freight (road)Transportation. Mapping the Bank's exposures against these groups and sub-sectors allows an assessment of the materiality of these sub-sectors and confirms that the Bank has minimal exposure within its Corporate & Business portfolio to all bar Agriculture and Real Estate Management.

Sectors materially impacted by climate change (% of total bank lending)

Energy	0.15%	Oil & Gas Coal Electric Utilities	0.03% 0.00% 0.12%
Transportation	1.77%	Air Freight Passenger Air Transportation Maritime Transportation Rail Transportation Freight (road) Transportation Automotive & Components	0.00% 0.00% 0.03% 0.00% 0.75% 0.98%
Materials & Building	4.50%	Metals & Mining Chemicals Construction Materials Real Estate Management & Development	0.18% 0.77% 0.30% 3.25%
Agriculture, Food & Forest Products	6.32%	Beverages Agriculture Packaged Food & Meats Paper & Forest Products	0.01% 5.16% 1.08% 0.06%

Based on this combination of outputs from the Bank's own heat mapping exercise and the review of carbon-related assets, the Bank was able to identify those sectors which had a potentially high level of materiality and developed a suite of stress testing and scenario analysis accordingly.

Summary of climate stress testing and scenario analysis undertaken

Sector	Physical Risk	Transition Risk	Description
Personal residential mortgages	Y	-	Impacts of river and / or coastal flooding on properties within the Bank's residential mortgage exposures identified as being 'at risk'
Personal residential mortgages	-	Y	Impacts of long term energy cost increases and demand reduction for inefficient and high emission properties
Personal residential mortgages	Y	Y	Combined impacts of the physical and transition risks above on properties identified as being 'at risk' from both factors
Agriculture	-	Y	Impact of the introduction of a carbon tax on the agriculture sector
Real Estate Management & Development	Y	-	Impacts of river and / or coastal flooding on properties within the Bank's residential mortgage exposures identified as being 'at risk'

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Methodology

The Bank utilised a range of valuation variance factors linked to both transition and flood risk impacts for the analysis of its mortgage and real estate stresses, while the scenarios undertaken for Agriculture utilise inputs from five NGFS climate scenarios each representing different possible climate futures over a 2050 time horizon, factoring in a range of economic factors and differing levels of physical and transition risks.

Each scenario was translated into economic impacts which in turn drove changes in credit risk. Those changes in credit risk were assessed by converting high level impacts into a projected probability of default (PD).

The five NGFS scenarios utilised were:

Below 2 °C	In this scenario climate policies become gradually more stringent with high chance of limiting global warming to 2 °C
Current Policies	Assumes that only currently implemented policies are preserved, leading to low transitional risk, but potentially high physical risks
Delayed Transition	Assumes no policy change and no annual emissions decrease until 2030. Afterwards strong policies are implemented to limit warming below 2 °C.
Nationally Determined Contributions (NDCs)	Includes all countries pledged policies and climate targets (even if not yet implemented).
Net Zero 2050	Limits global warming to 1.5 °C through stringent climate policies and innovation, reaching global net zero CO2 emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all greenhouse gases.

Scenario Outcomes

Personal Banking - Residential Mortgages

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.

While the Bank has developed its capability to capture and record property level EPC, flooding, and emissions information, through the development of a new Sustainability Hub, there remains a sizeable minority of properties which do not have an EPC rating or certificate, as well as another small proportion of properties which could not be matched to an EPC rating. Building on our analysis from 2021 during 2022 we developed proxy assessments for those without EPC certificates utilising location based street level mapping resulting in a reduction to 11% of the portfolio without an actual or estimated EPC rating (42.2% of the portfolio in 2021).

Physical Risk Scenario

Within the Home loan book, flood mapping was again carried out to identify the current and potential risk of flooding based on NI Department for Infrastructure projections for the year 2080, given a 2°C temperature 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 Infrastructure with resulting devaluation potential quantified as 24.9% for river flooding and 21.1% for coastal flooding.[1]

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 NI mortgage portfolio. Flood analysis in relation to GB properties is currently in development.

	Number of mortgaged properties
Current River Flood Risk	556
Climate Change River Flood Risk	713
Current Tidal Flood Risk	62
Climate Change Tidal Flood Risk	84
% of Total mortgages at Risk	2.5%

When the scenario stress was undertaken with the variance applied to the property values, there was a minor uplift in the Expected Credit Loss (ECL) figure of c.£0.1 million, therefore, the change was not sufficient to require additional capital funds to be held in impairment provisions, above what is currently held against residential mortgages.

[1] Beltran et al. The impact of flooding on property prices: A repeat sales approach, Journal of Environmental Economics and Management, Volume 95, May 2019

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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 Loan to Value (LTV) of the Bank's mortgage portfolio. This was calculated against an EPC C rated property benchmark as below[2]:

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 ECL figure of c.£0.2 million, however, this will have minimal impact on exposure at default or collateral levels. Therefore, the change was not sufficient to require additional capital funds to be held in impairment provisions, above what is currently held against residential mortgages.

Combined Transition & Physical Risk Scenario

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 a small uplift in ECL of c.£0.3 million, however the change was not significant enough to obligate an increase in capital amounts held in impairment provisions.

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:

Sectors materially impacted by climate change

Sector	% of Corporate & Business High Risk Exposure	% of Total Bank Exposure
Real Estate	6.5%	3.3%
Agriculture	12.4%	6.3%

Agriculture

The modelling approach for agriculture assumed:

- Carbon price, agricultural product price and demand development indexes are based on the NGFS scenarios for Europe.
- Carbon price is considered to be additional operational costs and its impact on customer's PD ratings is translated by adjusting Earning before Taxes (EBT). EBT is calculated scaling turnover by agricultural product demand index and subtracting the carbon costs. CO2e emissions per customer is calculated using PCAF revenue factors.
- Agricultural portfolio in Northern Ireland is assumed to be static (number of agricultural customers and the share of different sub-sectors stays the same). The emission intensities also are static (impact of new technologies and management practices is not modelled).

Agricultural production demand, product price indexes and carbon price from NGFS scenarios were used to model macro-economic impacts on customers in the future (to 2050). The future earnings and additional costs from carbon price were translated into a PD effect. Key assumptions are that customer's debt and carbon emissions are static, Northern Ireland agricultural portfolio structure remains the same and there is no government support.

The probability of default (PD) of agricultural customers starts to rise quickly when carbon price reaches £35 / tCO2e and more.

Low earning margins and high GHG emission makes agriculture very sensitive to potential carbon taxes. In particular livestock, i.e. raising cattle and pigs, are high-sensitive segments, with a large increase in customers' impairment (for raising of cattle sub-sector increase is 6 times by 2030).

Part of the carbon price effect would be passed on to the consumers. However, the anticipated increase in prices and demand of agricultural products in NGFS scenarios has limited mitigating effect, and the impact of carbon price is dominant.

[2] Department of Energy & Climate Change, 'An investigation of the effect of EPC ratings on house prices'. 18/06/2013

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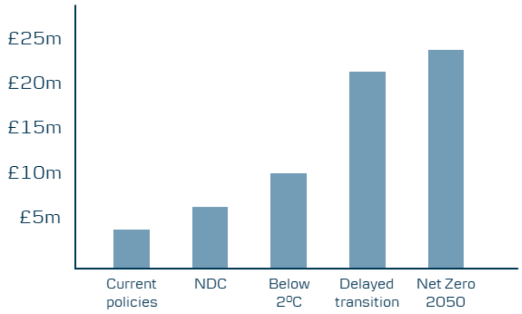
Reviewing PD impacts in 2040 across the NGFS scenarios shows a range of increases in Economic Loss (EL)



While the Net Zero 2050 pathway in particular represents a significant ECL increase, key assumption is that the existing loss given default (LGD) remains unchanged. This is unlikely to be the case in reality, in the event of such a manifold stress as above. Should the above level of defaults arise, agriculture land prices would likely fall dramatically, and the market stagnate resulting in a sharp rise in LGD. With the position of the agriculture sector in the NI economy, government support would be likely, including for example support for diversification to production of low-emission high protein crops, before the collapse of the sector in such a way.

Real Estate Management

The modelling approach for Real Estate Management assumed:

- Flood risk assessment included properties with active legal mortgages in place and excluded land, mixed use and agriculture related properties.
- The valuation variance was only applied to those properties which were identified as at risk within the flood mapping data and those where no data was available were not stress tested.
- Mapping of impacted properties is based on current flood map modelling. This in turn does not factor in either in progress of potential future flood alleviation schemes or investment.
- The model assumes a valuation variance based on flood-prone real estate properties becoming less desirable but does not account for the potential for certain areas to be so severely impacted over a long term climate horizon that they become uninhabitable reduce property values to zero.

Outcome & Insights

When the scenario stress was undertaken with the variance applied to the property values, there was a minor uplift in the Expected Credit Loss (ECL) figure of c£0.4m, however, it was not significant enough to require additional capital to be held for impairment provisions.

The overall outcomes demonstrate that while the risk of impact varies by sector and by the stress applied there remains a low level of material impact on the Bank's financial position. That said, particularly in areas such as agriculture mitigation factors by the Bank and government agencies are key to avoiding the worst impacts of potential outcomes.

On that basis while financial materiality remains low, the Bank remains focused on building, developing, and refining its strategic response actions in those areas identified as at higher risk of exposure to climate-related changes. This is consistent with the approach the Bank has taken throughout 2022 in respect of work already completed and work already underway in relation to residential housing and agriculture. That work will expand to include real estate during 2023 as the Bank believes that it is these three areas which, based on our lending mix and ongoing activities have the great potential for material impact in the medium to long term.

Danske Bank

Risk Management

Identifying and assessing physical & transition risk

Risk Management overview

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 in 2021 the Bank has continued to work throughout 2022 to map climate risks to its risk taxonomy. Outputs and actions from this risk mapping are shared through the Bank's governance channels and structures as described in the Governance section of this report (page 61).

Climate risk is embedded within the Bank's Risk Management Framework (RMF) which ensures a consistent approach to risk management across all areas of the business. The RMF is supported by a range of climate related policies and position statements which outline the Bank's approach to areas such as Sustainable Finance, Climate Change and Fossil Fuels.

The Bank's Climate Risk Appetite Statement (RAS) has been refreshed and updated during the year with clear risk appetite limits established and a range of climate risk indicators implemented to act as early warming triggers across key climate risk areas.

The work on the climate RAS was underpinned by a refreshing of the Bank's Climate Risk Heat map. The heat map is designed to provide a structure to assess the potential size and scope of identified climate-related risks and acts as an overall high level overview of the materiality of key risks which can then be integrated into strategic responses.

Physical and transition risks

The Bank's climate heat map process is a qualitative exercise which integrates factors such as: internal and external ESG scores; incremental direct and indirect emissions costs; incremental climate-related capital expenditure and impacts of legislation such as the NI Climate Change Act.

The heat map recognises that the Bank is exposed to a range of both physical and transition risks arising from climate change (detailed assessment on page 64):

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

The Bank has considered the potential impacts arising from both physical and transition risks across key aspects of its risk taxonomy.

Physical and transition risks

Risk Drivers	Transition Risk Materiality	Physical Risk Materiality	Time Horizon	Response	FY 22 Progress	Future Focus
Credit Risk						
Increased impacts on future credit worthiness of customer segments due to climate-related factors impacting asset values, revenue, and costs	High	Medium	Short - Medium - Long	Mitigate & Control	- Enhanced scope of EPC rating analysis through development of proxy ratings - Reporting to Credit Oversight Forum of key climate-related risk appetite	- Ongoing monitoring, management, and reporting of climate-related risk - Source expanded physical risk data to improve climate-related risk assessment

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Risk Drivers	Transition Risk Materiality	Physical Risk Materiality	Time Horizon	Response	FY 22 Progress	Future Focus
					limits and risk indicators - Update of Sustainable Finance policies - Development of on-boarding protocols for customers exhibiting increased exposure to ESG risk	- Expand quantitative approach to assessment of customer level climate risk through transition plans and scenario analysis
Operational Risk						
Increased likelihood of business disruption arising from extreme weather events or climate-related transition factors such as continuity of energy supply	Low	High	Short – Medium – Long	Mitigate & Control	- Climate risk continues to be incorporated within Risk Control Self-Assessment (RCSA) - Climate risk factors and potential implications embedded with Change Control requests - Flood mapping exercise for Branch network reviewed	- Continue to develop climate related RCSA and risk mapping - Expand analysis and understanding of a wider range of physical risk impacts e.g. storm damage
Regulatory & Conduct Risk						
Potential for damage to stakeholder trust resulting from both internal actions and external events. Alongside risks arising from failure to observe and comply with relevant regulations and standards of good market practice	Medium	Medium	Short – Medium - Long	Mitigate & Control	- Integration and embedding of climate risk within the governance processes - Sought external 3rd party review of climate risk progress - Responded to PRA thematic review on climate-related risks - In depth Carbon Literacy Accreditation training for key relationship managers	- Continue to deliver on regulatory and conduct requirements - Further development of climate training for key colleagues to build additional knowledge, awareness and understanding
Pension Risk						
Potential for climate-related risks to negatively impact portfolio values.	Medium	Low	Medium - Long	Control & Transfer	- Ongoing monitoring of percentage of high climate risk assets contained within the portfolio	- Continue monitoring of climate-related risk within the pension portfolio

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.

Danske Bank

TCFD reporting

Managing physical and transition risk

The Bank continues to consider the key physical risk as flooding as a result of climate change. This presents a risk not only to the Bank's own property, 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 could be a considerable cost for repairs but also a potential disruption to services which could lead to income loss and compensation for customers. While within the residential housing 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 across the residential mortgage portfolio where EPC ratings may have a future impact on the value and sale of properties dependent on these ratings. Homes with poorer EPC ratings are 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. An example of how the Bank is responding to this risk is outlined on page 66.

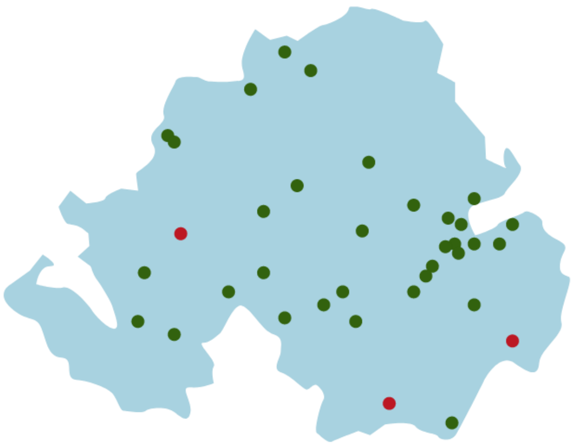
The Bank continues to undertake flood mapping of all its associated premises and properties within NI. Flood mapping such as this will enable us to identify individual properties and customers that may need assistance, without relying on the event occurring first. This has provided the Bank with a good 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 as outlined on Page 73.

The Bank has continued to develop the incorporation of 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.

In addition climate factors are also integrated into the Bank's change control process ensuring that potential or emerging risks across can be captured and assessed for all key projects.

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 at future risk, all in relation to river-related flooding. The Bank's branch network regarding flood risk is shown on the flood map.



This year's flood mapping work has provided a basis for the Bank to manage the physical risk presented by climate change by identifying the most-vulnerable properties in our portfolio and enabling the Bank to establish climate conscious Business Continuity Plan (BCP) and appropriate sustainable due diligence function in our procurement process. Acknowledging the risk to procured services, the Bank also analysed the flood risk to several material third-party suppliers based within Northern Ireland, none of which were at present or future flooding risk based on their current locations.

TCFD reporting

Decarbonising the Branch network

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

The first step of this process was to ensure that 100% of the Bank's electricity requirements was met from certified renewable energy sources. Following this the Bank has invested in the installation of renewable technology such as solar panels on those buildings which are suitable. Finally the Bank has removed fossil fuel boilers and electrified the heating systems through use of either air-source heat pumps or electric radiators.

As a result of this investment 100% of the Bank's standalone branches are now fossil fuel free and zero emissions.

Only two of the Bank's properties, its head office building (with integrated branch) and its operations centre continue to have a requirement to use fossil fuels. The Bank is current investigating alternative heating solutions, although further progress in this area is likely to be dependent on the wider availability of biogas in NI.

Risk assessments and Scenario Analysis

Risk Control Self-Assessment

This year the Bank reviewed its 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 contributes to the Bank's understanding of climate-related risks within the operational risk management of the Bank. The RCSA considers primarily 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.

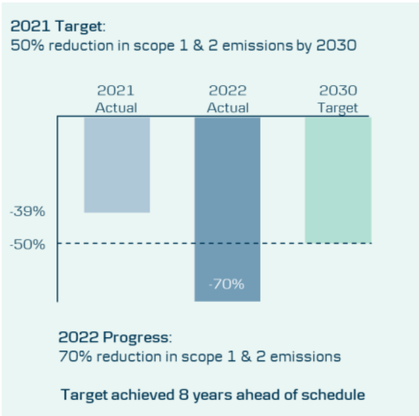
Having identified the risks and the controls and mitigations, the RCSA maintained two of the risks with a 'Medium' risk score and the four other risks with a 'Low' risk score. The two risks identified as medium risk were the loss of outsourced services and poor data leading to inappropriate products and services. The four other risks outlined above were all identified as low risk. 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.

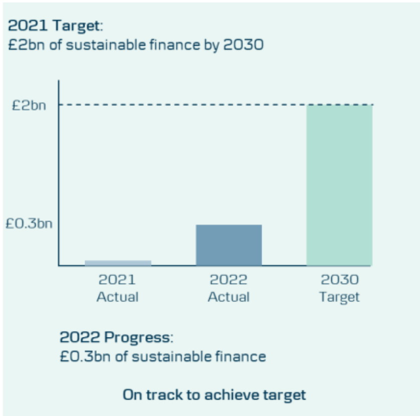
Metrics and targets

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

In 2021 the Bank developed a number of quantifiable targets as part of our journey towards a more sustainable future.





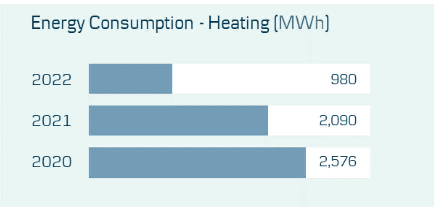
2022 Interim Targets

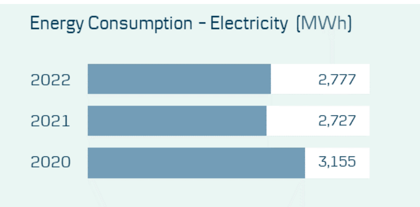
To maintain momentum against overall targets a small number of interim targets were introduced for 2022. These targets were included in the managerial bonus scheme as outlined in the 'Governance' section of the report:

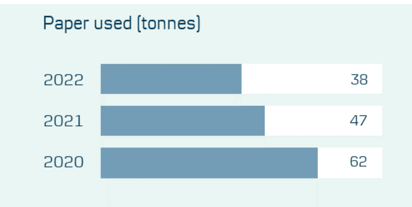
Measure	Target	Outcome
Reduce Scope 1 & 2 CO2e emissions	<500 t/co2e	204 t/co2e
Increase Sustainable Finance drawdowns	£300m	£314m

Operational Emissions

During 2022 the Bank met its 2030 target to decrease Scope 1 and 2 emissions by 50% (compared to baseline year 2015 levels)[3]. In addition positive progress is being made in relating to ongoing reductions in energy consumption, and paper used.



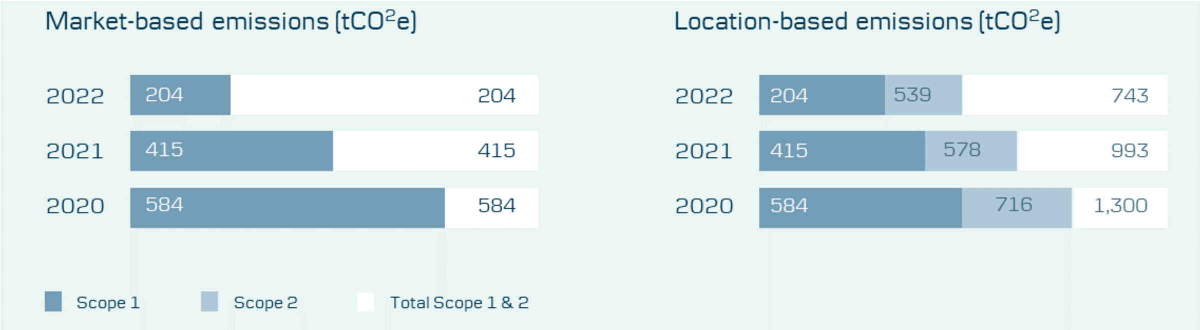




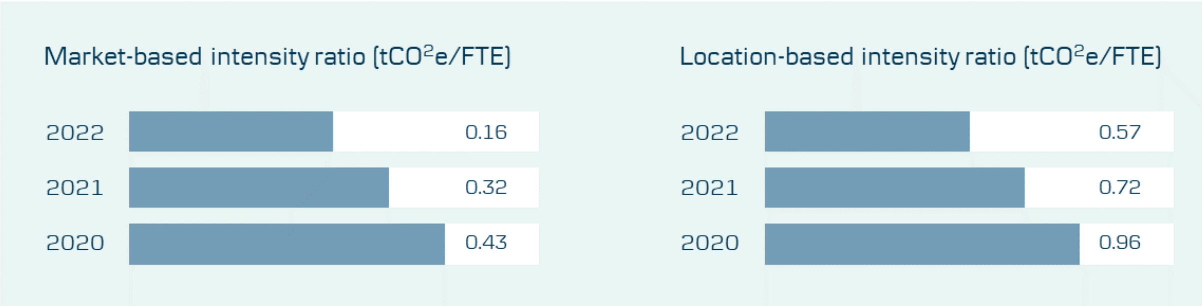
The Bank's emissions are wholly derived from UK operations and reflect emissions factors for that area accordingly.

