2022

Bank of Ireland (UK) plc
Annual Report

Bank of Ireland UK

Bank of Ireland (UK) delivered strong financial performance in 2022 while further progressing our strategic transformation. We have continued to focus on the needs of our customers in a year of economic uncertainty and geo-political turbulence. Every day our great people demonstrate our commitment to our purpose of " Helping you Thrive".

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Bank of Ireland (UK) plc (the 'Bank'), together with its subsidiary undertakings (which together comprise the 'Group') is the principal United Kingdom retail and commercial banking business of the Governor and Company of the Bank of Ireland (the 'Parent'). Percentages throughout the document are calculated on the absolute underlying figures and so may differ from the percentages calculated on the rounded numbers presented, where the percentages are not measured this is indicated by n/m.

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Business Review

2022 key performance highlights

Statutory profit before tax
£251m
(2021: £410m)

Financial Performance

- £278 million underlying profit before tax[1] *(2021: £335 million)*.
- Net interest income of £555 million was 9% higher than 2021.
- Statutory net interest margin improved to 2.85% *(2021: 2.13%)*.
- Gross new lending £2.9 billion *(2021: £3.5 billion)* with a continued focus on lending at sustainable returns.
- £286 million statutory operating profit before impairment losses *(2021: £263 million)*.
- Statutory operating expenses[2] reduced 9% year on year to £247 million *(2021: £272 million)*.

Net impairment charge
£64m
(2021: £54m gain)

Asset Quality

- Net impairment charge £64 million *(2021: £54 million gain)*.
- Net impairment charge reflects an uncertain economic outlook and losses incurred on non-performing exposure (NPE) securitisation transaction which decreased the NPE ratio to 2.1% (2021: 3.2%).
- Impairment loss provision coverage ratio 1.30% *(2021: 1.08%)*.

Statutory cost income ratio (excluding impairments)
46%
(2021: 51%)

Transformation

- £27 million non-core costs including investment relating to strategic transformation initiatives.
- Continued investment in Northern Ireland (NI) branch refurbishment including enhanced technology for customers.
- Invested in and delivered enhanced propositions and digital journeys for customers across all product lines.
- Further enhanced digital offerings including a Cost of Living hub and a new mortgage document upload function.

CET1 ratio
18.4%
(2021: 17.5%)

Capital

- Strong organic capital growth.
- Optimised capital position and returns and paid a £250 million dividend.
- Maintained strong CET1 ratio 18.4% *(2021: 17.5%)*.
- Total capital ratio 22.8% *(2021: 21.4%)*.

Further information on measures referred to in our key performance highlights is found in Alternative performance measures on page 175.

[1] *Underlying profit before taxation excludes non-core items which the Group believes obscure the underlying performance trends in the business. See page 24 for further details.*
[2] *Operating expenses, where mentioned throughout the report, do not include impairments.*

Chair's review

Our overarching purpose in the Group is "helping you thrive". 2022 saw periods of significant market volatility, and against this challenging background we continued to make progress against our purpose, by delivering for our customers, colleagues and society and meeting their needs.


Peter Herbert *Chair*

Introduction

2022 saw periods of significant market volatility, with the impacts of the war in Ukraine and political instability in the UK fuelling inflation and sharp interest rate increases. While the challenges of Covid-19 dissipated and the labour market remained tight, our customers, partners and colleagues once again faced a wide range of new challenges throughout the year. I would like to express my warm appreciation to our customers and partners for their support, and to our colleagues for their continued hard work and fortitude during 2022.

Strategy

The Group made good progress in executing its business strategy in the year, whilst also delivering a strong financial performance. The Group's multi-year strategic transformation programme, which we embarked upon in 2020, is enabling us to develop as the leading multi-niche bank in the UK market. This is further improving the products and services we provide to our customers. In turn, this is resulting in improved margins, cost efficiencies, and improved returns on capital invested in the business, while maintaining robust credit and risk disciplines.

Key achievements in 2022 included:

- In the face of periods of significant interest rate volatility in the markets, we maintained our focus on value over volume as well as on targeting market segments where we have expertise and can further build sustainable competitive advantage;
- We continued the restructuring of our business in Northern Ireland (NI) to respond to accelerating changes in how customers are banking. The NI branch refurbishment continues, with 11 out of 13 branches completed and the remaining two scheduled in 2023;
- We completed our new Consumer Duty action plan for implementation, in order to work towards meeting the new FCA requirements as well as to underpin our strategy to improve the customer journeys into 2023 and beyond;
- A Culture review was completed, which will inform what elements of our culture we want to emphasise as well as any aspects we might wish to change as we continue to drive cultural transformation for the benefit of colleagues and, ultimately, customer outcomes;
- We invested in and delivered enhanced propositions and digital journeys for customers across all product lines; and
- Our partnerships with the Post Office (PO) and the Automobile Association (AA) remain very important to us, and we continue to strengthen customer relationships in our areas of expertise.

Capital and Regulation

We have a very strong capital base. In 2022, we continued to maintain capital and liquidity ratios significantly greater than regulatory requirements. In parallel, we improved a key asset quality metric, the NPE (non performing exposures) ratio from 3.2% at the end of 2021 to 2.1% at the end of 2022.

During the year, given levels of organic capital generation, we optimised our capital position and repatriated £250 million to our Parent.

Purpose and Culture

Our overarching purpose in the Group is "helping you thrive". This clear purpose has served us well in guiding our approach, as we saw out a pandemic and embraced further economic volatility with the cost-of-living crisis and market/political instability. An appropriately embedded corporate culture is more important than ever in achieving our purpose and the Board exercises close oversight of progress in this regard.

Responsible and Sustainable Business

During 2022 our Parent published its inaugural, standalone Responsible and Sustainable Business (RSB) report. This presented the Group's efforts to make a positive contribution to society through our 'Investing in Tomorrow' strategy, the pillars of which are Enabling colleagues to thrive; Enhancing financial wellbeing; and Supporting the green transition. In 2022, the Group focused on embedding this strategy across the organisation, strengthening governance, establishing working groups and steering committees, and creating Environment, Social and Governance (ESG) roles within the business.

The Group's development strategy of 'Delivering Today and Building for Tomorrow' ensures that we aim not only to serve our customers brilliantly, we also upskill and reskill our workforce, and attract, retain, engage and develop the talented and diverse group of colleagues we need to become the future Bank of Ireland, today.

Combating climate change is one of our greatest challenges as a global society. We understand the important role we can play in facilitating the transition to a resilient, low-carbon economy. We are committed to working together with our customers, colleagues and society to support the transition to a resilient, Net Zero economy by 2050, in line with UK government's ambitions. In collaboration with our Parent, a combined UK and Irish 2030 Mortgage emissions target has been validated by the Science Based Target initiative.

Board

During 2022, the Board continued to exercise its responsibilities with care and diligence. I would like to thank all of my Board colleagues for their tremendous commitment and support.

We review the Board's composition and diversity regularly and are committed to ensuring we have the right balance of skills and experience on the Board. In 2022, we had a number of changes to Board composition. Jackie Noakes stepped down in March and Enda Johnson was appointed as a Parent nominated NED in May. Polina Ievskaya, Chief Risk Officer BOI UK plc, was appointed to the Board in November 2022 and Tom Wright, Chief Financial Officer BOI UK plc was also appointed to the Board in October when Thomas McAreavey stepped down.

I would like to extend thanks to both Thomas and Jackie, on behalf of the Board, for their years of service and to wish them every success in the future. Enda, Polina and Tom are all very welcome additions to the Board.

Clare Salmon was re-elected as Colleague Engagement Non-Executive Director and Alison Burns as Customer & Consumer Duty Champion (formerly Customer Non-Executive Director).

Outlook

We have made significant progress to date in the execution of our strategic transformation programme, and in 2023 we will continue to invest in this journey, maintaining our focus on great customer outcomes, increasing our digital banking capabilities, and supporting both new and existing customers and partners.

Our Parent has published a refreshed strategy, which the Group contributed to. Within this strategic framework our Parent has set out clear, medium-term financial targets and qualitative ambitions.

As of the time of writing, economic forecasts indicate that the UK is entering a potentially prolonged recessionary period with further cost-of-living pressures underpinned by high inflation, high interest costs and a slowing demand for consumer borrowing. Key questions remain about the depth and length of any recession. While we will no doubt experience further challenges and uncertainties that may affect our future plans, the Group's response to date gives me great confidence in how we will prioritise and manage these unknowns in 2023 and beyond.

I am delighted to have served the Group as Chair during the year and, along with my fellow Board members, I look forward to supporting our Chief Executive, the executive team and all our colleagues in the ongoing delivery of our strategy and continued success of the Group.

Peter Herbert

Peter Herbert
Chair

Chief Executive's review

Despite a challenging economic environment during 2022, the Group delivered a strong underlying financial performance and further progressed our multi-year strategic transformation programme, while continuing to support our customers, colleagues and society.


Ian McLaughlin *Chief Executive Officer and Executive Director*

Introduction
Our UK business delivered a strong performance in a year of political and economic turbulence featuring rising interest rates, volatile financial markets, an increase in the cost of living and geo-political instability.

Throughout the period, we have continued to support our customers, colleagues and society and enhanced our relationships with our key brokers and partners. We have continued to execute our strategy, delivering improvements to our customers' experience and further investing in transforming our culture and systems.

I will be leaving Bank of Ireland in the summer for a new external role and when I depart, I will do so feeling very proud of what has been achieved by the team over the past three years.

2022 performance
Despite a challenging year navigating economic volatility, the Group recorded a statutory profit before tax of £251 million (2021: £410 million). The Group also succeeded in in its cost optimisation strategy, reducing the statutory cost income ratio to 46% from 51% in 2021.

The external environment
2022 began with a degree of positivity and optimism reflecting the expectation of a return to normality following COVID-19 restrictions and a rebound in GDP in Q1. However, economic uncertainty grew with the impact of war in Ukraine adding to upward pressure on the cost of energy, food and other commodities, and contributing to the highest rates of inflation in over four decades.

While the Group is not directly exposed to Ukraine, we are impacted by economic consequences of higher costs and higher interest rates and the resulting potential pressure on our customers and our asset quality.

In the Autumn we saw significant swap rate volatility with UK markets unsettled by abrupt shifts in government policy and heightened political risks, although markets had stabilised by year end with a renewed government commitment to fiscal prudence.

The growth outlook for 2023 is challenging with some risk of a mild recession as the squeeze on real incomes persists for a further period. The higher interest rate environment presents a challenge for transaction volumes and asset values within the property market, with the general tightening of financial conditions expected to be reflected across credit markets in general. More positively, headline inflation may now have peaked and the labour market remains tight with unemployment continuing near historic lows.

Despite the uncertain and volatile operating environment, credit quality indicators have remained relatively benign to date. We will maintain a cautious and prudent outlook, whilst continuing to support our customers and deliver for all our stakeholders.

Customers
Throughout 2022 we have further developed our customer focus through changes to organisational design, enhanced customer visibility and insight, greater data and analytics capability, and strengthening the stability of our IT infrastructure to improve operational resilience and our ability to serve customers consistently through whichever channels they choose.

Along with our Parent, we have invested in providing a better customer experience and service including enhancements to our mobile banking app, introduction of digital on-boarding for personal current accounts and, improvements to the mortgage origination process. The Group launched a self-serve capability for our motor finance customers and completed further refurbishment across our branch network in NI. We have supported our vulnerable customers with improvements to our website, assistance videos for the hearing impaired, additional training for front line staff and further simplification of the journey for those customers who have suffered a bereavement.

To support our customers impacted by the rises in the cost of living, we have introduced a range of measures including a Cost of Living hub accessible through the Group's website, proactive contact strategies for customers displaying early signs of financial stress, options for customers to access fixed funds or source alternative borrowing rates, and made our messaging easier for our customers to understand the implications of financial decisions.

We continue to look for opportunities to further improve services with the roll out of insight monitoring to all customer touch points and the use of ad hoc surveys to assess the quality of our service provision to enhance our voice of the customer feedback.

Colleagues

As we adapt post pandemic, our priority is to invest in colleagues and support for our customers and society, enabling a culture we can be proud of.

We continue to transform our culture to ensure continuous improvements are made that will support physical, mental and financial wellbeing to enable our colleagues to thrive and to feel valued and recognised for their contribution to our business.

This year we launched a refreshed recognition programme, additional wellbeing supports, enhanced learning and development programmes and a range of improved family friendly policies.

Our hybrid ways of working continue to provide colleagues with flexibility, enabling them to work in a way that works for them and the Group. A number of enhancements have been made to our team charters, technology and buildings to support collaboration and connection in recognition of this hybrid approach.

We remain committed to making progress in relation to our Inclusion and Diversity (I&D) agenda. Championing diversity and inclusion is something that we work hard at every day. We continue our efforts in the workplace to attract, progress and retain a more gender balanced workforce, particularly at senior levels. Female development continues to be supported by focused talent programmes, Gender Balance network activity and setting a more challenging Women in Finance target for 2024 having achieved our 2021 target of females in management and leadership roles. Our six colleague led I&D networks continue to provide visibility of the work being undertaken to ensure that inclusion helps enable all colleagues at Bank of Ireland to thrive.

As an employer, the Group recognises that it operates in an increasingly competitive landscape when it comes to the attraction and retention of talent. In 2022 the Minister for Finance of the Republic of Ireland announced a number of changes to the restrictions on remuneration including allowing variable pay. This development will greatly contribute to attracting and retaining talent and better link remuneration to the achievement of our long term strategic and commercial goals, and delivery for our customers.

Communities

We are committed to supporting the communities where we live and work. During 2022, the Group's community programme for the island of Ireland, "Begin Together", has provided financial support of £700,000 to nearly 100 community and arts projects. This included projects working with migrants, supports for mental wellbeing, resilience for people out of employment, and financial literacy for young people.

The Begin Together Community Fund, in partnership with The Community Foundation for Ireland which administers the fund and supported by the Community Foundation for NI, provided a total of £70,000 in grants across 13 different projects. The Begin Together Arts Fund, in partnership with Business to Arts and supported by Arts & Business NI, provided over £80,000 in grants across nine projects. Through the Begin Together Fund for Colleagues, grants of £400 were awarded to each of 75 local not-for-profit organisations which Bank of Ireland colleagues are personally involved with across the UK.

Throughout 2022, we continued to support local communities and organisations through sponsorships including: the Open Farm Weekend, showcasing NI food and farming; Invent 2022, celebrating early stage start-ups and aspiring entrepreneurs in NI in partnership with science and technology hub Catalyst; and the launch of the Community Sport Award for Clubs through our sponsorship of Ulster rugby and GAA. Our commitment to Financial Wellbeing in 2022 saw the delivery of financial education programmes to over 5,000 young people in 84 schools across NI through our partnership with Young Enterprise NI and the delivery of over 450 hours of virtual Financial Wellbeing sessions by the Community Engagement team.

The Bank has responded to events in Ukraine with a number of measures including waiver of fees on the transfer of funds to family and friends in the country, the provision of direct financial support, and assisting displaced Ukrainians in establishing local banking services.

Strategic progress

During 2022, we made further progress in delivering on our strategic priorities of transforming the bank, serving customers brilliantly and growing sustainable profits.

In line with our ambition to be the leading multi-niche bank in the UK, we have retained our focus on value over volume, targeting specific market segments where we have expertise, can build sustainable competitive advantage, and deliver improvements in the provision of products and services to our customers. These initiatives, together with the reduction in our cost income ratio, contributed to the strong financial results and performance ahead of plan. We also encountered some setbacks through the year in the pace and scale of lending growth impacted by market disruption, especially volatility in market funding (SWAP) rates.

In the face of this competitive market and challenging economic conditions, we have maintained our focus and taken some difficult decisions including a short period of withdrawal from the mortgage and unsecured personal lending markets. As we looked to simplify our operating model, we have faced challenges in transforming and transitioning to a potential new outsourcing partner, but we remain focused on securing alternative solutions.

Digital Banking

We are further enhancing our digital offerings through the simplification of processes and development of new capabilities to support our customers. We are investing in digital journeys in response to customer demand for an improved digital experience. In 2022 this included the launch of a new cost of living hub incorporating a full refresh of the Financial Wellbeing content and the introduction of a new mortgage document upload function, removing the need for customers to send documentation by post.

Costs

Our focus on cost efficiency and strategic cost reduction has continued in 2022. We reduced our statutory operating expenses by 9%, a decrease of £25 million from £272 million in 2021 to £247 million in 2022. This reduction reflects, the full year impact of our prior year initiatives supported by the voluntary redundancy programme announced in September 2020. Underlying operating expenses, which relate to our ongoing business-as-usual cost base, saw a reduction of £15 million, or 6% year on year.

Managing our costs remains a key focus for 2023 while continuing to invest in strategic transformation and supporting our customers with the challenging outlook for the UK and wider global economies.

Responsible and Sustainable Business

The Group’s Responsible and Sustainable Business Strategy ‘Investing in Tomorrow’ was launched during 2021, we have continued to deliver across all three pillars;

Chief Executive's review *(continued)*

Enabling colleagues to thrive:
Many initiatives have been launched to support diversity in our workforce, including policies to enhance maternity and paternity leave and entitlements for surrogacy, fertility, endometriosis and menopause.

We are building leadership capability and behaviours through talent accelerator programmes such as RISE and Future Business Leader.

Enhancing financial wellbeing:
Through both our wellbeing hub and through broker partners, we are educating consumers on financial wellbeing.

For our colleagues, we have shared this wellbeing information and provided a cost of living payment to support colleagues in light of the current energy crisis and broader economic conditions.

Supporting the green transition:
Science based targets (SBT) have been set for 2023 as part of Bank of Ireland Group submission.

During the year there has been further embedding into our product suite, with mortgage products rewarding customers for choosing energy efficient properties with EPC rating of C or higher both for purchase and switching across residential and buy to let; which have been well received.

Financial Performance

The Group posted a statutory profit before tax of £251 million for 2022, a decrease on 2021 of £159 million. This reduction is driven by an impairment credit of £54 million recorded and a one off gain on the mortgage asset sale to the Parent of £94 million, during 2021.

The Group's loan book reduced by £2.4 billion during 2022, primarily reflecting the impact of net deleveraging in the mortgage portfolio. The business achieved new lending volumes of £2.9 billion, £0.6 billion lower year on year, reflecting the impact of the Group's strategy to focus on higher returning lending segments within agreed risk parameters.

During 2022 the Group sold a portfolio of non-performing mortgage loans, which had a gross value of £220 million, by way of a securitisation transaction. The reduction in non-performing exposures is beneficial to the capital position of the Group enabling continued delivery of our strategy to support loan growth across the Group, invest in the transformation of our business, and deliver returns to our shareholders.

Net interest income of £555 million was 9% higher than 2021. This was driven by higher margins on our new lending and benefit from reduced liability costs as the Group optimised its overall funding base in line with its agreed strategy. The Group's Net interest margin (NIM) of 2.85%, was up 72 basis points in the year.

Net other income is £46 million lower year on year, primarily due to higher fee and commission expenses in the year.

Share of profits from the First Rate Exchange Services Limited (FRES) joint venture of £28 million, were significantly increased in comparison to the 2021 loss of £2 million. This reflects the improvement in the foreign travel market in the latter part of 2022.

A net credit impairment charge of £64 million on financial instruments in 2022 compared to a credit of £54 million in 2021. This is reflective of the impact on IFRS 9 models of Forward Looking Information from the Group's latest macro-economic outlook; management adjustments related to the sale of non-performing exposures within the mortgage portfolios and actual loan loss experience in the year.

Strategy Refresh

We will build on the strong foundations we have achieved over recent years, as we embark on the next phase of our story. In conjunction with our Parent, we launched a refreshed strategy including financial targets for the three years to the end of 2025.

Purpose and values

This strategy is guided by our purpose, which is "helping you thrive". Our values will also be central to how we work to deliver this strategy.

For customers, we will deliver more digital and tailored touchpoints across our businesses and provide simpler, more effective servicing with reduced customer complaints. For our colleagues, simplifying our processes will support higher engagement with a diverse and inclusive workforce at the core. For society, our ESG strategy, together with our Parent, will continue to focus on a broad suite of sustainable products which support the green transition, while increasing sustainable financing and supporting our financial wellbeing ambitions.

Strategic Pillars

The Group's strategy is focused on three pillars. These are:

Stronger Relationships: Deeper, value adding customer relationships; easy service and more tailored engagement; integrated propositions to meet financial needs across life stages.

Simpler Business: Simplified interactions for customers, leveraging data and digital; simplified processes and ways of working for colleagues; cost-efficient delivery of strategic objectives.

Sustainable Company: Impact on most critical challenges facing customers and society; collaborative culture and inclusive environment for colleagues; ongoing stability and resilience in the context of our growth.

Closing Summary

In 2022, through the commitment of our colleagues we have made further progress in transforming our business. We will continue to focus on improving our customer service to deliver good customer outcomes, whilst investing in our digital platforms and in our people and control processes.

Ian McLaughlin
Chief Executive Officer

Our strategy

Related pages

Responsible and sustainable business (page 12)
Risk Management (page 33)

The Group has launched a refreshed Strategy, for the period 2023-2025, which builds on the strategic delivery and execution progress that we have made in recent years in our ambition to be the leading multi-niche bank in the UK.

We regularly assess our strategy taking into account changes to the external environment and evolving customer needs to ensure that we remain focused on delivering the best outcomes for all of our stakeholders.

With emerging clarity around the changing external environment (economy, interest rates, competitive banking landscape), and evolving customer requirements, an excellent opportunity arose to review and refresh the Group's strategic direction for 2023-25.

We have carefully considered how we can build on the Group's progress and delivery track record from previous strategy cycles. We will continue to maintain focus on value over volume, targeting specific market segments where we have expertise, can build sustainable competitive advantage, and deliver improvements in the provision of products and services to our customers.

In refreshing our strategy, we have taken into account the needs of customers, colleagues, shareholders and society to ensure that our strategy supports the Group's refined purpose which is "Helping you Thrive".

Key achievements in 2022

Below, we set out some of our key achievements during 2022 against the strategic pillars of the strategy set in 2020:

Transform the Bank

Our staff engagement continued to improve, together with our Parent, we increased our colleague engagement index to 68%, up five points on 2021.

Our strategy continued to focus on value over volume, driving a smaller, more profitable balance sheet. We continued to grow our Bespoke proposition which accounted for 47% of new mortgage lending during 2022. Bespoke is a service led proposition that delivers risk based mortgage lending for high credit quality borrowers who do not fit the highly automated one size fits all approach favoured by our High Street competitors. Additionally, in NI we completed the branch refurbishment programme, covering 11 branches.

We focused on improving customer outcomes in 2022 through increased support for our vulnerable customers and enhanced our affordability credit models. The Group has mobilised its Consumer Duty programme to ensure the FCA's principles are embedded across the business in line with the July 2023 deadline.

We continued to invest in and transform our technology across key customer data and security platforms; with a focus on digitising origination journeys, enabling customers to self serve and enhancing our mobile banking app and online channels.

A UK Culture Diagnostic review was conducted in the year identifying actionable insights to support continuous improvement and ensure a consistently positive risk mindset.

Serve customers brilliantly

For the third year running 'Complaints per 1000 accounts' metrics have improved. Our upgraded Complaints Workflow capture system provides improved data quality enabling better use of the data being captured to generate better insight into customer's experiences.

Launch of our mortgage Bespoke Platinum service giving intermediaries and their customers an enhanced service with direct access to an underwriter prior to case submission and a mortgage document upload functionality.

A new customer portal for Northridge customers was introduced, allowing an online self-serve functionality to view and amend documents.

Our new in-app card control management features significantly improved user experience by allowing customers to view their pin code and freeze cards in-app.

During 2022 Money Insights 365 was launched, the new digital money management service. This tool helps customers improve their financial wellbeing by providing personalised insights about their spending, bills, subscriptions and cash flow. Work is currently underway to incorporate new insights and features to support customers during the cost of living crisis.

Grow sustainable profits

We have made significant improvements to the sustainability of our overall business model.

NIM of 2.85%, was up 73 basis points in the year driven by reduced liability costs as the Group optimised its overall funding base in line with its agreed strategy.

The Group reduced its statutory cost base by £25 million, improving the cost income ratio from 51% to 46%.

The Group has continued to grow its Bespoke mortgages. During 2022, there has been gross new lending of £0.5 billion (£0.2 billion net) with a total balance at the year end of £1.2 billion for Bespoke Mortgages (2021: £0.9 billion).

NPE ratio of 2.1%, a reduction of 1.1% compared to 2021. This was achieved through a securitisation transaction of a portfolio of non-performing mortgage loans, which had a gross value of £220 million. The reduction in NPEs is beneficial to the capital position of the Group enabling continued delivery of our strategy to support lending growth across the Group, invest in the transformation of our business, and deliver returns to our shareholders.

To progress on our journey of being sustainable and responsible, we offer a suite of products for buy to let landlords via the broker network that rewards customers for choosing A-C EPC rated properties and our asset finance business also offers a product variant specifically for used electric vehicles.

Our new refreshed Group Strategy and target outcomes for 2023-2025

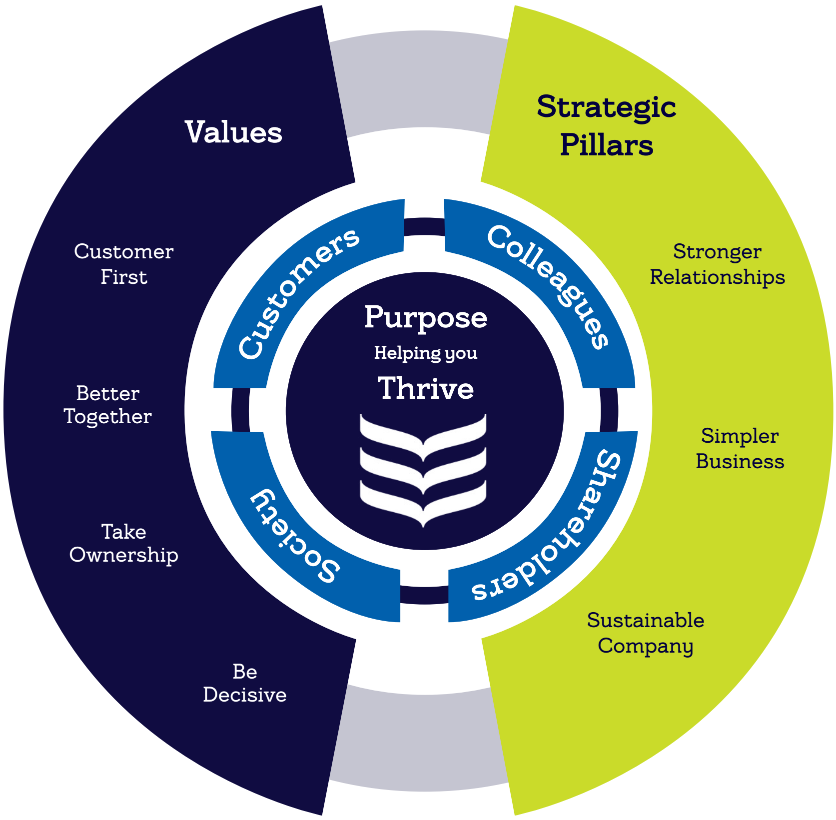
Related pages

Responsible and sustainable business (page 12)
Risk Management (page 33)

The Group's refined purpose is "Helping you Thrive" , and it is underpinned by our core values of 'Customer First', 'Better Together', 'Take Ownership' and 'Be Decisive'.

The refreshed strategy for 2023-2025 aims to leverage the Group's business model and strengths, capture new opportunities, address areas of internal opportunity and adapt to the evolving external environment. We look to deliver growth particularly in the mortgage and asset finance businesses with our ambition to be the leading multi-niche bank in the UK, targeting specific market segments where we have expertise and can build sustainable competitive advantage.

Our refreshed strategy is built on three strategic pillars: building stronger relationships with our customers and colleagues, continuing to simplify our business for customers and colleagues, and creating a culture of constant improvement in the sustainability of the company for the future.



Stronger relationships

Establish deeper, mutually value-adding customer relationships led by our colleagues through tailored engagement, and easier, joined-up services and products across customers' financial needs and life stages.

Specific initiatives of focus include:

- Meet a broader range of our customers' needs more easily through continued investment in a mobile-first, insightful offering, that provides our customers with a wide range of products and services that are easy to use and tailored to their needs.
- Enhance mortgage capabilities by investing in our mortgage digital platforms to enable improved customer experience through more reactive servicing of requests, improved customer journeys and specific broker channel improvements. This will support our ambitions to be a leading UK digital mortgage bank, grow our Bespoke mortgage proposition and expand our green mortgage offering.
- Develop the Asset Finance and Car leasing businesses by continuing to improve the overall service experience through product enhancements, a customer self-serve app, further automation of credit decisioning, as well as expanding market share through distribution to national accounts and regional franchises.

Target outcomes

- Targeted growth over the 2023-25 period in niche segments where we have expertise whilst maintaining risk and commercial discipline.
- Significant increase in Bespoke mortgage volumes by 2025.
- Increase in NI Relationship Net Promoter Score, demonstrating stronger customer relationships by 2025.

Simpler business

Simplify the day-to-day activities and interactions of our customers and colleagues, particularly leveraging digital and data, allowing them to do more, faster and more easily.

Specific initiatives of focus include:

- Simplify our service model for customers and colleagues through the delivery of simpler, smoother customer experiences across sales and service. Further development towards a Single View of Customer capability and the introduction of a Customer Relationship Management (CRM) system will empower colleagues to improve overall service delivery for our customers. This will be further supported by proactively managing demand levels and optimising the performance of our contact centres.
- Build digital capability in business banking to strengthen our digital propositions, enabling us to meet simple needs digitally, while continuing to manage more complex needs with a human touch supported by data-led insights. In particular, we will improve our secured and unsecured lending journeys through digital enablement.
- Build our digital / data muscle and enhance change delivery: We intend to enable quicker deployment of new application functionality and increase data utilisation to deliver more impactful insights, data-led decisioning and better customer experiences and outcomes. We also plan to deliver more stable, faster, higher quality change enablement across the Group for the benefit of all stakeholders.

Target outcomes

- Improve Customer Effort Scores across our Savings journeys through delivery of new platform by 2025.
- A simpler business will lead to cost discipline and a sustainable Cost:Income ratio over the 2023-25 period.
- In conjunction with our Parent improvement in Colleague experience score by 2025.

Sustainable company

Deliver impact on the most critical challenges facing our customers, colleagues and society and ensure ongoing focus on stability , risk management and operational resilience for our customer base.

Specific initiatives of focus include:

- Provide financial wellbeing outcomes for customers: We will continue to focus on supporting the financial wellbeing of all our customer segments, seek to enable them to make better financial decisions through additional features in Money Insights 365 (Mi365). For example, in light of the current cost-of living crisis, we plan to offer additional budgeting tools and support.
- Support the green transition for wider society by ensuring that the products we deliver to our customers are both environmentally and financially responsible, and directly support the decarbonisation of our loan portfolio and our economy. We will also enhance our ESG data acquisition capabilities to inform our decisions and continue our commitment to our science based targets.
- Create differentiating colleague value proposition by simplifying processes, enabling colleagues with data, and by continually investing in our people to develop a diverse, future ready workforce, with clear internal career pathways. As we evolve our business, equipping colleagues with the skills and capabilities required for the future will remain a key priority for the Group.

Target outcomes

- Sustainable Return on Tangible Equity (ROTE) over the 2023-25 period.
- In conjunction with our Parent, achieve improved ratings for Financial Wellbeing by 2025.
- Increased proportion of 'Green' product lending in our Mortgage and Asset Finance businesses by 2025.

Stakeholder outcomes

Our refreshed Group Strategy 2023-25 targets improved outcomes across all of the Group's key stakeholder groups. Select highlights include:

Customers
We aim to meet more of our customers' financial needs through their lifecycle. To support this, we intend to roll out enhanced functionality for customers across mobile applications on a continuous basis, as well as simpler, more automated mortgage journeys and reduced time to market propositions. The Group is also targeting an expanded range of customer engagement channels and greater self service capabilities to enable 24/7 customer access.

Colleagues
For colleagues, we aim to increase focus on rewarding and high-value work enabled by digitisation and automation. This will be supported by the roll out of a new CRM system targeting improved efficiency and effectiveness among sales and service colleagues. The Group is also targeting the creation of a diverse, future ready workforce of up-skilled colleagues, strengthened by data and digital capabilities.

Society
With expanded Mi365 functionality, we plan to enable Smart budget functionality, cost of living crisis support for individuals and new custom insights for SME customers. We are targeting positive improvements in key financial wellbeing metrics, while also seeking to put in place a more diverse workforce that more closely represents our society.

In Summary

While headwinds exist on a global basis, the Group currently has a unique opportunity, operating within highly attractive markets and with a differentiated business model. The outcomes targeted under our refreshed Group Strategy offer the potential to deliver clear benefits for the Bank's customers, colleagues, shareholders and society, leading to stronger relationships, a simpler business and a more sustainable company.

Responsible and Sustainable Business at Bank of Ireland UK

Behaving in a responsible and sustainable way is fundamental to achieving our purpose of "helping you thrive".

Responsible and Sustainable Business

2022 was a year of unprecedented challenges globally, as the world emerged from the COVID-19 pandemic, war in Ukraine contributed to elevated inflation and a cost of living crisis for many, with vulnerable groups most affected.

The Group is committed to supporting the effort to combat climate change. Building upon extensive development work, our Parent launched the Group's Responsible and Sustainable Business (RSB) strategy, Investing in Tomorrow in March 2021. The strategy provides clear commitments to working with customers, colleagues and society to support their transition to a resilient, net zero economy by 2050.

In 2022, the Group focused on embedding this strategy across the organisation, strengthening governance and establishing working groups and steering committees and creating dedicated Environmental, Social and Governance (ESG) roles within the business.

The framework combines the following three pillars:

- Enabling current and future colleagues to thrive;
- Financial Wellbeing; and
- Supporting the Green Transition.

Our Responsible and Sustainable Business Strategy, 'Investing in Tomorrow'.

Enabling colleagues to thrive

We will be a 'digitally able' learning organisation that values inclusion and diversity, reflecting society and our customer base.

Focus areas

Digitally able
Employability
Inclusive development

Enhancing financial wellbeing

We aim to empower people to thrive financially by enabling them to make better financial decisions.

Focus areas

Financial capability
Financial inclusion
Financial confidence

Supporting the green transition

We are committed to working with our customers, colleagues and society to support the transition to a resilient, net zero economy by 2050.

Focus areas

Set science-based targets
Provide sustainable financing
Decarbonise own operations
Manage climate-related risks
Transparently report

Responsible and Sustainable Business *(continued)*

Enabling current and future colleagues to thrive

The Group recognises that changes in technology continue to change our world and at Bank Of Ireland we need to create a "future ready workforce" able to adapt to this new world. The Group's development strategy of "Delivering Today and Building for Tomorrow" ensures that the Group not only serves its customers brilliantly, it also upskills and reskills its workforce, and attracts, retains, engages and develops the talented and diverse group of colleagues needed to become the future Bank of Ireland, today.

The Group will achieve this and make a positive difference across the organisation and in society through focusing on three areas:

- Digitally Able;
- Employability; and
- Inclusive Development.

Digitally able

Enabling Group colleagues to thrive by developing their digital skills and capabilities is an important part of our people strategy.

35% of colleagues are investing in building their future ready capabilities by accessing our introductory level learning pathways in the areas of digital fitness, data fluency, project management, agile, and cyber security. These pathways are specially curated, self-directed learning journeys which contain a mixture of engaging videos, digital content, and webinars hosted by Group leaders.

Employability

The Group wants to enable colleagues, current and potential, to develop skills that allow them to adapt to the constantly changing world of work. The Group achieves this via development programmes:

- the Career Agility Programme;
- the Project Management Programme; and
- the Data Fluency Programme.

The Group equips colleagues for the future of work via a range of supports such as the Career Development Programme which supports colleagues to take ownership of their professional wellbeing, through awareness, support and recognition. In addition, the Career Portal provides colleagues with a wide range of resources to help them plan their career journey and access courses, articles and tutorials.

During 2022 the Group, in association with the University of Ulster, continued a Degree programme to provide an additional 10 employees with the opportunity to complete a BSc (Hons) Degree in Leading on Customer Operations. The degree is an industry focused course which provides participants with a comprehensive understanding of the knowledge, skills and behaviours necessary to play a principal role in shaping the future of customer operations.

Inclusive development

Inclusive development means enabling the development of every colleague, while building an inclusive workplace which is more reflective of society and the Group's customer base. The Group does this by developing dedicated learning opportunities and pathways as well as a wellbeing programme.

Inclusion and diversity

The Group is committed to being an inclusive and diverse place to work, where colleagues can be themselves and feel supported to reach their potential. The Group wants to attract, promote and retain diverse talent at all levels, to create a more innovative and high-performing business which reflects the diverse needs of customers and wider society.

In 2022, a range of initiatives were introduced through The Group's I&D agenda, targeted across three key areas:

- Increased Representation - Everyone is welcome;
- Equal Progression - Where all colleagues can progress; and
- Inclusive Experience - Colleagues experience a safe and fair place to thrive.

A range of initiatives were introduced in 2022 to promote greater diversity within the Group's workforce including education and training, policy changes and activity led by our 6 colleague led I&D networks.

Tracking and measuring: The Group records data in respect of its colleagues to better understand the diversity within workforce and how this compares to its customers and society. It also enables The Group to identify trends and areas for potential future focus.

Talent Development: The Group continues to invest in its talent development programmes to shape its leaders of the future. Recognising the different needs of colleagues, the Group has a number of Bespoke talent programmes, which have been developed in partnership with internal employee networks. The RISE Programme has been specifically developed to support ethnic minority colleagues, equipping them with skills and knowledge to support their progression into management.

Supporting Group colleagues' physical, mental and financial wellbeing has remained central to enabling our colleagues to thrive. We continue to deliver initiatives through our Wellbeing App, providing colleagues with supports, virtual events and tools to maintain wellbeing. To further support wellbeing, the Group's embedded hybrid way of working continues to enable colleagues a level of flexibility which has been reinforced through capability enhancements, office refurbishments, technology supports, and team charters.

Revised Family Friendly Policies were introduced in 2022, creating a more inclusive approach to all types of family leave, recognising the varying needs of the modern family, with enhancements made to the Group's team charters to reflect this. Paternity leave was increased from two weeks to six weeks, entitlements for surrogacy and fertility were enhanced and Maternity leave became a day one right for all colleagues. In addition, new market leading policy entitlements to enhance menopause support enabling 10 days leave to be approved when needed, as well as a Domestic Abuse policy were introduced.

Financial Wellbeing

This pillar focuses on empowering people to to thrive financially by enabling them to make better financial decisions for themselves, their families, their businesses and society.

This is achieved by focusing on three areas:

- Financial Capability:
- Financial Inclusion; and
- Financial Confidence.

Financial Capability

The Group wants to enable people to improve their financial literacy. The aim is to empower people with the knowledge to help them improve their financial capability and confidence, through digital tools that help manage their day-to-day finances, plan for the future and improve their financial wellbeing.

During 2022, the Group commissioned a

Responsible and Sustainable Business *(continued)*

comprehensive financial literacy survey that updated the Bank of Ireland Financial Wellbeing (FWB) Index Score and introduced a Bank of Ireland Financial Literacy Index Score. The FWB index for NI recorded a score of 60 in 2022, a decline of 4 over the last survey in 2021 at the same level (and trend) versus our Parent. This decline was not surprising, as increases in the cost of living has contributed to a deterioration in overall financial wellbeing in NI.

The Group continues to champion financial wellbeing to support our customer and society to build their knowledge and capability.

To further enhance Financial Wellbeing in NI a review and update of the Personal Financial Wellbeing Hub on the Group's website was completed in 2022. This incorporates the F-word campaign, which centres around the taboo of talking about finances, and helps to communicate the importance of financial wellbeing to our customers. The enhanced hub includes a FWB Healthcheck which gives users an indication of their financial wellbeing and signposts them to self-help articles that will provide helpful tips and further support.

Financial inclusion
The Group remains committed to ensuring both our colleagues and services are equipped to support and assist any of our customers who may be experiencing either temporary or longer term challenges.

The Group continues to invest in tailored staff training including the launch of the Vulnerable Customers Curriculum, which has been designed to expand the skills and knowledge of customer facing colleagues. This training is further supported by specific 'how to' guidance including recording Vulnerable Customer's Personal Data and ensuring vulnerability is consistently considered throughout the Product & Service Design process.

Work is currently underway to embed the latest version of UK Finance's Financial Abuse Code, now expanded to include Economic Abuse. The Group's established Financial Abuse team continues to provide specialist assistance to impacted customers. Practical support includes the recent introduction of a new, fully confidential Domestic Abuse online contact form.

The Group continues to maintain an active network of Vulnerable Customer Champions with representatives from across the business meeting at least once a quarter to share information and enable effective onward communications. Key vulnerability related cases are reviewed for any associated learnings which may then be applied in other similar circumstances.

The Group is able to offer a suite of alternative communication options to support our visually impaired customers including large print, audio files and Braille. These can be further supplemented by Bespoke outputs on coloured paper to support specific visual or cognitive challenges. Hearing impaired customers can avail of a Text Relay Service or real time British Sign Language (BSL) via live video chat.

The Group will continue to progress further vulnerability specific initiatives during 2023, which will include alignment with the FCA's Consumer Duty requirements.

Financial confidence
Financial confidence enables people to understand their finances better and make better financial decisions. By building financial confidence, we empower people to feel secure and in control of their finances.

In September 2022, a new service on the mobile banking app was launched which provides customers with tailored insights and alerts, enabling them to become more aware of their spending habits and financial behaviours.

The Group wants to improve people's ability to trust in their bank and in their own decision making. Most importantly, the Group wants to help customers to emerge from financial difficulty which it does through its Financial Wellbeing initiatives which helps customers improve their financial literacy.

Supporting the Green Transition
Combating climate change is one of our greatest challenges as a global society. The Group understands the important role we can play in facilitating the transition to a resilient, low-carbon economy. The Group is committed to working together with our customers, colleagues and society to support the transition to a resilient, Net Zero economy by 2050, in line with UK government's ambitions.

To deliver on this ambition, the Group has set out the following plan:

Setting science based targets
Set the Group's portfolios and lending practices on a pathway aligned with the Paris Agreement and commit to setting targets across the Group's portfolios and operations.

In collaboration with the Parent, a combined UK and Irish 2030 Mortgage emissions target has been validated by the Science Based Target initiative. An emissions baseline was calculated based on portfolio data as at 2020 using the Energy Performance Certificate data obtained via Landmark Information Group.

Provide sustainable financing
The Group has taken some initial steps into green lending and is currently conducting a controlled pilot under its Bespoke proposition to support lending on energy efficient new build houses. The pilot allows new build customers with an A and B EPC rated property to borrow up to 90% LTV.

The Group also offers a Green Buy to Let product range available for properties with an EPC of A, B or C but challenging market conditions, across the Buy to Let segment, have meant application volumes have been limited. It is anticipated there will be increased opportunity in the segment over the medium term following greater focus on energy efficiency in the private rented sector with regulatory changes to minimum EPC requirements for rental properties proposed for 2025.

Since late 2021 Northridge, the Group's asset finance business, has retailed a product variant specifically for used electric vehicles. In addition, and noting that Northridge is a funder of predominantly used motor cars, the proportion of traditional internal combustion engine (ICE) vehicles has reduced by 1.29% (19,810 vehicles) over 2022 now making up 95.2% of the book. The move away from new ICE vehicles also continued in Marshall Leasing, Northridge's Fleet distribution business, with alternatively fuelled vehicles making up 21.12% of book, an increase of 4.46% compared to 2021 figures.

Decarbonising our own operations
The Group is included within its Parent's commitment to make its own operations Net Zero by 2030. Highlights in 2022 include the below.

We have achieved a 58% reduction in absolute carbon emissions (on a 2020 baseline) across our Scope 1 and 2

Responsible and Sustainable Business *(continued)*

emissions, including a reduction of 17% in 2022. Scope 3 emissions increased versus 2021, reflecting a return to more normalised levels of business travel, although still lower than pre-pandemic levels reflecting the new hybrid working environment.

The Group have started to roll out biosourced debit cards across our entire cards portfolio. This initiative, which over time will replace all debit and commercial credit plastic cards issued, supports the reduction of single use plastic in our products and services. The introduction of bio-sourced cards is a very practical way that the Group and its customers can reduce our environmental footprint, which is another important step in the Group's Responsible and Sustainable Business strategy.

A review was conducted across the NI branch network to identify opportunities to eliminate wasteful use of energy particularly across hot water use, air condition and heating systems. Following this a colleague wide communication was rolled out to encourage positive habits in work and at home to reduce energy usage.

During 2022, the Group maintained 100% renewable electricity contracts for all NI sites and large office buildings in GB.

The Group also successfully obtained ISO 50001 & ISO 14001 re-certification for the entire Group in RoI/NI/GB.

Managing climate-related risks

The Group continues to progress its approach to manage climate risk. A Climate Change Working Group is in place which includes broad membership from across the business, with representatives from both first and second lines of defence. Existing committees and governance have been leveraged to manage and report on Financial Risks from Climate Change (FRCC). Executive Risk Committee (ERC) and Board Risk Committee (BRC) have been updated on the Group's progress on managing the FRCC on a quarterly basis. The Chief Risk Officer (CRO) is the Senior Management Function (SMF) and accountable executive in respect of the management of FRCC across the Group.

During 2022, the Group has introduced an ESG Risk framework, which documents how the Group can develop and evolve the Group’s risk management approach to ESG related risks.

The Group recognises the potential conduct risks that climate change poses. To help manage the risk of greenwashing, the product and service lifecycle management process has been updated to incorporate ESG risks. Greenwashing Guidance for Business Units has also been produced ensuring any climate or sustainability claims are fully substantiated.

Steady progress has been made to integrate climate change risk management into the business-as-usual governance, risk management framework and policies, scenario analysis and ICAAP and product strategy.

Risk measurement

Materiality and impact assessments are an annual exercise encompassing an assessment of physical and transition risks against principal risk categories (such as credit, operational, business and strategic risk) and material asset classes on the balance sheet. The Group's mortgages are the most material portfolio, followed by motor finance and commercial banking activities.

The Group have worked with a third party, Landmark Information Group, to further understand climate related risks to the mortgage portfolio.

Analysis of the physical and transitional risks at individual property level has been undertaken in 2022 which considers scenarios anchored around the Paris Agreement commitments.

Scenarios used to model the potential climate impact on the portfolio are as detailed below:

Scenario ID	Emissions Scenario illustration	Increase in temp by 2100
RCP2.6	Significant global reduction	0.9 - 2.3ºC
RCP4.5	All countries implement Paris Accord	1.7 - 3.2ºC
RCP6.0	All signatories implement Paris Accord	2.0 - 3.7ºC
RCP8.5	Business as usual	3.2 - 5.4ºC

The analysis considered the following:

1 Flood Risk;
2 Subsidence Risk;
3 Coastal Erosion; and
4 Energy Efficiency.

This analysis was able to measure the impact of climate on the 2022 mortgage portfolio in five-year increments 2020 to 2080. Whilst the results have not identified any significant portfolio concentrations, the analysis has helped inform consideration of certain capital sensitivities in the stress and scenario analysis. It also helped in the setting of early warning indicators to monitor portfolio risks over time and take management action, as appropriate.

The latest analysis shows that the incidence of cases with a corresponding physical climate risk has remained broadly the same since the previous assessment made in 2021 and remains low in materiality.

1. Flood Risk

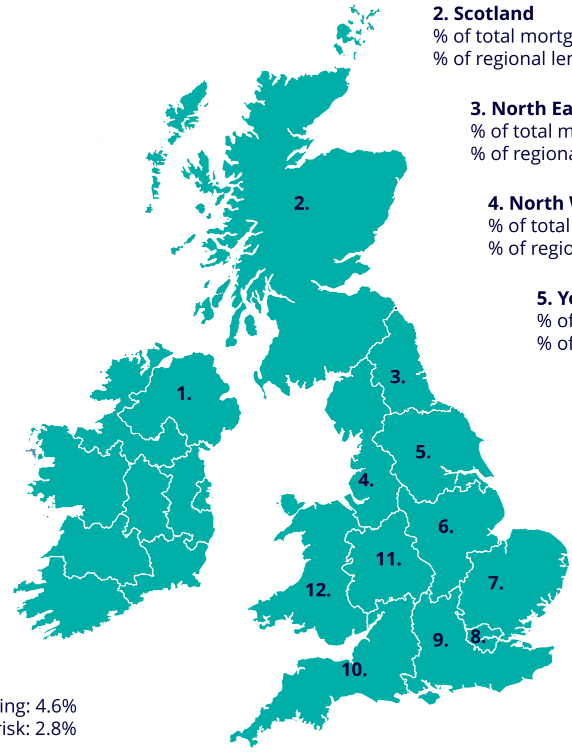
Each loan in the mortgage portfolio is allocated a probability of a flood event occurring by 2030 under the Representative Concentration Pathway (RCP) 8.5 scenario which expects a temperature increase between 3.2 - 5.4 degrees Celsius by 2100.

As of June 2022, 94% of the Group's mortgage lending is on properties with low to negligible risk of a flood event.

Flood Risk probability	Book proportion
High: >5%	2.75 %
Medium: >1%	3.50 %
Low: >0.1%	6.15 %
Very low: >0.01%	4.95 %
Negligible: <0.01%	82.6 %

Responsible and Sustainable Business *(continued)*

The below map shows the regional breakdown of lending and the percentage of properties identified which have a probability of greater than 5% of experiencing a significant flood event occurring by 2030. A significant flood event is a flood of at least 30cm.



2. Scotland
% of total mortgage lending: 5.5%
% of regional lending at risk: 2.0%

3. North East
% of total mortgage lending: 2.9%
% of regional lending at risk: 1.0%

4. North West
% of total mortgage lending: 9.5%
% of regional lending at risk: 2.0%

5. Yorkshire and the Humber
% of total mortgage lending: 6.7%
% of regional lending at risk: 3.7%

6. East Midlands
% of total mortgage lending: 6.2%
% of regional lending at risk: 1.9%

7. East of England
% of total mortgage lending: 10.0%
% of regional lending at risk: 1.8%

8. Greater London
% of total mortgage lending: 20.7%
% of regional lending at risk: 3.2%

9. South East
% of total mortgage lending: 15.5%
% of regional lending at risk: 3.1%

10. South West
% of total mortgage lending: 8.5%
% of regional lending at risk: 1.8%

1. Northern Ireland
% of total mortgage lending: 4.6%
% of regional lending at risk: 2.8%

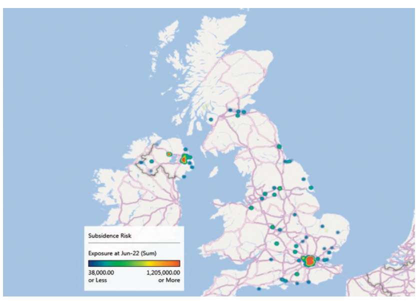
12.. Wales
% of total mortgage lending: 3%
% of regional lending at risk: 3.6%

11. West Midlands
% of total mortgage lending: 6.6%
% of regional lending at risk: 1.2%

2. Subsidence Risk

Similarly, 91% of UK Mortgages book relates to properties with low to negligible probability of a subsidence event occurring by 2030. Of the 9.2% that sits within a medium probability of a subsidence event by 2030, the value at risk is minimal for these properties.

Subsidence Risk probability	Book proportion
High: >5%	- %
Medium: >1%	9.2 %
Low: >0.1%	78.6 %
Very low: >0.01%	11.8 %
Negligible: <0.01%	0.43 %



3. Coastal Erosion

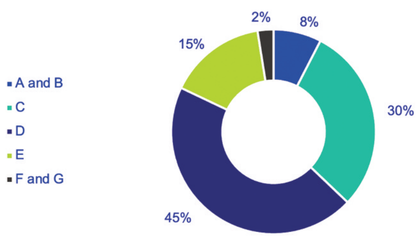
Less than 0.2% of properties within the mortgage portfolio have identified as being within 100m of the coast in areas where coastal erosion is a possibility.

4. Transition Risk - Energy Efficiency

The Group is committed as part of its climate ambition to support its customers to increase their residential energy efficiency whilst encouraging the purchase of energy efficient properties. This is aligned with the government target for all properties to have EPC rating of C or above by 2035 where cost effective, practical and affordable.

The EPC data is available for mortgages amounting to £11.7 billion (69% of mortgages portfolio in the UK).

Total England and Wales Mortgages with EPC data available (£11.7 billion)



Currently, 38% of the Group's book which has available EPC data corresponds to properties already in EPC ratings A to C. This is broadly in line with housing stock in England. The suite of climate-related metrics incorporated into monthly reporting during 2021 remain in place as well as a specific metric within the UK Credit Risk Appetite for 2023 for Buy-to-Let properties with an energy performance rating of C or above.

The annual treasury credit counterparty review also incorporates a qualitative climate risk assessment.

Future developments

The Group continues to monitor regulatory, governmental and industry developments in relation to new climate change risk related standards. Representation in industry working groups has helped inform the Group's approach. The Group is also a member of the Climate Financial Risk Forum Session 3, working within the disclosures, data and metrics work stream.

The Group recognises that managing climate risk is a focus topic for the Group, industry and governments. As data, industry and internal capability improves our approach to risk management incorporating quantitative metrics, KPIs and our risk appetite will also mature over time.

Transparently reporting
The Group has established a Climate Change Working Group to work towards compliance with upcoming disclosure requirements, for example, the mandated TCFD-aligned disclosure requirements laid out via the Companies Act and proposed Sustainability Disclosure Requirements. We will contribute and support the Parent TCFD where appropriate.

For further information on the TCFD refer to the Bank of Ireland Group plc Annual Report, available at www.bankofireland.com

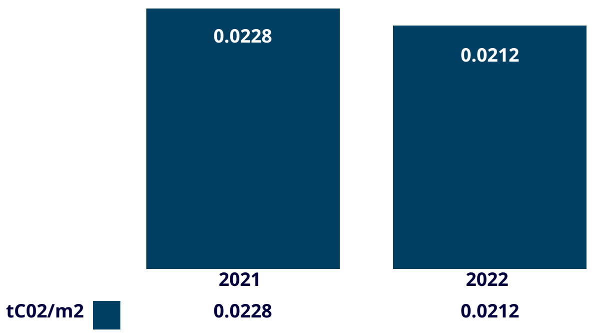
Responsible and Sustainable Business *(continued)*

The following table shows the Group's greenhouse gas emissions as required by the UK Streamlined Energy and Carbon Reporting (SECR) Regulations.

