Company Number: R0000568

NORTHERN BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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NORTHERN BANK LIMITED
Officers and Professional Advisers
For the year ended 31 December 2018

Directors	**Executive:**	Kevin Kingston	Chief Executive Officer
		Stephen Matchett	Chief Financial Officer
		Vicky Davies	Managing Director, Strategy and Corporate Development
	Non-executive:	Gerald Gregory*∞Ω	Chairman (appointed 2 July 2018) Deputy Chairman (6 April 2018 - 1 July 2018)
		Lars Stensgaard Mørch~Ω	Chairman (resigned 5 April 2018)
		Michael Black*∞	
		Jim Ditmore~	
		Carsten Egeriis~ (appointed 17 September 2018)	
		Margaret Lesley Jones*∞Ω	
		Paul Rooney∞Ω	

* Member of the Board Audit Committee
~ Member of the Executive Board of the Parent
∞ Member of the Board Risk Committee
Ω Member of the Board Remuneration Committee

Executive Committee	Kevin Kingston	Chief Executive Officer
	Vicky Davies	Managing Director, Strategy and Corporate Development
	Stephen Matchett	Chief Financial Officer
	Søren Andreasen	Chief Digital Officer
	Paul Black	General Manager of Regulatory Change
	Richard Caldwell	Managing Director, Personal Banking and Small Business
	Liam Curran	General Manager, Operations
	Shaun McAnee	Managing Director, Corporate and Business Banking
	Nigel McMahon	Chief Risk Officer
	Tim Turner	Head of Business Development
	Caroline Van Der Feltz	HR Director

Company Secretary Fiona Sturgess

Registered Office Donegall Square West
Belfast BT1 6JS

Bankers Danske Bank A/S

Auditor Deloitte (NI) Limited
Chartered Accountants and Statutory Auditor
Bedford Street, Belfast
United Kingdom

The Directors of Northern Bank Limited (the 'Bank') present their Strategic Report for the year ended 31 December 2018.

The Strategic Report is a statutory requirement under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and is intended to be fair and balanced, and to provide information that enables the Directors to be satisfied that they have complied with s172 of the Companies Act 2006 (which sets out the Directors' duty to promote the success of the company). The Bank's 2018 Financial Statements have been prepared under International Financial Reporting Standards (IFRS).

Business review

Principal activities

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

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

Review of business

Key performance measures	**2018**	2017
Profit before tax - £m	**88.8**	147.5
Profit before loan impairments and tax as per the Income Statement - £m	**91.7**	118.3
Loan to deposit ratio - %	**78%**	77%
Cost/income ratio - %	**60%**	49%
Net interest margin - %	**2.23%**	2.27%

Financial review

The Bank has reported a profit before loan impairments of £91.7m (2017: £118.3m). This result was achieved despite the ongoing low interest rate environment. The Bank profit attributable to the shareholders for the year ended 31 December 2018 amounted to £64.7m, a decrease of £50.5m on the previous year. The key drivers of this decrease were the loan impairment charges recognised in the current year (a loan impairment credit was recognised in 2017) and the impact in 2017 of a non-recurring negative past service cost arising from the decision to cease defined benefit accrual.

Net interest income increased by 9% to £177.4m (2017: £162.7m) primarily driven by the positive impact of an increase in lending (9%) and deposit (8%) volumes. Net interest margin in 2018 at 2.23% is broadly unchanged from 2017.

The loan-to-deposit ratio increased marginally to 78% (2017: 77%). We remain well positioned to meet any increased demand for credit.

Non interest income decreased by 15% to £59.8m (2017: £70.2m) due to lower wealth related income and overdraft related fees. (2017 included the profit on the sale of the Bank's wealth business of £4.5m and wealth income up to the date of sale).

Operating expenses increased by 27% to £142.1m (2017: £111.7m). As noted above, 2017 included a non-recurring negative past service cost of £40.4m arising from changes to our staff pension arrangements. Non-staff cost expenses decreased by 10% to £79.6m (2017: £88.7m), a reduction in property and administrative costs was partly offset by increased investment in the Bank's IT systems.

The Bank's effective tax rate for the year ended 31 December 2018 was 21.0% (2017: 18.9%). The effective tax rates in both 2017 and 2018 were impacted by the re-recognition of the deferred tax asset relating to tax losses brought forward from previous years. Excluding this, the effective tax rate for the year ended 31 December 2018 would have been 24.5% (2017: 25.8%).

The cost/income ratio increased from 49% to 60%. This was primarily due to the non-recurring impact of the 2017 negative past service cost arising from the decision to cease defined benefit accrual.

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

The continued improvement in collateral values and trading performance of Business customers during 2018 was reflected in impairments. However, this was offset by the implementation of an 'expected credit loss' model under IFRS 9 (as outlined above) and, in particular, the impact of the application of forward-looking macroeconomic scenarios and assumptions which reflect the level of economic uncertainty, at 31 December 2018, surrounding the UK's exit from the EU. Overall, the Bank recognised a net impairment charge in 2018 of £2.9m (2017: impairment credit £29.2m).

Review of business (continued)

Financial review (continued)

During 2018 the Bank borrowed £350m of wholesale funding from the Bank of England under its Term Funding Scheme (TFS). Cash and balances held at central bank increased by £161.8m (+9%) and the Bank's holdings of investment securities increased by £157.8m (+16%) reflecting the Bank's ongoing management of liquidity risk and interest rate risk.The TFS funding is expected to be replaced over time by retail deposits.

A net deferred tax asset of £3.2m was recognised at 31 December 2018 (2017: £0.5m). The key driver of the increase in the deferred tax asset to £3.2m was the deferred tax asset arising on adoption of IFRS 9 (as outlined above).

A property revaluation at 30 June 2018 was undertaken by external valuers and this increased the carrying value of properties by £0.3m. The previous property valuation was at 30 June 2017. During 2018 the Bank disposed of one property (2017: no properties) and has two properties held for sale at 31 December 2018 (2017: one property).

The funded status of the defined benefit pension scheme was a surplus of £150.3m at 31 December 2018 and was similar to that as at 31 December 2017 (£154.3m).

The Bank remains well capitalised and this is reflected in its solvency ratio of 19.0% (2017: 18.3%). During the year interim dividends of £128.0m (2017: £Nil) were paid to the Bank's ultimate parent undertaking Danske Bank A/S.

We continue to report a strong liquidity position with a pool of liquid assets in excess of £2.0 billion at 31 December 2018 (2017: £1.9 billion).

General review

2018 was a challenging, but successful year. As the pace of change in financial services continued to accelerate, we maintained our focus on digitally transforming the Bank, improving customer experience and streamlining internal operations.

While we planned for a wide range of potential outcomes, uncertainty relating to Brexit had a relatively small impact on lending in 2018. Against this backdrop, we maintained leading business and personal market share positions. The Bank maintained its position of clear first for customer satisfaction within Corporate & Business Banking. In Personal Banking, customer satisfaction improved steadily through the year in a very competitive market.

Personal Banking

It was another strong year for our mortgage business, with new mortgage lending up over 25% on 2017. We launched a new ‘Helping Hand’ remortgage proposition and a new Danske Follow-on Rate product. We strengthened our ties with the independent broker network and completed the roll-out of our online application proposition. Danske Bank is now providing 1 in 4 first time buyer mortgages and 1 in 5 of all mortgages in Northern Ireland.

To improve our offering for older customers we enhanced our Danske Midas account and launched a Notice Account with enhanced savings rates.

The way customers use branches has changed significantly in recent years. Branch visits continue to reduce year-on-year and for several years mobile banking has been our most frequently used channel. As a business, we must respond to these changes, and in 2018 we made the difficult decision to close a further two branches. However, branches continue to be an important channel, especially for value-adding interactions where customers appreciate the help of our professional staff face-to-face or on the telephone. We have invested over £3 million in key branches over the last two years to better meet the needs and expectations of today's consumers and businesses. In 2018 this included a major refurbishment of our flagship Belfast city centre branch.

Alongside this branch investment, we trained 100 colleagues to become multi-skilled Personal Bankers, able to flex between various branch activities.

Through collaboration with the Department for Economy, and with support from Invest NI, we also opened a Customer Protection Centre in Derry-Londonderry, creating 67 new jobs in the North West.

Start-ups and Small Business

We continued to help Northern Ireland’s businesses by providing access to funding, expertise and advice.

In 2018 we enhanced our support for start-ups and in particular, early stage technology companies operating in the finance sector, who have a global outlook and the ambition to expand quickly.

We partnered with Techstart NI to launch the ‘Open Banking Challenge’, a competition to find innovative new ideas that capitalise on the opportunities presented by Open Banking, which came into force in Q1.

The refurbishment of the ground floor of our head office building included the creation of a new co-working space for fintech companies. The Catalyst Belfast Fintech Hub is a partnership with Catalyst Inc and supports our ambition to nurture and grow Northern Ireland’s fintech sector.

We also launched thehub.io – an online portal to help the growing number of wider start-up businesses in Northern Ireland connect with investors and potential new recruits. The Hub is based on a strategic partnership between Danske Bank, Catalyst Inc and Rainmaking, a global cooperative of entrepreneurs. By the end of 2018, 114 NI start-ups were using thehub.io and 254 jobs had been advertised on it.

Review of business (continued)

General review (continued)

Business & Corporate Banking

In Business & Corporate Banking we maintained a clear leading market and customer satisfaction position, cementing our position as the leading business bank in Northern Ireland. Business lending increased year-on-year.

In 2018 we took the first steps to digitise the lending journey for our business customers. This has enabled the transformation of the customer credit journey by reducing the time taken for new lending requests from existing customers from weeks to minutes.

We continued our series of Danske Advantage thought leadership events and boardroom lunches, bringing together business leaders and experts on a range of topics, including Brexit, GDPR and cyber security.

Investment in digital

It was a strong year for digital innovation, driven by increasing customer expectations and the launch of Open Banking in the UK.

Danske Bank was one of the first three banks to allow registered Account Information Service Providers to aggregate our data.

We saw further adoption of our digital channels, with more than 4 million digital logons per month and a 35% increase in digital transactions year-on-year.

In turn, we continued to invest in our wider digital offering, including a new Personal Banking Mobile app and new wearable payment options, Samsung Pay, Garmin Pay and Google Pay. Danske Bank is the first bank in Northern Ireland to support all of the main contactless payment services.

In December, we also became the first of the local banks to launch an Open Banking feature for customers. Customers who also have a personal current account with Santander can choose to view their Santander balances and transactions when they log on to our new Mobile Bank, giving them a clear view of their money without switching between apps. More banks will be added in the coming months.

Our role in society

Every day we help businesses and families realise their dreams and ambitions through financial support. Ensuring we do this responsibly is key to who we are at Danske Bank.

In 2018, Danske Bank achieved Business in the Community's CORE Standard for Responsible Business, benchmarking us against Northern Ireland's most responsible companies. We achieved Silver level, which makes us the highest placed financial services company.

In the second year of our partnership with Action Mental Health we raised over £63,000 for children's mental health. The partnership delivers on four strategic areas- fundraising, volunteering, employee wellbeing and education and awareness.