[3] Baseline year of 2015 chosen as this aligns with our commitment under the Business in the Community, Climate Pledge and is our earliest point of robust scope 1 and 2 emissions recording.

TCFD reporting



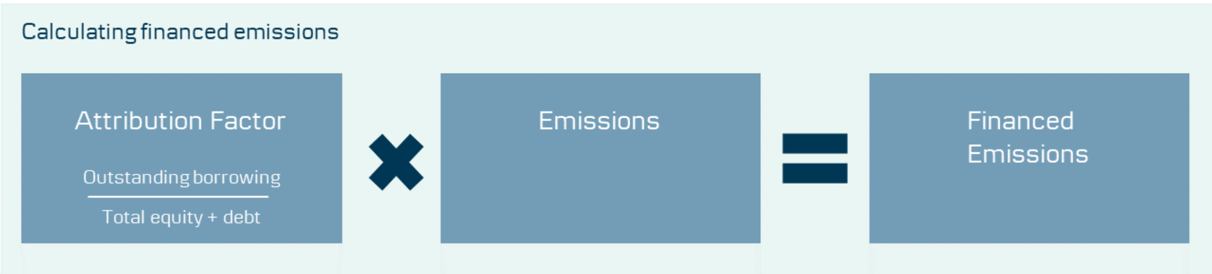
Intensity ratios allow for annual comparison of both scope 1 and 2 location and market-based emissions as a factor of the number of full time equivalent employees in the bank (tonnes/FTE)



More information is detailed within the Streamlined Energy and Carbon Reporting disclosure table within the Directors Report [page 101].

Financed Emissions

Scope 3 financed emissions represent the Bank's share of Green House Gas (GHG) emissions relating to the customer borrowing we facilitate through our lending portfolio. During 2022 we have acted to deepen our understanding in this area and improve our calculation methodologies to better align with accepted industry standards. In that regard the Bank is committed to disclosing our financed emissions using the PCAF Global GHG Accounting and Reporting Standard (PCAF standard). Financed emissions under the PCAF standard are calculated as follows:



Attribution Factor for business loans = the outstanding lending[4] to a customer divided by that customer total debt + equity
Attribution Factor for residential mortgages = the outstanding mortgage balance divided by the current property value

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

TCFD reporting

Emissions are customers scope 1 & 2 emissions either reported by the customer, obtained from external sources (e.g. EPC certificates in the case of residential property) or as estimated using emissions factors by sub-sector.

While the Bank has made progress in the calculation of its financed emissions it is recognised that further development is required to address data gaps, increase the scope and depth of analysis and to increase the availability and consistency of climate-related data.

Given those challenges a number of assumptions have been made in order to calculate emissions. Those assumptions are prevalent in two key areas:

1. Limitations in EPC data with c.44% of the Bank's residential properties having no certified EPC
2. Lack of reported emissions for Corporate & Business customers reflecting the primarily SME nature of the Bank's lending.

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

Residential Mortgages

The financed emissions calculated for residential mortgages is based on outstanding loan balances as at 31 December 2022.

Residential mortgages represent c.48% of the Bank's total lending balances and is an area that has been identified as being of higher risk of impact from climate-related physical and transition risk factors.

The financed emissions outlined represent the Bank's baseline calculations for this area of lending as data limitations prevent retrospective calculation of previous time periods.

Calculations exclude any residential property owned by Corporate & Business customers which is captured under the Real Estate sector.

Methodology

For the 56% of the mortgage properties where EPC certificates were available the CO^2e emission figure was extracted from the EPC certificate.

For the remaining 44% of properties with no EPC, location based analysis was undertaken with street level matching to estimate CO^2e emissions.

Utilising a combination of both direct emissions information from EPC certificates and indirect emissions information from proxy analysis provided an overall coverage of c.92% of total mortgaged properties. Remaining 8% of properties were excluded from the calculation.

For all properties the attribution factor is based on LTV calculated using outstanding loan balances at end of December 2022 and the Bank's valuation of the property[5] at the same date.

Calculated Emissions

Mortgage portfolio scope 3 financed emissions	31 December 2022
Total Lending (£bn)	3.1
Assessed Lending (£bn)	2.8
Assessed Lending (% total mortgage lending)	92%
Danske Bank attributed financed emissions (t/CO^2e)	**69,191**
Economic emissions intensity (tCO^2e/£m lent)	**24.6**

Limitations

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

Overall availability of EPC information given the requirement for assessments to only be completed when a property is initially constructed, transacted for sale, or made available to let.

Timeliness of data given that EPC certificates are valid for 10 years hence property efficiency may have been improved since the certificate was initially prepared along with the fact that the calculations regarding the property may not accurately reflect the real-world outputs based on owner behaviour.

Future Focus

The Bank will continue to refine its approach and methodology to calculating emission in this area with enhanced scope and quality of data the primary focus.

Corporate & Business Banking

The financed emissions calculated for Corporate & Business Banking exposures is based on outstanding loan balances as at 31 December 2022.

Corporate & Business borrowing represents c.51% of the Bank's total lending balances and includes several areas that have been identified as being of higher risk of impact from climate-related physical and transition risk factors.

The financed emissions outlined represent the Bank's baseline calculations for this area of lending as data limitations prevent retrospective calculation of previous time periods.

Calculations exclude any borrowing that is captured under the Real Estate and Housing Association sectors due to existing data limitations.

Methodology

For each of the sectors reviewed the Bank applied the PCAF standard methodology relating to Business Loans

[5] The Bank updates the market value of each mortgaged property quarterly based on data from the NI House Price survey

TCFD reporting

and Unlisted Equity as this most accurately reflects the primarily SME nature of the Bank's lending.

Calculation of total customer emissions ($CO^{2}e$) was based on the following:

- Where available customer reported figures are used
- Where reported emissions are unavailable. estimations are based on identification of the relevant industry classification code[6] for the customer and the published economic activity based PCAF emissions factor.
- The identified economic emissions factors were subsequently multiplied by customer revenue to determine an estimated total emissions figure.

Calculation of attribution factor

- The standard PCAF attribution factor i.e. outstanding borrowing divided by total debt plus equity was applied to all customers where relevant financial information was held.
- Where financial information was not held, a proxy was developed using the average emissions per £k of borrowing for those customers in the same sector where the financial information was known.
- If in a small number of cases the attribution factor was calculated to greater than 100% the attribution factor was restricted to 100%.

Calculated Emissions

Sector	Financed Emissions ($tCO^{2}e$)	Economic Emissions Intensity ($tCO^{2}e$/£m lent)
Agriculture	352,885	1,053
Utilities & Infrastructure	11,675	1,435
Metals & Mining	16,570	157
Consumer Goods	12,882	129
Services	6,527	85
Pulp, Paper & Chemicals	19,700	415
Construction & Building Materials	8,546	76
Retailing	7,565	60
Capital Goods	5,829	58
Pharma & Medical Devices	3,254	227
Automotive	2,218	45
Shipping, Oil & Gas	1,397	292
Social Services	1,159	22
Hotels, Restaurants and Leisure	1,119	12
Transportation	940	34
Telecom & Media	561	79
Financials	139	4
Total Financed Emissions	452,966	

Limitations

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

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

Future Focus

The Bank will continue to refine its approach and methodology to calculating emission in this area with enhanced scope and quality of data the primary focus.

In addition, capture and recording of customer reported data is key to improving the medium to long term accuracy of emissions data.

The Bank also recognises the need to develop robust short, medium, and long term emissions reductions pathways for those sectors which have a material impact on the Bank's transition plans. This work will be developed further during 2023 with an ambition to establish Science Based Targets within the next 12 months.

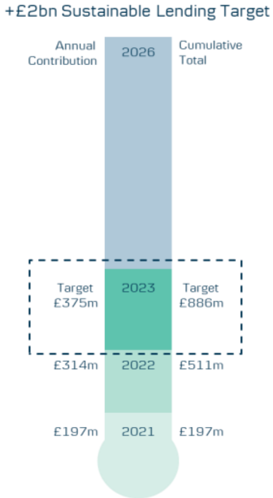
The Bank have established revised targets for 2023 as part of its long term ambitions:

Sustainable Finance

Our ambition is to deploy +£2bn of sustainable finance by 2026 to help our customers accelerate their net zero journeys and progress their transition plans.

Our target for 2023 is a further £375m of sustainable finance drawdowns bringing us to over 40% of our 2026 ambition and continuing to build on our current momentum.

Our sustainable finance is made up of a combination of our Carbon Neutral Mortgage for Personal customers and both Green and Sustainability Linked Loans for our Corporate & Business customers.



[6] Danske Bank's industry classification codes were mapped to ISIC rev 4 codes for the purpose of identifying and attributing emissions factors from the PCAF database

TCFD reporting

Operational Emissions

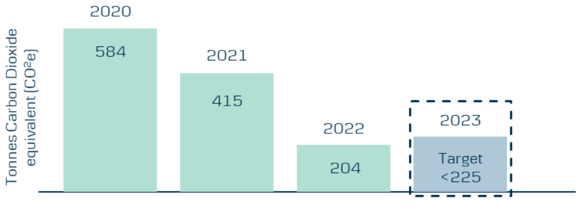
Our ambition is to be Net Zero for both operational and financed emissions by 2050.

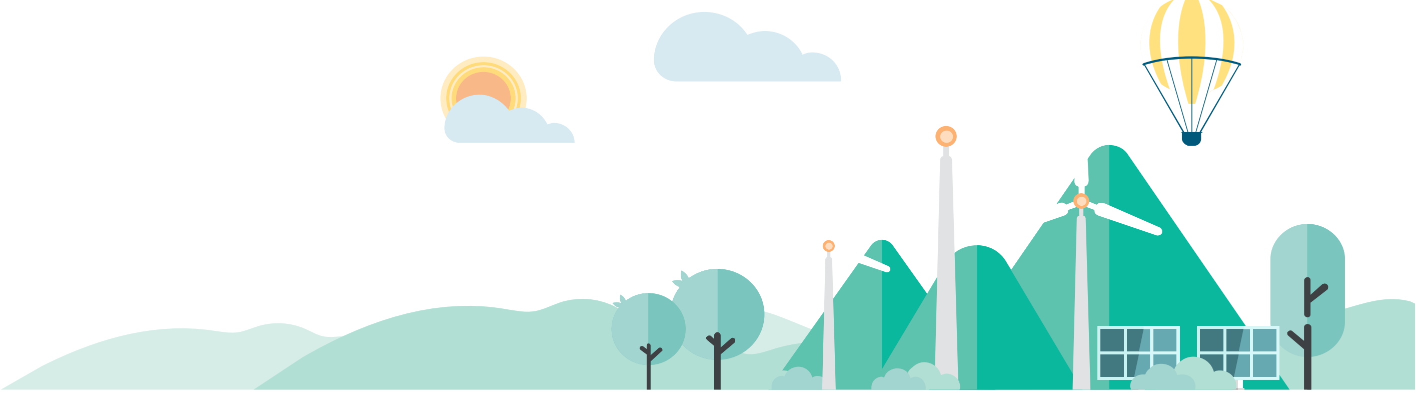
2023 will see the Bank develop a detail climate transition plan with sector specific pathways for those areas which are of highest risk of climate related impact.

The Bank's remaining operational emissions (scope 1 & 2) are associated with our Head Office (and integrated branch) and our operations centre. Further emissions reductions in these locations are dependent on the availability of either bio-gas or hydrogen supply within the Northern Ireland network providing the opportunity to replace the last of our fossil fuel dependency, This supply is not yet available, however, the Bank are proactively engaging with potential suppliers to monitor the situation and are implementing steps to facilitate a swift transition when the supply market matures.

Net Zero: All operational and financed emissions by 2050

2023 Operational emissions target





Governance

Directors and other corporate governance information

Non-Executive Chairman	Martin Stewart	[R] [A] [N] [RE]
Non-Executive Directors	Berit Behring (resigned 16 January 2023)	[D]
	Michael Black	[R] [A] [N]
	Stephan Engels (resigned 21 June 2022)	[D]
	Astrid Grey	[R] [A] [N] [RE]
	Gerald Gregory (resigned 31 December 2022)	[R] [A] [N] [RE]
	Alastair Hamilton	[R] [N]
	Michele Turmore (appointed 5 December 2022)	[R] [N] [RE]
	Michel van Drie (appointed 19 October 2022)	[D]
	Frans Woelders (appointed 13 March 2023)	[D]
Executive Directors	Vicky Davies	
	Stephen Matchett	
	Richard Caldwell (appointed 7 September 2022)	

[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
	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 18 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 Northern Ireland.

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.

Our Board of Directors – Executive members (continued)

Richard Caldwell

Executive Director and Managing Director, GB & Corporate Strategy

Richard joined the Board in September 2022.

Richard has over 25 years' experience in financial services having been educated at Queens' University and London Business School and has held Executive positions in both Personal and Business Banking.

He is a Certified Bank Director and is currently Managing Director, GB & Corporate Strategy, with overall responsibility for the Bank's Corporate Strategy.

In addition, Richard has been instrumental in leading the Bank's GB growth aspirations which form a key part of the long term growth strategy and sustainability of the Bank.

He has held a number of other senior roles and is currently the trustee of a national charity, Kidney Care UK, where he is a member of the Board, Audit, Risk and Remuneration committees.

Board of Directors – Non-executive members

Martin Stewart

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

Martin joined the Board in January 2020 and assumed the role of Chair on 1 January 2023.

Martin is a Board-level Business Leader, Non-Executive Director and Board Advisor. 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.

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

Board of Directors – Non-executive members (continued)

Michael Black

Senior Independent Director and Chair of Board Audit Committee

Michael joined the Board in April 2016 as a non-executive director and Chair of the Board Audit Committee. He assumed the role of Senior Independent Director on 22 February 2023.

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 at NearForm, a software and digital consultancy firm.

In addition to his role in the Bank, Michael's current non-executive/advisory portfolio includes Chair roles in software and technology companies.

Astrid Grey

Non-Executive Director and Chair of Board Risk Committee

Astrid joined the Board in February 2020 as a non-executive director and Chair of the 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 programmes 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 is also a Non-Executive Director and Chair of the Risk Committee at CAF Bank.

Board of Directors – Non-executive members (continued)

Alastair Hamilton

Non-Executive Director

Alastair joined the Board in May 2020.

Alastair is a 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 to help home-grown companies to expand and to attract foreign direct investment into Northern Ireland.

Prior to joining Invest NI, he held a number of senior management positions at BT, including, Managing Director of BT Business Ireland and Director of BT Health UK. During this time, Alastair also served for a year on secondment as Chief Economic Advisor to the First Minister of Northern Ireland.

In addition to his role in the Bank, Alastair is also Non-Executive Director and Chair of Pinnacle Growth Group and a Director of FP Mission Society Africa, an NGO which operates in Kenya and Uganda.

Michele Turmore

Non-Executive Director

Michele joined the Board in December 2022 as a non-executive director.

Michele is an experienced independent non-executive and executive director in Financial Services across IT, Digital & Operations, Retail & Commercial, Credit & Operational Risk, Programme Change and Insurance & Wealth Management, with expertise in the strategic development and implementation of complex and multi-channel business transformation programmes through a full business lifecycle. During over 40 years in Financial Services, Michele has held a number of leadership and Executive roles at Lloyds, TSB, Harrods and Allica Banks.

In addition to her role in the Bank, Michele is also a Non-Executive Director and Chair of the Remuneration Committee at Shawbrook Bank and Chair of the Risk Committee at Davies Broking Services Ltd, Davies Intermediary Support Services Ltd and Davies MGA Services Ltd (Davies Insurance Group).

Board of Directors – Non-executive members (continued)

Michel van Drie

Director

Michel joined the Board in October 2022. He is the Chief Operating Officer, Large Corporates & institutions, Danske Bank A/S.

He joined Danske Bank A/S in 2021, and has almost 30 years international financial services experience having held a variety of roles principally within ABN AMRO Bank NV including Head of Retail Daily Banking, Head of IT Solutions/CIO Retail Commercial Banking & Functions and Head of Operations. He has extensive experience in international financial services, particularly in relation to: Retail & Private Banking; Commercial & Merchant Banking and Operations. He also has experience in digitalisation and transformation.

He has held a number of other offices including: Member of the Non-Executive Board of ABN AMRO Pensioenfonds, Member of the supervisory board of Beter BV, treasure of the Amsterdam IT Circle, member of the supervisory Board of Geld Service Nederland BV and Member of the supervisory Board of Solveon.

Frans Woelders

Director

Frans joined the Board in March 2023.

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

Frans joined Danske Bank A/S in 2020, and has almost 30 years financial services experience having held a variety of roles in Operations, IT and Retail Banking within the ABN AMRO Group as well as two years as Chief Digital Officer, Personal Banking with Royal Bank of Scotland.

He has held a number of other Board roles including: Chairman of International Card Services, MoneYou Advisory Board, ABN AMRO Hypotheken Groep and Co-Chairman of Altajo BV. He has also been a non-executive director of ABN AMRO Verzekeringen, Banque Neuflize OBC and ABN AMRO Clearing Bank N.V.

Corporate Governance Statement

For the year ended 31 December 2022, under The Companies (Miscellaneous Reporting) Regulations 2018, the Bank has adopted the Wates principles for large private companies as an appropriate framework when making a disclosure about its corporate governance arrangements.

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

Purpose and Leadership

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

As Northern Ireland's largest bank, we have been helping people and businesses achieve their ambitions for 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 purpose is to help customers, colleagues and society thrive and our vision is to be a Leader in Northern Ireland, challenger in the rest of the UK, 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 the rest of the UK, driving sustainability".

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

Board composition

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

The Bank has a separate 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, two Executive Directors, 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 who bring a blend of local Northern Ireland, wider UK and international experience. Additionally, the Board continues to improve its gender balance noting that by quarter four 2022 gender diversity on the Board was 40% 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 Bank remains committed to making progress against this target.

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.

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 six principal meetings every year and whilst Board oversight is always maintained, key decisions are made by the individuals and committees with the most appropriate knowledge and industry experience.

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

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

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

There is a process in place for regular Board effectiveness reviews to seek independent, objective advice on the effectiveness of the Board's decision-making, its structure, its people and its processes. The Board 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, with the next external review scheduled for 2023.

Opportunity and risk

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

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

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

Remuneration

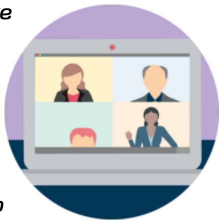
A Board should promote executive remuneration structures aligned to the long-term sustainable success of the company, taking into account pay and conditions elsewhere in the company.

The Board of the Bank has an established Remuneration Committee (RemCo), which is currently chaired by the Chairman of the Board. The RemCo is instrumental in the Board's fulfilment of its governance responsibilities relating to the remuneration of employees and in particular the alignment of performance related pay with the long-term interests of the Bank and its policy on risk and stakeholders in the Bank.

The Board is committed to creating an environment at all levels in the Bank which enables people to perform and develop their abilities and potential.

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

Stakeholder relationships and engagement



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

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

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

Listening to, and empowering employees is critical to achieving the Bank's vision. Formally, employees have a voice through the annual Best Companies Surveys. The outputs from these employee surveys inform the People Board (a group of senior employees who are responsible for shaping and delivering the people strategy in collaboration with HR) and business unit action plans. In addition, regular Senior Leaders' Updates, Digital Roadshows and Bank-wide CEO Updates are delivered to employees across the Bank and provide a briefing on the Bank's performance and allow individuals to raise questions and provide feedback. In 2022 the strategy for increased Director engagement with the workforce has continued through the 'Meet the Board' articles on the Bank's intranet, Branch and Site visits, Thought Leadership Sessions, Informal lunches, coffee catch-ups and the 'Board 360 – Colleague Conversations' sessions which were held at six monthly intervals during 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 PAN Trustees, the professional trustee firm which assumed the role of trustee of the Scheme on 1 September 2022, replacing the previous trustee Board. This support, provided by the Bank facilitates good governance and decision-making, which is in the interests of all Scheme stakeholders.

The Bank's website, intranet and social media channels provide extensive and up-to-date news on recent developments impacting our customers, colleagues, partners and the society.

We advocate the benefits of running a responsible business and encourage others to follow.

Section 172(1) statement

The members of the Board of Directors of Northern Bank Limited consider, both individually and collectively, that they have acted to promote the success of the Bank taking into account the needs of customers, colleagues, members and other stakeholders and the Bank's wider role in society. In doing so they have taken into account the following matters set out in s172 (1) (a) to (f) of the Companies Act 2006:

a) the likely consequences of any decision in the long-term,
b) the interests of the company's employees,
c) the need to foster the company's business relationships with suppliers, customers and others,
d) the impact of the company's operations on the community and the environment,
e) the desirability of the company maintaining a reputation for high standards of business conduct, 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 stakeholders so that their views are taken into account in Board discussions.

A robust corporate governance framework (CGF) is in place to ensure that stakeholder considerations are captured and enhancements made to strengthen the views of our stakeholders in the boardroom. Further information is set out in the Bank's Corporate Governance Statement.