Summary of SECR	**2022**	**2021**
Total Energy consumption used to calculate emissions kWh (million)	6.85	9.12
Scope 1 Emissions in metric tonnes of carbon dioxide equivalent (tCO2e)[1,2]:		
Gas[3]	457	556
LPG[3]	4	13
Kerosene Fuel[3]	24	42
Gas Oil[3]	32	69
F-Gas[4]	80	31
Petrol Car[5]	82	86
Diesel Car[5]	29	48
Total Scope 1	**708**	**845**
Scope 2 Emissions (tCO2e):		
Purchased Electricity Location - based[6]	794	1,186
Purchased Electricity Market - based[7]	12	22
Total Scope 2 purchased electricity	**12**	**22**
Scope 3 Emissions in metric tonnes of carbon dioxide equivalent (tCO2e):		
Business travel	322	59
Waste	4.5	6
Purchased goods and services	6.5	5
Total Scope 3	**333**	**70**
Total Gross emissions in metric tonnes (tCO2e)	**1,053**	**937**
Intensity ratio scope 1 & 2 Tonnes CO2e per m2[8]	**0.0212**	**0.0228**
Intensity ratio scope 3 Tonnes CO2e per FTE[9]	**0.2338**	**0.0488**

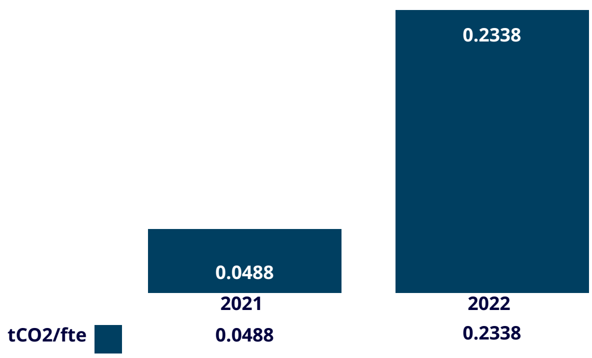
Scope 1 & 2

The graph below represents, in metric tonnes of carbon dioxide equivalent by metres squared (m2) intensity reduction under scope 1 and scope 2 2021 versus 2022.



Scope 3

The graph below represents, in metric tonnes of carbon dioxide equivalent per fte for scope 3 2021 versus 2022.



1 tCO2e - Carbon dioxide equivalent is the measure of greenhouse gas emissions.
2 Consumption figures obtained from utility bills and landlord consumption reports.
3 Consumption figures obtained from utility bills and landlord consumption reports.
4 Fluorinated Greenhouse gases (F-Gas) Figures from maintenance reports.
5 Emissions from staff car fleet.
6 Purchased Electricity Location based using UK 2021 & 2022 national grid conversions.
7 Purchased Electricity Market - based using UK 2021 & 2022 national grid conversions for GB and Northern Ireland is on 100% renewable energy except 3 small offices in GB using 60,326 kWhs.
8 Calculated as the sum of (SECR) emissions divided by the metres squared of buildings portfolio NI,GB 37,969 m2 for 2021 & 33,960 m2 for 2022.
9 Calculated as the sum of (SECR) emissions divided by the Full time employees (FTE) BOI UK (2022: 1,424.4 and 2021: 1,434.9).

Non-financial information statement

The Group continues to develop disclosures in line with emerging recommendations and complies with the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006. The purpose of this table is to assist stakeholders in understanding the Group's policies and management of key non-financial matters, and identify where they can find relevant information.

The Group and all its employees are subject to the provisions of the Parent's policies included below. Further details can be found in the Bank of Ireland Group plc annual report at www.bankofireland.com.

Reporting Requirement	Policies	Risk and Management (The Group)	Risk and Management (Bank of Ireland Group plc)
Environmental matters	Group Environment policy (ISO 14001)[1]	Responsible and sustainable business *(page 12)*	Environment and Energy *(page 35)*
	Group Energy policy (ISO 50001)[1]	Financial risks from climate change *(page 32)*	
Social and employee matters	Inclusion and Diversity policy	Responsible and sustainable business *(page 12)*	Vulnerable customers *(page 21)*
	Group Code of Conduct[1]	Responsible and sustainable business *(page 12)*	Inclusion and diversity *(page 20)*
	Equal Opportunities policy	Responsible and sustainable business *(page 12)*	Learning *(page 20)*
	Group Health and Safety policy	Conduct risk *(page 53)*	Wellbeing *(page 20)*
	Employee Data Privacy	Business and strategic risk *(page 52)*	Communities *(page 40)*
	Group Vulnerable Customers policy		People risk *(page 138)*
	Group Learning policy		
Respect for human rights	Modern slavery and human trafficking statement[1]	Operational Risk *(page 51)*	Information security *(page 41)*
	Group procurement policy		Operational risk *(page 138)*
	Group data protection and privacy policy		Human trafficking *(page 41)*
Bribery and corruption	Group Code of Conduct[1]	Responsible and sustainable business *(page 12)*	Code of conduct *(page 40)*
	Speak Up policy	Conduct risk *(page 53)*	Anti-bribery and corruption *(page 40)*
	Group Anti-Money Laundering policy (AML)		Anti-Money Laundering *(page 40)*
	Group Anti-bribery and Corruption policy		Conduct risk *(page 152)*
	Conflict of Interest Policy		
Diversity report	Board Diversity policy[1]	Corporate Governance arrangements *(page 63)*	Corporate Governance Statement *(page 72)*
Business model		Business operations *(page 28)*	Divisional Review *(page 59)*
Policies followed, due diligence and outcome		Risk management framework *(page 34)*	Risk management framework *(page 46)*
Description of principal risks and impact of business activity		Principal risks and uncertainties *(page 30)*	Key risk types *(page 47)* Principal risks and uncertainties *(page 133)*
Non-financial key performance indicators		Responsible and sustainable business *(page 12)*	Key highlights *(page 3)*

[1] *These polices are available on the Bank of Ireland Group plc website, www.bankofireland.com. All other policies listed are not published externally.*

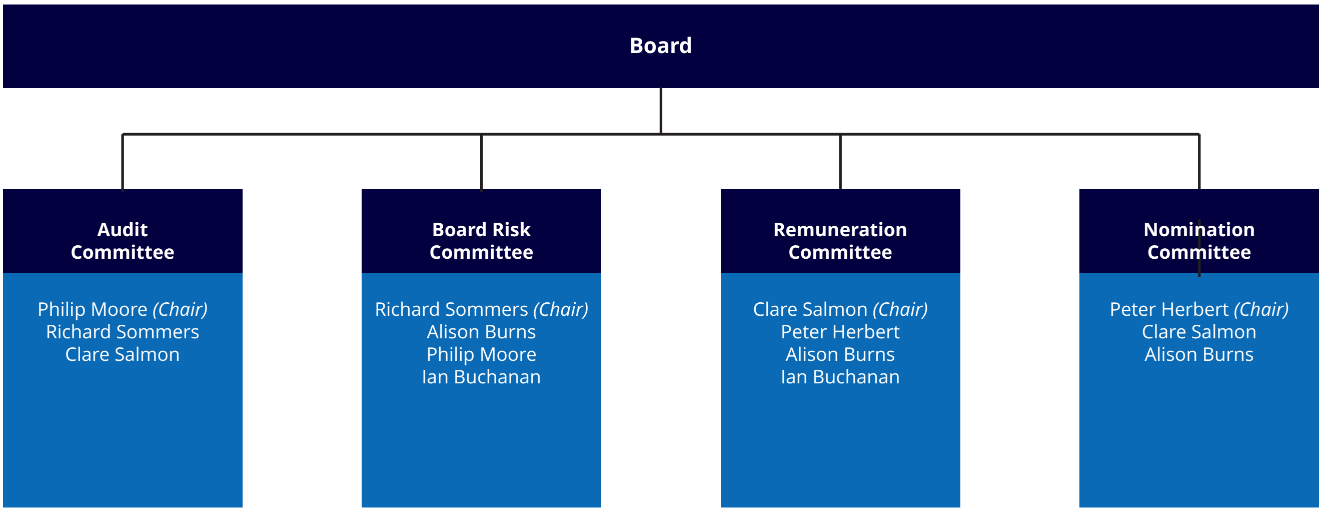
Governance structure

The Board is collectively responsible for the long-term sustainable success of the Group and ensuring there is a strong corporate structure in place. It provides leadership of the Group, setting strategic aims, within the boundaries of the risk appetite and a framework of prudent and effective controls. During 2022, the Board met 15 times. Further details are included in the Governance section on page 58.

The Board is responsible for corporate governance, encompassing leadership, direction and control of the Group. The Group's corporate governance standards are implemented by way of a comprehensive and coherent suite of frameworks, policies, procedures and standards covering corporate governance as well as business and financial reporting, and risk management activities. These are supported by a strong tone from the top on expected culture and values.

The Board has delegated specific responsibilities to the following Board Committees: Audit Committee, Nomination Committee, Remuneration Committee and Risk Committee; and each of these committees provides detailed focus to different areas of the Board's work. An overview of each of the committees is set out below.

Our Board



The Board is supported by a number of Committees:

Audit Committee

Philip Moore
Chair

Monitors the integrity of the financial statements, oversees all relevant matters pertaining to the external auditors and reviews the Group's internal controls, including financial controls, and the effectiveness of the internal audit function. The Committee meets at least four times a year. In 2022, the Committee met 11 times, primarily due to the change of auditors in the year.

Board Risk Committee (BRC)

Richard Sommers
Chair

Monitors risk governance and assists the Board in discharging its responsibilities in ensuring that risks are properly identified, reported, assessed, and controlled and that strategy is cognisant of the Group's risk appetite. The Committee meets at least five times a year. In 2022, the Committee met 10 times, due to out of course meetings relating to the UK strategy.

Remuneration Committee

Clare Salmon
Chair

Holds delegated responsibility for setting remuneration strategy and policy for Executive Directors and senior management. The Committee meets at least twice a year. In 2022, the Committee met 6 times.

Nomination Committee

Peter Herbert
Chair

Responsible for leading the process for Board, Board Committee and senior management appointments and renewals. The Committee regularly reviews succession plans for the Board, and the senior management team, and makes appropriate recommendations to the Board. The Committee meets at least twice a year. In 2022, the Committee met 5 times.

Section 172(1) Statement

The Board of Directors confirms that during the year under review, it has acted to promote the long term success of the Company for the benefit of its members as a whole and in doing so having regard to the matters set out in Section 172(2)(a) to (f) of the Companies Act 2006:

S172 factor	Relevant disclosures
A) the likely consequences of any decision in the long term;	Our Strategy (page 10) Responsible & Sustainable Business (page 12)
B) the interests of the company's employees;	Responsible and Sustainable Business (page 12) Our Strategy (page 10)
C) the need to foster the company's business relationships with suppliers, customers and others;	Responsible and Sustainable Business (page 12) Our Strategy (page 10)
D) the impact of the company's operations on the community and the environment;	Responsible and Sustainable Business (page 12)
E) the desirability of the company maintaining a reputation for high standards of business conduct; and	Responsible and Sustainable Business (page 12)
F) the need to act fairly as between members of the company.	Our Strategy (page 10)

Methods used by the Board

The main methods used by the Board to perform its duties include:

- A clear and robust Governance structure with clear lines of accountability and responsibility for the Board, Committees and Executive team;
- A three lines of defence approach for Risk Governance. Further information on this approach is available in the Risk Management Section of the Annual Report on page 33;
- A focused schedule of technical and business Board and Committee training is agreed annually. For further information on the training provided to the Board and Committees during 2022, see the Wates Principles in Corporate Governance Arrangements (page 63).
- Following internal review of the Board's effectiveness in 2021, actions implemented during 2022 to enhance Board effectiveness include:
  - the appointment of a new Group-nominated non-Executive Director to the Board with skills and experience to enhance the overall Board;
  - continued improvements to Board papers and information, including monthly Board Management Information (MI);
  - re-appointed Colleague Engagement Director and Customer & Consumer Duty Champion; and
  - continued quarterly, virtual Board visibility sessions as a way for different cohorts across the Group to engage directly with Board directors outside the Boardroom.
- The Board reviewed and reconfirmed its support for the transformation strategy at its annual Board Strategy days in April 2022.
- Matters reviewed and approved by the Board, included the Group's Consumer Duty Implementation Plan; ICAAP, ILAAP; Annual three year Strategic Plan and Resolution and Recovery Plan.
- External Assurance is received through auditors and other professional advisors, for example Kearney on ESG and EY on Consumer Duty.

Principal Decisions Made During the Year

In accordance with Section 172 of the Companies Act 2006, the Board took into consideration all stakeholders when making decisions for the Group. During 2022, the Board reviewed and approved a number of strategic initiatives and played a key role in all material decisions including review and confirmation of its commitment to the multi-year transformation strategy; the Consumer Duty Implementation Plan; and disposal (by way of securitisation) of a portfolio of non-performing UK mortgages (with a gross carrying value of £220 million).

Stakeholder Engagement

The Group's key stakeholders are those who impact or are impacted by its strategy and activities, and include its shareholders, customers and colleagues. Engagement with stakeholders informs strategic decision-making and is key to ensuring that responsible balanced decisions are made. It is the Group's intention to act responsibly towards its stakeholders.

Section 172(1) Statement *(continued)*

Stakeholder	How We Engage	Further Examples of Engagement
Shareholder	The Group is focused on delivering sustainable returns for its shareholder via a multi-year restructuring programme that began in 2020 and will focus on "value, rather than volume" enabling the Group to lower its funding and operating costs, and focus on higher margin businesses where it has the required expertise. Three of the Group's Board Directors are also members of the Parent's Group Executive and Group Executive Risk Committees. To ensure appropriate flow of information and representation between the Group Board and the Parent Board and the Parent's Group Executive Committee, three Parent-nominated non-executive directors sit on the UK Board and the Board regularly receives updates and reports from the Parent, including a twice-yearly update from the Chief Executive Officer of the Parent. In addition, at least annually, the Chairs of the Group Risk and Audit Committees attend their equivalent Parent Board Committees; with the Parent's Board Chair and Board Audit Committe Chairs attending equivalent Group meetings at least annually. Other informal interactions take place throughout the year between the Group and Parent Group Board and Board Committee Chairs.	- Business Review: 2022 key performance highlights (page 3) - Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 10)
Customers	The Group seeks to behave responsibly towards its customers, treating them fairly and equally so that they too, may benefit from the successful delivery of the Group's strategy. The core Group value of being customer focused supports this objective. The Group's focus has been on delivering solutions aligned with FCA guidance and supporting all customers, and in particular those most vulnerable as a direct result of cost of living and inflationary pressures. The Board consistently reviews its customer strategy, receives updates on implementation and reviews progress at formal Board meetings and through regular interaction with and updates from management. The Board's understanding of customer perspectives is informed by deep dives on customer themes and customer complaints and underpinned by a focus on continued improvement in customer outcomes. The Group has established an Executive Customer Board which is responsible for oversight and delivery of the Group's Customer Plan through formalised engagement and collaboration between the Executive Committee (ExCo) members accountable and the business heads responsible for and/or significantly involved in its delivery. The Board has also appointed an independent non-Executive Director as Customer & Consumer Duty Champion. The objective of the Customer & Consumer Duty Champion is to support and enhance Board focus and discussion on good customer outcomes, applying a customer lens to all matters and encouraging the Board to "walk in the customer's shoes". In March 2021, the Group launched a new 3 year strategy "Investing in Tomorrow", an objective of which is to enhance customers' financial wellbeing (see page 4 of the Chair's Statement).	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 10) - Responsible and Sustainable Business (page 12) - Customer & Consumer Duty Champion
Society	The Group seeks to enable society to thrive, through a tangible and visible commitment that brings its purpose to life. The Group supports the wider community through charity and community activities and by playing an active role in society. Employees are actively involved in fundraising and volunteering in charitable events across the UK for a range of charities and community projects. In 2020, in conjunction with the Parent, the Group rolled out its new approach to community investment, Begin Together. Begin Together is a three year campaign across the island of Ireland to improve the financial, physical and mental wellbeing of society, while supporting the underlying local economies as they reboot and recover from the impact of COVID-19; and adjust to the impacts of cost of living and inflationary pressures. The Group also has a UK Community Giving Fund which provides grants to local community organisations and charities through the Community Foundations based in Northern Ireland, Bristol and London.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 10) - Responsible and Sustainable Business (page 12)
Colleagues	The Group's people are fundamental to the delivery of its strategy. The Group aims to be a responsible employer and is committed to enabling its people to thrive, ensuring they are engaged and have the skills and capabilities to serve customers brilliantly. The Board's understanding of employee perspectives is informed by direct engagement with colleagues including informal virtual 'Board visibility' and Colleague engagement ' sessions. In 2022, the Board re-appointed an independent non-executive director, Clare Salmon as Colleague Engagement Director. The objective of the Colleague Engagement Director is to ensure that Colleagues' views are heard and considered fully as part of Board decision-making. The Group's 3-year "Investing in Tomorrow" strategy, launched in March 2021, includes investing in new skills, such as digital, to strengthen the Group's digital capability and Colleagues' employability.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 10) - Responsible and Sustainable Business (page 12) - Colleague Engagement Director - Board representation at the Group-wide Recognition Awards

Section 172(1) Statement *(continued)*

Stakeholder	How We Engage	Further Examples of Engagement
Regulators	The Chair of the Board and Chairs of the Audit and Risk Committees regularly meet with regulators including the PRA and FCA. Core themes of discussion include regulation and supervision, risk governance and oversight, the future of the banking industry, operational resilience, strategic challenges and culture. In addition, Executive Directors meet regularly with regulators. The PRA attended a Group Board meeting in October 2022.	- Responsible and Sustainable Business (page 12) - Principal Risks and Uncertainties (page 30) - Credit Risk (page 39) - Conduct Risk (page 53) - Regulatory Risk (page 50)
Suppliers	The Group assesses its suppliers across a number of key risk areas, at the on-boarding stage for all suppliers and annually thereafter for suppliers providing services of high criticality and dependency to the Group. The Parent is a material supplier of services to the Group; the services are managed via a Master Service Agreement and subject to a number of Service Level Agreements. For further details see note 9 and note 43. The Board requires the Group to seek assurances (where appropriate) from its suppliers that they are complying with applicable laws and regulations including laws relating to minimum wages, working conditions, overtime, child labour and other applicable labour and environmental laws. This ensures the Group selects only those suppliers who adhere to appropriate standards. The Group has adopted a risk based approach to review its supply chains that fall within industries that carry a high risk of modern day slavery. For further details, the Bank of Ireland Group plc Modern Slavery Statement is available on its website (https://www.bankofireland.com/about-bank-of-ireland/corporate-governance/modern-slavery-human-trafficking-statement/).	- Our strategy (page 10)
Partners	The Group's strategy has been designed to enable its customers, colleagues and society to thrive. This is achieved through the distribution of simple, flexible, financial services to UK customers both directly and through partnerships with well-known UK brands. These include a financial services relationship and foreign exchange joint venture with the Post Office; a financial services partnership with the AA; partnering with a number of intermediaries via the Group's mortgage business; a full service retail and commercial bank in NI; and a car and asset finance business throughout the UK, under the Northridge Finance and Marshall Leasing business brands.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 10) - Responsible and Sustainable Business (page 12)
Environment	The Group recognises that combating climate change is one of the greatest challenges of global society and understands the important role it has in facilitating the transition to a resilient, low-carbon economy. The Group is committed to working together with customers, colleagues and society to support the transition to a resilient, Net Zero economy by 2050, in line with UK government ambitions. The Board considers the risks of climate change seriously in setting the long term sustainable strategy for the Group, and has delegated responsibility to the BRC to oversee the plan for managing the financial risks from climate change in relation to its overall business strategy and risk appetite, through regular risk reporting and other related exercises.	- Responsible and Sustainable Business (page 12) - Principal Risks and Uncertainties (page 30)

Financial Review

Basis of presentation

The strategic report has been presented on a consolidated basis for the years ended 31 December 2022 and 31 December 2021.

Percentages presented throughout this document are calculated on the absolute underlying figures, so may differ from percentage variances calculated on the rounded numbers presented. Where percentages are not measured this is indicated by n/m.

Bank of Ireland (UK) plc is a public limited company incorporated in England and Wales and domiciled in the UK.

References to the 'Group' throughout this document should be taken to refer to Bank of Ireland (UK) plc and its subsidiary undertakings and the 'Parent' refers to the Governor and Company of the Bank of Ireland.

Further details on the Group structure are shown in note 45.

The Group is regulated by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

2022 Financial results

Statutory profit before tax
£251m
(2021: £410m)

Underlying profit before tax
£278m
(2021: £335m)

Reduction in statutory operating expenses
9%/£25m
(2021: 12%/£38m)

Impairment loss
£64m
(2021: £54m gain)

Group income statement

2022

			Non-Core items			
Summary consolidated income statement	**Underlying basis[1] £m**	**Strategic portfolio divestments £m**	**Transformation investment costs £m**	*Cost of restructuring programmes £m*	*Other transformation charge £m*	**Statutory basis £m**
Net interest income	555	-	-	-	-	555
Net other income	(22)	-	-	-	-	(22)
Total operating income	**533**	**-**				**533**
Operating expenses	(220)	-	**(27)**	-	(27)	(247)
Operating profit/(losses) before net impairment losses on financial instruments	**313**	**-**	**(27)**	**-**	**(27)**	**286**
Net impairment gains/(losses) on financial instruments	(64)	-	-	-	-	(64)
Profit on sale of property, plant and equipment	1	-	-	-		1
Share of gain after tax of joint venture	28	-	-	-	-	28
Profit on disposal of business activities	-	-	-	-	-	-
Profit on sale of financial asset	-	-	-	-	-	-
Profit before taxation	**278**	**-**	(27)	-	(27)	**251**
Taxation charge	-	-	-	-	-	(23)
Profit for the period	**278**	**-**	**-**	**-**	**-**	**228**

2021

			Non-Core items			
Summary consolidated income statement	**Underlying basis[1] £m**	**Strategic portfolio divestments £m**	**Transformation investment costs £m**	*Cost of restructuring programmes £m*	*Other transformation charge £m*	**Statutory basis £m**
Net interest income	511	-	-	-	-	511
Net other income	7	17	-	-	-	24
Total operating income	518	**17**	**-**	**-**	**-**	**535**
Operating expenses	(235)	(6)	(31)	(21)	(10)	(272)
Operating profit/(losses) before net impairment losses on financial instruments	**283**	**11**	**(31)**	**(21)**	**(10)**	**263**
Net impairment gains/(losses) on financial instruments	54	-	-	-	-	54
Share of loss after tax of joint venture	(2)	-	-	-	-	(2)
Profit on sale of property, plant and equipment	-	-	-	-	-	-
Profit on disposal of business activities	-	1	-	-	-	1
Profit on sale of financial asset	-	94	-	-	-	94
Profit before taxation	**335**	**106**	**(31)**	**(21)**	**(10)**	**410**
Taxation charge	-	-	-	-	-	(12)
Profit for the period	**335**	**-**	**-**	**-**	**-**	**398**

[1] *Underlying profit before taxation excludes non-core items which the Group believes obscure the underlying performance trends in the business. Refer to page 25 for further details.*

Group income statement *(continued)*

For further information on performance measures referred to, see page 175.

The Group income statement on page 24 provides a reconciliation between the statutory profit before tax of £251million (2021: £410 million) and the underlying profit before tax of £278 million (2021: £335 million).

Underlying performance excludes non-core items, which are those items that the Group believes obscure the underlying performance trends of the business. Where the Group has made a strategic decision to exit an area of the business the related income and expenses are treated as non-core. In 2021, income and costs were included within strategic portfolio divestments, which related to the Automatic Teller Machine (ATM) business agreement, to transfer ownship of c. 1,400 ATMs directly to the PO. This process commenced during 2020, all income and expenditure was fully provided and accounted for during 2021. All devices were fully disposed by March 2022.

The Group has treated the following items as non-core in the year ended 31 December 2022:

Transformation Investment costs
In 2020, the Group undertook a strategy review as competitive market conditions necessitated further restructuring and transformation of the business. As part of the multi-year transformation programme, these costs were associated with determining and designing the future state operating and business model. This was with a view of providing improved customer outcomes, supporting our Partnerships and modernising the IT architecture. This expenditure has been treated as non-core and excluded from underlying performance on the basis it does not contribute to day to day business and will be incurred over a specific time period.

During 2022, the Group recognised a charge for transformation investment costs of £27 million. Included in this are transformation costs relating to to branch refurbishments, enhancing customer journeys and strategic reviews of our operating model and outsourcing relationships.

Statutory profit before tax of £251 million in 2022 was £159 million lower than 2021, driven by the factors listed below.

Statutory net interest income increased by £44 million or 9% compared to the previous year. This increase was primarily driven by large volumes of Bespoke mortgage lending, and other changes in lending product mix. Net interest income also benefited from reduced liability costs as the Group optimised its overall funding base in line with its agreed strategy.

Statutory net other income decreased by £46 million. This is primarily due to ATM income ceasing in 2021 and higher commission expenses paid to our partnerships.

Statutory operating expenses of £(247) million decreased by £25 million, primarily reflecting operating efficiencies including the reduction of staff costs supported by the implementation of the voluntary redundancy programme. The Group continued to focus on reducing its operational costs, while maintaining transformational investment in regulatory compliance, technology and business growth.

The Group recognised a net impairment charge of £64 million on financial instruments in 2022 compared to a gain of £54 million in 2021, an overall increase of £118 million on the previous year. The charge in 2022 reflects: the impact on IFRS 9 models of Forward Looking Information from the Group's latest macro-economic outlook; a management adjustment related to the sale of non-performing exposures within the mortgage and business banking portfolios and actual loan loss experience in the year.

Approximately 46% of the impairment loss was recognised for assets that are not credit-impaired consistent with the recognition of expected credit loss under IFRS 9.

Income from the joint venture relates to the Group’s foreign exchange joint venture with the PO, First Rate Exchange Services Holdings Limited (FRESH). The profit in 2022 reflects the improvement in the foreign travel market during the second half of 2022. For further information refer to note 22.

The **taxation charge** for the Group was £23 million compared to £12 million for 2021. Excluding the tax credit of £19 million arising from the reassessment of the value of tax losses carried forward (refer to note 15), the effective tax rate for the year ended 31 December 2022 was a taxation charge of 17% (2021: taxation credit of 14%). For further information on the taxation charge refer to note 15.

The Group has disclosed its UK tax strategy in line with Schedule 19 of the UK Finance Act 2016 on its website, www.bankofirelanduk.com.

Group balance sheet

Summary consolidated balance sheet	2022 £m	Restated[1] 2021 £m	Change %
Cash and balance with central banks	2,239	3,456	(35%)
Loans and advances to banks	1,461	1,574	(7%)
Loans and advances to customers	14,018	16,396	(15%)
Fair value changes of the hedged items in portfolio hedge of interest risk	(276)	(71)	289%
Debt securities at amortised cost	528	798	(34%)
Assets classified as held for sale	-	1	(89%)
Total other assets	902	551	64%
Total assets	**18,871**	**22,705**	**(17%)**
Deposits from banks	3,107	3,399	(9%)
Customer accounts	12,222	15,754	(22%)
Fair value changes of the hedged items in portfolio hedge of interest risk	(130)	(1)	-
Subordinated liabilities	190	190	-
Debt securities in issue	379	448	(15%)
Total other liabilities	1,458	1,172	24%
Total liabilities	**17,226**	**20,962**	**(18%)**
Equity attributable to owners of the parent	1,645	1,743	(6%)
Total equity and liabilities	**18,871**	**22,705**	**(17%)**
Statutory return on tangible equity	14.8%	24.8%	
Return on assets[2]	1.21%	1.75%	
Loan to deposit ratio	115%	104%	
Liquidity coverage ratio (LCR)	178%	268%	
Net stable funding ratio	135%	139%	

Loans and advances to customers	2022 £m	2022 % of book	Restated[1] 2021 £m	Restated[1] 2021 % of book
Residential mortgages	9,742	68%	12,203	74%
Non-property SME and corporate	1,355	10%	1,416	8%
Commercial property and construction	274	2%	274	2%
Consumer	2,831	20%	2,681	16%
Loans and advances to customers (before impairment provisions)	**14,202**	**100%**	**16,574**	**100%**
Impairment provisions	(184)		(178)	
Loans and advances to customers (after impairment provisions)	**14,018**		**16,396**	

The Group's **cash and balances with central banks**, which is cash placed with Bank of England, decreased year on year by £1.2 billion at 31 December 2022, as a result of the optimisation of the funding position of the Group during 2022, following a mortgage asset sale with the Parent of £1.4 billion in late 2021.

The Group's **loans and advances to banks** of £1.4 billion decreased year on year by £0.1 billion since 31 December 2021, due to decreases in amounts due from the Parent.

Loans and advances to customers of £14.0 billion decreased by £2.4 billion primarily reflecting gross new lending of £2.9 billion offset by redemptions of £5.2 billion.

The Group has voluntarily changed its accounting policy for the presentation of portfolio fair value hedge adjustments on the Group's balance sheet as a separate line item.

In prior periods, the portfolio fair value hedge adjustment related to fixed rate mortgages, current accounts and demand deposit accounts were included within their carrying amount on the Group's balance sheet. Please see note 1 of Group accounting polices on page 83 for more detail.

Gross new lending of £2.9 billion is £0.6 billion lower when compared to 2021 due to the impact of the Group's strategy to focus on higher returning lending segments within agreed risk parameters.

New residential mortgages originated during 2022 were £1.0 billion, offset by, repayments, and redemptions on the existing portfolio, resulting in a net decrease in the mortgage portfolio of £2.5 billion.

Northridge Finance net lending volumes increased by £0.1 billion in the year. New lending increased by £0.2 billion on 2021.

New personal lending through the Group's partners, the PO and the AA, was £0.6 billion, an increase of 29% on 2021.

Gross new commercial lending was £0.2 billion in 2022, partially offset by repayments of £0.2 billion.

During 2022, the impairment provision on

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

[2] *Return on assets is calculated on a statutory profit basis.*

Group balance sheet *(continued)*

loans and advances to customers of £184 million increased by £6.0 million compared to 31 December 2021. Further details are included in note 20.

Debt securities at amortised cost of £0.5 billion comprises £0.1 billion of UK Government treasury bills, £0.3 billion of Multilateral Development Bank bonds and £0.1 billion of UK covered bonds at 31 December 2022.

Other assets increased by £0.3 billion while other liabilities also increased by £0.3 billion, this is driven by moves on derivative financial instruments.

Customer accounts decreased by £3.5 billion to £12.2 billion at 31 December 2022, reflecting the Group's strategy to optimise its funding mix.

Deposits from banks of £3.1 billion at 31 December 2022 decreased by £0.3 billion.

Debt securities in issue were £379 million at 31 December 2022 (2021: £441 million), down £62 million from 2021 due to a decrease in residential mortgage backed securities.

The Group's LCR decreased to 178% at 31 December 2022 (2021: 268%), reflecting the impact of decreases in cash and balances with central banks, and decreases in customer accounts.

The Group's equity of £1.6 billion is £100 million lower than 2021, reflecting £250 million dividend paid.

Retained earnings decreased by £34 million primarily due to profit for the year of £228 million offset by £250 million dividend paid. Further details are included in note 43.

Customer accounts	2022 £m	Restated[1] 2021 £m
Bank of Ireland deposits and current accounts	6,180	6,287
PO deposits	5,881	9,123
AA deposits	161	344
Total customer accounts	**12,222**	**15,754**

Return on tangible equity	2022 Statutory basis £m	2022 Underlying basis £m	2021 Statutory basis £m	2021 Underlying basis £m
Profit for the period attributable to shareholders	228	228	398	398
Coupon on AT1 securities, net of tax	(7)	(7)	(17)	(17)
Amortisation of intangible assets, net of tax	3	3	3	3
Reassessment of tax losses carried forward (see note 15)	-	(19)	-	(43)
Non-core items, net of tax (see page 24)	-	(19)	-	(78)
	225	**187**	**384**	**263**
Shareholders' equity, excluding AT1 capital	1,495	1,495	1,592	1,592
Intangible assets and goodwill	(28)	(28)	(32)	(32)
Shareholders' tangible equity	**1,467**	**1,467**	**1,560**	**1,560**
Average shareholders' tangible equity	**1,520**	**1,520**	**1,546**	**1,546**
Return on tangible equity	**14.8%**	**12.3%**	**24.8%**	**17.0%**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

Capital

31 December 2021			31 December 2022	
Regulatory[1] %	Fully loaded[2] %		Regulatory[1] %	Fully loaded[2] %
		Capital ratios[3]		
17.5%	17.2%	Common equity tier 1	18.4%	18.2%
19.2%	19.0%	Tier 1	20.2%	20.1%
21.4%	21.2%	Total capital	22.8%	22.7%
7.3%	7.2%	Leverage ratio	9.2%	9.1%

The Group is strongly capitalised with a total capital ratio on a regulatory basis of 22.8% (2021: 21.4%). Total regulatory capital resources decreased by £119 million to £1.7 billion. For further information please refer to page 55.

Capital ratios have been presented including the benefit of the retained profit in the period in accordance with Article 26 (2) of the Capital Requirements Regulation (CRR).

Income statement - by business unit

The Group manages the business operations under three units:

- GB Consumer Banking – offering consumer banking products through strategic partnerships with the PO, the AA, other intermediaries and the asset finance and leasing business of Northridge Finance and Marshall Leasing business.
- NI - a full service retail bank operating through a distribution network of branches and business centres and via direct channels (telephone, mobile and on-line). The Bank is also authorised to issue bank notes in NI. There is also a legacy commercial lending business which is undergoing a continued programme of deleveraging, which is no longer shown separately as it is now managed under the NI business.
- Group Centre - centralised management of risk and control functions and the Group's funding, liquidity and capital positions.

1 Regulatory capital is reported including the IFRS 9 transitional adjustment.
2 Fully loaded capital is reported excluding the IFRS 9 transitional adjustment.
3 Capital ratios reflect the UK regulatory position of the BOI UK regulatory group which consists of the Bank, its subsidiary, NIIB Group Limited and the securitisation vehicle, Bowbell No.2 plc.

Income statement - by business unit *(continued)*

2022 **Consolidated income statement**	**GB consumer banking £m**	**NI £m**	**Group centre £m**	**Total £m**
Operating income	370	147	16	533
Operating expenses	(130)	(68)	(22)	(220)
Operating profit / (loss) before net impairment losses on financial instruments	**240**	**79**	**(6)**	**313**
Net impairment losses on financial instruments	(39)	(25)	-	(64)
Share of profit of joint venture	28	-	-	28
Profit / (loss) on disposal of business activities	-	1	-	1
Underlying profit / (loss) before taxation	**229**	**55**	**(6)**	**278**
Non-core items	-	-	(27)	(27)
Statutory profit before taxation	**229**	**55**	**(33)**	**251**

2021 *(restated)*[1] **Consolidated income statement**	**GB consumer banking £m**	**NI £m**	**Group centre £m**	**Total £m**
Operating income	349	141	27	518
Operating expenses	(107)	(73)	(54)	(235)
Operating profit / (loss) before net impairment losses on financial instruments	**242**	**68**	**(27)**	**283**
Net impairment losses on financial instruments	35	15	4	54
Share of losses of joint venture	(2)	-	-	(2)
Profit / (loss) on disposal of business activities	-	-	1	1
Underlying profit / (loss) before taxation	**275**	**83**	**(22)**	**335**
Non-core items	105	-	(31)	75
Statutory profit before taxation	**380**	**83**	**(53)**	**410**

GB Consumer Banking

The statutory profit of GB Consumer Banking decreased by £151 million compared to 2021. This is primarily due to increased impairment charges of £74 million, reflecting the one off impact of forward looking information updates and management adjustments for COVID supports in 2021 and:

- the impact of the one off gains in 2021 arising from the strategic portfolio divestment activity of £105 million; partly offset by
- an increase in the income of the foreign currency joint venture of £30 million.

Pre-impairment profits were in line with last year due to slightly increased income over 2022, offset by an equivalent increase in operating expenses.

NI

Pre-impairment profit in NI increased by £11 million, with income slightly increased due to increased earnings on customer accounts given the upward movement in BOE bank rates during the year, and a £5 million reduction year on year in operating expenses. Increase in impairments of £40 million impacted profit before tax in 2022.

Group Centre

The Group Centre statutory loss has decreased by £20 million, down 40% compared to 2021, primarily due to lower operational costs, while maintaining transformational investment in regulatory compliance, technology and business growth.

During 2022 there was a change in the cost allocation method which impacted the allocation across business units. See note 9 on page 110 for more information.

[1] *GB Business Banking was included in the 2021 figures as a separate column, this has now been included in the NI figures for 2021 and 2022 and this is now managed under the NI business.*

Principal risks and uncertainties

Key risks identified by the annual risk identification process, together with key controls and mitigating factors are set out below.

The Group has taken steps to understand and where possible mitigate the impact of the current cost of living crisis in the UK though review of credit processes and a focus on ensuring good customer outcomes. There remains ongoing uncertainty in respect of the war in Ukraine, energy prices, Brexit, supply chain constraints, labour force pressures and the associated economic impacts on the Group's performance.

While the impacts have lessened over the course of the year, the Group has also continued to support its customers through the economic effects of the COVID-19 pandemic by ensuring the relevant payment break and forbearance schemes are in place.

This summary should not be regarded as a complete and comprehensive statement of all potential risks, uncertainties or mitigants, nor can it confirm that the mitigants would apply to fully eliminate or reduce the corresponding key risks.

Additionally, other factors not yet identified, or not currently material, may adversely affect the Group.

Principal risks	Potential risk impact	Key controls and mitigating factors
Credit risk *For definition, See Credit Risk (Section 2.1 – Page 39)*	Should commercial or consumer customers or banking/foreign counterparties be unable to meet their obligations in relation to borrowings from the Group, the Group may suffer increased losses and this would have an adverse impact on the Group's financial position.	• BRC approved Credit Policy and Board approved risk appetite limits, together with a framework for cascade to business areas. • Defined credit processes, policies, limits and controls aligned to risk appetite. • Reporting to the ERC, the BRC and the Board. • Strategies to maximise recoveries from impaired assets whilst providing suitable and sustainable options that are supportive of vulnerable customers.
Liquidity and funding risk *For definition of Liquidity and funding risk (Section 2.2 Page 46)*	A loss of confidence in the Group's business; either the financial services industry, partner brands, or the Parent, or as a result of a systemic shock could result in unexpectedly high levels of customer deposit withdrawals or lead to a reduction in the Group's ability to access funding on appropriate terms. This in turn would have a materially adverse effect on the Group's results, financial condition and liquidity position.	• Board approved risk appetite limits. • A Liquidity and Funding Risk Management Framework (RMF), which is reviewed annually, is in place. • Daily monitoring and management of the liquidity position. • Active management of the funding position and forward looking analysis including stress testing. • Regular reporting to the Asset and Liability Committee (ALCO), the ERC, the BRC and the Board. • Significant contingent liquidity. • Comprehensive Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan in place.
Regulatory risk *For definition, see Regulatory Risk (Section 2.4 – Page 50)*	Non-compliance with legislative and regulatory obligations may result in customer harm and financial loss, financial penalties placed upon the Group, directions from statutory authorities, other regulatory sanction including limitations on its business and reputational risk to the Group.	• The Group has no appetite for failure to comply with its regulatory or legislative obligations. • Ongoing monitoring of change horizon ensures timely identification and implementation of changes to the legislative and regulatory perimeter. • Regular and open communication with the FCA, PRA, European Central Bank (ECB), Competition and Markets Authority and Open Banking Implementation Entity on all aspects of the Group's activities. • Regular reporting to senior management, the Regulatory and Operational Risk Committee (R&ORC), the ERC, the BRC and the Board.
Operational risk *For definition, see Operational Risk (Section 2.5 – Page 51)*	Failing to adequately manage operational risks inherent in the organisation's processes could lead to risk events across four categories: 1. Financial Loss; 2. Customer Detriment or Inconvenience; 3. Regulatory Breach; and 4. Reputational Damage. Where such impacts are severe or critical, this would result in an adverse impact on the Group's financial position. Risk to the continuance of Important Business Services (and Mission Critical Services).	• Board approved risk appetite limits. • Risk management framework, policies and standards covering all key operational risk types including Information Technology, Information and Cyber Security, Sourcing, Operational Resilience and Data Risk. • Defined processes with controls identified, monitored and tested. • Operational Risk reporting to the ERC, BRC and Board. • Regular staff training.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors
Financial Crime risk *The risk that the Group's associated persons (colleagues or third parties) commit or facilitate financial crime, and/or the Group's products and services are used to facilitate financial crime and therefore undermines the Group's market integrity and may result in:* • *Detriment to clients, customers, counterparties or colleagues* • *Diminished confidence in financial products and services* • *Damage to the Group's reputation* • *Regulatory breaches and/or financial penalities.*	Risk that the Group's systems, products and services are used by customers or third parties to facilitate or attempt to facilitate money laundering or the financing of terrorist activities. Risk that the Group provides access to financial services to individuals, entities, countries or in respect of any vessel on relevant 'sanctions lists' where to do so would constitute a breach of the sanctions regulations in the relevant local jurisdiction. Risk that Group associated persons facilitate tax evasion by Group, its employees or its customers, or engage in bribery or corruption that benefits the Group.	• Board approved risk appetite limits. • A robust Financial Crime Risk Management Framework, including specific policies, standards and risk mitigation measures for financial crime risks (anti-money laundering, countering the financing of terrorism, sanctions, and anti-bribery and corruption). • Risk based systems and controls for automated customer due diligence and risk assessment, customer and payments screening (including sanctions), and transaction monitoring. • Annual entity wide Anti-Money Laundering (AML), Countering Financing of Terrorism (CFT) and Sanctions risk assessments measuring the level of inherent and residual AML/CFT and Sanctions risk for the Group, and the robustness of the control environment. • Ongoing monitoring of change horizon and industry developments ensures timely identification and implementation of changes to legislative and regulatory requirements. • Ongoing monitoring of the threat environment ensures effective risk mitigation measures are in place to address threats within the national context and wider geopolitical events, such as the war in Ukraine. • Regular monitoring and reporting to R&ORC, ERC and BRC, the Board, and Parent Committees, as required. • Regular staff training.
Business and Strategic risk *For definition, see Business and Strategic Risk (Section 2.6 – Page 52).*	Adverse changes in the Group's revenue and/or costs resulting in reduced profitability. Enhanced competition in chosen markets affecting margins. Economic conditions driving uncertainty in chosen markets.	• A clearly defined strategic plan is developed within the boundaries of the Board approved risk appetite and risk identity, ensuring balanced growth in consumer lending with a stable funding profile that is appropriate for the asset mix. • Clearly defined and regularly monitored KPIs are reviewed at both Executive and Board committee level through regular reporting of business and strategic risks to ERC, BRC and Board supported by close monitoring of competitor product developments. • Whilst the residual impacts of the COVID-19 pandemic and the geopolitical risk associated with continued Brexit/NI Protocol uncertainties remain key concerns to the organisation. New emerging risks in 2022 and carried forward into 2023 have required significant management attention including the cost of living crisis fuelled by energy prices, soaring inflation, supply chain disruption and labour market challenges. • Potential impacts of the ongoing war in Ukraine remain a management focus.
Reputation Risk *is the risk to earnings or franchise value arising from adverse perception of the Group's image on the part of customers, partners, suppliers, counterparties, shareholders, investors, staff, legislators or regulators.* *Reputation is not a standalone risk but overlaps with other risk areas and may often arise as a consequence of external events or operational risk related issues.*	Adverse public, regulatory or industry opinion, resulting from the actual or perceived manner in which the Group conducts its business activities may adversely impact the Group's ability to have a positive relationship with key stakeholders and/or strategic partners and/or keep and attract customers.	• The Group seeks to manage its reputational risk through the proactive prevention of customer and business issues that would lead to adverse public, industry or stakeholder reaction. The tools employed in the management process include: (i) having in place and embedding a positive customer conduct culture that puts the delivery of good outcomes at the heart of its business and decision making; (ii) proactive and ongoing business partner management where issues arise; (iii) employing media monitoring and social listening tools which aim to ensure that crystallising issues are identified; and (iv) people policies which guide and inform positive behaviour.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors
Conduct Risk *For definition, see Conduct Risk (Section 2.7 – Page 53).*	The failure by the Group to act to deliver good outcomes to its customers could lead to both financial and / or non-financial harm being caused to the Group's customers. This could lead to a consequential need to remediate impacted customers, a potential loss of business, adverse media coverage, financial penalties and / or other regulatory sanction.	• Board approved risk appetite limits. • A Conduct Risk Framework is in place which sets out the approach to conduct risk management. • Specific conduct risk policies are in place which set out the approach to management of conduct risk across the Group, including a vulnerable customer policy. • Regular reporting, complaints oversight and root cause analysis reviewed at R&ORC, Customer Board, BRC and Board. • Assurance processes in place and where issues are identified, swift action to address is taken with oversight from ERC, BRC and Board. • A dedicated Customer Board to oversee the customer experience.
Financial Risks from Climate Change (FRCC) *Financial risks to the firm's business model, strategy and the overall risk profile arising from risks related to physical impacts of climate change (acute or chronic extreme weather events) and transition to lower carbon economy (changes in government policy, low-carbon technologies and market preferences towards greener solutions).*	The Group's businesses, operations and assets could be affected by climate change and climate-related risks. Accelerating climate change could lead to sooner than anticipated physical risk impacts to the Group and the wider economy and there is uncertainty in the scale and timing of technology, commercial and regulatory changes associated with the transition to a low carbon economy. The risk that the Group's business model and strategy does not respond adequately to the risks arising from climate change, the move to Net Zero and evolving consumer preferences impacting its sustainability.	• Governance and risk management arrangements in place to manage FRCC and continue to embed. • FRCC included in the qualitative and quantitative Risk Appetite Statement and metrics. • FRCC included in the Objectives and Key Results. • A suite of early warning indicators (EWI's) developed and reported against for the most material portfolio (residential mortgages). • Materiality assessments undertaken annually across all Group portfolios. • FRCC sensitivities included in the ICAAP and scenario analysis. • Partnership with Landmark Information Group provides insights into FRCC risks in the mortgage portfolio at individual property and aggregate level modelled against physical and transition risks and anchored around Paris Agreement scenarios. • FRCC reporting to ERC and BRC in place and BRC specialist training on ESG, including climate, delivered in 2022. • ESG Risk Framework approved to enhance the Group's approach in managing ESG risk, which includes climate. • Aligning the Groups Business Banking lending strategy to RSB commitments via the introduction of an enhanced ESG screening process during credit assessments. • In collaboration with our Parent, a combined UK and ROI 2030 emissions reduction target has been validated by the Science Based Target Institute. • Greenwashing Guidance issued to the business to help manage the risk of greenwashing.

The Strategic report on pages 9 to 32 is approved by the Board of Directors and signed on its behalf by:

Tom Wright
Director

6 April 2023

Company number: 07022885

Risk Management

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The information below in sections or paragraphs denoted as audited in sections 2 and 3 and all the tables (except those denoted unaudited) in the Risk Management Report form an integral part of the audited financial statements as described in the Basis of Preparation on page 83. All other information in the Risk Management Report is additional disclosure and does not form part of the audited financial statements.

1 Risk management framework *(unaudited)*

The RMF establishes the common principles for the risk management process of identifying, assessing, monitoring and mitigating risks to the Group. The RMF establishes:

- Standard definitions of risk terms and classifications to ensure consistent application across the Group;
- Clear roles and accountabilities for the management of risk across the Group;
- Governance mechanisms by which risk oversight is exercised and risk decisions taken;
- Group standards on risk policies, committee papers and reporting to ensure consistent application across the Group;
- Standard methods to identify and classify risks faced by the Group;
- Process for setting Risk Appetite to define the level of risk the Group is willing to tolerate;
- Role of risk policies and procedures within risk management in implementing this framework; and
- Minimum requirements for reporting of risk as part of business-as-usual Risk Management Information (MI) in the Group assessing, monitoring and mitigating risks to the Group.

Principal risk categories

These Principal risk categories flow from the risk identity of the organisation. They link to the capital adequacy, desired risk profile, reputation and strategic business intent of the Group. The Principal Risks and Uncertainties section will include a subset of these risks and a number of other risks of particular materiality to the firm in the current economic and operational environment.

Credit Risk	The risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Bank in respect of loans or other financial transactions. Credit Risk includes default risk, recovery risk, counterparty risk, country risk, credit concentration risk and settlement risk.
Liquidity & Funding Risk	The risk that the Group will experience difficulty in financing its assets and/or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds.
Market Risk	The risk of loss arising from movements in interest rates, foreign exchange rates or other market prices.
Regulatory Risk	The risk that the Group does not identify legal or regulatory change or appropriately manage its relationship with its regulators.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. This definition includes Legal and Model risk but excludes Strategic and Reputational Risk. Legal Risk relates to the risk of being the subject of a claim or proceedings due to an infringement of laws, contracts or regulations. Model risk relates to the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.
Business & Strategic Risk	Business & Strategic Risk is the risk of not achieving agreed strategic and business goals, arising due to inadequate planning or implementation, and/or changes in the external environment or economic factors. This also includes adverse impacts on the franchise value, e.g., by implementing an unsuitable strategy or maintaining an obsolete business model.
Conduct Risk	The risk of poor outcomes, or harm to, customers, clients and markets, arising from the delivery of the Group's products and services.
Capital Adequacy Risk	The risk that the Group has insufficient capital to support its normal business activities, meet its regulatory capital requirements or absorb losses should unexpected events occur.

1.1 Risk governance framework

1.1.1 Risk governance

Risk Governance refers to the elements of an organisation's overall governance mechanisms that relate to risk management and mitigation. Risk governance is exercised through the decision-making authority vested in Risk Committees and accountable officers.

Risk in the Group is controlled within the Risk Governance Framework which incorporates the Board of Directors, Risk Committees appointed by the Board of Directors (Board) (e.g., Board Risk Committee), and the Executive Risk Committee (ERC), the Asset & Liability Committee (ALCO) and their appointed committees.

Further details outlining the key responsibilities of the Group's Board Level risk committees can be found on page 63 within the Corporate Governance Arrangements.

The ERC is the most senior executive risk committee and is established as the principal Risk Committee for the end-to-end proactive risk management and oversight of the Firm's strategy. It is chaired by the Chief Risk Officer (CRO) and its membership comprises members of the ExCo and control function executives. It met 19 times during 2022.

The ERC is responsible for managing all risk types across the Group, including monitoring and reviewing the Group's risk profile and compliance with risk appetite and other approved policy limits. The ERC reviews and makes recommendations on risk matters where the Board and the BRC has reserved authority. The BRC oversees the decisions of the ERC through a review of the ERC minutes and reports from the Committee Chair. The ERC delegates specific responsibility for oversight of the major classes of risk to committees that are accountable to it.

The relevant committees are set out in the following table:

Committee	Delegated responsibility
Asset & Liability Committee	End-to-end proactive management and oversight of matters relating to balance sheet management, liquidity risk, funding risk, market risk and capital management to ensure compliance with relevant Group Risk Appetite Statement (RAS) limits, ALCO owned metrics, regulatory requirements and industry best practice.
Credit Risk Portfolio Committee	Overseeing the development, deployment and management of the Credit Risk Framework and corresponding risk appetite across all asset classes; and the management and oversight of Financial Risks from Climate Change impacting the Group's customers, business model, strategy, risk appetite and risk profile.
Regulatory & Operational Risk Committee	End-to-end management and oversight of Regulatory, Operational, Financial Crime and Conduct Risks within the Group. This includes the management and oversight of financial risks from Climate Change impacting the Operational risk appetite and risk profile of the Firm.
Products & Services Approvals & Governance Committee	Reviews, assesses and approves significant and material new products and services across the UK prior to introduction, the withdrawal or material changes to an existing product / service and considers the performance of existing products and services to ensure they remain fit for purpose. The committee is also responsible for the management and oversight of Financial Risks of Climate Change impacting the risk profile of the Firm, including any unintended consequences to customers.
Outsourced Services Executive Partnership Forum	Ensures alignment, resolves issues, acts as the top level of escalation and maintains an overall view of the Intra-Group outsourcing arrangement.

Three lines of defence approach

The Group follows a three lines of defence approach to risk management and oversight. This ensures a comprehensive and structured consideration of risk and is aligned with regulatory expectations.

First line of defence (1LOD) – Primary responsibility and accountability for risk management lies with line management in individual businesses and relevant Group functions (the '1LOD Risk Owners'). They are responsible for the identification and management of risk at business unit / Group function level including the implementation of appropriate controls and reporting to the Group in respect of all major risk occurrences.

Second line of defence (2LOD) – The second line Risk function are responsible for maintaining independent risk oversight, including challenge and intervention where appropriate and insuring that a risk control framework is in place. Nominated '2LOD Risk Oversight' executives are responsible for ensuring:

- that a policy or a process is in place for the risks assigned to them;
- exposure to the risk is correctly identified, assessed according to the Group's materiality criteria and reported;
- identified risks are managed using an appropriate risk strategy, or escalated; and
- independent oversight and analysis along with centralised risk reporting are provided.

Third line of defence (3LOD) – The Group's and the Parent's Internal Audit (GIA) functions, provides independent, reasonable assurance to key stakeholders on the effectiveness of the Group's risk management and internal control framework. GIA carries out risk based assignments covering Group businesses and functions (including outsourcing providers - subject to the right to audit), with ratings assigned as appropriate. Findings are communicated to senior management and other key stakeholders, with remediation plans monitored for progress against agreed completion dates.

1 Risk management framework *(unaudited) (continued)*

1.2 Risk culture, strategy and principles

Risk culture

The Group risk appetite articulates the level of risk the Group is prepared to take to achieve its strategic priorities. The culture of the Group reflects the balance between:

- risk management and financial return; and
- risk taking and incentives/rewards.

The Group's risk culture encompasses the general awareness, attitude and behaviour of employees to the taking of appropriate risk and the management of risk within the Group.

The Group's risk culture is a key element of the Group's effective RMF, which enables decisions to be taken in a sound and well-informed manner, and encourages employees at all levels to be accountable for the risks they take and to demonstrate a positive risk mindset.

Standards of behaviour are detailed in the Group Code of Conduct to which all management and staff must adhere and affirm annually. The Speak Up Policy sets out the steps staff can take to raise any concerns they might have of wrongdoing, risk or malpractice in the Group.