Through our Danske Time to Give volunteering programme we facilitated our employees to volunteer over 2,000 hours in local communities across Northern Ireland, up from 778 hours in 2017. Colleagues also helped educate over 5,455 children and young people through our SMART financial confidence programme, up from 4,600 in 2017.

Recognising that an important part of our responsibility is helping to educate our customers about fraud and cyber-crime, we launched a new initiative 'Keep it safe', to help educate customers and the general public about common scams and offer advice on what people can do to help keep themselves and their families safe from fraud.

We worked closely with the Alzheimer's Society to train Dementia Champions and Dementia Friends across our business and are now recognised as a dementia-friendly organisation.

We also worked with local social enterprise, the NOW Group, to become the first JAM Card Friendly bank in Northern Ireland, providing people with communication barriers a discreet, non-verbal way of asking for a minute of patience when they need it.

We stepped up our focus on diversity and inclusion and received two gender diversity charter marks in recognition of our strong work during the year on gender diversity. For the first time in our history, Danske Bank also had a walking group at Belfast Pride.

Review of business (continued)

General review (continued)

Our role in society (continued)

We continue to work hard to reduce our negative impact on the environment. Since 2015 we have reduced the amount of waste we generate by 41% and reduced the amount we send to landfill by 54%. This year we achieved Platinum in the NI Environmental Benchmarking Survey, a move up from Gold after four years. We are the highest ranked financial services company in Northern Ireland.

Future development

2019 will be a challenging year, with a greater level of uncertainty due to Brexit. We are planning for different outcomes and supporting our customers on this journey.

Digital transformation will only accelerate further in 2019, driven by customer expectations, competition and Open Banking.

While the macro-environment remains challenging, as Northern Ireland's biggest bank we remain resolute in our commitment to supporting our customers and the Northern Ireland economy.

Principal risks and uncertainties

Economic overview

UK GDP grew by 0.2% in the last quarter of 2018, down from 0.6% in the third quarter of the year. In annual terms, the UK economy grew by 1.4% in 2018, lower than the 1.8% observed in 2017.

In its Northern Ireland Quarterly Sector Forecasts 2018 Q4 report, Danske Bank estimated that annual economic growth in Northern Ireland was 1.1% in 2018, lower than the 1.7% recorded in 2017.

The CPI inflation rate in the UK fell slightly from 2.3% in November to 2.1% in December 2018. In annual average terms, UK inflation was 2.5% in 2018, down from 2.7% in 2017.

The Northern Ireland labour market data for October – December 2018 showed that, over the quarter, the employment rate increased to 70.3%, the unemployment rate was unchanged at 3.8% and the economic inactivity rate decreased to 26.8%. In annual average terms, the unemployment rate in 2018 was 3.6%, the employment rate was 69.8% and the economic inactivity rate was 27.5%.

House prices in Northern Ireland increased by 5.5%, on an annualised basis, over the year to the fourth quarter of 2018, higher than the 4.7% rise in 2018 Q3. The standardised house price in 2018 Q4 was £136,669. In annual average terms, house prices in Northern Ireland increased by 4.6% in 2018.

Looking forward, the gradual recovery in consumers’ spending power is set to continue, although there will likely still be some pressure on household budgets in 2019. As such, the rate of consumer spending growth is expected to rise only slightly. Business investment is also likely to remain subdued as firms continue to face uncertainty about the UK’s future, long-term trading relationship with the EU. Overall, Danske Bank are forecasting that economic growth in Northern Ireland will rise slightly in 2019. This is based on the assumption that a Brexit deal is reached and that the UK leaves the EU in an orderly manner.

The UK vote to leave the EU ("Brexit")

Following the EU Referendum in June 2016, and pursuant to the exit process triggered under Article 50 of the Treaty on European Union in March 2017, the UK is scheduled to leave the EU on 29 March 2019. The terms of a Brexit withdrawal agreement negotiated by the UK Government were decisively voted against by Parliament on 15 January 2019. The UK Government and Parliament are currently actively engaged in seeking to determine the terms of this departure, including any transition period, and the resulting economic, trading and legal relationships with both the EU and other counterparties currently remain unclear and subject to significant uncertainty.

As it currently stands, EU membership and all associated treaties will cease to apply at 23:00 on 29 March 2019, unless some form of transitional arrangement encompassing those associated treaties is agreed or there is unaminous agreement amongst the UK, other EU member states and the European Commission to extend the negotiation period.

The direct and indirect effects of the UK's exit from the EU and the European Economic Area ('EEA') are expected to affect many aspects of the Bank's business and operating environment, and may be material and/or cause a near-term impact on impairments. The resulting negative economic outlook could drive an increased level of credit impairments, reflecting the more forward-looking nature of IFRS 9.

There is ongoing monitoring of the UK's withdrawal from the EU, with negotiations creating significant economic uncertainty and a potential negative impact for the UK macroeconomy. The Bank continues to consider all potential consequences for its customers, products and operating model with mitigating actions in place as appropriate. The uncertainty and related pace of change is being monitored closely and the Bank will react appropriately having given consideration to both potential and actual outcomes, customer and other stakeholder implications.

Principal risks and uncertainties (continued)

Risk appetite

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

Business risk (Outlook: Increasing)

Business risk is split into two distinct areas, strategic performance and reputational damage.

- Strategic performance
This is the risk associated with management decisions about the direction and implementation of strategy, including competitors, growth strategies, missed opportunities, planning, change management and re-engineering. This risk is continually measured via both first line monitoring and second line oversight of key agreed metrics. The uncertainty attaching to Brexit contributes to an outlook of increasing business risk.

- Reputational damage
This is the impact of actions/circumstances, via adverse publicity or diminished community standing, having a material impact on the reputation, market confidence and ultimate viability of the Bank. Contagion is the cross-country transmission of shocks or the general cross-country spill over effects. Reputational risk can be a consequence of other events and therefore the impact of reputational risk is considered as part of all the Bank's risk assessment activities and across all risk categories.

A clearly defined Corporate Plan, within the boundaries of the Board approved risk appetite, is prepared annually. This Corporate Plan is based on a balanced growth of lending and deposits with a stable funding profile that is appropriate for the asset mix.

Key performance indicators are clearly defined and are closely and regularly monitored. Overall the business risk outlook is seen as increasing due to the competition in the banking arena from non traditional banks e.g. Open Banking, together with the significant level of regulatory change e.g. High Cost of Credit Review and Alternative Dispute Resolution.

Operational risk (Outlook: Increasing)

This is the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. The Bank seeks at all times to have optimal control of all types of operational risk but recognises that this is an inherent part of doing business and the Bank's objective generally is not to eliminate the risk, but rather to ensure that the risk is effectively managed at an acceptable level, in a cost effective manner. The key areas of focus in this area include:

- Clients, products and business practice
  This is the risk of loss from an unintentional or negligent failure to meet a professional obligation to specific clients or from the nature or design of a product. The Bank, in common with the rest of the UK financial services industry, is faced with intense regulatory scrutiny and has implemented specific processes and controls to ensure that the Bank can effectively manage its regulatory obligations.

- Business disruption and/or technology systems failure
  This is the risk that the Bank's business continuity policy and process is not fit for purpose. The Bank recognises the impact that service interruption or failure would have on its customers and business and therefore continually strives for excellence by monitoring incidents and reviewing and updating its contingency plans to ensure that customer detriment is kept to a minimum.

- Fraud
  This is the risk of loss due to acts of a type intended to defraud, misappropriate property or circumvent the law by a third party or member of staff. The Bank employs detailed processes and controls to protect its customers and staff from the implications of the various types of fraud that could occur; these include fraud related to cards, cheques, internet banking, robbery, kidnapping, scams and loan fraud.

- Cyber security
  This is the risk that the Bank and/or its customers become the victim of crimes perpetrated by the use of the internet. In financial services, these crimes include the use of malware designed to bring IT systems down, the use of spyware to gather information and the use of emails designed to trick recipients into revealing details related to personal or business finances to cybercriminals. This risk also includes distributed denial of service type attacks. Robust cyber security forms a significant and key component of the corporate IT strategy and the Bank continues to invest in improvements within the IT security area in order to increase resilience and controls towards cybercrime.

The Bank's strategic focus for operational risk is to see a significant year-on-year reduction in fraud losses as it continues to make enhancements to channel security controls and to ensure its security infrastructure is comparable to peers in the UK market. Aside from this, no material additional risk is desired and this includes a clearly defined and conservative risk appetite for conduct risk and an aim to continue to improve IT system stability.

The Bank maintains adequate control and oversight of operational risk via reporting to the Operational Risk and Compliance Committee (ORCC) and the Information Technology Risk Committee (ITRC).

Principal risks and uncertainties (continued)

Operational risk (Outlook: Increasing) (continued)

Although the Bank is firmly focused on operational risk performance improvement, it acknowledges that the key drivers of operational risk have become increasingly complex including; automation and digitalisation, regulatory focus on customers as victims, reputational impact and fines from operational events and cyber risk, whilst the General Data Protection Regulation (GDPR) control environment is still being embedded. For this reason the Bank sees the operational risk outlook as increasing for the considerable future.

Regulatory risk (Outlook: Increasing)

The Bank is continually scanning the regulatory horizon to ensure that any upcoming changes to the legal and regulatory environment or external events which could have a potential impact on the Bank are identified and appropriately dealt with. The Bank also reviews major developments in the market, local, national and international economies and undertakes forward looking assessment of the potential position and negative impacts on the business.

Significant uncertainty exists as to the respective legal and regulatory arrangements under which the Bank will operate when the UK is no longer a member of the EU.

Credit risk (incorporating concentration risk and residual risk) (Outlook: Increasing)

Credit risk is the potential that a borrower or counterparty is unable or unwilling to meet its obligations in accordance with agreed terms.

Concentration risk arises where the Bank is considered to be over exposed to a particular lending sector or region and materialises if the particular lending category (e.g. region, industry) performs badly.

Residual risk is the risk that credit risk mitigation techniques such as haircut parameter and credit models used by the Bank prove less effective than expected.

The management of credit risk within the Bank is achieved through both the traditional focuses on approval and monitoring of individual transactions together with analysis of the performance of the various credit risk portfolios. Portfolio monitoring covers such areas as industry or geographic concentrations and delinquency trends.

The Bank values long-term customer relationships. To maintain such relationships, the Bank must always be able to offer competitive financial solutions. It must also identify, at an early stage, any adverse developments in a customer's financial condition and, through discussions with the customer, take the actions necessary to avoid future losses. Consequently, when extending and monitoring credits, the Bank makes detailed assessments of individual customers and their financial positions.

The Bank continues to monitor closely the credit standing of customers in the light of Brexit, particularly those customers and industry sectors considered vulnerable to Brexit related risks. It will also endeavour to react quickly in implementing suitable credit related policies to counteract risks arising under the present fluid environment, as the need arises.

The uncertainties around the ultimate outcome of Brexit will have an impact upon future impairment levels. The underlying stress scenarios which underpin the impairment calculation under IFRS 9 can be adjusted to encapsulate forecast macroeconomic conditions dependent upon the likelihood of occurrence of various Brexit outcomes.

Clear Board approved risk appetite limits (including early warning indicators) are in place to monitor and control lending mix and portfolios within acceptable parameters.