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.480k 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, with the Head of Conduct reporting to the Bank's All Risk Management Committee on a quarterly basis and updates provided to Board on a regular basis in relation to Conduct and taking actions to improve our Customer Satisfaction and Likelihood to Recommend Key Performance Indicators (KPI). ***At Business level***: The Bank uses customer feedback and insights as a core input to help shape strategic decisions utilising independent customer research, satisfaction surveys, mystery shopping and impact assessments. The Bank continues to 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 at the heart of the bank's purpose to help customers, colleagues and society to thrive. The Bank aims to be the first choice for helping our customers and businesses to achieve their financial goals in Northern Ireland. As part of an ongoing multi-year programme, the Bank remains committed to 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 2022, 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 2022, the Bank had c.1,270 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 and regular people-focused discussions at Board Committees. To facilitate engagement, the Board continues to support the operation of a People Board including Executive Committee members. In 2022 Board members engaged in the 'Board 360 – Colleague Conversations' programme, meeting colleagues from our business and sharing in open conversations where insights were shared from both a Board and a colleague perspective. ***At Business level:*** 2022 saw a change in the Bank's approach to engaging colleagues, promoting ideation and seeking feedback, utilising colleague ideas to drive solutions and implement change. Their views are taken into account throughout the Bank's Corporate Planning process, in which the HR Director plays a key role as a member of the Executive Committee. Regular and ongoing discussions, at 1-2-1 and team level, divisional two-way update sessions, CEO and Executive Committee updates and the Best Companies engagement survey drive a culture of openness, collaboration and continuous improvement.	During 2022 the Bank has delivered Board approved colleague initiatives to motivate, engage and support high performance, retain key talent and support our colleagues through the cost of living challenges. We conducted a mid-year colleague "temperature check" using leading employee engagement specialist Best Companies, which generated a colleague response rate in excess of 80%. The survey provided significant insights into employee engagement and informed key areas of focus as we strove to achieve our strategic ambition of a place in the "Top 100 Large Companies to Work For" listing. We conducted a further colleague engagement survey during December 2022 to assess our progress on actions taken. We were delighted to achieve our highest engagement score to date, well ahead of the end of year ambition. For the first time we achieved the highest level., 3 Star accreditation reflecting 'world class' levels of workplace engagement. These results were reflected in the Best Companies Q1 2023 comparative ranking – we were delighted that the Bank was ranked for this period as the No. 1 best company to work for in Northern Ireland (from 8^{th} place in 2022), and the No. 1 financial services company to work for in the UK (from 14th in 2022). Furthermore we have achieved 8th place in the top 100 large companies to work for in the UK (from 94th in 2022). **Early careers** - We continue to develop links between education and industry, creating alignment between the academic curriculum and the skills needed in a rapidly evolving world of work. Since launch in 2018, we have developed our suite of degree-led programmes, with 83 Apprentices hired to participate to date, with programmes aligned to our strategic ambitions. Such programmes have provided us with a talent pipeline into some of our key organisational roles and internal Academies have been established, to give colleagues the opportunities for structured learning and building capabilities across the Bank. The Bank will continue to grow the early career proposition to build future skills and strengthen talent pipelines. **Continuous development** - Investing in professional development remains a key component of our strategy. During 2022 we have committed to Mentoring opportunities for all and our externally accredited coaching programme has seen the expansion of our coaching panel and specialist external coaching in place for key executives. The Bank ran two Learning At Work Weeks in May and November involving both internal and external speakers with high levels of colleague engagement. **Leadership development** - Leadership development programmes and interventions are in place to support all key milestones in a leadership journey. Recognising the fundamental shift in People Leadership skills required in a hybrid working environment, all People Leaders were equipped with a consistent leadership toolkit in 2022. Our Bank-wide Adaptive Leadership programme with Hult Ashridge has elevated the Bank's leadership benchmark at all levels. **Performance and Reward** - During 2022 the Bank continued to embed its approach to managing performance – focused equally on the '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. A review of our colleague reward proposition has led to the introduction of individualised reward for 1400 colleagues, Total Reward statements, Flexible Benefits, the introduction of new

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
Our people (continued)		bonus programmes for all colleagues and career pathways across the business. **Diversity, inclusion, and wellbeing** Danske Bank values the strength of difference in thought and perspective, and a true sense of belonging for all colleagues. Our Diversity & Inclusion strategy is firmly aligned with our organisational purpose - Helping our Customers, Colleagues and Society Thrive. In 2022 we have continued to harness data transparency to enable accountability, action and outcomes for increased diversity representation and inclusion at all levels within the organisation. Our affinity networks are catalysts for allyship and celebration whilst enabling the voice of diverse communities within Danske Bank, they have adopted a strategic approach and are an integral part of our D&I strategy, which is rooted in governance, executive sponsorship and alignment to the organisation's objectives. To ensure that we are creating an environment where all our colleagues can thrive at each stage of the employee lifecycle, we have redrafted and rebranded our policy architecture creating a Guiding Principles framework. Our people are at the heart of these policies, and in 2022 we strengthened support for colleagues in key life events, or 'Moments that Matter'; - Menopause Support for Colleagues - Pregnancy loss & Parental bereavement - Career break - Transitioning in the Workplace, a Guide for People leaders and Colleagues Our commitment to enabling our colleagues manage their physical, mental, financial and lifecycle wellbeing has been reflected in the breadth of initiatives that the Bank has put in place, leveraging our external partners, particularly the Bank's Charity Partner Aware to provide a range of support via digital channels, virtual workshops, online wellbeing support and personal 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. A range of new wellbeing initiatives have been embraced, including "Keeping connected" toolkits and workshops, Menopause support events, Men's Health, Smoking Cessation clinics, and financial wellbeing, enhancing the range of digital resources available to colleagues. We have provided central training for mental health champions in partnership with our Charity Partner.
Our suppliers s172(1)(c)(e) Provide our goods and services which we rely on to deliver for our customers.	***At Board level:*** Board considers and discusses reports on matters of importance regarding the supply of goods and services. They are also advised when adverse incidents that affect the Bank's ongoing operations are live and have been resolved. ***At Business level***: The Bank has robust procurement policies 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 applicable guidelines. Supplier/Stakeholder meetings are conducted on a regular basis in accordance with the Bank's policy on outsourcing. The Bank maintains service level agreements	The Board approves the Modern Slavery Statement annually and we expect all our suppliers to be compliant with the Modern Slavery Act. We work closely with our suppliers and peers to build on our knowledge and promote best practice particularly in relation to anti-bribery and corruption. The Bank fully recognises the importance of each of its third party relationships, and how these relationships contribute to both its success and the stability of the Northern Ireland economy. Since 2019 the Bank has significantly enhanced its outsourcing and third party management framework. All new third party relationships are subject to robust on-boarding processes in order to ensure that every relationship complies with all relevant regulatory requirements and procurement industry best practices. An important part of this due diligence is ensuring that the ESG objectives of the third party are aligned to those of the Bank e.g. sustainability, bribery & corruption, modern slavery etc. This due diligence extends to

Governance

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
Our suppliers (continued)	with its parent Danske Bank A/S for the provision of key services to the Bank such as IT. The Bank actively manages all of its third party relationships, including those with its parent Danske Bank A/S. This includes regular relationship management meetings, performance tracking, risk assessments and business continuity planning.	material arrangements through the supply chain and via its parent Danske Bank A/S. Danske Bank UK was awarded a Fast Payer Accreditation by the UK Good Business Pays Campaign during 2022 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 as required. The Regulatory Reporting Committee meets quarterly and is attended by one member of the Board. The PRA also receive copies of Board papers. ***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 regular basis to ensure there is a high degree of open engagement and, in addition, the Regulators undertake visits and reviews covering specific topics of interest. Members of the Board also meet the PRA to ensure that the culture of open engagement is reflected at Board level.	Feedback received from the Regulators influences decision making at Board level including areas of critical importance such as the review and approval of risk appetite and setting key regulatory requirements in relation to capital, liquidity etc. In relation to climate-related reporting, the Bank proactively takes account of expectations outlined by the Regulator in their Supervisory statements and Dear CEO letter publications. The Bank aims to maintain our positive relationship with the Regulators by following an approach of early and regular engagement regarding such decisions. The PRA attended the November Board meeting to discuss current areas of regulatory focus.
Our community and the environment S172(1)(d)(e) We recognise our role supporting our local community as one of Northern Ireland's and employers. The Bank is conscious of the scale of our impact on Northern Ireland's path to a more sustainable future, noting our role in financing a portion of Northern Ireland's emissions. As a result, we are keenly aware of the need to manage our impact on the environment and as a	***At Board level***: Society is a core pillar of the Bank's strategy, forming a core part of the Board-approved Corporate Plan, and firmly embedded in the culture of the Bank. The Board is regularly updated on progress against the Bank's Society-focused strategic objectives and KPIs in addition to receiving an annual update on our Society agenda and quarterly updates on specific topics such as Climate Change. ***At Business level***: The Bank's Sustainable & Responsible Board meets quarterly, and is chaired by our Chief Executive Officer (CEO). The Bank's CEO, Vicky Davies, has highlighted sustainability as a core priority for the organisation. The Bank's environmental impact, both direct and indirect, is a key factor in decision-making. We recognise both the UK's policy announcements in addition to the EU's guidance in relation to the Non-Financial Reporting Directive, which encourages reporting in this area and we are committed to using the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) to ensure that we maintain the highest environmental reporting standards.	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 2022 and beyond. Positive outcomes resulting from our community programmes include: - Helping to educate more than 7,000 children and young people face to face through our relaunched Money Smart financial education programme - Fundraising, donating food and clothing, advising on CV writing, opening bank accounts and raising awareness to support Ukrainian refugees - Raising an additional £82,000 for charity partner AWARE to help support teenage mental health across Northern Ireland - Being awarded an Investors in Mental Health award from AWARE in recognition of the significant contribution the Bank has made to the promotion of positive mental health - Colleagues volunteering more than 2,500 hours to help tackle issues in their communities such as disability inclusion, social deprivation, biodiversity, financial education and career inspiration.

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
Our community and the environment (continued) result, there is a strong desire for the Bank to be the local leader on global issues.	We are committed to supporting local communities and do so through our charity initiatives, volunteering, sponsorships and financial education programmes.	- Delivering 12 fraud awareness sessions to housing association tenants through Supporting Communities - Colleagues volunteering to help over 7,600 thirteen year old pupils make informed education and career choices through a series of events organised by 4CURFuture - Our employees Charity Group donating £46,000 to multiple small charities across Northern Ireland in 2022 - Providing work placements for people with autism through partnerships with the NOW Group, Stepping Stones and Queen's University - Achieving Platinum level in BITC NI's Environmental Benchmarking Survey for the fifth year - Facilitating an additional 55 businesses to take part in the BITC Climate Action Programme - Launching new partnership with the Woodland Trust to plant thousands of new native trees and help mitigate our business emissions over their lifetime (equating to 6,000 tonnes of CO2) - Working with Eco-Schools NI to create biodiverse eco-learning gardens at an additional 11 local primary schools - Signing up as the financial services lead on a new BITC NI Cost of Living Taskforce - Being a BITC Climate Champion and signatory to the BITC Climate Pledge - Providing thought leadership on climate issues through a range of speaking engagements and articles for industry bodies and organisations - Achieving Silver level in Northern Ireland Gender Diversity Charter Mark.
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, with an assessment of the culture within the organisation presented to Board Risk Committee and Board. ***At Business level:*** Acting responsibly and ethically, our Responsibility Policy governs and outlines our approach to conducting our business in a responsible and transparent manner and is an integral part of daily decision-making through strategies, policies, targets, business procedures and processes. Corporate Responsibility is an integral part of our core business through our vision and strategy. This provides the strategic framework including KPIs and reporting. High standards of professional conduct are communicated via our Code of Conduct and also workforce training in areas such as anti-bribery and corruption, Anti-Money Laundering (AML) and ethics. The Bank has a dedicated Conduct and Customer Experience team led by a Senior Manager who reports quarterly into the Bank's All Risk Management Committee which is attended by Executive Committee members. In addition the Head of Conduct is a member of the Bank's Credit Oversight Forum (COF); Commercial Pricing and Management Committee (CMPC) & Operational Risk & Compliance Committee (ORCC).	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 Responsible Business Reports on our website www.danskebank.co.uk. During 2022, Astrid Grey, one of the Bank's independent non-executive directors became the Board's 'Consumer Duty Champion'.

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
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 (one of whom is a member of the Group's Executive Leadership Team). Group updates are also provided by these two Directors to the Bank's Board. The Bank's Executive Committee is closely aligned to Group counterparts and through regular Board updates provides insight into Group interactions. At senior decision-making level we share with Group a strategic vision to promote the success of the Bank for the benefit of all its Stakeholders. The Bank held its annual Strategy Day and Board Meeting at its parent site in Copenhagen in September 2022, at which senior Group employees presented updates to the Board on specific areas of interest; The Bank's CEO attended the Group Leaders' Conference in August 2022. In addition to Bank employees, the Board regularly receives updates from Group stakeholders across areas notably IT and Risk. These stakeholders also provide inputs to the Bank's Corporate Planning process and are integral parts of delivering developments for the Bank.	The Board is focused on leveraging and strengthening relationships with Group, through our participation in Group wide initiatives, knowledge sharing with Group on UK developments, for instance, in the areas of regulation, digital developments and by sharing best practice on areas such as Customer Satisfaction, Sustainability and Diversity & Inclusion. The Board in its decision making process takes into account the impacts of the decision on the return to the Group on its capital investment in the company. The Board also considers annually whether a dividend should be paid from surplus capital (see principal decision section of the S172 statement).

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 2022 the Board endorsed the progression of the Bank's climate strategy. This strategy is designed to develop sector specific responses in order to further our 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'.		As part of the Bank's ongoing work to meet climate related regulatory requirements, the Board approved the revised Sustainable Finance Policy which governs the Bank's approach to sustainable finance and integration of sustainability factors into our financial solutions, processes and guidance. In addition the Board confirmed 'Sustainable & Responsible' as one of the Bank's five strategic priorities. Cognisant of the opportunity for the Bank to help customers with financing the transition to a sustainable low carbon economy and society, the Board endorsed in Q3 2022 the development of retrofit solutions for residential housing designed to assist customers in reducing their environmental impact through energy efficiency upgrades to their homes. The Board recognise the need to take a materiality based approach to the Bank's ongoing response to climate change. Noting the significant contribution to NI's overall greenhouse gas emissions, its position as the largest portion of the Bank's scope 3 financed emissions and the scale of the Bank's lending, the Board endorsed in Q3 2022 a revised sustainability based strategic approach to the agriculture sector. This strategic approach, developed to help the Bank to support the sector in its climate transition has been supported by the creation of a £35million 'Agriculture Sustainability Fund'. The fund will support agriculture customers with the development of on-farm renewables, such as wind and solar power, and aligns with our objective of 'Helping Customers Go Green'. 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 and further solidifying the Bank's role as a sustainability leader in the local market.
Supporting colleagues In response to the worsening economic environment, Board agreed a programme of support for colleagues to support them through the cost of living challenges.		Listening to colleagues has been a key area of focus for the Board during the course of 2022, with Board members keen to ensure that issues impacting colleagues were considered at Board level. In August 2022, outside the Remuneration Committee (RemCo) meeting cycle and reflecting our focus on supporting and retaining employees in a context of growing inflationary pressure and cost of living challenges, RemCo agreed to make cost of living support payments to c. 90% of colleagues to help with the increasing financial pressures. The payments provided targeted support for those colleagues who would benefit most and was independent of the annual pay review process. In addition, the Committee endorsed a programme of support for colleagues which included 'Danske Breakfasts', additional support measures for colleagues experiencing financial difficulty and a review of banking benefits alongside our existing flexible benefits offering. To underpin these commitments we launched our Guiding Principles on Colleague Financial

Decision	Stakeholder	Considerations made
		Wellbeing. The Bank continues to monitor and respond to the volatile and challenging environment and ensure that we have a balance of financial and non-financial interventions to support colleagues.
Chair appointment The Bank appointed a new Chair in 2022 following consideration by the Board of a number of candidates. Throughout the process, the emphasis of the Board was on ensuring that the new Chair embodied the culture and values of the organisation and had a vision to ensure the long term success of the Bank.		In 2022, the Board approved the appointment of Martin Stewart as Chair with effect from 1 January 2023. Throughout the appointment process, the Board placed stakeholder interests at the core of its objectives in the search for Gerald Gregory'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 appointment process was undertaken, using an external recruitment firm and involving the consideration of both internal and external candidates. Martin Stewart was identified as the strongest candidate on the basis of the role profile, which speaks to the strength of Board 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 the Board of a business that would be recognised as having a strong customer focus. The Board also made sure that colleague interests were taken into account when agreeing the role profile used to assess potential candidates. The Board ensured that the Bank's regulators, another of its key stakeholder groups, were kept regularly apprised of progress during the selection process. 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 cost of living challenges 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 also looked at various financial scenarios in the light of the cost of living challenges, 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 remained sufficient surplus capital to support the Bank's Corporate Plan and the continuing, cost of living challenge 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 2022.

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 £103.4m for the year ended 31 December 2022 (2021: £41.5m). The Bank's financial performance is further detailed within the Income Statement.

Dividends

The Directors paid an interim dividend of £40,000,000 during the year (2021: £75,000,000). The Directors do not recommend the payment of a final dividend in respect of this financial year (2021: £Nil).

Financial instruments

The financial instruments are detailed within note 12 of the Financial Statements. Information regarding financial risk management objectives and policies in relation to the use of financial instruments can be found in the Risk management report from page 24.

Political donations

No political donations were made by the Bank during the 2022 financial year (2021: £Nil).

Foreign branches

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

Directors and Directors' interests

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

- Berit Behring (resigned 16 January 2023)
- Michael Black
- Richard Caldwell (appointed 7 September 2022)
- Vicky Davies
- Gerard Gregory (resigned 31 December 2022)
- Astrid Grey
- Alastair Hamilton
- Stephen Matchett
- Martin Stewart
- Michele Turmore (appointed 5 December 2022)
- Michel van Drie (appointed 19 October 2022)
- Frans Woelders (appointed 13 March 2023)

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

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

Directors' liabilities

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

Corporate responsibility

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

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

The Bank is also highly conscious of its impact on the environment and has taken a range of steps to reduce its energy consumption.

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 89 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 92 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

Governance

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.

Research and developments activities

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

Risk management

The Bank's principal risk and uncertainties are contained in the Risk Management section (outlined from page 25 of this Annual Report).

Bribery Act 2010

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

Streamlined Energy and Carbon Reporting

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

The Bank has been calculating and setting targets against our energy use and GHG emissions since 2015. Building upon emissions reduction initiatives since 2015, adaptations and enhancements to heating systems and appliances have continued across the branch network. At the end of the 2022 year, 100% 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.

GHG emissions and energy usage data for period 1 January to 31 December(1)	2022	2021	2020
Emissions from combustion (Scope 1 - tonnes of CO2e)(2)(3)	204	415	584
Emissions from electricity purchased for own use, including for the purposes of transport (Location - based Scope 2 - tonnes of CO2e)(4)	539	578	716
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)	116	89	139
Total Market – based tonnes of CO2e	320	504	723
Total emissions per full-time employee (tonnes of CO2e/Full Time Equivalent)	0.16	0.32	0.43
Total energy use (7) (kWh) (8)	3.76m	4.72m	5.56m

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

Future developments

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

Going Concern

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

The "Principal risks and uncertainties" section in the 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 Bank’s use of the going concern basis for preparation of the accounts is discuss in note 1(a) of the Bank’s financial statements on page 121.

Post balance sheet events

These are described in note 44 to the financial statements.

Disclosure of information to the auditor

The Directors who hold office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each Director has taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information. The Directors have pleasure in submitting their annual report and audited Financial Statements for the year ended 31 December 2022 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

15 March 2023

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

15 March 2023

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 2022 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; and
- the related notes 1 to 45.

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

2. Basis for opinion

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

We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Bank.

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

3. Summary of our audit approach

Key audit matters

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

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

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

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

Materiality	The materiality that we used in the current year was £8,556,000 which was determined on the basis of total equity.
Scoping	We determined the scope of our audit by updating our understanding of the Bank and its operating environment, including the identification of key controls, and assessing the risks of material misstatement.
Significant changes in our approach	There were no significant changes to our audit approach.

4. Conclusions relating to going concern

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

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

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

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

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

5. Key audit matters

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

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

5.1. Expected credit losses on loans and advances to customers

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

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

At 31 December 2022, the ECL on loans and advances to customers was £98.3 million (2021: £90.5 million), representing a coverage level of 1.5% on a total portfolio of £6,433 million (2021: 1.4% on a total portfolio of £6,297 million).
Measurement of the ECL allowance on loans and advances to customers is a key audit matter as the assumptions used in determining the ECL are highly subjective due to the level of judgement applied by management. The most significant judgements include:

- Determining the criteria for a significant increase in credit risk and for being classified as credit impaired;
- Accounting interpretations and assumptions used to build the models that calculate the ECL;
- The determination of key assumptions, including collateral valuation and cashflow timings, used in discounted cash flows ("DCFs") of individually assessed loans;
- The completeness and accuracy of data used to calculate the ECL;
- The completeness and valuation of post-model adjustments determined by Management for certain higher risk portfolios and to address known model limitations; and
- Establishing the number and relative weightings for forward looking macroeconomic scenarios applied in measuring the ECL. This is highly subjective given that such assumptions are subject to significant uncertainty related to future economic outcomes, including the cost of living crisis, 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 (ECLs) is disclosed in note 1(d) to the financial statements. The key sources of estimation uncertainty in relation to ECLs are disclosed in note 1(b) to the financial statements and further disclosures are presented in notes 14 and 39 to the financial statements.