Risk strategy

The Group's overarching risk strategy is to set and maintain the Risk Management Framework to ensure that the Group has clearly identified and classified the risks it faces, set its Risk Appetite through statements of risk tolerance and quantitative limits, and through adherence with Risk Policy observe these tolerances and limits as boundaries to its business strategy. This is achieved through appropriate processes, controls, reporting, and governance in place which enable the Group to:

- Address its target market with confidence;
- Protect its balance sheet; and
- Deliver sustainable profitability.

Risk management principles

Risk management is the set of activities and mechanisms through which the Group make risk taking decisions. It is how we control and optimise the risk-return profile of the Group. This is a Group wide activity and it is structured across five Risk Management Principles.

1. Risk Identification and Assessment
2. Risk Policies
3. Risk Appetite
4. Stress Testing and Scenario Analysis
5. Risk Monitoring and Reporting

1. Risk Identification and Assessment

The Group ensures appropriate identification of risk through both top-down and bottom-up risk identification processes. A standard Risk Library is used to categorise all of the Group's risks in a consistent manner. Once a risk has been identified, it must be assessed to determine the level of gross risk exposure and, after consideration of any mitigants, the residual risk exposure can be determined. These measurements (gross risk exposure and residual risk exposure) inform metrics used to monitor and control the Group's Risk Profile against Risk Appetite.

2. Risk Policies

To ensure that the Group is managed within Risk Appetite there is one set of high-level instructions ('Risk Policy') covering Principal Risk and sub risks. These Risk Policies are owned by the 2LOD Risk function and set out the mandatory minimum standards for the management and mitigation of each such risk. 1LOD functions taking the risk are responsible for ensuring that they have appropriate procedures in place to ensure they meet the requirements of the Risk Policies.

3. Risk Appetite

Risk control is predicated on setting effective boundaries and constraints on risk taking. Determining the Group's Risk Appetite and setting management triggers, across the categories of risk the Group has identified, allows the Group to design its business processes to operate within management accepted risk levels. The principal risk types are outlined from page 30.

4. Stress Testing and Scenario Analysis

While predictable and probable events are factored into business-as-usual planning and budgeting, risk arises when less predictable or unanticipated events materialise. These types of events may result in severe impacts to the Group and therefore it is important that they are considered, and that mitigating controls and actions are put in place to ensure that the Group can continue to operate within Risk Appetite. Stress Testing and Scenario Analysis is the activity that addresses this requirement.

5. Risk Monitoring and Reporting

Reporting of risk is how the Group ensure management and governance forums can monitor the maintenance of the Group's Risk Profile within Risk Appetite. Furthermore, it is a means for bringing management attention to where significant changes in the Risk Profile bring into question whether the Group can remain within Risk Appetite in the future, thereby enabling the Group to respond effectively and in a timely manner. This risk management approach is enabled by an operating model where responsibilities for each activity are clearly assigned and adequately resourced. The design, implementation and performance of this risk management approach is subject to comprehensive risk governance.

1 Risk management framework *(unaudited) (continued)*

1.3 Risk identity and risk appetite

Risk Identity

The Group's purpose is helping you thrive. The Group provides simple, flexible, niche, relevant and accessible financial services and products to UK customers both directly and through partnerships with trusted, respected UK brands and intermediaries.

To achieve its Risk Strategy, the Group seeks to operate a strong RMF and risk culture whilst pursuing an appropriate return to the risk taken.

Risk Appetite

The Group's overarching risk strategy is to set and maintain the RMF to ensure that the Group has clearly identified and classified the risks it faces, set its Risk Appetite through statements of risk tolerance and quantitative limits, and through adherence with Risk Policy has observed these tolerances and limits as boundaries to its business strategy. This is achieved through appropriate processes, controls, reporting, and governance in place which enable the Group to:

- address its target markets with confidence;
- protect its balance sheet; and
- deliver sustainable profitability and good customer outcomes.

The Group seeks to accomplish its risk strategy by:

- defining risk appetite as the boundary condition for the Group's strategic plan and annual operating plan / budget;
- ensuring that all material risks are correctly identified, assessed, managed, monitored and reported;
- ensuring that capital and funding considerations shape the approach to risk selection / management in the Group;
- allocating clear roles and responsibilities / accountability for the control of risk within the Group;
- avoiding undue risk concentrations;
- engendering a prudent and balanced risk management culture;
- ensuring that the basis of remuneration for key decision makers is appropriate; and
- ensuring that the Group's risk management structures remain appropriate to its risk profile and take account of lessons learnt and emerging internal and external factors.

Risk appetite defines the amount and type of risk the Group is prepared to accept in pursuit of its financial objectives. It informs Group strategy and, as part of the overall framework for risk governance, forms a boundary condition to strategy and guides the Group in its risk-taking and related business activities.

The Group tracks actual and forecast results against these risk limits which are monitored and reported regularly to senior management as well as the ERC subcommittees; the ERC; the BRC and the Board.

The Group strives to ensure it operates within its risk appetite and therefore its risk appetite and risk profile must be aligned. Where the Group has a risk profile that is in excess of its risk appetite, it will take action to realign the risk profile through increased risk mitigation activities and risk reduction. The key risk mitigating activities are set out on pages 30 to 32 within the Strategic report.

1.4 Risk identification, measurement and reporting

Risk identification

The identification of potential and crystallised adverse risks and issues is a fundamental first step in managing the risks within any business or process. To facilitate this, the Group use standard risk definitions in the Risk Library to categorise risks and issues. All risks, issues and events must be categorised using the Risk Library.

Financial Risks originate in the Group's business and primarily reside in the Balance Sheet. Financial risks are identified in the lending and hedging processes in the case of Credit and Market Risks, with the risks categorised in the Risk Library and quantified in terms of potential financial impacts. Similarly for funding, liquidity and capital adequacy risks, risk assessment processes such as the ICAAP and ILAAP are used to identify, categorise, quantify, and control the risks to the Group.

Operational Risks on the other hand originate in the activities the Group conducts. In order to be confident of identifying, assessing, and appropriately controlling operational risk, it is necessary to systematically segment the Group's activities into a set of end-to-end processes with first line owners. This catalogue of processes is defined as the Process Universe, which enables process-led operational risk management. The Group has identified risk types that it believes could have a material impact on earnings, capital adequacy, liquidity and on its ability to trade in the future and these are covered in the principal risks and uncertainties that are set out on pages 30 to 33 of the Strategic report.

Risk measurement

Certain Principal Risks are measured, managed and reported using risk models in line with the Risk Policies and management procedures which are in place for each risk type. At a Group level, common measures for risk measurement have been adopted, to:

- Inform operational and strategic plans, and
- Ensure the Group is managed within its Risk Appetite.

Scenario analysis is used across risk types to help us understand the possible severe impacts of unlikely but plausible scenarios and help us to strengthen our level of preparedness.

Where predictable and probable events are factored into business-as-usual planning and budgeting, risk arises when less predictable or unanticipated events can materialise. These types of events may result in severe impacts to the Group and therefore it is important that they are considered and mitigating controls and actions are put in place to ensure that the Group can continue to operate within Risk Appetite in that event.

Scenario modelling can be used in Stress Tests where the projected financial position and risk profile of the Group can be assessed under a range of severe but plausible adverse scenarios. These scenarios can include macroeconomic

1.4 Risk identification, measurement and reporting *(continued)*

projections and assumptions on internal risk issues.

They are run to assess the resilience of the Group to withstand the impact of a severe stress event. This allows the Group to make changes to plans as necessary to maintain its resilience at the required levels in that scenario. Recent examples of where Stress Testing has been used to assess the Group's resilience during periods of uncertainty include Brexit negotiations, the COVID-19 pandemic and the war in Ukraine.

The outputs of stress testing are used by the Group to inform Risk Appetite across risk types by assessing unlikely but plausible scenarios that may result in severe earnings volatility. This allows stress testing metrics to be used in setting Risk Appetite for Credit, Market, Funding and Liquidity Risks so that earnings volatility in periods of stress is maintained at an acceptable level.

The outputs of stress testing are used by the Group to inform Risk Appetite across risk types as well as strategy and capital planning. They are an integral component of the ICAAP and ILAAP and are also used by regulators to assess the Group's ability to continue to meet its capital and liquidity requirements under severe adverse conditions.

Stress test results are presented to the BRC and the Board as an integral part of the ICAAP and the ILAAP, which assess the risks and capital and liquidity requirements of the Group.

The Group also performs reverse stress testing to derive severe stress scenarios which would breach the Group's ability to survive unassisted, thus helping to define risk tolerance boundaries for the business as well as appropriate controls and mitigation.

Risk reporting

Reporting of risk is how we ensure management and governance forums can monitor the maintenance of the Group's Risk Profile within Risk Appetite. Furthermore, it is a means for bringing management attention to significant changes in the Risk Profile and the Group's ability to remain within Risk Appetite in the future. It enables the Group to respond in an effective and timely manner and to take decisions such as whether to maintain current business activity.

The Group's risk monitoring and reporting process operates within Group Risk.

- It is the responsibility of the 2LOD to ensure that the Group is within Risk Appetite for each Principal Risk.
- The Office of the CRO is responsible for reporting on the Group's Risk Profile at an aggregate level by consolidating reporting from each 2LOD Risk Function.
- Risk reports are designed to report against Principal Risks and Sub Risks in a structured and consistent way so that the usability of reports is consistent across Risk Types and Risk Committees.
- Reports are designed with reference to regulatory principles for Effective Risk Data Aggregation and Risk Reporting (BCBS 239), addressing report accuracy, comprehensiveness, clarity, usefulness, frequency and distribution.
- The specific processes for monitoring, reporting and reviewing risks are set out in the relevant policy and procedural documents.
- Governance of risk monitoring, reporting and review process is the responsibility of the ERC and its appointed Committees. All the key identified risk types are reported monthly using risk dashboards including associated Risk Appetite metrics compliance.

The CEO and CRO Monthly Risk Report (MRR) submitted to each Board meeting provide an update on material risks, key risk issues and performance against core risk appetite metrics. This report is submitted to both the ERC and the BRC prior to issuance to Board.

Data on the external economic environment and management's view of the resulting impact on the Group's risk profile is also reviewed regularly at management and Board level. The BRC also receives risk information through the review of minutes from the ERC.

1.5 Recovery and resolution planning

The Group maintains a Recovery Plan which sets out options to restore financial stability in the event of a stress. The Group has measures in place to comply with the Bank of England's Resolvability Assessment Framework and works closely with its Parent to ensure the requirements of the Single Resolution Board are also met.

2 Management of key risks

2.1 Credit risk

Key points:

- **The Group implemented a range of controls, targeted MI and affordability enhancements to reflect prevailing macro-economic conditions and in anticipation of increased borrower financial stress. There has been no material change in default levels observed.**
- **At all times during the financial year, the Group maintained appropriate credit controls reflecting and responding to the changing dynamics of the UK market, in line with regulatory requirements.**
- **The Group concluded the year within all Group risk appetite measures.**
- **A portfolio securitisation of non-performing exposures from UK Mortgages was sold by way of transfer of beneficial interest in 2022. The transaction comprised £220 million gross balances, of which all were stage 3. The ECL utilised as a result of the transaction was £26 million. The transaction sees both the Mortgage Stage 3 balances and ECL materially reduced from December 2021.**
- **The Group's credit-impaired loans materially reduced in 2022 in aggregate predominantly due to the above securitisation of Mortgage credit-impaired balances.**

2.1.1 Definition of credit risk *(audited)*

Definition
Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. At portfolio level, credit risk is assessed in relation to the degree of name, sector and geographic concentration to inform the setting of appropriate risk mitigation and transfer mechanisms and to assess risk capital requirements.

How credit risk arises
The manner in which the Group's exposure to credit risk arises, its policies and processes for managing it, and the methods used to measure and monitor it, are set out below.

Default risk
Default risk is the risk that individuals, companies, financial institutions, sovereigns or state institutions will be unable to meet the required payments on their debt obligations. Default may be as a result of one or a number of factors including, but not limited to:

- deterioration in a borrower's capacity to service their credit obligation;
- deterioration in macroeconomic or general market conditions;
- regulatory change, or technological development that causes an abrupt deterioration in credit quality;
- environmental factors that impact on the credit quality of the counterparty; and
- a natural or manmade disaster.

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

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

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

Credit concentration risk
Credit concentration risk is the risk of loss due to exposure to a single entity, or group of entities, engaged in similar activities and having similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Undue concentrations could lead to increased or unexpected volatility in the Group's expected financial outcomes.

The Group's primary market is the UK and loans originated and managed in the UK represent a material concentration of credit risk.

Maximum exposure limits
The Group's RAS, credit policy and regulatory guidelines set out the maximum exposure limits to a customer, or a group of connected customers. The policy and regulatory guidelines cover both exposures to the Parent and other counterparties. Regulatory guidelines limit risk concentration in individual exposures.

Counterparty credit risk *(unaudited)*
The Group's net exposure to the Parent (disclosed gross within loans and advances to banks, deposits from banks, derivative assets and derivative liabilities) is managed through a contractual master netting agreement with the Parent whereby, in the event of a default by either party, all amounts due or payable will be settled immediately on a net basis.

2 Management of key risks *(continued)*

2.1.2 Credit risk management *(audited)*

Credit risk statement
The Group actively seeks opportunities to provide appropriately remunerated credit facilities to borrowers who are assessed as having the capacity to service and discharge their obligations and to allow growth in the volume of loan assets in line with the Group's risk appetite and to provide a solid foundation for sustained growth in earnings and shareholder value.

The Group's credit strategy is to underwrite credit risk within a clearly defined Board approved risk appetite and risk governance framework in a manner that results in an appropriate return for the risks taken and on the capital deployed while operating within prudent Board approved risk parameters.

Credit risk management – retail and commercial lending
The management of credit risk is focused on a detailed analysis at origination, followed by early intervention and active management of accounts where creditworthiness has deteriorated. The Chief Credit Officer (CCO) has responsibility for credit management, supported by Heads of Credit and the broader risk function. The broader risk function, under the management of the CRO, provides independent oversight and management of the Group's credit risk strategy and credit risk management information, as well as the Group's suite of credit risk policies.

Credit policy
The core values and principles governing the provision of credit are contained in the Credit Policy and Credit Framework, which are approved by the BRC. Individual sector / portfolio-level credit policies define in greater detail the credit approach appropriate to those sectors or portfolios. These policies take account of the Group's RAS, applicable sectoral credit limits, the markets in which the Group operates and the products provided.

Lending authorisation
The Group's credit risk management systems operate through a hierarchy of lending authorities, which are related to internal customer loan ratings and limits. This includes the use of credit decisioning models, which are subject to strict governance processes.

Exposures are approved by personnel according to a system of tiered individual authorities, which reflect credit competence, proven judgement and experience.

Controls and limits
The Group imposes risk control limits to mitigate significant concentration risk. These limits are formed by the Group's risk appetite, and that of the Parent, and are set in the context of the Group's risk strategy.

Credit risk measurement
All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The use of internal credit rating models, tailored credit scoring tools and reference to extensive performance data from credit reference agencies, enables measurement of the relative degree of risk inherent in lending to specific counterparties and is central to the credit risk assessment and ongoing management processes in the Group. Details of these internal credit rating models are outlined in the section on credit risk methodologies on pages 42 to 45.

Loan impairment
Through its ongoing credit review processes, the Group seeks early identification of deteriorating loans, with a view to taking corrective action to prevent the loan becoming impaired. Typically, loans that are at risk of impairment are managed by dedicated specialist units / debt collection teams focused on working out loans.

It is the Group's policy to provide for impairment promptly and consistently across the loan book. For those loans that become impaired, the focus is on implementing appropriate work-out strategies, including consideration of good customer outcomes and the particular needs of vulnerable customers, which minimise the loss that the Group will incur from such impairment.

An analysis of the Group's impairment loss allowances at 31 December 2022 is set out in notes 11 and 21.

2 Management of key risks *(continued)*

2.1.3 Credit risk mitigation *(audited)*

An assessment of the borrower's ability to service and repay the proposed level of debt is undertaken for credit requests and is the primary component of the Group's approach to mitigating risk.

In addition, the Group mitigates credit risk through the adoption of both preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks, should these materialise, including hedging, securitisation, the taking of collateral and selective asset / portfolio disposals and securitisations.

Collateral
Credit risk mitigation includes the requirement to obtain collateral depending on the nature of the product and local market practice, as set out in the Group's policies and procedures.

The nature and level of collateral required depends on a number of factors, including, but not limited to:
- the amount of the exposure;
- the type and term of facility provided;
- the amount of the borrower's own cash input; and
- an evaluation of the level of risk or probability of default (PD).

The Group's requirements around completion, valuation and management of collateral are set out in appropriate Group or business unit policies and procedures. Details of the valuation methodologies are set out in the credit risk methodologies section on page 42.

2.1.4 Credit risk reporting and monitoring *(audited)*

It is Group 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.

Credit risk information at a product / sector level is reported on a monthly basis to senior management. This reporting includes detailed information on loan book volume, the quality of the loan book, concentrations and loan impairment provisions, including details of any large individual impaired exposures.

Performance against specified credit risk limits, as detailed in the RAS, is monitored and reported to senior management and to the BRC. The format of reports and commentaries are consistent across the Group to enable an assessment of trends in the loan book. Along with the regular suite of monthly and quarterly reporting, ad hoc reports are submitted to senior management and the BRC as required.

Regular portfolio review meetings covering the NI/GB commercial challenged portfolios are also conducted. Risk personnel as well as business and finance senior management review and confirm the appropriateness of impairment provisioning methodologies and the adequacy of impairment provisions on a half yearly basis. Their conclusions are reviewed by the the Audit Committee.

Credit review (CR), an independent function within Group Risk, reviews the quality and management of credit risk assets across the Group. Using a risk based approach, CR carries out periodic reviews of Group lending portfolios, lending units and credit units.

2.1.5 Management of challenged assets *(audited)*

A range of initiatives, dependent on the nature of the risk, are in place to deal with the effects of the deterioration in the credit environment and decline in asset quality including:
- enhanced collections and recoveries processes;
- utilisation of specialist management teams to ensure early intervention in vulnerable cases;
- intensive review cycles for 'at risk' exposures and the management of excess positions;
- support from central teams in managing 'at risk' portfolios at a business unit level;
- modified and tighter lending criteria for specific sectors;
- a reduction in certain individual bank exposures; and
- portfolio sales of non-performing exposures.

Forbearance strategies
Forbearance occurs when a borrower is granted a concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower.

A range of forbearance strategies are used by the Group for customers in arrears or facing potential arrears on contracted loan repayments, in order to arrange, where viable, sustainable short-term or longer-term repayment solutions as appropriate.

The Bank's functions responsible for dealing with customers in financial difficulties, collections and recoveries, operate against clear, well defined and approved policies, processes and procedures which are designed to deliver outcomes to all customers which are fair and ensure that each customer is treated with due consideration.

It is the Group's policy to ensure that the forbearance arrangements which are agreed with customers are affordable, sustainable and realistic, with each arrangement appropriately taking account of the current and future circumstances of each customer.

It is the Group's policy to measure the effectiveness of forbearance arrangements over the lifetime of those arrangements. A forbearance arrangement is considered to be effective where the risk profile of the affected borrower stabilises or improves over the measured time period, resulting in an improved outcome for the Group and the borrower. The measurement of effectiveness takes account of the nature and intended outcome of the forbearance

2 Management of key risks *(continued)*

2.1.5 Management of challenged assets *(audited)*

arrangement and the period over which it applies.

Where customers required further support following the expiry of COVID-19 payment breaks or concessions (i.e. are unable to return to paying full capital and interest) the Group's objective is to offer suitable and sustainable solutions in a timely manner. The Group has alternative repayment arrangements available, including forbearance arrangements, for customers who require further financial support and these are based on an assessment of the individual needs of each customer and what is the most suitable solution.

For further detail refer to Group Accounting Policies on page 83.

2.1.6 Asset quality - loans and advances to customers *(audited)*

Asset quality methodology
The Group has allocated financial instruments into one of the following categories at the reporting date:
- **Stage 1 – 12 month Expected Credit Losses (ECL) (not credit-impaired)**
- **Stage 2 – Lifetime ECL (not credit-impaired)**
- **Stage 3 – Lifetime ECL (credit-impaired)**
- **POCI:** Financial assets that were credit- impaired at initial recognition.

Further information on staging definitions and the approach to identifying a 'significant increase in credit risk since initial recognition' and in identifying credit-impaired assets is outlined in Group Accounting Policies on page 87.

The Group continued to apply the following classifications at the reporting date.

Forborne loans
Loans where a forbearance measure has been granted and where the criteria to exit a forborne classification, in line with EBA guidance, are not yet met. Loans that have never been forborne or loans that are no longer required to be reported as 'forborne' are classified as 'non-forborne'.

'Forborne collateral realisation' loans (FCRs)
(i) credit-impaired loans which includes loans where the borrower is considered unlikely to pay in full without recourse by the Group to actions such as realising security, and / or loans where the borrower is greater than or equal to 90 days past due and the arrears amount is material; and
(ii) other / probationary loans as aligned with regulatory requirements.
Quantitative information about credit risk can be found in the credit risk exposures note on page 127 in the financial statements.

2.1.7 Credit risk methodologies *(audited)*

The Group's credit risk methodologies encompass internal credit rating models and scoring tools and impairment models.

Internal credit rating models
The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group. The primary model measures used are:
- PD: the probability of a given counterparty defaulting on any of its borrowings from the Group within the next twelve months;
- Exposure at Default (EAD): the exposure the Group has to a defaulting borrower at the time of default; and
- Loss Given Default (LGD): the loss incurred (after the realisation of any collateral) on a specific transaction should the borrower default, expressed as a percentage of EAD.

These measures are used to calculate regulatory expected loss and are fully embedded in, and form an essential component of, the Group's operational and strategic credit risk management and credit pricing practices.

For the Group's retail consumer and smaller business portfolios, the credit risk assessment is grounded on application and behavioural scoring tools. For larger commercial and corporate customers, the risk assessment is underpinned by statistical risk rating models which incorporate quantitative information and a qualitative assessment of non-financial risk factors. Lending to financial institutions is assigned an internal rating supported by external ratings of the major rating agencies.

PD Calculation
For the purposes of internal credit rating models, the Group produces estimates of PD on either or both of the following bases:
- Through-the-Cycle estimates are estimates of default over an entire economic cycle, averaged to a twelve month basis. These are in effect averaged expectations of PD for a borrower over the economic cycle; and
- Cyclical estimates are estimates of default applicable to the next immediate twelve months. These cyclical estimates partially capture the economic cycle in that they typically rise in an economic downturn and decline in an economic upturn but not necessarily to the same degree as default rates change in the economy.

Internal rating systems
The Group has adopted the standardised approach to capital calculation for both its retail and non-retail exposures. Under this approach supervisory risk weights are applied to the EAD values varying by portfolio. The Group benefits from the use of internal models approved for the internal ratings based approach. This facilitates enhanced understanding of the underlying credit risk than would otherwise be the case.

2 Management of key risks *(continued)*

2.1.7 Credit risk methodologies *(audited)*

Uses of internal estimates
The specific uses of internal estimates differ from portfolio to portfolio, and for retail and non-retail approaches, but typically include:
- credit decisioning / automated credit decisioning and borrower credit approval;
- credit management;
- calculation of Risk Adjusted Return on Capital (RAROC);
- internal reporting; and
- internal capital allocation between businesses of the Group.

Control mechanisms for credit rating and impairment models
The Model Risk Policy and Model Risk Standards, as approved by the ERC, set out specific requirements for the development, validation and use of credit rating and impairment models. Impairment models are described further below.

Internal credit models and impairment models are subject to validation, at minimum, as part of any significant redevelopment, at the direction of model governance forums or as part of a rolling three year cycle.

GIA regularly reviews the risk control framework, including policies and standards, to ensure that these are being adhered to, meet industry good practices and are compliant with regulatory requirements.

Approach to measurement of impairment loss allowances
Impairment is measured in a way that reflects: (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. Impairment is measured through the use of impairment models, individual discounted cash flow analysis and modelled loss rates; and supplemented where necessary by Group management adjustments.

In general, a loss allowance is recognised for all financial instruments in scope for the impairment requirements of IFRS 9. However, this may not be the case for very highly collateralised loans, such as residential mortgages at low LTV ratios. There have been no significant changes in the quality of collateral or credit enhancements as a result of changes in the Group's collateral policies during the year. The Group's methodologies for valuation of property collateral are set out on page 49, noting further that Forward Looking Indicators (FLI) (see page 49) is applied to UK property collateral values in measuring impairment loss allowances under IFRS 9. The Group's critical accounting estimates and judgements, including those with respect to impairment of financial instruments, are set out in note 2 to the financial statements.

An analysis of the Group's impairment loss allowances and impairment gain or loss is set out in notes 11 and 21 of the financial statements.

Impairment models
The Group has in place a suite of IFRS 9 compliant impairment models which are executed on a monthly basis and which allocate financial instruments to Stage 1, 2 or 3 and measure the appropriate 12 month or lifetime ECL. The characteristics of an exposure determine which impairment model is used, with influencing factors including product type (e.g. residential mortgage, unsecured personal loan, business loan) and market segment (e.g. owner occupier, buy-to-let, general corporate lending, general business lending).

ECLs are calculated as the sum of the marginal losses for each time period from the reporting date. The key components of the ECL calculation are PD, EAD and LGD (which is expressed as a percentage of EAD) and are described below. Other components include discount rate and maturity.

IFRS 9 Probability of Default
Where available, the ratings or underlying scores from internal credit rating models are used as a starting point for IFRS 9 PD calibration. While calibration techniques are similar to those used for regulatory purposes, the IFRS 9 PD differs from through-the-cycle or cyclical estimate PDs as it is an unbiased point-in-time PD based on current conditions and adjusted to reflect FLI under a range of scenarios.

A current point-in-time IFRS 9 PD is calculated as the expected default rate over the next 12 months. This PD is used in the calculation of 12-month ECL and as a starting point in the calculation of lifetime PD. Future point-in-time IFRS 9 PDs are also calculated, being the expected default rates for each year from the start of year 2 to maturity of the financial instrument. Transition matrices are used to determine how an exposure moves between different PD bands over time.

Together, the current point-in-time IFRS 9 PD and future point-in-time IFRS 9 PDs are used to generate an IFRS 9 lifetime PD expectation for each FLI scenario. The scenario weighted averages are used to generate an overall IFRS 9 lifetime PD expectation. At origination of a new financial instrument, these expectations are stored, together with prepayment estimates where relevant, and allow for comparison at future reporting dates as one of the key determinants as to whether a 'significant increase in credit risk' has occurred. As lifetime PD was not calculated historically, the Group used reasonable and supportable information available without undue cost or effort to approximate the residual IFRS 9 lifetime PD expectations at initial recognition for most financial instruments originated prior to the adoption of IFRS 9.

For the year ending 31 December 2022, management assessed the modelled PD estimates, with reference to updated macroeconomic forecasts, and determined that incorporation of management judgement into PD estimates was not required.

Further details are provided in note 2(a) Critical Accounting Estimates and Judgements.

IFRS 9 Exposure at Default
Current point-in-time EAD is the expected EAD were the borrower to default within the next 12 months. Future point-in-time EAD also incorporates expected contractual cash flows. IFRS 9 EAD differs from regulatory EAD in that it incorporates expected contractual cash flows and caps the exposure at the contractual limit.

IFRS 9 Loss Given Default
Current point-in-time LGD is the loss that would be incurred should default occur in the next 12 months. To facilitate the calculation of lifetime ECL, future point-in-time LGDs are calculated for each year from the start of year 2 to maturity of the exposure. The starting point for individual components of the calculation is historical data. Cure rate is incorporated as appropriate into the calculation and represents the expected propensity of

2 Management of key risks *(continued)*

2.1.7 Credit risk methodologies *(audited)*

borrowers to return to the non-defaulted book without a loss having been realised. FLI is also incorporated into LGD where UK property collateral is held. IFRS 9 LGD may differ from regulatory LGD as conservatism and downward assumptions are generally removed.

In applying forward-looking forecasts for residential and commercial property prices into the estimation of Stage 3 impairment loss allowances in relevant models and discounted cash flow analysis, property prices are adjusted so that the property collateral value at the point of liquidation does not incorporate an improvement on the current market condition.

Individual discounted cash flow analysis

For credit-impaired financial instruments in Business Banking and certain other relationship-managed portfolios, the impairment loss allowance is primarily determined by an individual discounted cash flow analysis.

The expected future cash flows are based on an assessment of future recoveries and include forecasted principal and interest payments (not necessarily contractual amounts due) and expected cash flows, if any, from the realisation of collateral / security held, less realisation costs.

Modelled loss rates

For certain portfolios (primarily UK unsecured consumer lending), impairment loss allowances are measured by applying modelled loss rates to exposure amounts. Modelled loss rates are generally determined on a component basis taking into account factors such as the nature and credit quality of the exposures and past default and recovery experience on the portfolio or on portfolios with similar risk characteristics. Generally a number of different loss rates will be set for a portfolio to allow differentiation of individual financial instruments within the portfolio based on their credit quality.

Identifying a significant increase in credit risk

In determining if a financial instrument has experienced a significant increase in credit risk since initial recognition, the Group assesses whether the risk of default over the remaining expected life of the financial instrument is significantly higher than had been anticipated at initial recognition, taking into account changes in prepayment expectations where relevant. The Group uses reasonable and supportable information available without undue cost or effort at the reporting date, including forward-looking information. A combination of quantitative, qualitative and backstop indicators are generally applied in making the determination, which may result in the exposure being moved to Stage 2, for instance by being placed on a Watch List. For certain portfolios, the Group assumes that no significant increase in credit risk has occurred if credit risk is 'low' at the reporting date.

Where a financial asset has been modified but not derecognised, the quantitative assessment of 'significant increase in credit risk' continues to be based on the remaining lifetime PD at the reporting date as estimated based on facts and circumstances as at initial recognition (adjusted where relevant for changes in prepayment expectations).

The effectiveness of the staging criteria is assessed semi-annually, taking into account considerations such as the extent to which: (i) exposures have moved directly from Stage 1 to Stage 3; (ii) exposures have moved to Stage 3, having spent only a short period in Stage 2; (iii) exposures have moved frequently between Stages 1 and 2; and (iv) there is potential over-reliance on backstop or qualitative criteria in identifying Stage 2 exposures.

The Group applies the low credit risk expedient to all debt securities in scope for the impairment requirements of IFRS 9 and similarly to loans and advances to banks, central banks and investment firms. 'Low credit risk' encompasses PD grades 1 to 5 on the Group's internal PD rating system, which broadly aligns with ratings of AAA to BBB- for the external major rating agencies. Such financial instruments are allocated to Stage 1.

Identifying defaulted assets and credit-impaired assets

The Group's population of credit-impaired financial assets are consistent with its population of defaulted financial assets and closely aligned with the Group's definition of NPEs. Where default criteria are no longer met, the credit facility (obligor for non-retail exposures) exits credit-impaired (Stage 3), subject to meeting defined probation criteria, in line with regulatory requirements.

Under the definition of default the Group considers certain events as resulting in mandatory default and credit- impaired classification without further assessment. These include:

- greater than or equal to 90 days past due (based on calendar days) and the past due amount is material;
- a forbearance arrangement is put in place where future reliance on realisation of collateral is expected for repayment in full when this was not originally envisaged;
- more than 3 full monthly payments past due (retail credit facilities only);
- legal action is underway by the Group to enforce repayment or realise security;
- the Group or a receiver takes security into possession;
- the exposure is classified as non-performing for supervisory reporting purposes;
- residential mortgages where more than 20% of overall balance sheet exposure to the customer in the mortgage portfolio is in default; and
- the Group has formally sought an insolvency arrangement in respect of the borrower.

Certain other events necessitate a lender assessment and, if the outcome of the lender assessment is that the contractual amount of principal and interest will not be fully repaid in what is assessed to be the most likely cash flow scenario, default and credit-impaired classification is mandatory. For larger value cases (typically greater than £850,000), the lender assessment involves production of an individual discounted cash flow analysis. The events differ by portfolio and include those set out below.

All portfolios:

- a forbearance measure has been requested by a borrower and formally assessed;
- the non-payment of interest (e.g. via interest roll-up, arrears capitalisation etc.) as a result of the terms of modification of loans;
- evidence of fraudulent activity;
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows;
- a borrower's sources of recurring income are no longer available to meet regular loan repayments;
- the contractual maturity date has passed without repayment in full; or
- it becomes known that the borrower has formally sought an insolvency arrangement.

2 Management of key risks *(continued)*

2.1.7 Credit risk methodologies *(audited)* *(continued)*

Residential mortgage portfolios:
- offer of voluntary surrender of security or sale of security at a possible shortfall; or
- it becomes known that the borrower has become unemployed with no comparable new employment secured.

Larger SME / corporate and property loans:
- internal credit risk rating, or external credit rating, has been downgraded below a certain level;
- the borrower has ceased trading;
- a fall in the assessed current value of security such that the LTV ratio is greater than or equal to 120% (property and construction only);
- the borrower has breached the covenants of a credit contract with the group;
- there is a crisis in the sector in which the counterparty operates combined with a weak position of the counterparty in this sector; or
- a fall in the assessed gross development value such that sale proceeds are no longer expected to fully repay debt (development exposures only).

Review of credit-impaired loans

It is Group policy to review credit-impaired loans above agreed thresholds semi-annually or on receipt of material new information, with the review including a reassessment of the recovery strategy and the continued appropriateness of a credit-impaired classification. The minimum requirements for a credit-impaired loan to return to non credit-impaired status are that the borrower must not be greater than 90 days past due (on a calendar days basis) on a material amount, the borrower must be considered likely to pay in full without recourse by the Group to actions such as realising security and there must be no forbearance arrangement in place where future reliance on realisation of collateral is expected for repayment in full when this was not originally envisaged.

Methodologies for valuation of property collateral

Individual valuations are undertaken as part of the initial credit assessment process using either an automated valuation model or through physical inspection of the collateral. The Group's mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Nationwide UK house price index.

Commercial property valuations may include formal written valuations from external professionals or internally assessed valuations. Internally assessed valuations are informed by the most appropriate sources available for the assets in question. This may include property specific information / characteristics, local market knowledge, comparable transactions, professional advice (e.g. asset management reports) or a combination thereof.

Typically, more frequent valuations are required for properties held as security for non-performing exposures with an annual valuation required for non-performing exposures in excess of £250,000.

FLI

FLI is the probability-weighted future macroeconomic scenarios approved semiannually by ALCo and used in the assessment of significant increase in credit risk and in the measurement of impairment loss allowances under IFRS 9. The Group's approach to applying FLI to those values for the purposes of measuring impairment loss allowance for the year ended 31 December 2022 is set out in the BRC approved Group Impairment Policy and is described in the Critical Accounting Estimates and Judgements on pages 98 to 107.

Quantitative information about credit risk within financial instruments held by the Group can be found in the credit risk exposure note on page 127 to the financial statements.

2.2 Liquidity and funding risk

Key points:

- **At all times during the financial year, the Group maintained appropriate levels of unencumbered liquid resources and an appropriate liquidity position, in line with regulatory and internally set requirements and limits.**
- **The Group held liquid assets of £3.0 billion at 31 December 2022 (2021: £4.3 billion) which was in excess of regulatory liquidity requirements and within the Group's internal risk appetite. This represented a prudent liquidity position.**
- **The Group's loan to deposit ratio increased from 104% at 31 December 2021 to 115% at 31 December 2022, which reflects that the excess liquidity position has reduced in line with strategy.**
- **The Group's LCR at 31 December 2022 was 178% (2021: 268%). The Group's NSFR at 31 December 2022 was 135% (2021: 139%).**

Definition *(audited)*

Liquidity and funding risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds.

Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows for the Group are driven by, among other things, the maturity structure of loans held by the Group, while cash outflows are primarily driven by outflows from customer deposits and lending origination.

Liquidity risk can increase due to the unexpected lengthening of maturities, non-repayment of assets or a sudden withdrawal of deposits.

Funding risk can occur where there is an over-reliance on a particular type of funding, a funding gap or a concentration of wholesale funding (including securitisation) maturities.

Liquidity and funding risk management *(audited)*

The liquidity and funding RAS is set by the Board annually and outlines the level of liquidity and funding risk that is deemed acceptable. The Group has a liquidity and funding RMF, that is aligned to risk appetite and which is consistent with its overall strategy to be primarily a self-funded business, with funding diversification through the use of wholesale funding.

The liquidity and funding RMF ensures that the Group manages and monitors its liquidity in accordance with the defined liquidity and funding RAS. The operational oversight and adherence to risk appetite is delegated by the ERC to the ALCO.

The Group's Liquidity RMF includes forward-looking monitoring of deposit balances and behavioral assumptions as well as daily monitoring of regulatory LCR and Internal Stress Testing, complementing the comprehensive and robust limit framework in place.

The Group's ILAAP sets out how the Group assesses, quantifies and manages the key liquidity and funding risks and details the approach to determining the level of internal liquidity resources required to be maintained, for both business-as-usual and stressed scenarios ranging in severity, nature and duration.

The Group is predominantly funded by retail deposits, but also utilises wholesale funding and drawdowns from the Bank of England (BOE) Term Funding Scheme with additional incentives for SME's (TFSME). The Group maintains an unencumbered liquid asset portfolio, comprising of cash placements and securities that can be used to raise liquidity either by sale or through secured funding transactions.

The Group's liquidity management is supported by its unencumbered liquid asset portfolio, the contingent liquidity collateral available and by the various management actions defined in its recovery plan.

Balance sheet encumbrance *(audited)*

The Group treats an asset as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn. It is Group policy to maximise the amount of assets available for securitisation / pledging through the standardisation of loan structures and documentation.

At 31 December 2022 and 2021, the Group had the following encumbered assets.

2 Management of key risks *(continued)*

2.2 Liquidity and funding risk *(continued)*

Encumbered and unencumbered assets	2022 Encumbered[2] £m	2022 Unencumbered £m	2022 Total £m	Restated[1] 2021 Encumbered[2] £m	Restated[1] 2021 Unencumbered £m	Restated[1] 2021 Total £m
Cash and balances with central banks	-	2,239	2,239	-	3,456	3,456
Mandatory deposits with central banks	935	30	965	1,050	30	1,080
Loans and advances to other banks[3]	159	19	178	168	20	188
Loans and advances to banks - related	-	-	-	-	-	-
party transactions	-	318	318	28	278	306
Loans and advances to customers	3,184	10,558	13,742	3,150	13,175	16,325
Assets classified as held for sale	-	-	-	-	-	-
Debt securities at amortised cost	43	485	528	32	766	798
Other assets	-	901	901	-	552	552
Total assets	**4,321**	**14,550**	**18,871**	**4,428**	**18,277**	**22,705**
Encumbered cash and balances						
with central banks:						
Note cover[4]	**881**			978		
Cash ratio and other mandatory deposits	**54**			72		
	935			1,050		

[1] *Restatement to reclassify line of encumbered bank balance.*
[2] *Included in the encumbered assets at 31 December 2022 is £nil million (2021: £28 million) of collateral placed with the Parent in respect of derivative liabilities.*
[3] *Encumbered assets includes assets that are segregated in order to meet the Financial Resilience requirements of the PRA's Supervisory Statement 4/21 'Operational Continuity in Resolution'.*
[4] *Note cover relates to mandatory collateral with the Bank of England in respect of banknotes in circulation in NI.*

2 Management of key risks *(continued)*

2.2 Liquidity and funding risk *(continued)*

Bank of Ireland UK ratings (unaudited)	2022	2021
Moody's	A3 stable outlook	Baa1 stable outlook
Fitch	BBB+ stable outlook	BBB+ stable outlook

Maturity analysis of financial assets and liabilities *(audited)*
The following tables summarise the contractual maturity profile of the Group's financial assets and liabilities, at 31 December 2022 and 31 December 2021, based on the contractual discounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity, instead the Group manages liquidity risk by adjusting the contractual cash inflows and outflows of the balance sheet to reflect them on a behavioural basis. This includes the incorporation of the inherent stability evident in the retail deposit book.

Customer accounts include a number of term ISA accounts that contain access features which allow customers to access a portion of, or all of, their deposit, notwithstanding that this withdrawal could result in a financial penalty being paid by the customer. For such accounts, the balances have been prudently classified as demand as shown on the following table.

2022 Maturity analysis of financial assets and liabilities (discounted basis)	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Financial assets						
Cash and balances with central banks	2,239	-	-	-	-	2,239
Derivative financial instruments	3	10	36	298	32	379
Loans and advances to banks	132	983	29	-	-	1,144
Loans and advances to banks - related party transactions	317	-	-	-	-	317
Debt securities at amortised cost	-	55	-	340	133	528
Loans and advances to customers (before impairment loss allowance)	569	586	1,517	5,649	5,881	14,202
Total assets	**3,260**	**1,634**	**1,582**	**6,287**	**6,046**	**18,809**
Financial liabilities						
Deposits from banks	63	-	-	2,300	-	2,363
Deposits from banks - related party transactions	291	103	350	-	-	744
Lease Liabilities	-	1	2	4	5	12
Customer accounts	10,115	743	1,062	302	-	12,222
Derivative financial instruments	-	9	3	135	181	328
Debt securities in issue	-	-	-	379	-	379
Subordinated liabilities	-	-	-	-	190	190
Total liabilities	**10,469**	**856**	**1,417**	**3,120**	**376**	**16,238**
Net total assets and liabilities	**(7,209)**	**778**	**165**	**3,167**	**5,670**	**2,571**
Cumulative net assets and liabilities	**(7,209)**	**(6,431)**	**(6,266)**	**(3,099)**	**2,571**	**2,571**

2 Management of key risks *(continued)*

2.2 Liquidity and funding risk *(continued)*

Restated[1] **2021** **Maturity analysis of financial assets and liabilities (discounted basis)**	**Demand £m**	**Up to 3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Financial assets						
Cash and balances with central banks	3,456	-	-	-	-	3,456
Derivative financial instruments	-	5	8	72	3	88
Loans and advances to banks	142	1,097	29	-	-	1,268
Loans and advances to banks - related party transactions	305	1	-	-	-	306
Debt securities at amortised cost	-	128	138	402	130	798
Loans and advances to customers (before impairment loss allowance)[1]	482	919	1,654	5,833	7,686	16,574
Total assets	**4,385**	**2,150**	**1,829**	**6,307**	**7,819**	**22,490**
Financial liabilities						
Deposits from banks	41	-	-	2,300	-	2,341
Deposits from banks - related party transactions	255	3	350	450	-	1,058
Lease Liabilities	-	1	2	7	5	15
Customer accounts[1]	12,451	1,193	1,546	564	-	15,754
Derivative financial instruments	1	6	6	5	47	65
Debt securities in issue	-	-	-	148	300	448
Subordinated liabilities	-	-	-	-	190	190
Total liabilities	**12,748**	**1,203**	**1,904**	**3,474**	**542**	**19,871**
Net total assets and liabilities	**(8,363)**	**947**	**(75)**	**2,833**	**7,277**	**2,619**
Cumulative net assets and liabilities	**(8,363)**	**(7,416)**	**(7,491)**	**(4,658)**	**2,619**	**2,619**

2.3 Market risk *(audited)*

Key points:

- **The Group does not engage in speculative trading for the purposes of making profits as a result of anticipation of movements in financial markets. Therefore, no discretionary risk is taken by the Group.**
- **During 2022, the Group continued to manage interest rate and foreign exchange exposure within risk appetite, by seeking natural hedge solutions within the balance sheet and by hedging remaining exposures with the Parent as the hedging counterparty.**
- **Basis risk continued to be hedged through the netting of asset and liability positions and the execution of fixed versus floating term swaps during 2022.**
- **The Group's structural risk continued to be managed within defined risk limits. Whilst recognising that there was a significant period of market volatility post the mini-budget, the Group took action to ensure that customer and market risk exposure were managed appropriately and within risk limits.**

Definition

Market risk is the risk of loss arising from movements in interest rates, foreign exchange rates or other market prices.

The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings, the preservation of capital resources and the achievement of the Group's strategic objectives.

Market risk management

The management of market risk in the Group is governed by the Group's RAS and by the Group Market Risk Policy. The Group has an established governance structure for market risk that involves the Board, the BRC, the ERC, and the ALCO, which has primary responsibility for the oversight of market risk in the Group within the confines of the risk appetite set by the Board.

The Group has no risk appetite for the holding of proprietary market risk positions or the running of material open banking book market risk exposures. The Group therefore, hedges open banking book exposure to de minimus levels.

However, the Group does have customer derivative foreign exchange forward contracts, which are considered held for trading. These transactions are hedged with the Parent.

The Group manages its interest rate risk position by hedging with the Parent. The overall market risk hedging approach is prioritised as follows:

(i) naturally hedge within the balance sheet;
(ii) execute derivative hedging contracts with the Parent; or
(iii) execute on balance sheet cash hedges.

2 Management of key risks *(continued)*

2.3 Market risk *(audited) (continued)*

Derivatives executed for hedging purposes are executed with the Parent only and are subject to ISDA and CSA standard documentation. Collateral requirements are calculated daily and posted as required. The Group uses derivative contracts with the Parent for hedging purposes only and seeks to apply hedge accounting where possible.

The Group continues to maintain a de minimis limit for interest rate risk to reflect operational requirements only. This limit is monitored by the ALCO and approved by the Board. The Group's lending and deposits are almost wholly (>95%) denominated in Sterling. Any foreign currency transactions are hedged to acceptable levels with the Parent. It is the Group policy to manage structural interest rate risk, by investing its net non- interest bearing liabilities in a portfolio of fixed rate assets, with an average life of 3.5 years and a maximum life of 7 years. This has the effect of mitigating the impact of the interest rate cycle on the net interest margin.

Despite significant market volatility and foreign exchange movements due to external factors, there has been no material impact on the Group market risk position, or ability to manage such risk.

Market risk measurement and sensitivity

The Group interest rate risk position is measured and reported daily. The daily interest rate risk position is calculated by establishing the contractual and behavioural repricing of assets, liabilities and off-balance sheet items on the Group balance sheet, before modelling these cash flows and discounting them at current yield curve rates.

In addition to this, the Group runs a series of stress tests, including parallel and non-parallel yield curve stress scenarios across all tenors, in order to further monitor and manage yield curve and repricing risk in the banking book. The Group also applies market risk stress scenarios to manage and monitor the impact of stress events in relation to interest rate option risk, basis risk and net interest income sensitivity.

A dual purpose of the market risk stress testing is to meet regulatory requirements and to ensure that appropriate capital is held by the Group.

The impact on the Group's economic value from an immediate and sustained 50 basis points shift, up or down, in the sterling yield curve applied to the banking book at 2022 and 2021, is shown below.

The sensitivity is indicative of the magnitude and direction of exposures but is based on an immediate and sustained shift of the same magnitude across the yield curve (parallel shift).

	2022 £m	2021 £m
Economic impact (profit and loss) + 50 basis points	0.001	0.06
Economic impact (profit and loss) - 50 basis points	(0.001)	(0.06)

2.4 Regulatory risk *(unaudited)*

Key points:

- **The Group has zero risk appetite for failures to comply with regulatory or legislative obligations and manages regulatory risk through its RMF.**
- **In 2022 there was enhanced regulatory focus on the impact on the Group's customers of the emerging cost-of-living crisis. Regulators have communicated their expectations through a 'Dear CEO' letter and the findings of a thematic review on the treatment of SME borrowers in financial difficulties.**
- **The Group has, during the period, strengthened its affordability assessment approach to reflect the external factors that are likely to impact borrower's ability to meet their commitments in a sustainable manner, additionally the Group have taken steps to make available tools, referral points and supporting mechanisms to help borrowers who might be experiencing financial difficulties to receive the help and support they require.**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

2 Management of key risks *(continued)*

2.4 Regulatory risk *(unaudited) (continued)*

Definition
Regulatory risk is the risk that the Group does not identify legal or regulatory change or appropriately manage its relationship with its regulators.

The associated risk of regulatory change is the risk that a change in laws and regulations that govern the Group will materially impact the Group's business, profitability, capital, liquidity, products or markets; that the Group fails to take timely action; and/or that the Group fails to effectively manage the regulatory change process.

Risk management and measurement
The Group manages regulatory risk under its RMF. The Framework identifies the Group's formal governance process around risk, including its framework for setting risk appetite and its approach to risk identification, assessment, measurement, management and reporting. This is implemented by accountable executives and monitored by R&ORC, ERC, BRC and Board in line with the overall risk governance structure outlined in section 1.1. The effective management of regulatory risk is primarily the responsibility of business management and oversight is provided by the Compliance and Conduct Risk function. As detailed in its RAS, the Group has no appetite for failure to comply with its regulatory or legislative obligations. However, it acknowledges that instances of unintentional non-compliance with regulatory expectations have the potential to occur.

Risk mitigation
Risk mitigants include the early identification, appropriate assessment and measurement and reporting of risks. The primary risk mitigants for regulatory risk are the existence of appropriate controls in place throughout the business and the effective planning for, and execution of, regulatory change.

Risk reporting
The current status of regulatory change programmes is reported to senior executives and Board members through the CRO Report. The Head of Compliance and Conduct reports to R&ORC, ERC and BRC on the status of regulatory risk in the Group, including the status of the top regulatory risks, the progress of risk mitigation plans, issues and breaches, and significant regulatory interactions.

Financial Crime
Protecting the financial system from financial crime risks including money laundering, terrorist financing, tax evasion and bribery and corruption is of intrinsic importance to the Group. The Group manages financial crime risk under its Financial Crime Risk framework, which includes specific Anti-Money Laundering, Sanctions and Countering the Financing of Terrorism and Anti-bribery and corruption policies to support this objective. Dedicated systems, controls and processes are in place to mitigate these risks, including automated customer due diligence and risk assessment, customer and payments screening (including sanctions), and transaction monitoring to identify suspicious activity. All colleagues complete annual mandatory training and assessment in relation to key areas. The UK MLRO reports on the status of financial crime risk management to senior executives and Board members, through R&ORC, ERC and BRC to counter the risk that the Group systems, products and services are used to facilitate or attempt to facilitate financial crime; this includes the updates on the progress of risk mitigation plans, issues and breaches, and the oversight and effectiveness of systems and controls.

2.5 Operational risk *(unaudited)*

Key points:

- **The Group has made material progress in IT Service Delivery resulting in a significant reduction in customer impacting IT incidents and system outages. Mortgage platform transformation, technology migration and enhanced control environments have further improved availability and security of our systems and customer data. There is continued focus to enhance sustainability, integrity and resilience of Important Business Services (IBS) and key operations.**
- **The Bank has a new hybrid working model which enables colleagues to work in a way that is more flexible and productive while strengthening our ability to prepare for and remain resilient during disruptive events.**
- **The Bank has confirmed compliance against the initial March 2022 FCA/PRA Operational Resilience regulations. A multi-year plan is in place to meet the longer dated requirements. Further improvements to the plan are being driven by an enhanced understanding and remediation of any vulnerabilities to the key resources that support the delivery of our IBS.**

Definition
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

This risk includes Information Technology, Change Management, Information Security & Cyber, Sourcing, Business Continuity Management, Operational Resilience, People, Physical Infrastructure, Legal, Data, Model, Financial & Regulatory Reporting and Tax.

Risk management
The primary goal of operational risk management is to ensure the sustainability, integrity and resilience of the Group's operations and to protect its reputation by mitigating, controlling or transferring the impact of operational risk.

The objective of operational risk management is not to eliminate operational risk altogether but to manage it within appetite, taking into account the cost of mitigation and the level of

2 Management of key risks *(continued)*

2.5 Operational risk *(unaudited) (continued)*

reduction in the operational risk exposure that can be achieved in a cost effective manner.

The Group operates a framework which defines its approach to managing operational risk and consists of, inter alia:

- Board approved RAS;
- Policies which specify the minmum control standards and staff obligations;
- Maintaining organisation structures of the oversight, monitoring and management of operational risk;
- Embedding formal operational risk management processes and methodologies;
- Group's incident, event and issue management processes;
- Operational risk management information and reporting; and
- Operational risk training.

The Group undertakes an annual ICAAP, of which part of the focus is to determine the appropriate level of capital it must hold to protect itself against extreme but plausible operational risk exposures. The Group's regulatory minimum capital requirement (Pillar 1) is determined by using the standardised approach. The Group uses scenario analysis and capital modelling to test the adequacy of Pillar 1 capital and set the overall (Pillar 1 and Pillar 2A) capital requirement for operational risk.

Risk reporting

The Group utilises an operational risk management system to record the outputs of risk and control self-assessments, operational risk events (including financial losses, near misses and instances of non-compliance), issues, outcomes of controls testing, performance of key indicators, and other data.

Reporting includes assessment of individual risk profiles against key operational risk categories from the Risk owner (1LOD) which is then subject to oversight and challenge from 2LOD subject matter experts, as well as trigger reporting at business unit level.

2.6 Business and strategic risk *(unaudited)*

Key points:

- **On an annual basis the Board reviews the Group's strategic objectives to confirm that the strategic shape and focus of the Group remains appropriate. Longer-term viability is monitored through its annual multi-year strategic planning and ICAAP process.**
- **Whilst the residual impacts of the COVID-19 pandemic and the geopolitical risk associated with continued Brexit/NI Protocol uncertainties remain key organisational concerns, new emerging risks in 2022 and carried forward into 2023 have required significant management attention including the cost of living crisis fuelled by energy prices, soaring inflation, supply chain disruption and labour market challenges.**
- **Potential impacts of the ongoing war in Ukraine remain a management focus.**
- **The competitive environment in the UK banking sector remains intense with increasing pressure on margins affecting the Group's ability to generate profitability. The Group's cost base is reviewed regularly to ensure the Group remains competitive.**
- **The Group's focus is on improving sustainable returns. The Group is continuing on its multi-year strategy implementation enabling it to lower its cost base and focus on higher margin businesses across mortgages, car finance and travel money.**

Definition

Business & Strategic Risk is the risk of not achieving agreed strategic and business goals, arising due to inadequate planning or implementation, and/or changes in the external environment or economic factors. This also includes adverse impacts on the franchise value, e.g., by implementing an unsuitable strategy or maintaining an obsolete business model. Business & Strategic Risk also covers ESG Risk.

There are two Sub Risks that constituent risk elements of Business & Strategic Risk.

Business Risk, is the risk of earnings volatility (1 year horizon) arising from business decisions or external factors that adversely impact on earnings or business franchise. (This excludes earnings impact already reflected in other Principal Risks e.g. Credit, Funding & Liquidity).

Strategic Risk is the risk of not generating an acceptable level of returns over the medium to long term (>1 year) as a result of poor strategic planning or implementation, or external factors (and the response to these factors).