- Credit granting process

The Bank has established processes for the granting of credit. These include:
- establishment of overall credit limits at the level of individual borrowers and counterparties, and groups of connected counterparties for both on-balance sheet and off-balance sheet exposures;
- satisfaction with repayment capacity and integrity of the counterparty;
- use of financial covenants;
- use of collateral;
- consideration of economic and industry conditions; and
- an objective customer rating assessment system.

At least on an annual basis, the Bank reviews all exposures to take account of new financial and other data. If the review identifies a need to adjust the risk assessment, the Bank will prepare suitable action plans.

This approach to credit risk is supported by documented policies and processes for the granting of credit within the Bank. The key elements of the process include:
- authorities for the approving of credit; and
- sample review of credit approvals to ensure adherence to policies and good credit practice.

The delegated authorities are aligned to the counterparty by the inclusion of customer ratings in the authority matrix. The system, based on probability of default of the counterparty, provides meaningful differentiation of credit risk, enabling greater focus in pricing for risk.

Principal risks and uncertainties (continued)

Credit risk (incorporating concentration risk and residual risk) (Outlook: Increasing) (continued)

For consumer lending, credit scoring solutions are supported by the mandatory use of appropriate monitoring tools. These tools provide the essential continual review of data integrity, scorecard performance and decision strategies. Software to validate and verify input data is used to support data integrity and prevent fraudulent activity.

- Maintaining an appropriate credit administration, measurement and monitoring process

Effective credit administration operations and adequate control over back office procedures such as monitoring documentation, contractual requirements, legal covenants and collateral are recognised as being vitally important aspects of the end-to-end credit process. These responsibilities are assigned to various business units within the Bank together with centralised structures supporting the branch network and business bankers.

- Ensuring adequate controls over credit risk

Regular reports are submitted to the Bank's Credit Oversight Forum and the Board of Directors. Additionally, credit processes and policy compliance are subject to Internal Audit and targeted credit reviews of specific business units are undertaken within defined timescales and/or as considered appropriate.

The Bank constantly monitors exposures to identify any signs of weakness in customer earnings or liquidity as early as possible. Credit facilities that are outside agreed arrangements are reported to the appropriate levels of authority for attention and monitoring of actions taken. Customers that show adverse operating trends or other signs of credit weakness are put on the "Watch List". Customer exposures that are on the "Watch List" are passed to a specialist internal unit of experienced credit officers, supported by external service providers, where necessary. This unit also undertakes the collection and recovery processes.

When exposures are placed on the "Watch List", the Bank reduces the size of credits that can be extended without approval by the Board of Directors via the Danske Bank Group's credit function.

- Management of the credit portfolio

To support the management of credit risk, the Bank has established a portfolio management system that sets limits on country, sector and industry concentrations. The segmentation of the credit portfolio enables the Bank to manage the composition and size of its portfolio in accordance with its risk policy.

Liquidity risk (Outlook: Stable)

Liquidity risk is the risk of losses because funding costs become excessive, lack of funding prevents the Bank from maintaining its business model, or lack of funding prevents the Bank from fulfilling its payment obligations.

The Bank conducts regular liquidity risk stress testing in accordance with its liquidity stress testing policy.

From 1 October 2015, following the introduction of the Liquidity Coverage Requirements under the Capital Requirements Directive (CRD) IV, the Bank is obliged to comply with the PRA’s new liquidity regime, specifically under the PRA Rulebook PRA 2015/49 and Supervisory Statement SS24/15 which replaced the previous BIPRU regime. The Bank is obliged to produce an Individual Liquidity Adequacy Assessment Process (ILAAP) report at least annually. In addition, a Board approved liquidity framework document sets out the principles and standards of liquidity/funding management in the Bank.

The objectives of the Bank's liquidity/funding management are to:
- ensure that the Bank is able to meet its obligations at all times;
- effectively and appropriately identify, measure, monitor and control the Bank's liquidity/funding risk within the approved liquidity/funding appetite;
- ensure an effective oversight of liquidity funding management;
- meet all internal liquidity/funding limits and regulatory requirements; and
- effectively manage the Bank in times of liquidity crisis.

Taking on liquidity risk is an integral part of the Bank's business strategy. By its nature, the Bank will, in most instances, lend funds for a much longer period than it will take deposits. The Bank must always have a liquidity position that enables it to meet its obligations and strategies, in particular regulatory obligations and business strategies. In the current market environment the Bank’s liquidity risk appetite is conservative and the Bank maintains a strong liquidity and funding position.

The Bank must maintain at all times a liquidity buffer sufficient to cover the need for liquidity that may arise over a period of both normal and stressed conditions. The assets in the liquidity buffer must be freely available at all times and of a quality sufficient to ensure that they can provide liquidity to the Bank even in a stressed situation. The minimum size of the liquidity buffer is determined by internal stress test analyses and regulatory requirements. In particular, the Bank must comply with the PRA regulatory requirement to maintain a liquidity buffer based on Liquidity Coverage Ratio (LCR) requirements. The assets held within the liquidity buffer must comply with Articles 6-19 of the European Commission Delegated Regulation (EU) 2015/61 (Delegated Act), dated 10 October 2014, at all times.

The liquid asset portfolio is primarily comprised of cash at the Bank of England, UK Government Securities (Gilts) and listed securities. The Bank has evolved its approach to managing the liquid asset buffer (LAB) to more effectively utilise cash to reduce the cost of the LAB while still holding high quality, low risk liquid assets, by broadening the composition of the portfolio. The Bank has diversified by investing in a broader range of European covered bond issuances, non-domestic sovereign and multilateral development banks. Previously, liquidity was mainly held in Bank of England accounts, earning base rate, alongside holdings of Gilts.

Principal risks and uncertainties (continued)

Liquidity risk (Outlook: Stable) (continued)

The Bank conducts two forms of stress tests:
- internal stress tests including three standard scenarios: a scenario specific to the Bank, a general market crisis scenario and a combination of the two; and
- LCR regulatory stresses, ensuring that the Bank has sufficient liquidity to survive for a 30 day period.

All stress testing assumptions, methodology and results are documented in the current ILAAP document. The Risk Appetite Statement details the current Board approved survival days. This forms the Board approved stress test appetite.

The Board has approved a risk appetite which details a minimum customer loan to deposit ratio. This risk appetite is designed to prevent aggressive asset growth being funded by excessive levels of wholesale funds, which could prove volatile in a stressed situation. Retail deposits are a valuable, stable funding source for the Bank. Most of the retail deposits are covered by the Financial Services Compensation Scheme, and analysis indicates that they are indeed stable over time.

Market risk (Outlook: Stable)

Market risk is the risk that the Bank will suffer losses caused by changes in the market value of financial assets and liabilities resulting from changes in market prices or rates (interest rates, foreign exchange, equity prices, commodity prices and indices). Interest rate risk is described separately below. The main market risk factor relevant to the Bank is foreign exchange rate risk. Market risk is relevant to the Bank's activity in which it primarily acts as a counterparty to satisfy customers' needs through the provision of a full range of foreign exchange and interest rate related services including derivative financial instruments. In compliance with Bank policies since 2006, the Bank enters into similar but opposite transactions for derivatives with Danske Bank Group counterparties to hedge these positions and effectively mitigate any market risk.

The Bank does not trade in derivatives. Derivatives are only entered into to manage net open positions deriving from transactions with customers or for hedging.

Interest rate risk (Outlook: Stable)

The operations of the Bank are subject to the risk of interest rate fluctuations, to the extent that there is a difference between the amount of the interest-earning assets and interest-bearing liabilities that mature or reprice in specified periods. The principal objective of asset and liability management is to protect levels of net interest income, while maintaining acceptable levels of interest rate and liquidity risk and to facilitate the funding needs of the Bank. To achieve these objectives, the Bank uses a combination of derivative financial instruments and debt securities.

Structural interest rate risk is calculated using balance sheet simulation processes that are undertaken across banking operations. The results of balance sheet simulations, together with other balance sheet risk management information and strategies, are presented and reviewed at Asset and Liability Committee (ALCO) and at scheduled Board meetings.

Interest rate risk is the risk of losses the Bank will incur as a result of an increase or a decrease in interest rates. Specifically this relates to the Bank's banking book only, as the Bank does not take any active proprietary positions and does not engage in any active trading in equity, debt or derivative markets. The specific types of interest rate risk include re-pricing/yield curve risk, basis risk, margin compression risk (including floor risk) and option risk. The Bank calculates interest rate risk using both Earnings at Risk (EAR) and Economic Value of Equity (EVE).

Pension risk (Outlook: Decreasing)

Pension risk is the risk of a shortfall in the Bank's defined benefit pension scheme that necessitates the Bank to make additional contributions to cover its pension obligations. The potential for a deficit in a defined benefit plan arises from a number of factors which could include:

- investments delivering a return below that required to provide the projected plan benefits. This could arise, for example, when there is a fall in the market value of equities, or when increases in long-term interest rates cause a fall in the value of fixed income securities held;
- the prevailing economic environment leading to corporate failures, thus triggering write-downs in assets;
- a change in either interest rates or inflation which causes an increase in the value of the scheme liabilities; and
- scheme members living longer than expected i.e. longevity risk.

The trustees are solely responsible for the investment of the Scheme's assets which are held separately from the assets of the Bank. The Bank and the trustees must agree on the investment principles and the funding plan. The trustees of the defined benefit pension scheme and the Bank have agreed a three year valuation cycle for obtaining a full actuarial valuation i.e. a written report, prepared and signed by the actuary, valuing the plan's assets and calculating its liabilities and assessing the overall plan solvency. The purpose of the valuation is to advise the trustees on the financial position of the plan and on the appropriate level of future contributions to be paid by the participating employers.

Based on the report and having obtained actuarial, financial and legal advice, the trustees enter into negotiations with the Bank in order to agree a schedule of contributions i.e. contributions required to meet the cost of future service pension accruals of active members, to meet the cost of the death in service benefits payable and potential deficiency contributions. The advice given includes an independent assessment of the sponsor's covenant.

Pension risk has been partly mitigated by the purchase in 2015 of a bulk buy-in annuity which covers all pensions in payment to retirees as at 1 February 2015 and by the cessation of future accrual from 1 October 2018.

Principal risks and uncertainties (continued)

Pension risk (Outlook: Decreasing) (continued)

Pension risk is assessed by way of an economic capital model that takes into account potential variations in factors, using a Value-at-Risk measure. The Bank has established procedures to be followed in the case of deviations from these objectives. The Board has defined risk targets for the Bank's defined benefit pension fund. To follow up on the objectives, the Bank uses quarterly risk reports that analyse the financial status of the plan by means of sensitivity analysis and the Value-at-Risk measure. The Bank has fixed limits for risk exposure levels.

The Bank's strategic focus for pension risk is to continue to review and oversee implementation of strategies to reduce pension risk.

Investment risk (Outlook: Stable)

The Bank's exposure to investment risk results from its holdings of cash at the Bank of England, UK government securities (Gilts), European covered bonds, non-domestic sovereign exposures and multilateral development bank bonds. The investment portfolio fluctuates according to the Bank's liquidity and interest management requirements as well as its cash positions.