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

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

- model development, validation and approval to ensure compliance with IFRS 9 requirements;
- governance and approval of the output of IFRS 9 models;
- review and approval of key assumptions, judgements and macroeconomic forward-looking information used in the models; and
- front line credit monitoring and assessment controls including individual case file reviews.

Our testing of key controls included design and implementation testing, operating effectiveness testing, an evaluation of IT system controls, management review controls and governance controls.

Furthermore, we tested the design and implementation of key controls supporting the governance and approval of post-model adjustments recorded by management.

We understood and critically assessed the ECL models developed by the Bank. Our group audit team in Denmark used credit-modelling specialists to challenge the judgements and assumptions supporting the ECL requirements. These included

	assumptions used in the ECL models applied in stage allocation, calculation of probability of default and methods applied to derive loss given default rates. We assessed the reasonableness of the forward-looking information incorporated into the impairment calculations including assessing management's experts. We challenged the macroeconomic scenarios chosen to the weightings applied. This included benchmarking the economic data used to recognised external data sources. We considered material post-model adjustments applied by Management to address model and data limitations. We challenged the rationale for these adjustments and performed testing on their calculation and application. We tested a risk-based sample of manually rated loans (focusing our significant risk on those stage 2 loans closest to default) to ensure that they were included in the correct stage in accordance with the Bank's methodology and IFRS 9. 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 the significant uncertainties that exist in respect of ECL allowance and the sensitivity of the allowance to changes in the underlying assumptions.
Key observations	Based on the evidence obtained, we found that the ECLs on loans and advances to customers are within a range we consider to be reasonable.

5.2. Valuation and recoverability of the deferred tax asset

Key audit matter description	The assessment of the conditions for the recognition of a deferred tax asset is a critical Management judgement, given the inherent uncertainties associated with projecting profitability over a long time period. This is highly subjective given the significant uncertainty related to future economic outcomes. The Bank has recognised a net deferred tax asset at 31 December 2022 of £36.5 million (2021: liability of £13.9 million). This comprises a gross deferred tax asset of £46.2 million (2021: £37.8 million) and a gross deferred tax liability of £9.6 million (2021: £51.7 million). The gross deferred tax asset includes £37.3 million (2021: £24.3 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 2027 (2021: 5 years ending 31 December 2026). 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 key audit matter relates to the Management judgement involved in the recognition and measurement of the deferred tax asset. The Bank's accounting policy for deferred tax is disclosed in note 1(d), the key sources of estimation uncertainty in relation to the recognition of the deferred tax asset are disclosed in note 1(b) and further disclosures are presented in note 20 to the financial statements.

How the scope of our audit responded to the key audit matter	We assessed the policy, process and governance in place over the recognition of the deferred tax asset. This included evaluating the design and determining the implementation of controls over the completeness and accuracy of the year-end tax calculations and the forecast financial information. We challenged the key assumptions, both positive and negative, included in the calculation of the asset recognised, including the recovery period selected. We assessed the ability of the Bank to recover the asset by evaluating future approved profit forecasts. We recalculated the deferred tax asset based on future profit forecasts and challenged whether the recovery period selected was appropriate and independently benchmarked the recognition policy against peer banks and industry norms.
Key observations	Based on the evidence obtained, we found that the assumptions used by Management in the recognition of the deferred tax asset are within a range we consider to be reasonable.

5.3. Valuation of defined benefit pension scheme obligations

Key audit matter description	Determining the key assumptions used to calculate the present value of defined benefit pension scheme obligations of £763 million (2021: £1,230 million) included in the pension surplus requires significant management judgement in relation to discount rates, inflation rates and mortality assumptions. This presents a risk that the principal assumptions used to determine the valuation of the pension scheme obligations are not supportable and the valuation is inaccurate. There is a high degree of estimation and judgement in the calculation of defined benefit obligations. A material change in the liability can result from small movements in the underlying actuarial assumptions, specifically the discount rates, mortality assumptions and inflation rates. The key audit matter is that the recognition and measurement of defined benefit obligations is inappropriate. The Bank's accounting policy for pension scheme obligations is disclosed in note 1(d) to the financial statements. The key sources of estimation uncertainty in relation to the defined benefit pension scheme are disclosed in note 1(b) to the financial statements and further disclosures are presented in note 24 to the financial statements.
How the scope of our audit responded to the key audit matter	We evaluated the design and determined the implementation of controls over the valuation of the pension scheme obligations. We utilised Deloitte actuarial specialists as part of our team to assist us in challenging the appropriateness of actuarial assumptions with particular focus on the discount rate, mortality rates and inflation rates. Our work included inquiries of management and their actuaries to understand the processes and assumptions used in calculating defined benefit obligations. We benchmarked the key assumptions that underpin the pension scheme obligations, being discount rate, inflation rate and mortality rate. We evaluated and assessed the adequacy of disclosures made in the financial statements, including disclosures of the assumptions and sensitivity of the defined benefit obligations to changes in the underlying assumptions.
Key observations	Based on the evidence obtained, we concluded that assumptions used by Management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable when considered as a whole.

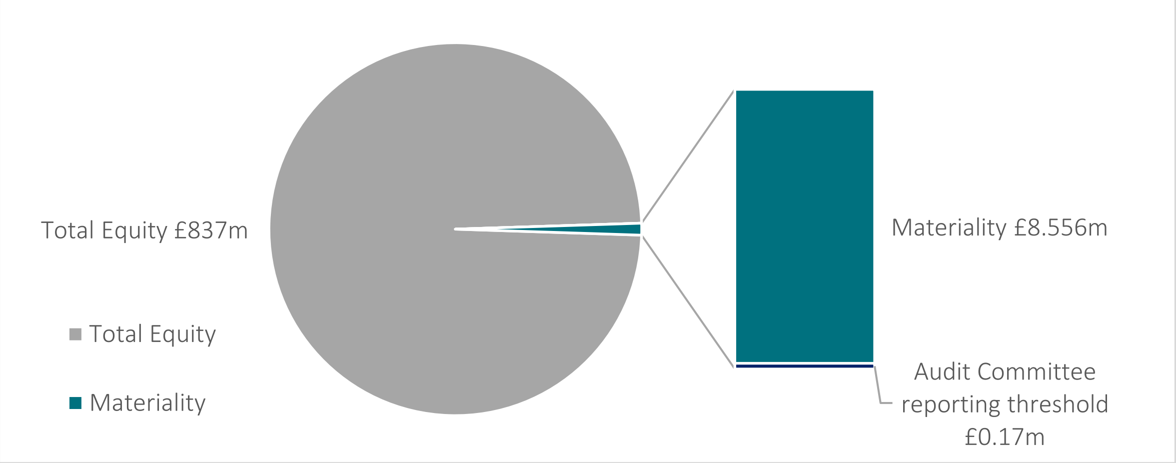
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£8,556,000 (2021: £7,492,000)
Basis for determining materiality	1% of total equity (2021: 1% of total equity).
Rationale for the benchmark applied	We have considered total equity to be a critical component for determining materiality as it is one of the principal measures for users of the financial statements in assessing the Bank's financial position. We have considered quantitative and qualitative factors such as our understanding the entity and its environment, history of misstatements, complexity of the Bank and the reliability of the control environment.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2022 audit (2021: 70%). In determining performance materiality, we considered the following factors:

a. Our understanding of the Bank and its environment;
b. the reliability of the Bank's internal control over financial reporting and whether we were able to rely on controls; and
c. the nature, volume and size of misstatements (corrected and/or uncorrected) in the previous audit.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £174,000 (2021: £150,000), 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.

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

7. An overview of the scope of our audit

7.1. Scoping

We determined the scope of our audit by updating our understanding of the Bank and its operating environment, including the identification of key controls, and assessing the risks of material misstatement.

There have been no significant changes to the scope of our audit compared to the prior year.

7.2. Our consideration of climate-related risks

In planning our audit, we have considered the potential impacts of the climate-related risks identified by management on the Bank's business and its financial statements.

The Bank has set out its strategic ambition on climate and the related risks and governance processes on pages 29-30 (within the Risk management report) and page 59-60 (within the TCFD disclosures) of the annual report. Management have identified whilst the impact of both the physical and transitional risks of climate change provide a source of significant uncertainty, the Bank does not consider there to be a material impact on its estimates within the financial statements.

As part of our audit, we have made inquiries of management to understand their process for considering the impact of climate-related risks. In addition, we are required to read the Bank's disclosure of climate related information in the front half of the annual report, including the TCFD disclosures listed on pages 57 -81, to consider whether they are materially inconsistent with the financial statements or knowledge obtained in the audit. We did not identify any material inconsistencies as a result of these procedures.

7.3. Working with other auditors

Given the centralised nature of certain processes and controls across the Danske Bank Group, we worked with the group audit team in Denmark to perform procedures over: general IT controls, certain group wide controls, derivatives and hedging, and model driven ECL impairments. These procedures were performed to local materiality.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Bank's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, legal counsel, the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Bank's sector;
- any matters we identified having obtained and reviewed the Bank's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of expected credit losses on loans and advances to customers, valuation and recoverability of the deferred tax asset, valuation of defined pension scheme obligations, 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 the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA') regulatory requirements.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Bank's ability to operate or to avoid a material penalty. These included the Bank's liquidity and capital requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of expected credit losses on loans and advances to customers, valuation and recoverability of the deferred tax asset, and the valuation of defined pension scheme obligations as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and the Bank's primary regulators, the Prudential Regulatory Authority and the Financial Conduct Authority;
- In addressing the presumed risk of fraud in revenue recognition, evaluating the design and implementation of controls in place to ensure that manual journals are appropriately reviewed before posting, as well as testing the appropriateness of manual journal entries made to revenue, with emphasis on those journal entries made near or after year end; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

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 8 years, covering the years ending 31 December 2015 to 31 December 2022.

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

15 March 2023

Income Statement
for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Interest and similar income		242,626	160,651
Interest expense		(23,809)	(5,895)
Net interest income	2	218,817	154,756
Fee and commission income	3	46,232	40,835
Fee and commission expense	3	(5,684)	(5,841)
Net trading income	2	11,706	8,962
Other operating income	4	2,434	1,335
Non-interest income		54,688	45,291
Operating income		273,505	200,047
Operating expenses	5	(146,981)	(150,005)
Depreciation and amortisation expense	6	(3,364)	(3,433)
Profit before loan impairment (charge) / credit		123,160	46,609
Loan impairment (charge) / credit	14	(19,859)	14,660
Profit before tax		103,301	61,269
Tax credit / (charge)	9	109	(19,735)
Profit for the year		103,410	41,534
Portion attributable to:			
- Shareholders of Northern Bank Limited		91,053	36,549
- Additional Tier 1 capital holders		12,357	4,985
		103,410	41,534

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

The notes on pages 121 to 182 form part of these Financial Statements.

Statement of Other Comprehensive Income for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Profit for the year		103,410	41,534
Items that will not be reclassified to profit or loss			
Changes in defined retirement benefit scheme			
- Actuarial (loss) / gain recognised in retirement benefit scheme	24	(80,050)	(69,792)
- Taxation impact	20	20,049	23,032
Changes in valuation of properties			
- Gain on property revaluation	17	243	571
- Taxation impact	20	677	(581)
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		(36,724)	(13,500)
- Taxation impact	20	10,100	3,864
Change in cash flow hedge reserve			
- (Losses) / gains during the year	12e	(8,578)	(9,611)
- Taxation impact	20	2,244	2,784
Total other comprehensive income (net of tax)		(92,039)	(63,233)
Total comprehensive income for the year (net of tax)		11,371	(21,699)
Portion attributable to:			
Shareholders of Northern Bank Limited		(986)	(26,684)
Additional Tier 1 capital holders		12,357	4,985
Total comprehensive income for the year (net of tax)		11,371	(21,699)

The notes on pages 121 to 182 form part of these Financial Statements.

Balance Sheet as at 31 December 2022

	Note	31 December 2022 £'000	31 December 2021 £'000
Assets			
Cash and balances at central bank	10	3,350,828	4,388,161
Items in the course of collection from other banks		32,139	21,839
Due from other banks	11	41,711	48,023
Derivative financial instruments	12	89,324	8,586
Investment securities	13	3,369,156	2,226,346
Loans and advances to customers	14	6,334,707	6,206,664
Investment in subsidiaries	15	250	250
Intangible assets	16	522	34
Property, plant and equipment	17	38,822	40,272
Right-of-use asset	18	4,618	4,253
Assets held for sale	19	707	1,399
Defined benefit pension asset	24	78,009	154,208
Current tax assets		6,785	1,092
Deferred tax asset	20	36,533	-
Other assets	21	36,280	24,046
Total assets		13,420,391	13,125,173
Liabilities			
Due to other banks	22	404,807	366,611
Items in course of transmission to other banks		26,068	15,267
Derivative financial instruments	12	82,808	22,487
Deposits from customers	23	11,229,589	11,161,358
Notes in circulation		664,728	634,036
Deferred tax liabilities	20	-	13,900
Other liabilities	25	43,049	33,558
Provisions	26	2,150	2,757
Non-preferred senior securities issued	27	130,000	-
Subordinated notes issued	27	-	126,000
Total liabilities		12,583,199	12,375,974
Equity			
Share capital	32	218,170	218,170
Other equity instruments	35	225,953	96,974
Share premium account		306,590	306,590
Revaluation reserve		33,418	33,892
Reserve for investment securities at fair value	33	(29,070)	(2,446)
Cash flow hedge reserve	34	(8,449)	(2,115)
Retained earnings		90,580	98,134
Total equity and shareholders' equity		837,192	749,199
Total liabilities and equity		13,420,391	13,125,173

The notes on pages 121 to 182 form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 15 March 2023 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

Northern Bank Limited
Company Number: R0000568
15 March 2023

Statement of Changes in Equity for the year ended 31 December 2022

	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 2021		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)
- Cash flow hedge reserve	12e	-	-	-	(9,611)	-	-	(9,611)	-	(9,611)
- Taxation impact	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)
AT1 distributions paid	35	-	-	-	-	-		-	(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
Profit for the year		-	-	-	-	-	91,053	91,053	12,357	103,410
Other comprehensive income/(loss):										
- Actuarial loss recognised in retirement benefit scheme	24	-	-	-	-	-	(80,050)	(80,050)	-	(80,050)
- Transfer re property disposals		-	-	(1,394)	-	-	1,394	-	-	-
- Property revaluation	17	-	-	243	-	-	-	243	-	243
- Investment securities at fair value		-	-	-	-	(36,724)	-	(36,724)	-	(36,724)
- Cash flow hedge reserve	12e	-	-	-	(8,578)	-	-	(8,578)	-	(8,578)
- Taxation impact	20	-	-	677	2,244	10,100	20,049	33,070	-	33,070
Total other comprehensive income/(loss)		-	-	(474)	(6,334)	(26,624)	(58,607)	(92,039)	-	(92,039)
Total comprehensive income for the year		-	-	(474)	(6,334)	(26,624)	32,446	(986)	12,357	11,371
Transactions with owners:										
Dividends paid to shareholders		-	-	-	-	-	(40,000)	(40,000)	-	(40,000)
AT1 issuance	35	-	-	-	-	-	-	-	222,000	222,000
AT1 redemption	35	-	-	-	-	-	-	-	(96,000)	(96,000)
AT1 distributions paid		-	-	-	-	-	-	-	(9,378)	(9,378)
		-	-	-	-	-	(40,000)	(40,000)	116,622	76,622
At 31 December 2022		218,170	306,590	33,418	(8,449)	(29,070)	90,580	611,239	225,953	837,192

The notes on pages 121 to 182 form part of these Financial Statements.

Danske Bank

Cash flow Statement
for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flow from operating activities			
Profit on ordinary activities before tax		103,301	61,269
Adjusted for operating activities			
- Amortisation of investment securities		5,212	10,295
- Amortisation of intangible assets	16	94	123
- Depreciation of property, plant and equipment	17	2,115	2,138
- Depreciation of right-of-use asset	18	1,155	1,172
- Loan impairment charge / (credit)	14	19,859	(14,660)
- Other non-cash items		(14,873)	9
- Defined benefit pension scheme expenses	24	(1,755)	(2,251)
- Defined benefit pension scheme contributions	24	(2,096)	(2,070)
- Tax paid		(22,947)	(9,014)
Adjusted for changes in operating assets and liabilities			
- Net changes in Items in transit		501	1,471
- Net changes in loans and advances to customers		(147,902)	37,837
- Net changes in derivative financial instruments		(28,995)	(6,625)
- Net changes in due to other banks	22	38,196	(6,421)
- Net changes in deposits		68,231	933,221
- Net changes in notes in circulation		30,692	76,094
- Net changes in other assets / liabilities		10,065	259
Net cash flow provided by operating activities		(29,212)	1,035,836
Cash flow from investing activities			
Purchase of investments - hold to collect		(1,113,378)	(943,850)
Maturity of investments - hold to collect		135,000	150,000
Purchase of investments - hold to collect and sell		(365,859)	(301,761)
Sale of investments - hold to collect and sell		159,491	255,005
Acquisition of intangible assets	16	(582)	-
Acquisition of tangible fixed assets	17	(1,130)	(2,112)
Proceeds from sale of tangible fixed assets		2,318	1,301
Net cash flow provided by investing activities		(1,184,140)	(841,417)
Cash flow from financing activities			
Redemption of subordinated debt		(126,000)	-
Issue of non-preferred senior bonds		130,000	-
Dividends paid to shareholders		(40,000)	(75,000)
Payments of interest to AT1 capital holders		(9,377)	(4,970)
Redemption of AT1 capital		(96,000)	-
Increase in AT1 capital		222,000	-
Principal portion of finance lease payments		(981)	(1,068)
Net cash flow provided by financing activities		79,642	(81,038)
Net change in cash and cash equivalents		(1,043,645)	160,392
Reconciliation of movement in cash and cash equivalents			
Cash and cash equivalents, beginning of year		4,436,184	4,275,792
Net change in cash and cash equivalents		(1,043,645)	160,392
Cash and cash equivalents, end of year		3,392,539	4,436,184
Reconciliation to the closing cash and cash equivalents held			
Cash assets and demand deposits with central banks			
- mandatory deposits	10	1,499,913	1,466,507
- non mandatory deposits	10	1,850,915	2,921,654
Deposits with credit institutions and central banks			
- with terms shorter than 3 months	11	41,711	48,023
Cash and cash equivalents, end of year		3,392,539	4,436,184

The notes on pages 121 to 182 form part of these Financial Statements.

Index of disclosure notes to the financial statements

Note 1 – Basis of preparation

This section sets out the Bank's accounting policies that relate to the Financial Statements, together with details of significant accounting estimates and the impact of changes and forthcoming changes to accounting policies and presentation.

(a) General information

Northern Bank Limited is a private company limited by shares that is domiciled and incorporated in the UK. Its registered office is in Northern Ireland as set out on page 83.

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.

Minor changes in presentational format

The Financial Statements have been prepared to provide users with an understanding of the Bank's financial performance and position. In this respect, the presentation of the Cash flow Statement has been amended to further improve readability.

Going concern

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

The Bank's business activities and strategy, together with the factors likely to affect its future development, performance and position, and how they are managed, are set out in the Risk Management section included within the Annual Report, together with "Principal risks and uncertainties" in the Strategic Report. As a consequence, the Directors believe that the Bank is well placed to manage its business risks successfully.

In assessing the Bank's going concern at 31 December 2022, the Directors have considered the following key matters, as summarised below:

Capital

The Bank operates detailed capital forecasting models which show that a surplus over the Total Capital Requirement is maintained under both base and stress scenarios. The Bank's capital ratios and total capital resources remain in excess of the PRA requirements and internal stress testing indicates the Bank can withstand a severe economic stress. In addition, the Bank's MREL ratio at 31 December 2022 exceeds its internal MREL requirements.

Based on the outcome of the Bank's capital assessment, it is the Directors' view that the Bank has sufficient capital for the next 12 months and for the foreseeable future.

Funding and liquidity

The Bank operates detailed funding and liquidity forecasting models which show that, under both base and stress scenarios, the Bank would maintain sufficient funding and liquidity, including sufficient collateral for further funding if required from the Bank of England. In addition, the Bank continues to maintain a conservative customer loan to deposit ratio.

Based on the outcome of the Bank's liquidity and funding assessment, it is the Directors' view that the Bank has sufficient liquidity for the next 12 months and for the foreseeable future.

The Bank's shareholder

For capital, funding and liquidity purposes, the Bank is managed on a standalone basis and is subject to regular and rigorous monitoring.

The Bank's shareholder, Danske Bank A/S, is its sole shareholder, provider of capital and a major supplier of IT and other services under outsourcing agreements.

The Bank's Directors note that the directors of Danske Bank A/S have concluded that there are no material uncertainties that may cast significant doubt about Danske Bank A/S' ability to continue as a going concern and that it is appropriate to prepare financial statements on a going concern basis. The audit report for Danske Bank A/S was signed 2 February 2023 and was not qualified and did not contain an emphasis of matter paragraph in respect of going concern.