Risk management, measurement and reporting

Business units are responsible for delivery of their business plans and management of such factors as pricing, business volumes, operating expenses and other factors that can introduce earnings volatility.

The risk is overseen monthly through the CRO MRR with commentary on the economy, market development and competition, margin trends, direct and indirect costs, staff turnover and transformation risk. It is identified, monitored and reported on through the Board approved risk appetite, agreed KPI's, the financial performance process and through other governance fora and mechanisms. Business and strategic risk is reported on an ongoing basis to the ExCo, ERC, the BRC and the Board.

Risk mitigation

The Group mitigates business risk through business planning methods, such as the diversification of revenue streams, cost base management and oversight of business plans which are informed by expectations of the external environment and the Group's strategic priorities.
At an operational level, the Group's annual budget process sets expectation at a

2 Management of key risks *(continued)*

2.6 Business and strategic risk *(unaudited) (continued)*

business unit level for volumes, capital returns and margins. The regular tracking of actual and forecast volumes and margins against budgeted levels, is a key financial management process in the mitigation of business risk.

Strategic risk is mitigated through the annual strategic multi-year plan and ICAAP as well as updates to the Board on industry developments, regular updates on the key macroeconomic environment affecting the Group's activities and a review of the competitive environment and strategies at both Group and business unit level.

The Group's annual strategy and planning process includes a review of the Group's business model and production of the annual Business Model Analysis.

2.7 Conduct risk *(unaudited)*

Key points:

- **The Group recognises the importance of demonstrably acting to deliver good outcomes for customers, acting fairly and is committed to placing customers at the heart of its strategic and operational decision making. The Group continues to develop its outcomes monitoring and reporting capabilities.**
- **In 2022, the Group continued to manage it conduct risk profile through the application of robust, customer-focused, policies, processes, systems and controls. The Group sought to address key risks that were identified by the regulator that relate to the ongoing cost-of-living crisis. These steps included: reviewing and updating its affordability assessment approach to ensure that metrics and data considered reflected the impact that the increasing inflationary environment has on individuals' capacity to maintain contractual arrangements; ensuring that all borrowers and individuals in financial difficulties were provided with appropriate support, guidance and sign-posting to money advice services that would enable them to receive the necessary levels of support; and further enhancing the effectiveness of the Groups collections and recoveries operations.**
- **The Group will embrace the opportunities presented by the implementation of Principle 12, the Consumer Duty requirements, with greater focus on the delivery of good customer outcomes. This will be enabled through the Group's strategies, governance, leadership and people. The Group has in place a robust delivery and implementation plan which has been approved by the Board and is on track to have in place the mechanisms and approaches, by the prescribed dates, to demonstrate that it acts to deliver good outcomes for its customers through compliance with the cross-cutting obligations and the delivery of the four underlying Principle 12 outcomes.**

Definition
Conduct risk is the risk of poor outcomes for, or harm to, customers, clients and markets, arising from the delivery of the Group's Product and Services.

Customer Experience
The Group continues to focus on its strategic priority to serve customers brilliantly and to help enable customers, colleagues and society to thrive. Throughout 2022, the Group has continued to focus on improving customer experience and outcomes, to ensure its standards are in line with with evolving industry and regulatory expectations with particular focus on those customers experiencing financial difficulty. Enhancements were made to services provided through digital platforms to improve customer service.

Alongside the rest of the industry, the Group continues to make adjustments to cater for the needs of vulnerable customers including ensuring they are treated fairly. The Vulnerable Customer Board oversees the Group's approach to vulnerable customers, and sets out desired outcomes and standards expected of business units and third party outsourced service providers in the treatment of those consumers that may be vulnerable and who are therefore susceptible to detriment.

Risk management
The Group has no appetite for customer detriment and seeks to be fair, accessible and transparent in the provision of products and services to its customers at all times.

To ensure the Group's exposure to conduct risk is clearly defined, understood, measured, managed as appropriate and regularly reported upon, the Group has established risk appetite measures, underpinned by policies, procedures and reports to allow the identification and remediation of conduct risk.

During 2022 the Group has taken proactive measures to consistently define the outcomes it would expect to deliver across its key processes and has developed customer outcome benchmarks allowing focused monitoring and reporting throughout the organisation.

Conduct risk policy
The Group's exposure to conduct risk is governed by a policy approved by the BRC in accordance with the Board approved risk appetite and within the overall Group risk governance structure outlined on page 35.

In addition to day-to-day control measures implemented by business units, monitoring of conduct risks and controls is undertaken using a risk-based approach by an independent internal monitoring team within the Compliance and Conduct function.

2 Management of key risks *(continued)*

2.7 Conduct risk *(unaudited)*

Conflicts of interest

The Group has a conflicts of interest policy which guides staff on what should be reported and assessed by the Group, and is underpinned by annual staff training. Whenever a conflict of interest is identified appropriate measures must be taken to either remove it or mitigate it; otherwise failure to comply with the policy may constitute serious misconduct and may be subject to disciplinary measures.

There is a Group Speak Up Policy in place, which provides support to colleagues in raising concerns of wrongdoing or potential wrongdoing, including whistleblowing.

Risk reporting

Conduct risk management information is reported on a regular basis to relevant senior governance committees, including presentations on issues for consideration or approval that relate to remediation or improvement programmes, and other customer related programmes and initiatives. The Board has overall responsibility for conduct risk oversight. Key conduct risk matters are included in the CRO MRR as well as updates on material conduct risk matters requiring escalation.

3 Capital management

Key points:

- At all times during the financial year the Group maintained appropriate capital resources in line with regulatory requirements.
- CET1 ratio is 18.4% at 31 December 2022 (2021: 17.5%) under the transitional basis and 18.2% under the fully loaded basis (2021: 17.2%).
- The Group at 31 December 2022 was required to hold CET1 capital requirements of 8.57% and Total Capital Requirements of 12.52%.
- Sustained strong capital position enabled a £250 million dividend in the year.
- Leverage ratio is 9.2% at 31 December 2022 under the transitional basis and 9.1% under the fully loaded basis.
- MREL ratio of 26.7% as at 31 December 2022.

Capital adequacy risk *(unaudited)*
Capital adequacy risk is the risk that the Group has insufficient capital to support its normal business activities, meet its regulatory capital requirements or absorb losses should unexpected events occur.

Capital management objectives and policies *(unaudited)*
Capital adequacy and its effective management is critical to the Group's ability to operate its businesses, grow organically and pursue its strategy. The Group'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. This could arise in the case of a materially worse than expected financial performance (including, for example, reductions in profits and retained earnings as a result of impairment losses or write downs) and increases in Risk Weighted Assets.

ICAAP *(unaudited)*
The ICAAP is carried out by the Group on an annual basis. This process facilitates the Board and senior management in adequately identifying, measuring and monitoring the Group's risk profile. Underpinning the ICAAP process, the Group prepares detailed base and stress financial projections.

The ICAAP process demonstrates that the Group has sufficient capital under both the base and stress case scenarios to support its business and achieve its objectives having regard to Board approved risk appetite and strategy, and to meet its regulatory capital requirements.

The Board approved ICAAP report and supporting documentation is submitted to the PRA and is subject to regulatory review as part of the Supervisory Review and Evaluation Process.

Stress testing and capital planning *(unaudited)*
The Group 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 Group's capital assessments and related risk management and measurement assumptions.

The Group's stress testing is designed to:

- confirm the Group has sufficient capital resources;
- inform the setting of capital risk appetite measures; and
- ensure the alignment between the Group's RMF and senior management decision making.

The Group assesses its existing and future capital adequacy under scenarios of sufficient severity, using a combination of quantitative and qualitative analysis in the ICAAP. The ICAAP, which acts as a link between the Group's strategy, capital and risk under stress, is approved annually by the Board.

The Group also undertakes reverse stress testing on an annual basis which informs, enhances and integrates with the stress testing framework by considering extreme events that could cause the Group to fail. This testing also improves risk identification and risk management and the results are also approved by the Board, as part of the Group's ICAAP.

As part of the Group's capital planning process the Group's expected capital position is updated and reviewed on a monthly basis and challenged by senior management.

The Group's capital plan (which is approved at least annually by the Board) also includes sensitivities to ensure the continued resilience of the underlying assumptions under adverse conditions and changes to the regulatory landscape.

Capital requirements and capital resources *(audited)*
The Group complied with all its regulatory capital requirements throughout 2022. The Group manages its capital resources to ensure that the overall amount and quality of resources exceeds the Group's capital requirements. Capital requirements are determined by the CRD, the PRA Rulebook, the CRR and 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 buffers.

Additional firm-specific buffers reflect the PRA's view of the systemic importance of a bank and also internal capital adequacy which is determined by stress testing as part of the ICAAP.

In March 2020, in response to COVID-19, the Financial Policy Committee (FPC) reduced the countercyclical buffer (CCyB) 1% to 0% throughout 2021. In December 2021, the FPC announced that it would increase the CCyB to 1% effective from December 2022.

In July 2022, the FPC announced a further 1% increase in the CCyB, effective July 2023.

Capital management reporting *(unaudited)*
The Group monitors and reports the capital position daily, monthly and quarterly. Reporting includes a suite of early warning signals and measurement against risk appetite and is reviewed by the Prudential Risk team, the Capital Management Forum and the ALCO. The

3 Capital management *(continued)*

capital management information is also reviewed by the ERC, the BRC and the Board.

Regulatory Developments *(unaudited)*
In October 2021, the PRA published final rules for the implementation of Basel standards, including elements of CRRII, which applied in the EU from June 2021. Implementation of the PRA's rules became effective 1 January 2022.

In December 2017, the Basel Committee announced revisions to the Basel Framework. The revisions focus on the standardised and internal ratings based approaches to measuring credit risk and include the introduction of an aggregate output floor to ensure banks' RWAs calculated via internal models are no lower than 72.5% of RWAs calculated under the standardised approach.

The revised standards will take effect from 1 January 2025, with a phase-in period of five years for the aggregate output floor. The Group is currently assessing the impact of these revisions although any impact will depend on the implementation at UK level, for which a Consultation Paper was published in November 2022.

The Group actively monitors these developments and seeks to effectively comply with the new requirements when finalised.

In addition to the new Basel rules, there are a number of changes to ECB/EBA regulatory requirements planned for the coming years, which if adopted by the UK, will impact the Bank's regulatory capital and RWA.

Minimum Requirements for Own Funds and Eligible Liabilities (MREL) *(unaudited)*
MREL is focused on ensuring that banking groups have sufficient liabilities to absorb losses to allow them to return to business as usual following a recovery or resolution event and without recourse to taxpayer funds. Since 1 January 2020, the Group has been subject to an internal MREL regulatory requirement on a transitional basis.

The Group issued £300 million of non-preferred senior debt in December 2019 noting that the Parent as the sole shareholder and provider of capital is also expected to provide any future core MREL resources.

IFRS 9 Capital Impact *(unaudited)*
The Group has elected to apply the transitional arrangements which, on a regulatory basis, partially mitigates the initial and future impacts of IFRS 9. This involves a capital add back of a portion of the increase in impairment loss allowance on transition to IFRS 9 and also subsequent increase in the stage 1 and 2 loss allowances to 1 January 2020. The transitional addback allowed in 2020, for stage 1 and 2 provisions raised from 1 January 2018 to 1 January 2020, was 70%, reducing to 50% in 2021 and 25% in 2022. As part of the CRR quick fix package implemented in June 2020, the IFRS 9 transitional arrangements were used to bring additional relief from the potential COVID-19 impacts on provisioning. The add-back for stage 1 and 2 provisions raised from 1 January 2020, was 100% in 2020 and 2021, reducing to 75% in 2022, 50% in 2023 and 25% in 2024.

The fully loaded capital ratios exclude the impact of these transitional arrangements.

Regulatory capital and key capital and leverage ratios *(unaudited)*
The Group is strongly capitalised with a total capital ratio on a regulatory basis of 22.8% at 31 December 2022 (2021: 21.4%).

Total regulatory capital resources decreased by £119 million during 2022 to £1.7 billion due to:
- £62 million reduction in retained earnings including the payment of a £250 million dividend and additional tier 1 coupons of £9 million;
- £5 million reduction in other reserves;
- £24 million increase in deduction for Intangible assets;
- £16 million reduction in IFRS 9 transitional relief; and
- £12 million increase in deduction for Deferred Tax.

RWAs decreased by £1.0 billion to £7.7 billion reflecting a reduction in each of the main lending portfolios including Northridge, commercial lending, personal lending and mortgages.

The Group's leverage ratio on a regulatory basis has increased from 7.3% to 9.2% at 31 December 2022 which is in excess of the minimum leverage requirement of 3.25% that the PRA expects firms to adhere to, regardless of whether or not a firm is subject to a minimum leverage requirement.

3 Capital management *(continued)*

31 December 2021 (audited)[3] Regulatory[1] £m	Fully loaded[2] £m		31 December 2022 (audited)[3] Regulatory[1] £m	Fully loaded[2] £m
122	122	Ordinary share capital	122	122
399	399	Capital contribution and capital redemption reserve fund	399	399
1,036	1,036	Retained earnings	973	973
(9)	(9)	Other reserves	(77)	(77)
1,548	**1,548**	**Total equity**	**1,417**	**1,417**
(21)	**(51)**	**Regulatory adjustments**	**(9)**	**(23)**
(50)	*(50)*	*- Deferred tax assets relying on future profitability*	*(62)*	*(62)*
(4)	*(4)*	*- Intangible assets*	*(28)*	*(28)*
13	*13*	*- Cashflow hedge reserve*	*77*	*77*
(10)	*(10)*	*- Retirement benefit asset*	*(10)*	*(10)*
-	-	*- Prudent valuation adjustment*	-	-
30	-	*- IFRS 9 transitional adjustment*	*14*	-
1,527	**1,497**	**Common equity tier 1 capital**	**1,408**	**1,394**
		Additional tier 1		
		Subordinated perpetual contingent conversion		
150	150	additional tier 1 securities	150	150
1,677	**1,647**	**Total tier 1 capital**	**1,558**	**1,544**
		Tier 2		
190	190	Dated loan capital	190	190
190	**190**	**Total tier 2 capital**		
1,867	**1,837**	**Total capital**	**1,748**	**1,734**
8,717	**8,686**	**Total risk weighted assets (unaudited)**	**7,713**	**7,699**
22,909	**22,879**	**Total leverage ratio exposures (unaudited)**	**16,962**	**16,948**

[1] *Regulatory capital is reported including the IFRS 9 transitional adjustment.*
[2] *Fully loaded capital is reported excluding the IFRS 9 transitional adjustment.*
[3] *Total risk weighted assets and total leverage ratio exposures are unaudited.*

Governance

Directors and other information

Chair of the Board
Peter Herbert (N) (RE)

Non-Executive Directors
Philip Moore (RI) (A)
Richard Sommers (RI) (A)
Ian Buchanan (RI) (RE)
Enda Johnston (appointed May 2022)
Mark Spain
Alison Burns (N) (RE) (RI)
Clare Salmon (RE) (A) (N)

Executive Directors
Ian McLaughlin
Tom Wright (appointed October 2022)
Polina Ievskaya (appointed November 2022)

(RI) Member of the Risk Committee
(A) Member of the Audit Committee
(N) Member of the Nomination Committee
(RE) Member of the Remuneration Committee

Company Secretary
Hill Wilson Secretarial Limited

Registered Office
Bow Bells House,
1 Bread Street,
London,
EC4M 9BE

Registered Number
07022885

Independent Auditor
KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

The Board of Directors

Peter Herbert
Chair, Non-Executive Director

Term of office
Appointed in May 2020

Independent
Yes

External appointments
Chair and Non-Executive Director at Zopa Bank

Experience
Appointed to the Board of Bank of Ireland (UK) plc in May 2020, Peter is Chair of the Board, Chair of the Nomination Committee and a member of the Remuneration Committee. Peter is currently the Chair of Zopa Bank. His past Non-executive Director roles have included The Northview Group, CreditShop Holdings Tandem Bank and WiZink Bank, and previous executive roles have included Chief Executive of Tandem Bank and senior roles at GE Capital and Barclays.

Ian McLaughlin
Chief Executive Officer

Term of office
Appointed in December 2019

Independent
No

External appointments
None

Experience
Appointed Chief Executive Officer of Bank of Ireland (UK) plc in December 2019.

Ian has over 25 years of financial services experience, having joined the Group from Royal Bank of Scotland, where he held roles of Managing Director, Home Buying and Ownership, and Managing Director, Specialist Banking. Prior to that, Ian held a number of senior management roles at Lloyds Banking Group and Zurich Financial Services. Ian is also a Director of a number of Bank of Ireland Group subsidiaries, including J&E Davy. Ian is a graduate of Queen's University Belfast.

Tom Wright
Chief Financial Officer

Term of office
Appointed in October 2022

Independent
No

External appointments
None

Experience
Appointed Chief Financial Officer of Bank of Ireland (UK) plc in October 2022, Tom has extensive experience in finance as well as strategy development and execution, across a broad range of industries including Financial Services, Retail, FMCG and Media. Tom has over nine years' experience in the Bank of Ireland Group, having held a number of senior management roles within Finance. Tom previously held senior finance roles in Tesco Ireland Limited and Sony Music Entertainment Limited. Prior to that, he held roles at Communicorp Group Limited; Tedcastles Oil Products; and KPMG. Tom is also a Director of a number of Bank of Ireland Group subsidiaries, including NIIB Group Limited.

Abbreviations

- **A** Audit Committee
- **RI** Risk Committee
- **RE** Remuneration Committee
- **N** Nomination Committee

The Board of Directors *(continued)*

Polina Ievskaya
Chief Risk Officer

Term of office
Appointed in November 2022

Independent
No

External appointments
None

Experience
Appointed to the Board of Bank of Ireland (UK) plc in November 2022, Polina is Chief Risk Officer of Bank of Ireland (UK) plc. Polina joined Bank of Ireland (UK) Plc in 2014 having held a number of senior roles in Barclays, Royal Bank of Scotland and the Financial Services Authority. Polina has more than 15 years of risk management experience in the UK financial services, with her earlier international career in accounting and internal audit. Polina holds an MBA with a concentration in Finance from the University of Texas, USA.

Enda Johnston
Chief Strategy & Transformation Officer - Bank of Ireland Group plc

Term of office
Appointed in May 2022

Independent
No

External appointments
Non-Executive Director of Action for Children Ltd
Action for Children Northern Ireland Ltd
Action for Children Ireland Company Limited By Guarantee

Experience
Appointed to the Board of Bank of Ireland (UK) in May 2022, Enda is the Chief Strategy & Transformation Officer of the Bank of Ireland Group. Prior to joining the Bank of Ireland Group in February 2022, Enda was Interim Chief Financial Officer at Virgin Money having previously served as Group Corporate Development Director where he oversaw Virgin/CYBG's strategy development and acquisition activity. Prior to joining CYBG, Enda held senior roles in AIB, the NTMA and Merrill Lynch.

Mark Spain
Chief Finance Officer - Bank of Ireland Group plc

Term of office
Appointed in December 2019

Independent
No

External appointments
None

Experience
Appointed Non-Executive Director of Bank of Ireland (UK) plc in December 2019. Mark is the Chief Finance Officer and Executive Director of the Board of Bank of Ireland Group plc and the Court of The Governor and Company of Bank of Ireland. Strategy Officer reporting directly to the Bank of Ireland Group Chief Executive Officer. He brings over 20 years' experience to this role since joining Bank of Ireland Group in 1998 as Director of IBI Corporate Finance. He has since held senior leadership roles as Chief Strategy Officer, Director of Group Investor Relations, Director of Group Finance and UK Commercial Director. He has extensive experience and expertise in markets, accounting and finance, commercial strategy, mergers and acquisitions, and complex project management.

The Board of Directors *(continued)*

Alison Burns
Non-Executive Director

Term of office
Appointed in January 2021

Independent
Yes

External appointments
Non-executive Director of RPMI Ltd
Non-executive Director of National House-Building Council

Experience
Appointed to the Board of Bank of Ireland (UK) plc in January 2021, Alison is a member of the Nomination and Remuneration Committees and is the Customer and Consumer Duty Champion. Alison has held executive and non-executive roles within Aviva plc, including the position of CEO of Aviva Ireland. She has extensive financial services experience, gained in senior roles with Santander, Bupa, Lloyds TSB and AXA UK, and brings strong leadership and executive management experience. Previous Non-Executive director roles include Hastings plc and Equiniti Group Plc.

Philip Moore
Non-Executive Director

Term of office
Appointed in April 2018

Independent
Yes

External appointments
Non-Executive Director and Chair of the Risk Committee of Wesleyan Assurance Society
Non-Executive Director of Skipton Building Society
Non-Executive Director of Connells Ltd
Trustee and Chair of the Finance Committee of the Royal British Legion

Experience
Appointed to the Board of Bank of Ireland (UK) plc in April 2018, Philip is Chair of the Audit Committee and a member of the Risk Committee. Philip has enjoyed an over 35-year international career in financial services comprising nearly 20 years as a CFO. Until 2017 he was Group Finance Director of LV=. Other previous executive roles have included Group Finance Director and subsequently Chief Executive at Friends Provident and a Partner at Pricewaterhouse Coopers LLP based in London and then Hong Kong. Philip's past Non-Executive director roles have included F&C Asset Management, RAB Capital, Wealth Wizards, and Towergate, Codan A/S and Codan Forsikring A/S. Philip is also a Governor and Vice-Chair of Hart Learning Group.

Richard Sommers
Non-Executive Director

Term of office
Appointed in August 2021

Independent
Yes

External appointments
Non-Executive Director and Risk Committee Chair, Hampshire Trust Bank

Experience
Appointed to the Board of Bank of Ireland (UK) plc in August 2021, Richard is Chair of the Risk Committee and a member of the Audit Committee. Richard's past non-executive director roles include Al Rayan Bank, where he chaired the Risk Committee; and West Bromwich Building Society, where he chaired the Risk Committee. Richard was also Chair of the Audit and Risk Committee at the University of York. During a 30-year executive career in financial services, Richard held the roles of Finance Director and then Risk Director for Barclays' Retail Financial Services Division; Finance Director, Barclaycard; and Chief Financial Officer for Barclaycard USA.

Ian Buchanan
Non-Executive Director

Term of office
Appointed in September 2018

Independent
No

External appointments
None

Experience
Appointed Non-Executive Director of Bank of Ireland (UK) plc in September 2018. Ian is also a Non-Executive Director for the Board of Bank of Ireland Group plc and the Court of The Governor and Company of Bank of Ireland. He was previously the Group Chief Information Officer for Barclays plc and Chief Operating Officer for Barclaycard until 2016. Before joining Barclays in 2011, Ian was Chief Information Officer for Société Générale Corporate and Investment Banking (2009-2011), a member of the public board and Group Manufacturing Director of Alliance & Leicester plc (2005-2008), and a member of the executive committee and Chief Operations & Technology Officer of Nomura International (1994-2005). Ian's earlier career was spent at Credit Suisse, Guinness and BP.

Clare Salmon
Non-Executive Director

Term of office
Appointed in July 2021

Independent
Yes

External appointments
Independent Member, Scottish Widows Independent Governance Committee

Experience
Appointed to the Board of Bank of Ireland (UK) plc in July 2021, Clare is Chair of the Remuneration Committee, a member of the Nomination and Audit Committees, and is the Colleague Engagement Director. She has held a broad variety of international leadership roles with board-level experience across a range of service businesses, including consumer-focused financial services, at the AA, RSA, Vodafone, ITV, Prudential and Royal London. Clare's previous non-executive director roles include Swinton Insurance Plc, Alliance Trust Plc, Codan and CMC Markets Plc where she was Chair of the Risk Committee, and designated Director for Workforce Engagement. Clare also sits on the Scottish Widows Independent Governance Committee.

Corporate Governance Arrangements 2022

The Group has adopted the Wates Principles of Corporate Governance for Large Private Companies as its preferred corporate governance code.

Compliance with the Wates Principles

Principle 1: Purpose and leadership

- The Board is responsible for the leadership of the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board approves the Group's strategy, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance.
- The Board has oversight of the Group's values and standards, the development of the Group's culture, the allocation of Prescribed Responsibilities under the UK Regulatory Regime and ensures that the Group's obligations to its shareholder, regulators, customers and other stakeholders are understood and met. The Board approves the Group's risk appetite, capital, liquidity and operating plans.
- The Group's refined purpose is "Helping you Thrive" and is underpinned by core values of 'Customer First', 'Better Together', 'Take Ownership' and 'Be Decisive'. Details are set out under "Our purpose and values" in the Strategic Report on page 10.
- The Group's refreshed strategy is built on three strategic pillars: building stronger relationships with our customers and colleagues, continuing to simplify our business for customers and colleagues, and creating a culture of constant improvement in the sustainability of the company for the future.. Details are set out under Our new refreshed Group Strategy and target outcomes for 2023-2025 on page 10.
- The Board recognises that culture is critical to the Group's competitive advantage and creation, and protection of long-term value. To support its commitment to embedding the Group's culture and values, the Board receives regular updates on Open View survey results as well as a Quarterly Culture Dashboard. The Nomination Committee reviews information on Management Hires and Exits.
- The Group has signed up to the UK Race at Work Charter and has committed to meeting and in certain cases, exceeding, the standards set out in that Charter. The Board pledges its commitment to zero tolerance for any form of racial harassment, bullying or inappropriate behaviours whether from management, colleagues, customers or contractors.
- The Audit Committee leads on the establishment of transparent policies in relation to raising concerns about misconduct and unethical practices (Speak-Up).
- In its deliberations, the Board has taken into account the long-term interests of shareholders, investors, customers, colleagues and other stakeholders in the Group and the public interest. The Board has also given due consideration to laws, regulations and any published guidelines or recommendations. The Board is accountable to its Shareholder for the overall direction and control of the Group.
- The Board met 15 times in 2022.

Principle 2: Board composition

- The roles of the Chair and CEO are separate to ensure a balance of power and effective decision-making.
- There was a significant change to the composition of the Board in 2022 as outlined below:
  - Enda Johnson was appointed to the Board as a parent-Nominated Non-Executive Director on 12 May 2022.
  - Ian Buchanan was appointed as a member of the Remuneration Committee on 1 October 2022.
  - Thomas McAreavey stepped down from the Board on 24th October 2022.
  - Tom Wright was appointed as UK CFO and an Executive Director of the Board on 24 October 2022.
  - Alison Burns was re-appointed to the role of Customer & Consumer Duty Champion (formerly Customer Director) in November 2022.
  - Polina Ievskaya, UK CRO, was appointed as an Executive Director of the Board on 18 November 2022.
  - Clare Salmon was re-appointed to the role of Colleague Engagement Director in November 2022.
- The Nomination Committee regularly considers the Board size and structure to ensure it remains appropriate to meet the strategic needs and challenges of the Group and enables effective decision-making.
- The Group ensures that individual Directors of the Board have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships held by any individual Director.
- A schedule of technical and business Board training is developed annually and reviewed throughout the year. In 2022, the Board and Board Committees received training in the following areas:
  - AML;
  - Financial Risks of Climate Change;
  - ESG;
  - Operational Resilience;
  - Bullying & Harassment/Respect at Work;
  - Culture;
  - IFRS9:
  - Director Duties;
  - Conduct and Compliance (including Consumer Duty);
  - UK Housing and Lending Outlook;
  - UK Competitive Banking Landscape;
  - Cyber Crime; and
  - BEIS Restoring Trust in Audit and Corporate Governance.
- The Board and Committees review the agenda for the next meeting at the end of each scheduled meeting which allows all Directors to shape the areas of discussion for future meetings.
- The Board has established a set of matters reserved for the Board and an annual rolling agenda to ensure control over key decision making.
- In accordance with the Articles, the Board has established the following Board Committees:
  - Audit Committee;
  - Nomination Committee;
  - Risk Committee; and
  - Remuneration Committee
- Each Board Committee has specific delegated authority as set out in its terms of reference (https://www.bankofirelanduk.com/about/corporate-governance/documents/).
- In 2020, the Board also established a Strategic Transformation sub-committee to facilitate focused review, challenge and oversight as to the progress of the Group's strategic transformation. There were 3 meetings of this Committee in 2022.
- The Board comprises a mix of Executive Directors; independent Non-Executive Directors; and Non-Executive Directors nominated by

Corporate Governance Arrangements 2022 *(continued)*

the Parent.

- The Board recognises and embraces the benefits of diversity among its own members, including diversity of skills, experience, background, gender, ethnicity and other qualities and is committed to achieving the most appropriate blend and balance of diversity possible over time. The Board has retained its gender diversity target of c.30% of female Directors by the end of 2022. Following the appointment of Polina Ievskaya in November 2022, the Board is c. 30% female. The Board Diversity Policy, is available here: https://www.bankofirelanduk.com/about/corporate-governance/documents/
- All appointments are made on merit against objective criteria (including the skills and experience the Board as a whole requires to be effective) with due regard for the benefits of diversity on the Board. Upon appointment, each Director receives a detailed and tailored induction, including a briefing on directors' duties.
- Before the appointment of a Director, the Nomination Committee assesses the time commitment involved and identifies the skills and experience required for the role, having regard to Board succession planning. The recruitment process for all other colleagues is supported by an experienced third-party professional search firm which develops an appropriate pool of independently assessed candidates as well as providing independent assessment of candidates. The Nomination Committee then shortlists candidates, conducts interviews and completes comprehensive due diligence. The Nomination Committee then makes a recommendation to the Board.

Principle 3: Director responsibilities

- The Board held 15 meetings during 2022. Principal decisions made by the Board during 2022, are set out in the Section 172 Companies Act 2006 Report on pages 21 to 23.
- The Board Terms of Reference provide a clear line of accountabilities and responsibilities. Each Committee has a Terms of Reference outlining accountabilities and responsibilities.
- The Terms of Reference for the Board and Board Committees are reviewed annually by the Company Secretary with any recommended changes presented to the Board for approval.
- The Board has adopted terms of reference that set out matters reserved for the Board.
- The Board undertakes an effectiveness review annually. The Group undertakes an independent, externally facilitated Board Effectiveness review every three years with an internally facilitated review undertaken in each intervening year. An internally facilitated review was undertaken in 2022 which concluded that the governance of the Board and its committees has been designed appropriately and the Board and committees are effective in their operation and in discharging their responsibilities. Recommendations implemented to enhance the Board's performance during 2022, following the 2021 Board effectiveness review, were designed to further enhance Board focus and discussion on Customer, Colleagues, ESG, Culture and risks; papers and MI; and Board Committee responsibilities.
- The Board has adopted a Conflicts of Interest Policy setting out how conflicts should be identified and managed at Board level.
- The Audit and Risk Committees hold meetings with control function heads without executive management present at least annually.
- The Risk Committee holds private meetings with the CRO at the end of each scheduled Risk Committee meeting.
- Board papers and supporting information are accurate, clear, comprehensive and up to date. Papers contain a broad range of information sources; a summary of the contents; inform the Directors as to what is being requested of them; and, wherever possible, are issued in good time ahead of Board meetings.

Principle 4: Opportunity and risk

- The Board considers major projects and has delegated authority from the Shareholder for the approval of business strategy and direction for Group, within the parameters of the Parent's strategy.
- The Risk Committee and the Board considered and agreed a refreshed strategy for 2023-2025. Further information on the Group's Strategy can be found on page 10.
- The Board has established a dedicated Risk Committee with responsibility for monitoring risk governance and to assist the Board in discharging its responsibilities in ensuring that risks are properly identified, reported, assessed and managed appropriately. In addition to regular review of the Group's Principal Risks (see Principal Risks and Uncertainties page 30), matters considered by the Risk Committee during 2022 included:
  - Operational Risks;
  - ICAAP;
  - ILAAP;
  - Any breaches of Risk Appetite Metrics;
  - Deep dives on specific areas within the Group's Business Portfolios;
  - Consumer Duty Regulation;
  - Risk Appetite Statement;
  - Operational Resilience; and
  - Financial Risks of Climate Change.
- The Group has a robust framework for reviewing and refreshing the RAS. This includes an agreed approach to reporting, including frequency of reporting and the points at which decisions are made and escalated. For further details on the main features of the internal control and risk management systems, refer to the Risk Governance Report.

Principle 5: Remuneration

- The Board has established a dedicated Remuneration Committee. The Remuneration Committee's primary objective is to consider and make recommendations to the Board in respect of remuneration strategy and policy for Executive Directors, Senior Management and the Group appointed Senior Management Functions (as defined under the UK Senior Managers & Certification Regime).
- The Remuneration Committee is responsible for overseeing the operation of a gender-neutral and appropriately inclusive remuneration policy, for Executive directors, Senior management and all other Colleagues.
- In framing remuneration strategy, frameworks and policies, the Remuneration Committee seeks to promote executive remuneration structures aligned to the long-term sustainable success of the Group, taking into account pay and conditions elsewhere in the Group.
- The Group is currently operating under a number of remuneration restrictions, which cover all Directors, senior management, employees and certain service providers across the Group. For further information, refer to the Remuneration Report of Bank of Ireland Group plc.

Corporate Governance Arrangements 2022 *(continued)*

Principle 6: Stakeholder relationships and engagement

- Behaving in a responsible and sustainable way is fundamental to the Group's achievement of its refreshed purpose of "helping you to thrive". A Responsible and Sustainable Business framework supports the Group's behaviours and strategic priorities. Further details are set out in the Responsible and Sustainable Business section of the Strategic Report on page 12.
- Workforce policies and practices are aligned with the Group's purpose and values. Employees have access to a Speak-Up Policy and are actively encouraged to report any concerns or worries, either internally or externally via a confidential, externally facilitated advice line. The Board monitors these reports and follows up actions regularly through the Audit Committee.
- Executive and Non-Executive Senior Management Function role holders meet regularly with the Group's regulators; and the PRA presents an annual update to the Board. The Chair of the Parent attends a Board Meeting annually and the CEO of the Parent presents to the Board at least once a year.

See Section 172(1) Statement (page 21) for further details on stakeholders and engagement.

Report of the Directors

The Directors of the Group present their consolidated audited report and financial statements for the year ended 31 December 2022. The financial statements are prepared in accordance with UK adopted international accounting standards. Directors are listed in the Governance section on pages 58 to 62. The Group's structure is set out in note 45 to the financial statements and the future developments of the Group are incorporated in the strategic report.

Principal activities

The Bank is an 'authorised institution' under the Financial Services and Markets Act 2000 and is regulated by the FCA and the PRA. The principal activities of the Group are the provision of an extensive range of banking and other financial services in UK.

Financial performance

The Group's profit for the year ended 31 December 2022 was £228 million (2021: £398 million). There was no profit or loss attributable to non-controlling interests for the year ended 31 December 2022 (2021: £nil). An analysis of performance is set out in the strategic report on pages 24 to 29.

Dividends

A dividend of £250 million was paid to the Parent during 2022 (2021: £nil).

Board membership

The following Directors were appointed during the year and up to the date of signing:

- Enda Johnson, Non-Executive, 12 May 2022.
- Polina Ievskaya, Executive, 18 November 2022.

Jacqueline Noakes (resigned 31 March 2022) and Thomas McAreavy (resigned 24 October 2022) were the only directors to resign during the year and up to the date of signing.

Corporate governance

The Group has adopted the Wates Principles of Corporate Governance for Large Private Companies as its preferred corporate governance code. While the Bank of Ireland Group fully complies with the UK Corporate Governance Code 2018 (in addition to a number of other codes of corporate governance), compliance with the Wates Principles for Large Private Companies by the Group has been consistent with Bank of Ireland Group-wide good governance practice. Bank of Ireland (UK) plc is a wholly owned subsidiary of the Governor and Company of the Bank of Ireland, a company incorporated by charter in the Republic of Ireland. The ultimate parent is Bank of Ireland Group plc. The Consolidated Annual Report of Bank of Ireland Group plc details the Corporate Governance framework applicable to the Group and its subsidiaries. Bank of Ireland Group plc financial statements are available on www.bankofireland.com or at Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4.

Corporate responsibility

The Group strives to make a positive contribution to the economy by supporting its customers and investing in the communities in which it operates. The Group participates in a number of Parent initiatives including Give Together, a community giving initiative under which employees are supported in raising money and volunteering days for good causes. The Group is also conscious of its impact on the environment and has taken steps to reduce energy consumption at high usage locations that provide services to the Group.

Further details on the Group's commitment to being a Responsible and Sustainable Business can be found in the strategic report.

Risk management

The Group's principal risks and uncertainties are discussed in the strategic report on pages 30 to 32.

Additional risk disclosures for the Group can be found in the Risk Management section.

Employees

For the year ended 31 December 2022, the Group had an average of 1,446.8 employees (2021: 1,501.0 employees).

The Group is committed to employment practices and policies which recognise the diversity of the Group's workforce and are based on equal opportunities for all employees. In recruitment and employment practices, the Group does not discriminate against individuals on the basis of any factor which is not relevant to performance including an individual's sex, race, colour, disability, sexual orientation, marital status or religious beliefs.

The Group has a number of programmes to support colleagues who become disabled or acquire a long-term health condition.

To support continued employment and training, career development and promotion of all employees, the Group provides a suite of learning and development activities which are facilitated in conjunction with the Parent. Through the Group's ongoing employee performance monitoring and appraisal process, incorporating frequent line manager and employee discussions, individual employees are encouraged and supported to pursue their own personal development.

The Group also endeavours to ensure that employees are provided with information on matters of concern to them and encourages active involvement of employees to ensure that their views are taken into account in reaching decisions. To facilitate this, there is regular consultation with employees or their representatives, through regular meetings, bulletins and the use of the Group's intranet, which provides a flexible communication channel for employees.

Political donations

No political donations were made during the year ended 31 December 2022 or in the year ended 31 December 2021.

Voting rights

Voting at any general meeting is by a show of hands or by poll. The Annual General Meeting of the Group is scheduled to take place on 29 March 2023, and a copy of the notice of the meeting will be available on the Group's website when it is issued. The Group is a wholly owned subsidiary of the Governor and Company of the Bank of Ireland. Details of the Parent's shareholding can be found in the Notes to the Accounts in note 38.

Auditors

KPMG Ireland resigned as auditors during the year and KPMG LLP (UK) were appointed in their place and will continue in office in accordance with Section 489 of the Companies Act 2006.

Disclosure of information to the external auditor

In accordance with the provisions of the Companies Act 2006, the Directors serving at the date of approval of this report confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that they ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the

Report of the Directors *(continued)*

Company's auditor is aware of that information.

Going concern

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements, for the year ended 31 December 2022, on page 83 which forms part of the Report of the Directors.

Third party indemnity provision

A qualifying third party indemnity provision (as defined in Section 234 of the Companies Act 2006) was, and remains, in force for the benefit of all Directors of the Group and former Directors who held office during the year. The indemnity is granted under article 137 of the Bank's Articles of Association.

Post balance sheet events

These are described in note 48 to the financial statements.

Financial Statements

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors' Report and the Group and Bank financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Bank financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with UK adopted international accounting standards and applicable law and have elected to prepare Bank financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 Group and Bank and of their profit or loss for that period. In preparing each of the Group and Bank financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether Group financial statements have been prepared in accordance with UK adopted international accounting standards;
- state whether, for Bank financial statements, applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

As approved by the Board and
signed on its behalf by:

Thomas Wright.

Tom Wright
Director

6 April 2023

Company number: 07022885

Independent auditor's report to the members of Bank of Ireland (UK) plc

1 Our opinion is unmodified

We have audited the financial statements of Bank of Ireland (UK) plc ("the Bank") and its subsidiaries ("the Group") for the year ended 31 December 2022, which comprise the consolidated and Bank income statements, consolidated and Bank statements of other comprehensive income, consolidated and Bank statements of changes in equity, consolidated cash flow statements and the related notes, including the summary of significant accounting policies set out in note 1.

In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2022 and of the Group and Bank's profit for the year then ended;
- The Group's financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Bank's financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework;
- and the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 27 May 2022. The period of total uninterrupted engagement is for the one financial year ended 31 December 2022. Prior to that we were first appointed on 1 May 2018. The period of uninterrupted engagement was for the three financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality Group financial statements as a whole	**£12.4 million** 5% of profit before tax from continuing operations
Coverage	100% of Group profit before tax
Key audit matters	
Recurring risks	IFRS 9 expected credit loss on loans and advances to customers
	Revenue recognition (recognition of effective interest income)
	The impact of IT access controls on the effectiveness of the control environment

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key audit matter	The risk	Our response
IFRS 9 expected credit loss on loans and advances to customers *(£184 million and £169 million for Group and Bank respectively)* *Refer to section 2.1 credit risk (Pages 39 to 45) of the risk management disclosures, pages 87 to 88 (accounting policy), Note 2a (critical accounting estimates and judgements) and notes 20 and 21 (financial statements)* *This is relevant to both the Group and the Bank financial statements*	**Subjective estimate** The calculation of the IFRS 9 expected credit loss (ECL) allowance involves a number of complex, judgemental and highly sensitive assumptions. Recent developments in the economic environment, including rising interest rates and inflationary pressures, result in an elevated degree of subjectivity in this assessment. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's compliance with IFRS 9 include but are not limited to: **PD model estimations** i) The calculation of expected credit losses uses complex and inherently judgemental modelling techniques including the application of adjustments to the probability of default (PD) assumptions to reflect current economic conditions arising from recent economic developments; as well as those under economic scenarios. The PD models are the key drivers of the staging of assets and the calculation of the expected credit loss calculation. ii) The criteria selected to identify significant increase in credit risk ("SICR") is a key area of judgement within the Bank's ECL calculation as these criteria determine whether a 12 month or lifetime ECL is recorded. In 2022, management has included additional transfer criteria for accounts where analysis suggests customers are exposed to the impact of higher inflation and rising interest rates across the residential mortgage and consumer portfolios. We have therefore identified a risk of error in the expected credit loss as result of inaccurate PDs being generated by the PD models. **Post model adjustments (PMAs)** There is a high degree of estimation uncertainty and management judgement involved in post-model adjustments and management overlays. To address known impairment model limitations and/or emerging trends including current macroeconomic uncertainties, management raise qualitative adjustments. In 2022, a new PMA has been recognised for the expected sale of non-performing exposures within the business banking portfolios.	Our procedures included: **Controls testing** We performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models and post model adjustments; evaluated the validation control over the modelling process; tested key controls over economic scenarios, assumptions and weights, and evaluated of controls over collateral management processes, management assessment and challenge of key assumptions applied in the impairment assessment over stage 3 base case impairment allowance assessment. **Our credit risk modelling expertise:** Using our own credit risk assurance specialists, we performed the following: • Evaluated the appropriateness of the impairment methodologies, including the PD and staging criteria used; • Re-performed the calculation of certain components of the ECL model calculations, including the PD and staging criteria; and • For all significant models, assessed the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences. **Qualitative adjustments** Using our own credit risk assurance specialists, we: • Assessed and evaluated the rationale for holding PMAs and the respective methodologies and calculations; • Challenged the overall completeness of post model adjustments by comparing the PMAs recognised by management to the various risks, model limitations and/or data imitations that we consider to exist in each loan portfolio; as well as the evolving macroeconomic outlook.

2 Key audit matters: our assessment of risks of material misstatement *(continued)*

Key audit matter	The risk	Our response
	Macroeconomic scenarios Economic scenarios have a direct impact on the proportion of loans in stage 2 and certain loans in stage 3 and the resultant ECL. Significant management judgement is applied to the determination of the economic scenarios and the weightings applied to them. **Stage 3 business banking expected credit losses** The ECL on stage 3 loans is determined after considering the present value of the forecasted cash flows. These comprise of cash flows from operations; certain restructuring arrangements; and/or expected realisations from collateral. The estimation and valuation of forecast cash flows involves significant estimation uncertainties and management judgement and estimation of future cash flows. The effect of these matters is that, as part of our risk assessment, we determined that ECL on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements (note 2) discloses the sensitivity estimated by the Group and Bank.	**Our economic scenario expertise** Using our own economic specialists, we performed the following: • Challenged and assessed the overall plausibility of the significant assumptions underpinning management’s economic scenarios which we defined to be GDP, unemployment and property prices. Specifically, we challenged the overall reasonableness of macro economic variables with reference to independent and observable economic forecasts; • Critically assessed whether management's FLI upside/downside scenario and related probability weightings are reasonable. **Stage 3 business banking expected credit loss** • For a selection of credit-impaired loans, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment loss allowance and challenged the assumptions by corroborating estimates to external support where available. • Where appropriate, our work involved considering third party valuations of collateral, internal valuation guidelines derived from benchmark data and / or externally prepared reports to determine whether appropriate valuation methodologies were employed. **Assessing transparency** Assessing whether the Group’s disclosures about the sensitivity of the ECL allowance to changes in key assumptions reflected the risks inherent in the estimate. In addition, we challenged whether the disclosure of the key judgements and assumptions made was sufficiently clear. **Our results:** We found the ECL charge and impairment allowance recognised to be acceptable.

2 Key audit matters: our assessment of risks of material misstatement *(continued)*

Key audit matter	The risk	Our response
Revenue recognition (recognition of effective interest income) *Impact of prepayment rates on organic and acquired mortgage portfolios.* *Effective interest rate adjustment to mortgages interest income £6 million.* *Unwind of acquired portfolio £38 million.* *Refer to page 84 (accounting policy) and page 106 (financial disclosures).* *This is relevant to both the Group and the Bank financial statements.*	**Subjective estimate** Interest and fees incurred on loans and advances to customers are recognised using the effective interest rate ("EIR") method that spreads directly attributable expected income and costs over the expected lives of the loans. This requires management to apply judgement in estimating the expected lives of the organic and acquired mortgage portfolios. This judgement is informed by past customer behaviour of when loans are repaid, with the EIR balance and amount recognised in the financial statements being highly sensitive to minor changes in assumptions. Recent developments in the economic environment result in an elevated degree of subjectivity in this assessment. As such, we identify a greater level of management judgement and have placed increased audit focus on the assumptions involved. These assumptions impact both the organic portfolio, as well as the acquired mortgage portfolio which was acquired at a discount, given any change in the expected life requires the discount to be adjusted and spread over the remaining expected life. The effect of these matters is that, as part of our risk assessment, we determined that the interest income calculated using the EIR method has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 2) disclose the sensitivity estimated by the Group and Bank.	Our procedures included: **Controls testing** We performed an end-to-end process walkthrough to identify the key applications and process controls. We tested design, implementation and operating effectiveness of key controls relating to completeness and accuracy of the model inputs and outputs. **Test of details** • We critically assessed the expected customer lives and methodology used to estimate this against our own knowledge of industry experience and trends. Specifically considering recent developments in the economic environment and rising interest rates. • We challenged management's assumptions by performing sensitivity analysis testing on key assumptions, including expected behavioural lives, to critically assess the sensitivity of key assumptions. • We tested the accuracy of the data inputs to the models by agreeing back to source systems or underlying documents. • We engaged our data analytics specialists to recalculate the behavioural lives and reperform the EIR calculation. We have also reperformed the acquired mortgage portfolio adjustment calculations. • We assessed the methodology applied by management against IFRS 9 requirements and performed recalculations. This includes considering the ongoing appropriateness of fees included or excluded from the EIR calculation. • We assessed the adequacy and transparency of the disclosures in relation to the assumptions and judgements around the estimation and the sensitivity analysis of the estimate. **Assessing transparency** Assessing whether the Group's disclosures about the sensitivity of the EIR adjustments to changes in key assumptions reflected the risks inherent in the estimate. **Our results** We found the EIR adjustments on the organic and acquired mortgage portfolios to be acceptable.

2 Key audit matters: our assessment of risks of material misstatement *(continued)*

Key audit matter	The risk	Our response
The impact of IT access controls on the effectiveness of the controls environment *This is relevant to both the Group and the Bank financial statements*	The Group is highly dependent on IT systems for the processing and recording of significant volumes of transactions. The Group has a complex IT environment and operates a large number of applications, many of which are legacy systems. Our audit approach relies extensively on automated controls and therefore on the effectiveness of general IT controls supporting these IT applications. We consider IT user access management controls to be critical in ensuring that only appropriate users have access to relevant IT applications, only approved changes are implemented to applications and underlying data, and the changes are authorised and made appropriately. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error because of inappropriate and/or inadvertent changes to applications and data. The Group and Bank have an ongoing risk assessment programme in place to identify, rate, mitigate, and report on, risk arising from ineffective user access controls.	Our procedures included: **Controls testing:** • In conjunction with our IT auditors we obtained an understanding of the Group's and Bank's IT environment, integrated IT plan and the governance framework over the IT infrastructure. • Tested general IT controls for IT applications we considered relevant to the financial reporting process, including access management, program development and change management. • We also tested the design, implementation and operating effectiveness of key IT application controls, including the configuration and accuracy of end user computing controls. **Extended scope** Where we noted IT control deficiencies, our IT auditors performed additional procedures which included evaluating and assessing the impact of the deficiencies on the IT environment. **Our results:** Based on the risk identified and procedures performed, we did not identify unauthorised user activities in the systems relevant to financial reporting that would have required us to significantly expand the extent of our planned detailed testing.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £12.4 million, determined with reference to a benchmark of Group profit before tax from continuing operations (PBTCO), adjusted to exclude the effects of strategic portfolio divestments, restructuring and transformation investment costs, of which it represents 5%.

Materiality for the Bank financial statements as a whole was set at £10.0 million, determined with reference to a benchmark of PBTCO, adjusted to exclude the effects of strategic portfolio divestments, restructuring and transformation investment costs, of which it represents 5%.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% of materiality for the financial statements as a whole, which equates to £8.0 million for the Group and £6.5 million for the Bank. We applied this percentage in our determination of performance materiality based on the level of control deficiencies identified during the period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.6 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 7 reporting components, we subjected 2 to full scope audits for group purposes and 2 to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite.

For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £2.7 million to £6.8 million, having regard to the mix of size and risk profile of the Group across the components. The work on one component was performed by the component auditor and the rest, including the audit of the Bank, was performed by the Group team.

We were able to rely on the Group's internal control over financial reporting in some areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive work; in the other areas the scope of the audit work performed was fully substantive.

The Group audit team held video conference meetings with the component auditors. In these conference meetings, an assessment was made of audit risk and strategy, the findings reported to the Group audit team were discussed in more detail, key working papers were inspected and any further work required by the Group audit team was then performed by the component auditor.

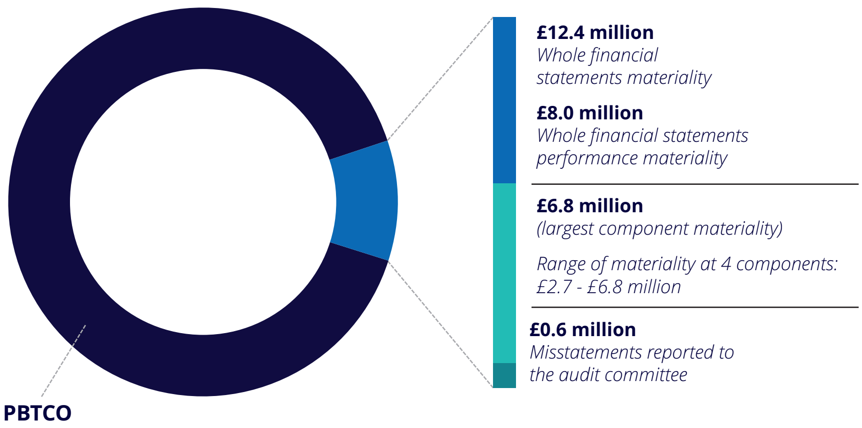
Overview of centralised processes testing, oversight and reporting

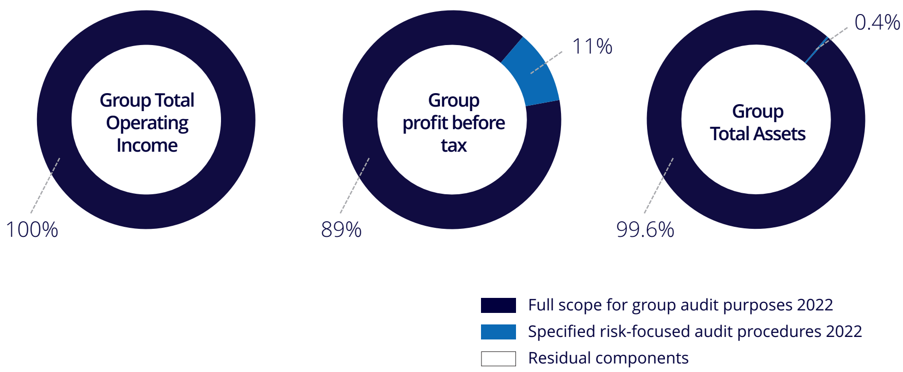
Bank of Ireland Group plc ("the Parent") operates centralised processes in Dublin, the outputs of which are included in the consolidated financial information of Bank of Ireland (UK) plc. These centralised processes included IFRS 9 expected credit losses, Treasury (including hedging, cash, nostro payments and settlement), pensions and general IT controls.

We performed planning, risk assessment and scoping activities over these centralised processes, including participating in joint walkthroughs with the Parent auditor. We directed the Parent auditor on the required testing through our instructions and supervised and exercised oversight through regular interactions via video conference and periodic file reviews. In all areas we have evaluated the sufficiency and appropriateness of audit procedures performed by the Parent auditor. We performed additional procedures to address the audit risks not covered by the work performed by the Parent auditor.

Profit before tax from continuing operations (£m)
£248 million

Group materiality
£12.4 million





4 Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Bank or to cease their operations, and as they have concluded that the Group's and the Bank's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group and the Bank, its industry, and the general economic environment, including current interest rate and inflationary pressures as well as contingent liabilities crystallising, to identify the inherent risks to its business model and analysed how those risks might affect the Group's and the Bank's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and the Bank's available financial resources over this period were:

- the availability of funding and liquidity in the event of a market wide stress scenario including the impact in which the Russia – Ukraine war continues to unfold and the impact of the UK withdrawal from the European Union; and
- the impact on regulatory capital requirements in the event of an economic slowdown or recession.

We considered whether these risks could plausibly affect the availability of financial resources in the going concern period by assessing and comparing severe, but plausible downside scenarios prepared by the Group and the Bank, that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's and the Bank's financial forecasts.

Our procedures also included an assessment of whether the going concern disclosures in note 1 (page 83) to the financial statements gives a complete and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:
- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Bank will continue in operation.

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

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. In this risk assessment we considered the following:
- Enquiring of directors, the audit and risk committees, internal audit and executive management and inspection of policy documentation as to the Group's and Bank's policies and procedures to prevent and detect fraud, including the internal audit function, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and subcommittee meeting minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Risk assessment procedures performed by the auditors of the Parent where relevant to the Group and Bank.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to full scope component audit teams of relevant fraud risks identified at the Group level and request to full scope component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at group.