Group risk (Outlook: Stable)

This is the risk that the financial position of the business may be adversely affected by its relationship (financial and non financial) with other entities in the same group or by risks which may affect the financial position of the whole group. The impact of group risk is considered as part of all the Bank's risk assessment activities and across all risk categories. The Bank's parent, Danske Bank A/S, reported a return on equity of 9.8% for the year ended 31 December 2018. Furthermore, its capital position remained strong with a Common Equity Tier 1 ratio of 17.0% at 31 December 2018.

The Bank (as a Group) is responding to justified criticism of its management of AML issues in Estonia, particularly in the areas of stronger governance controls and Group oversight. This issue had limited impact locally.

Capital adequacy risk (Outlook: Stable)

This is the risk that the Bank holds insufficient capital to absorb extreme and unexpected losses which could eventually result in insolvency.

Capital adequacy risk is central to the strategic planning process. There is regular senior management reporting in relation to forward-looking capital limits and early warning indicators and onward reporting to accounts. A comprehensive Individual Capital Adequacy Assessment Process (ICAAP) is undertaken annually showing the Bank's capital adequacy and capital quality under stress.

Capital position (unaudited)

The Bank's Common Equity Tier 1 ratio (on a UK Prudential Regulation Authority basis) increased from 13.0% in December 2017 to 13.8% in December 2018.

Regulatory capital

	31 December 2018 £'000	31 December 2017 £'000
Common Equity Tier 1 capital		
Permanent share capital	**218,170**	218,170
Profit and loss account	**180,288**	260,516
Profit yet to be verified for inclusion in regulatory capital	**(20,708)**	(119,663)
Share premium account	**306,590**	306,590
Revaluation reserve	**35,602**	35,364
Investment securities - Hold to collect and sell	**(2,977)**	(1,119)
Transitional adjustment IFRS 9	**14,174**	-
Less : pension fund asset (net of tax)	**(115,465)**	(154,261)
Less : deferred tax asset ineligible for Common Equity Tier 1 capital	**(23,830)**	(534)
Less : prudent valuation adjustment	**(334)**	(337)
Less : intangible asset	**(415)**	(274)
Total Common Equity Tier 1 capital after deductions	**591,095**	544,452
Additional Tier 1 capital		
CRD IV compliant instrument	**97,101**	97,020
Tier 2 capital		
Dated CRD IV compliant subordinated loan instruments	**126,000**	126,000
Total capital after deductions	**814,196**	767,472

Principal risks and uncertainties (continued)

Capital position (continued)

Risk-weighted exposure amounts (REA) (standardised approach)

	31 December 2018 £'000	31 December 2017 £'000
Credit risk	**3,902,542**	3,816,468
Operational risk	**379,629**	376,183
Market risk	**1**	14
Credit value adjustment	**44**	44
	4,282,216	4,192,709

Capital ratios

	31 December 2018	31 December 2017
Common Equity Tier 1 ratio	**13.8%**	13.0%
Tier 1 ratio	**16.1%**	15.3%
Total capital ratio	**19.0%**	18.3%
Total Capital Requirement (TCR)	**12.0%**	13.4%
Leverage ratio	**7.0%**	7.1%

Regulatory capital to statutory total equity reconciliation

	31 December 2018 £'000	31 December 2017 £'000
Regulatory Common Equity Tier 1 capital	**591,095**	544,452
Add back:		
- Pension fund asset (net of tax)	**115,465**	154,261
- Deferred tax asset	**23,830**	534
- Profit to be verified for inclusion in regulatory reporting	**20,708**	119,663
- Intangible assets	**415**	274
- Cash flow hedge reserve	**148**	4
Additional tier 1 capital	**97,101**	97,020
IFRS 9 transitional adjustment	**(14,174)**	-
Prudent valuation adjustment	**334**	337
Statutory total equity	**834,922**	916,545

Minimum Pillar 1 capital requirements

	31 December 2018 £'000	31 December 2017 £'000
Credit risk	**312,203**	305,317
Operational risk	**30,370**	30,095
Market risk	**-**	1
Credit value adjustment	**4**	4
Pillar 1 regulatory capital	**342,577**	335,417

Principal risks and uncertainties (continued)

Regulatory capital flow of funds

	31 December 2018 £'000	31 December 2017 £'000
Common Equity Tier 1 capital		
Common Equity Tier 1 capital at 1 January	**544,452**	589,992
Profit for the year	**70,173**	119,663
Adjustment for profit yet to be verified for inclusion in regulatory capital	**98,957**	(107,075)
Property revaluation (net of tax)	**339**	1,474
Tax movement on revaluation reserve	**-**	(73)
Investment securities: Hold to collect and sell (net of tax)	**(1,858)**	(1,119)
Additional Tier 1 interest (net of tax)	**(5,429)**	(3,277)
Pension surplus adjustment (net of tax)	**(259)**	(72,561)
Dividend	**(128,000)**	-
Deferred tax asset movement	**10,932**	17,955
Prudent valuation adjustment movement	**3**	(253)
Intangible asset movement	**(141)**	(274)
IFRS 9 transitional adjustment	**1,926**	-
Total Common Equity Tier 1 capital after deductions at 31 December	**591,095**	544,452
Additional Tier 1 capital		
Additional Tier 1 capital at 1 January	**97,020**	81,002
Issuance of capital	**-**	16,000
Movement in interest accrual	**81**	18
Additional Tier 1 capital at 31 December	**97,101**	97,020
Tier 2 Capital		
Tier 2 capital at 1 January	**126,000**	100,000
Issuance of CRD IV compliant subordinated loan instruments	**-**	26,000
Total Tier 2 capital after deductions at 31 December	**126,000**	126,000
Total capital after deductions at 31 December	**814,196**	767,472

Capital requirements for calculating risk-weighted exposure amounts - Credit risk

As at 31 December 2018

	Capital required £'000	**REA £'000**	**Exposure £'000**
Corporate	191,926	2,399,074	3,756,683
Retail	94,420	1,180,247	3,683,803
Institutions	3,019	37,739	85,633
Sovereign	-	-	4,193,627
Other	22,839	285,482	438,951
	312,204	**3,902,542**	**12,158,697**

As at 31 December 2017

	Capital required £'000	REA £'000	Exposure £'000
Corporate	187,662	2,345,773	3,587,723
Retail	92,087	1,151,093	3,318,941
Institutions	4,286	53,577	116,221
Sovereign	-	-	3,889,187
Other	21,282	266,025	308,486
	305,317	3,816,468	11,220,558

Approved by order of the Board and signed on behalf of the Board of Directors.

Fiona Sturgess
Company Secretary
21 March 2019

The Directors of Northern Bank Limited (the "Bank") submit their annual report and audited financial statements (Income Statement, Statement of Comprehensive Income, Balance Sheet, Cash Flow Statement and Statement of Changes in Equity) for the year ended 31 December 2018.

The Bank's profits, strategic highlights, business developments and management of risk are set out in the Strategic Report on pages 3 to 13 and notes 1 to 45 of the Financial Statements.

Financial instruments

The financial risk management objectives and policies of the Bank are detailed in note 39 of the Financial Statements.

Dividends

The Directors paid interim dividends during the year of £128,000,000 (2017: £Nil). The Directors do not recommend the payment of a final dividend in respect of this financial year (2017: £Nil).

Directors and Directors' interests

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

Michael Black
Vicky Davies
Jim Ditmore
Carsten Egeriis (appointed 17 September 2018)
Gerald Gregory
Kevin Kingston
Margaret Lesley Jones
Stephen Matchett
Lars Stensgaard Mørch (resigned 5 April 2018)
Paul Rooney

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

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

Directors' liabilities

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

Employee involvement

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

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

Employment policy

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

Employment of disabled persons

It is the policy of the Bank to promote equality of employment opportunities by giving full and fair consideration to applications from disabled people for vacancies where particular job requirements are considered to be within their ability. If existing employees become disabled, every effort is made to retain them within the workforce, wherever reasonable and practicable. The Bank also endeavours to provide equal opportunities in the training, promotion and general career development of disabled employees.

Political donations

No political donations were made by the Bank during the financial year (2017: £Nil).

Bribery Act 2010

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

Going concern

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

Note 39 to the Financial Statements together with "Principal risks and uncertainties" in the Strategic Report describe the risks the Bank is exposed to and how they are managed.

The key factors considered in the going concern assessment were:
- Capital and profitability i.e. the expected future profitability and thus self-sufficiency from a capital perspective of the Bank. The current Corporate Plan and ICAAP demonstrate that the Bank is expected to generate profits in excess of the capital required for projected lending growth;
- Liquidity. At 31 December 2018 the portfolio of liquid assets was £2.0bn and significantly in excess of that required to meet the most stressful liquidity scenario. The Bank's loan book is fully funded by customer deposits and the Bank has a low loan-to-deposit ratio of 78%; and
- Availability of Group support. The Bank has a supportive parent that is profitable and well capitalised.

As a consequence, the Directors believe the Bank is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Future developments

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

Disclosure of information to the auditor

The Directors who hold office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each Director has taken all the steps he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Bank's auditor is aware of that information. The Directors have pleasure in submitting their annual report and audited Financial Statements for the year ended 31 December 2018 to the shareholders.

Auditor

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

By order of the Board

Fiona Sturgess
Company Secretary

21 March 2019

NORTHERN BANK LIMITED
Statement of Directors' Responsibilities
For the year ended 31 December 2018

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

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

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

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

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

On behalf of the Board

Kevin Kingston
Director and Chief Executive Officer

21 March 2019

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

Report on the Audit of the Financial Statements
Opinion on the Financial Statements of Northern Bank Limited (the ‘Bank’)

In our opinion the financial statements of Northern Bank Limited (the 'Bank'):
- give a true and fair view of the state of the Bank's affairs as at 31 December 2018 and of the profit for the financial year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

The financial statements we have audited comprise:
- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Cash Flow Statement;
- the Statement of Accounting Policies; and
- the related notes 1 to 45.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs adopted by the European Union.