Directors' conclusion

On the basis of the assessment outlined above, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Segmental reporting

A business segment is defined as a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is defined as a group of assets and operations engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

The Bank's business is organised as one operating segment and as such, the assets, liabilities and results of the Bank are derived from the business of banking and other related financial services in the UK. The Bank has no material operations outside the UK and therefore no geographical information is presented. Revenues from no one single customer are greater than 10% of the Bank's total income.

Translation of transactions in foreign currency

Transactions in foreign currency are translated at the exchange rate on the transaction date. Gains and losses on exchange rate differences between the transaction date and the settlement date are recognised in the income statement.

Monetary assets and liabilities in foreign currency are translated at the exchange rates at the balance sheet date. Exchange rate adjustments of monetary assets and liabilities arising as a result of differences in the exchange rates at the transaction date and at the balance sheet date are recognised in the income statement. Non-monetary assets and liabilities in foreign currency that are subsequently revalued at fair value are translated at the exchange rates at the date of revaluation. Exchange rate adjustments are included in the fair value adjustment of an asset or liability. Other non-monetary items in foreign currency are translated at the exchange rates at the transaction date.

(b) Critical accounting judgements and key sources of estimation uncertainty

In preparing the Financial Statements, the Bank makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As management judgement involves an estimate of the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities.

The estimates and judgements that have had the most significant effect on the amounts recognised in the Bank's Financial Statements are set out below.

Area	Judgements	Estimates
(i) Measurement of expected credit losses on loans measured at amortised cost	- Significant increase in credit risk (SICR) - Valuation of collateral held as security - Definition of default (DoD) - Post Model Adjustments (PMAs)	- Economic scenarios and associated scenario weightings
(ii) Recognition of deferred tax asset	- Whether sufficient taxable profits will be generated in future years to recover deferred tax asset.	- n/a
(iii) Defined benefit pension scheme	n/a	- Discount rate - Inflation assumptions - Mortality assumptions

(i) Measurement of expected credit losses on loans measured at amortised cost

The three-stage expected credit loss impairment model in IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. If the credit risk has not increased significantly, the impairment charge equals the expected credit losses resulting from default events that are possible within the next 12 months (stage 1). If the credit risk has increased significantly, the loan is more than 30 days past due, or the loan is in default or otherwise impaired, the impairment charge equals the lifetime expected credit losses (stages 2 and 3). In determining the impairment for expected credit losses, management exercises judgement and uses estimates and assumptions as explained below.

SICR assessment – transfer from stage 1 to stage 2

The classification of facilities between stage 1 and 2 for the purpose of calculating expected credit losses depends on whether the credit risk has increased significantly since initial recognition.

Note 1 – Basis of preparation (continued)

(i) Measurement of expected credit losses on loans measured at amortised cost (continued)

The assessment of whether credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporates forward-looking information. A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

- For facilities originated below 1% in PD: An increase in the facility's 12-month PD of at least 0.5 percentage points and doubling up of the facility's lifetime PD since origination; and
- For facilities originated above 1% in PD: An increase in the facility's 12 month PD of 2 percentage points or doubling up of the facility's lifetime PD since origination.

In addition, facilities that are more than 30 days past due are moved to stage 2.

Finally, customers subject to forbearance measures are placed in stage 2, if the Bank in the most likely outcome, expects no loss.

Stage 3 (credit impaired facilities)

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, been granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and (e) the purchase or origination of a financial asset at a high rate of discount that reflects the incurred credit loss. The Bank's definition of default aligns with the requirements of both IFRS 9 and the regulatory definition outlined in CRR Article 178. It may not be possible to identify a single individual event – instead, the combined effect of several events may cause the financial asset to become credit-impaired. All credit-impaired facilities are placed in rating category 11 (default).

Post model adjustments

Management applies judgement when determining the need for post-model adjustments (PMAs). At 31 December 2022, the total PMA amounted to £19,100,000 (2021: £11,000,000), and is included within the total ECL allowance account of £103,009,000 (2021: £95,982,000).

The PMAs relate primarily to the following three areas:

Personal Banking Customers: The Bank has taken a forward looking view of customers that will be impacted by financial pressures as a result of high levels of inflation and rising interest rates; squeezing household finances. There remains a high degree of uncertainty around the longevity and impact on credit performance of these financial pressures, which has not been fully captured by the modelled ECL approach.

Business Banking Customers: The uncertain economic conditions also has an impact on business customers, in particular SME businesses and those operating in industries which are heavily reliant on discretionary consumer spending, where a reduction in demand may coincide with increasing operating costs. The Bank has recognised these specific challenges in the setting of a PMA to allow for future cash flow pressures on business customers.

Upcoming Model Changes: A new definition of default (DoD) was introduced by the Bank in 2022 and the Bank is currently redeveloping credit models to reflect this definition. The new definition of default is expected to classify accounts as default at an earlier stage due to the application of new unlikeliness to pay triggers. The Bank has completed an analysis of the impact the new DoD has on credit models and a post model adjustment has been put in place to allow for this.

Note 14 provides more details on post model adjustments applied at 31 December 2022.

Economic scenarios

In determining the expected credit losses, management is required to exercise judgement in defining what is considered a significant increase in credit risk (SICR). The expected credit loss is calculated for all individual facilities as a function of probability of default (PD), exposure at default (EAD) and loss given default (LGD) and incorporates forward-looking information. The estimation of expected credit losses involves forecasting future economic conditions over a number of years. Such forecasts are subject to management judgement and those judgements may be sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to a carrying amount in future financial periods.

The incorporation of forward-looking elements reflects the expectations of the Bank's senior management and involves the creation of scenarios (base case, upside scenario and downside scenario), including an estimate of the probability of each scenario materialising. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the expected credit losses.

The base case scenario is the primary forward-looking economic information driving the calculation of expected credit loss. Expected credit loss is also estimated under the upside and downside macroeconomic scenarios. The scenarios reflect the economic outlook as at 31 December 2022. For the year ended 31 December 2022 the base case scenario enters the calculation with a probability of 50%, the downside scenario with a probability of 40% and the upside scenario with a probability of 10%.

Note 1 – Basis of preparation (continued)

(i) Measurement of expected credit losses on loans measured at amortised cost (continued)

The table below shows the average macroeconomic assumptions over the period 2023-2025 under the three scenarios considered and which were used to determine the Expected Credit Loss (ECL) at 31 December 2022.

Economic assumption	Measurement	Base Case	Upside scenario	Downside scenario
Northern Ireland GVA	Annual % change	0.4	0.8	(0.4)
Northern Ireland unemployment rate	Annual average	4.1	3.9	5.5
Northern Ireland consumer expenditure	Annual % change	0.5	0.9	(0.1)
Northern Ireland house prices	Annual % change	(1.6)	0.7	(5.0)
UK CPI inflation rate	Annual average	3.9	3.7	4.8
Bank of England Bank Rate	Annual average	3.5	3.1	4.2

The table below gives the average prior year macroeconomic assumptions in the period 2022-2024 under the three scenarios considered which were used to determine the ECL (Expected Credit Loss) at 31 December 2021.

Economic assumption	Measurement	Base Case	Upside scenario	Downside scenario
Northern Ireland 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 inflation rate	Annual average	2.9	2.7	3.1
Bank of England Bank Rate	Annual average	0.6	0.6	0.5

Based on these assessments, the allowance account at 31 December 2022 amounted to £103,009,000 (2021: £95,982,000). 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 £6,325,000 (2021: decrease of £3,777,000).

Similarly, excluding the impact of any stage 3 impairments which are assessed manually by credit officers, the allowance account would increase by £10,735,000 (2021: increase of £9,135,000) if the downside scenario was assigned a probability of 100%, and the allowance account would decrease by £11,316,000 (2021: decrease of £4,741,000) if the upside scenario was assigned a probability of 100%.

Scenario sensitivities are primarily driven by both the changes in the macroeconomic assumptions applied at each year end (as outlined in the macroeconomic assumptions tables) and the probability weightings applied to each scenario in the assessment of the allowance account as at 31 December 2022. However, it should be noted that the expected credit losses in the individual scenarios do not represent 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 2022, loans and advances to customers accounted for about 47.2% of total assets (2021: 47.3%).

The base case, upside and downside scenarios included in the 2022 forward looking information are described below:

Base case scenario

Economic assumption	Measurement	2023	2024	2025
Northern Ireland GVA	Annual % change	(0.9)	0.6	1.6
Northern Ireland unemployment rate	Annual average	3.9	4.2	4.2
Northern Ireland consumer expenditure	Annual % change	(0.8)	0.8	1.6
Northern Ireland house prices	Annual % change	(4.5)	(2.5)	2.2
UK CPI inflation rate	Annual average	7.5	2.2	2.0
Bank of England Bank Rate	Annual average	3.7	3.5	3.1

Under the base case, there are a number of headwinds that weigh on output levels in the first part of the horizon period. High inflation continues to squeeze household spending power and erode consumer confidence with the rate of price rises expected to remain elevated during 2023. Increased prices put pressure on firms' costs and tighter monetary policy serves to depress activity levels given that it makes borrowing more expensive for households and businesses.

Note 1 – Basis of preparation (continued)

(i) Measurement of expected credit losses on loans measured at amortised cost (continued)

In light of these challenges, the base case sees the Northern Ireland economy move into a period of recession with annual economic output declining by 0.9% in 2023 and then growing by 0.6% in 2024.The assumed 2022 economic growth figure of 4.0% reflects an element of recovery from the fall in output during the coronavirus pandemic. High levels of uncertainty, including around the Northern Ireland Protocol and the local political situation, are assumed to persist in the short-term.

Upside scenario

Economic assumption	Measurement	2023	2024	2025
Northern Ireland GVA	Annual % change	(0.2)	0.9	1.7
Northern Ireland unemployment rate	Annual average	3.6	4.0	4.0
Northern Ireland consumer expenditure	Annual % change	(0.1)	1.2	1.7
Northern Ireland house prices	Annual % change	(0.5)	0.0	2.4
UK CPI inflation rate	Annual average	7.0	2.0	2.0
Bank of England Bank Rate	Annual average	3.3	3.1	3.0

Under the upside scenario, the economy still enters into a recession given the squeeze on household incomes and businesses' costs but the fall in activity is not as large as under the base case. In addition, inflationary pressures are slightly more moderate as fuel and energy prices do not assert the same upward pressure and domestic inflationary factors are curtailed by higher interest rates and weaker demand. Sources of uncertainty including the war in Ukraine, the Northern Ireland Protocol and local political developments have more moderate impacts on economic activity.

Downside scenario

Economic assumption	Measurement	2023	2024	2025
Northern Ireland GVA	Annual % change	(1.8)	(0.7)	1.2
Northern Ireland unemployment rate	Annual average	5.0	6.0	5.5
Northern Ireland consumer expenditure	Annual % change	(1.3)	(0.3)	1.2
Northern Ireland house prices	Annual % change	(9.0)	(7.0)	1.0
UK CPI inflation rate	Annual average	9.0	3.3	2.2
Bank of England Bank Rate	Annual average	4.5	4.3	3.8

Under the downside scenario, the economy experiences a deeper contraction as higher inflation erodes household spending power to a greater degree than under the base case, challenges related to energy prices and supply chain disruption are more severe, tighter monetary policy and higher borrowing costs weigh on activity and consumer and business confidence are particularly affected by inflation and the uncertainty around the war in Ukraine, the Northern Ireland Protocol and the local political situation.

(ii) Recognition of deferred tax asset

Within the calculation of the deferred tax asset, the Bank has unused tax losses carried forward of £37,311,000 (2021: £24,316,000) 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 £4,234,000 (2021: £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 – 2021);
- 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 2027 i.e. the current corporate planning horizon.

Note 1 – Basis of preparation (continued)

(ii) Recognition of deferred tax asset (continued)

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 £9.4m (2021: £5.0m).

(ii) Defined benefit pension scheme

As disclosed in note 24 the Bank operates a defined benefit pension scheme. The Scheme held assets of £841,209,000 (2021: £1,384,408,000) and liabilities of £763,200,000, (2021: £1,230,200,000) at the year ended 31 December 2022.

Overall, the Bank recognised an overall pension scheme surplus at 31 December 2022 of £78,009,000 (2021: £154,208,000).

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.

(iii) Impact of climate change on critical accounting estimates and judgements

The Bank continues to consider, assess and evaluate any impact to its assets (both financial and non-financial) arising from climate change risk that would materially impact the Bank's financial performance and position.

It is the Bank's view that the effects of climate change will not be significant in the short term (i.e. physical impacts and the expected transition effects of moving towards a low-carbon economy), and that the inherent risks and uncertainties in quantifying an estimate of the effect of climate change within the financial statements are considerable and more likely to impact the medium to longer term.

The following table provides a summary of the Bank's consideration of key areas of accounting estimates that could be impacted by climate change risk:

Asset	Summary of considerations made
Loans and advances to customers	The Bank's customer lending is the most significant financial asset exposed to the potential climate change risk, primarily arising from customers' ability to meet their contractual payment obligations and the impact this would have on the Bank's expected credit losses (ECLs). In the short-term, the Bank considers the potential for material ECLs to arise as a result of climate change risk as negligible. This is on the basis that transition risks will likely manifest in the medium term, while as a UK-based bank, it has no significant lending exposure outside the UK regions and therefore is not exposed to some of the more rapid, short term physical risks manifesting in other regions.
Defined benefit pension scheme	The Trustee of the Northern Bank Defined Benefit Pension Scheme is responsible for all investment decisions, and these are made in accordance with the Statement of Investment Principles which includes climate change considerations. The Trustee has identified climate change as a particular systemic risk and therefore seeks to mitigate its impact through a diversified portfolio.
Deferred tax asset	The Bank assesses the recoverability of deferred tax assets over a five year corporate strategy and planning cycle, based on future operational performance. In the short-term, the Bank considers there to be no material impact arising from climate risk that would impact its operational performance and the utilisation of the deferred tax asset.

Overall, whilst the impact of both the physical and transitional risks of climate change provide a source of uncertainty, the Bank does not consider there to be a significant impact on its estimates within these financial statements.

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 2022, the Group implemented the amendments to IAS 16, IAS 37, IFRS 3 and Annual Improvements to IFRS Standards 2018 - 2020.

The implementation of the amendments to IFRSs had no impact on the financial statements. The sections below explain in further details the changes to accounting policies and presentation implemented.

Amendment to IAS 16, Property, plant and equipment

The amendment clarifies that if items are produced while bringing an item of property, plant and equipment into use, the proceeds from sale of that item cannot be deducted from the cost of the asset. The proceeds must instead be recognised in profit or loss.

The amendment has no impact on the financial statements.

Amendment to IAS 37, Provisions, contingent liabilities and contingent assets

The amendment clarifies that when assessing whether a contract is onerous, costs to be included are those that are directly related to the contract, and include the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contract.

The amendment has no impact on the financial statements.

Amendment to IFRS 3, Business combinations

IFRS 3 has been amended to refer to the updated contractual framework. The amendment has no impact on the financial statements.

Annual Improvements to IFRS Standards 2018 – 2020 Cycle

The annual improvements contain amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.

In IFRS 1, the amendment provides a subsidiary that becomes a first-time adopter of IFRS later than its parent with an exemption relating to the measurement of its assets and liabilities.

In IFRS 9, the amendment clarifies that, when applying the "10 per cent test" for derecognition of financial liabilities and determining the fees paid net of fees received, a borrower should include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

The amendment to IFRS 16 removes the illustration of the reimbursement of leasehold improvements.

Finally, the amendment to IAS 41 removes the requirement to exclude cash flows for taxation when measuring fair value.

None of these amendments has any impact on the financial statements.

Standards and interpretations not yet in force

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective :

IFRS 17, Insurance contracts

IFRS 17 replaces IFRS 4, Insurance Contracts, which was an interim standard that did not prescribe the measurement of insurance contracts but relied on existing accounting practices. IFRS 17 is a comprehensive standard with principles. IFRS 17 was endorsed by the EU in November 2021, and is effective for annual reporting periods beginning on or after 1 January 2023.

IFRS 17 is not expected to affect the Bank's future financial reporting.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 'Making Materiality Judgements

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendment replaces all instances of the term 'significant accounting policies with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of the financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. The amendments are not expected to affect the Bank's future financial reporting.

Amendments to IAS 8 Accounting Policies Changes in Accounting Estimates and Errors

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

Note 1 – Basis of preparation (continued)

The amendments to IAS 8 are effective for annual periods beginning on or after 1 January 2023. The amendments are not expected to affect the Bank's future financial reporting.

Amendments to IAS 12 Income Taxes

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognise the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2023. The amendments are not expected to affect the Bank's future financial reporting.

(d) Accounting policies

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash assets and balances with central bank and other banks, which can be withdrawn on demand. It also comprises balances with an original maturity of less than three months.

Derivative financial instruments and hedge accounting

All derivatives are recognised on the balance sheet at fair value on trade date and are classified as hedging. The carrying value of a derivative is measured at fair value throughout the life of the contract. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank makes use of derivative instruments to manage exposures to interest rates and foreign currency, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Bank applies hedge accounting for transactions which meet the specified criteria.

Fair value hedging

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.

For hedged liabilities, macro fair value hedge accounting has been applied to a portfolio of core deposits ('portfolio fair value hedge'). Swaps (upon inception) are designated as hedging instruments to an amount of core deposits from the total portfolio equal to the amount of swaps.

The carrying value of the hedged item on initial designation is adjusted for the fair value attributable to the hedged risk. Subsequently, changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The movement in the fair value of the hedged item attributable to the hedged risk is made as an adjustment to the carrying value of the hedged asset or liability.

Note 1 – Basis of preparation (continued)

Fair value hedging (continued)

Where the hedged item is derecognised from the balance sheet, the adjustment to the carrying amount of the asset or liability is immediately transferred to the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the income statement on an effective interest basis over the remaining life of the asset or liability.

The fair values of the hedged items and the hedging derivatives are measured at frequent intervals to ensure that changes in the fair value of the hedged items lie within a band of 80-125% of the changes in the fair value of the hedging derivatives.

The Bank measures its portfolio fair value hedge of core deposits in accordance with IAS39 as adopted by the UK (commonly referred to as the "EU carve out"), which allows such macro fair value hedge accounting to be applied to a portfolio of core deposits, and further, relaxes effectiveness testing so that an under hedged position does not lead to hedge ineffectiveness.

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.

Cash flow hedging

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.

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.

Note 1 – Basis of preparation (continued)

Loans and advances to customers (continued)

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.

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.

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.

Note 1 – Basis of preparation (continued)

Sale and repurchase agreements

Assets sold subject to repurchase agreements (repos) are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in due to banks.

Securities purchased under agreements to resell ("reverse repos") are treated as collateralised loans and recorded as due from banks.

The difference between sale and repurchase price is treated as interest and recognised in the income statement over the life of the agreement. Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements.

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.

Operating leases

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

Note 1 – Basis of preparation (continued)

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.

Issued bonds

The issued bonds consist of non-preferred senior bonds and subordinated debt issued by the Bank. Both non-preferred senior bonds and subordinated debt are initially measured at fair value and subsequently measured at amortised cost.

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 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.

Note 1 – Basis of preparation (continued)

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.

	2022 £'000	2021 £'000
Interest income		
Financial assets at amortised cost:		
Loans and advances to customers	166,993	144,089
Due from other banks and central bank	51,591	4,565
Investment securities - hold to collect	16,618	4,791
Investment securities - hold to collect and sell	12,288	5,423
Interest income on defined benefit pension scheme surplus (Note 24)	2,900	3,300
	250,390	162,168
Financial portfolios at fair value:		
Derivative financial instruments	(7,764)	(1,517)
Total interest income	242,626	160,651
Interest expense		
Deposits from customers	12,701	2,819
Due to other banks and central bank	9,346	653
Subordinated debt	930	2,316
Non-preferred senior debt	707	-
Lease liabilities	125	107
Total interest expense	23,809	5,895
Net interest income	218,817	154,756
Net trading income		
Margin on foreign exchange brokerage	10,212	7,251
Breakage of Instruments	1,800	2,171
Other trading income	(306)	(460)
	11,706	8,962

Note 3 – Fee income and expenses

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

	2022 £'000	2021 £'000
Fee income		
Financing (loans, advances and guarantees)	6,187	5,054
Services (payment services)	39,908	35,668
Other	137	113
Total	46,232	40,835
Fee expenses		
Financing (loans, advances and guarantees)	779	833
Services (payment services)	4,834	4,884
Other	71	124
Total	5,684	5,841

Note 4 – Other operating income

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

	2022 £'000	2021 £'000
Other operating income	2,434	1,335
Total	2,434	1,335

Note 5 – Operating expenses

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

Staff costs include all gross salaries, related social security costs and pension contributions attributable to those employees directly employed by the Bank. The average number of full time equivalent employees of the Bank during the year is outlined in note 41.

Operating expenses include net recharges from Danske Bank A/S of £42,183,000 (2021: £47,390,000). Such recharges relate to services provided by Danske Bank A/S under a number of service level agreements.

	2022 £'000	2021 £'000
Staff costs		
- wages and salaries	48,951	46,064
- social security costs	5,847	4,595
- pension costs (Note 24)	7,661	7,711
	62,459	58,370
Property and infrastructure	7,144	7,487
Technology and communications	19,204	21,156
Other administrative expenses	58,174	62,992
Total	146,981	150,005

Note 6 – Disclosable items included within operating profit

The Bank's profit after tax for the financial year amounted to £103,410,000 (2021: £41,534,000). Profit for the period has been arrived at after charging / (crediting) the following disclosable items: The Bank received no grant income during 2022 (2021: £nil).