As required by auditing standards, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, the risk that Group's and Bank's management may be in a position to make inappropriate accounting entries, and the risk of bias in accounting estimates and judgements such as IFRS 9 expected credit losses and the estimation of the impact of prepayment estimates on the determination of effective interest rate on organic and acquired mortgages and the impairment of goodwill.

Further detail in respect of IFRS 9 expected credit losses (post model adjustments and impairment of stage 3 business banking loans and advances) and the impact of prepayment estimates on the effective interest rate adjustment on organic and acquired mortgages is set out in the key audit matter disclosures in section 2 of this report.

We did not identify any additional fraud risks.

We also performed procedures including:
- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those entries posted by individuals who are typically not expected to post and/or approve journals, unbalanced entries, those posted and approved by the same user and those posted to unusual accounts.
- Evaluating the business purpose of significant unusual transactions.
- Assessing significant accounting estimates for bias.

5 Fraud and breaches of laws and regulations – ability to detect *(continued)*

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements, from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's and Bank's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group and the Bank are regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to full-scope component audit teams of relevant laws and regulations identified at the Group level, and a request for full scope component auditors to report to the group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group and the Bank are subject to laws and regulations that directly affect the financial statements including:
- financial reporting legislation (including related companies legislation);
- distributable profits legislation; and
- taxation legislation (direct and indirect).

We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group and the Bank are subject to many other laws and regulations where the consequences of non compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's and the Bank's license to operate. We identified the following areas as those most likely to have such an effect:
- Specific aspects of regulatory capital and liquidity;
- Customer conduct rules;
- Money laundering and financial crime; and
- Certain aspects of company legislation recognising the financial and regulated nature of the Group's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

For the matter relating to complaints in respect of historical motor commission arrangements, discussed in note 37, we have assessed the disclosures against our own understanding of the matter based on our inspection of the regulatory and legal correspondence as well as our consideration of the Group's assessment of the commission arrangements.

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:
- we have not identified material misstatements in the director's report or the strategic report;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7 We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from branches not visited by us; or
- the Bank financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities
As explained more fully in their statement set out on page 68, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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 they either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9 The purpose of our audit work and to whom we owe our responsibilities

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.

Alex Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

6 April 2023

Income statement
(for the year ended 31 December 2022)

	Note	Group 2022 £m	Group 2021 £m	Bank 2022 £m	Bank 2021 £m
Interest income calculated using the effective interest method	3	580	532	606	555
Other interest income	3	83	78	-	-
Total interest income		**663**	**610**	**606**	**555**
Interest expense	4	(108)	(99)	(105)	(97)
Net interest income		**555**	**511**	**501**	**458**
Net leasing income		22	14	-	-
- Other leasing income	*5*	*60*	*55*	-	-
- Other leasing expense	*5*	*(38)*	*(41)*	-	-
Commission income	6	37	57	37	57
Fee and commission expense	6	(88)	(50)	(88)	(50)
Net trading income / (expense)	7	7	3	7	3
Other operating income	8	-	-	2	40
Total operating income		**533**	**535**	**459**	**508**
Operating expenses	9	(247)	(272)	(218)	(246)
Operating profit before impairment charges on financial assets		**286**	**263**	**241**	**262**
Net impairment gains / (losses) on financial instruments	11	(64)	54	(71)	53
Operating profit		**222**	**317**	**170**	**315**
Share of profit after tax of joint venture	12	28	(2)	-	-
Profit on sale of property, plant, equipment		1	-	1	-
Profit on disposal of business activities	13	-	1	-	1
Profit on sale of financial assets	14	-	94	-	94
Profit before taxation		**251**	**410**	**171**	**410**
Taxation charge	15	(23)	(12)	(12)	(8)
Profit for the year		**228**	**398**	**159**	**402**

Statement of other comprehensive income
(for the year ended 31 December 2022)

	Note	Group 2022 £m	Group 2021 £m	Bank 2022 £m	Bank 2021 £m
Profit for the year		228	398	159	402
Items that may be reclassified to profit or loss in subsequent periods					
Net change in cash flow hedge reserve (net of tax)[1]		(63)	(35)	(63)	(35)
Total items that may be reclassified to profit or loss in subsequent periods		**(63)**	**(35)**	**(63)**	**(35)**
Items that will not be reclassified to profit or loss in subsequent periods					
Net actuarial gain on defined benefit schemes[2]	35	(3)	2	-	-
Net change in revaluation reserve, net of tax		(1)	1	(1)	1
Total items that will not be reclassified to profit or loss in subsequent periods		**(4)**	**3**	**(1)**	**1**
Other comprehensive (expense) / income for the year, net of tax		**(67)**	**(32)**	**(64)**	**(34)**
Total comprehensive income for the year, net of tax		**161**	**366**	**95**	**368**

1 *Net of tax credit £23 million (2021: credit of £14 million).*
2 *Net of tax £0.2 million (2021: £1 million).*

Balance sheet
(as at 31 December 2022)

		Group		Bank	
	Note	2022 £m	Restated[1] 2021 £m	2022 £m	Restated[1] 2021 £m
Assets					
Cash and balances at central banks	16	2,239	3,456	2,239	3,456
Items in the course of collection from other banks		79	101	79	101
Derivative financial instruments	17	379	88	379	88
Loans and advances to banks	18	1,461	1,574	1,344	1,457
Debt securities at amortised cost	19	528	798	528	798
Fair value changes due to interest rate risk of the hedged items in portfolio hedges[1]	47	(276)	(71)	(276)	(71)
Loans and advances to customers	20	14,018	16,396	14,125	16,497
Investment in subsidiaries		-	-	8	8
Interest in joint venture	22	71	47	2	2
Intangible assets and goodwill	23	28	32	1	4
Property, plant and equipment	24	174	143	30	33
Current tax assets		-	8	-	7
Other assets	25	52	42	55	39
Deferred tax assets	26	108	77	98	66
Retirement benefit asset	35	10	13	-	-
Assets classified as held for sale	27	-	1	-	1
Total assets		**18,871**	**22,705**	**18,612**	**22,486**
Equity and liabilities					
Deposits from banks	28	3,107	3,399	3,098	3,392
Customer accounts	29	12,222	15,754	12,222	15,799
Fair value changes due to interest rate risk of the hedged items in portfolio hedges[1]	47	(130)	(1)	(130)	(1)
Items in the course of transmission to other banks		63	62	63	62
Derivative financial instruments	17	328	65	328	65
Debt securities in issue	30	379	448	300	300
Current tax liabilities		4	2	2	-
Other liabilities	31	1,037	1,010	1,022	991
Lease liabilities	32	12	15	12	15
Provisions	33	9	14	8	14
Loss allowance provision on loan commitments and financial guarantees	34	5	4	5	3
Subordinated liabilities	36	190	190	190	190
Total liabilities		**17,226**	**20,962**	**17,120**	**20,830**
Equity					
Share capital	38	122	122	122	122
Retained earnings		1,049	1,083	896	996
Other reserves		324	388	324	388
Other equity instruments	39	150	150	150	150
Total equity attributable to owners of the Bank		**1,645**	**1,743**	**1,492**	**1,656**
Total equity and liabilities		**18,871**	**22,705**	**18,612**	**22,486**

The financial statements on pages 78 to 173 were approved by the Board on 6 April 2023 and were signed on its behalf by:

Thomas Wright.

Tom Wright
Director

6 April *2023*

Company number: 07022885

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies and note 47 Impact of voluntary change in fair value hedge adjustment accounting policy for additional information.*

Statement of changes in equity
(for the year ended 31 December 2022)

	Note	Group 2022 £m	Group 2021 £m	Bank 2022 £m	Bank 2021 £m
Share capital					
Balance at 1 January		122	197	122	197
Share repurchase	38	-	(75)	-	(75)
Balance at 31 December		**122**	**122**	**122**	**122**
Retained earnings					
Balance at 1 January		1,083	957	996	869
Profit for the year attributable to equity holders of the Bank		228	398	159	402
Dividend on ordinary shares	43	(250)	-	(250)	-
Distribution on other equity instruments - Additional tier 1 coupon		(9)	(25)	(9)	(25)
Share repurchase	38	-	(250)	-	(250)
Remeasurement of the net defined benefit pension asset		(3)	3	-	-
Balance at 31 December		**1,049**	**1,083**	**896**	**996**
Other equity instruments					
Balance at 1 January		150	300	150	300
Repayments during the year	39	-	(300)	-	(300)
Issuance during the year	39	-	150	-	150
Balance at 31 December		**150**	**150**	**150**	**150**
Other reserves:					
Revaluation reserve - property					
Balance at 1 January		3	2	3	2
Revaluation of property		(1)	1	(1)	1
Balance at 31 December		**2**	**3**	**2**	**3**
Cash flow hedge reserve					
Balance at 1 January		(14)	21	(14)	21
Changes in fair value		(52)	(51)	(52)	(51)
Transfer to income statement (pre tax)		(34)	2	(34)	2
Deferred tax on reserve movements		23	14	23	14
Balance at 31 December		**(77)**	**(14)**	**(77)**	**(14)**
Capital contribution					
Balance at 1 January		266	266	266	266
Balance at 31 December		**266**	**266**	**266**	**266**
Capital redemption reserve fund					
Balance at 1 January		133	58	133	58
Share repurchase	38	-	75	-	75
Balance at 31 December		**133**	**133**	**133**	**133**
Total other reserves		**324**	**388**	**324**	**388**
Total equity		**1,645**	**1,743**	**1,492**	**1,656**
Included in the above:					
Total comprehensive income attributable to owners of the Bank		161	366	95	368
Total comprehensive income for the year		**161**	**366**	**95**	**368**

Consolidated cash flow statement
(for the year ended 31 December 2022)

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Profit before taxation		251	410
Interest expense on subordinated liabilities and other capital instruments	4	14	17
Interest expense on lease liabilities	4	1	-
Depreciation and amortisation	23,24	27	31
(Gain) / loss on disposal of business activities	13	-	(1)
(Gain) / loss on disposal of financial assets	14	-	(94)
Net impairment (gains) / losses on financial instruments	11	64	(54)
(Gain) / loss on sale of property, plant, equipment		(1)	-
Impairment of property, plant and equipment		-	-
Share of results of joint venture	12	(28)	2
Net change in prepayments and interest receivable	25	(4)	10
Net change in accruals and interest payable	31	36	(28)
Charge for provisions	33	2	13
Other non-cash items		(45)	7
Cash flows from operating activities before changes in operating assets and liabilities		**317**	**313**
Net change in items in the course of collection to / from banks		24	5
Net change in derivative financial instruments		30	(9)
Net change in loans and advances to banks		-	4
Net change in loans and advances to customers		2,316	2,051
Net change in deposits from banks		(292)	(803)
Net change in customer accounts		(3,532)	(2,495)
Net change in debt securities in issue		(69)	(63)
Net change in provisions		(7)	(14)
Net change in retirement benefit obligation		(1)	(1)
Net change in other assets and other liabilities		(14)	(90)
Net cash flow from operating assets and liabilities		**(1,545)**	**(1,415)**
Net cash flow from operating activities before taxation		**(1,228)**	**(1,102)**
Taxation paid		(21)	(53)
Net cash flow from operating activities		**(1,249)**	**(1,155)**
Investing activities (section (a) - see below)		196	3,013
Financing activities (section (b) - see below)		(277)	(546)
Net change in cash and cash equivalents		**(1,330)**	**1,312**
Opening cash and cash equivalents		5,001	3,689
Closing cash and cash equivalents	**16**	**3,671**	**5,001**
(a) Investing activities			
Proceeds from sale of financial assets		-	2,942
Disposal of business activities		-	-
Additions to debt securities at amortised cost	19	(26)	(252)
Disposal / redemption of debt securities at amortised cost	19	266	359
Dividends received from joint venture	22	3	-
Additions to intangible assets	23	-	-
Additions to property, plant and equipment		(70)	(54)
Disposal of property, plant and equipment		23	18
Cash flows from investing activities		**196**	**3,013**
(b) Financing activities			
Share repurchase		-	(250)
Dividend paid on ordinary shares	38	(250)	-
Proceeds from issue of AT1	43	-	150
Redemption of AT1		-	(300)
Additional tier 1 coupon paid	43	(9)	(25)
Redemption of subordinated liabilities	36	(90)	(200)
Proceeds from issue of subordinated liabilities	36	90	100
Interest paid on subordinated liabilities	4	(14)	(17)
Payment of lease liability	32	(4)	(4)
Cash flows from financing activities		**(277)**	**(546)**

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1 Group accounting policies

Basis of preparation

These financial statements are the consolidated financial statements of Bank of Ireland (UK) plc (the 'Bank') and its subsidiaries (collectively the 'Group'), and the separate financial statements of the Bank.

The financial statements comprise the Consolidated and Bank income statements, the Consolidated and Bank Statements of other comprehensive income, the Consolidated and Bank balance sheets, the Consolidated and Bank Statements of changes in equity, the Consolidated cash flow statement and the notes to the Consolidated and Bank financial statements. The financial statements include the information marked as audited that is described as being an integral part of the audited financial statements contained in sections 2.1, 2.2, 2.3 and 3 of the Risk Management Report.

The separate financial statements of the Bank reflect the financial position of the Bank only and do not consolidate the results of any subsidiaries.

The consolidated financial statements of the Group are prepared in accordance with UK adopted international accounting standards.

The financial statements of the Bank are prepared under FRS 101 'Reduced disclosure framework'. In preparing these financial statements the Bank applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:
- the requirements of IAS 7 Statement of Cash Flows;
- disclosure requirements of IAS 24 in respect of transactions with wholly-owned subsidiaries;
- certain requirements of IAS 1 'Presentation of financial statements'; and
- the effects of new but not yet effective IFRSs (IAS 8).

The financial statements have been prepared on the going concern basis, in accordance with UK adopted international accounting standards.

The financial statements have been prepared under the historical cost convention, as modified to include the fair valuation of certain financial instruments and land and buildings.

The preparation of the financial statements in conformity with IFRS or FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out in note 2.

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2022, is a period of twelve months from the date of approval of these financial statements ('the period of assessment'). In making this assessment, the Directors considered the Group's business, profitability projections, liquidity, funding and capital plans, under both base and plausible stress scenarios. In doing so, it took into account the increasing uncertainty of forecasts in the outer years of the planning period from developments in the economic environment, and competition and regulatory developments. The Directors also considered the position of the Bank's parent, the Governor and Company of the Bank of Ireland as, in addition to being the Bank's sole shareholder, it is a provider of significant services to the Bank under outsourcing arrangements.

The matters of primary consideration by the Directors are set out below:

Capital

The Group has developed detailed capital plans and forecasts under both base and stress scenarios which show that a surplus over total capital requirements is forecast to be maintained over the period of the assessment. As part of those forecasts, the Directors have modelled the impact of a severe but plausible downside stress scenario the severity of which is aligned to the Bank of England stress scenario published in October 2022. Therefore the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment.

Funding and liquidity

The Directors have considered the Group's funding and liquidity position under the above base and stress scenarios and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment, including sufficient collateral for further funding if required from the Bank of England.

The Bank's Parent

The Bank's Parent is its sole shareholder and provider of capital and is also a major provider of services under outsourcing arrangements.

The Directors note that the Board of the Bank's Parent has concluded that there are no material uncertainties that may cast significant doubt about the Bank of Ireland Group's ability to continue as a going concern and that it is appropriate to prepare accounts on a going concern basis. The audit report on the financial statements of the Bank's Parent signed on 6 March 2023 is not qualified and does not contain an emphasis of matter paragraph in respect of going concern.

Conclusion

On the basis of the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis having concluded that there are no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment.

Comparatives

Comparative figures have been restated where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period. Any adjustments to comparatives are disclosed in the relevant note.

Adoption of new and amended accounting standards

There have been no new standards or amendments to standards, adopted by the Group during the year ended 31 December 2022, which have had a material impact on the Group.

1 Group accounting policies *(continued)*

Voluntary change in accounting policy on the presentation of the portfolio fair value hedge adjustment

The Group has voluntarily changed its accounting policy for the presentation of portfolio fair value hedge adjustments on the Group's balance sheet as a separate line item.

In prior periods, the portfolio fair value hedge adjustment related to fixed rate mortgages, current accounts and demand deposit accounts were included within the carrying amount of the hedged items.

The Group has adopted an amended accounting policy in 2022, such that:

The portfolio fair value hedge adjustment is no longer included within the carrying amount of the hedged asset or liability. Instead, the portfolio fair value hedge adjustment is presented separately on the balance sheet as a separate line item "Fair value changes due to interest rate risk of the hedged items in portfolio hedges."

- Where the underlying hedged item is an asset, the portfolio hedge adjustment is presented separately within assets.
- Where the underlying hedged item is a liability, the portfolio hedge adjustment is presented separately within liabilities.

The Group believes this revised accounting policy provides reliable and more relevant information on the Group's customer lending and customer deposit volumes and in particular the impact of hedge accounting.

This change in accounting policy has been accounted for retrospectively as required under IAS 8 and the comparative period has been restated to reflect this change. The effect of this change is explained further in note 47.

Interest income and expense

Interest income and expense are recognised in the income statements using the effective interest method for financial instruments measured at amortised cost and financial assets which are debt instruments measured at fair value through other comprehensive income in accordance with IFRS 9.

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income. The Group presents interest resulting from negative effective interest rates on financial assets as interest expense.

The effective interest method is the method that is used in the calculation of the amortised cost of a financial asset or liability and in the allocation and recognition of interest revenue or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate, the Group estimates the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses (except in accordance with IFRS 9, in the case of purchased or originated credit-impaired financial assets where expected credit losses are included in the calculation of a 'credit-adjusted effective interest rate'). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

In the case of a financial asset that is neither credit-impaired nor a purchased or originated credit-impaired financial asset, interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

In the case of a financial asset that is not a purchased or originated credit-impaired financial asset but is credit-impaired at the reporting date, interest revenue is calculated by applying the effective interest rate to the amortised cost, which is the gross carrying amount adjusted for any impairment loss allowance.

In the case of a purchased or originated credit-impaired financial asset, interest revenue is recognised by applying the credit-adjusted effective interest rate to the amortised cost.

Where the Group revises its estimates of payments or receipts on a financial instrument (excluding modifications of a financial asset and changes in expected credit losses), it recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The adjustment is recognised as interest income or expense.

Interest income or expense on derivatives designated as hedging instruments is presented in net interest income, in line with the underlying hedged asset or liability.

For macro fair value hedges of financial liabilities and macro fair value hedges and cash flow hedges of financial assets, the Group aggregates the interest income or expense on the hedged assets or liabilities with the interest income or expense on the related derivatives designated as hedging instruments. Where the resulting total is an expense, the amount is presented as interest expense on the assets or liabilities. Where the resulting total is income, it is presented as interest income on the assets or liabilities.

For micro fair value hedges of financial assets or liabilities, the Group aggregates, for each hedged asset or liability separately, the interest income or expense on the asset or liability with the interest income or expense on the related derivative or derivatives designated as hedging instruments. Where the resulting total for an asset or liability is an expense, the amount is presented as interest expense on the asset or liability. Where the resulting total is income, it is presented as interest income on the asset or liability.

Interest income or expense on derivatives that are held with hedging intent, but for which hedge accounting is not applied (economic hedges) is included in other interest income or expense. Interest income or expense on derivatives held with trading intent is included in trading income.

Interest income on debt financial assets measured at FVTPL, excluding assets held for trading, is recognised when earned and

1 Group accounting policies *(continued)*

presented within other interest income.

Interest expense on debt financial liabilities measured at FVTPL, excluding liabilities held for trading, is recognised when incurred and presented in other interest expense.

Modifications

Where the contractual cash flows of a financial asset are modified and the modification does not result in derecognition of the financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows that are discounted at the financial asset's original effective interest rate and recognises a modification gain or loss in the income statement. Where a modification is a forbearance measure which does not result in derecognition, the modification gain or loss is included in the income statement within net impairment gains or losses. Otherwise, the modification gain or loss is included within interest income.

As a result of the Interest Rate Benchmark Reform, on transition to an alternative benchmark rate (BMR), changes in the basis of determining the contractual cash flows of a financial instrument are treated in the same way as changes to market rates for a floating rate instrument by updating the effective interest rate, without the recognition of a modification gain or loss. This practical expedient is only applied where:

- the change to the contractual cash flows is necessary as a direct consequence of the BMR reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

Where additional changes to the basis for determining the contractual cash flows of a financial instrument are made at the same time as changes required by the BMR reform, the Group first applies the practical expedient noted above to the changes arising as a direct consequence of the BMR reform, and then applies its existing policy to account for the additional modifications.

Fee and commission income

The Group accounts for fee and commission income which is not an integral part of the effective interest rate of a financial instrument, when the contract with the customer is agreed and each party's rights under the contract, together with the payment terms, are identified. In addition it must be probable that the Group will collect the consideration to which it is entitled. Fee and commission income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Fee income on the provision of current accounts to customers is recognised as the service is provided. Loan syndication and arrangement fees are recognised at a point in time when the performance obligation is completed. Other fees including interchange income, ATM fees and foreign exchange fees are recognised on completion of the transaction and once the Group has completed its performance obligations under the contract.

Financial assets

(1) Recognition, classification and measurement:

A financial asset is recognised in the balance sheet when, and only when, the Group becomes a party to its contractual provisions. At initial recognition, a financial asset is measured at fair value (plus, in the case of a financial asset not at fair value through profit or loss, directly attributable transaction costs) and is assigned one of the following classifications for the purposes of subsequent measurement:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income; or
- financial assets at fair value through profit or loss.

The Group determines the appropriate classification based on the contractual cash flow characteristics of the financial asset and the objective of the business model within which the financial asset is held.

In determining the business model for a group of financial assets, the Group considers factors such as how performance is evaluated and reported to key management personnel; the risks that affect performance and how they are managed; how managers are compensated; and the expected frequency, value and timing of sales of financial assets.

In considering the contractual cash flow characteristics of a financial asset, the Group determines whether the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In this context, 'principal' is the fair value of the financial asset on initial recognition and 'interest' is consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In making the determination, the Group assesses whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers contingent events, leverage features, prepayment and term extensions, terms which limit the Group's recourse to specific assets and features that modify consideration of the time value of money.

(a) Financial assets at amortised cost.

Debt instruments

A debt instrument is measured, subsequent to initial recognition, at amortised cost where it meets both of the following conditions and has not been designated as measured at fair value through profit or loss:

- the financial asset has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- the financial asset is held within a business model whose objective is achieved by holding financial assets to collect contractual cash flows.

Purchases and sales of debt securities at amortised cost are recognised on trade date: the date on which the Group commits to purchase or sell the asset. Loans measured at amortised cost are recognised when cash is advanced to the borrowers.

1 Group accounting policies *(continued)*

Interest revenue using the effective interest method is recognised in the income statement. An impairment loss allowance is recognised for expected credit losses with corresponding impairment gains or losses recognised in the income statement.

(b) Financial assets at fair value through other comprehensive income

Debt instruments

A debt instrument is measured, subsequent to initial recognition, at fair value through other comprehensive income where it meets both of the following conditions and has not been designated as measured at fair value through profit or loss:

- the financial asset has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Purchases and sales of debt instruments at fair value through other comprehensive income are recognised on trade date. Gains and losses arising from changes in fair value are included in other comprehensive income. Interest revenue using the effective interest method and foreign exchange gains and losses on the amortised cost of the financial asset are recognised in the income statement. The impairment loss allowance for expected credit losses does not reduce the carrying amount but an amount equal to the allowance is recognised in other comprehensive income as an accumulated impairment amount, with corresponding impairment gains or losses recognised in the income statement. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement.

Regular way purchases and sales of financial assets measured at fair value through other comprehensive income are recognised on trade date.

Equity instruments

Where an irrevocable election has been made by the Group at initial recognition, an investment in an equity instrument that is neither 'held for trading' nor contingent consideration recognised by the Group in a business combination to which IFRS 3 'Business combinations' applies, is measured at fair value through other comprehensive income. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

(c) Financial assets at fair value through profit or loss

All other financial assets are measured, subsequent to initial recognition, at fair value through profit or loss. Financial assets at fair value through profit or loss comprise:

Financial assets mandatorily measured at fair value through profit or loss

Financial assets meeting either of the conditions below are mandatorily measured at fair value through profit or loss (other than in respect of an equity investment designated as at fair value through other comprehensive income):

- financial assets with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- financial assets held within a business model whose objective is achieved neither by collecting contractual cash flows nor both collecting contractual cash flows and selling financial assets. This includes financial assets held within a portfolio that is managed and whose performance is evaluated on a fair value basis. It further includes portfolios of financial assets which are 'held for trading', which includes financial assets acquired principally for the purpose of selling in the near term and financial assets that on initial recognition are part of an identified portfolio where there is evidence of a recent pattern of short-term profit-taking.

Financial assets designated as measured at fair value through profit or loss

A financial asset may be designated at fair value through profit or loss only if doing so eliminates or significantly reduces measurement or recognition inconsistencies (an 'accounting mismatch') that would otherwise arise from measuring financial assets or liabilities or recognising gains and losses on them on different bases.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on trade date. They are carried on the balance sheet at fair value, with all changes in fair value included in the income statement.

(2) Reclassification

When, and only when, the Group changes its business model for managing financial assets, it reclassifies all affected financial assets. Reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification. Any previously recognised gains, losses or interest are not restated.

(3) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred substantially all the risks and rewards of ownership. Where the Group retains the obligation to service the transferred financial asset, the transferred asset is derecognised if it meets the derecognition criteria and an asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (an asset) or is less than adequate (a liability) for performing the servicing. Where a modification results in a substantial change, on a quantitative or qualitative basis, to the contractual cash flows of a financial asset, it may be considered to represent expiry of the contractual cash flows, resulting in derecognition of the original financial asset and recognition of a new financial asset at fair value. The Group reduces the gross carrying amount of a financial asset and the associated impairment

1 Group accounting policies *(continued)*

loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Impairment of financial instruments

Scope

The Group recognises impairment loss allowances for expected credit losses (ECL) on the following categories of financial instruments unless measured at fair value through profit or loss:

- financial assets that are debt instruments;
- loan commitments;
- lease receivables recognised under IFRS 16 'Leases';
- financial guarantee contracts issued and not accounted for under IFRS 4 'Insurance contracts'; and
- receivables and contract assets recognised under IFRS 15 'Revenue from contracts with customers'.

Basis for measuring impairment

The Group allocates financial instruments into the following categories at each reporting date to determine the appropriate accounting treatment.

Stage 1: 12-month ECL (not credit-impaired)

These are financial instruments where there has not been a significant increase in credit risk since initial recognition. An impairment loss allowance equal to 12-month ECL is recognised. This is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

Stage 2: Lifetime ECL (not credit-impaired)

These are financial instruments where there has been a significant increase in credit risk since initial recognition but which are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised. Lifetime ECL are the ECL resulting from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime ECL (credit-impaired)

These are financial instruments which are credit-impaired at the reporting date but were not credit-impaired at initial recognition. An impairment loss allowance equal to lifetime ECL is recognised.

Purchased or originated credit-impaired financial assets

These are financial assets that were credit-impaired at initial recognition. They are not subject to any initial impairment loss allowance but an impairment loss allowance is subsequently recognised for the cumulative changes in lifetime ECL since initial recognition. A purchased or originated credit-impaired financial asset remains classified as such until it is derecognised, even if assessed as no longer credit-impaired at a subsequent reporting date.

With the exception of purchased or originated credit-impaired financial assets, a financial instrument may migrate between stages from one reporting date to the next.

Significant increase in credit risk

In determining if a financial instrument has experienced a significant increase in credit risk since initial recognition, the Group assesses whether the risk of default over the remaining expected life of the financial instrument is significantly higher than had been anticipated at initial recognition, taking into account changes in prepayment expectations where relevant. The Group uses reasonable and supportable information available without undue cost or effort at the reporting date, including forward-looking information. A combination of quantitative, qualitative and backstop indicators are generally applied in making the determination. For certain portfolios, the Group assumes that no significant increase in credit risk has occurred if credit risk is 'low' at the reporting date.

Credit-impaired

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(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 lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Measurement of ECL and presentation of impairment loss allowances

ECL are measured in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(b) the time value of money; and
(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECLs are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of the difference between all contractual cash flows due to the Group in accordance with the contract and all the cash flows the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover, discounted at an appropriate risk-free rate.

Expected cash flows arising from the sale on default of a loan are included in the measurement of expected credit losses under IFRS 9 where the following conditions are met:

- selling the loan is one of the recovery methods that the Group expects to pursue in a default scenario;
- the Group is neither legally nor practically prevented from realising the loan using that recovery method; and

1 Group accounting policies *(continued)*

- the Group has reasonable and supportable information upon which to base its expectations and assumptions.

For financial assets, the discount rate used in measuring ECL is the effective interest rate (or 'credit-adjusted effective interest rate' for a purchased or originated credit-impaired financial asset) or an approximation thereof. For undrawn loan commitments, it is the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment.

Impairment loss allowances for ECLs are presented in the financial statements as follows:
- **financial assets at amortised cost:** as a deduction from the gross carrying amount in the balance sheet;
- **loan commitments and financial guarantee contracts:** generally, as a provision in the balance sheet; and
- **debt instruments at fair value through other comprehensive income:** an amount equal to the allowance is recognised in other comprehensive income as an accumulated impairment amount.

Utilisation of impairment loss allowances
The Group reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. Indicators that there is no reasonable expectation of recovery include the collection process having been exhausted or it becoming clear during the collection process that recovery will fall short of the amount due to the Group. The Group considers, on a case-by-case basis, whether enforcement action in respect of an amount that has been written off from an accounting perspective is or remains appropriate. Any subsequent recoveries are included in the income statement as an impairment gain.

Forbearance
Forbearance occurs when a borrower is granted a concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance, the Group performs an assessment of a customer's financial circumstances and ability to repay and assesses whether the loan is credit-impaired. Where the loan is credit-impaired, it is allocated to stage 3 (unless a purchased or originated credit-impaired financial asset). If a forborne loan has a variable interest rate, the discount rate for measuring ECL is the current effective interest rate determined under the contract before the modification of terms.

Financial assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with EBA guidance on non-performing and forborne classifications. Forborne financial assets which are not credit-impaired are generally classified as stage 2. A financial asset can only be reclassified from stage 3 when certain conditions are met over a pre-defined period of time or probation period.

Where the cash flows from a forborne loan are considered to have expired due to the loan being restructured in such a way that results in a substantial modification, the original financial asset is derecognised and a new financial asset is recognised, initially measured at fair value. Any difference between the carrying value of the original financial asset and the fair value of the new financial asset on initial recognition are recognised in the income statement. The new financial asset may be initially allocated to stage 1 or, if credit-impaired, be categorised as a purchased or originated credit-impaired financial asset.

Where a forbearance measure represents a modification of the contractual cash flows of a financial asset and does not result in its derecognition, the Group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows that are discounted at the financial asset's original effective interest rate (before any modification of terms) and a modification gain or loss is included in the income statement within net impairment gains or losses.

Financial liabilities
The Group classifies its financial liabilities as being measured at amortised cost unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities mandatorily at fair value through profit or loss, such as derivative liabilities. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For financial liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

When a financial liability that is measured at amortised cost is modified without resulting in derecognition, a gain or loss is recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified contractual cash flows discounted at the original effective interest rate.

A financial liability may be designated as at fair value through profit or loss only when:
(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The movement in own credit risk related to financial liabilities designated at fair value through profit or loss is recorded in other comprehensive income unless this would create or enlarge an accounting mismatch in profit or loss for the Group (in which case all gains or losses are recognised in profit or loss).

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

Embedded derivatives
An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way

1 Group accounting policies *(continued)*

similar to a stand-alone derivative.

If a hybrid contract contains a host that is not a financial asset within the scope of IFRS 9, an embedded derivative is separated from the host and accounted for as a derivative if, and only if, its economic characteristics and risks are not closely related to those of the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at fair value through profit or loss.

Financial guarantees

A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Where the Group is the holder of such a guarantee and it is considered integral to the contractual terms of the guaranteed debt instrument(s), the guarantee is not accounted for separately but is considered in the determination of the impairment loss allowance for expected credit losses of the guaranteed instrument(s).

The Group's liability under an issued financial guarantee contract is initially measured at fair value. The liability is subsequently measured at the higher of the amount of the impairment loss allowance for expected credit losses determined in accordance with the requirements of IFRS 9, and the initial measurement less the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Any change in the liability is taken to the income statement and recognised on the balance sheet within provisions.

Where the Group issues a financial liability which contains a financial guarantee, the liability is measured at amortised cost using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No impairment loss allowance for expected credit losses is recognised on a financial asset, or portion thereof, which has been offset.

Valuation of financial instruments

The Group recognises assets and liabilities designated at fair value through profit or loss and derivatives at fair value in the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Group uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses. Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

For liabilities designated at fair value through profit or loss, the fair values reflect changes in the Group's own credit spread.

Transfers between levels of the fair value hierarchy

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. The Group provides these disclosures in note 42.

Group financial statements

(1) Subsidiaries

Subsidiary undertakings are investees (including structured entities) controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it controls an investee when facts and circumstances indicate that there are changes to one or more elements of control. The existence and effect of potential voting rights are considered when assessing whether the Group controls an investee only if the rights are substantive.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such entities by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns from the entity.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial year.

Business combinations

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations other than business combinations involving entities or business under common control. Under the acquisition method of accounting, the consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration

1 Group accounting policies *(continued)*

transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Foreign exchange gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(2) Associates and Joint Ventures

Associates are all entities over which the Group has significant influence but not control, over the entity's financial and operating decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint arrangement is an arrangement of which two or more parties have joint control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Accounting policies of associates and joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(3) Common control transactions

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: 'Business Combinations'. The exemption is applicable where the combining entities or businesses are controlled by the same party, both before and after the combination. Where such transactions occur, the Group, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement, management considers the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. Management also considers the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or interpretation. Accordingly, the Group applies the guidance set out in FRS 6: 'Acquisitions and Mergers' as issued by the Accounting Standards Board.

Where a transaction meets the definition of a group reconstruction or achieves a similar result, predecessor accounting is applied. The assets and liabilities of the business transferred are measured in the acquiring entity, upon initial recognition, at their existing book value in the consolidated financial statements of the Bank of Ireland Group, as measured under IFRS. The Group incorporates the results of the acquired businesses only from the date on which the business combination occurs.

Similarly, where the Group acquires an investment in an associate or joint venture from an entity under common control with the Group, the investment is recognised initially at its existing book value in the consolidated financial statements of the Bank of Ireland Group.

(4) Securitisations

Certain Group undertakings enter into securitisation transactions in order to finance specific loans and advances to customers.

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:
- the rights to the cash flows have expired or been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group. In this case the asset is derecognised entirely if the transferee has the ability to sell the financial asset. Otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where the above conditions apply to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

Foreign currency translation

The consolidated financial statements of the Group and the financial statements of the Bank are presented in Sterling, which is the functional currency. Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates

1 Group accounting policies *(continued)*

of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities, classified at fair value through other comprehensive income, are recognised in other comprehensive income.

Operating profit/loss

Operating profit/loss includes the Group's earnings from ongoing activities after net impairment losses and before share of profit or loss on joint ventures (after tax), profit/loss on sale of financial assets and profit/loss on disposal of business activities.

Leases

Identifying a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee

The Group recognises a Right of Use (RoU) asset and lease liability at the lease commencement date. RoU assets are initially measured at cost, and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of lease liabilities. The recognised RoU assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease term. RoU assets are subject to impairment under IAS 36 'Impairment of assets'.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

RoU assets, comprised of leases of buildings which do not meet the definition of investment properties are presented in property, plant and equipment. RoU assets which meet the definition of investment properties are presented within investment properties.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate if the interest rate implicit in the lease is not readily determinable. Lease payments include fixed rental payments. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured if there is a change in future lease payments, a change in the lease term, or as appropriate, a change in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured a corresponding adjustment is made to the ROU asset and/or profit or loss, as appropriate.

The Group has applied judgement in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and RoU assets recognised.

Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

When assets are held under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between gross receivables and the present value of the receivable is recognised as unearned finance income. Lease income is included within net interest income and is recognised over the term of the lease reflecting a constant periodic rate of return on the net investment in the lease.

Assets leased to customers under an operating lease are included within property, plant and equipment on the balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Depreciation on assets acquired for the purpose of leasing under operating leases is recognised in other leasing expense. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

However, under IFRS 16, where the Group is an intermediate lessor the subleases are classified with reference to the RoU asset arising from the head lease, not with reference to the underlying asset. Where the Group continues to retain the risks and rewards of ownership as the intermediate lessor, it retains the lease liability and the RoU asset relating to the head lease in its balance sheet. If the Group does not retain the risks and rewards of ownership as the intermediate lessor, these subleases are deemed finance leases. During the term of the sublease, the Group recognises both finance lease income on the sublease and interest expense on the head lease.

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 deposits by banks or customer accounts, as appropriate.

Securities purchased under agreements to resell ("reverse repos") are treated as collateralised loans and recorded as loans and advances to banks or customers, as appropriate.

The difference between sale and repurchase price is treated as interest and recognised in the income statement over the life of the agreement using the effective interest method.

Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included

1 Group accounting policies *(continued)*

in trading income. The obligation to return the securities is recorded at fair value as a trading liability.

Issued debt and equity securities

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities. The coupons on these instruments are recognised in the income statement as interest expense using the effective interest method. Where the Group has absolute discretion in relation to the payment of coupons and repayment of principal, the instrument is classified as equity and any coupon payments are classified as distributions in the period in which they are made.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other operating income, net of any costs or fees incurred.

Derivative financial instruments and hedge accounting

The Group has made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39. Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each reporting date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:
(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge relationships are concluded to be effective if the hedging instruments that are used in hedging transactions offset the changes in fair value or cashflow of the hedged items within a range of 80% to 125%.

Hedges directly affected by the BMR reform

When there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the formal hedge designations and documentation to reflect one or more of specified changes required by the BMR reform, without discontinuing those hedge accounting relationships. The hedge designations and documentations are amended by the end of the reporting period during which a change required by BMR reform is made to the hedged risk, hedged item or hedging instrument and only to make one or more of the following changes:
- designating an alternative BMR as the hedged risk;
- amending the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
- amending the description of the hedging instrument.

The description of the hedging instrument is only amended if the following conditions are met:
- the Group makes a change required by the BMR reform using an approach other than changing the basis for determining the contractual cash flows of the hedging instrument;
- the chosen transition approach is economically equivalent to changing the basis for determining the contractual cash flows of the original hedging instrument; and
- the original hedging instrument is not derecognised.

When performing retrospective hedge effectiveness assessment for hedge accounting relationships where hedge designations are amended as a direct result of the BMR reform, the Group elects on the amendment date to reset the cumulative fair value changes of the hedging instrument and the hedged item to zero.

When the description of the hedged item designated in a cash flow hedge is amended to reference the alternative BMR, the amount accumulated in the cash flow hedge reserve in equity is deemed to be based on the alternative BMR on which the hedged future cash flows are determined.

When an item in a group of items designated as the hedged items is amended as a direct result of the BMR reform, the Group allocates hedged items to subgroups based on the benchmark rate being hedged and designates the benchmark rate for each subgroup as the hedged risk.

(a) Fair value hedge (micro)

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 hedged item in a micro fair value hedge is a single specified item e.g. a fixed commercial loan.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method for micro hedges. When a hedged item held at amortised cost that is designated in a micro fair value hedge or included in a repricing time period of a portfolio hedge is derecognised, the unamortised fair value adjustment included in the carrying value of that hedged item is immediately reclassified to the income statement.

(b) Fair value hedge (macro)

The hedged item in a macro fair value hedge is a pool of assets or liabilities with similar risk characteristics and profiles, such as a pool of fixed rate mortgages. Unlike micro fair value hedge accounting, macro fair value hedge accounting is not discontinued if an individual asset or

1 Group accounting policies *(continued)*

liability within the pool of hedged items is sold, so long as the overall pool of hedged items retains its characteristics as documented at inception of the hedge. In addition, hedge effectiveness testing is performed on a portfolio basis rather than on an individual hedge relationship by hedge relationship basis.

The Group also avails of the relaxed hedge accounting provisions permitted by IAS 39 'Financial Instruments: recognition and measurement'. The Group applies these relaxed provisions to portfolio fair value hedges of interest rate risk on its demand deposit and mortgage lending books. The Group resets its macro fair value hedges on a monthly basis.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the straight line method for macro hedges.

(c) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement. The Group resets its macro cash flow hedges on a monthly basis.

Property, plant and equipment

Freehold and long leasehold land and buildings are initially recognised at cost, and subsequently are revalued annually to fair value by independent external valuers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the reporting date.

Right of Use assets recognised as property, plant and equipment are measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of lease liabilities.

All other property, plant and equipment, including freehold and leasehold adaptations, are stated at historical cost less accumulated depreciation.

Increases in the carrying amount arising on the revaluation of land and buildings are recognised in other comprehensive income. Decreases that offset previous increases on the same asset are recognised in other comprehensive income: all other decreases are charged to the income statement.

The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material.

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:

- adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease;
- computer and other equipment - maximum of ten years;
- motor vehicles held for leasing - over the lease term; and
- the recognised RoU assets are depreciated on a straight-line basis over the earlier of the end of the useful life of the RoU asset or the end of the lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Property, plant and equipment 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 its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. If the asset being disposed of had previously been revalued then any amount in other comprehensive income relating to that asset is reclassified directly to retained earnings on disposal, rather than the income statement.

Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.

Costs associated with research activities or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as asset's are amortised using the straight line method over their useful lives, which is normally between five and ten years.

(b) Other intangible assets

Other intangible assets are carried at cost less amortisation and impairment, if any, and are amortised on a straight line basis over their useful lives which range from five years to twenty years and assessed for impairment indicators annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such indicators exist, the assets recoverable amount is estimated. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount

1 Group accounting policies *(continued)*

is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

(c) Goodwill
Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment or more frequently if there is any indication that it may be impaired, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. An impairment loss arises if the carrying value of the CGU exceeds the recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use, where the value in use is the present value of the future cash flows expected to be derived from the CGU.

Assets and liabilities classified as held for sale

An asset or a disposal group is classified as held for sale if the following conditions are met:

- its carrying amount will be recovered principally through sale rather than continuing use;
- it is available for immediate sale; and
- the sale is highly probable within the next few months.

When an asset (or disposal group) is initially classified as held for sale, it is measured at the lower of its carrying amount or fair value less costs to sell at the date of classification, except for deferred tax assets, financial assets and assets arising from employee benefits, which are measured in accordance with the accounting policies applied to those assets prior to their classification as held for sale.

Impairment losses on initial classification of an asset (or disposal group) as held for sale, and on subsequent remeasurement of the asset (or disposal group), are recognised in the income statement. Increases in fair value less costs to sell of an asset (or disposal group) that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset (or disposal group).

Impairment losses are allocated to non-current assets within the measurement scope of IFRS 5 and the amount of impairment losses recognised in the financial statements is limited to the carrying value of those assets. Other assets and liabilities are measured in accordance with applicable IFRSs in both initial and subsequent measurement of the asset (or disposal group) held for sale. As a result, in accordance with IFRS 5 any impairment losses in excess of the carrying value of the non-current assets within the measurement scope of IFRS 5 are not recognised until disposal.

When an asset (or disposal group) is classified as held for sale, amounts presented in the balance sheet for the prior period are not reclassified.

Where the criteria for the classification of an asset (or disposal group) as held for sale cease to be met, the asset (or disposal group) is reclassified out of held for sale and included in the appropriate balance sheet headings.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those employees affected by the restructuring by starting to implement the plan or announcing its main features.

A levy payable to a Government is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

Employee benefits

(a) Pension obligations
The Group operates one defined benefit scheme, the NIIB Group Limited (1975) Pension Scheme. In addition, certain of the Group's employees are members of other Bank of Ireland Group schemes, and these are accounted for as defined contribution schemes in the Group.

The schemes are funded and the assets of the schemes are held in separate trustee administered funds. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Plans in surplus are shown as assets and plans in deficit are shown as liabilities. A surplus is only recognised as an asset to the extent that it is recoverable through a refund from the plan or through reduced contributions in the future.

Where a plan amendment, curtailment or settlement occurs and the net defined benefit asset/liability is remeasured to determine past service cost or the gain or loss on settlement, the current service cost and net interest for the remainder

1 Group accounting policies *(continued)*

of the period are remeasured using the same assumptions.

Service cost and net interest on the net defined benefit asset/liability are recognised in profit or loss, within operating expenses.

Remeasurements of the net defined benefit asset/liability, that are recognised in other comprehensive income include:
- actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions; and
- the return on plan assets, excluding amounts included in net interest on the net defined benefit asset/liability.

A settlement is a transaction that eliminates all further legal and constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

(b) Short term employee benefits
Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered.

(c) Termination payments
Termination payments are recognised as an expense at the earlier of:
- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:
- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

Income taxes

(a) Current income tax
Income tax payable on profits, using the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date, is recognised as an expense in the period in which profits arise.

Tax provisions are provided on a transaction by transaction basis using either the 'most likely amount' method or the 'expected value' method as appropriate for the particular uncertainty and by management assessing the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that there will be a future outflow of funds to a fiscal authority to settle the obligation. Interest on tax liabilities is recognised as interest expense.

(b) Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The rates enacted, or substantively enacted, at the reporting date, are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The tax effects of income tax losses available for carry forward are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. Deferred tax assets and liabilities are not discounted.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax on items recognised in other comprehensive income is also recognised in other comprehensive income and is subsequently reclassified to the income statement, together with the deferred gain or loss. Income tax on items recognised directly in equity is recognised directly in equity, except for the income tax consequences of dividends on a financial instrument classified as equity, which are recognised according to where the previous transactions or events that generated distributable profits were recognised.

(c) Uncertain tax treatments
The Group considers uncertain tax treatments together or separately depending on which approach better predicts how the uncertainties will be resolved. Where the Group concludes it is not probable that a tax authority will accept its assessment of an uncertain tax treatment, it reflects the effect of the uncertainty using either the 'most likely amount' method or the 'expected value' method, as appropriate for the particular uncertainty.

Where the Group concludes it is probable that a tax authority will accept its assessment of an uncertain tax treatment, the taxable profit or loss, the tax bases, unused tax losses, unused tax credits and the tax rates are determined consistently with the tax treatment used or planned to be used in the income tax filing.

Cash and cash equivalents

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

1 Group accounting policies *(continued)*

Share capital and reserves

(a) Equity transaction costs
Incremental external costs directly attributable to equity transactions, including the issue of new equity stock or options, are shown as a deduction from equity, net of tax.

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Bank's shareholders. Interim dividends are recognised when paid by the Group.

(c) Cash flow hedge reserve
The cash flow hedge reserve represents the cumulative changes in fair value (net of tax) excluding any ineffectiveness of cash flow hedging derivatives. These are transferred to the income statement when the hedged transactions impact the Group's profit or loss.

(d) Capital contribution
The capital contribution is measured as the initial amount of cash or other assets received.

(e) Capital redemption reserve fund
On 1 May 2015, preference stock of £300 million was repurchased. On the same date £300 million was transferred from capital contribution to the capital redemption reserve fund in order to identify these reserves as non-distributable. On 4 June 2019, the UK High Court of Justice approved the Board's application to cancel the capital redemption reserve fund and the balance was transferred to retained earnings. In November 2021, the Group carried out a share buy back transaction whereby it repurchased 250 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £75 million reduction in share capital with a corresponding increase in the capital redemption reserve. In March 2020, the Group carried out a share buy back transaction whereby it repurchased 195 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £58.5 million reduction in share capital with a corresponding increase in the capital redemption reserve. In November 2021, the Group carried out a share buy back transaction whereby it repurchased 250 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £75 million reduction in share capital with a corresponding increase in the capital redemption reserve. See note 38.

(f) Other equity instruments
Other equity instruments represents Additional tier 1 securities issued by the Group to the Parent. See note 39 for details.

(g) Revaluation reserve
The revaluation reserve represents the cumulative gains and losses on the revaluation of property. The revaluation reserve is not distributable.

Collateral

The Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the Group balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised in deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

In certain circumstances, the Group pledges collateral in respect of liabilities or borrowings. Collateral pledged, in the form of securities or loans and advances, continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

Impact of new accounting standards

The following standards, interpretations and amendments to standards will be relevant to the Group but were not effective at 31 December 2022 and have not been applied in preparing these financial statements. The Group's current view of the impact of these accounting changes is outlined below.

1 Group accounting policies *(continued)*

Pronouncement
IFRS 17 'Insurance Contracts'

Nature of change
IFRS 17 replaces IFRS 4 'Insurance Contracts', which was introduced as an interim standard in 2004. IFRS 17 addresses the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosures of insurance and reinsurance contracts, ensuring an entity provides relevant information that faithfully represents those contracts. There are specific scope exemptions detailed within IFRS 17. The Group does not intend to apply any scope exemptions from the application of the standard.

The standard was endorsed by the UK Accounting Standards Endorsement Board ('UKEB') on 16 May 2022.

Effective date
The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted.

Impact
The amendment is not expected to have any material impact on the Group.

Pronouncement
Amendments to IAS 1 - Classification of liabilities as current or noncurrent

Nature of change
The purpose of these amendments is to promote consistency in application and to clarify the requirements on determining whether a liability is current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. The amendments also clarify the situations that are considered to be the settlement of a liability.

The amendments are still subject to endorsement by the UK Accounting Standards Endorsement Board ('UKEB').

Effective date
The effective date is for financial periods beginning on or after 1 January 2024, with early application permitted.

Impact
The amendments are not expected to have a significant impact on the Group.

Pronouncement
Amendments to IAS 8 – Definition of accounting estimates

Nature of change
The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendment was endorsed by the UK Accounting Standards Endorsement Board ('UKEB') on 30 November 2022.

Effective date
The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted.

Impact
The amendments are not expected to have a significant impact on the Group.

Pronouncement
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies

Nature of change
The effect of the amendment is that an entity will disclose its material accounting policies, instead of its significant accounting policies. Further amendments to IAS 1 are made to explain how an entity can identify a material accounting policy. To support the amendments, IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendment was endorsed by the UK Accounting Standards Endorsement Board ('UKEB') on 30 November 2022.

Effective date
The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted.

Impact
The amendments are not expected to have a significant impact on the Group.

Pronouncement
Amendments to IAS 12 'Income Taxes'

Nature of change
Deferred tax related to assets and liabilities arising from a single transaction. The amendments were introduced to address potential issues of inconsistency and interpretation by users in respect of the initial recognition exemption ('IRE') detailed in paragraphs 15 and 24 (for deferred tax liabilities and assets respectively). The amendments introduce an exception to the initial recognition exemption in IAS 12. Applying this exception, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

The amendment was endorsed by the UK Accounting Standards Endorsement Board ('UKEB') on 30 November 2022.

Effective date
The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted.

Impact
The amendments are not expected to have a significant impact on the Group.

2 Critical accounting estimates and judgements

In preparing the financial statements, the Group 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. Due to the inherent uncertainty involved in estimating 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 Group's financial statements are set out below.

(a) Impairment loss allowance on financial assets

The measurement of impairment loss allowance requires significant judgement and estimation and is dependent on complex impairment models.

In arriving at impairment loss allowances, accounting estimates which could change and have a material influence on the quantum of impairment loss allowance and net impairment charge within the next financial year include:

- generation of forward looking macroeconomic scenarios and their probability weightings which are used in both the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances; and
- valuing property collateral (including residential property).

Accounting judgements which could change and have a material influence on the quantum of impairment loss allowance and net impairment charge within the next financial year include determining if Group management adjustments may be necessary to impairment model outputs to address impairment model limitations or late breaking events.

Other key accounting estimates which are not expected to change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include:

- determining the period over which to measure ECL for uncommitted revolving credit facilities; and
- determining timeframes to realisation and likely net sale proceeds.

Other key accounting judgements which are not expected to change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include:

- the Group's criteria for assessing if there has been a significant increase in credit risk since initial recognition such that a loss allowance for lifetime rather than 12-month ECL is required;
- the selection of appropriate methodologies and model factors for internal risk rating and impairment models;
- the approximation made at transition to IFRS 9 of the residual lifetime PD expectations for most exposures originated prior to adoption of IFRS 9; and
- selection of the most relevant macroeconomic variables for particular portfolios and determining associations between those variables and model components such as Probability of Default (PD) and Loss Given Default (LGD).

The Group's approach to measurement of impairment loss allowances and associated methodologies is set out in the credit risk methodologies section on pages 43 to 45.

Changes in estimates

Forward Looking Information

Forward Looking Information (FLI) refers to probability weighted future macroeconomic scenarios governed semi-annually by ALCO and by Audit Committee and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9. The Group has used four UK FLI scenarios at 31 December 2022, comprising of a central scenario, an upside scenario, and two downside scenarios, all extending over a five year forecast period, with reversion to long run averages for property for years beyond the forecast period. The Group keeps under review the number of FLI scenarios.

The central FLI scenario as at 31 December 2022 is based on internal and external information and management judgement and follows the same process as used in prior periods.

The upside and downside scenarios in previous reporting periods were generated using a simulation model that used historical volatilities and correlations for key macroeconomic variables to generate a distribution around the central forecast.

However, due to model limitations arising from the nature of economic dynamics associated with Covid-19, and more recently the Russian / Ukraine conflict, the Group has employed an amended approach for the selection of the upside and downside FLI scenarios reporting periods since 31 December 2020, in order to avoid counterintuitive trends in the respective scenarios.

In order to incorporate available reasonable and supportable information and apply meaningful upside and downside FLI scenarios, three narrative driven alternative scenarios (one upside and two downside) were constructed to reflect different levels of energy disruption arising from the conflict in Ukraine (and associated sanctions), the depth of downturn and pace of economic recovery.

The existing FLI methodology was leveraged to assign probability weightings to the narrative driven scenarios. The FLI methodology is a simulation tool that uses recent actual observed values and historical data to produce a number of possible paths for the relevant economic variables based on their historical relationships and volatilities. The FLI model is used for generating scenarios for a defined probability weighting as well as assessing probability weights for a given scenario.