Basis for opinion

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

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: - Expected credit losses on loans and advances to customers; - Valuation and recoverability of deferred tax asset; and - Valuation of defined benefit pension scheme obligations. The key audit matters are consistent with the year ended 31 December 2017, with the key audit matter in respect of loan loss provisioning updated to reflect the adoption of IFRS 9.
Materiality	The materiality that we used in the current year was £5,000,000 which was determined on the basis of profit before tax.
Scoping	We determined the scope of our audit by understanding the Bank and its environment, including controls, and assessing the risk of material misstatement. Based on that assessment, the audit was performed primarily by Deloitte (NI) Limited in Belfast, with centralised processes within the Danske A/S Group (primarily General IT controls and model driven loan loss provisions) being audited by a separate audit team in Copenhagen, Denmark.
Significant changes in our approach	There have been no significant changes in our approach compared to the audit for the year ended 31 December 2017.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:
- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors' have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Bank's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

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

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

Key audit matters (continued)

Expected credit losses on loans and advances to customers	
Key audit matter description	On 1 January 2018, the Bank transitioned to financial instruments accounting standard IFRS 9, which replaced IAS 39. Under the new impairment model, losses on assets which are recognised at amortised cost are recognised on an expected credit loss basis. Expected credit losses ('ECLs') are required to incorporate forward-looking information, reflecting management's view of potential future economic environments. The complexity involved required management to develop new methodologies involving the use of significant judgements. This includes the risk that an inappropriate valuation of collateral used and other significant cash flows used in the individually assessed provision calculations, as well as the risk that significant increases in credit risk are not identified resulting in inaccurate staging classification under IFRS 9. Management have availed of the option within IFRS 9 to apply the standard prospectively. Information regarding the transitional effect of IFRS 9 is disclosed in note 45. At 31 December 2018, the expected credit loss allowance on loans and advances to customers was £92 million, representing a coverage level of 1.5% on a total portfolio of £6,018 million (1 January 2018: 1.7% on a total portfolio of £5,513 million). Measurement of the ECL allowances on loans and advances to customers is a key audit matter as the determination of assumptions for ECLs is highly subjective due to the level of judgement applied by Management. The most significant judgements include: - Determining the criteria for a significant increase in credit risk and for being classified as credit impaired; - Choosing the appropriate models and assumptions for measuring ECL (being probability of default, loss given default, and exposure at default); and - Key assumptions, including collateral valuation and cashflow timings, used in discounted cashflows ('DCFs') of individually assessed loans. DCFs are the most significant input to the ECL calculation for Stage 3 loans. The Bank's accounting policy for loan loss provisions is disclosed in note 1(d) to the financial statements. The key sources of estimation uncertainty in relation to loan loss provisions are disclosed in note 1(b) to the financial statements.
How the scope of our audit responded to the key audit matter	We understood and tested key controls supporting the calculation of ECLs on loan and advances to customers focusing on; - model development, validation and approval to ensure compliance with IFRS 9 requirements; - review and approval of key assumptions, judgements and forward looking information used in the models; and - front line credit monitoring and assessment controls. Our testing of key controls included an evaluation of IT system controls, management review controls and governance controls. We understood and critically assessed the ECL models developed by the Bank. Our team in Denmark used credit-modelling experts to challenge the judgements and assumptions supporting the ECL requirements. These included assumptions used in the ECL models applied in stage allocation, calculation of lifetime probability of default and methods applied to derive loss given default rates. We assessed the reasonableness of the forward looking information incorporated into the impairment calculations including assessing management's experts. We also challenged the multiple economic scenarios chosen and the weightings applied. This included benchmarking the economic data used to recognised external data sources. We tested a risk based sample of manually rated stage 2 loans (focusing on those with ratings closest to default) to ensure that they have been included in the correct stage in accordance with the Bank's methodology and IFRS 9. In examining a sample of DCF individually assessed Stage 3 loans cases, we challenged management on the judgments made regarding the application of default policy, collateral valuation and realisation time frames; and examined the credit risk functions analysis of data at a portfolio level. Where appropriate, this work involved assessing third party valuations of collateral, internal valuation guidelines, and external expert reports on borrowers' business plans. This allowed us to determine whether appropriate valuation methodologies were employed and assess the objectivity of the external experts used. We evaluated the disclosures made in the financial statements. In particular, we focused on challenging management that the disclosures were sufficiently clear in highlighting the significant uncertainties that exist in respect of ECL allowances and the sensitivity of the allowance to changes in the underlying assumptions.
Key observations	Based on the evidence obtained, we found that the data and assumptions used by management in loan impairment provisioning are within a range we consider to be reasonable.

Key audit matters (continued)

Valuation and recoverability of deferred tax asset	
Key audit matter description	The risk that projection of profitability over a long time period presents inherent uncertainty, involving significant management judgements. The Bank has recognised a gross deferred tax asset based on the Bank's forecast profitability over a period of 5 years ended 31 December 2023 and has not recognised an asset in respect of tax losses that will be utilised after this date. A net deferred tax asset of £3,232k (2017: £534k) has been recognised at 31 December 2018 in respect of brought forward tax losses and other timing differences. This comprises a gross deferred tax asset of £40.5 million (2017: £37.3 million) and a gross deferred tax liability of £37.3 million (2017: £36.8 million). The period supporting the recognition is consistent with the period that the Bank prepares its strategic plan for, including profit, capital and liquidity forecasts, and which management have concluded can be forecast with reasonable certainty. The Bank's accounting policy for deferred tax is disclosed in note 1(d) to the financial statements. The key sources of estimate uncertainty in relation to deferred tax are disclosed in note 1(b) to the financial statements.
How the scope of our audit responded to the key audit matter	We have audited management's analysis supporting the recoverability and valuation of the deferred tax asset. We assessed the policy, process and governance in place over the recognition of the deferred tax asset. This included testing the design and implementation of controls over the completeness and accuracy of the year-end tax calculations and the forecast financial information. We challenged the key assumptions, both positive and negative, included in the calculation of the asset recognised, including the recovery period selected. We have challenged the adjustments recorded by management relating to non-taxable expenditure, made to the accounting profit to determine the taxable profit for accuracy. We assessed the ability of the Bank to recover the asset by auditing future approved profit forecasts, including discussing them with management. We recalculated the deferred tax asset based on future profit forecasts and challenging whether the recovery period selected is appropriate and independently benchmarked the recognition policy against peer Banks and industry norms. We agreed the accounting profit used in the model to the approved strategic plan for the years ending 31 December 2019 to 31 December 2023. We have also considered the Danske A/S group accounting policy to determine if the policy applied by the Bank is consistent with the group.
Key observations	Based on evidence obtained, we found that the assumptions used by management in the recognition of deferred tax assets are within a range we consider to be reasonable.

Key audit matters (continued)

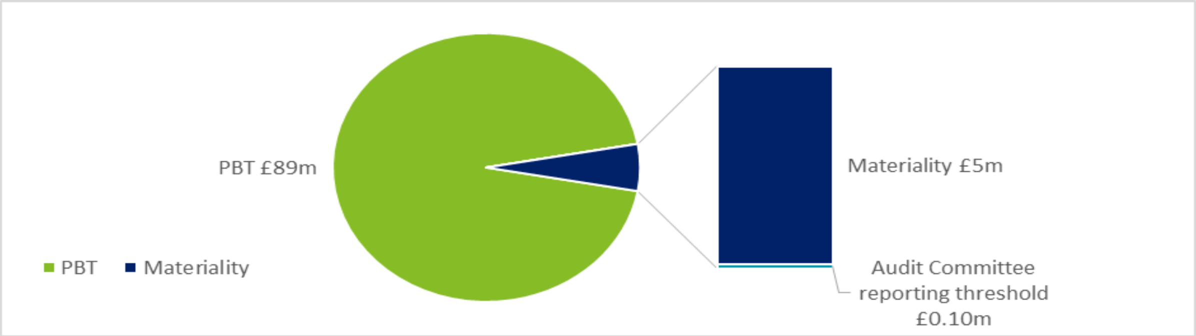
Valuation of defined benefit pension obligations	
Key audit matter description	Determining the key assumptions used to calculate the present value of the £1,130 million (2017: £1,194 million) defined benefit pension scheme obligations requires significant management judgement in relation to discount rates, inflation rates and mortality assumptions. This presents a risk that the principal assumptions used to determine the valuation of the pension liability are not supportable and the valuation is inaccurate. We note that the selection of the discount and inflation rates has a large impact on the overall valuation as set out in sensitivity analysis in note 22 to the financial statements. The Bank's accounting policy for pension costs is disclosed in note 1(d) to the financial statements. The key sources of estimation uncertainty in relation to pension costs are disclosed in note 1(b) to the financial statements.
How the scope of our audit responded to the key audit matter	We evaluated the design and implementation of controls over the completeness and accuracy of the valuation of the pension obligation. We have utilised Deloitte actuarial specialists as part of our team to assist us in evaluating the appropriateness of actuarial assumptions with particular focus on discount rates, mortality rates and inflation rates. Our work included inquiries with Management and their actuaries to understand the processes and assumptions used in calculating defined benefit pension obligations. We benchmarked and audited the key assumptions that underpin the pension scheme liability, being discount rate, inflation rate and mortality rate, to ensure that they are reasonable and supportable. We evaluated and assessed the adequacy of disclosures made in the financial statements, including disclosures of the assumptions and sensitivity of the defined benefit obligation to changes in the underlying assumptions.
Key observations	Based on the evidence obtained, we concluded that the data and assumptions used by Management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable.

Our application of materiality

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

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

Materiality	£5,000,000 (2017: £5,000,000)
Basis for determining materiality	5.6% (2017: 3.4%) of profit before tax. We maintained materiality at £5,000,000 consistent with the financial year ended 31 December 2017 as the balance sheet of Northern Bank Limited had not changed significantly. The percentage applied to profit before tax is within the typical range we apply.
Rationale for the benchmark applied	The key driver of performance is pre-tax profit and the economics decisions of a reasonably knowledgeable person would be changed or influenced by a change in profitability.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £100,000 (2017: £100,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We determined the scope of our audit by understanding the Bank and its environment, including controls, and assessing the risk of material misstatement. Based on that assessment, the audit was performed primarily by Deloitte (NI) Limited in Belfast, with centralised processes within the Danske A/S Group (primarily General IT controls and expected credit loss modelling) being audited by a separate audit team in Copenhagen, Denmark.

Other information

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

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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

- Identify and assess the risks of material misstatement of the entity's financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation (i.e. gives a true and fair view).

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

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

Auditor's responsibilities for the audit of the financial statements (continued)

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

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:
- enquiring of management, internal audit, legal counsel, and the audit committee, including obtaining and reviewing supporting documentation, concerning the Bank's policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud; and
- obtaining an understanding of the legal and regulatory framework that the Bank operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Bank. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation, tax legislation, as well as FCA/PRA guidance.

Audit response to risks identified

As a result of performing the above, we identified the valuation of loan loss provisions, valuation and recoverability of the deferred tax asset, and the valuation of defined benefit pension obligations as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

Our procedures to respond to risks identified included the following:
- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the audit committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the PRA/FCA; and
- in addressing the risk of fraud through management override of controls testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of this matter.

Other matters which we are required to address

Audit tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors in 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of Deloitte is 4 years, covering the years ending 31 December 2015 to 31 December 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISA (UK) 260.

Use of our report

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

John McCarroll, FCA (Senior Statutory Auditor)
for and on behalf of Deloitte (NI) Limited
Chartered Accountants and Statutory Auditor
Belfast, United Kingdom

21 March 2019

NORTHERN BANK LIMITED
Income Statement
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Interest and similar income		197,628	174,892
Interest expense		(20,185)	(12,221)
Net interest income	2	177,443	162,671
Fee and commission income	3	56,522	58,051
Fee and commission expense	3	(7,781)	(5,532)
Net trading income	2	9,562	12,100
Other operating income	4	1,484	5,610
Non interest income		59,787	70,229
Operating income		237,230	232,900
Operating expenses	5	(142,058)	(111,675)
Depreciation and amortisation expense	15,16	(3,486)	(2,934)
Profit before loan impairment (charge)/credit		91,686	118,291
Loan impairment (charge)/credit	13	(2,896)	29,186
Profit before tax		88,790	147,477
Tax expense	8	(18,618)	(27,814)
Profit for the year		70,172	119,663
Portion attributable to:			
Shareholders of Northern Bank Limited		64,742	115,167
Additional Tier 1 capital holders		5,430	4,496
		70,172	119,663

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

The notes on pages 29 to 86 form part of these Financial Statements.