	2022 £'000	2021 £'000
Income		
Aggregate amounts receivable under finance leases and hire purchase contacts (net of depreciation £124,616,000 (2021: £120,618,000))	8,854	7,004
Charges		
Depreciation of tangible fixed assets (Note 17)	2,115	2,138
Depreciation of right-of-use assets (Note 18)	1,155	1,172
Amortisation of intangible fixed assets (Note 16)	94	123
Gain on disposal of property, plant and equipment	(1,048)	(247)
Expenses relating to short term and low value leases (including hire of IT and other equipment)	357	635

Note 7 – Auditor's remuneration

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.

Auditor's remuneration	2022 £'000	2021 £'000
Audit of these Financial Statements		
- Audit fee	151	141
- IFRS reporting requirements	44	41
Amounts receivable by the auditor and their associates in respect of:		
- Audit of the financial statements of subsidiary companies	31	29
- Other assurance services	135	51
	361	262

Note 8 – Directors' emoluments

The remuneration of the Directors' is set out below in aggregate in accordance with accounting standard IAS 24 – 'Related Party Transactions'.

	2022 £'000	2021 £'000
Aggregate emoluments	1,673	2,100
Bank pension contributions to Danske Bank Master Trust Plan	21	10
	1,694	2,110

In addition to the amounts shown above, social security costs were payable in respect of emoluments to Directors amounting to £237,000 (2021: £284,000). This includes £85,000 in respect of the emoluments of the highest paid Director in the year ended 31 December 2022 (2021: £108,000). Where Non-Executive Directors are employed by Danske Group, they are remunerated for their services by Danske Bank A/S.

Of the Directors who held office during the financial year, two Directors (2021: three) held conditional shares and 2,096 were exercised during the year (2021: 5,668 shares). Further details are disclosed in note 42 of the Financial Statements. For the year ended 31 December 2022 the total emoluments disclosed do not include the value of shares or share rights awarded under long term incentive schemes in accordance with Schedule 5 paragraph 1(3)(a) of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

During the year three Directors (2021: two) contributed to their pension savings through the Danske Bank Master Trust Plan (the Bank's defined contribution scheme). No Director (2021: None) accrued retirement benefits under the Bank's defined benefit pension scheme (scheme closed to future accrual in 2018).

The aggregate emoluments (including benefits in kind, exercised conditional share payments and pension contributions paid by the Bank) of the highest paid Director were £573,000 (2021: £767,000).

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.

	2022 £'000	2021 £'000
Current tax		
UK corporation tax		
Current year	12,464	8,024
Current year - corporation tax surcharge on Banking profits	5,398	2,905
Adjustment in respect of prior years	(608)	1
	17,254	10,930
Deferred tax note (Note 20)		
Current year	(798)	11,558
Adjustment in respect of prior years	769	(517)
Recognition of tax losses in the year	(17,334)	(2,236)
	(17,363)	8,805
Tax (credit) / charge	(109)	19,735

The effective taxation rate for the year ended 31 December 2022 is a credit of 0.1% (2021: charge of 32.2%).

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:

	2022 £'000	2021 £'000
Profit on ordinary activities before tax	103,301	61,269
Tax charge based on the standard rate of Corporation Tax in the UK of 19.0% (2021: 19.0%)	19,627	11,641
Effects of:		
Expenses not deductible for tax purposes	(1,373)	827
Rate differences	1,151	6,372
Adjustments in respect of prior years	161	(518)
Recognition of tax losses in the year	(17,334)	(2,236)
Effect of corporation tax surcharge on Banking profits	(2,341)	3,649
	(109)	19,735

The 2022 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 2022.

Finance Act (No.2) 2015 introduced the Bank Surcharge from 1 January 2016, being an 8% charge on taxable profits above £25m for Danske Bank Group operations in the UK before the offset of brought forward losses or group relief, however, on 27 October 2021, the Chancellor announced that the Bank Surcharge will reduce from 8% to 3% on UK group profits in excess of £100m from April 2023 onwards. This rate change was enacted in February 2022 and is reflected in the valuation at 31 December 2022.

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

Cash assets and balances at central bank are stated at amortised cost.

	2022 £'000	2021 £'000
Cash assets	467,933	443,526
Balances at central bank	2,882,895	3,944,635
	3,350,828	4,388,161

Cash and balances at central bank include mandatory deposits of £1,499,913,000 (2021: £1,466,507,000) 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.

	2022 £'000	2021 £'000
Amounts due from other banks	41,711	48,023

	2022 £'000	2021 £'000
Analysed by remaining maturity:		
- on demand or at short notice	41,711	48,023

	2022 £'000	2021 £'000
Amounts include:		
Due from parent and fellow subsidiary undertakings	39,719	46,625

Note 12 – Derivative financial instruments

Note 12(a) – Trading portfolio assets

	2022 £'000	2021 £'000
Fair value of derivative financial assets	89,324	8,586

Note 12(b) – Trading portfolio liabilities

	2022 £'000	2021 £'000
Fair value of derivative financial liabilities	82,808	22,487

Note 12 – Derivative financial instruments (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 (see note 12(d)). Some of the Bank's assets carry floating rates. The Bank uses cash flow hedge accounting if the exposure to variability in interest rates is hedged by derivatives (see note 12(e)).

	Positive Fair Value		Negative Fair Value	
Derivatives - hedging At 31 December 2022	**Notional Amount £'000**	**Carrying Amount £'000**	**Notional Amount £'000**	**Carrying Amount £'000**
Currency contracts				
Forwards	535,487	21,135	428,174	17,651
Interest rate contracts				
Swaps	457,135	68,158	1,297,775	65,126
Options	1,488	31	1,488	31
Total derivatives	994,110	89,324	1,727,437	82,808
Counterparty				
Ultimate parent and fellow subsidiary undertakings	753,656	74,295	1,606,719	79,258
Other	240,454	15,029	120,718	3,550
Total	994,110	89,324	1,727,437	82,808

	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

Note 12 – Derivative financial instruments (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.

For hedged liabilities, macro fair value hedge accounting has been applied to a portfolio of core deposits. Swaps (upon inception) have been designated as hedging instruments to an amount of core deposits from the total portfolio equal to the amount of swaps.

The fair values of the hedged items and the hedging derivatives are measured at frequent intervals to ensure that changes in the fair value of the hedged items lie within a band of 80-125% of the changes in the fair value of the hedging derivatives.

Hedge ineffectiveness may exist as a result of the fair value change of the hedged items being measured based on the interest rate curve relevant for each hedged item while the fair value of the hedging derivatives is measured based on a swap curve. Further, while the fixed leg of the hedging derivatives will match the profile of the hedged items, a small amount of ineffectiveness will arise from the floating leg of the swaps.

Fair value adjustments of fixed rate assets and corresponding hedging derivatives

At 31 December 2022, the carrying amounts of effectively hedged fixed rate assets were £393,111,000 (2021: £456,842,000). 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.

	2022 £'000	2021 £'000
Effect of interest rate asset hedging on profit		
Hedged loans and advances to customers	(66,872)	(16,343)
Hedging derivatives	66,544	16,125
Total	(328)	(218)

Fair value adjustments of core deposits and corresponding hedging derivatives

At 31 December 2022, the balance of effectively hedged core deposits was £965,193,000 (2021: 833,247,000). The table below shows the movement in the fair value adjustments to these deposits and the corresponding fair value movement of the hedging derivatives. The value adjustments have been recognised in the Income Statement as net trading income.

	2022 £'000	2021 £'000
Effect of interest rate asset hedging on profit		
Hedged customer deposits	43,054	6,753
Hedging derivatives	(43,075)	(6,749)
Total	(21)	4

Note 12 – Derivative financial instruments (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. The Bank operates two cash flow hedges; one to hedge variable rate term loans, and a second to hedge floating rate bonds. A portfolio cash flow hedge approach has been adopted for both hedges, and effectiveness is assessed on a monthly basis by means of a capacity test.

	Positive Fair Value		**Negative Fair Value**	
At 31 December 2022	**Notional Amount £'000**	**Carrying Amount £'000**	**Notional Amount £'000**	**Carrying Amount £'000**
Cash flow hedges	-	-	275,250	12,516

	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.

	2022 £'000	2021 £'000
Derivatives held as cash flow hedges	**275,250**	370,250

	2022 £'000	2021 £'000
Losses recognised in Other Comprehensive Income for the year	**(8,578)**	(9,611)

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.

	2022 £'000	2021 £'000
Investment securities		
- Listed investments	**2,294,601**	1,318,484
Unamortised (discounts) / premiums on investment securities	**(40,929)**	17,004

Note 13 – Investment securities (continued)

Note 13(a) – Hold to collect (securities measured at amortised cost) (continued)

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.

	2022 £'000	2021 £'000
Investment securities		
- Listed investments	1,074,555	907,862

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:

	2022 £'000	2021 £'000
Analysed by remaining maturity:		
- on demand or at short notice	1,132,459	1,104,287
- 3 months or less	169,738	411,821
- over 3 months but less than 1 year	387,904	456,254
- over 1 year but less than 5 years	1,681,260	1,576,838
- over 5 years	3,061,681	2,747,973
	6,433,042	6,297,173
ECL allowance account	(98,335)	(90,509)
	6,334,707	6,206,664

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 2022	5,501,521	479,569	316,083	6,297,173
Transferred from Stage 1 to Stage 2	(330,727)	330,727	-	-
Transferred from Stage 2 to Stage 1	152,818	(152,818)	-	-
Transferred from Stage 3 to other stages	7,108	55,557	(62,665)	-
Transferred to Stage 3 from other stages	(6,438)	(19,060)	25,498	-
New assets (1)	1,423,886	185,701	7,127	1,616,714
Assets derecognised (1)	(1,003,992)	(52,983)	(54,385)	(1,111,360)
Assets written-off	-	-	(15,594)	(15,594)
Other changes in net exposure (2)	(263,941)	(68,040)	(21,910)	(353,891)
Gross carrying amount at 31 December 2022(3)	5,480,235	758,653	194,154	6,433,042

	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	5,501,521	479,569	316,083	6,297,173

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 £12,223,000 (2021: £16,218,000).

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 (SICR) (transfer from stage 1 to stage 2)

The classification of facilities between stage 1 and 2 for the purpose of calculating expected credit losses depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporates forward-looking information. A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

- For facilities originated below 1% in PD: An increase in the facility's 12-month PD of at least 0.5 percentage points and doubling up of the facility's lifetime PD since origination; and

- For facilities originated above 1% in PD: An increase in the facility's 12 month PD of 2 percentage points or doubling up of the facility's lifetime PD since origination.

In addition, facilities that are more than 30 days past due are moved to stage 2.

Finally, customers subject to forbearance measures are placed in stage 2, if the Bank in the most likely outcome, expects no loss.

Stage 3 (credit impaired facilities)

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, been granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and (e) the purchase or origination of a financial asset at a high rate of discount that reflects the incurred credit loss. The Bank's definition of default aligns with the requirements of both IFRS 9 and the regulatory definition outlined in CRR Article 178. It may not be possible to identify a single individual event – instead, the combined effect of several events may cause the financial asset to become credit-impaired. All credit-impaired facilities are placed in rating category 11 (default).

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 Bank implemented a new, more harmonised approach to applying the definition of default in 2022. According to the revised definition of default, exposures that are considered in default are also considered Stage 3 Exposures, and all Stage 3 exposures are considered to be in default. This is applicable for exposures that are in default due to either the 90 days past due default trigger or the unlikeliness to pay default triggers. For exposures classified as in default, there exists a probation period which must be passed before exposures can be reclassified as not in default. To pass the probation period and leave default exposures must return to good order and continue to not meet any of the default triggers continually for a required period of time. For exposures exiting default with the aid of forbearance, the period of time in probation amounts to 12 months, for exposures exiting default without the aid of forbearance the period amounts to 3 months.

The new definition of default has been fully implemented across the Bank with a previous post model adjustment of £8,000,000 relating to the impact of its implementation released during 2022, however existing probability of default models are yet to be recalibrated to reflect the change in definition. As the new definition of default is expected to classify accounts as default at an earlier point than previously, due to the application of new unlikeliness to pay triggers, the Bank expects IFRS9 ECL models to reflect a marginal under estimation of the probability of default under the new definition. A new post model adjustment of £5,000,000 has been applied relating to this estimation misalignment.

Purchased or originated credit-impaired facilities (POCI)

A facility that is credit-impaired at initial recognition is classified as a POCI financial asset. This is the case if the financial asset is purchased or originated at a deep discount that reflects the incurred credit losses. For such assets, lifetime expected credit losses are recognised for the remaining lifetime of the asset. In general, the Bank does not purchase credit-impaired financial assets and the category therefore relates to originated credit-impaired facilities, typically originated in relation to forbearance measures. The majority of POCI financial assets relate to coronavirus pandemic measures whereby the Bank supported a number of its existing business customers with additional lending through the UK Government-backed loan schemes (i.e. CBILS and BBLS). At time of application and drawdown, some of these existing customers were already classified as credit-impaired and consequently under IFRS 9, the associated lending is classified as a POCI financial asset.

Calculation of expected credit losses

The expected credit loss is calculated for all individual facilities as a function of the PD, EAD and the LGD. In general, the Bank's IFRS 9 impairment models and parameters draw on the Bank’s internal models in order to ensure alignment of models across the Bank. Models and calculations have been developed specifically for IFRS 9 purposes, including models for lifetime PD, prepayment and forward-looking LGD. All expected credit loss impairments are allocated to individual exposures. For significant loans in stage 3, the Bank determines the expected credit losses individually.

Regarding sustainability and climate risks, a climate risk heat map has been designed which gives an indication of the size of the Bank’s credit exposure to climate risk, and not the expected stress impacts such as impact on expected credit losses. Such quantitative measures are to be assessed through scenario analysis and future stress testing. Climate scenario analysis is being performed for key sectors, however the methodology is still in its infancy and the Bank’s climate stress testing capabilities will continuously be enhanced to better assess potential future loss levels. Conclusions have not led to adjustments to staging or expected credit losses, as the impacts either manifest over a longer time period than loan maturities, or as transition risks are concentrated on sectors with downside risks recognised in the bank’s expected credit losses. Further information can be found in the ‘Task force on Climate related Financial Disclosures’ (TCFD) section of the Annual Report.

Expected remaining lifetime

For most facilities, the expected lifetime is limited to the remaining contractual maturity and is adjusted for expected prepayment. For exposures with weak credit quality, the likelihood of prepayment is not included. For exposures that include both a loan and an undrawn commitment, and where a contractual ability to demand prepayment and cancellation of the undrawn commitment do not limit the Bank's exposure to credit losses to the contractual notice period, the expected lifetime is the period during which the Bank expects to be exposed to credit losses. This period is estimated on the basis of the normal credit risk management actions. Products identified as in scope of an expected lifetime longer than the remaining contractual maturity include credit cards, overdraft balances and certain revolving credit facilities.

Note 14 – Loans and advances to customers (continued)

Calculation of ECL for financial assets not included in ECL model

In limited circumstances, the Bank performs an ECL calculation for certain portfolios of financial assets that do not go through the automated impairment process and therefore require manual calculation. In previous years these amounts were disclosed as post model adjustments, however these have been redefined as a recurrent part of the core ECL calculation process during 2022. At 31 December 2022 £7,800,000 was recognised such financial assets (2021: £1,900,000).

Incorporation of forward-looking information

The forward-looking elements of the calculation reflect the current unbiased expectations of the Bank's senior management. The process consists of the creation of macroeconomic scenarios (base case, upside and downside), including an assessment of the probability of each scenario by the Bank's Chief Economist, the review and sign-off of the scenarios (through the Bank) and a process for adjusting scenarios given new information during the quarter.

The purpose of using multiple scenarios is to model the non-linear impact of the assumptions about macroeconomic factors on the expected credit losses. Management's approval of scenarios can include adjustments to the scenarios, probability weighting and management overlays to cover the outlook for particular high-risk portfolios. The approved scenarios are used to calculate the impairment levels.

Technically, the forward-looking information is used directly in the PDs through an estimate of general changes to the PDs and the LGDs in the expected credit loss calculation. However, for significant exposures in stage 3, an individual assessment of the scenarios, changes to expected credit losses and the related probabilities is performed by senior credit officers. The forward-looking information is based on a three year forecast period converging to steady state in year seven.

Consideration of sustainability and climate related risks

In addition to providing loans in a fair and responsible manner, the Bank has started to integrate sustainability and Environmental, Social and Governance (ESG) considerations into its lending practices. Sectors that are recognised to have elevated ESG risks are also specified in the Credit Policy and are subject to periodic review.

As outlined above, the Bank has started to assess and quantify the financial impact of climate-related risks in the lending portfolio in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This means reviewing selected sectors using climate scenarios to measure the sensitivity of the portfolio to climate-related risks with the aim of covering key sectors over time.

Work to date has focused on the 'Sixth Carbon Budget' which presents a number of pathways scenarios towards a net zero future by 2050. This has included establishing the potential impact on the Bank's capital of certain stress scenarios based on increased impairment/costs associated with lending to certain industries vulnerable to short term adverse change from climate risk factors and also where the value of collateral held by the Bank for lending may be open to question due to climatic factors (flooding risk etc.)

Work to date has indicated that the vulnerability to any increased impairments in the short term is low and hence these factors have not been incorporated within the impairment calculation models, at this juncture. However the position remains under review with any adaptations to be introduced as work develops.

The Bank is aware of the need to consider and disclose the financial implications arising from climate change including the impact on businesses, strategy and financial planning. Planning is underway to develop this analysis as part of a wider transition plan process.

Write-off policy

Loans that are considered uncollectible are written off. Write-offs are debited to the allowance account. Loans are written off once the usual collection procedure has been completed and the loss on the individual loan can be calculated. Full write-off of a loss is only recognised when the customer is formally notified that they no longer have a contractual obligation.

Modification

When a loan is modified the Bank assesses whether the modification results in derecognition. This depends on whether the changes to the contractual cash flows or other contractual terms are significant or not, or whether they are as a result of the Interest Rate Benchmark Reform.

A change in the contractual cash flows that is required by the reform is accounted for by updating the effective interest rate, without recognising a gain or loss. This can only be applied if the change is necessary as a direct consequence of the reform, and the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

Note 14 – Loans and advances to customers (continued)

Modification (continued)

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.

For modifications that are not significant, the modification loss is recognised in the income statement within Loan impairment charges.

In terms of stage allocation, a modification that leads to derecognition of the initial loan and recognition of a new loan, the loan will (unless the new loan is credit-impaired at initial recognition) be recognised in stage 1 at initial recognition, i.e. the initial credit risk is reset. If the replacing loan is considered an amendment to the original loan, the initial credit risk is not reset. Loans modified as part of the Bank's forbearance policy, where the modification does not result in derecognition, the loss allowance on the forborne loans will generally only be measured based on 12-months expected credit losses when there is evidence of the borrower's improved repayment behaviour.

When a loan in stage 3 is modified, and the modification results in derecognition, the Bank assesses if the new loan is originated credit impaired. The assessment includes factors such as whether the customer's repayment behaviour has improved significantly prior to the modification or not and whether the pricing on the new loan reflects the actual credit risk. New loans that are originated credit impaired remain under a lifetime ECL calculation for the remaining term of the exposure.

Post model adjustments

Management applies judgement when determining the need for post-model adjustments (PMAs). At 31 December 2022, the total PMA amounted to £19,100,000 (2021: £11,000,000), and is included within the total ECL allowance account of £103,009,000 (2021: £95,982,000).

The PMAs relate primarily to the following three areas:

Personal Banking Customers: The Bank has taken a forward looking view of customers that may be impacted by financial pressures as a result of high levels of inflation and rising interest rates; squeezing household finances. A segment of customers deemed to have low affordability, or indicators of financial distress at credit reference agencies, has been identified by the Bank. Where these customers are not already deemed credit impaired, an adjustment has been made to ECL calculations by downgrading customer credit grades to a level considered more representative of current risks given the high degree of uncertainty around the longevity of external financial pressures. The PMA amount held represents the difference between the Bank's modelled ECL approach and the adjusted ECL calculation for this segment of customers.

Business Banking Customers: The uncertain economic conditions also has an impact on business customers, in particular SME businesses and those operating in industries which are heavily reliant on discretionary consumer spending, where a reduction in demand may coincide with increasing operating costs. The industry sectors identified as at the highest risk are; hotels, restaurants and leisure, retailing, consumer goods, automotive, transportation, construction & building materials. The Bank has recognised the specific challenges for these sectors in the setting of a PMA to allow for increasing cash flow pressures on business customers. The PMA amount has been quantified through analysis of the impact of a moderate downgrade to credit grades for customers operating in these sectors, alongside a further minor downgrade to SME customers operating in other sectors. The ECL impact of these downgrades subsequently held in the PMA.

Note 14 – Loans and advances to customers (continued)

Post model adjustments (continued)

Upcoming Model Changes: A new definition of default (DoD) was introduced by the Bank in 2022 and the Bank is currently redeveloping credit models to reflect this definition. The new definition of default is expected to classify accounts as default at an earlier stage due to the application of new unlikeliness to pay triggers. The Bank has completed an analysis of the impact the new DoD on credit models and a post model adjustment has been put in place to allow for this.