The narrative-driven scenarios were assessed relative to the simulated distribution. The probability weightings attached to the scenarios are a function of their relative position on the distribution, with a lower probability weighting attached to the scenarios that were assessed to be more distant from the centre of the distribution. The final set of probability weightings used in Expected credit losses (ECL) estimates reflected the application of management judgement to the initial probability weightings. Increased weight was assigned to the central scenario and downside scenario 2, with an offsetting decrease in the upside scenario weight. External forward looking information informed the application of this management judgement, and reflected economic uncertainty associated with a combination of factors including: Russia's invasion of Ukraine; rising inflation; supply chain disruption; and interest rate expectations. The estimated impact of this judgement to place more weighting to central and downside scenarios was a c.£3.3 million increase in reported impairment loss allowance.

2 Critical accounting estimates and judgements *(continued)*

The following table shows the mean average forecast values for the key macroeconomic variables under each scenario for the forecast period 2023 to 2027, together with the scenario weightings.

2022	**Central Scenario**	**Upside Scenario**	**Downside Scenario 1**	**Downside Scenario 2**
Scenario probability weighting	45%	15%	25%	15%
GDP Growth[1]	1.2%	1.6%	0.4%	(0.3%)
GNP Growth[1]	n/a	n/a	n/a	n/a
Unemployment rate[2]	4.4%	3.9%	6.1%	7.8%
Residential property price growth[3]	(1.2%)	0.0%	(4.4%)	(6.6%)
Commercial property price growth[3]	(1.3%)	0.0%	(3.8%)	(6.5%)

The table below sets out the forecast values for 2023 and 2024 and the average forecast values for the period 2025 to 2027 for the key macroeconomic variables which underpin the above mean average values.

	2023	**2024**	**2025-2027**
Central scenario - 45% weighting			
GDP Growth[1]	(0.6%)	0.7%	1.9%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	4.4%	4.8%	4.2%
Residential property price growth[3]	(7.0%)	(4.0%)	1.7%
Commercial property price growth	(10.5%)	(2.5%)	2.2%
Upside - 15% weighting			
GDP Growth[1]	0.2%	1.4%	2.1%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	4.2%	4.1%	3.7%
Residential property price growth[3]	(4.0%)	(2.0%)	2.0%
Commercial property price growth	(8.0%)	0.0%	2.7%
Downside scenario 1 - 25% weighting			
GDP Growth[1]	(2.0%)	(1.2%)	1.8%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	5.3%	6.5%	6.2%
Residential property price growth[3]	(13.0%)	(7.0%)	(0.7%)
Commercial property price growth	(14.0%)	(6.0%)	0.3%
Downside scenario 2 - 15% weighting			
GDP Growth[1]	(3.3%)	(3.0%)	1.5%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	6.2%	8.2%	8.2%
Residential property price growth[3]	(17.0%)	(11.0%)	(1.7%)
Commercial property price growth	(19.0%)	(8.5%)	(1.7%)

[1] *Annual growth rate.*
[2] *Average yearly rate.*
[3] *Year-end figures.*

2 Critical accounting estimates and judgements *(continued)*

2021	Central Scenario	Upside Scenario	Downside Scenario 1	Downside Scenario 2
Scenario probability weighting	45%	20%	25%	10%
GDP Growth[1]	2.3%	2.8%	1.7%	0.7%
GNP Growth[1]	n/a	n/a	n/a	n/a
Unemployment rate[2]	4.4%	3.8%	5.8%	8.0%
Residential property price growth[3]	1.8%	3.0%	(1.2%)	(3.6%)
Commercial property price growth[3]	1.6%	2.8%	(0.4%)	(3.4%)

The table below sets out the forecast values for 2022 and 2023 and the average forecast values for the period 2024 to 2026 for the key macroeconomic variables which underpin the above mean average values.

	2022	2023	2024-2026
Central scenario - 45% weighting			
GDP Growth[1]	5.2%	1.8%	1.5%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	4.6%	4.4%	4.3%
Residential property price growth[3]	3.0%	0.0%	2.0%
Commercial property price growth	0.0%	1.0%	2.3%
Upside - 20% weighting			
GDP Growth[1]	6.6%	2.1%	1.7%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	4.3%	3.8%	3.7%
Residential property price growth[3]	5.0%	1.0%	3.0%
Commercial property price growth	2.0%	2.0%	3.3%
Downside scenario 1 - 25% weighting			
GDP Growth[1]	3.2%	1.6%	1.2%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	6.0%	5.9%	5.8%
Residential property price growth[3]	(1.0%)	(3.0%)	(0.7%)
Commercial property price growth	(3.0%)	(1.0%)	0.7%
Downside scenario 2 - 10% weighting			
GDP Growth[1]	0.3%	(0.3%)	1.2%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	7.1%	8.5%	8.2%
Residential property price growth[3]	(6.0%)	(6.0%)	(2.0%)
Commercial property price growth	(8.0%)	(6.0%)	(1.0%)

[1] *Annual growth rate.*
[2] *Average yearly rate.*
[3] *Year-end figures.*

2 Critical accounting estimates and judgements *(continued)*

The central, upside and downside scenarios are described below.

Central scenario

The UK economy has been benefiting from the removal of pandemic-related restrictions and rebounding employment during 2022. At the same time, the fallout from the war in Ukraine - including high global energy prices and an uncertain external environment - has been adding to prices and costs for consumers and businesses and weighing on confidence, with the UK also experiencing political and market turmoil. Bank of England interest rate increases are a drag for activity too, so notwithstanding the help to households and firms from government cost-of-living and energy supports, the Central scenario envisages an outright contraction in GDP in 2023. Inflation is expected to ease significantly in 2024 though and economic growth resumes in the UK, while unemployment ticks up for a time before settling at a relatively low rate in both.

Upside scenario

In the Upside scenario, a mild winter and increased conservation help lower wholesale energy prices. This has a knock-on effect to inflation, and with rising consumer and business confidence, reduced uncertainty and lingering post-restrictions tailwinds contributing to stronger economic momentum, unemployment edges down in 2024, and remains low in subsequent years.

Downside scenario 1

Amid further geopolitical tension, the Downside scenario 1 sees a complete cut off of Russian oil and gas supplies to the UK. Given limited substitution possibilities and a particularly cold winter, energy rationing and a spike in wholesale prices ensue. Higher food and other commodity prices also add to upward inflationary pressures. Tighter monetary and financial conditions put downward pressure on consumer and business spending, with weaker global demand a headwind for exporting sectors and a renewed bout of domestic economic policy uncertainty. GDP growth is negative in 2023 and in 2024, while unemployment increases and stays relatively high out the forecast horizon.

Downside scenario 2

The Downside scenario 2 also assumes a complete cut off of Russian energy supplies to the UK. In addition, the full implementation of customs checks by the UK authorities is followed by the termination of the UK-EU trade agreement as post-Brexit tensions come to a head, adding to existing industrial unrest in the UK. The parallel circulation of the COVID-19 and seasonal flu viruses also requires the imposition of some public health restrictions this winter and next. Amid high inflation, heightened uncertainty, collapsing confidence and tightening financial conditions, GDP growth is in deep negative territory in both 2023 and 2024. Unemployment moves up and remains elevated over the entire forecast period.

Property Price Growth, all scenarios

In the central scenario, following reasonable growth throughout 2022, residential price turns negative to (-7.0%) in the UK in 2023. In 2024 the UK turns further negative (-4.0%). From 2025 onwards the UK records marginal positive growth of 0.3% per annum. Commercial property prices show further declines in 2023 and 2024. Growth is forecast to return to the UK market in 2025 with positive growth from 2025 onwards of 1.5% - 2.5%.

In the upside scenario, UK prices are expected to turn negative in 2023 and 2024, returning to low single digit growth out to the end of the forecast period. Commercial property in the UK is expected to decline in 2023, remaining flat in 2024 and returning to growth of 2.5-3.0% per annum thereafter.

In the downside scenarios (1 & 2), residential prices are expected to turn negative in 2023 with a trough point of -33% (downside scenario 2). Downside scenario (2) effectively sees a full reversal of the gains made in residential prices since recovery from COVID-19 uncertainty began in 2020. Commercial property in the downside 1 scenario is expected to be negative until 2025. In downside 2, a marginal return to growth (0.5%) is expected in 2027.

The quantum of impairment loss allowance is impacted by the application of four probability weighted future macroeconomic scenarios. The following table indicates the approximate extent to which the impairment loss allowance at 31 December 2022, excluding post-model Group management adjustments to impairment loss allowances, was increased by virtue of applying multiple scenarios rather than only a central scenario. This analysis excludes post-model Group management adjustments, as such adjustments to impairment loss allowance are applied using management judgement outside of the macro-economic conditioned ECL model framework (refer to the Management Judgement in Impairment Measurement section below). The scenarios outlined in the following tables are based on the FLI weightings outlined on previous page.

Comparative figures as at 31 December 2021 are also outlined below (and in subsequent tables in this section). Changes in the figures as at 31 December 2022 compared to the previous reporting date reflect a number of inter related dynamics including changes in forward-looking scenarios and associated probability weights; impairment model methodology updates in the year; and the composition of the underlying portfolios at the respective reporting dates.

2 Critical accounting estimates and judgements *(continued)*

2022 Impact of applying multiple scenarios rather than only a central scenario	Additional impairment loss allowance Stage 1 Impact £m	 Stage 1 Impact %	 Stage 2 Impact £m	 Stage 2 Impact %	 Stage 3 Impact £m	 Stage 3 Impact %	 Total Impact £m	 Total Impact %
Residential mortgages	1.1	29%	3.4	81%	1.1	14%	5.6	35%
Non-property SME and corporate	0.3	12%	1.4	17%	0.5	2%	2.2	6%
Property and construction	0.1	6%	1.1	71%	0.8	11%	2.0	20%
Consumer	3.0	11%	2.1	9%	0.0	0%	5.1	6%
Total	**4.5**	**13%**	**8.0**	**21%**	**2.4**	**3%**	**14.9**	**10%**

2021 Impact of applying multiple scenarios rather than only a central scenario	Additional impairment loss allowance Stage 1 Impact £m	 Stage 1 Impact %	 Stage 2 Impact £m	 Stage 2 Impact %	 Stage 3 Impact £m	 Stage 3 Impact %	 Total Impact £m	 Total Impact %
Residential mortgages	0.8	58%	0.4	68%	0.8	8%	2.0	17%
Non-property SME and corporate	0.1	2%	0.8	8%	0.1	0.2%	0.9	3%
Property and construction	(0.1)	(14%)	0.8	22%	0.1	1%	0.8	8%
Consumer	2.4	11%	1.2	7%	-	0%	3.6	5%
Total	**3.2**	**11%**	**3.1**	**10%**	**0.9**	**1%**	**7.3**	**6%**

The following table indicates the approximate extent to which impairment loss allowance, excluding Group management adjustments, would be higher or lower than reported were a 100% weighting applied to the central, upside and downside future macroeconomic scenarios respectively:

2022 Impact of applying single scenario rather than multiple probability weighted scenarios	Multiple scenarios Impairment loss allowance £m	Central scenario Impairment loss allowance £m	Central scenario Impact %	Upside only scenario Impairment loss allowance £m	Upside only scenario Impact %	Downside 1 scenario Impairment loss allowance £m	Downside 1 scenario Impact %	Downside 2 only scenario Impairment loss allowance £m	Downside 2 only scenario Impact %
Residential mortgages	21	(6)	(26%)	(7)	(35%)	35	164%	66	310%
Non-property SME and corporate	40	(2)	(5%)	(4)	(9%)	2	6%	10	26%
Property and construction	12	(2)	(17%)	(3)	(27%)	2	14%	9	73%
Consumer	93	(5)	(5%)	(8)	(8%)	4	5%	16	16%
Total	**166**	**(15)**	**(9%)**	**(22)**	**(13%)**	**43**	**26%**	**101**	**60%**

2021 Impact of applying single scenario rather than multiple probability weighted scenarios	Multiple scenarios Impairment loss allowance £m	Central scenario Impairment loss allowance £m	Central scenario Impact %	Upside only scenario Impairment loss allowance £m	Upside only scenario Impact %	Downside 1 scenario Impairment loss allowance £m	Downside 1 scenario Impact %	Downside 2 only scenario Impairment loss allowance £m	Downside 2 only scenario Impact %
Residential mortgages	13	(2)	(15%)	(2)	(18%)	7	55%	30	222%
Non-property SME and corporate	34	(1)	(3%)	(2)	(4%)	1	3%	7	20%
Property and construction	11	(1)	(7%)	(1)	(13%)	1	9%	5	47%
Consumer	80	(4)	(5%)	(6)	(7%)	5	6%	16	19%
Total	**138**	**(7)**	**(5%)**	**(11)**	**(8%)**	**15**	**10%**	**57**	**41%**

2 Critical accounting estimates and judgements *(continued)*

The following table indicates the approximate extent to which impairment loss allowances for the residential mortgage portfolios, excluding post-model Group management adjustments, would be higher or lower than the application of a central scenario if there was an immediate change in residential property prices as at the reporting date. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Groups impairment loss allowance for residential mortgages to a once-off change in residential property values.

2022 Impact of an immediate change in residential property prices compared to central scenario impairment loss allowances	Impairment loss allowance - Central scenario £m	Residential property price reduction of 10% Impact £m	Impact %	Residential property price reduction of 5% Impact £m	Impact %	Residential property price increase of 5% Impact £m	Impact %	Residential property price increase of 10% Impact £m	Impact %
Residential mortgages	16	4	28%	2	13%	(2)	(10%)	(3)	(19%)
Total	**16**	**4**	**28%**	**2**	**13%**	**(2)**	**(10%)**	**(3)**	**(19%)**

The sensitivity of impairment loss allowances to stage allocation is such that a transfer of 1% of Stage 1 balances at 31 December 2022 to Stage 2 would increase the Group's impairment loss allowance by approximately £2.2 million excluding Group management adjustments.

2021 Impact of an immediate change in residential property prices compared to central scenario 1 impairment loss allowances	Impairment loss allowance - Central scenario £m	Residential property price reduction of 10% Impact £m	Impact %	Residential property price reduction of 5% Impact £m	Impact %	Residential property price increase of 5% Impact £m	Impact %	Residential property price increase of 10% Impact £m	Impact %
Residential mortgages	12	6	56%	3	25%	(2)	(20%)	(4)	(34%)
Total	**12**	**6**	**56%**	**3**	**25%**	**(2)**	**(20%)**	**(4)**	**(34%)**

Management Judgement in impairment measurement

Management judgement has been incorporated into the Group's impairment measurement process for 2022. Management judgement can be described with reference to:

- credit risk assessment for significant increase in credit risk;
- management judgement in impairment model parameters; and
- post-model Group management adjustments to impairment loss allowance and staging classification.

Credit risk assessment for significant increase in credit risk

As outlined on page 44 of the Risk Management report, the Group considers other reasonable and supportable information that would not otherwise be taken into account that would indicate that a significant increase in credit risk had occurred. In this regard, for the year ending 31 December 2022 the Group has assessed the impact of inflation and rising interest rates on asset quality. Credit risk assessments on the impact of higher inflation and rising interest rates on debt affordability were completed across the residential mortgage and consumer portfolios. Where appropriate, outputs have been utilised to identify significant increases in credit risk and the classification of assets in stage 2. The credit risk assessments, which leveraged qualitative information not already captured in impairment models, resulted in a credit management decision to classify c.£0.6 billion of assets as stage 2 at the reporting date, with an associated £5.3 million increase in impairment loss allowance.

£0.4 billion of the assets classified as stage 2, and £2 million of the increase in impairment loss allowance, was related to the UK mortgage portfolio. The remaining £0.2 billion of assets classified as stage 2, and £3.3 million increase in impairment loss allowance was related to the UK consumer portfolio.

Management judgement in impairment model parameters

The ECL model framework was updated in the year to reflect an enhanced approach to Loss Given Default (LGD) components for the residential mortgages portfolios.

The residential mortgages LGD component was reviewed and enhanced to improve the ability of the model to calibrate LGD estimates for variances between indexed property values and individual property values for distressed sales. The enhanced approach also utilises observed data with respect to alternative resolution strategies such as portfolio sales.

The enhancements to the LGD component of the Residential mortgage impairment models, resulted in an increase in impairment loss allowance of c.£7.7 million for the UK mortgage

2 Critical accounting estimates and judgements *(continued)*

portfolio. On a like-for-like basis, i.e. including the non-performing assets that were disposed of in the second half of 2022, the impact would have been a c.£18.3 million increase in impairment loss allowance. Following these enhancements, the Group management adjustment for LGD in residential mortgage portfolios recognised at 31 December 2021 is no longer considered to be required (as outlined below).

In addition, other impairment model factors were updated at the reporting date to reflect observed information.

Post-model Group management adjustment

To ensure that the measurement of impairment reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions, the need for a post-model Group management adjustment to the outputs of the Group's staging and impairment measurement methodologies is considered at each reporting date in arriving at the final impairment loss allowance. Such a need may arise, for example, due to a model limitation or a late breaking event. At 31 December 2022, the Group's stock of impairment loss allowance of £184 million includes a £18 million total post-model Group management adjustment (31 December 2021: £40 million). Details of the components of the post-model Group management adjustment, as well as the rationale for the removal and / or utilisation of previous management adjustments, are outlined below. The following table provides an overview of Group management adjustments.

Group management adjustment for NPE sale

The impairment loss allowance for stage 3 assets at 31 December 2022 includes a £18 million post-model management adjustment to reflect the potential for the Group to utilise portfolio sales and / or securitisations in its resolution strategies for NPEs in the UK business banking portfolios. The requirement for post-model adjustments reflects the fact that individually assessed impairment loss allowances are determined on a case-specific assessment and do not take account of discounts that may apply for a portfolio sale / securitisation.

The Group has identified cohorts of loans in the UK business banking portfolio that will likely form part of future portfolio sale and / or securitisation. The quantum of the post-model adjustment was calculated with reference to independent external benchmarking, internal impairment cover for these cohorts, and an assessment of the likelihood of the completion of future asset sale / securitisation.

Group management adjustment for COVID-19

At 31 December 2022, the Group considered the risk associated with impact of COVID-19, including the availability of government supports and the general availability of payment breaks in 2020 and early 2021 to all customers regardless of credit status.

The majority of UK government supports for COVID-19 ceased in Q2 2022 and Q4 2021 respectively. Consequently, potential latent COVID-19 risk in the Group's loan portfolios has diminished and management is satisfied that underlying customer specific risk can be identified in risk management models and credit metrics. Therefore, the £22 million post-model adjustment that was recognised at 31 December 2021 is no longer considered to be required.

Group management adjustments for residential mortgages

As outlined above, the Loss Given Default (LGD) component of the residential mortgages impairment models has been reviewed. Given the enhancements to the LGD component of the impairment models in the period the £18 million Group management adjustment applied to the residential mortgages impairment loss allowance at 31 December 2021 is no longer considered to be required.

2022 Impact of applying Post Model Adjustments to the Impairment Loss Allowances	Modelled Impairment Loss Allowances £m	NPE sale Post Model Adjustment £m	Final Impairment Loss Allowances £m
Residential mortgages	21	-	21
UK SME and property and construction portfolios	51	18	69
Consumer	94	-	94
Total	**166[1]**	**18**	**184**

2021 Impact of applying Post Model Adjustments to the Impairment Loss Allowances	Modelled Impairment Loss Allowances £m	COVID-19 Post Model Adjustment £m	LGD Post Model Adjustment £m	Final Impairment Loss Allowances £m
Residential mortgages	13	2	18	33
UK SME and property and construction portfolios	44	7	-	51
Consumer	81	13	-	94
Total	**138[1]**	**22**	**18**	**178**

[1] *For the move in modelled impairment loss allowance, refer to page 102 noting this includes the NPE sale of residential mortgages.*

2 Critical accounting estimates and judgements *(continued)*

(b) Taxation

At 31 December 2022, the Group had a net deferred tax asset (DTA) of £108 million (2021: £77 million), of which £62 million (2021: £50 million) related to trading losses. See note 26.

A significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset (DTA) relating to trading losses. The recognition of a deferred tax asset relies on management's estimate of the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences against which the losses can be utilised.

Under current UK tax legislation there is no time restriction on the utilisation of these losses.

UK legislation restricts the proportion of a bank's annual taxable profit that can be offset by carried forward losses to 25%. This restriction significantly lengthens the period over which the Group could use its UK trading losses and has been considered in the context of the measurement and recognition of the deferred tax asset at 31 December 2022.

Judgement

The Group's judgement takes into consideration the impact of both positive and negative evidence in assessing the recoverability of the deferred tax asset.

Positive factors which have been considered include:

- The Group has a sustained history of operating profits and it is considered likely that the Group's activities will be profitable into the future;
- the absence of any expiry dates for UK tax losses; and
- external forecasts for the UK which indicate continued economic growth and improved employment levels over the long term.

The Group also considered negative evidence and the inherent uncertainties in any long term financial assumptions and projections, including:

- the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- the challenge of projecting over a long period, taking account of the level of competition and the evolving interest rate environment; and
- accelerated transformation of banking business models.

The Directors believe that the Group will be profitable for the foreseeable future but acknowledge external challenges facing the UK banking industry and wider economy. In particular, the economic environment in which the Bank operates has become more uncertain with changing customer product and service expectations, accelerated transformation of the banking business models, increased volatility in interest rate projections, and residual uncertainties over the medium term impacts of the COVID-19 pandemic.

Due to improved profitability projections, which takes into account the Group's long-term financial and strategic plans, and primarily driven by higher projected market interest rates, lending mix and margins and reduced funding costs, the Group are projecting a greater utilisation of tax losses than had been projected at December 2021 which results in a further reassessment and increase of the DTA relating to trading losses of £19 million at 31 December 2022 (31 December 2021: increase of £43 million). The DTA of Bank of Ireland (UK) plc is now recognised in full and any previous amounts de-recognised have now been reversed.

There is a risk that the final taxation outcome could be different to the amounts currently recorded. If future profits or subsequent forecasts differ from current forecasts, a further adjustment may be required to the deferred tax asset.

Sources of estimation uncertainty

To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required to support the conclusion that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

The Group's estimate of future profitability takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation, and future reversals of existing taxable temporary differences.

The Group's assessment of deferred tax recoverability for the Bank is based on forecasts covering its five year initial planning period. The forecast for year five onwards is based on the projections within that fifth year of the initial planning period. The deferred tax recoverability is most sensitive to the forecasts in the initial planning period. These forecasts assume a sustainable UK market return on equity in the high single digits for the Group over the long term, and a profitability growth rate of 2% (including GDP of 1%). The profitability projections are based on its agreed strategic priorities of transform the bank, serve customers brilliantly and grow sustainable profits, where the focus will be on value, rather than volume enabling lower funding and operating costs, and focus on higher margin business where the Group has the necessary expertise.

The following sensitivity analysis has been carried out which considers the impact of various scenarios as follows:

- if the projected rate of growth of taxable profits after the fifth year of the initial planning period was decreased by two percentage points, the Group estimates that this would only reduce the recognised DTA by £1 million; and
- if Group profit forecasts were 5% lower than anticipated in years 1-5, with the outer year profits held consistent with year 5 forecast, the deferred tax asset would be reduced by £5 million.

The Bank expects to recover the deferred tax asset by 2032.

c) Impairment review of goodwill and intangible assets

Goodwill of £30 million and other intangible assets of £10 million arose on the acquisition of Marshall Leasing Limited (MLL) on 24 November 2017, as set out in note 23. On 1 April 2022, the business of Marshall Leasing and the related goodwill was transferred to NIIB Group Limited, a wholly-owned subsidiary of the Group. Goodwill is not amortised as it is deemed to have an indefinite useful life. Following an impairment review carried out in 2020, goodwill was impaired by £8 million. No further impairment was required in 2021 or 2022.

2 Critical accounting estimates and judgements *(continued)*

The Group's carrying value of goodwill and other intangible assets is reviewed annually for impairment. The Group's impairment reviews normally estimate the recoverable amount of the relevant Cash Generating Unit (CGU) using projections based on the Group's most recent forecasts covering an initial five year period with a terminal growth rate of 0% thereafter. However, for the Marshall Leasing business, given ongoing market uncertainty around the motor finance market since the December 2019 year end, the impairment review has been prepared using an initial three year period for the Marshall Leasing CGU (which is linked to the average term of the leases) with a terminal growth rate of 0% thereafter. These cash flows are then discounted at a pre tax discount rate of 10.0% (2021: 10.6%) to estimate the recoverable amount of the CGU (based on its value in use). The discount rate applied to Marshall Leasing is the pre tax weighted average cost of capital for the Group increased to include a risk premium to reflect the specific risk profile of the CGU to the extent that such risk is not already reflected in the forecast cash flows.

The Group's strategic plan comprises forecasts of revenue, staff costs and overheads based on current and anticipated market conditions. Whilst the Group operates a robust forecasting process, it is acknowledged that the revenue projections contain an element of uncertainty.

The impairment review is most sensitive to: (a) changes in the discount rate; and
(b) the terminal growth rate used to project the cashflows after year 3.

Management have also factored into the cash flow projections used for the impairment review during 2022 and 2021, additional uncertainty regarding the longer term shape of the motor vehicle financing sector, including concerns regarding combustion engines, alternative fuels and changing customer behaviours for example any impacts of a longer term shift to remote working.

The table below includes reasonably possible changes in assumptions upon which the recoverable amount is estimated, which would lead to the following changes in the net present value of Marshall Leasing:

Change in assumption	Decrease in recoverable amount £m
Increase in discount rate by 1%	4
Reduction in terminal growth rate of 1%	2

Management have also calculated a breakeven scenario which assumes an increase in the pre tax discount rate of 10.5%.

(d) Remaining expected life unwinding adjustment on acquired mortgages

Between 2012 and 2014 the Group acquired a number of tranches of mortgages from the Parent at fair value. These assets were initially recognised on the balance sheet at fair value plus transaction costs. The differential between the initial carrying value of the assets on acquisition and the principal balances is an adjustment unwinding to the income statement, as part of the effective interest rate of these assets, over their remaining expected lives. At 31 December 2022, the impact of this adjustment was to reduce the principal balances by £79 million (2021: £116 million). In 2022, there was a benefit of £38 million (2021: £28 million) to the income statement from the unwind of, and revisions to, the expected life of the adjustment. In addition, the adjustment in 2021 was reduced by £15 million as a result of the sale of mortgages to the Parent in November 2021.

The most significant judgement relating to this adjustment relates to the timing of the unwind. This requires significant management judgement in relation to customer repayment assumptions which determines the expected lives of the relevant loans, and therefore impacts on the amount of interest income recognised in each financial year. In arriving at the expected lives and hence the amount of the unwind, a sensitivity analysis is carried out which considers the impact of various scenarios, as follows:

- a reduction in the rate of repayments, resulting in the expected life of the buy to let mortgage portfolio increasing by 3 months, would give rise to a reduction in interest income of £5 million being recognised in 2022; and
- an increase in the rate of repayments, resulting in the expected life of the buy to let mortgage portfolio shortening by 3 months, would give rise to an increase in interest income of £5 million being recognised in 2022.

(e) Effective interest rate

IFRS 9 requires interest to be recognised using the effective interest rate, being the rate that exactly discounts estimated future cash flows over the expected life of the financial instrument to the net carrying amount of the financial instrument.

Adjustments to the carrying value of financial instruments may be required when actual cash flows vary from the initial estimation of future cash flows, with the corresponding adjustment being made to the income statement.

For secured mortgage lending, management model future expected cash flows for each tranche of lending. In determining the future cash flows, management use judgement to estimate the average life curve of each lending tranche. Management estimate expected future payments of interest and capital based on expected interest rates and redemption profiles of customers based on previous customer behaviour, incorporating estimates of the proportion of borrowers expected to incur early redemption charges. In particular, a key assumption in the effective interest rate models relates to the length of time which borrowers remain on a reversionary rate after the end of the fixed rate period.

Management considers the estimated life curve to be the most significant estimate, the accuracy of which could be impacted by customer repayment behaviour being different to expectations. In concluding on the estimated life curves to be used in the effective interest rate calculation for the year ended 31 December 2022, management have considered a number of factors which could impact observed and future customer behaviour including historic and forecasted movements in external macro-economic indicators such as UK base rates, GDP and inflation, together with the impact of competition and pricing. Management consider certain customer behaviours have been temporary in nature as a result of market dislocation during a COVID-19 impacted time series, whereby the length of time certain borrowers remained on revision rates increased.

2 Critical accounting estimates and judgements *(continued)*

Consequently the impact of these temporary behaviours has been excluded from the curves.

If the impact of these temporary behaviours were incorporated into the curves, this would lead to the recognition of an additional £4 - £5 million of income in 2022.

Sensitivity analysis estimates that a one month change in the weighted average expected life of buy to let mortgages would give rise to an income statement impact of £3 million and a change of 1 month in the weighted average expected life of standard mortgages would give rise to an income statement impact of £11 million.

(f) Retirement benefit obligations

The Group's subsidiary, NIIB Group Limited, operates a defined benefit pension scheme. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future development and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, member mortality and other demographic assumptions.

Sources of estimation uncertainty

There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. A quantitative analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 35.

3 Interest income

Included in interest income for the year ended 31 December 2022, is £2 million in respect of income earned by the Group on loans and advances to banks, relating to amounts placed with the Parent (2021: £nil) and interest on hedging derivatives of £36 million which are also held with the Parent (2021: £22 million expense).

Other interest income includes £nil (2021: £nil) in relation to non-trading derivatives held with hedging intent, but for which hedge accounting is not applied (economic hedges), held with the Parent.

In 2022, £7 million of interest income was recognised on credit-impaired loans and advances to customers (2021: £14 million). In 2022, £9 million of interest income was received on credit-impaired loans and advances to customers (2021: £15 million).

Interest income also includes £38 million relating to the unwind of, and revisions to, fair value adjustments associated with mortgages acquired from the Parent in prior years (2021: £28 million).

For the year ended 31 December 2022, interest recognised on total forborne loans and advances to customers was £7 million (2021: £7 million).

Finance lease and hire purchase receivables interest income arises from the Northridge Finance business.

Group	2022 £m	2021 £m
Financial assets measured at amortised cost		
Loans and advances to customers	490	542
Loans and advances to banks	2	-
Debt securities at amortised cost	8	9
Interest on hedging derivatives	36	(22)
Cash and balances with central banks	44	3
Interest income on financial assets measured at amortised cost	**580**	**532**
Interest income calculated using the effective interest rate method	**580**	**532**
Other interest income		
Interest income on finance leases and hire purchase receivables	83	78
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	-	-
Interest income	**663**	**610**

4 Interest expense

Included in interest expense for the year ended 31 December 2022, is £36 million in respect of interest paid to the Parent on deposits and subordinated liabilities (2021: £36 million).

Other interest expense includes £4 million (2021: £4 million) in relation to non-trading derivatives held with hedging intent, but for which hedge accounting is not applied (economic hedges), held with the Parent.

Group	2022 £m	2021 £m
Customer accounts	34	59
Deposits from banks	53	17
Subordinated liabilities	14	17
Debt securities in issue	2	2
Lease liabilities	1	-
Interest expense on financial liabilities measured at amortised cost	**104**	**95**
Interest expense calculated using the effective interest rate method	**104**	**95**
Other interest expense		
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	4	4
Interest expense	**108**	**99**

5 Other leasing income and expense

Other leasing income and expense relate to the business activities of Marshall Leasing, which is a car and commercial leasing and fleet management business based in the UK. This business was conducted through the subsidiary entity Marshall Leasing Limited until 1 April 2022, at which point the business transferred to NIIB Group Limited. Other leasing expense includes depreciation of £20 million related to vehicles leased under operating leases (2021: £23 million). See note 24.

Group	2022 £m	2021 £m
Other leasing income	60	55
Other leasing expense	(38)	(41)
Net leasing income	**22**	**14**

6 Fee and commission income and expense

Group Fee and commission income	2022 GB Consumer Banking[1] £m	 NI and GB Business Banking[2] £m	 Total £m	2021 GB Consumer Banking[1] £m	 NI and GB Business Banking[2] £m	 Total £m
Retail banking customer fees	2	28	30	27	23	50
- ATM fees[3]	*2*	-	*2*	*27*	-	*27*
- Other fees	-	*28*	*28*	-	*23*	*23*
Other fees received	3	4	7	4	3	7
Total	**5**	**32**	**37**	**31**	**26**	**57**

No impairment losses were recognised in relation to the Group's receivables arising from contracts with customers in 2022 and 2021.

	2022 £m	2021 £m
Fee and commission expense - external	79	43
Fees paid to the Parent	9	7
Fee and commission expense	**88**	**50**

[1] *Great Britain (GB) Consumer Banking: offers consumer banking products through strategic partnerships with the Post Office, the AA and intermediaries.*
[2] *Northern Ireland (NI): the business includes the results of the Northern Ireland Bank of Ireland UK branch network and business centres, personal lending, together with the credit card and mortgage portfolio and the note issuing activity in Northern Ireland. Great Britain (GB) Business Banking: includes commercial lending and retail deposits. The commercial lending business is undergoing a continued programme of deleveraging.*
[3] *During 2020, the Group commenced a process to transfer ownership of c.1,400 ATM's directly to the PO. This process was completed by March 2022.*

7 Net trading income / (expense)

Net trading income / (expense) from the Parent primarily comprises fair value movements on derivatives with the Parent.

Group Net trading income / (expense)	2022 £m	2021 £m
Financial instruments held for trading	7	3
Net trading income / (expense)	**7**	**3**
Amounts include:		
Net trading income / (expense) from the Parent	110	142

8 Other operating income

Group	2022 £m	2021 £m
Other operating income	-	-
Total other operating income	**-**	**-**

9 Operating expenses

Group Operating expenses	2022 £m	Restated[1] 2021 £m
Administrative expenses		
Staff costs[2] (a)		
- Wages and salaries	75	78
- Social security costs	6	5
- Other pension costs[3]	13	12
Total staff costs	**94**	**95**
Other administrative expenses	82	85
Other administrative expenses – related parties (b)	65	86
Amortisation and depreciation	6	6
Impairment of RoU assets	-	-
Impairment of goodwill	-	-
Total operating expenses	**247**	**272**

[1] *Comparative figures have been restated due to a reclassification of costs associated with staff seconded to the Group from the Parent.*

[2] *Staff costs include amounts of £68 million (2021: £70 million) for wages and salaries, £5 million (2021: £5 million) for social security costs and £12 million (2021: £11 million) for other pension costs recorded in the Bank financial statements.*

[3] *Other pension costs include £1 million (2021: £1 million) in relation to the NIIB scheme which is accounted for as a defined benefit scheme (see note 35) with the balance relating to other schemes which are accounted for on a defined contribution basis.*

9 Operating expenses *(continued)*

(a) Staff costs

Staff costs of £94 million (2021: £95 million) include all gross salaries, related social security costs, and pension contributions attributable to those employees directly employed by the Group and specified staff seconded to the Group from the Parent under various contractual arrangements. Staff costs include £nil (2021: £2 million) related to voluntary redundancy costs for employees that had exited the Group by 31 December 2022 and employees for which the Group had exit plans in place and had made appropriate communications as at 31 December 2021. The monthly average number of staff (direct and seconded staff) was 1,447 (2021: 1,501), of which 616 (2021: 585) are directly employed by the Group. Refer to note 43 for details of compensation paid to key management personnel (KMP).

(b) Other administrative expenses – related parties

Other administrative expenses are the costs incurred by the Group in relation to services provided by the Parent under a number of service level and other contractual agreements. These comprise of services across a number of different activities and areas including, but not restricted to, product design, manufacture, distribution and management, customer service, and IT.

10 Auditors' remuneration

The Group's Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors. Audit related assurance services consist of fees in connection with accounting matters and regulatory compliance based work. It is the Group's policy to subject all major assignments to a competitive tender process. The audit fee is borne by the Parent on behalf of the Group.

Group	2022 £000's	2021 £000's
Fees payable for the audit of the Bank and Group financial statements	1,300	1,377
Audit of the Bank's subsidiaries pursuant to legislation	175	132
Audit related assurance services	58	54
Other assurance services	-	81
Auditors' remuneration[1]	**1,533**	**1,644**

11 Net impairment losses / (gains) on financial instruments

Group	2022 £m	2021 £m
Loans and advances to customers (note 20)	63	(54)
- Cash recoveries	*(6)*	*(6)*
- Movement in impairment (gains) / losses	*69*	*(48)*
Loans and advances to banks	-	-
Loan commitments (note 34)	1	-
Guarantees and irrevocable letters of credit (note 34)	-	-
Net impairment (gains) / losses on financial instruments	**64**	**(54)**

[1] *The fees above are payable to the Group's statutory auditor. In addition, the Parent operates centralised processes in Dublin that are centrally tested by the Parent's auditor. The external fees payable by the Parent to the Parent auditor for the centralised testing in 2022 is £1.3 million (2021: £1.3 million).*

11 Net impairment losses / (gains) on financial instruments *(continued)*

Loans and advances to customers at amortised cost

Net impairment losses / (gains)

The Group's net impairment losses / (gains) on loans and advances to customers at amortised cost is set out in this table.

Group	2022 £m	2021 £m
Residential mortgages	22	(11)
Non-property SME and corporate	6	(9)
Property and construction	8	(4)
Consumer	27	(30)
Total	**63**	**(54)**

During 2022, the Group completed a transaction whereby it derecognised £194 million of loans and advances to customers (after impairment loss allowance). Expected cash flows arising from the sale of a loan are included in the measurement of expected credit losses under IFRS 9, where certain conditions are met. As the transactions satisfied these conditions, the cash flows have been included in the impairment calculation.

As a result, net impairment gains / (losses) on financial instruments includes a net impairment loss of £7.7 million arising on the transactions. See note 20 for further information.

12 Share of profit after tax of joint venture

This represents the Group's 50% share of profit after tax of its joint venture in FRESH with Post Office Limited. It is accounted for using the equity method of accounting. See note 22 for further information.

Group	2022 £m	2021 £m
First Rate Exchange Services Holdings Limited	28	(2)
Share of profit after tax of joint venture	**28**	**(2)**

13 Loss on disposal of business activities

In 2019 the Group incurred a loss of £19 million on disposal of its consumer credit card portfolio. At that time, the Group made a provision related to the costs of migration and other costs associated with the disposal. This provision was based upon management's best estimates at that time of the length of the migration period and the related costs.

In October 2020, the migration concluded and consequently management adjusted their provision during 2020 to reflect the actual costs and timing of the migration. This resulted in a release of £7 million during 2020 which was reflected as an adjustment to the loss on disposal during the period. A further adjustment of £1 million was taken to the income statement in 2021 upon final review of any residual costs.

14 Profit on sale of financial assets

In November 2021, the Bank sold £2.9 billion of performing mortgages to the parent, resulting in a gain on sale before taxation of £94 million. The transaction, carried out at arm's length, was part of a funding optimisation exercise with the Bank of Ireland Group. Refer to note 43.

15 Taxation charge

The effective tax rate for the year is a charge of 9% (2021: charge of 3%). This rate is lower than the standard rate of 19% largely due to the impact of the re-assessment of the value of tax losses carried forward (see note 26).

Group	2022 £m	2021 £m
Current tax		
Current year charge / (credit)	32	51
Adjustment in respect of prior year	(1)	1
Total current taxation charge	**31**	**52**
Deferred tax		
Current year charge	6	11
Adjustment in respect of prior year	4	(1)
Impact of corporation tax rate change (see note 26)	1	(7)
Re-assessment of the value of tax losses carried forward	(19)	(43)
Total deferred taxation (credit) / charge	**(8)**	**(40)**
Taxation charge	**23**	**12**

This table shows a reconciliation of tax on the profit before taxation, at the standard UK corporation tax rate, to the Group's actual tax charge for the years ended 31 December 2022 and 31 December 2021.

Group	2022 £m	2021 £m
Profit before taxation	**251**	**410**
Multiplied by the standard rate of Corporation tax in UK of 19% (2021: 19%)	48	78
Effects of:		
Re-assessment of the value of tax losses carried forward (see note 26)	(19)	(43)
Impact of UK banking surcharge	7	15
Non-taxable income on the unwind of fair value adjustments on acquired mortgages (see page 106)	(7)	(8)
Impact of corporation tax rate change	1	(7)
Adjustment in respect of prior year	3	-
Tax credit on AT1 coupon	(2)	(5)
Share of results of joint venture after tax in the income statement	(5)	-
Non-taxable profit on sale of financial assets	-	(18)
Other	(3)	-
Taxation charge	**23**	**12**

16 Cash and cash equivalents

	Group		Bank	
Cash and cash equivalents	**2022 £m**	**2021 £m**	**2022 £m**	**2021 £m**
Cash	38	33	38	33
Balances at central banks	2,201	3,424	2,201	3,424
Less impairment loss allowance on cash and balances at central banks	-	(1)	-	(1)
Total cash balances included in cash and cash equivalents	**2,239**	**3,456**	**2,239**	**3,456**
Loans and advances to banks	1,461	1,574	1,344	1,457
Less: amounts with a maturity of three months or more	(29)	(29)	(29)	(29)
Total loans and advances to banks included in cash and cash equivalents	**1,432**	**1,545**	**1,315**	**1,428**
Total cash and cash equivalents	**3,671**	**5,001**	**3,554**	**4,884**
Due from the Parent	318	306	309	306

The impairment loss allowance for Group and Bank of £0.3 million (2021: £1 million) is related to 12 month ECL not credit-impaired.

17 Derivative financial instruments

The Group's utilisation of objectives and policies in relation to managing the risks that arise in connection with derivatives, are included in the Risk Management section, on pages 33 to 57. The notional amounts of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The Group holds certain derivatives with the Parent principally for interest rate risk management. The Group has applied hedge accounting to the majority of these derivatives, which are classified as held for hedging in the following table.

The Group also holds certain derivatives entered into with economic hedging intent to which hedge accounting is not applied and these are considered to be held for trading in the table below. These primarily include foreign exchange forward contracts with customers, with a corresponding foreign exchange contract to hedge foreign exchange risk with the Parent.

As set out in the risk management policy on page 39, the Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of £379 million at 31 December 2022 (2021: £88 million):

- £372 million (2021: £86 million) are available for offset against derivative liabilities under CSA and ISDA standard documentation. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities. At 31 December 2022, cash collateral of £51 million (2021: £28 million) was received against these assets and is reported in deposits from banks (note 28); and
- £7 million (2021: £2 million) are not covered under CSA and ISDA standard documentation.

17 Derivative financial instruments *(continued)*

Group and Bank	2022			2021		
	Contract notional amounts	Fair values		Contract notional amounts	Fair values	
Derivatives held for trading	£m	Assets £m	Liabilities £m	£m	Assets £m	Liabilities £m
Foreign exchange derivatives						
Currency forwards	215	3	2	336	1	6
Currency forwards – with the Parent	215	2	3	336	6	1
Currency swaps	276	4	3	115	1	1
Currency swaps - with the Parent	276	3	4	115	1	1
Total foreign exchange derivatives held for trading	**982**	**12**	**12**	**902**	**9**	**9**
Interest rate derivatives						
Interest rate swaps - with the Parent	696	6	14	1,534	3	3
Cross currency interest rate swaps - with the Parent	176	1	-	184	-	-
Total interest rate derivatives held for trading	**872**	**7**	**14**	**1,718**	**3**	**3**
Total derivatives held for trading	**1,854**	**19**	**26**	**2,620**	**12**	**12**
Derivatives held as fair value hedges						
Interest rate swaps - with the Parent	6,290	334	148	5,631	71	26
Derivatives held as cash flow hedges						
Interest rate swaps - with the Parent	1,726	26	154	1,447	5	27
Total derivative assets / liabilities held for hedging	**8,016**	**360**	**302**	**7,078**	**76**	**53**
Total derivative assets / liabilities	**9,870**	**379**	**328**	**9,698**	**88**	**65**

Hedge accounting

In applying hedge accounting, the Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

The timing of the nominal amounts (excluding those subject to a dynamic macro-hedging process) and the applicable average rates were as follows:

Group and Bank			2022				2021			
Hedging Strategy	**Risk Category**	**Hedging Instrument**	Up to 1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Up to 1 year £m	1-2 years £m	2-5 years £m	>5 years £m
Fair Value Hedge	Interest Rate Risk	Interest rate swap	121	37	20	140	31	121	57	130
		Average fixed interest rate	0.73%	1.05%	0.06%	0.78%	0.58%	0.73%	0.69%	0.68%
Cash Flow Hedge	Interest Rate Risk	Interest rate swap	65	-	432	1,229	150	310	171	816
		Average fixed interest rate	0.04%	-	2.00%	1.87%	1.06%	0.27%	0.66%	0.42%

17 Derivative financial instruments *(continued)*

Fair value hedges

Certain interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate exposure on the Group's fixed rate financial assets and liabilities.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year are shown in the table below:

Group and Bank

Risk Category	Hedging Instrument[1]	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument: Assets £m	Carrying amount of the hedging instrument: Liabilities £m	Changes in value used for calculating hedge ineffectiveness[2,3] £m	Ineffectiveness recognised in profit or loss[2,3] £m	Nominal amount of the hedging instruments affected by BMR reform £m
2022							
Interest rate risk	Interest rate swaps	6,290	334	(148)	(110)	-	-
2021							
Interest rate risk	Interest rate swaps	5,631	71	(26)	(125)	(1)	-

1 *All hedging instruments are included within derivative financial instruments on the balance sheet.*
2 *Ineffectiveness is included within net trading income / (expense) on the income statement.*
3 *There are no material causes of ineffectiveness in the Group's fair value hedges.*

17 Derivative financial instruments *(continued)*

Group and Bank Risk Category	Line item on the balance sheet in which the hedged item is included	Carrying amount of the hedged item Assets £m	Carrying amount of the hedged item Liabilities £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Assets £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Liabilities £m	Changes in value used for calculating hedge ineffectiveness £m	Remaining adjustments for discontinued hedges £m
2022							
Interest rate risk	Debt securities at amortised cost	288	-	(32)	-	(29)	(1)
	Loans and advances to customers	5,181	-	-	-	(211)	(24)
	Customer accounts	-	1,237	-	-	130	-
Total		**5,469**	**1,237**	**(32)**	**-**	**(110)**	**(25)**
Restated[1]							
2021							
Interest rate risk	Debt securities at amortised cost	339	-	(3)	-	(12)	-
	Loans and advances to customers[1]	4,408	-	(1)	-	(119)	1
	Customer accounts[1]	-	899	-	5	7	(4)
Total		**4,747**	**899**	**(4)**	**5**	**(124)**	**(3)**

Cash flow hedges

The Group designates certain interest rate derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year are as follows.

Risk Category	Hedging Instruments	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument Assets £m	Carrying amount of the hedging instrument Liabilities £m	Changes in value used for calculating hedge in-effectiveness £m	Changes in the value of the hedging instrument recognised in other comprehensive income £m	In-effectiveness recognised in profit or loss £m	Amount reclassified from the cash flow hedge reserve to profit or loss £m	Nominal amount of the hedging instruments affected by BMR reform £m
2022									
Interest rate risk	Interest rate swaps	1,726	26	154	94	(94)	-	(34)	-
2021									
Interest rate risk	Interest rate swaps	1,447	5	27	47	(46)	1	2	-

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

17 Derivative financial instruments *(continued)*

The amounts relating to items designated as hedged items for the period are as follows:

Group and Bank	2022 Changes in the hedged risk used for calculating hedge ineffectiveness £m	2022 Cash flow hedge reserve £m	2022 Remaining adjustments for discontinued hedges £m	2021 Changes in the hedged risk used for calculating hedge ineffectiveness £m	2021 Cash flow hedge reserve £m	2021 Remaining adjustments for discontinued hedges £m
Interest rate risk	(94)	116	(10)	(46)	23	(2)
Foreign exchange risk	-	-	-	-	-	-
Total	**(94)**	**116**	**(10)**	**(46)**	**23**	**(2)**

This table below shows a reconciliation of the movements in the cash flow hedge reserve for 2022 and 2021.

Group and Bank Cash flow hedge reserve	2022 £m	2021 £m
Changes in fair value		
Interest rate risk	(52)	(51)
Transfer to income statement		
Interest income		
- Interest rate risk	(31)	2
Net trading income / (expense)		
- Interest rate risk	(3)	-
Deferred tax on reserve movements	23	14
Net change in cash flow hedge reserve	**(63)**	**(35)**

In 2022 and 2021, there were no forecast transactions to which the Group had applied hedge accounting which were no longer expected to occur. Movements in the cash flow hedge reserve are shown in the Consolidated statement of changes in equity (see page 80).

18 Loans and advances to banks

Loans and advances to banks are classified as financial assets at amortised cost. The associated impairment loss allowance on loans and advances to banks is measured on a 12 month and lifetime ECL approach.

	Group		Bank	
	2022 £m	**2021 £m**	**2022 £m**	**2021 £m**
Placements with other banks	496	494	379	377
Mandatory deposits with central banks	965	1,080	965	1,080
	1,461	**1,574**	**1,344**	**1,457**
Less impairment loss allowance on loans and advances to banks	-	-	-	-
Loans and advances to banks at amortised cost	**1,461**	**1,574**	**1,344**	**1,457**
Loans and advances to banks at fair value through profit or loss	-	-	-	-
Total loans and advances to banks	**1,461**	**1,574**	**1,344**	**1,457**
Amounts include:				
Due from the Parent	318	306	309	306

Amounts due from the Parent, which are included within placements with other banks in the above table, arise from transactions with the Parent, which primarily relates to the management of the Group's interest rate risk position. Amounts due to the Parent are also disclosed in note 28. From a counterparty credit risk perspective, while these two amounts are disclosed on a gross basis, the Group has in place a contractual Master Netting Agreement with the Parent, whereby, in the event of default of either party, all amounts due or payable will be settled immediately on a net basis.

Represented in mandatory deposits with central banks is:

- an amount of £911 million relating to collateral with the Bank of England in respect of notes in circulation (2021: £1,009 million). £510 million of this relates to non-interest bearing collateral (2021: £575 million); and
- an amount of £54 million in relation to mandatory 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 (2021: £72 million).

All loans and advances to banks for Group and Bank are stage 1.

19 Debt securities at amortised cost

The following table details the significant categories of debt securities at amortised cost.

	Group		Bank	
	2022 £m	**2021 £m**	**2022 £m**	**2021 £m**
Government bonds	108	180	108	180
Other debt securities at amortised cost	420	618	420	618
Less impairment loss allowance	-	-	-	-
Debt securities at amortised cost	**528**	**798**	**528**	**798**

19 Debt securities at amortised cost *(continued)*

The following table shows the movement in debt securities at amortised cost for the year ended 31 December 2022. All debt securities at amortised cost were stage 1 (12 month ECL not credit-impaired) throughout the year ended 31 December 2022.

Group and Bank **2022** **Gross carrying amount** **(before impairment loss allowance)**	**Total** **£m**
Closing balance 31 December 2021	798
Additions	26
Redemptions, repayments and disposals	(266)
Measurement reclassification and other movements	(30)
Gross carrying amount at 31 December 2022	**528**

20 Loans and advances to customers

	Group		**Bank**	
	2022 **£m**	**Restated[1]** **2021** **£m**	**2022** **£m**	**Restated[1]** **2021** **£m**
Loans and advances to customers at amortised cost	12,214	14,680	14,294	16,652
Finance leases and hire purchase receivables (see below)	1,988	1,894	-	-
Less impairment loss allowance on loans and advances to customers	(184)	(178)	(169)	(155)
Total loans and advances to customers[2]	**14,018**	**16,396**	**14,125**	**16,497**
Amounts include:				
Due from subsidiaries	-	-	2,128	2,026
Due from entities controlled by the Parent	6	6	6	6
Finance leases and hire purchase receivables				
Gross investment in finance leases:				
Not later than 1 year	657	667	-	-
Later than 1 year and not later than 5 years	1,520	1,366	-	-
Later than 5 years	8	7	-	-
	2,185	**2,040**	**-**	**-**
Unearned future finance income on finance leases	(197)	(146)	-	-
Net investment in finance leases	**1,988**	**1,894**	**-**	**-**
Not later than 1 year	598	619	-	-
Later than 1 year and not later than 5 years	1,383	1,268	-	-
Later than 5 years	7	7	-	-
	1,988	**1,894**	**-**	**-**

Included within loans and advances to customers is £228 million (2021: £288 million) of lending in relation to the UK government-backed BBLS and CBILS schemes. An ECL of £7.2 million (2021: £2.9 million) was recognised in the impairment loss allowance in relation to loans drawn under the BBLS which reflects the risk that there may be some exposures where the bank might not be able to call on the government guarantee. The bank has sought to mitigate this risk through extending the scheme to existing customers only.

In November 2022, the Group entered into a securitisation arrangement for a portfolio of non-performing UK residential mortgage loans through an unconsolidated SPV, Temple Quay No.1 Plc (note 45). The portfolio had a gross carrying value of £220 million (before impairment loss allowance) and a net carrying value of £194 million (after impairment loss allowance). All loans included in these transactions have been derecognised from the balance sheet.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

[2] *At 31 December 2022, loans and advances to customers included £575 million (2021: £986 million) of residential mortgage balances that had been securitised but not derecognised. Refer to note 45.*

20 Loans and advances to customers *(continued)*

The Group has recognised an impairment loss of £7.7 million relating to the disposal of these loans which has been reported through net impairment losses on financial instruments, see note 11.

The following tables show the gross carrying amount, the movement in the gross carrying amount, impairment loss allowances and movement in impairment loss allowances subject to 12 months and lifetime ECL on loans and advances to customers at amortised cost.

Transfers between stages represent the migration of loans from Stage 1 to Stage 2 following a 'significant increase in credit risk' or to Stage 3 as loans enter defaulted status. Conversely, improvement in credit quality and loans exiting default result in loans migrating in the opposite direction. The approach taken to identify a 'significant increase in credit risk' and identifying defaulted and credit-impaired assets is outlined in the credit risk section of the Risk Management Report on page 44 and the Group accounting policies note on page 87 with updates for 2022 outlined in the Credit Risk section of the Risk Management Report on pages 39 to 45.