NORTHERN BANK LIMITED
Statement of Comprehensive Income
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit for the year		**70,172**	119,663
Items that will not be reclassified to profit or loss			
Other comprehensive (loss)/income:			
Actuarial (loss)/gain recognised in retirement benefit scheme	22	**(6,435)**	55,600
Tax on actuarial gain/(loss) recognised in retirement benefit scheme	18	**1,609**	(13,849)
Gain on property revaluation	16,17	**248**	1,444
Tax on property revaluation	18	**91**	(73)
Items that may be reclassified subsequently to profit or loss			
Property write down taken to income statement in year		**-**	30
Change in reserve for investment securities at fair value			
Unrealised value adjustments of bonds at fair value (OCI)		**(2,477)**	(1,492)
Tax	18	**619**	373
Change in cash flow hedge reserve			
Gains during the year	11	**192**	5
Tax	18	**(48)**	(1)
Total other comprehensive (loss)/income		**(6,201)**	42,037
Total comprehensive income for the year		**63,971**	161,700
Portion attributable to:			
Shareholders of Northern Bank Limited		**58,541**	157,204
Additional Tier 1 capital holders		**5,430**	4,496
Total comprehensive income for the year		**63,971**	161,700

The notes on pages 29 to 86 form part of these Financial Statements.

NORTHERN BANK LIMITED
Balance Sheet as at 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Assets			
Cash and balances at central bank	9	**2,041,923**	1,880,091
Items in the course of collection from other banks		**40,137**	55,463
Due from other banks	10	**41,543**	52,016
Derivative financial instruments	11	**9,857**	7,258
Investment securities	12	**1,165,654**	1,007,939
Loans and advances to customers	13	**5,926,360**	5,422,293
Investment in subsidiaries	14	**250**	250
Intangible assets	15	**415**	274
Property, plant and equipment	16	**44,955**	45,983
Assets held for sale	17	**526**	150
Deferred tax assets	18	**3,232**	534
Defined benefit pension asset	22	**150,260**	154,261
Other assets	19	**31,491**	29,000
Total assets		**9,456,603**	8,655,512
Liabilities			
Due to other banks	20	**372,624**	34,420
Items in course of transmission to other banks		**17,854**	17,826
Derivative financial instruments	11	**11,992**	13,958
Deposits from customers	21	**7,565,139**	7,030,089
Notes in circulation		**489,091**	470,601
Other liabilities	23	**34,859**	38,680
Provisions	24	**4,122**	7,393
Subordinated debt	25	**126,000**	126,000
Total liabilities		**8,621,681**	7,738,967
Equity			
Share capital	30	**218,170**	218,170
Share premium account		**306,590**	306,590
Revaluation reserve		**35,602**	35,364
Reserve for bonds at fair value	31	**(2,977)**	(1,119)
Cash flow hedge reserve	32	**148**	4
Retained earnings		**180,288**	260,516
Shareholders of Northern Bank Limited		**737,821**	819,525
Additional Tier 1 capital holders	33	**97,101**	97,020
Total equity		**834,922**	916,545
Total liabilities and equity		**9,456,603**	8,655,512

The notes on pages 29 to 86 form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 21 March 2019 and were signed on its behalf by:

Kevin Kingston
Director and Chief Executive Officer

Stephen Matchett
Director and Chief Financial Officer

Company Number R0000568

NORTHERN BANK LIMITED
Statement of Changes in Equity
for the year ended 31 December 2018

	Note	Attributable to equity holders of the parent						Total	Additional	Total
		Share capital	Share premium	Revaluation reserve	Cash flow hedge reserve	Reserve for investment securities at fair value	Retained earnings		tier 1 capital	
		£,000	£,000	£,000	£,000	£,000	£'000	£'000	£'000	£'000
At 1 January 2017		218,170	306,590	33,963	-	-	102,378	661,101	81,002	742,103
Profit for the year		-	-	-	-	-	115,167	115,167	4,496	119,663
Other comprehensive income/(loss):										
Actuarial gain recognised in retirement benefit scheme	22	-	-	-	-	-	55,600	55,600	-	55,600
Change in cash flow hedge reserve	11	-	-	-	5	-	-	5	-	5
Property revaluation	16	-	-	1,444	-	-	-	1,444	-	1,444
Property write down taken to income statement	16	-	-	30	-	-	-	30	-	30
Investment securities at fair value		-	-	-	-	(1,492)	-	(1,492)	-	(1,492)
Tax	18	-	-	(73)	(1)	373	(13,849)	(13,550)	-	(13,550)
Total other comprehensive income		-	-	1,401	4	(1,119)	41,751	42,037	-	42,037
Total comprehensive income for the year		-	-	1,401	4	(1,119)	156,918	157,204	4,496	161,700
Transactions with owners:										
Issuance of Additional Tier 1 capital		-	-	-	-	-	-	-	16,000	16,000
Paid interest on Additional Tier 1 capital		-	-	-	-	-	-	-	(4,478)	(4,478)
Tax		-	-	-	-	-	1,220	1,220	-	1,220
		-	-	-	-	-	1,220	1,220	11,522	12,742
At 31 December 2017		218,170	306,590	35,364	4	(1,119)	260,516	819,525	97,020	916,545
Effect from changed accounting policy (IFRS 9)		-	-	-	-	-	(12,245)	(12,245)	-	(12,245)
Restated equity at 1 January 2018		218,170	306,590	35,364	4	(1,119)	248,271	807,280	97,020	904,300
Profit for the year		-	-	-	-	-	64,742	64,742	5,430	70,172
Other comprehensive income/(loss):										
Actuarial loss recognised in retirement benefit scheme	22	-	-	-	-	-	(6,435)	(6,435)	-	(6,435)
Transfer re property disposals		-	-	(101)	-	-	101	-	-	-
Property revaluation	16	-	-	248	-	-	-	248	-	248
Investment securities at fair value		-	-	-	-	(2,477)	-	(2,477)	-	(2,477)
Change in cash flow hedge reserve	11	-	-	-	192	-	-	192	-	192
Tax	18	-	-	91	(48)	619	1,609	2,271	-	2,271
Total other comprehensive income		-	-	238	144	(1,858)	(4,725)	(6,201)	-	(6,201)
Total comprehensive income for the year		-	-	238	144	(1,858)	(4,725)	(6,201)	-	(6,201)
Transactions with owners:										
Dividends paid		-	-	-	-	-	(128,000)	(128,000)	-	(128,000)
Paid interest on Additional Tier 1 capital		-	-	-	-	-	-	-	(5,349)	(5,349)
		-	-	-	-	-	(128,000)	(128,000)	(5,349)	(133,349)
At 31 December 2018		218,170	306,590	35,602	148	(2,977)	180,288	737,821	97,101	834,922

NORTHERN BANK LIMITED

Cash Flow Statement

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flow from operating activities			
Profit before tax		88,790	147,477
Adjustments for:			
Group relief for tax losses		-	(910)
Tax paid		(18,821)	(23,494)
Adjustment for non-cash operating items:			
Amortisation of investment securities		6,982	7,669
Amortisation of intangible assets	15	108	85
Depreciation of property, plant and equipment	16	3,378	2,849
Loan impairment charges/(credits)	40	2,896	(29,186)
Derivative financial instruments		(4,565)	(3,610)
Net defined benefit pension expense/(credit)	22	8,410	(25,514)
Other non-cash items		(3,850)	129
Total		83,328	75,495
Cash flow from operating capital			
Cash and balances at central bank - mandatory deposits	9	(62,945)	(110,820)
Items in transit		15,354	483
Loans and advances to customers		(523,352)	(298,919)
Due to other banks	20	(11,796)	1,733
Deposits		535,050	215,797
Notes in circulation		18,490	34,460
Defined benefit pension contributions	22	(10,844)	(33,198)
Other assets/liabilities		280	1,774
Cash flow from operations		43,565	(113,195)
Cash flow from investing activities			
Maturity of investments - hold to collect		151,000	260,000
Sale of investments - hold to collect and sell		-	9,994
Purchase of investments - hold to collect		(38,754)	(87,545)
Purchase of investments - hold to collect and sell		(281,319)	(383,098)
Acquisition of intangible assets	15	(248)	(86)
Acquisition of tangible assets	16	(2,628)	(4,342)
Sale of tangible fixed assets		146	-
Cash flow from investing activities		(171,803)	(205,077)
Cash flow from financing activities			
Increase in subordinated debt		-	26,000
Amounts drawn under the TFS		350,000	-
Dividends paid to parent		(128,000)	-
Payments of AT1 interest		(5,349)	(4,478)
Increase in AT1 capital		-	16,000
Cash flow from financing activities		216,651	37,522
Cash and cash equivalents, beginning of year		1,025,844	1,306,594
Net change in cash and cash equivalents		88,413	(280,750)
Cash and cash equivalents, end of year		1,114,257	1,025,844
Cash in hand and demand deposits with central banks - non mandatory deposits	9	1,072,715	973,828
Deposits with credit institutions and central banks with terms shorter than 3 months	10	41,542	52,016
Total		1,114,257	1,025,844

1. Basis of preparation

(a) General

Northern Bank Limited is a private company limited by shares that is domiciled and incorporated in the UK. Its registered office is in Northern Ireland as set out on page 2.

The Bank's Financial Statements have been prepared on the going concern basis, in accordance with International Financial Reporting Standards (IFRS) and with applicable interpretations (IFRIC), issued by the International Accounting Standards Board (IASB) as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006.

At 1 January 2018, the Bank implemented IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers. Further information on the implementation of IFRS 9 including the impact on the opening balance sheet at 1 January 2018 can be found in note 45. Except for the changes implemented during the year and explained in note 45, the Bank has not changed its significant accounting policies from those applied in 2017.

The Bank does not prepare consolidated Financial Statements as the consolidated results are included in the consolidated financial statements of Danske Bank A/S and all subsidiaries of Northern Bank Limited are dormant (Note 14).

For the purpose of clarity, the primary Financial Statements and the notes to the Financial Statements are prepared using the concepts of materiality and relevance. This means that line items not considered material in terms of quantitative and qualitative measures or relevant to financial statement users are aggregated and presented together with other items in the primary Financial Statements. Similarly, information not considered material is not presented in the notes.

Basis of measurement

The Financial Statements of the Bank have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets and financial instruments that are measured at fair value.

Currency of presentation

All amounts are expressed in pounds sterling and whole thousands, unless otherwise stated. As a result, rounding discrepancies may occur because sum totals have been rounded off and the underlying hundreds are not presented to the users of the Financial Statements.

Going concern

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

Note 39 to the Financial Statements together with "Principal risk and uncertainties" in the Strategic Report describe the risks the Bank is exposed to and how they are managed.

The Bank has access to financial resources, the support of its ultimate parent, Danske Bank A/S and a strong customer loan to deposit ratio. As a consequence, the Directors believe that the Bank is well placed to manage its business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.