The table below provides a quantitative summary of the PMA amounts:

	2022 £'000	2021 £'000
Personal banking cost of living pressures	9,100	-
Business banking financial pressures	5,000	3,000
Upcoming model changes	5,000	-
Definition of default implementations	-	8,000
Total	19,100	11,000

Post model adjustments are reviewed on a quarterly basis with the need for PMA amounts reassessed and re-quantified as required. The total PMA amount is held across stages, with the amount held in each stage determined by an assessment of the underlying drivers of PMA amounts. At 31 December 2022 the allocation of these PMA amounts was £2,000,000 in stage 1 and £17,100,000 in stage 2.

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 2022	5,210	9,258	81,514	95,982
Charge for the year				
- transferred from Stage 1 during the year	-	2,085	83	2,168
- transferred from Stage 2 during the year	808	-	2,042	2,850
- transferred from Stage 3 during the year	60	3,544	-	3,604
- transferred to Stage 1 during the year	-	(808)	(60)	(868)
- transferred to Stage 2 during the year	(2,085)	-	(3,544)	(5,629)
- transferred to Stage 3 during the year	(83)	(2,042)	-	(2,125)
- ECL on new assets (2)	1,133	522	485	2,140
- ECL on assets derecognised (2)	(237)	(463)	(3,401)	(4,101)
Impact of net remeasurement of ECL (incl. changes in models)	8,510	20,944	(16,551)	12,903
Impact of net remeasurement of ECL (Stage Change)	-	5,357	4,221	9,578
Recovery of amounts written off in previous years	-	-	(661)	(661)
	8,106	29,139	(17,386)	19,859
Write-offs/recoveries applied to the allowance account				
- Write-offs debited to the allowance account	-	(13)	(15,581)	(15,594)
- Recoveries of amounts written off in previous years	-	-	661	661
Foreign exchange and other adjustments	6	15	2,080	2,101
As at 31 December 2022(1)	13,322	38,399	51,288	103,009

Notes:

(1) Included within the Stage 3 ECL balance is £945,000 relating to originated credit impaired exposures (2021: £900,000)
(2) Revolving credit facilities on renewal are included as new assets and assets derecognised in the above reconciliation

Note 14 – Loans and advances to customers (continued)

Reconciliation of total allowance account (continued)

	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	1,337	553	1,203	3,093
- ECL on assets derecognised	(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	5,210	9,258	81,514	95,982

Allowance account analysis by balance sheet items:

Loan impairment charges include impairment charges for expected credit losses against loans, lease receivables, investment securities, certain loan commitments and financial guarantee contracts.

	2022 £'000	2021 £'000
Due from credit institutions and central banks	**219**	160
Derivative financial instruments	**92**	67
Loans at amortised cost	**98,335**	90,509
Loan commitments and guarantees	**4,363**	5,246
Total	**103,009**	95,982

. For information on significant accounting estimates related to expected credit losses, see note 1(b).

Note 15 – Investment in subsidiaries

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.

	2022 £'000	2021 £'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.

Note 16 – Intangible assets

Intangible assets primarily consist of IT software assets.

	2022 £'000	2021 £'000
Cost at beginning of year	420	694
Additions	582	-
Disposal	(334)	(274)
Cost at end of year	668	420
Accumulated amortisation at beginning of year	386	537
Amortisation charge for the year	94	123
Disposal	(334)	(274)
Accumulated amortisation at end of year	146	386
Net book value at end of year	522	34

Note 17 – Property, plant and equipment

	Freehold land and buildings £'000	Leasehold properties >50 years unexpired £'000	Leasehold properties <50 years unexpired £'000	Other fixtures & equipment £'000	Total £'000
Cost at 1 January 2022	7,215	24,350	4,975	26,382	62,922
Additions	-	296	184	650	1,130
Disposals	-	-	-	(802)	(802)
Transferred to assets held for sale	(625)	-	-	(303)	(928)
Revaluation	(130)	(296)	(2)	-	(428)
Cost at 31 December 2022	**6,460**	**24,350**	**5,157**	**25,927**	**61,894**
Accumulated depreciation at 1 January	33	370	2,473	19,774	22,650
Depreciation charge for the year	121	603	396	995	2,115
Accumulated depreciation on disposals	-	-	-	(801)	(801)
Transferred to assets held for sale	-	-	-	(221)	(221)
Revaluation	(116)	(550)	(5)	-	(671)
Accumulated depreciation at 31 December	**38**	**423**	**2,864**	**19,747**	**23,072**
Net book value at 31 December 2022	**6,422**	**23,927**	**2,293**	**6,180**	**38,822**

	Freehold land and buildings £'000	Leasehold properties >50 years unexpired £'000	Leasehold properties <50 years unexpired £'000	Other fixtures & equipment £'000	Total £'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 and leasehold properties where the original lease is more than thirty years, are revalued on a three year cycle. An interim valuation was carried out by external qualified valuers (as defined in the Royal Institution of Chartered Surveyors (RICS) "RICS Valuation Standards 6th Edition"), Osborne King, Chartered Surveyors as at 31 December 2022. 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:

	2022 £'000	2021 £'000
Open market value - at 1 January	33,664	35,458
Additions	480	865
Transfers to assets for sale	(625)	(2,092)
Revaluation gain / (loss)	243	571
Depreciation charge	(1,120)	(1,138)
Open market value – at 31 December	32,642	33,664

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:

	2022 £'000	2021 £'000
Cost	19,641	18,899
Accumulated depreciation	(17,518)	(16,569)
Net book value	2,123	2,330

Note 18 – Right-of-use assets

	2022 £'000	2021 £'000
Opening balance - at 1 January	4,253	5,568
Modifications to existing right of use assets agreements	1,520	-
Cessation of right of use asset agreements	-	(143)
Depreciation charge	(1,155)	(1,172)
Closing balance – at 31 December	4,618	4,253

Right-of-use lease assets are in respect of buildings. The interest expense on the corresponding lease liability is £125,000 (2021: £107,000). Expenses relating to leases of low value assets are set out in note 38.

Note 19 – Assets held for sale

	2022 £'000	2021 £'000
Assets held for sale	707	1,399

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. Four properties were sold during the year (2021: five).

Note 20 – Deferred tax

Movement in net deferred tax asset / (liability)

	2022 £'000	2021 £'000
At 1 January	(13,900)	(34,194)
Recognised in the income statement (Note 9)	17,363	(8,805)
Recognised directly in equity:		
- Re: Actuarial loss on defined benefit pension obligation	20,049	23,032
- Investment securities hold to collect and sell	10,100	3,864
- Cash flow hedge reserve	2,244	2,784
- Transfer to revaluation reserve	677	(581)
At 31 December	36,533	(13,900)

The Bank recognises deferred tax attributable to the following items:

	2022 £'000	2021 £'000
Deferred tax assets		
Tax losses carried forward	37,311	24,316
Accelerated capital allowances	3,587	6,084
Other timing differences	5,278	7,410
	46,176	37,810
Deferred tax liabilities		
Defined benefit pension obligation	21,842	50,888
Net gain on revaluation of properties	2,392	3,069
Investment securities - hold to collect and sell	(11,305)	(1,205)
Cash flow hedge reserve	(3,286)	(1,042)
	9,643	51,710
Net deferred tax asset / (liability)	36,533	(13,900)

As at 31 December 2022 the Bank has an unrecognised deferred tax asset of £15,666,000 (2021: £33,000,000) representing trading losses with a gross value of £62,664,000 (2021: £132,001,000). 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 2022 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. This rate change was enacted in February 2022 and is reflected in the valutaion at 31 December 2022.

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 £17,334,000 within a total deferred tax benefit of £17,363,000.

Note 21 – Other assets

	2022 £'000	2021 £'000
Accrued interest	30,644	17,503
Prepayments	5,636	6,543
	36,280	24,046

Note 22 – Due to other banks

	2022 £'000	2021 £'000
Transaction balances with other banks	54,807	16,611
Term Funding Scheme (Bank of England) [1]	350,000	350,000
	404,807	366,611

	2022 £'000	2021 £'000
Analysed by remaining maturity:		
- on demand	54,807	16,611
- over 1 year but less than 5 years	350,000	350,000
	404,807	366,611

	2022 £'000	2021 £'000
Amounts include:		
Due to parent and fellow subsidiary undertakings	50,399	11,821

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

	2022 £'000	2021 £'000
Current accounts	6,815,605	6,911,719
Demand deposits	3,622,201	3,584,873
Term deposits	791,783	664,766
	11,229,589	11,161,358

	2022 £'000	2021 £'000
Analysed by remaining maturity:		
- on demand	10,437,805	10,496,592
- 3 months or less	599,453	517,250
- over 3 months but less than 1 year	180,424	137,677
- over 1 year but less than 5 years	11,907	9,839
	11,229,589	11,161,358

	2022 £'000	2021 £'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 2022 was £7,661,000 (2021: £7,711,000). There were no outstanding contributions or prepayments made in the current or prior financial year in respect of the defined contribution scheme.

Northern Bank Defined Benefit Pension Scheme

The Bank operates a defined benefit scheme (the 'Scheme') within which benefits built up before 1 January 2008 are linked to final salary and benefits built up after this date are based on career average earnings. With effect from 1 January 2004, the Scheme was closed to new members and a sponsored stand- alone defined contribution pension scheme was created for new staff. This did not affect the pension arrangements of existing employees.

The Scheme closed to future accrual on 30 September 2018. All future contributions from the date of cessation of accrual are made to the Danske Bank Master Trust Plan. As a result of the purchase of bulk buy-in annuity policies in 2015 and 2021, the Scheme is no longer exposed to interest, inflation or longevity risk in respect of all pensions in payment on 6 October 2021.

The Scheme has been exposed to a large increase in market volatility over 2022. Yields on gilts and corporate bonds have risen sharply over 2022 and at the year-end were at levels similar to those last seen over ten years ago. This has led to an increase in the assumed IAS19 discount rate which is set with reference to high quality corporate bond yields, and as a result, the Scheme's liabilities have fallen by c.40% over the year to 31 December 2022. The impact of the large increase in discount rate has been offset to an extent by the fact that actual inflation over the year has been higher than assumed, leading to higher pension increases in payment than assumed at last year-end.

The Scheme's assets have also fallen by c.40% as a result of the hedging in place in the managed Liability Driven Investment ('LDI') account and the corporate bond holdings. The rise in gilt and corporate bond yields over the year have led to decreased values of these two asset classes. Schemes with LDI arrangements needed to review their position regularly to ensure that they had sufficient liquidity to meet cashflow requirements, including potential LDI collateral calls. Some pension schemes' funding may have been adversely affected by being forced sellers of LDI as gilt yields rose, and then being less well hedged when yields subsequently reduced. While the Scheme was exposed to this extreme market volatility, the Trustee and Bank monitored the position closely and the impact on the LDI was minimal.

Primarily as a result of these large market movements, the surplus has fallen by 50% since 31 December 2021.

Actuarial valuation of the Northern Bank Defined Benefit Pension Scheme

The latest triennial funding valuation was carried out as at 31 December 2021. The preliminary results of this valuation were updated by an independent actuary to an IAS 19 basis and the major assumptions used were:

	2022 % p.a.	2021 % p.a.
Inflation (RPI)	3.20	3.35
Inflation (CPI)	2.60	2.75
Rate of future increase in salaries	N/A	N/A
Rate of increase for pre-1997 pensions in payment	1.95	2.00
Rate of increase for 1997-2008 pensions in payment	3.05	3.15
Rate of increase for post-2008 pensions in payment	2.05	2.10
Discount rate	4.95	1.90
Post retirement mortality		
Current pensioners at 60 - males (years)	28.80	28.80
Current pensioners at 60 - females (years)	30.60	30.50
Future pensioners at 60 - males (years)	30.20	30.20
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 2023 is £1,000,000. 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 2022 £'000	Market Value 31 December 2021 £'000
Equity securities	25,810	43,222
Debt securities	116,988	172,860
Real estate/property	39,180	37,560
Other	1,730	3,589
Managed Account	116,492	310,738
Buy-in annuity policies	541,009	816,439
Fair value of Scheme assets	841,209	1,384,408

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

	2022 £'000	2021 £'000
Fair value of Scheme assets at beginning of year	1,384,408	1,470,179
Interest income on Scheme assets	25,700	21,600
Return on Scheme assets (less) / greater than discount rate	(522,947)	(54,369)
Employers' and employees' contributions paid into the Scheme		
- participating employers	2,096	2,070
Benefits paid by the Scheme	(46,903)	(54,023)
Administration costs paid	(1,145)	(1,049)
Fair value of Scheme assets at end of year	841,209	1,384,408

Movement in present value of defined benefit obligation

	2022 £'000	2021 £'000
Defined benefit obligation at beginning of year	1,230,200	1,250,500
Current service cost	-	-
Past service cost	-	-
Interest cost on the defined benefit obligation	22,800	18,300
Actuarial loss / (gain) - experience	24,900	7,631
Actuarial (gain) / loss - demographic assumptions	(10,297)	6,760
Actuarial (gain) / loss - financial assumptions	(457,500)	1,032
Benefits paid by the Scheme	(46,903)	(54,023)
Defined benefit pension obligation at end of year	763,200	1,230,200

Note 24 - Pension asset (continued)

Reconciliation of pension asset to the Balance Sheet

	2022 £'000	2021 £'000
Analysis of defined benefit obligation by status		
- Active members	-	-
- Deferred pensioner members	224,800	532,700
- Pensioners	538,400	697,500
Present value of defined benefit obligation	763,200	1,230,200
Fair value of Scheme assets	841,209	1,384,408
Net defined benefit asset	78,009	154,208

Movement in pension asset

	2022 £'000	2021 £'000
Net defined benefit asset at beginning of year	154,208	219,679
Service cost (including past service costs)	-	-
Administration costs incurred over the year	(1,145)	(1,049)
Net interest on net defined benefit asset	2,900	3,300
Employers' contributions		
- the Bank	2,096	2,070
- other participating employers	-	-
Re-measurement effects recognised in Other Comprehensive Income (OCI)	(80,050)	(69,792)
Net defined benefit asset at end of year	78,009	154,208

Scheme expense recognised in the Income Statement

	2022 £'000	2021 £'000
Current service cost	-	-
Past service cost and curtailments	-	-
Net interest on net defined benefit asset	(2,900)	(3,300)
Administration costs incurred during the year	1,145	1,049
Scheme expense	(1,755)	(2,251)

Amount recognised in OCI

	2022 £'000	2021 £'000
Return on Scheme assets less / (greater) than discount rate	522,947	54,369
Actuarial loss / (gain) due to liability experience	24,900	7,631
Actuarial (gain) / loss due to assumption changes	(467,797)	7,792
Re-measurement effects recognised in OCI – loss	80,050	69,792

Note 24 - Pension asset (continued)

Actual return on Scheme assets

	2022 £'000	2021 £'000
Interest income on Scheme assets	**25,700**	21,600
Return on Scheme assets (less) / greater than discount rate	**(522,947)**	(54,369)
Actual return on Scheme assets	**(497,247)**	(32,769)

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%	(47,000)	52,000
Price inflation (RPI measure) (1)	0.50%	26,000	(28,000)
Pension increases (2)	0.50%	20,000	(23,000)
Post retirement longevity	1 year	28,000	(28,000)

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.

	2022 £'000	2021 £'000
Maturity profile of Defined Benefit Obligation		
- Expected benefit payments during fiscal year ending 31 December 2023	**48,000**	57,700
- Expected benefit payments during fiscal year ending 31 December 2024	**49,100**	56,600
- Expected benefit payments during fiscal year ending 31 December 2025	**50,200**	57,900
- Expected benefit payments during fiscal year ending 31 December 2026	**51,400**	59,300
- Expected benefit payments during fiscal year ending 31 December 2027	**52,600**	60,700
- Expected benefit payments during fiscal year ending 31 December 2028 through 31 December 2032	**282,000**	325,600

	2022 Years	2021 Years
Weighted average duration of Defined Benefit Obligation	**14**	17

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

	2022 £'000	2021 £'000
Accrued interest	5,569	2,329
Provision for off balance sheet financial guarantees and loan commitments	4,363	5,246
Accruals and sundry creditors	28,716	22,050
Lease liabilities	4,401	3,933
	43,049	33,558

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:

	2022 £'000	2021 £'000
Analysed by remaining maturity:		
Less than 1 year	959	880
More than 1 year	3,442	3,053
Total lease liabilities at end of period	4,401	3,933

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at a rate based on the cost of funding. The maturity analysis of the lease liabilities in the table below is on a discounted basis.

	2022 £'000	2021 £'000
Future minimum payments		
- within 1 year	1,106	964
- between 1 and 5 years	2,953	2,893
- over 5 years	694	315
	4,753	4,172
Less finance charges	(352)	(239)
	4,401	3,933

Note 26 – Provisions

	2022 £'000	2021 £'000
At 1 January	2,757	3,354
Charge to income statement	1,270	3,304
Released unutilised	(1,670)	(724)
Provisions utilised	(207)	(3,177)
At 31 December	2,150	2,757

	2022 £'000	2021 £'000
Analysed by remaining maturity:		
Less than 1 year	1,390	1,972
More than 1 year	760	785
Total	2,150	2,757

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

Note 27(a) – Subordinated notes issued

	2022 £'000	2021 £'000
At 1 January	126,000	126,000
Redemptions during the year	(126,000)	-
Balance at 31 December	-	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 was 200bps (basis points) over the synthetic 3 month LIBOR rate. Subject to regulatory approval, these instruments were callable on any interest payment date from 12 January 2022. As such, the subordinated instruments were redeemed on 12 April 2022 following regulatory approval.

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 was 140bps over the synthetic 3 month LIBOR rate. Subject to regulatory approval, these instruments were callable by the issuer, Northern Bank Limited, from 19 December 2024 or on each interest payment date thereafter. Following regulatory approval, the subordinated instruments were redeemed early on 20 June 2022.

Note 27(b) – Senior non-preferred securities issued

	2022 £'000	2021 £'000
At 1 January	-	-
Issuance during the year	130,000	-
Balance at 31 December	130,000	-

On 28 November 2022, £130,000,000 of MREL eligible senior non-preferred securities were issued to Danske Bank A/S. The rate of interest applied to these instruments is 230bps over the 3 month term SONIA rate. These securities may be redeemed by the issuer, Northern Bank Limited, subject to regulatory approval and giving the appropriate notice on 28 November 2025 or on each interest payment date thereafter. In the absence of this, Northern Bank Limited must redeem these securities on the maturity date which is 28 November 2026.

Note 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).

	2022 <1 year £'000	2022 >1 year £'000	2021 <1 year £'000	2021 >1 year £'000
Assets				
Cash and balances at central bank	1,850,915	1,499,913	2,921,654	1,466,507
Items in the course of collection from other banks	32,139	-	21,839	-
Due from other banks	37,515	4,196	38,248	9,775
Derivative financial instruments	15,975	73,349	4,507	4,079
Investment securities - hold to collect	382,877	1,911,724	135,358	1,183,126
Investment securities - hold to collect and sell	263,448	811,107	138,116	769,746
Loans and advances to customers	1,376,772	4,957,935	2,179,100	4,027,564
Investment in subsidiaries	-	250	-	250
Intangible assets	5	517	-	34
Property, plant and equipment	-	38,822	-	40,272
Right-of-use asset	1,066	3,552	1,009	3,244
Assets held for sale	707	-	1,399	-
Defined benefit pension asset	-	78,009	-	154,208
Current tax assets	6,785	-	1,092	-
Deferred tax asset	6,367	30,166		
Other assets	36,280		24,046	-
Total assets	4,010,851	9,409,540	5,466,368	7,658,805

	2022 <1 year £'000	2022 >1 year £'000	2021 <1 year £'000	2021 >1 year £'000
Liabilities				
Due to other banks	54,807	350,000	16,611	350,000
Items in course of transmission to other banks	26,068	-	15,267	-
Derivative financial instruments	26,590	56,218	8,719	13,768
Deposits from customers	5,591,796	5,637,793	6,800,504	4,360,854
Notes in circulation	-	664,728	-	634,036
Deferred tax liabilities	-	-	(2,064)	15,964
Provisions	1,390	760	1,972	785
Other liabilities	33,426	9,623	23,664	9,894
Non-preferred senior securities issued	-	130,000	-	-
Subordinated notes issued	-	-	-	126,000
Total liabilities	5,734,077	6,849,122	6,864,673	5,511,301

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 Risk Management section provide further information about the Bank's 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 2022	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Liabilities					
Due to other banks	54,807	-	-	350,000	-
Deposits from customers	10,437,805	599,453	180,424	11,907	-
Derivative financial instruments	-	4,279	22,312	56,093	124
Financial lease liabilities	-	-	959	2,778	664
Notes in circulation	664,728	-	-	-	-
Non-preferred senior securities issued	-	-	-	130,000	-
Subordinated notes issued	-	-	-	-	-
	11,157,340	603,732	203,695	550,778	788
Off balance sheet items					
Contingent liabilities	103,757	-	-	-	-
Commitments	1,379,332	-	-	-	-
	1,483,089	-	-	-	-
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 notes issued	-	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	-	-	-	-

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 or the Bank defaults, further offsetting will take place. This note shows netting according to enforceable master netting agreements (i.e. in the event of default) and collateral provided or received under these agreements.