Group 2022 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	9,010	1,053	96	2,456	12,615
Stage 2 - Lifetime ECL (not credit impaired)	635	205	137	311	1,288
Stage 3 - Lifetime ECL (credit impaired)	97	97	41	64	299
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2022	**9,742**	**1,355**	**274**	**2,831**	**14,202**

Restated[1] **Group 2021** **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total[1] £m**
Stage 1 - 12 month ECL (not credit impaired)[1]	11,249	987	60	2,544	14,840
Stage 2 - Lifetime ECL (not credit impaired)	631	331	167	79	1,208
Stage 3 - Lifetime ECL (credit impaired)	323	98	47	58	526
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2021	**12,203**	**1,416**	**274**	**2,681**	**16,574**

Group 2022 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total gross carrying amount £m**
Opening balance 1 January 2022	14,840	1,208	526	-	16,574
Total net transfers	(483)	359	124	-	-
- to 12-month ECL not credit-impaired	*983*	*(983)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(1,369)*	*1,505*	*(136)*	-	-
- to lifetime ECL credit-impaired	*(97)*	*(163)*	*260*	-	-
Net changes in exposure	(1,773)	(280)	(292)	-	(2,345)
Impairment loss allowances utilised[2]	-	-	(60)	-	(60)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	31	1	1	-	33
Gross carrying amount at 31 December 2022	**12,615**	**1,288**	**299**	**-**	**14,202**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*
[2] *Impairment loss allowance utilised on loans and advances to customers at amortised cost includes £28 million (2021: £33 million) of contractual amounts outstanding that are still subject to enforcement activity.*

20 Loans and advances to customers *(continued)*

Restated[1] Group 2021 Gross carrying amount at amortised cost amount (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total gross carrying[1] £m
Opening balance 1 January 2021	19,744	1,293	536	-	21,573
Total net transfers	(501)	326	175	-	-
- to 12-month ECL not credit-impaired	*1,489*	*(1,488)*	*(1)*	-	-
- to lifetime ECL not credit-impaired	*(1,876)*	*1,993*	*(117)*	-	-
- to lifetime ECL credit-impaired	*(114)*	*(179)*	*293*	-	-
Net changes in exposure	(1,506)	(411)	(132)	-	(2,049)
Impairment loss allowances utilised[2]	-	-	(52)	-	(52)
Sale of financial assets	(2,866)	-	-	-	(2,866)
Measurement reclassification and other movements[1]	(31)	-	(1)	-	(32)
Gross carrying amount at 31 December 2021	14,840	1,208	526	-	16,574

Group 2022 **Impairment loss allowance**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	5	4	1	30	40
Stage 2 - Lifetime ECL not credit impaired	7	8	3	26	44
Stage 3 - Lifetime ECL credit impaired	9	36	17	38	100
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2022	**21**	**48**	**21**	**94**	**184**

Group 2021 Impairment loss allowance	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	5	3	1	38	47
Stage 2 - Lifetime ECL not credit impaired	6	16	5	19	46
Stage 3 - Lifetime ECL credit impaired	22	21	5	37	85
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2021	33	40	11	94	178

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

[2] *Impairment loss allowance utilised on loans and advances to customers at amortised cost includes £28 million (2021: £33 million) of contractual amounts outstanding that are still subject to enforcement activity.*

20 Loans and advances to customers *(continued)*

Group 2022 Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total impairment loss allowance £m
Opening balance 1 January 2022	47	46	85	-	178
Total net transfers	4	2	(6)	-	-
- to 12-month ECL not credit-impaired	*14*	*(14)*	*-*	*-*	*-*
- to lifetime ECL not credit-impaired	*(9)*	*26*	*(17)*	*-*	*-*
- to lifetime ECL credit-impaired	*(1)*	*(10)*	*11*	*-*	*-*
Net impairment (gains) / losses in income statement	(11)	(4)	84	-	69
- Re-measurement	*(23)*	*4*	*79*	*-*	*60*
- Net changes in exposure	*4*	*(16)*	*(8)*	*-*	*(20)*
- ECL model parameter and / or methodology changes	*8*	*8*	*13*	*-*	*29*
Impairment loss allowances utilised	-	-	(60)	-	(60)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	-	-	(3)	-	(3)
Impairment loss allowance at 31 December 2022	**40**	**44**	**100**	**-**	**184**

Group 2021 Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total gross carrying amount £m
Opening balance 1 January 2021	117	55	101	-	273
Total net transfers	16	(17)	1	-	-
- to 12-month ECL not credit-impaired	*25*	*(25)*	*-*	*-*	*-*
- to lifetime ECL not credit-impaired	*(7)*	*20*	*(13)*	*-*	*-*
- to lifetime ECL credit-impaired	*(2)*	*(12)*	*14*	*-*	*-*
Net impairment (gains) / losses in income statement	(84)	8	28	-	(48)
- Re-measurement	*(32)*	*24*	*45*	*-*	*37*
- Net changes in exposure	*(9)*	*(13)*	*(9)*	*-*	*(31)*
- ECL model parameter and / or methodology changes	*(43)*	*(3)*	*(8)*	*-*	*(54)*
Impairment loss allowances utilised	-	-	(52)	-	(52)
Sale of financial assets	(2)	-	-	-	(2)
Measurement reclassification and other movements	-	-	7	-	7
Impairment loss allowance at 31 December 2021	**47**	**46**	**85**	**-**	**178**

Bank 2022 Gross carrying amount at amortised cost (before impairment loss allowance)	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	9,010	2,782	96	1,079	12,967
Stage 2 - Lifetime ECL (not credit impaired)	635	171	137	112	1,055
Stage 3 - Lifetime ECL (credit impaired)	97	94	41	40	272
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2022	**9,742**	**3,047**	**274**	**1,231**	**14,294**

20 Loans and advances to customers *(continued)*

Restated[1] **Bank** **2021** **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total[1] £m**
Stage 1 - 12 month ECL (not credit impaired)[1]	11,249	2,618	60	1,090	15,017
Stage 2 - Lifetime ECL (not credit impaired)	631	295	167	40	1,133
Stage 3 - Lifetime ECL (credit impaired)	323	96	47	36	502
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2021	12,203	3,009	274	1,166	16,652

Bank **2022** **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total gross carrying amount £m**
Opening balance 1 January 2022	**15,017**	**1,133**	**502**	**-**	**16,652**
Total net transfers	(304)	194	110	-	-
- to 12-month ECL not credit-impaired	*975*	*(975)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(1,192)*	*1,327*	*(135)*	-	-
- to lifetime ECL credit-impaired	*(87)*	*(158)*	*245*	-	-
Net changes in exposure	(1,777)	(273)	(283)	-	(2,333)
Impairment loss allowances utilised[2]	-	-	(58)	-	(58)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	31	1	1	-	33
Gross carrying amount at 31 December 2022	**12,967**	**1,055**	**272**	**-**	**14,294**

Restated[1] **Bank** **2021** **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total gross carrying amount[1] £m**
Opening balance 1 January 2021	20,011	1,127	504	-	21,642
Total net transfers	(535)	370	165	-	-
- to 12-month ECL not credit-impaired	*1,385*	*(1,385)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(1,815)*	*1,927*	*(112)*	-	-
- to lifetime ECL credit-impaired	*(105)*	*(172)*	*277*	-	-
Net changes in exposure	(1,563)	(364)	(118)	-	(2,045)
Impairment loss allowances utilised[2]	-	-	(48)	-	(48)
Sale of financial assets	(2,866)	-	-	-	(2,866)
Measurement reclassification and other movements[1]	(30)	-	(1)	-	(31)
Gross carrying amount at 31 December 2021	15,017	1,133	502	-	16,652

1 *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

2 *Impairment loss allowances utilised on loans and advances to customers at amortised cost includes £28 million (2021: £29 million) of contractual amounts outstanding that are still subject to enforcement activity.*

20 Loans and advances to customers *(continued)*

Bank **2022** **Impairment loss allowance**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	5	4	1	28	38
Stage 2 - Lifetime ECL (not credit impaired)	7	8	3	22	40
Stage 3 - Lifetime ECL (credit impaired)	9	35	17	30	91
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2022	**21**	**47**	**21**	**80**	**169**

Bank **2021** **Impairment loss allowance**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	5	3	1	32	41
Stage 2 - Lifetime ECL (not credit impaired)	6	13	5	16	40
Stage 3 - Lifetime ECL (credit impaired)	22	20	5	27	74
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2021	**33**	**36**	**11**	**75**	**155**

Bank **2022** **Impairment loss allowance**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total impairment loss allowance £m**
Opening balance 1 January 2022	41	40	74	-	155
Total net transfers	4	2	(6)	-	-
- to 12-month ECL not credit-impaired	*13*	*(13)*	*-*	*-*	*-*
- to lifetime ECL not credit-impaired	*(8)*	*25*	*(17)*	*-*	*-*
- to lifetime ECL credit-impaired	*(1)*	*(10)*	*11*	*-*	*-*
Net impairment (gains) / losses in income statement	(7)	(2)	84	-	75
- Re-measurement	*(24)*	*3*	*74*	*-*	*53*
- Net changes in exposure	*5*	*(13)*	*(4)*	*-*	*(12)*
- ECL model parameter and / or methodology changes	*12*	*8*	*14*		*34*
Impairment loss allowances utilised	-	-	(58)	-	(58)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	-	-	(3)	-	(3)
Impairment loss allowance at 31 December 2022	**38**	**40**	**91**	**-**	**169**

20 Loans and advances to customers *(continued)*

Bank **2021** **Impairment loss allowance**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total impairment loss allowance £m**
Opening balance 1 January 2021	107	50	88	-	245
Total net transfers	15	(16)	1	-	-
- to 12-month ECL not credit-impaired	*24*	*(24)*	-	-	-
- to lifetime ECL not credit-impaired	*(7)*	*19*	*(12)*	-	-
- to lifetime ECL credit-impaired	*(2)*	*(11)*	*13*	-	-
Net impairment (gains) / losses in income statement	(79)	6	26	-	(47)
- Re-measurement	*(29)*	*19*	*41*	-	*31*
- Net changes in exposure	*(8)*	*(11)*	*(7)*	-	*(26)*
- ECL model parameter and / or methodology changes	*(42)*	*(2)*	*(8)*	-	*(52)*
Impairment loss allowances utilised	-	-	(48)	-	(48)
Sale of financial assets	(2)	-	-	-	(2)
Measurement reclassification and other movements	-	-	7	-	7
Impairment loss allowance at 31 December 2021	**41**	**40**	**74**	**-**	**155**

Modified financial assets

The following table provides analysis of financial assets for which the contractual cash flows have been modified while they had an impairment loss allowance measured at an amount equal to lifetime expected credit loss, and where the modification did not result in derecognition.

The Group recognised a modification loss of £nil during the year ended 31 December 2022 (2021: £nil).

	2022 £m	**2021 £m**
Financial assets modified during the period		
Amortised cost before modification	48	70
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which impairment loss allowance has changed from lifetime to 12 month ECL during the year as at 31 December	19	17

21 Credit risk exposures

The following disclosures provide quantitative information about credit risk within financial instruments held by the Group. Details of the credit risk methodologies are set out on pages 42 to 45.

In addition to credit risk, the primary risks affecting the Group through its use of financial instruments are: liquidity and funding risk and market risk. The Group's approach to the management of these risks, together with its approach to capital management, are set out in the Risk Management Report included on pages 33 to 57.

The table below illustrates the relationship between the Group's internal credit risk rating grades as used for credit risk management purposes and Probability of Default (PD) percentages, and further illustrates the indicative relationship with credit risk ratings used by external rating agencies.

Internal credit risk ratings		
PD Grade	PD %	Indicative S&P type external ratings
1-4	PD < 0.26%	AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB
5-7	0.26% ≤ PD < 1.45%	BBB-, BB+, BB, BB-
8-9	1.45% ≤ PD < 3.60%	B+
10-11	3.60% ≤ PD < 100%	B, Below B
12 (credit-impaired)	100%	n/a

Financial assets

Composition and risk profile

The table below summarises the composition and risk profile of the Group's financial assets subject to impairment.

Group 2022 Financial asset exposure by stage (before impairment loss allowance)	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	12,615	1,288	299	-	14,202
Loans and advances to banks	1,461	-	-	-	1,461
Debt securities	528	-	-	-	528
Other financial assets[1]	2,318	-	-	-	2,318
Total financial assets measured at amortised cost	**16,922**	**1,288**	**299**	**-**	**18,509**

Restated[2] Group 2021 Financial asset exposure by stage (before impairment loss allowance)	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total[2] £m
Financial assets measured at amortised cost					
Loans and advances to customers[2]	14,840	1,208	526	-	16,574
Loans and advances to banks	1,574	-	-	-	1,574
Debt securities	798	-	-	-	798
Other financial assets[1]	3,558	-	-	-	3,558
Total financial assets measured at amortised cost	**20,770**	**1,208**	**526**	**-**	**22,504**

[1] *Other financial assets includes cash and balances at central banks and items in the course of collection from other banks.*

[2] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

21 Credit risk exposures *(continued)*

Bank **2022** **Financial asset exposure by stage** **(before impairment loss allowance)**	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	12,967	1,055	272	-	14,294
Loans and advances to banks	1,344	-	-	-	1,344
Debt securities	528	-	-	-	528
Other financial assets[1]	2,318	-	-	-	2,318
Total financial assets measured at amortised cost	**17,157**	**1,055**	**272**	**-**	**18,484**

Restated[2] **Bank** **2021** **Financial asset exposure by stage** **(before impairment loss allowance)**	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total[2] £m**
Financial assets measured at amortised cost					
Loans and advances to customers[2]	15,017	1,133	502	-	16,652
Loans and advances to banks	1,457	-	-	-	1,457
Debt securities	798	-	-	-	798
Other financial assets[1]	3,558	-	-	-	3,558
Total financial assets measured at amortised cost	**20,830**	**1,133**	**502**	**-**	**22,465**

Impairment loss allowance

The impairment loss allowance on financial assets is set out in the tables below.

Group **2022** **Impairment loss allowance** **on financial assets**	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	40	44	100	-	184
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total net impairment loss allowance on financial assets	**40**	**44**	**100**	**-**	**184**

Group **2021** **Impairment loss allowance** **on financial assets**	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	47	46	85	-	178
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	1	-	-	-	1
Total net impairment loss allowance on financial assets	**48**	**46**	**85**	**-**	**179**

[1] *Other financial assets includes cash and balances at central banks and items in the course of collection from other banks.*
[2] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

21 Credit risk exposures *(continued)*

Bank 2022 Impairment loss allowance on financial assets	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	38	40	91	-	169
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total net impairment loss allowance on financial assets	**38**	**40**	**91**	**-**	**169**

Bank 2021 Impairment loss allowance on financial assets	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	41	40	74	-	155
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	1	-	-	-	1
Total net impairment loss allowance on financial assets	**42**	**40**	**74**	**-**	**156**

Loans and advances to customers at amortised cost

Composition and risk profile

The table below summarises the composition and risk profile of the Group's loans and advances to customers at amortised cost. In the tables for the Bank, balances with its subsidiaries, primarily Northridge Finance and Marshall Leasing, are included within the non-property SME and corporate portfolio.

Group	**2022**				**Restated[1] 2021**			
Loans and advances to customers Composition and risk profile (before impairment loss allowance)	**Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**	**Total %**	**Not credit-impaired[1] £m**	**Credit-impaired £m**	**Total[1] £m**	**Total[1] %**
Residential mortgages	9,645	97	9,742	69%	11,880	323	12,203	74%
Non-property SME and corporate	1,258	97	1,355	9%	1,318	98	1,416	8%
Commercial property and construction	233	41	274	2%	227	47	274	2%
Consumer	2,767	64	2,831	20%	2,623	58	2,681	16%
Total	**13,903**	**299**	**14,202**	**100%**	**16,048**	**526**	**16,574**	**100%**
Impairment loss allowance on loans and advances to customers	**84**	**100**	**184**	**100%**	**93**	**85**	**178**	**100%**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

21 Credit risk exposures *(continued)*

Bank Loans and advances to customers Composition and risk profile (before impairment loss allowance)	2022 Not credit-impaired £m	2022 Credit-impaired £m	2022 Total £m	2022 Total %	Restated[1] 2021 Not credit-impaired[1] £m	Restated[1] 2021 Credit-impaired £m	Restated[1] 2021 Total[1] £m	Restated[1] 2021 Total[1] %
Residential mortgages	9,645	97	9,742	68%	11,880	323	12,203	73%
Non-property SME and corporate	2,953	94	3,047	21%	2,913	96	3,009	18%
Commercial property and construction	233	41	274	2%	227	47	274	2%
Consumer	1,191	40	1,231	9%	1,130	36	1,166	7%
Total	**14,022**	**272**	**14,294**	**100%**	**16,150**	**502**	**16,652**	**100%**
Impairment loss allowance on loans and advances to customers	**78**	**91**	**169**	**100%**	**81**	**74**	**155**	**100%**

Asset quality - not credit-impaired

The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers that are not credit-impaired.

Group 2022 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Stage 1 Loans £m	Stage 1 Loans as % of total advances %	Stage 1 Impairment loss allowance £m	Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans £m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance £m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	9,010	63%	5	0.06%	635	4%	7	1.10%
Non-property SME and corporate	1,053	8%	4	0.38%	205	2%	8	3.90%
Commercial property and construction	96	1%	1	1.04%	137	1%	3	2.19%
Consumer	2,456	17%	30	1.22%	311	2%	26	8.36%
Total	**12,615**	**89%**	**40**	**0.32%**	**1,288**	**9%**	**44**	**3.42%**

Group 2021 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Restated[1] Stage 1 Loans[1] £m	Restated[1] Stage 1 Loans as % of total advances %	Restated[1] Stage 1 Impairment loss allowance £m	Restated[1] Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans £m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance £m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	11,249	68%	5	0.04%	631	4%	6	0.95%
Non-property SME and corporate	987	6%	3	0.30%	331	2%	16	4.83%
Commercial property and construction	60	-	1	1.67%	167	1%	5	2.99%
Consumer	2,544	16%	38	1.49%	79	-	19	24.05%
Total	**14,840**	**90%**	**47**	**0.32%**	**1,208**	**7%**	**46**	**3.81%**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

21 Credit risk exposures *(continued)*

Bank 2022 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Stage 1 Loans £m	Stage 1 Loans as % of total advances %	Stage 1 Impairment loss allowance £m	Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans £m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance £m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	9,010	63%	5	0.06%	635	4%	7	1.10%
Non-property SME and corporate	2,782	19%	4	0.14%	171	1%	8	4.68%
Commercial property and construction	96	1%	1	1.04%	137	1%	3	2.19%
Consumer	1,079	8%	28	2.59%	112	1%	22	19.64%
Total	**12,967**	**91%**	**38**	**0.29%**	**1,055**	**7%**	**40**	**3.79%**

Bank 2021 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Restated[1] Stage 1 Loans[1] £m	Restated[1] Stage 1 Loans as % of total advances %	Restated[1] Stage 1 Impairment loss allowance £m	Restated[1] Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans £m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance £m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	11,249	67%	5	0.04%	631	4%	6	0.95%
Non-property SME and corporate	2,618	16%	3	0.11%	295	2%	13	4.41%
Commercial property and construction	60	-	1	1.67%	167	1%	5	2.99%
Consumer	1,090	7%	32	2.94%	40	-	16	40.00%
Total	**15,017**	**90%**	**41**	**0.27%**	**1,133**	**7%**	**40**	**3.53%**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

21 Credit risk exposures *(continued)*

The table below provides analysis of the asset quality of loans and advances to customers at amortised cost that are not credit-impaired based on mapping the IFRS 9 twelve month probability of default (PD) of each loan to a PD grade based on the table provided on page 127.

Group 2022 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages		Non-property SME and corporate		Commercial property and construction		Consumer		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1										
1-4	1,221	12%	126	10%	-	-	-	-	1,347	10%
5-7	7,046	73%	762	61%	50	22%	1,370	49%	9,228	66%
8-9	663	7%	131	10%	29	12%	7	-	830	6%
10-11	80	1%	34	3%	17	7%	1,079	39%	1,210	9%
Total Stage 1	**9,010**	**93%**	**1,053**	**84%**	**96**	**41%**	**2,456**	**88%**	**12,615**	**91%**
Stage 2										
1-4	39	-	1	-	-	-	-	-	40	-
5-7	351	4%	65	5%	50	22%	155	6%	621	5%
8-9	70	1%	42	3%	45	19%	1	-	158	1%
10-11	175	2%	97	8%	42	18%	155	6%	469	3%
Total Stage 2	**635**	**7%**	**205**	**16%**	**137**	**59%**	**311**	**12%**	**1,288**	**9%**
Not credit-impaired										
1-4	1,260	12%	127	10%	-	-	-	-	1,387	10%
5-7	7,397	77%	827	66%	100	44%	1,525	55%	9,849	71%
8-9	733	8%	173	13%	74	31%	8	-	988	7%
10-11	255	3%	131	11%	59	25%	1,234	45%	1,679	12%
Total not credit-impaired	**9,645**	**100%**	**1,258**	**100%**	**233**	**100%**	**2,767**	**100%**	**13,903**	**100%**

Restated[1] Group 2021 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages[1]		Non-property SME and corporate		Commercial property and construction		Consumer		Total[1]	
	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1										
1-4	789	7%	101	8%	-	-	-	-	890	6%
5-7	9,957	84%	772	59%	22	9%	88	3%	10,839	67%
8-9	348	3%	111	8%	30	13%	1,366	52%	1,855	11%
10-11	155	1%	3	-	8	4%	1,090	42%	1,256	8%
Total Stage 1[1]	**11,249**	**95%**	**987**	**75%**	**60**	**26%**	**2,544**	**97%**	**14,840**	**92%**
Stage 2										
1-4	18	-	6	-	-	-	-	-	24	-
5-7	442	4%	128	10%	20	9%	1	-	591	4%
8-9	70	-	126	10%	67	30%	-	-	263	2%
10-11	101	1%	71	5%	80	35%	78	3%	330	2%
Total Stage 2	**631**	**5%**	**331**	**25%**	**167**	**74%**	**79**	**3%**	**1,208**	**8%**
Not credit-impaired										
1-4	807	7%	107	8%	-	-	-	-	914	6%
5-7	10,399	88%	900	69%	42	18%	89	3%	11,430	71%
8-9	418	3%	237	18%	97	43%	1,366	52%	2,118	13%
10-11	256	2%	74	5%	88	39%	1,168	45%	1,586	10%
Total not credit-impaired[1]	**11,880**	**100%**	**1,318**	**100%**	**227**	**100%**	**2,623**	**100%**	**16,048**	**100%**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information*

21 Credit risk exposures *(continued)*

Bank 2022 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages £m	Residential mortgages %	Non-property SME and corporate £m	Non-property SME and corporate %	Commercial property and construction £m	Commercial property and construction %	Consumer £m	Consumer %	Total £m	Total %
Stage 1										
1-4	1,221	12%	100	3%	-	-	-	-	1,321	9%
5-7	7,046	73%	2,518	86%	50	22%	-	-	9,614	69%
8-9	663	7%	131	5%	29	12%	-	-	823	6%
10-11	80	1%	33	1%	17	7%	1,079	91%	1,209	9%
Total Stage 1	**9,010**	**93%**	**2,782**	**95%**	**96**	**41%**	**1,079**	**91%**	**12,967**	**93%**
Stage 2										
1-4	39	-	1	-	-	-	-	-	40	-
5-7	351	4%	37	1%	50	22%	-	-	438	3%
8-9	70	1%	42	1%	45	19%	-	-	157	1%
10-11	175	2%	91	3%	42	18%	112	9%	420	3%
Total Stage 2	**635**	**7%**	**171**	**5%**	**137**	**59%**	**112**	**9%**	**1,055**	**7%**
Not credit-impaired										
1-4	1,260	12%	101	3%	-	-	-	-	1,361	9%
5-7	7,397	77%	2,555	87%	100	44%	-	-	10,052	72%
8-9	733	8%	173	6%	74	31%	-	-	980	7%
10-11	255	3%	124	4%	59	25%	1,191	100%	1,629	12%
Total not credit-impaired	**9,645**	**100%**	**2,953**	**100%**	**233**	**100%**	**1,191**	**100%**	**14,022**	**100%**

Restated[1] Bank 2021 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages[1] £m	Residential mortgages[1] %	Non-property SME and corporate £m	Non-property SME and corporate %	Commercial property and construction £m	Commercial property and construction %	Consumer £m	Consumer %	Total[1] £m	Total[1] %
Stage 1										
1-4	789	7%	88	3%	-	-	-	-	877	5%
5-7	9,957	84%	2,417	83%	22	9%	-	-	12,396	77%
8-9	348	3%	111	4%	30	13%	-	-	489	3%
10-11	155	1%	2	-	8	4%	1,090	96%	1,255	8%
Total Stage 1[1]	**11,249**	**95%**	**2,618**	**90%**	**60**	**26%**	**1,090**	**96%**	**15,017**	**93%**
Stage 2										
1-4	18	-	6	-	-	-	-	-	24	-
5-7	442	4%	120	4%	20	9%	-	-	582	4%
8-9	70	-	104	4%	67	30%	-	-	241	1%
10-11	101	1%	65	2%	80	35%	40	4%	286	2%
Total Stage 2	**631**	**5%**	**295**	**10%**	**167**	**74%**	**40**	**4%**	**1,133**	**7%**
Not credit-impaired										
1-4	807	7%	94	3%	-	-	-	-	901	5%
5-7	10,399	88%	2,537	87%	42	18%	-	-	12,978	81%
8-9	418	3%	215	8%	97	43%	-	-	730	4%
10-11	256	2%	67	2%	88	39%	1,130	100%	1,541	10%
Total not credit-impaired[1]	**11,880**	**100%**	**2,913**	**100%**	**227**	**100%**	**1,130**	**100%**	**16,150**	**100%**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

21 Credit risk exposures *(continued)*

The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers at amortised cost that are credit-impaired (i.e. stage 3).

All loans and advances to customers that are greater than 90 days past due are classified as being credit-impaired. All credit-impaired loans and advances to customers are risk rated PD grade 12.

Group	**2022**				**2021**			
Credit-impaired loans and advances to customers Composition and impairment loss allowance	**Credit-impaired loans £m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of credit-impaired loans %**	**Credit-impaired loans £m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of credit-impaired loans %**
Residential mortgages	97	1%	9	9%	323	2%	22	7%
Non-property SME and corporate	97	1%	36	37%	98	1%	21	21%
Commercial property and construction	41	-	17	41%	47	-	5	11%
Consumer	64	-	38	59%	58	-	37	64%
Total credit-impaired	**299**	**2%**	**100**	**33%**	**526**	**3%**	**85**	**16%**

Bank	**2022**				**2021**			
Credit-impaired loans and advances to customers Composition and impairment loss allowance	**Credit-impaired loans £m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of credit-impaired loans %**	**Credit-impaired loans £m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of credit-impaired loans %**
Residential mortgages	97	1%	9	9%	323	2%	22	7%
Non-property SME and corporate	94	1%	35	37%	96	1%	20	21%
Commercial property and construction	41	-	17	41%	47	-	5	11%
Consumer	40	-	30	75%	36	-	27	75%
Total credit-impaired	**272**	**2%**	**91**	**33%**	**502**	**3%**	**74**	**15%**

21 Credit risk exposures *(continued)*

Risk profile of forborne and non-forborne loans and advances to customers

Group 2022 Loans and advances to customers at amortised cost - Composition	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Non-forborne loans and advances to customers					
Residential mortgages	9,010	600	79	-	9,689
Non-property SME and corporate	1,053	166	53	-	1,272
Commercial property and construction	96	114	8	-	218
- Investment	*80*	*106*	*8*	-	*194*
- Land and development	*16*	*8*	-	-	*24*
Consumer	2,456	311	64	-	2,831
Total non-forborne loans and advances to customers	**12,615**	**1,191**	**204**	**-**	**14,010**
Forborne loans and advances to customers					
Residential mortgages	-	35	18	-	53
Non-property SME and corporate	-	39	44	-	83
Commercial property and construction	-	23	33	-	56
- Investment	-	*21*	*30*	-	*51*
- Land and development	-	*2*	*3*	-	*5*
Consumer	-	-	-	-	-
Total forborne loans and advances to customers	**-**	**97**	**95**	**-**	**192**
Total loans and advances to customers	**12,615**	**1,288**	**299**	**-**	**14,202**

Restated[1] Group 2021 Loans and advances to customers at amortised cost - Composition	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total[1] £m**
Non-forborne loans and advances to customers					
Residential mortgages	11,249	591	262	-	12,102
Non-property SME and corporate	987	299	55	-	1,341
Commercial property and construction	60	144	20	-	224
- Investment	*53*	*130*	*19*	-	*202*
- Land and development	*7*	*14*	*1*	-	*22*
Consumer	2,544	79	58	-	2,681
Total non-forborne loans and advances to customers[1]	**14,840**	**1,113**	**395**	**-**	**16,348**
Forborne loans and advances to customers					
Residential mortgages	-	40	61	-	101
Non-property SME and corporate	-	32	43	-	75
Commercial property and construction	-	23	27	-	50
- Investment	-	*18*	*26*	-	*44*
- Land and development	-	*5*	*1*	-	*6*
Consumer	-	-	-	-	-
Total forborne loans and advances to customers	**-**	**95**	**131**	**-**	**226**
Total loans and advances to customers[1]	**14,840**	**1,208**	**526**	**-**	**16,574**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

21 Credit risk exposures *(continued)*

The Group mitigates its credit risk by taking collateral, which may take a variety of forms as set out in section 2.1.3 of the risk management report. The most material type of secured lending is residential mortgages, for which collateral information is given in the table below.

Group	**Standard**		**Buy to let**		**Self certified**		**Total**		
2022 **Loans and advances to customers at amortised cost - Composition**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**
Less than 50%	1,875	21	1,629	18	148	5	3,652	44	3,696
51% to 70%	2,576	24	1,159	13	44	7	3,779	44	3,823
71% to 80%	1,314	5	104	1	4	1	1,422	7	1,429
81% to 90%	584	2	2	-	1	-	587	2	589
91% to 100%	201	-	1	-	1	-	203	-	203
Subtotal	**6,550**	**52**	**2,895**	**32**	**198**	**13**	**9,643**	**97**	**9,740**
101% to 120%	1	-	-	-	1	-	2	-	2
121% to 150%	-	-	-	-	-	-	-	-	-
Adjusted Greater than 150%	-	-	-	-	-	-	-	-	-
Subtotal	**1**	**-**	**-**	**-**	**1**	**-**	**2**	**-**	**2**
Total	**6,551**	**52**	**2,895**	**32**	**199**	**13**	**9,645**	**97**	**9,742**
Weighted average LTV[1]:									
Stock of mortgages at period end	59%	54%	48%	50%	38%	50%	55%	52%	55%
New mortgages during year	77%	77%	65%	40%	42%	-	75%	75%	75%

Restated[2] **Group**	**Standard**		**Buy to let**		**Self certified**		**Total[2]**		
2021 **Loans and advances to customers at amortised cost - Composition**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**
Less than 50%	2,081	59	1,886	41	170	31	4,137	131	4,268
51% to 70%	2,873	60	1,667	41	63	38	4,603	139	4,742
71% to 80%	2,210	20	152	7	8	7	2,370	34	2,404
81% to 90%	703	6	5	1	1	4	709	11	720
91% to 100%	56	2	1	1	-	1	57	4	61
Subtotal	**7,923**	**147**	**3,711**	**91**	**242**	**81**	**11,876**	**319**	**12,195**
101% to 120%	1	1	1	-	1	1	3	2	5
121% to 150%	-	1	-	-	1	1	1	2	3
Adjusted Greater than 150%	-	-	-	-	-	-	-	-	-
Subtotal	**1**	**2**	**1**	**-**	**2**	**2**	**4**	**4**	**8**
Total	**7,924**	**149**	**3,712**	**91**	**244**	**83**	**11,880**	**323**	**12,203**
Weighted average LTV[1]:									
Stock of mortgages at period end	60%	54%	49%	52%	40%	56%	56%	54%	56%
New mortgages during year	74%	71%	65%	55%	24%	-	73%	65%	73%

[1] *Weighted average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

[2] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

21 Credit risk exposures *(continued)*

Repossessed collateral on residential mortgages
At 31 December 2022 and 31 December 2021 the Group held collateral as security on residential mortgages as detailed in the table.

Repossessed properties are sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

Group	2022		2021	
Repossessed collateral	Number of repossessions as at balance sheet date	Balance outstanding £m	Number of repossessions as at balance sheet date	Balance outstanding £m
Residential properties				
Owner occupier	3	-	7	1
Buy to let	1	-	9	1
Self certified	-	-	3	-
Total	**4**	**-**	**19**	**2**

Industry analysis of loans and advances to customers
The following table provides an industry breakdown of total loans (before impairment loss allowances).

Group Total loans - by industry analysis	2022 £m	Restated[1] 2021 £m
Residential mortgages	9,742	12,203
Finance leases and hire purchase	1,988	1,894
Credit cards	-	-
Personal loans	1,230	1,166
Commercial property and construction	274	274
Business and other services	664	752
Manufacturing and distribution	304	285
Other	-	-
Total	**14,202**	**16,574**

Debt securities at amortised cost - asset quality
For Group and Bank all debt securities were PD grade 1-4 and stage 1 at 31 December 2022 and 31 December 2021. The impairment loss allowance at 31 December 2022 was £0.1 million (2021: £0.1 million).

Loans and advances to banks at amortised cost - asset quality
For Group, all loans and advances to banks were stage 1 at 31 December 2022 with £1.2 billion being PD grade 1-4 (2021: £1.3 billion) and £0.3 billion being PD grade 5-8 (2021: £0.3 billion). The impairment loss allowance at 31 December 2022 was £0.4 million (2021: £0.3 million).

For Bank, all loans and advances to banks were stage 1 at 31 December 2022 with £1 billion being PD grade 1-4 (2021: £1.2 billion) and £0.3 billion being PD grade 5-8 (2021: £0.3 billion). The impairment loss allowance at 31 December 2022 was £0.4 million (2021: £0.3 million).

Other financial instruments - asset quality
Other financial instruments as set out in the table below include instruments that are not within the scope of IFRS 9 or are not subject to impairment under IFRS 9. These include derivative financial instruments. The table summarises the asset quality of these financial instruments by equivalent external risk ratings.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

21 Credit risk exposures *(continued)*

Other financial instruments with ratings equivalent to:	Group 2022 £m	Group 2021 £m	Bank 2022 £m	Bank 2021 £m
Aaa to Aa3	-	-	-	-
A1 to A3	-	-	-	-
Baa1 to Baa3	371	86	371	86
Lower than Baa3	8	2	8	2
Total	**379**	**88**	**379**	**88**

Exposures by country

The following tables provide an analysis of the Group's exposure to sovereign debt and other country exposures (primarily financial institution exposure), by selected balance sheet line item, as at 31 December 2022 and 31 December 2021. In addition, for these line items, further information is included on the Group's exposures to selected countries and their associated credit ratings from Moody's.

Group 2022 Asset quality: exposures by country	Credit rating[1]	Cash and balances[2] £m	Loans and advances to banks[3] £m	Debt securities at amortised cost[4] £m	Derivative financial instruments £m	Total £m
Ireland	A1	-	419	-	371	790
United Kingdom	Aa3	2,239	1,034	255	8	3,536
Other	-	-	8	273	-	281
Total	**-**	**2,239**	**1,461**	**528**	**379**	**4,607**

Group 2021 Asset quality: exposures by country	Credit rating[1]	Cash and balances[2] £m	Loans and advances to banks[3] £m	Debt securities at amortised cost[4] £m	Derivative financial instruments £m	Total £m
Ireland	A2	-	416	-	86	502
United Kingdom	Aa3	3,456	1,144	389	2	4,991
Other	-	-	14	409	-	423
Total	**-**	**3,456**	**1,574**	**798**	**88**	**5,916**

1 *Based on credit ratings from Moody's.*
2 *Cash and balances in the United Kingdom primarily consist of amounts placed with the Bank of England.*
3 *Loans and advances to banks in Ireland consist primarily of balances with the Parent and balances in the United Kingdom consist primarily of the Bank of England required collateral for notes in circulation.*
4 *Debt securities at amortised cost consist of UK Government gilts, Supranational bonds and UK covered bonds.*

22 Interest in joint venture

Joint arrangement	Holding	Classification	Country of operation	Nature of activities
First Rate Exchange Services Holdings Limited (FRESH)	50%	Joint venture	UK	Sale of foreign exchange products through the UK Post Office network

Joint venture

The Group owns 50% of the shares in FRESH, a company incorporated in the United Kingdom which provides foreign exchange services.

The following table shows the movement in the Group's interest in FRESH during the years ended 31 December 2022 and 31 December 2021.

The investment in FRESH is unquoted and is measured using the equity method of accounting. There are no significant restrictions on the ability of this entity to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group, nor is there any unrecognised share of losses either for the year ended 31 December 2022 or cumulatively in respect of this entity. The Group does not have any further commitments or contingent liabilities in respect of this entity other than its investment to date.

There are no significant risks associated with the joint venture that have been identified which require disclosure.

	2022 £m	2021 £m
At 1 January	47	49
Share of profit after taxation (note 12)	28	(2)
Dividends received	(3)	-
Other	(1)	-
At 31 December	**71**	**47**

22 Interest in joint venture *(continued)*

The following amounts represent the Group's 50% share of the revenue, expenses, assets and liabilities of FRESH for the year ended 31 December 2022 and the year ended 31 December 2021.

	2022 £m	2021 £m
Revenue	61	15
Expenses	(27)	(17)
Profit before taxation	**34**	**(2)**
Taxation charge	(6)	-
Profit after taxation	**28**	**(2)**
Non-current assets	4	6
Current assets	197	173
Total assets	**201**	**179**
Current liabilities	(130)	(132)
Total liabilities	**(130)**	**(132)**
Net assets	**71**	**47**

23 Intangible assets and goodwill

	2022				2021			
Group	Goodwill £m	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m	Goodwill £m	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m
Cost								
At 1 January	30	36	87	153	30	36	87	153
Additions	-	-	-	-	-	-	-	-
At 31 December	**30**	**36**	**87**	**153**	**30**	**36**	**87**	**153**
Accumulated amortisation								
At 1 January	(8)	(35)	(78)	(121)	(8)	(34)	(75)	(117)
Impairment	-	-	-	-	-	-	-	-
Amortisation charge for the year (note 9)	-	-	(4)	(4)	-	(1)	(3)	(4)
At 31 December	**(8)**	**(35)**	**(82)**	**(125)**	**(8)**	**(35)**	**(78)**	**(121)**
Net book value at 31 December	**22**	1	5	28	**22**	**1**	**9**	**32**

23 Intangible assets and goodwill *(continued)*

Bank	2022 Goodwill £m	2022 Computer software internally generated £m	2022 Other externally purchased intangible assets £m	2022 Total £m	2021 Goodwill £m	2021 Computer software internally generated £m	2021 Other externally purchased intangible assets £m	2021 Total £m
Cost								
At 1 January	-	35	76	111	-	35	76	111
Acquisitions	-	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-	-
At 31 December	**-**	**35**	**76**	**111**	**-**	**35**	**76**	**111**
Accumulated amortisation								
At 1 January	-	(34)	(73)	(107)	-	(34)	(71)	(105)
Amortisation charge for the year	-	-	(3)	(3)	-	-	(2)	(2)
At 31 December	**-**	**(34)**	**(76)**	**(110)**	**-**	**(34)**	**(73)**	**(107)**
Net book value at 31 December	**-**	**1**	**-**	**1**	**-**	**1**	**3**	**4**

Goodwill of £22 million (2021: £22 million) relates to Marshall Leasing. On 1 April 2022, the business of Marshall Leasing and the related goodwill was transferred to NIIB Group Limited, a wholly-owned subsidiary of the Group. The Group also has intangible assets of £5 million (2021: £6 million) relating to Marshall Leasing.

Goodwill is not amortised as it is deemed to have an indefinite useful life. The Group's investment in the Marshall Leasing business has been reviewed for impairment at 31 December 2022 and 31 December 2021 by comparing the carrying value of the cash generating unit (CGU) to its recoverable amount under the value in use method. No impairment was required in 2022 or 2021.

Other intangible assets have also been reviewed for any indication that impairment may have occurred. No impairment of other intangible assets was identified in the year ended 31 December 2022 or 31 December 2021.

Further detail on the impairment review, including assumptions and sensitivities, is set out in the critical accounting estimates and judgements on page 105.

24 Property, plant and equipment

Group 2022	Computer and other equipment[1] £m	Freehold land and buildings and long leaseholds (held at fair value) £m	Vehicles leased under operating leases £m	Right of use asset - Buildings £m	Total £m
Cost or valuation					
At 1 January 2022	**2**	**23**	**140**	**20**	**185**
Acquisitions	-	-	-	-	-
Additions	-	-	69	-	69
Disposals / write offs	-	-	(31)	(1)	(32)
Revaluation recognised in OCI	-	(1)	-	-	(1)
Other movements	-	(1)	-	-	(1)
As at 31 December 2022	**2**	**21**	**178**	**19**	**220**
Accumulated depreciation					
At 1 January 2022	**(1)**	**-**	**(31)**	**(10)**	**(42)**
Impairment	-	-	-	-	-
Disposals / write offs	-	-	16	2	18
Charge for the year[3]	-	-	(20)	(2)	(22)
As at 31 December 2022	**(1)**	**-**	**(35)**	**(10)**	**(46)**
Net book value at 31 December 2022	**1**	**21[2]**	**143**	**9**	**174**

Group 2021	Computer and other equipment[1] £m	Freehold land and buildings and long leaseholds (held at fair value) £m	Vehicles leased under operating leases £m	Right of use asset - Buildings £m	Total £m
Cost or valuation					
At 1 January 2021	**2**	**24**	**117**	**20**	**163**
Acquisitions	-	-	-	-	-
Additions	-	-	54	-	54
Disposals / write offs	-	-	(31)	-	(31)
Revaluation recognised in OCI	-	1	-	-	1
Other movements	-	(2)	-	-	(2)
As at 31 December 2021	**2**	**23**	**140**	**20**	**185**
Accumulated depreciation					
At 1 January 2021	**(1)**	**-**	**(28)**	**(8)**	**(37)**
Impairment	-	-	-	-	-
Disposals / write offs	-	-	20	-	20
Charge for the year[3]	-	-	(23)	(2)	(25)
As at 31 December 2021	**(1)**	**-**	**(31)**	**(10)**	**(42)**
Net book value at 31 December 2021	**1**	**23[2]**	**109**	**10**	**143**

[1] *All of which is related to own-use.*
[2] *Includes £6 million (2021: £6 million) of which is subject to operating leases.*
[3] *Depreciation on vehicles leased under operating leases is included in other leasing expense (note 5).*

24 Property, plant and equipment *(continued)*

Bank **2022**	**Freehold land and buildings and long leaseholds (held at fair value) £m**	**Right of use asset - Buildings £m**	**Total £m**
Opening balance at 1 January 2022	**23**	**20**	**43**
Revaluation recognised in OCI	(1)	-	(1)
Disposals / write offs	-	(1)	(1)
Other movements	(1)	-	(1)
As at 31 December 2022	**21**	**19**	**40**
Accumulated depreciation at 1 January 2022	**-**	**(10)**	**(10)**
Impairment	-	-	-
Disposals / write offs	-	2	2
Charge for the year	-	(2)	(2)
As at 31 December 2022	**-**	**(10)**	**(10)**
Net book value at 31 December 2022	**21**[1]	**9**	**30**

Bank **2021**	**Freehold land and buildings and long leaseholds (held at fair value) £m**	**Right of use asset - Buildings £m**	**Total £m**
Opening balance at 1 January 2021	**24**	**20**	**44**
Revaluation recognised in OCI	1	-	1
Other movements	(2)	-	(2)
As at 31 December 2021	**23**	**20**	**43**
Accumulated depreciation at 1 January 2021	**-**	**(8)**	**(8)**
Impairment	-	-	-
Charge for the year	-	(2)	(2)
As at 31 December 2021	**-**	**(10)**	**(10)**
Net book value at 31 December 2021	**23**[1]	**10**	**33**

[1] *Includes £6 million (2021: £6 million) of which is subject to operating leases.*

24 Property, plant and equipment *(continued)*

For vehicles leased under operating leases, the annual depreciation charge is calculated using residual values which represent the estimated net sales proceeds expected from the sale of the assets at the end of the operating lease period. Due to the inherent uncertainty associated with such valuation methodology and in particular the volatility of prices of second hand vehicles, the carrying value of the residual values may differ from their realisable value.

Management is careful to ensure that exposure to residual value risk is effectively managed to minimise the company's exposure to residual value risk. The residual values used mirror those utilised in the creation of the original client contract. Management benchmark internal residual values for the existing fleet of vehicles against industry standard valuation tools by third party providers. The residual values for the entire portfolio are reassessed using an independent valuation tool on a twice yearly basis, with accounting adjustments being made to future periods. The process of realising asset values is effectively managed to maximise net sale proceeds.

Depreciation on vehicles leased under operating leases is presented within net leasing income. See note 5.

The following residual values are included in the calculation of the net book value of fixed assets held for use in operating leases:

Group	2022 £m	2021 £m
Within 1 year	22	20
1 – 2 years	22	15
Greater than 2 years	34	26
Total	**78**	**61**

At 31 December 2022 and 31 December 2021 there was no future capital expenditure authorised by the Directors but not contracted for, or contracted for but not provided for.

The Group has the following amounts of minimum lease receivables under non-cancellable operating leases as follows:

	Group		Bank	
Operating lease receivables	2022 £m	2021 £m	2022 £m	2021 £m
Not later than 1 year	29	24	1	1
Later than 1 year and not later than 5 years	33	27	-	1
Later than 5 years	-	-	-	-
Total	**62**	**51**	**1**	**2**

25 Other assets

Other assets	Group 2022 £m	Group 2021 £m	Bank 2022 £m	Bank 2021 £m
Sundry and other receivables	27	20	23	17
Accounts receivable and prepayments	9	12	7	11
Interest receivable	16	9	25	10
Trade receivables	-	1	-	1
Other assets	**52**	**42**	**55**	**39**
Amounts include				
Due from the Parent	-	-	-	-
Maturity profile of other assets				
Amounts receivable within 1 year	52	42	55	39
Amounts receivable after 1 year	-	-	-	-
Total	**52**	**42**	**55**	**39**

26 Deferred tax

Group 2022	Net balance at 1 January £m	Recognised in profit or loss £m	Recognised in OCI £m	Other movements £m	Net £m	Deferred tax assets £m	Deferred tax liabilities £m
Unutilised tax losses	50	12	-	-	62	62	-
Fixed / leased assets	14	(3)	-	-	11	11	-
Impact of adopting IFRS 9	9	(2)	-	-	7	7	-
Cash flow hedge reserve	7	-	23	-	30	30	-
Property revaluation surplus	(1)	-	-	-	(1)	-	(1)
Other temporary differences – liabilities	(2)	1	-	-	(1)	-	(1)
Tax assets/(liabilities) before set-off	**77**	**8**	**23**	**-**	**108**	**110**	**(2)**
Set-off tax						**(2)**	**2**
Net tax assets/(liabilities)						**108**	**-**

Group 2021	Net balance at 1 January £m	Recognised in profit or loss £m	Recognised in OCI £m	Other movements £m	Net £m	Deferred tax assets £m	Deferred tax liabilities £m
Unutilised tax losses	15	35	-	-	50	50	-
Fixed / leased assets	9	5	-	-	14	14	-
Impact of adopting IFRS 9	8	1	-	-	9	9	-
Cash flow hedge reserve	(7)	-	14	-	7	7	-
Property revaluation surplus	(1)	-	-	-	(1)	-	(1)
Other temporary differences – liabilities	(1)	(1)	-	-	(2)	-	(2)
Tax assets/(liabilities) before set-off	**23**	**40**	**14**	**-**	**77**	**80**	**(3)**
Set-off tax						**(3)**	**3**
Net tax assets/(liabilities)						**77**	**-**

26 Deferred tax *(continued)*

Bank 2022	**Net balance at 1 January £m**	**Recognised in profit or loss £m**	**Recognised in OCI £m**	**Net £m**	**Deferred tax assets £m**	**Deferred tax liabilities £m**
Unutilised tax losses	50	12	-	62	62	-
Fixed / leased assets	-	-	-	-	-	-
Impact of adopting IFRS 9	9	(2)	-	7	7	-
Cash flow hedge reserve	7	-	23	30	30	-
Property revaluation surplus	(1)	-	-	(1)	-	(1)
Other temporary differences – liabilities	1	(1)	-	-	-	-
Tax assets/(liabilities) before set-off	**66**	**9**	**23**	**98**	**99**	**(1)**
Set-off tax					**(1)**	**1**
Net tax assets/(liabilities)					**98**	**-**

Bank 2021	**Net balance at 1 January £m**	**Recognised in profit or loss £m**	**Recognised in OCI £m**	**Net £m**	**Deferred tax assets £m**	**Deferred tax liabilities £m**
Unutilised tax losses	15	35	-	50	50	-
Fixed / leased assets	-	-	-	-	-	-
Impact of adopting IFRS 9	8	1	-	9	9	-
Cash flow hedge reserve	(7)	-	14	7	7	-
Property revaluation surplus	(1)	-	-	(1)	-	(1)
Other temporary differences – liabilities	1	-	-	1	1	-
Tax assets/(liabilities) before set-off	**16**	**36**	**14**	**66**	**67**	**(1)**
Set-off tax					**(1)**	**1**
Net tax assets/(liabilities)					**66**	**-**

The deferred tax asset includes an amount of £62 million (2021: £50 million) in respect of operating losses which are available to be offset against future taxable profits.

The recognition of a deferred tax asset in respect of tax losses carried forward requires the Directors to be satisfied that it is probable that the Group will have sufficient future taxable profits against which the losses can be utilised. In considering the available evidence to support recognition of the deferred tax asset, the Group takes into consideration the impact of both positive and negative evidence including historical financial performance, projections of future taxable income and the impact of tax legislation.

The key judgements and estimates applied in the recognition of deferred tax assets on unused tax losses are set out in note 2 'Critical Accounting Estimates and Judgements'.

The Organisation for Economic Co-operation and Development ("OECD") released the 15% minimum effective tax rate Model Rules on 20 December 2021. It is currently expected that the new rules will be brought into law during 2023 to be effective from 1 January 2024. As the UK rate of corporation tax is currently in excess of the proposed minimum rate, the proposed changes may have limited impact in the UK.

27 Assets classified as held for sale

At 31 December 2021, the Group was in the process of disposing of some of its NI branch properties with a carrying value of £1.3 million. At 31 December 2022, NI branch properties with a carrying value of £0.1 million were still held for sale after £1.2 million were disposed of during 2022.

28 Deposits from banks

	Group		Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Deposits from banks	**3,107**	**3,399**	**3,098**	**3,392**
Amounts include:				
Due to the Parent	745	1,058	735	1,051

Deposits from banks includes:
- £nil (2021: £nil) of borrowings under the Bank of England Term Funding Scheme ('TFS') and £2,300 million (2021: £2,300 million) of borrowings under the Bank of England Term Funding Scheme for Small and Medium Sized Entities ('TFSME'), which are both secured primarily with mortgage loans and partly with notes issued by Bowbell 2 plc; and
- £nil (2021: £nil) borrowed under the Bank of England Indexed Long - Term Repo scheme, which is collateralised with notes issued by Bowbell 2 plc.

Drawings under the TFS and TFSME will be repaid within four years from the date of drawdown although there is an option under the TFSME to further extend the drawdown window for periods up to 10 years in respect of amounts up to the volume of lending under the BBLS scheme. The interest charged is based on the quantum of eligible net lending by the Bank and by the Parent’s UK branch during the relevant Scheme reference period.

Amounts due to the Parent relates to borrowings in place to fund and manage interest rate risk on the Group’s assets. Refer to note 18 for details of amounts due from the Parent, and note 43 in respect of changes in these balances during 2022.

29 Customer accounts

	Group		Bank	
	2022 £m	Restated[1] 2021 £m	2022 £m	Restated[1] 2021 £m
Term deposits	2,837	4,562	2,837	4,562
Demand deposits	5,116	6,931	5,116	6,931
Non-interest bearing current accounts	3,929	4,029	3,929	4,074
Interest bearing current accounts	340	232	340	232
Customer accounts at amortised cost	**12,222**	**15,754**	**12,222**	**15,799**
Amounts include:				
Due to entities controlled by the Parent	4	10	4	10
Due to subsidiaries	-	-	4	45

30 Debt securities in issue

	Group		Bank	
	2022 £m	2021 £m	2022 £m	2021 £m
Residential mortgage backed securities	79	148	-	-
Floating rate senior non preferred notes	300	300	300	300
Total debt securities in issue	**379**	**448**	**300**	**300**

The residential mortgage backed securities were issued in June 2019 by the Group's securitisation entity, Bowbell 2 plc. For further information refer to note 45.

The floating rate senior non preferred notes were issued to the Parent on 11 December 2019, in order to meet the Group's indicative internal requirements for Minimum Requirement for Eligible Liabilities (MREL).

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

31 Other liabilities

	Group		Bank	
	2022 £m	**2021 £m**	**2022 £m**	**2021 £m**
Notes in circulation	798	895	798	895
Accrued interest payable	46	30	46	30
Sundry payables	160	72	145	53
Accruals and deferred income	33	13	33	13
Other liabilities	**1,037**	**1,010**	**1,022**	**991**
Amounts include:				
Due to the Parent	7	2	7	2
Maturity profile of other liabilities				
Amounts payable within 1 year	1,037	1,010	1,022	991
Amounts payable after 1 year	-	-	-	-

The Bank is authorised to issue banknotes in NI under the Bank of Ireland (UK) plc Act 2012.

32 Leasing

Group as lessee
The principal contracts where the Group is a lessee under IFRS 16 are in relation to property leases. Further qualitative information on the nature of the leases is set out in the Group accounting policies (note 1) and the undiscounted contractual maturity of total lease liabilities is set out on page 160.

Group as lessor
Accounting for lessors is outlined in the Group accounting policies (note 1). The Group is engaged in finance lease and operating lease activities.

Finance leasing activity and a maturity analysis of the Group's net investment in finance leases are included within Loans and advances to customers (note 20) along with a gross to net reconciliation of the investment in finance leases. Associated income on finance leases is included in Interest income (note 3).

Operating leases where the Group is a lessor primarily relate to the Marshall Leasing business, which has been conducted through the subsidiary NIIB Group Limited since 1 April 2022.

A maturity analysis of undiscounted operating lease receivables set out on an annual basis is included in note 24. Income and expense associated with the Group's operating lease activities is included in note 5.

Amounts recognised in the balance sheet and Income statement
The carrying amount of the Group's RoU assets and the movements during 2022 are set out in note 24.