Segmental reporting

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

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

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

1. Basis of preparation (continued)

(b) Significant accounting estimates

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

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

Measurement of expected credit losses on loans measured at amortised cost

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

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

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

The base case scenario is the primary forward-looking economic information driving the calculation of expected credit loss. The base case scenario is used for the Bank's Corporate Plan, albeit the Corporate Plan covers the period 2019-2023. Under the base case, the global economy continues to grow but the rate of growth begins to cool slightly as the impact of more protectionist trade policies are felt. The UK leaves the EU in March 2019 and enters into a transition period. The Brexit process moves on to negotiating the terms of the future relationship between the UK and the EU. However, uncertainty remains high given the lack of clarity about what the long-term relationship will look like. Inflation in the UK gradually falls with the squeeze on household spending power slowly easing but Brexit-related uncertainty continues to act as a drag on business investment. Economic growth in Northern Ireland remains subdued in the short term. The annual average inflation rate moves back to the Bank of England's 2% target during the horizon period. The unemployment rate gradually picks up over the horizon period as the rate of jobs growth slows and inactive people begin to look for employment, possibly spurred on by higher rates of wage growth. House price growth remains positive throughout the projections horizon while interest rates increase at a gradual rate and limited pace, in line with Bank of England guidance.

The table below gives the average macroeconomic assumptions in the period 2019-2021 under the three scenarios considered.

Economic assumption	**Measurement**	**Upside**	**Base Case**	**Downside (Hard Brexit)**
Northern Ireland GVA	Annual % change	1.5	1.3	(2.1)
Northern Ireland unemployment rate	Annual average	4.1	4.4	8.0
Northern Ireland house prices	Annual % change	4.2	3.9	(8.3)
UK CPI inflation rate	Annual average	2.0	2.1	3.8
Bank of England base rate	Annual average	1.2	1.1	0.0

The base case scenario enters with a probability of 60%, the upside scenario with a probability of 25% and the downside scenario (Hard Brexit) with a probability of 15%. Given the uncertainty around the potential implications of a Hard Brexit, how quickly businesses and government would be able to respond and the lack of similar historical precedent to draw comparisons with, it is very difficult to accurately estimate the potential impact of such an event on the economy. As such, there is a wide range of external estimates of the economic impact of a Hard Brexit. The assumptions contained within the Bank's Hard Brexit scenario are deliberately positioned towards the more extreme end of the range and, while the impacts are not the same across all variables, the overall scenario is not dissimilar to the level of severity of the 'disorderly' Brexit scenario published in the Bank of England's *"EU withdrawal scenarios and monetary and financial stability" paper in November 2018.*

1. Basis of preparation (continued)

(b) Significant accounting estimates (continued)

Measurement of expected credit losses on loans measured at amortised cost

Based on these assessments, the allowance account at 31 December 2018 amounted to £95,813,000. If the base case scenario was assigned a probability of 100%, the allowance account would decrease by £7,575,000. The allowance account would increase by £75,614,000, if the downside scenario was assigned a probability of 100%. If instead the upside scenario was assign a probability of 100%, the allowance account would decrease by £9,364,000. However, it shall be noted that the expected credit losses in the individual scenarios does not represent expected credit loss (ECL) forecasts.

Note 40 and the section on credit risk in the risk management notes provide more details on expected credit losses. At 31 December 2018, loans and advances to customers accounted for about 62.7% of total assets (2017: 62.6%).

Recognition of deferred tax asset

A deferred tax asset is recognised for unused tax losses to the extent that (defined for this purpose as more likely than not) there will be sufficient future taxable profits against which losses can be used. The recognition of the deferred tax asset relies on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward. It requires significant estimates to be made about the projection of medium term future profitability because of the period over which recovery extends. If future profits increased/decreased by 10% per annum, this would lead to an increase/decrease in the deferred tax asset of £2.6m.

In assessing the future profitability of the Bank, the Board has considered a range of positive and negative evidence for this purpose. Among this evidence, the principal positive factors include:

- management actions taken to return the Bank to a normalised earnings path;
- the absence of any expiry date for tax losses; and
- external forecasts for Northern Ireland which indicate continued economic recovery.

The Board considered negative evidence and the inherent uncertainties in any medium term financial assumptions and projections, including:

- the quantum of profits required to be earned and the period over which it is projected that the tax losses will be utilised;
- the challenges of forecasting over the medium term, taking account of the level of competition, market dynamics and resultant margin and funding pressures; and
- the recent taxation changes and the likelihood of future developments and their impact on profitability and utilisation.

From 1 April 2016, only 25% of the Bank's taxable profits can be relieved by brought forward losses. This has increased the horizon over which losses can be used. As a result, the Bank has restricted the deferred tax asset such that it only reflects those losses that can be relieved against expected profits for the 5 year period to 31 December 2023 i.e. the current corporate planning horizon. If the time period for expected profits was increased/decreased by 1 year this would lead to an increase/decrease in the deferred tax asset of £5.6m.

Defined benefit pension scheme

As disclosed in note 22 the Bank operates a defined benefit pension scheme. The year end recognition of the liabilities under this scheme and the valuation of assets held to fund these liabilities require a number of significant assumptions to be made, relating to levels of scheme membership, key financial market indicators such as inflation and expectations on future salary growth and asset returns. These assumptions are made by the Bank in conjunction with the scheme's actuary and the Directors are of the view that any estimation should be prudent and in line with consensus opinion. Information on the sensitivity of significant actuarial assumptions is given in note 22.

(c) Changes and forthcoming changes to accounting policies and presentation

Changes to basis of significant accounting policies and presentation during the year

At 1 January 2018 the Bank implemented IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contract with customers). The implementation of IFRS 15 had no impact on stakeholders' equity, assets or liabilities. IFRS 9 is applied retrospectively with the cumulative impact recognised in shareholders' equity at 1 January 2018 as shown in note 45. Comparative information has not been restated.

The key impact of the implementation of IFRS 9 is:

- The implementation of IFRS 9 resulted in an increase in the allowance account, in respect of financial instruments at amortised cost, of £16,389,000 as a result of the introduction of the new expected credit loss impairment model.;
- The effect of £12,245,000, net of tax, has reduced shareholders' equity at 1 January 2018; and
- The implementation of the ECL impairment model (for loans at amortised cost), will be phased-in from 2018 to 2022 in accordance with EU capital requirements regulation adopted in 2017. This phasing in of IFRS 9 has reduced the CET1 capital ratio at 1 January 2018 by 0.1 percentage points. Without phasing, there would be a reduction of the CET1 capital ratio of 0.2 percentage points.

1. Basis of preparation (continued)

(c) Changes and forthcoming changes to accounting policies and presentation (continued)

Changes to basis of significant accounting policies and presentation during the year (continued)

No reclassifications of financial instruments between measurement categories were required on adoption of IFRS 9. The impact from changes in accounting policies on the opening IFRS balance sheet at 1 January 2018 is given in note 45.

Further, the disclosure requirements for financial instruments in IFRS 7 (Financial Instruments: Disclosure) and IAS 1 (Presentation of Financial Statements) was amended as part of the IFRS 9 project. The amendments have been implemented in the Annual Report and Financial Statements 2018.

There has been no changes to derivative and hedge accounting policy as the Bank continues to apply the relevant requirements of IAS 39.

Amendment to IAS 12, Income Taxes (Annual Improvements to IFRS Standards 2015 - 2017 Cycle)

In December 2017, the IASB issued amendments to four standards (IFRS 3, IFRS 11, IAS 12 and IAS 23) as part of its Annual Improvements to IFRS Standards 2015 – 2017 cycle. The amendment to IAS 12 implies that income tax consequences of dividends is recognised in profit or loss if the transactions that generated distributable profits are recognised in profit or loss.

Although the amendment to IAS 12 must be implemented from 1 January 2019, the Bank has chosen to adopt early the standard from 1 January 2018.

Standards and interpretations not yet in force

The IASB has issued two new IFRSs (IFRS 16 and IFRS 17), and amended several standards (IFRS 3, IFRS 9, IAS 1, IAS 8, IAS 12, IAS 19, IAS 23 and IAS 28) that have not yet come into force. Similarly, the IFRIC has issued a new interpretation (IFRIC 23) that has not yet come into force. The Bank has not early adopted any of these changes. The sections below explain the IFRS changes that are likely to affect the Bank's future financial reporting. For the changes not described below, no significant impact is expected.

Amendment to IFRS 9, Financial Instruments (Prepayment Options with Negative Compensation)

Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain). Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through Other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of a early repayment gain.

The amendment will be effective from 1 January 2019, at which date the Bank will implement the standard.

IFRS 16 Leases

In January 2016, the IASB issued IFRS 16 Leases. IFRS 16, which replaces IAS 17 Leases, will result in insignificant changes to the accounting for lessors. For lessees, the accounting will change significantly, as all leases (except short term leases and small asset leases) will be recognised in the balance sheet as a right-of-use asset. Initially, the lease liability and the right-of-use asset are measured at the present value of future lease payments (defined as economically unavoidable payments). The right-of-use asset is subsequently depreciated in a similar way to depreciation of other assets such as tangible assets, i.e. typically in a straight-line over the lease term.

IFRS 16 will be effective from 1 January 2019, at which date the Bank will implement the standard. The implementation of IFRS 16 will have no impact on shareholders' funds at 1 January 2019. The Bank's existing lease agreements (mainly property) will result in a recognition of right-of-use of assets and lease liabilities of £8,300,000 (Note 38) on application of IFRS 16 on 1 January 2019.

(d) Accounting policies

Translation of transactions in foreign currency

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

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

1. Basis of preparation (continued)

(d) Accounting policies (continued)

Derivative financial instruments and hedge accounting

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

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

Fair value hedge

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

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

Cash flow hedge

The Bank hedges a portion of the variability in future cash flows attributable to interest rate and foreign currency risk. The interest and foreign currency risk arise from variable interest rate assets and liabilities which are hedged using cross currency and interest rate swaps, and material non-sterling denominated assets which are hedged using foreign exchange forward contracts. There were no transactions for which cash flow hedge accounting had to be discontinued in the period as a result of the highly probable cash flows no longer being expected to occur. The fair value of derivatives is disclosed in note 11.

Classification and measurement of financial assets and financial liabilities under IFRS 9

Under IFRS 9, financial assets are classified on the basis of the business model adopted for managing the assets and on their contractual cash flow characteristics (including embedded derivatives, if any) into one of the following measurement categories:

- Amortised cost (AMC)
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

Financial assets are measured at AMC if they are held within a business model for the purpose of collecting contractual cash flows (hold to collect) and if cash flows are solely payments of principal and interest on the principal amount outstanding.

Financial assets are measured at FVOCI if they are held within a business model for the purpose of both collecting contractual cash flows and selling (hold to collect and sell) and if cash flows are solely payments of principal and interest on the principal amount outstanding. FVOCI results in the assets being recognised at fair value in the balance sheet and at AMC in the income statement. Hence, gains and losses, except for expected credit losses and foreign exchanges gains and losses, are recognised in other comprehensive income until the financial asset is derecognised. When the financial asset is derecognised the cumulative gains and losses previously recognised in other comprehensive income are reclassified to the income statement.

All other financial assets are mandatorily measured at FVPL including financial assets within other business models such as financial assets managed at fair value or held for trading and financial assets with contractual cash flows that are not solely payments of principal and interest on the principal amount outstanding.