At 31 December 2022	Gross amount £'000	Legal right of offset £'000	Further offsetting, master netting agreement £'000	Collateral / offset £'000	Net amount £'000
Financial assets					
Cash and balances at central bank	3,350,828	-	-	(664,728)	2,686,100
Due from other banks	41,711	-	(5,523)	-	36,188
Derivatives with positive fair value	89,324	-	(74,295)	-	15,029
Loans and advances to customers	6,334,707	(707,249)	-	-	5,627,458

At 31 December 2022	£'000	£'000	£'000	£'000	£'000
Financial liabilities					
Due to other banks	404,807	-	(5,523)	-	399,284
Derivatives with negative fair value	82,808	-	(74,295)	-	8,513
Deposits from customers	11,229,589	(707,249)	-	-	10,522,340
Notes in circulation	664,728	-	-	(664,728)	-

At 31 December 2021	Gross amount £'000	Legal right of offset £'000	Further offsetting, master netting agreement £'000	Collateral / offset £'000	Net amount £'000
Financial assets					
Cash and balances at central bank	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
Notes in circulation	634,036	-	-	(634,036)	-

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.

	2022 £'000	2021 £'000
Unamortised initial margins at 1 January	178	217
Amortised to the income statement during the year	(780)	(583)
Initial margins on new derivatives contracts	1,095	549
Terminated derivatives contracts	-	(5)
Unamortised initial margins at 31 December	493	178

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 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Investment securities - hold to collect and sell	1,074,555	-	-	1,074,555
Interest rate and equity contracts	-	68,158	31	68,189
Currency contracts	-	21,135	-	21,135
Land and buildings	-	-	32,642	32,642
Total	1,074,555	89,293	32,673	1,196,521
Financial liabilities				
Interest rate and equity contracts	-	65,126	31	65,157
Currency contracts	-	17,651	-	17,651
Total	-	82,777	31	82,808

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

Derivatives valued on the basis of non-observable input:

	2022 £'000	2021 £'000
Fair value at 1 January	4	1
Acquisitions	27	3
Sale and redemption	-	-
Fair value at 31 December	31	4

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, including the adjustment for the fair value hedge accounting of the interest rate risk, is a reasonable approximation of fair value. This is the case for due from / to other banks, cash and balances at central bank and deposits from customers.

It is assessed that the expected credit loss impairment model used for loans measured at amortised cost is a reasonable proxy for the fair value of the credit risk.

In the table below, fair value is presented for classes of financial instruments for which the carrying amount is not a reasonable approximation of fair value.

	Carrying amount £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets					
Investment securities (Note 13)	2,294,601	2,170,952	2,170,952	-	-
At 31 December 2022	2,294,601	2,170,952	2,170,952	-	-

	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	-	-

Note 32 – Share capital

	2022 £'000	2021 £'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 adjustments (other than expected credit losses), and foreign exchange gains and losses, of investment securities measured at fair value through Other comprehensive income. Unrealised fair value adjustments of hedged interest rate risks that qualify for fair value hedge accounting are recognised in the Income statement and are not included in the reserve. When investment securities are sold, the Bank reclassifies unreduced value adjustments from the reserve to the Income statement.

Note 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 2022, the cash flow hedge reserve reflected a cumulative loss of £11,735,000 (2021: £3,157,000 loss). This was offset by a deferred tax asset of £3,286,000 (2021: £1,042,000 asset).

Note 35 – Additional Tier 1 capital

	2022 £'000	2021 £'000
At 1 January	96,974	96,958
AT1 Issuance during the year	222,000	-
AT1 redemption during the year	(96,000)	-
Movement in accrued interest	2,979	16
At 31 December	225,953	96,974

At the end of 2022, the total nominal value of issued Additional Tier 1 capital amounted to £222,000,000 (2021: £96,000,000). Capital notes of £222,000,000 were issued on the 12 April 2022. Capital notes of £80,000,000 (issued on 12 January 2015) and £16,000,000 (issued 19 December 2017) were redeemed on 12 April 2022 and 20 June 2022 respectively following regulatory approval.

The Bank may, at its sole discretion, omit interest and principal payments to bond holders. Any interest payments must be paid out of retained earnings of the Bank. The Additional Tier 1 capital will be written down temporarily if the CET1 ratio falls below 7% for the Bank (or Danske Bank Group). The CET1 ratio at 31 December 2022 is disclosed in the Strategic Report. In respect of capital notes issued, interest is paid at a rate of 465 bps over the 3 month term SONIA rate for capital notes issued on 12 April 2022.

Note 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.

	2022 £'000	2021 £'000
Contingent liabilities		
Guarantees and irrevocable letters of credit	103,757	105,864
Commitments		
Irrevocable loan commitments shorter than 1 year	645,966	583,802
Irrevocable loan commitments longer than 1 year	733,366	529,769
	1,379,332	1,113,571

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 26).

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 2022 (2021: £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 £10,945,000 (2021: £10,527,000) and £131,273,000 (2021: £102,956,000) 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

	2022 £'000	2021 £'000
Gross investment in finance lease and hire purchase receivables		
Due within one year	13,073	14,611
Due within one to five years	202,504	175,120
Due after five years	25,313	18,263
Total gross investment in finance lease receivables	240,890	207,994
Unearned income	(15,210)	(9,327)
Net investment in finance lease and hire purchase receivables	225,680	198,667

Within the Bank, at 31 December 2022, there are impairment provisions of £369,000 (2021: £235,000) in relation to finance lease customer exposure and impairment provisions of £3,330,000 (2021: £3,325,000) 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).

	2022 £'000	2021 £'000
Where the Bank is the lessee the future minimum lease payments under non-cancellable operating leases are:		
- within 1 year	47	287
- between 1 and 5 years	-	36
- over 5 years	-	-
	47	323

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 is further analysed in note 39(c).

Breakdown of credit exposure

At 31 December 2022	Lending activities £'000	Counterparty risk derivatives £'000	Inter group £'000	Other £'000	Total £'000
Balance sheet items					
Balances at central bank	2,882,895	-	-	-	2,882,895
Items in the course of collection from other banks	32,139	-	-	-	32,139
Due from other banks	1,992	-	39,719	-	41,711
Derivative financial instruments	-	89,324	-	-	89,324
Investment securities- hold to collect	-	-	-	2,294,601	2,294,601
Investment securities - hold to collect and sell	-	-	-	1,074,555	1,074,555
Loans and advances at amortised cost	6,334,707	-	-	-	6,334,707
Investment in subsidiaries	-	-	250	-	250
Off-balance sheet items					
Guarantees	103,757	-	-	-	103,757
Irrevocable loan commitments shorter than 1 year	645,966	-	-	-	645,966
Irrevocable loan commitments longer than 1 year	733,366	-	-	-	733,366
Total	10,734,822	89,324	39,969	3,369,156	14,233,271

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

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
Derivative financial instruments	-	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

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; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and (e) the purchase or origination of a financial asset at a high rate of discount that reflects the incurred credit loss. It may not be possible to identify a single individual event – instead, the combined effect of several events may cause the financial asset to become credit-impaired. All credit-impaired facilities are placed in rating category 11 (default).

Exposures which are considered to be in default for regulatory purposes will always be considered stage 3 under IFRS 9. This applies both to 90-days past-due considerations and unlikely-to-pay factors leading to regulatory default.

Expected credit losses

The expected credit loss is calculated for all individual facilities as a function of the PD, EAD and the LGD. For exposures in stage 1, 12 months expected credit losses are recognised. For exposures in stage 2-3, lifetime expected credit losses are recognised.

Note 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 2022 Gross Exposure				31 December 2021 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	531,490	1,257	-	532,747	797,295	41,109	453	838,857
2	0.01	0.03	791,599	3,096	-	794,695	778,006	21,794	5	799,805
3	0.03	0.06	4,539,584	4,938	-	4,544,522	5,354,335	18,245	58	5,372,638
4	0.06	0.14	1,985,863	7,610	-	1,993,473	1,782,314	22,360	449	1,805,123
5	0.14	0.31	965,190	58,644	-	1,023,834	871,389	23,411	289	895,089
6	0.31	0.63	533,227	104,092	-	637,319	515,355	22,666	578	538,599
7	0.63	1.90	439,081	287,726	-	726,807	377,978	108,978	1,845	488,801
8	1.90	7.98	23,951	287,335	-	311,286	161,201	196,417	2,390	360,008
9	7.98	25.70	94	23,473	-	23,567	3,353	25,891	1,500	30,744
10	25.70	99.99	55	45,060	-	45,115	2,638	30,874	195,076	228,588
11	100.00	100.00	-	-	204,374	204,374	13	19	131,602	131,634
Total			9,810,134	823,231	204,374	10,837,739	10,643,877	511,764	334,245	11,489,886

			31 December 2022 Expected Credit Loss (ECL)				31 December 2021 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	505	30	-	535	319	397	-	716
2	0.01	0.03	775	74	-	849	13	5	-	18
3	0.03	0.06	4,595	122	-	4,717	130	11	-	141
4	0.06	0.14	2,598	191	-	2,789	2,680	22	-	2,702
5	0.14	0.31	1,484	2,116	-	3,600	278	44	-	322
6	0.31	0.63	1,323	4,065	-	5,388	384	76	-	460
7	0.63	1.90	1,863	11,366	-	13,229	655	2,855	2	3,512
8	1.90	7.98	178	14,487	-	14,665	626	2,696	7	3,329
9	7.98	25.70	1	2,767	-	2,768	58	1,742	395	2,195
10	25.70	99.99	-	3,177	-	3,177	-	1,410	23,389	24,799
11	100.00	100.00	-	-	51,200	51,200	-	-	57,721	57,721
Total			13,322	38,395	51,200	102,917	5,143	9,258	81,514	95,915

			31 December 2022 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	503,985	1,227	-	532,212	796,976	40,711	453	838,140
2	0.01	0.03	790,824	3,022	-	793,846	777,993	21,790	5	799,788
3	0.03	0.06	4,534,989	4,816	-	4,539,805	5,354,205	18,234	58	5,372,497
4	0.06	0.14	1,983,265	7,419	-	1,990,684	1,779,634	22,338	449	1,802,421
5	0.14	0.31	963,706	56,528	-	1,020,234	871,111	23,368	289	894,768
6	0.31	0.63	531,904	100,027	-	631,931	514,971	22,590	578	538,139
7	0.63	1.90	437,218	276,360	-	713,578	377,323	106,123	1,843	485,289
8	1.90	7.98	23,773	272,848	-	296,621	160,575	193,722	2,383	356,680
9	7.98	25.70	93	20,706	-	20,799	3,295	24,148	1,105	28,548
10	25.70	99.99	55	41,883	-	41,938	2,638	29,464	171,687	203,789
11	100.00	100.00	-	-	153,174	153,174	13	19	73,880	73,912
Total			9,796,812	784,836	153,174	10,734,822	10,638,734	502,507	252,730	11,393,971

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

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

			31 December 2022 Net Exposure (uncollateralised)				31 December 2021 Net Exposure (uncollateralised)			
Rating	PD Upper level	PD Lower level	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
1	-	0.01	141,368	-	-	141,368	344,826	6,718	6	351,550
2	0.01	0.03	96,348	314	-	96,662	119,253	1,966	2	121,221
3	0.03	0.06	4,037,588	135	-	4,037,723	4,886,227	2,686	-	4,888,913
4	0.06	0.14	691,828	379	-	692,207	615,580	3,679	1	619,260
5	0.14	0.31	297,163	2,106	-	299,269	229,647	3,463	5	233,115
6	0.31	0.63	130,937	23,509	-	154,446	131,781	4,282	1	136,064
7	0.63	1.90	118,846	40,017	-	158,863	93,921	19,860	61	113,842
8	1.90	7.98	5,560	43,982	-	49,542	21,461	31,270	123	52,854
9	7.98	25.70	34	3,264	-	3,298	810	3,383	80	4,273
10	25.70	99.99	1	-	-	1	2,638	7,936	15,520	26,094
11	100.00	100.00	-	-	22,101	22,101	13	19	14,662	14,694
Total			5,519,673	113,706	22,101	5,655,480	6,446,157	85,262	30,461	6,561,880

Non-performing loans

The net exposure from non-performing loans and advances to customers amounted to £205,612,000 at 31 December 2022 (2021: £325,673,000).

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 2022 Gross Exposure				31 December 2021 Gross Exposure			
	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
Public institutions	3,594,742	194	43	3,594,979	4,520,685	248	46	4,520,979
Agriculture	395,058	73,628	20,825	489,511	433,422	63,008	36,510	532,940
Commercial property	273,617	194,942	65,072	533,631	369,271	48,683	95,736	513,690
Non-profit and associations	907,719	3,903	972	912,594	732,952	2,748	1,027	736,727
Personal customers	2,932,008	363,100	49,703	3,344,811	2,764,520	273,941	45,249	3,083,710
Business customers	1,706,990	187,464	67,759	1,962,213	1,799,790	123,136	155,677	2,078,603
Other	-	-	-	-	23,237	-	-	23,237
Total	9,810,134	823,231	204,374	10,837,739	10,643,877	511,764	334,245	11,489,886

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Credit exposure broken down by industry and stages (continued)

	31 December 2022 Expected Credit Loss (ECL)				31 December 2021 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	3,244	2	8	3,254	160	1	7	168
Agriculture	708	1,901	3,540	6,149	298	1,440	7,426	9,164
Commercial property	1,061	10,073	13,429	24,563	395	1,225	28,631	30,251
Non-profit and associations	1,132	157	683	1,972	174	103	660	937
Personal customers	3,611	18,350	16,487	38,448	778	2,350	16,219	19,347
Business customers	3,566	7,912	17,053	28,531	3,338	4,139	28,571	36,048
Other	-	-	-	-	-	-	-	-
Total	13,322	38,395	51,200	102,917	5,143	9,258	81,514	95,915

	31 December 2022 Net exposure				31 December 2021 Net exposure			
	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
Public institutions	3,591,498	192	35	3,591,725	4,520,525	248	38	4,520,811
Agriculture	394,350	71,727	17,285	483,362	433,124	61,568	29,084	523,776
Commercial property	272,556	184,869	51,643	509,068	368,876	47,458	67,105	483,439
Non-profit and associations	906,587	3,746	289	910,622	732,778	2,645	367	735,790
Personal customers	2,928,397	344,750	33,216	3,306,363	2,763,742	271,591	29,030	3,064,363
Business customers	1,703,424	179,552	50,706	1,933,682	1,796,452	118,997	127,106	2,042,555
Other	-	-	-	-	23,237	-	-	23,237
Total	9,796,812	784,836	153,174	10,734,822	10.638.734	502,507	252,730	11,393,971

	31 December 2022 Net Exposure (uncollateralised)				31 December 2021 Net Exposure (uncollateralised)			
	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
Public institutions	3,591,477	193	-	3,591,670	4,520,453	211	-	4,520,664
Agriculture	120,895	13,152	882	134,929	126,509	9,269	2,061	137,839
Commercial property	88,476	31,087	21,189	140,752	72,431	7,301	20,935	100,667
Non-profit and associations	446,464	1,168	30	447,662	339,745	1,220	34	340,999
Personal customers	336,587	31,971	-	368,558	341,063	37,404	77	378,544
Business customers	935,774	36,135	-	971,909	1,022,719	29,857	7,354	1,059,930
Other	-	-	-	-	23,237	-	-	23,237
Total	5,519,673	113,706	22,101	5,655,480	6,446,157	85,262	30,461	6,561,880

For financial assets that are credit impaired (stage 3) at 31 December 2022, £131,073,000 of collateral is held as security against these exposures (2021: £222,795,000).

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):

	2022 £'000	2021 £'000
Real estate/property		
- Personal	2,937,131	2,684,776
- Commercial	1,196,298	1,129,368
- Agricultural	238,932	259,973
Equipment	261,980	298,067
Guarantees	292,680	372,182
Deposits	26,114	16,564
Other assets	126,566	71,162
Total collateral	5,079,701	4,832,092
Total unsecured credit exposure	5,655,480	6,561,880
Unsecured portion of credit exposure (%)	53%	58%

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	
	2022	2021	**2022**	2021
	£'000	£'000	**£'000**	£'000
6-30 days	**400**	503	**5,005**	5,976
31-60 days	**45**	508	**3,525**	13,893
> 60 days	**1,010**	1,250	**5,347**	7,327
Total past due amounts	**1,455**	2,261		
Total due under loans			**13,877**	27,196

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**
	2022	**2022**	**2022**	**2022**	**2022**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Good upper	**2,426,049**	**59,711**	**839,083**	**1,501,433**	**4,826,276**
Good lower	**459,236**	**13,781**	**229,764**	**357,904**	**1,060,685**
Marginal	**165,902**	**5,561**	**33,426**	**70,456**	**275,345**
Vulnerable	**5,600**	**289**	**9,023**	**47,792**	**62,704**
Total : Neither past due nor Stage 3 impaired	**3,056,787**	**79,342**	**1,111,296**	**1,977,585**	**6,225,010**

Neither past due nor stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2021	2021	2021	2021	2021
	£'000	£'000	£'000	£'000	£'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

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 2022 £'000	Other personal 2022 £'000	Property & Construction 2022 £'000	Non Property Business 2022 £'000	Total 2022 £'000
Good upper	2,488	177	894	250	3,809
Good lower	588	224	77	2,980	3,869
Marginal	2,613	159	184	568	3,524
Vulnerable	2,321	116	99	139	2,675
Total : Neither past due nor Stage 3 impaired	**8,010**	**676**	**1,254**	**3,937**	**13,877**

Six days plus past due not Stage 3 impaired	Mortgages 2021 £'000	Other personal 2021 £'000	Property & Construction 2021 £'000	Non Property Business 2021 £'000	Total 2021 £'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

Stage 3 impaired	Mortgages 2022 £'000	Other personal 2022 £'000	Property & Construction 2022 £'000	Non Property Business 2022 £'000	Total 2022 £'000
Total : Stage 3 impaired	**28,934**	**20,604**	**78,319**	**66,298**	**194,155**

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

Gross loans and receivables	Mortgages 2022 £'000	Other personal 2022 £'000	Property & Construction 2022 £'000	Non Property Business 2022 £'000	Total 2022 £'000
Good upper	2,428,537	59,888	839,977	1,501,684	4,830,086
Good lower	459,824	14,005	229,841	360,884	1,064,554
Marginal	168,515	5,720	33,610	71,024	278,869
Vulnerable	7,920	405	9,122	47,931	65,378
Impaired	28,934	20,604	78,319	66,298	194,155
Gross loans and receivables	**3,093,730**	**100,622**	**1,190,869**	**2,047,821**	**6,433,042**

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
	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

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 2022	**Number of loans**	**Loan balance**	**% of total mortgage portfolio**	**Impairment allowance**	**% Coverage**
		£'000	**%**	**£'000**	**%**
Variation forbearance	**148**	**12,325**	**0.4%**	**1,718**	**13.9%**
Renegotiation forbearance	**5**	**737**	**0.0%**	**45**	**6.1%**
Post default mutual agreement	**61**	**5,080**	**0.2%**	**1,571**	**30.9%**
Gross loans and receivables	**214**	**18,142**	**0.6%**	**3,334**	**18.4%**

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%

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 have been provided to 264 business customers as at 31 December 2022 (2021: 301), having associated facilities of £78m (2021: £147m). 160 of these cases were related to the provision of Bounce Bank Loans (BBLs) and 18 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

	2022 £'000	2021 £'000
Counterparty risk		
- Derivatives with positive fair value	**89,324**	8,586
Credit exposure from other trading and investing activities		
- Investment securities - hold to collect	**2,294,601**	1,318,484
- Investment securities - hold to collect and sell	**1,074,555**	907,862
Investment in subsidiaries	**250**	250
Total	**3,458,730**	2,235,182

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 2022 Number	Amount 2022 £'000	Persons 2021 Number	Amount 2021 £'000
Loans - balance at 31 December				
Directors	5	19,791	5	17,710
Executive Committee	5	862	7	1,118
	10	20,653	12	18,828
Deposits - balance at 31 December				
Directors	5	5,643	5	19,207
Executive Committee	7	368	8	639
	12	6,011	13	19,846

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 2022 (2021: £nil).

Included in the above are 19 individual loan facilities (2021: eleven) totalling £19,791,000 (2021: £17,710,000) 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 £25,268,000 (2021: £20,910,000).

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 Group 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 £101,000 in the year ended 31 December 2022 (2021: £85,000).

Note 41 – Employees

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

	2022 Number	2021 Number
Managers	402	392
Clerical staff	865	903
Total	1,267	1,295

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).

	2022 Weighted average exercise price DKK	2022 Number of conditional shares	2021 Weighted average exercise price DKK	2021 Number of conditional shares
Outstanding at the beginning of the year	0.00	64,578	0.00	82,340
Granted during the year	0.00	62,485	0.00	-
Exercised during the year	0.00	(21,238)	0.00	(17,762)
Forfeited during the year	0.00	(1,240)	0.00	-
Expired during the year	0.00	-	0.00	-
Outstanding at the end of the year	0.00	104,585	0.00	64,578
Exercisable at the end of year		-	-	-

The weighted average share price at the date of exercise of the conditional shares during the year was DKK114.58. The conditional shares at 31 December 2022 had a weighted average exercise price of DKK 0.00 and a weighted average remaining contractual life of between one to two years. As at 31 December 2022 there were 104,585 conditional shares with an exercise price of DKK 0.00. During the year ended 31 December 2022, conditional shares were granted in April 2022.

There was a charge in the year in respect of share based payments of £335,000 (2021: charge £850,000).

Note 43 – Pillar 3 disclosure reporting

The Bank's capital position is set out from page 51 and applies all relevant Capital Requirements Directive V requirements that were in force during 2022. The Bank does not publish Pillar 3 disclosure reporting on an individual basis, on the basis that it does not meet the Capital Requirement Regulations 2 definition of 'large institution'.

Note 44 – 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 45– 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.