The carrying amount of the lease liabilities and the movements during 2022 is set out below:

32 Leasing *(continued)*

Balance sheet liabilities	Group 2022 £m	Group 2021 £m	Bank 2022 £m	Bank 2021 £m
As at 1 January	**15**	**19**	**15**	**18**
Payments	(4)	(4)	(4)	(3)
Interest expense (note 4)	1	-	1	-
Other movements	-	-	-	-
As at 31 December	**12**	**15**	**12**	**15**

Group **Summary of amounts recognised in the income statement under IFRS 16 leases**	2022 £m	2021 £m
Amounts recognised in interest expense (note 4)		
Payments	1	-
Amounts recognised in interest income (note 3)		
Finance lease interest	**83**	**78**
Other leasing income and expense (note 5)		
Operating lease rentals	60	55
Other leasing expense	(38)	(41)
	22	14
Amounts recognised in other operating expense (note 9)		
Depreciation of RoU assets in property, plant and equipment	2	2

33 Provisions

At 31 December 2022, the Group had provisions for the following items:
Customer provisions, £9 million (2021: £9 million), comprise the estimated cost of making repayments to customers associated with the design and execution of processes as part of the Group's business activities.

Provisions associated with restructuring and transformation costs: £nil (2021: £5 million).

2022	Group £m	Bank £m
Closing balance 31 December 2021	14	14
Net charge to the income statement	2	1
Utilised during the year	(7)	(7)
At 31 December 2022	**9**	**8**
Expected utilisation period		
Used within 1 year	9	8
Used after 1 year	-	-

34 Loss allowance provision on loan commitments and financial guarantees

Loan commitments and guarantees and irrevocable letters of credit have been classified and measured in accordance with IFRS 9. This involves measuring the loss allowance provision for loan commitments and financial guarantees and irrevocable letters of credit on a 12 month or lifetime ECL approach.

At 31 December 2022, the Group held an impairment loss allowance of £5 million (2021: £4 million) on loan commitments and financial guarantees, of which £3 million are classified as stage 1 (2021: £2 million), £1 million as stage 2 (2021: £1 million) and £1 million as stage 3 (2021: £1 million).

Group	2022 Amount £m	2022 Loss allowance £m	2021 Amount £m	2021 Loss allowance £m
Loan commitments (note 37)	1,068	5	950	4
Guarantees and irrevocable letters of credit (note 37)	16	-	18	-
Total	**1,084**	**5**	**968**	**4**

Bank	2022 Amount £m	2022 Loss allowance £m	2021 Amount £m	2021 Loss allowance £m
Loan commitments (note 37)	1,024	5	898	3
Guarantees and irrevocable letters of credit (note 37)	16	-	18	-
Total	**1,040**	**5**	**916**	**3**

Group 2022 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	249	25%	2	4%	251	24%	-	-	-	-	-	-
5-7	688	68%	33	66%	721	68%	15	94%	-	-	15	94%
8-9	59	6%	7	14%	66	6%	1	6%	-	-	1	6%
10-11	10	1%	8	16%	18	2%	-	-	-	-	-	-
Total	**1,006**	**100%**	**50**	**100%**	**1,056**	**100%**	**16**	**100%**	**-**	**-**	**16**	**100%**

Group 2021 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	280	34%	4	4%	284	31%	9	53%	-	-	9	53%
5-7	455	56%	78	69%	533	57%	5	29%	-	-	5	29%
8-9	62	8%	16	14%	78	8%	3	18%	-	-	3	18%
10-11	19	2%	15	13%	34	4%	-	-	-	-	-	-
Total	**816**	**100%**	**113**	**100%**	**929**	**100%**	**17**	**100%**	**-**	**-**	**17**	**100%**

34 Loss allowance provision on loan commitments and financial guarantees *(continued)*

Bank 2022 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	205	21%	2	4%	207	20%	-	-	-	-	-	-
5-7	688	72%	33	66%	721	71%	15	94%	-	-	15	94%
8-9	59	6%	7	14%	66	7%	1	6%	-	-	1	6%
10-11	10	1%	8	16%	18	2%	-	-	-	-	-	-
Total	**962**	**100%**	**50**	**100%**	**1,012**	**100%**	**16**	**100%**	**-**	**-**	**16**	**100%**

Bank 2021 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	228	30%	4	4%	232	26%	9	53%	-	-	9	53%
5-7	455	60%	78	69%	533	61%	5	29%	-	-	5	29%
8-9	62	8%	16	14%	78	9%	3	18%	-	-	3	18%
10-11	19	2%	15	13%	34	4%	-	-	-	-	-	-
Total	**764**	**100%**	**113**	**100%**	**877**	**100%**	**17**	**100%**	**-**	**-**	**17**	**100%**

The tables above for Group and Bank show the loan commitments and guarantees and irrevocable letters of credit by PD grade for stage 1 and stage 2. The remaining balances for Group and Bank of £12 million (2021: £21 million) on loan commitments and £nil (2021: £1 million) on guarantees and irrevocable letters of credit are stage 3.

35 Retirement benefit obligations

The Group's employees' membership of a particular pension scheme is dependent on their specific employment contract. Where an employee is seconded directly to the Group, the Group only incurs the cost of the future service contribution to those particular schemes. The Group does not have any liability for payment in respect of increases to pension contributions arising from any historic or future shortfall in the pension assets relative to the pension liabilities of the BOI Group operated schemes. Consequently, the schemes have been accounted for as defined contribution schemes in these financial statements and where applicable will be included in the disclosures for defined benefit schemes in the financial statements of BOI Group.

NIIB Group Limited (1975) Pension Scheme (the 'NIIB scheme')

The NIIB defined benefit scheme is based on final pensionable salary and operates for eligible employees of NIIB Group Limited and its subsidiaries. Contributions by the company and the employees are invested in a trustee-administered fund. As the scheme's underlying assets and liabilities are identifiable as those of the Group the scheme has been accounted for as a defined benefit scheme (as set out in the accounting policy for pension obligations) and the disclosures set out in the remainder of this note relate to this scheme.
In determining the level of contributions required to be made to the scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, WTW.

The scheme has been closed to new members since late 2006.

Regulatory framework

The NIIB scheme operates under the UK pension regulatory framework. Benefits are paid to members from a trustee-administered fund. The trustees are responsible for ensuring that the plan is sufficiently funded to meet current and future benefit payments. If the plan experience is worse than expected, the Group's obligations are increased.

Under UK pensions legislation, the trustees must agree a funding plan with the Group such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (relative to those used to measure accounting liabilities) and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

The trustees' other duties include managing the investment of the plan assets, administration of the plan benefits, ensuring

35 Retirement benefit obligations *(continued)*

contributions are received, compliance with relevant legislation and exercising of discretionary powers. The Group works closely with the trustees, who manage the plan.

Actuarial valuation of the NIIB scheme

A formal valuation of the NIIB scheme was carried out as at 1 May 2019. The funding method used measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date. Discussions in relation to the valuation were completed in 2020 and a schedule of contributions was agreed between the trustees and the Group and submitted to the Pensions Regulator.

Under the schedule of contributions the Group agreed to make contributions of 45.8% of Basic Salary less member contributions in respect of the cost of future benefit accrual. The contribution rate is inclusive of expenses of running of the scheme (previously these were met directly by the company). A formal valuation of the Scheme at 1 May 2022 is currently underway and is due to be completed by 31 July 2023.

Plan details

The below table sets out details of the membership of the NIIB scheme as at 1 May 2019.

Financial and demographic assumptions

The assumptions used in calculating the costs and obligations of the NIIB scheme, as detailed below, were set after consultation with WTW.

The discount rate used to determine the present value of the obligations is set by reference to market yields on corporate bonds. The methodology was updated at the end of 2017, primarily to remove a number of bonds that did not obviously meet the criteria of 'corporate bonds' from the universe considered.

The methodology used to determine the assumption for retail price inflation uses an inflation curve derived by WTW using market data which reflects the characteristics of the Bank's liabilities with an appropriate adjustment to reflect distortions due to supply and demand.

The assumption for consumer price inflation is set by reference to retail price inflation, with an adjustment applied, as no consumer price inflation linked bonds exist.

The salary assumption takes into account inflation, seniority, promotion and current employment market relevant to the Group.

On 26 October 2018 a court ruling confirmed that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. An allowance of 0.3% is included in the liabilities to allow for the expected impact of this element of GMP equalisation. Following on from the original ruling in 2018, a further High Court ruling on 20 November 2020 provided clarification on the obligations of pension plan trustees to equalise past transfer values allowing for GMP equalisation. The original allowance only considered current members who had GMP liabilities within the scheme (not members who have died without a spouse or members who have transferred out for example). The approximate impact of equalising past transfers from the Scheme has been estimated as being very unlikely to be material and as such no allowance has been made for this in the valuation as at 31 December 2020. Provision made in the previous years will be carried forward to 31 December 2022.

Plan details at last valuation date (1 May 2019)	By number	By % of scheme liability
Scheme members		
Active	66	37%
Deferred	116	26%
Pensioners / dependants	71	37%

Valuation statement at 1 May 2019	£m
Technical provisions	44.43
Market value of assets	49.79
Past service (deficit) / surplus	5.36
Funding level	112.1%

35 Retirement benefit obligations *(continued)*

Financial assumptions

The financial assumptions used in measuring the Group's defined benefit asset / liability under IAS 19 are set out in the table below.

Financial assumptions	2022 % p.a.	2021 % p.a.
Consumer price inflation	2.70	2.75
Retail price inflation	3.30	3.35
Discount rate	5.00	1.90
Rate of general increase in salaries	3.80	3.85
Rate of increase in pensions in payment	3.00	3.00
Rate of increase in deferred pensions	2.70	2.75

Mortality assumptions

The mortality assumptions adopted are outlined in the table below. The mortality assumptions are not typically updated annually, and are reviewed after each triennial valuation. The assumptions below reflect those selected for the 1 May 2022 preliminary valuation results. There has been no change to these assumptions to reflect the impact of COVID-19 given the uncertainty regarding its long-term impacts. This is in line with the approach taken for the majority of UK pension schemes.

Post retirement mortality assumptions	2022 Years	2021 Years
Longevity at age 70 for current pensioners		
Men	19.1	18.1
Women	20.5	19.5
Longevity at age 60 for active members currently aged 60 years		
Men	28.5	27.2
Women	30.3	29.0
Longevity at age 60 for active members currently aged 40 years		
Men	30.0	28.8
Women	31.7	30.5

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements.

	2022 £m	2021 £m
Total charge in operating expenses	**(1)**	**(1)**
Total gain in remeasurements[1]	**(2)**	**3**
Total asset in the balance sheet	**10**	**13**

A surplus of £10 million has been recognised at year-end in line with the trust deed and rules, under which the Employer is able to run off the plan until there are no members and can trigger a wind-up of the scheme, when it would be entitled to recover any surplus via a cash refund.

[1] *Shown before deferred tax.*

35 Retirement benefit obligations *(continued)*

The movement in the net defined benefit asset / obligation is as follows:

	2022			2021		
	Present value of obligation £m	Fair value of plan assets £m	Surplus / (deficit) of plan £m	Present value of obligation £m	Fair value of plan assets £m	Surplus / (deficit) of plan £m
At 1 January	**(50)**	**63**	**13**	**(51)**	**61**	**10**
Current service cost	(1)	-	**(1)**	(1)	-	**(1)**
Interest (expense) / income	(1)	1	**-**	(1)	1	**-**
Total amount in recognised Income statement	**(2)**	**1**	**(1)**	**(2)**	**1**	**(1)**
Return on plan assets not included in income statement	-	(23)	**(23)**	-	2	**2**
Change in demographic assumptions	(2)	-	**(2)**	-	-	**-**
Change in financial assumptions	22	-	**22**	1	-	**1**
Experience losses	-	-	**-**	-	-	**-**
Total remeasurements in other comprehensive income	**20**	**(23)**	**(3)**	**1**	**2**	**3**
Benefit payments	2	(2)	**-**	1	(1)	**-**
Employer contributions	-	1	**1**	-	1	**1**
Other	-	-	**-**	1	(1)	**-**
Other movements	**2**	**(1)**	**1**	**2**	**(1)**	**1**
At 31 December	**(30)**	**40**	**10**	**(50)**	**63**	**13**

Asset breakdown	**2022 £m**	**2021 £m**
Equities[1] (quoted)	9	19
Corporate bonds	6	13
Liability Driven Investment (LDI)	14	15
Other quoted securities[1]	11	14
Cash	-	2
Total fair value of assets	**40**	**63**

[1] *These are held indirectly in unquoted managed funds.*

35 Retirement benefit obligations *(continued)*

Sensitivity of defined benefit obligation to key assumptions

The table sets out how the defined benefit obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible at 31 December 2022.

Some of the changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the plan holds a proportion of its assets in Liability Driven Investments (LDI). A fall in the rate of inflation would be expected to lead to a reduction in the value of these assets, thus partly offsetting the reduction in the defined benefit obligation. The extent to which these sensitivities are managed is discussed further below.

Impact on defined benefit obligation	Change in assumptions (%)	Change in obligations due to increase in assumption £m	Change in obligations due to decrease in assumption £m
Discount rate	0.25	(1)	1
Inflation[1]	0.10	-	-
Salary growth	0.10	-	-
Life expectancy	1 year	1	(1)

Future cash flows

The plan's liabilities represent a long-term obligation and most of the payments due under the plan will occur several decades into the future. The duration, or average term to payment for the benefits due, weighted by liability, is 16 years.

Expected employer contributions for the year ended 31 December 2023 are £0.9 million. Expected employee contributions for the year ended 31 December 2023 are £50,000.

Years	Benefit payments from plan assets £m
2023 - 2032	(15)
2033 - 2042	(19)
2043 - 2052	(19)
2053 - 2062	(14)
2063 - 2072	(7)
2073 - 2082	(3)
2083 - 2092	-
2093 - 2102	-
Total	**(77)**

Risks and risk management

The NIIB scheme has a number of areas of risk. The key areas of risk, and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

[1] *Including other inflation-linked assumptions (consumer price inflation, pension increases, salary growth).*

35 Retirement benefit obligations *(continued)*

Risk	Delegated responsibility
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation in the Group's financial statements is calculated using a discount rate set with reference to high quality corporate bond yields. The plan holds a proportion of its assets in equities. The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net defined benefit liability recorded on the balance sheet.
Changes in bond yields	Interest rate and inflation risks, along with equity risk, are the scheme's largest risks. From an accounting liability perspective, the scheme is also exposed to movements in corporate bond spreads. The scheme uses investment Liability Driven Investments (LDI) to assist in managing its interest rate and inflation risk. This portfolio is used to broadly hedge against movements in long-term interest rates and inflation expectations. The portfolio does not completely eliminate risk and addresses only a portion of the scheme's interest rate and inflation risks. Furthermore, it does not hedge against changes in the credit spread available on corporate bonds used to derive the accounting liabilities. The investment in LDI offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	A significant proportion of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plan against inflation.
Life expectancy	The majority of the plan's obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plan's liabilities.

36 Subordinated liabilities

	Group		Bank	
	2022 £m	**2021 £m**	**2022 £m**	**2021 £m**
£90 million subordinated floating rate notes 2027[1]	-	90	-	90
£100 million subordinated floating rate notes 2031[2]	100	100	100	100
£90 million subordinated floating rate notes 2032[3]	90	-	90	-
Subordinated liabilities	**190**	**190**	**190**	**190**

	Group		Bank	
Movement on subordinated liabilities	**2022 £m**	**2021 £m**	**2022 £m**	**2021 £m**
At 1 January	190	290	190	290
Issued during the year	90	100	90	100
Repurchased	(90)	(200)	(90)	(200)
At 31 December	**190**	**190**	**190**	**190**

[1] *Redeemed on initial call date on 19 December 2022.*
[2] *Callable on any interest payment date from 26 November 2026 until their final maturity date of 26 November 2031. They bear interest at a floating rate of 2.61% per annum above compounded daily SONIA.*
[3] *Callable on 19 December 2027 or on any date thereafter until their final maturity date of 19 December 2032. They bear interest at a floating rate of 4.18% per annum above compounded daily SONIA.*

36 Subordinated liabilities *(continued)*

These liabilities constitute unsecured obligations of the Group to its Parent, subordinated in right of payments to the claim of depositors, and other unsubordinated creditors of the Group. The subordinated liabilities meet the definition of a financial liability as the Group does not have an unconditional right to avoid the repayment of the principal or interest. Therefore, the liabilities are recognised on the balance sheet at amortised cost, using the effective interest method.

All of the current notes are redeemable in whole but not in part, subject to the prior approval of the PRA, on the fifth anniversary of their drawdown date. In the event of a wind up of the Group, the loans will become immediately due and payable without demand, together with all interest accrued thereon.

37 Contingent liabilities and commitments

	Group		Bank	
	2022 £m	**2021 £m**	**2022 £m**	**2021 £m**
Contingent liabilities				
Guarantees and irrevocable letters of credit	16	18	16	18
Other contingent liabilities	5	6	5	6
Total contingent liabilities	**21**	**24**	**21**	**24**
Loan commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend				
- revocable or irrevocable with original maturity of 1 year or less	1,005	905	961	853
- irrevocable with original maturity of over 1 year	63	45	63	45
Total commitments	**1,068**	**950**	**1,024**	**898**

The table sets out the contractual amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral, or security prove worthless. Loss allowance provisions of £5 million (2021: £4 million) recognised on loan commitments and guarantees and irrevocable letters of credit are shown in note 34. Provisions on all other contingent liabilities and commitments are shown in note 33 (where applicable).

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will be required to meet these obligations only in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customer's credit worthiness. Other contingent liabilities also include documentary credits which commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

Other legal actions and regulatory matters

Similar to industry peers, the Group has received and is reviewing a number of complaints in relation to its historical motor commission arrangements, some of which are with the Financial Ombudsman Service. There is significant uncertainty around the scope and/or nature of complaints and of any remediation, if required, given the challenges to the interpretation and/or validity of complaints. It is not currently practicable to estimate the amount or timing of any impact from this review.

38 Share capital

	Group		Bank	
Ordinary shares	**2022 £m**	**2021 £m**	**2022 £m**	**2021 £m**
At 1 January	122	197	122	197
Capital reduction during the year	-	(75)	-	(75)
At 31 December	**122**	**122**	**122**	**122**

At 31 December 2022 the Bank had 406 million (2021: 406 million) shares in issue, all of which were held by the Parent and were fully paid. The Bank's authorised share capital at 31 December 2022 and 31 December 2021 was £2.5 billion.

In November 2021, the Group carried out a share buy back transaction whereby it repurchased 250 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £75 million reduction in share capital with a corresponding increase in the capital redemption reserve.

39 Other equity instruments

Other equity instruments consist of Additional tier 1 securities held by the Parent.

	Group		Bank	
	2022 £m	**2021 £m**	**2022 £m**	**2021 £m**
At 1 January	150	300	150	300
Repayments during the year	-	(300)	-	(300)
Issuance during the year	-	150	-	150
At 31 December	**150**	**150**	**150**	**150**

The balance at 31 December 2022 comprises £150 million issued on 26 November 2021.

The principal terms of the Additional tier 1 securities are as follows:
- the securities constitute direct, unsecured and subordinated obligations of the Group, rank behind tier 2 instruments and in priority to ordinary shareholders;
- the securities bear a fixed rate of interest until the first call date. After the initial call date, the Additional tier 1 securities bear interest at rates fixed periodically in advance for five-year periods based on market rates at that time.
- the Group may elect at its sole and full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any interest payment date;
- the securities have no fixed redemption date, and the security holders will have no right to require the Group to redeem or purchase the securities at any time;
- the Group may, in its sole and full discretion, but subject to the satisfaction of certain conditions, elect to redeem all (but not some only) of the securities on the initial call date or on any interest payment date thereafter. In addition, the Additional tier 1 securities are repayable, at the option of the Group, due to certain regulatory or tax reasons. Any repayments require the prior consent of the regulatory authorities; and
- the securities will convert into ordinary shares if the Group's CET 1 ratio (on a CRD IV full implementation basis) falls below 7%.

39 Other equity instruments *(continued)*

	£150 million issued 26 November 2021	£200 million issued 1 May 2015	£100 million issued 26 November 2015
First call date (5 years from date of issue)	26 November 2026	1 May 2020	26 November 2020
Fixed rate of interest applicable until first call date	6.15%	7.9%	8.4%
Interest rate as reset after initial call date	n/a	6.8%	7.3%

40 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities, at 31 December 2022 and 31 December 2021, based on contractual undiscounted repayment obligations. See also Risk Management section 2.2 for details of the maturity of assets and liabilities on a discounted basis.

The Group does not manage liquidity risk on the basis of contractual maturity. Instead, the Group manages liquidity risk based on expected cash flows. The balances shown below will not agree directly to the consolidated balance sheet because the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in a financial penalty being paid by the customer. For such accounts the portion subject to the potential early access has been classified accordingly in the table below as 'demand'.

Group 2022 Maturity profile of financial liabilities	**Demand £m**	**0-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	354	142	427	2,393	-	3,316
Lease liabilities	-	1	3	5	12	21
Customer accounts	10,131	746	1,075	309	-	12,261
Debt securities in issue	-	11	19	310	140	480
Subordinated liabilities	-	3	101	145	-	249
Contingent liabilities	21	-	-	-	-	21
Commitments	493	44	469	62	-	1,068
Total	**10,999**	**947**	**2,094**	**3,224**	**152**	**17,416**

Restated[1] **Group 2021 Maturity profile of financial liabilities**	**Demand £m**	**0-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	255	6	363	2,769	-	3,393
Lease liabilities	-	1	3	8	13	25
Customer accounts[1]	12,503	1,202	1,560	572	-	15,837
Debt securities in issue	-	11	11	317	175	514
Subordinated liabilities	-	1	96	116	-	213
Contingent liabilities	24	-	-	-	-	24
Commitments	461	52	392	45	-	950
Total	**13,243**	**1,273**	**2,425**	**3,827**	**188**	**20,956**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

40 Liquidity risk *(continued)*

Bank 2022 Maturity profile of financial liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	344	142	427	2,393	-	3,306
Lease liabilities	-	1	3	5	12	21
Customer accounts	10,130	746	1,076	309	-	12,261
Debt securities in issue	-	-	18	300	-	318
Subordinated liabilities	-	3	101	145	-	249
Contingent liabilities	21	-	-	-	-	21
Commitments	493	-	469	62	-	1,024
Total	**10,988**	**892**	**2,094**	**3,214**	**12**	**17,200**

Restated[1] Bank 2021 Maturity profile of financial liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	288	6	363	2,769	-	3,426
Lease liabilities	-	1	3	8	13	25
Customer accounts[1]	12,503	1,204	1,561	573	-	15,841
Debt securities in issue	-	-	10	312	-	322
Subordinated liabilities	-	1	96	116	-	213
Contingent liabilities	24	-	-	-	-	24
Commitments	461	-	392	45	-	898
Total	**13,276**	**1,212**	**2,425**	**3,823**	**13**	**20,749**

The table below summarises the maturity profile of the Group's derivative liabilities. The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

Group and Bank 2022 Maturity profile of derivative liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Gross settled derivative liabilities - outflows	(23)	(208)	(126)	(14)	-	(371)
Gross settled derivative liabilities - inflows	24	246	124	12	-	406
Gross settled derivative liabilities - net flows	1	38	(2)	(2)	-	35
Net settled derivative liabilities	-	(3)	(37)	(205)	(25)	(270)
Total derivatives cash flows	**1**	**35**	**(39)**	**(207)**	**(25)**	**(235)**

Group and Bank 2021 Maturity profile of derivative liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Gross settled derivative liabilities - outflows	(18)	(206)	(168)	(36)	-	(428)
Gross settled derivative liabilities - inflows	4	110	66	2	-	182
Gross settled derivative liabilities - net flows	(14)	(96)	(102)	(34)	-	(246)
Net settled derivative liabilities	-	(1)	(4)	(43)	(9)	(57)
Total derivatives cash flows	**(14)**	**(97)**	**(106)**	**(77)**	**(9)**	**(303)**

41 Measurement basis of financial assets and financial liabilities

For Group and Bank all derivatives (see note 17) are measured at fair value. All other financial assets and liabilities were held at amortised cost at 31 December 2022 and 31 December 2021.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information*

42 Fair value of assets and liabilities

Fair value of assets and liabilities

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include DCF models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or recent arm's length market transactions.

These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Transfers between different levels are assessed at the end of all reporting periods.

(a) Financial assets and liabilities recognised and subsequently measured at fair value

All financial instruments are initially recognised at fair value. The Group subsequently measures derivatives and certain other financial assets and liabilities designated or mandatorily at fair value through profit or loss at fair value in the balance sheet. These instruments are shown as at fair value through profit or loss in note 41 on the measurement basis of financial assets and liabilities. A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below.

Derivative financial instruments

The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of DCF and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, foreign exchange rates, equity prices and counterparty credit (level 2 inputs).

(b) Financial assets and liabilities held at amortised cost

For financial assets and liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

Loans and advances to banks

The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on discounted cash flows, using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

Loans and advances to customers

Loans and advances to customers are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is estimated using valuation techniques, which include:

- recent arm's length transactions in similar assets (level 2 inputs); and
- the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs).

Debt securities at amortised cost

For these assets where an active market exists, fair value has been determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

Deposits from banks and customer accounts

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows, using interest rates for new deposits with similar remaining maturity (level 2 inputs).

Debt securities in issue

For those instruments where an active market exists, fair value has been determined through an independent broker/investment bank or estimated by benchmarking the yield against similar bonds issued by the Parent, which have similar maturity dates (level 2 inputs).

Subordinated liabilities

As quoted market prices are not available, the fair value is estimated by benchmarking the yield against similar bonds issued by the Parent, which have similar maturity dates (level 2 inputs).

(c) Fair value of non-financial assets

Property

A revaluation of Group property was carried out as at 31 December 2022. All freehold and long leasehold commercial properties were valued by Lisney Ltd (or its partner, Sanderson Weatherall) as external valuers, with the exception of some select properties which were valued internally by the Group's qualified surveyors. The valuations have been carried out in accordance with the Royal Institution of Chartered Surveyors Valuation - Global Standards. External valuations were made on the basis of observable inputs such as completed comparable market lettings and sales transactions (level 2 inputs). Unobservable inputs such as profile, lot size, layout and presentation of accommodation are also used (level 3 inputs). All properties are valued based on highest and best use.

42 Fair value of assets and liabilities *(continued)*

Group	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total £m	Restated[1] 2021 Level 1 £m	Restated[1] 2021 Level 2 £m	Restated[1] 2021 Level 3 £m	Restated[1] 2021 Total £m
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	1,461	-	1,461	-	1,574	-	1,574
Debt securities at amortised cost	524	-	-	524	800	-	-	800
Loans and advances to customers[1]	-	-	14,145	14,145	-	-	16,683	16,683
Total	**524**	**1,461**	**14,145**	**16,130**	**800**	**1,574**	**16,683**	**19,057**
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	3,107	-	3,107	-	3,399	-	3,399
Customer accounts[1]	-	12,191	-	12,191	-	15,765	-	15,765
Debt securities in issue	-	379	-	379	-	454	-	454
Subordinated liabilities	-	185	-	185	-	190	-	190
Total	**-**	**15,862**	**-**	**15,862**	**-**	**19,808**	**-**	**19,808**

Bank	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total £m	Restated[1] 2021 Level 1 £m	Restated[1] 2021 Level 2 £m	Restated[1] 2021 Level 3 £m	Restated[1] 2021 Total £m
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	1,344	-	1,344	-	1,457	-	1,457
Debt securities at amortised cost	524	-	-	524	800	-	-	800
Loans and advances to customers[1]	-	-	14,331	14,331	-	-	16,825	16,825
Total	**524**	**1,344**	**14,331**	**16,199**	**800**	**1,457**	**16,825**	**19,082**
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	3,098	-	3,098	-	3,392	-	3,392
Customer accounts[1]	-	12,191	-	12,191	-	15,810	-	15,810
Debt securities in issue	-	300	-	300	-	305	-	305
Subordinated liabilities	-	185	-	185	-	190	-	190
Total	**-**	**15,774**	**-**	**15,774**	**-**	**19,697**	**-**	**19,697**

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

42 Fair value of assets and liabilities *(continued)*

Group and Bank	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total £m	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2021 Total £m
Financial assets held at fair value								
Derivative financial instruments	-	379	-	379	-	88	-	88
Non-financial assets held at fair value								
Property held at fair value	-	-	21	21	-	-	23	23
Total assets held at fair value	**-**	**379**	**21**	**400**	**-**	**88**	**23**	**111**
As a % of fair value assets	**-**	**95%**	**5%**	**100%**	**-**	**79%**	**21%**	**100%**
Financial liabilities held at fair value								
Derivative financial instruments	-	328	-	328	-	65	-	65
Total financial liabilities held at fair value	**-**	**328**	**-**	**328**	**-**	**65**	**-**	**65**
As a % of fair value liabilities	**-**	**100%**	**-**	**100%**	**-**	**100%**	**-**	**100%**

There were no transfers between levels 1, 2 or 3 during the year ended 31 December 2022 or 31 December 2021.

Movements in level 3 assets

Property held at fair value	Group 2022 £m	Group 2021 £m	Bank 2022 £m	Bank 2021 £m
At 1 January	23	24	23	24
Additions	-	-	-	-
Revaluation of property	(1)	1	(1)	1
Other movements	(1)	(2)	(1)	(2)
At 31 December	**21**	**23**	**21**	**23**

Quantitative information about fair value measurements using significant unobservable inputs (level 3)

Group and Bank Level 3 assets	Valuation technique	Unobservable input	Fair Value 2022 £m	Fair Value 2021 £m	Range 2022 %	Range 2021 %
Property held at fair value	Market comparable property transactions	Yields	21	23	7.5% - 11.8%	6.50% - 12.74%

42 Fair value of assets and liabilities *(continued)*

The carrying amount and the fair value of the Group's financial assets and liabilities which are carried at amortised cost are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

	Group				Bank			
	2022		Restated[1] 2021		2022		Restated[1] 2021	
	Carrying amount £m	Fair values £m	Carrying amount £m	Fair values £m	Carrying amount £m	Fair values £m	Carrying amount £m	Fair values £m
Financial Assets								
Loans and advances to banks	1,461	1,461	1,574	1,574	1,344	1,344	1,457	1,457
Debt securities at amortised cost	528	524	798	800	528	524	798	800
Loans and advances to customers[1]	14,018	14,145	16,396	16,683	14,125	14,331	16,497	16,825
Financial Liabilities								
Deposits from banks	3,107	3,107	3,399	3,399	3,098	3,098	3,392	3,392
Customer accounts[1]	12,222	12,191	15,754	15,765	12,222	12,191	15,799	15,810
Debt securities in issue	379	379	448	454	300	300	300	305
Subordinated liabilities	190	185	190	190	190	185	190	190

43 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or one other party controls both. The definition includes subsidiaries, joint ventures and the Parent, as well as key management personnel.

(a) Parent

The immediate parent and owner of the entire share capital of the Group is The Governor and Company of the Bank of Ireland, a corporation established in Ireland in 1783 under Royal Charter.

Bank of Ireland Group plc is listed as the holding company and ultimate parent of the Bank of Ireland Group and Bank of Ireland (UK) plc. The results of the Group are consolidated in the Bank of Ireland Group plc financial statements, which are available at Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4, Ireland being the registered office of the immediate and ultimate Parent (website: www.bankofireland.com).

The Governor and Company of the Bank of Ireland acts as guarantor for the Bank in its transactions with the Bank of England (including its subsidiary, the Bank of England Asset Purchase Facility Fund Limited). If in any circumstances the Bank fails to make payment of guaranteed amounts to the Bank of England or does not perform any of its other obligations under the relevant agreement, the Governor and Company of the Bank of Ireland may be required to pay the amounts or perform its obligations upon written demand from the Bank of England.

The Group receives a range of services from its Parent and related parties, including loans and deposits, forward exchange, interest rate cover including derivatives and various administrative services. In the course of operating its business, the Group utilises a number of key services from its Parent, which are subject to a number of Service Level Agreements and costs, and these are disclosed in note 9 of the financial statements.

Other transactions with the Parent in 2022 and 2021

(i) On 5 July 2022 a dividend payment of £250 million was paid to the Parent (2021: £nil).

(ii) On 28 November 2022 a coupon payment of £9 million was paid to the Parent in relation to the £150 million Additional Tier 1 instrument (2021: £nil).

(iii) In November 2021, the Bank sold £2.9 billion of performing mortgages to the parent, resulting in a gain on sale before taxation of £94 million. The transaction, carried out at arm's length, was part of a funding optimisation exercise with the Bank of Ireland Group.

(iv) In November 2021, the Group carried out a share buy back transaction whereby it repurchased 250 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £75 million reduction in share capital with a corresponding increase in the capital redemption reserve.

(v) On 26 May 2021, the Group repaid a £100 million AT1 instrument and on 26 November 2021, the Group repaid a £200 million AT1 instrument, both of which had been issued to the Parent. On 26 November 2021, a new AT1 instrument for £150 million was issued to the Parent and

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in accounting policy for the presentation of portfolio fair value hedge adjustment. See note 1 Group accounting policies for additional information.*

43 Related party transactions *(continued)*

£100 million subordinated floating rate notes were issued to the Parent.

(vi) On 4 May 2021, a coupon payment of £14 million was paid to the Parent in relation to the £200 million Additional tier 1 instrument (refer to note 39). On 26 May 2021, a coupon payment of £3 million was paid to the Parent in relation to the £200 million Additional tier 1 instrument. On 26 November 2021, a coupon payment of £8 million was paid to the Parent in relation to the £100 million Additional tier 1 instrument (refer to note 39).

(vii) The Group and its Parent have agreed that with respect to the cessation of services or the exit of certain staff employed by the Parent ("Govco staff"), who provide services under any of the pre-existing agreements to the Group for 2020 and 2021 or any other understanding or practice, as a result of UK restructuring activities that:

- The Group will not bear any redundancy or exit costs associated with NI related staff, to include NI Branch staff, or mortgage related staff where those staff provide services under Govco contractual service agreements. The Parent has estimated these costs as £4 million in 2021 and £16 million in 2020.
- The Group will pay redundancy costs for certain specified Govco staff involved in the management of the Bank's products and support functions, including Finance, HR and Risk which is estimated at £5 million in total for both 2020 and 2021.

Group Summary - Parent[1]	2022 £m	Restated[2] 2021 £m
Income statement		
Interest income (note 3)	36	(22)
Interest expense (note 4)	(36)	(36)
Fees and commissions expense (note 6)	(9)	(7)
Net trading (expense) / income (note 7)	110	142
Operating expenses paid for services provided[2] (note 9)	(65)	(86)
Total	**36**	**(9)**
Assets		
Loans and advances to banks (note 18)	318	306
Loans and advances to customers (note 20)	6	6
Other assets (note 25)	-	-
Derivatives (note 17)	372	86
Total assets	**696**	**398**
Liabilities		
Deposits from banks (note 28)	745	1,058
Customer accounts (note 29)	4	10
Debt securities in issue (note 30)	300	300
Other liabilities (note 31)	7	2
Derivatives (note 17)	323	58
Subordinated liabilities (note 36)	190	190
Total liabilities	**1,569**	**1,618**
Net exposure	**(873)**	**(1,220)**

At 31 December 2022, the Parent also held the AT1 securities of £150 million (2021: £150 million) issued by the Bank which are classified as other equity instruments (see note 39).

[1] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*
[2] *Comparative figures have been restated due to a reclassification of costs associated with staff seconded to the Group from the Parent.*

43 Related party transactions *(continued)*

Bank	2022 Parent[1] £m	2022 Joint venture £m	2022 Total £m	Restated[2] 2021 Parent[1,2] £m	Restated[2] 2021 Joint venture £m	Restated[2] 2021 Total[2] £m
Income statement						
Interest income	36	-	36	(22)	-	(22)
Interest expense	(36)	-	(36)	(36)	-	(36)
Fees and commission expense	(9)	-	(9)	(7)	-	(7)
Net trading expense	110	-	110	142	-	142
Other operating income	-	28	28	-	(2)	(2)
Operating expenses paid for services provided[2]	(54)	-	(54)	(78)	-	(78)
Total income / (expense)	**47**	**28**	**75**	**(1)**	**(2)**	**(3)**
Assets						
Loans and advances to banks	309	-	309	306	-	306
Loans and advances to customers	6	-	6	6	-	6
Other assets	-	-	-	-	-	-
Derivatives	372	-	372	86	-	86
Total assets	**687**	**-**	**687**	**398**	**-**	**398**
Liabilities						
Deposits from banks	735	-	735	1,051	-	1,051
Customer accounts	4	-	4	10	-	10
Debt securities in issue	300	-	300	300	-	300
Other liabilities	7	-	7	2	-	2
Derivatives	323	-	323	58	-	58
Subordinated liabilities	190	-	190	190	-	190
Total liabilities	**1,559**	-	1,559	**1,611**	**-**	**1,611**
Net exposure	**(872)**	**-**	**(872)**	**(1,213)**	**-**	**(1,213)**

(b) Pension funds

The Group provides a range of normal banking and financial services, which are not material to the Group, to various pension funds operated by the Bank of Ireland Group for the benefit of employees, which are conducted on similar terms to third party transactions.

(c) Transactions with key management personnel

i. ***Loans to Directors***

The following information is presented in accordance with Section 413 of the Companies Act 2006. For the purposes of the Companies Act disclosures, 'Directors' means the Board of Directors and any past Directors who were Directors during the relevant year.

All loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons, unconnected with the Group and of similar financial standing. They do not involve more than the normal risk of collectability.

Group (i) Companies Act disclosures Loans to Directors	2022 Balance as at 1 January 2022 £'000	2022 Balance as at 31 December 2022 £'000	2022 Aggregate maximum amount outstanding during the year ended 31 December 2022 £'000	2021 Balance as at 1 January 2021 £'000	2021 Balance as at 31 December 2021 £'000	2021 Aggregate maximum amount outstanding during the year ended 31 December 2021 £'000
Loans to Directors	-	-	-	-	-	-

[1] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*
[2] *Comparative figures have been restated due to a reclassification of costs associated with staff seconded to the Group from the Parent.*

43 Related party transactions *(continued)*

ii. Key management personnel - loans and deposits

For the purposes of IAS 24 Related Party Disclosures, 'key management personnel' comprise the Directors of the Board, the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Data & Digital Officer, Director of Savings & Lending, Chief People Officer, Chief Operating Officer, UK General Counsel, UK Company Secretary, Chief Transformation Officer, Director of NI, Partnerships & Mortgages and any past KMP, who were a KMP during the relevant year.

KMP, including Directors, hold products with the Group in the ordinary course of business. All loans to Non-executive Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to KMP, other than Non-executive Directors, are made on terms similar to those available to staff generally, and / or in the ordinary course of business on normal commercial terms.

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions, between the Group, its KMP (as defined above) and KMP of the Parent, including members of their close families and entities influenced by them are shown in the table.

Group (ii) 2022 Key management personnel	Balance as at 1 January 2022[4] £'000	Balance as at 31 December 2022[1] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2022[2,3] £'000	Total number of KMP as at 1 January 2022	Total number of KMP as at 31 December 2022
Loans	29	12	12	3	1
Deposits	1,065	647	970	8	6

Group 2021 Key management personnel	Balance as at 1 January 2021[4] £'000	Balance as at 31 December 2021[1] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2021[2,3] £'000	Total number of KMP as at 1 January 2021	Total number of KMP as at 31 December 2021
Loans	549	29	549	3	3
Deposits	991	1,065	1,820	11	8

[1] *Balance includes principal and interest.*

[2] *These figures include credit card exposures at the maximum statement balance. In all cases, KMP have not exceeded their approved limits. The maximum approved credit limit on any credit card held by KMP during the year was £5,000.*

[3] *The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability, during the year ended 31 December 2022 for any member of KMP and their close family did not exceed £18,000 (31 December 2021: £499,000). The closing balance includes interest accrued and interest paid; the maximum balance includes interest paid.*

[4] *The opening balance includes balances and transactions with KMP who retired during the previous year and are not therefore related parties during the year. Therefore, these KMP's are not included in the maximum amounts outstanding.*

43 Related party transactions *(continued)*

- Total compensation paid to KMP was £5.9 million for the year ended 31 December 2022 and of this amount £2.9 million was paid to Directors. This compared to £5.3 million and £1.8 million respectively for the year ended 31 December 2021.
- The highest total amount paid to any Director for the year ended 31 December 2022 was £972,858 comprising salary and other benefits (2021: £911,195). The total accrued pension and accrued lump sum of this Director at the year ended 31 December 2022 was £nil;
- One Executive Director accrued retirement benefits under a defined benefit and defined contribution Bank of Ireland Group Pension Scheme for year ended 31 December 2021;
- There were no additional benefits, paid by the Group or any other party, in respect of compensation to the Directors for their services for managing the Group or its subsidiaries, either for the year ended 31 December 2022 or the year ended 31 December 2021.

Group **Compensation of key management personnel**	**2022** **£000's**	**2021** **£000's**
Remuneration		
Salaries and other benefits[1]	5,752	5,060
Pension benefits	129	246
Total	**5,881**	**5,306**

44 Offsetting financial assets and liabilities

The following items have been offset in the balance sheet, in accordance with paragraph 42 of IAS 32.

In addition, as set out in section 2.1.1 of the Risk management report, the Group's net exposure to the Parent is managed through a contractual master netting agreement with the Parent.

These amounts do not meet the criteria for offset under paragraph 42 of IAS 32 and are presented gross within loans and advances to banks, derivatives and deposits by banks respectively. Further detail on these amounts is set out in notes 18,17 and 28 to the financial statements.

Group	**2022**			**2021**		
Assets	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities[2] set off in the balance sheet £m**	**Net amounts of financial assets presented in the balance sheet £m**	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities[2] set off in the balance sheet £m**	**Net amounts of financial assets presented in the balance sheet £m**
Loans and advances to customers	-	-	-	39	(39)	-

[1] *Salaries and other benefits includes termination payments of £551,200 (2021: £393,127).*

[2] *Loans and advances to customers represent loan agreements entered into by the Group that are fully collateralised by the Parent. Ultimate recourse is to the Parent. These loans are netted on the balance sheet against deposits received from the Parent.*

45 Interests in other entities

Group Names	Principal activity	Country of incorporation	Statutory year end	Percentage of ordinary share capital held %	Percentage of voting rights held %	Registered address
NIIB Group Limited	Personal finance and leasing	Northern Ireland	31 December	100	100	1 Donegall Square South, Belfast, BT1 5LR.
Midasgrange Limited	Dormant	England and Wales	30 September	100	100	Bow Bells House, 1 Bread Street, London, EC4M 9BE.
First Rate Exchange Services Holdings Limited[1]	Foreign exchange	England and Wales	31 March	50	50	Great West House, Great West Road, Brentford, London, TW8 9DF.
First Rate Exchange Services Limited	Foreign exchange	England and Wales	31 December	50	50	Great West House, Great West Road, Brentford, London, TW8 9DF.
Marshall Leasing Limited[2]	Vehicle leasing	England and Wales	31 December	100	100	Bow Bells House, 1 Bread Street, London, EC4M 9BE.
Bowbell No.2 plc	Securitisation	England and Wales	31 December	n/a	n/a	10th Floor, 5 Churchill Place, London, E14 5HU.

Copies of the financial statements of these undertakings can be obtained from the relevant addresses listed above.

Management has assessed its involvement in all entities in accordance with the definitions and guidance in:
- IFRS 10: Consolidated Financial Statements;
- IFRS 11: Joint Arrangements;
- IAS 28: Investments in Associates and Joint Ventures; and
- IFRS 12: Disclosure of interests in other entities.

The Group controls an entity when it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Generally, control or significant influence is identified by the level of ownership of ordinary shares and the level of management involvement in the relevant activities of the entity. However, in the case of 'structured entities', management's judgement is required in determining how the investee should be accounted for.

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group.

[1] *This entity is a joint venture with the UK Post Office in which the Group holds 50% of the equity of the company. FRESH holds 100% of the equity in FRES.*

[2] *On 1 April 2022, the business of Marshall Leasing was transferred to NIIB Group Limited, a wholly-owned subsidiary of the Group. Marshall Leasing Limited went into voluntary liquidation on 15 December 2022.*

45 Interests in other entities *(continued)*

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

In assessing whether it has control over such an entity, the Group assesses whether it has power over the relevant activities by considering factors such as who manages the assets of these entities, if the Group has lending to them or has a residual interest in them.

In the case of structured entities, the Group considers it has control over the investee where it is a securitisation vehicle whose purpose is to finance specific loans and advances to customers. In such cases the Group considers that it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In June 2019 the Group transferred mortgage loans into a structured securitisation entity, Bowbell No. 2 plc ('Bowbell 2') and issued £2.3 billion of mortgage backed securities, of which £350 million were issued externally to the Group, with the balance held by the Bank.

Bowbell 2 is incorporated in Great Britain, with 100% of its ordinary share capital and voting rights being held by its ultimate holding company (which is not a subsidiary of the Group), Bowbell No. 2 Holdings Limited. The creditors of Bowbell 2 have no recourse to the Group. During 2022 and 2021, there were no contractual arrangements that required the Group to provide financial support to Bowbell 2.

The table below shows the balances of securitised mortgages and debt securities in issue relating to Bowbell 2.

It should be noted that at 31 December 2022, there was also cash of £101 million (2021: £110 million) in the securitisation bank account, hence the total assets of the securitisation entity was greater than the value of the notes.

Group		2022		2021	
Activity	Company	Loans and advances to customers £m	Notes in issue £m	Loans and advances to customers £m	Notes in issue £m
Acquiring mortgage loans and issuing mortgage backed securities	Bowbell No. 2 plc	575	662	986	1,075

Unconsolidated structured entities

In November 2022, the Group entered into a securitisation arrangement for a portfolio of UK residential mortgage NPEs, through an unconsolidated special purpose vehicle, Temple Quay No. 1 Plc. The portfolio transferred had a gross carrying value of £220 million (before ECL allowance) and a net carrying value of £194 million (after ECL allowance). The Group transferred the beneficial interest in the loans to Temple Quay No. 1 Plc which in turn issued notes backed by these loans. The Group considers that it sponsors this company as it continues to be involved with it as Servicer of the transferred assets and as it is in receipt of income from the provision of these services. At 31 December 2022, the current volume of the loans under management is £215 million.

Temple Quay No 1 Plc is not consolidated but the associated income in relation to the services provided to the company is recognised in the Group's financial statements. No fee or commission income was received during the year ended 31 December 2022.

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by Bowbell No. 2, held by the Bank.*

46 Transferred financial assets

At 31 December 2022 and 31 December 2021, the following assets were transferred but not derecognised from the balance sheet:

Group	2022				2021			
Securitisation	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m
Residential mortgage book (Bowbell No. 2 plc)[1]	97	79	135	79	167	148	177	149

Bank	2022				2021			
Securitisation	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m
Residential mortgage book (Bowbell No. 2 plc)[1]	575	662	797	661	986	1,075	1,045	1,080

The Group is exposed substantially to all the risks and rewards including credit and market risk associated with the transferred assets.

Neither the Group nor the Bank is recognising any asset to the extent of its continuing involvement.

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by Bowbell No. 2, held by the Bank.*

47 Impact of voluntary change in fair value hedge adjustment accounting policy

As outlined in the Group accounting policies note 1, 'Voluntary change in accounting policy' on page 84, the Group has voluntarily changed its accounting policy during 2022 for the presentation of portfolio fair value hedge adjustments.

The change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative period has been restated to reflect this change. The effect of this change on the current period and the prior period is explained in this note.

The table below includes the relevant financial statement line items only which have been impacted by the change in accounting policy:

	2022			2021		
Group Balance sheet (selected lines)	**Before change in accounting policy £m**	**Impact of change in accounting policy £m**	**Total £m**	**Published £m**	**Impact in change in accounting policy £m**	**Total £m**
Loans and advances to customers	13,742	276	14,018	16,325	71	16,396
Fair value changes due to interest rate risk of the hedged items in portfolio hedges	-	(276)	(276)	-	(71)	(71)
Total	**13,742**	**-**	**13,742**	**16,325**	**-**	**16,325**
Customer accounts	12,092	130	12,222	15,753	1	15,754
Fair value changes due to interest rate risk of the hedged items in portfolio hedges	-	(130)	(130)	-	(1)	(1)
Total	**12,092**	**-**	**12,092**	**15,753**	**-**	**15,753**

	2022			2021		
Bank Balance sheet (selected lines)	**Before change in accounting policy £m**	**Impact of change in accounting policy £m**	**Total £m**	**Published £m**	**Impact in change in accounting policy £m**	**Total £m**
Loans and advances to customers	13,849	276	14,125	16,426	71	16,497
Fair value changes due to interest rate risk of the hedged items in portfolio hedges	-	(276)	(276)	-	(71)	(71)
Total	**13,849**	**-**	**13,849**	**16,426**	**-**	**16,426**
Customer accounts	12,092	130	12,222	15,798	1	15,799
Fair value changes due to interest rate risk of the hedged items in portfolio hedges	-	(130)	(130)	-	(1)	(1)
Total	**12,092**	**-**	**12,092**	**15,798**	**-**	**15,798**

48 Post balance sheet events

There are no post balance sheet events that require disclosure in the financial statements.

49 Approval of financial statements

The Board of Directors approved the financial statements on 6 April 2023.

Other Information

Principal business units and addresses[1]

Bank of Ireland (UK) plc
Bow Bells House,
1 Bread Street, London
EC4M 9BE
Tel: +44 207 236 2000
Website: www.bankofirelanduk.com

Bank of Ireland Great Britain Consumer Banking
Mortgages, Personal Loans
PO Box 27, One Temple Quay, Bristol
BS1 9HY
Tel: + 44 117 979 2222 and + 44 117 909 0900

Bank of Ireland Northern Ireland Business Banking
1 Donegall Square South, Belfast, BT1 5LR
Tel: +44 28 9043 3000

First Rate Exchange Services Limited
Great West House,
Great West Road, Brentford, London,
TW8 9DF
Tel: + 44 208 577 9393, Fax: + 44 208 814 6685
Website: www.firstrate.co.uk

NIIB Group Limited (trading as Northridge Finance)
1 Donegall Square South,
Belfast BT1 5LR
Tel: +44 800 917 0923
website: www.northridgefinance.com

Marshall Leasing Limited
Bridge House, Orchard Lane,
Huntingdon, Cambridgeshire,
PE29 3QT
Tel: + 44 148 041 4541

[1] *Registered addresses for subsidiary companies are included in note 45.*

Performance measures

Further information related to certain measures referred to in the strategic report.

The Group considers that the alternative performance measures included in the strategic report provide meaningful information to enable a consistent basis for comparing the financial performance between reporting periods.

In arriving at an underlying basis, the effect of certain items that do not promote an understanding of future or historical performance are excluded. Management considers that this presents a more meaningful basis for year on year comparison. These non-core items are set out on page 25.

Alternative performance measures

Average interest earning assets is defined as the twelve month average of total loans and advances to customers (less ECL stage 3 balances), cash placements, securities balances and net balances owed by the Parent (the Governor and Company of the Bank of Ireland).

Cost income ratio is calculated on a statutory basis being operating expenses divided by operating income.

Gross new lending volumes represents loans and advances to customers drawn in the year.

Net interest margin is defined as net interest income for the year divided by average interest earning assets.

Return on assets is calculated as statutory profit after tax divided by total assets, in line with the requirement in the European Union (Capital Requirements) Regulations (CRR) 2014.

Statutory return on tangible equity is calculated as being profit attributable to shareholders (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Underlying return on tangible equity is calculated as being profit attributable to shareholders less non-core items (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Regulatory performance measures

Leverage ratio is calculated as the tier 1 capital divided by total balance sheet assets and off balance sheet exposures.

Liquidity coverage ratio (LCR) is calculated as the high quality liquid assets, divided by net cash outflows over the next 30 days, expressed as a percentage.

Loan to deposit ratio is calculated as net loans and advances to customers including those classified as held for sale expressed as a percentage of customer deposits.

Net stable funding ratio (NSFR) is defined as the total amount of available stable funding divided by the total amount of required stable funding, expressed as a percentage.

Risk weighted assets (RWAs) on and off balance sheet assets are risk weighted based on the amount of capital required to support the assets. The Group adopts a standardised approach for calculating RWAs.

Abbreviations

AA	Automobile Association
ALCO	Asset and Liability Committee
AML	Anti Money Laundering
ATM	Automatic Teller Machine
BBLS	Bounce Back Loan Scheme
BMR	Benchmark Rate
BOI	Bank of Ireland
BRC	Board Risk Committee
BRRD	Bank Recovery and Resolution Directive
CBILS	Coronavirus Business Interruption Loan Scheme
CCO	Chief Credit Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CMA	Competition and Markets Authority
CRD	Capital Requirement Directive (EU)
CRO	Chief Risk Officer
CRPC	Credit Risk Portfolio Committee
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
DCF	Discounted Cash Flow
EAD	Exposure At Default
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Loss
EIR	Effective Interest Rate
ERC	Executive Risk Committee
EU	European Union
EURIBOR	Euro Interbank Offered Rate
ExCo	Executive Committee
FCA	Financial Conduct Authority
FCRs	Forborne Collateral Realisation Loans
FLI	Forward Looking Information
FPC	Financial Policy Committee
FRCC	Financial Risks from Climate Change
FRES	First Rate Exchange Services Limited
FRESH	First Rate Exchange Services Holdings Limited
GB	Great Britain
GBP	ISO 4217 Currency Code For Pound Sterling
GCR	Group Credit Review (Parent)
GDP	Gross Domestic Product
GIA	Group Internal Audit (Parent)
GRPC	Group Risk Policy Committee (Parent)
IAS	International Accounting Standards
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Individual Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
IT	Information Technology
JAM	Just A Minute
KMP	Key Management Personnel
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LLP	Limited Liability Partnership
LTD	Limited
LTV	Loan to Value
MLL	Marshall Leasing Limited
MREL	Minimum Requirements for Own Funds and Eligible Liabilities
MRR	Monthly Risk Report
NI	Northern Ireland
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
ORMF	Operational Risk Management Framework
PD	Probability of Default
PO	Post Office
POCI	Purchased Or Originated Credit-Impaired Financial Assets
PRA	Prudential Regulation Authority
PSAGC	Product & Services Approvals & Governance Committee
RAROC	Risk Adjusted Return on Capital
RAS	Risk Appetite Statement
RMF	Risk Management Framework
ROTE	Return on Tangible Equity
ROU	Right of use
R&ORC	Regulatory and Operational Risk Committee
RWA	Risk Weighted Assets
SECR	Streamlined Energy and Carbon Reporting
SME	Small / Medium Enterprises
SRM	Single Resolution Mechanism
TCFD	Task Force on Climate-related Financial Disclosures
TFS	Term Funding Scheme
TFSME	Term Funding Scheme for Small and Medium Sized Entities
UK	United Kingdom
£m	Million
'000	Thousands