Generally, financial liabilities are measured at amortised cost with bifurcation of embedded derivatives not closely related to the host contract. Financial assets measured at fair value comprise derivatives, the trading portfolio and liabilities designated at fair value through profit or loss under the fair value option. Value adjustments relating to the inherent credit risk of financial liabilities designated at fair value are recognised in other comprehensive income unless this leads to an accounting mismatch.

The SPPI test (solely payment of principal and interest on the principal amount outstanding)

The second step in the classification of the financial assets in portfolios being "hold to collect" and "hold to collect and sell" relates to the assessment of whether the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent repayment. The interest must represent only consideration for the time value of money, credit risk, other basic lending risks and a profit margin consistent with basic lending features. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the financial asset is mandatorily recognised at FVPL.

1. Basis of preparation (continued)

(d) Accounting policies (continued)

The SPPI test (solely payment of principal and interest on the principal amount outstanding) (continued)

In general, the SPPI test of the Bank's portfolios of financial assets, that are "hold to collect" or "hold to collect and sell", have contractual cash flows that are consistent with the SPPI test, i.e. they have basic lending features.

Loans and advances to customers

Loans and advances include overdrafts, credit card lending, market rate advances, invoice financing, housing loans, lease finance and other term lending.

At initial recognition, loans and advances are measured at fair value plus transaction costs less origination fees and other charges that are an integral part of the effective interest rate on loans. This usually corresponds to the amount disbursed to the customer. Subsequently, they are measured at amortised cost, using the effective interest method, less any impairment charges for expected credit losses. The difference between the value over the term to maturity and the redemption value is amortised over the term to maturity as part of the effective interest and recognised under Interest income. If fixed-rate loans and advances and amounts due are hedged effectively by derivatives, the fair value of the hedged interest rate risk is added to the amortised cost of the assets.

At 1 January 2018, the Bank implemented the expected credit loss impairment model in IFRS 9. The impairment for expected credit losses depends on whether the credit risk has increased significantly since initial recognition and follows a three stage model:

- Stage 1: If the credit risk has not increased significantly, the impairment equals the expected credit losses resulting from default events that are possible within the next 12 months;
- Stage 2: If the credit risk has increased significantly, the loan is transferred to stage 2 and an impairment equal to the lifetime expected credit losses is recognised:
- Stage 3: If the loan is in default or otherwise credit impaired, it is transferred to stage 3, for which the impairment continues to equal the lifetime expected credit losses but with interest income being recognised on the net carrying amount.

The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD) and incorporates forwards looking elements. For facilities in stage 2 and 3, the lifetime expected credit losses cover the expected remaining lifetime of a facility.

Expected credit loss impairments are booked in an allowance account and allocated to individual exposures. No collective impairments are recognised under IFRS 9.

Offsetting of financial assets and liabilities

Assets and liabilities are offset when the Bank and the counterparty have a legally enforceable right to offset recognised amounts and have agreed to settle balances on a net basis or to realise the asset and settle the liability simultaneously. Positive and negative fair values of derivatives with the same counterparty are offset if the Bank has agreed with the counterparty to settle contractual cash flows net and to make cash payments or provide collateral on a daily basis to cover changes in the fair value of the derivative position. Master netting agreement or similar agreements give the right to additional offset in the event of default. Such agreements reduce the exposure further in the event of default, but do not qualify for offsetting in accordance with IFRS.

Investment securities - Financial assets measured at amortised cost (AMC)

The financial assets consist of bonds held within a business model for the purpose of collecting the contractual cash flows (hold to collect) and with cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that passes the SPPI test in IFRS 9). The bonds are measured at amortised cost. Interest income is recognised according to the effective interest method, including amortisation of the difference between cost and the redemption value over the term to maturity of the bonds. The bonds are subject to the expected credit loss model in IFRS 9 as described in note 40. The interest rate risk on fixed-rate bonds is not hedged.

Investment securities - Financial assets measured at fair value through other comprehensive income (FVOCI)

The financial assets comprise bonds only, and primarily bonds listed in a liquid market. The bonds are held within a business model for the purpose of collecting contractual cash flows and selling (hold to collect and sell). The bonds have cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that passes the SPPI test in IFRS 9). FVOCI results in the assets being recognised at fair value in the balance sheet and at amortised cost in the income statement, including the recognition of expected credit losses as described in note 40. Hence, gains and losses, except for expected credit losses and foreign exchanges gains and losses, are recognised in other comprehensive income until the bond is derecognised. When fixed interest rate risk is hedged in a hedge that qualifies for fair value hedge accounting, fair value changes of the hedged interest risk is further presented in the income statement under Net trading income. When bonds are sold unrealised value adjustments recognised under Other comprehensive income are reclassified to the income statement and presented under Net trading income. The Bank recognises interest income according to the effective interest method, including amortisation of the difference between cost and the redemption value over the term to maturity of the bonds.

1. Basis of preparation (continued)

(d) Accounting policies (continued)

Intangible assets

Software acquired is measured at cost, including expenses incurred to make a software application ready to use. Software acquired is amortised over its expected useful life, usually three years, according to the straight line method. Software is tested for impairment if indications of impairment exist and is written down to its value in use.

Property, plant and equipment

All freehold and long-term leasehold land and buildings are revalued annually on an open market basis by the Directors to reflect current market values, based on advice received from independent valuers. In addition, full independent valuations are carried out on a three year cycle on an open market basis, including directly attributable acquisition costs but without deducting expected selling costs. Revaluation increments are credited to the revaluation reserve, unless these reverse deficits on revaluations that were charged to the income statement in prior years. To the extent that they reverse previous revaluation gains, revaluation losses are charged against the revaluation reserve. This policy is applied to assets individually. Revaluation increases and decreases are not offset, even within a class of assets, unless they relate to the same asset.

All other items of property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to acquisition.

Property, plant and equipment carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of (i) the asset's fair value less costs to sell and (ii) the asset's value in use.

With the exception of freehold land, all items of property, plant and equipment are depreciated or amortised using the straight-line method, at rates appropriate to their estimated useful life to the Bank.

The estimated useful life is 20-50 years for property and 3-10 years for plant and equipment.

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Gains or losses on the disposal of property, plant and equipment, which are determined as the difference between the net sale proceeds and the carrying amount at the time of sale, are included in the income statement.

Any realised amounts in the asset revaluation reserve are transferred directly to retained earnings.

Assets held for sale

Assets held for sale are tangible assets actively marketed for sale within 12 months.

Such assets are measured at the lower of their carrying amount at the time of reclassification and their fair value less expected costs to sell and are no longer depreciated.

Subordinated debt

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

Subordinated debt is measured at amortised cost.

Loan commitments and guarantees

The Bank issues a number of loan commitments and guarantees. Such instruments are valued at the higher of the received premium amortised over the life of the individual obligation and the provision made, if any. If an instrument is likely to result in a payment obligation, a liability is recognised under other liabilities corresponding to the present value of expected payments. Loan commitments are discounted in accordance with the interest terms.

1. Basis of preparation (continued)

(d) Accounting policies (continued)

Provisions and contingent liabilities

Provisions are recognised when a legal or constructive obligation exists as a result of past events and it is probable that an outflow of economic benefit will be necessary to settle the obligation and it can be reliably estimated. Provisions are not discounted to the present value of their expected net future cash flows except where the time value of money is considered material.

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is uncertain or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed, unless their likelihood of occurrence is considered remote.

Additional Tier 1 capital

The capital issued includes no contractual obligation to deliver cash or another financial asset to the holders, as the Bank may, at its sole discretion, omit payment of interest and principal payments to the bondholders. As a result the issue does not qualify as a financial liability according to IAS 32. The net amount received at the time of issue is recognised as an increase in equity. Interest payments are accounted for as dividends, which are recognised directly in equity at the time the payment obligation arises. If the Bank chooses to redeem the bonds, equity will be reduced by the redemption amount at the time of redemption. Amounts received or paid for the sale or acquisition of Additional Tier 1 capital instruments are recognised directly in equity, similarly to holdings of own shares.

The reserve includes the net proceeds at the time of issuance and accrued interest not yet paid to holders of the capital.

Staff costs

This item includes salaries, performance-based pay, expenses for share-based payments, pension costs and other remuneration. Salaries and other remuneration the Bank expects to pay are expensed when the employees render the services. Performance-based remuneration is expensed as it is earned.

Pension costs

Employees of the Bank are entitled to benefits on retirement, disability or death from the Bank's pension plans. The Bank operates both defined benefit and defined contribution pension schemes.

Defined contribution pension scheme

The Bank's obligation for contributions to these plans is recognised as an expense in the income statement as incurred.

Defined benefit pension scheme

The defined benefit scheme currently provides defined benefits based on years of service and career averaged revalued earnings up to 30 September 2018. A liability or asset in respect of the defined benefit scheme is recognised in the balance sheet and is measured as the present value of the defined benefit obligation less the fair value of the defined benefit scheme assets at the reporting date. The present value of the defined benefit obligation for the scheme is discounted by high quality corporate bond rates that have maturity dates approximating to the terms of the Bank's defined benefit obligation.

The Bank's policy where actuarial remeasurements arise is to fully recognise such amounts directly in retained earnings through the statement of comprehensive income, in the period in which they occur. Actuarial remeasurements arise from experience adjustments (the effects of differences between previous actuarial assumptions and what has actually occurred) and changes in actuarial assumptions.

Share-based payment

Part of the performance-based remuneration for the year is paid in the form of conditional shares. Rights to conditional shares vest up to seven years after the grant date, provided that the employee, with the exception of retirement, has not resigned from the Bank. In addition to this requirement, the vesting of rights is conditional on certain targets being met.

The fair value of share-based payments at the grant date is expensed over the vesting period with the intrinsic value expensed in the year in which the share-based payments are earned and the time value, if any, is accrued over the remaining service period. Expenses are set off against shareholders' equity. Subsequent fair value adjustments are not recognised in the income statement.

1. Basis of preparation (continued)

(d) Accounting policies (continued)

Tax

Current tax

Current tax assets and liabilities are recognised in the balance sheet as the estimated tax payable on the profit for the year adjusted for prepaid tax and prior-year tax payables and receivables. Tax assets and liabilities are offset if the Bank has a legally enforceable right to set off such assets and liabilities and intends either to settle the assets and liabilities on a net basis or to realise the assets and settle the liabilities simultaneously.

Deferred tax

Deferred tax on all temporary differences between the tax base of assets and liabilities and their carrying amounts is accounted for in accordance with the balance sheet liability method. Deferred tax is measured on the basis of the tax regulations and rates that, according to the rules in force at the balance sheet date, are applicable at the time the deferred tax is expected to crystallise as current tax. Changes in deferred tax as a result of adopted changes in tax rates are recognised in the income statement on the basis of expected cash flows. Tax assets arising from unused tax losses are only recognised where, it is more likely than not that, there will be sufficient future taxable profits against which losses can be used. Deferred tax assets and liabilities are offset when they relate to the same tax jurisdiction.

Current and deferred tax is calculated on the profit for the year, and adjustments of prior-year tax charges are recognised in the income statement. Tax on items recognised in Other comprehensive income is recognised in other comprehensive income. Similarly, tax on items recognised in equity is recognised in equity.

Shares in subsidiary undertakings

Shares in subsidiary undertakings are stated in the Bank's balance sheet at original cost less any necessary provision for impairment. Losses relating to the impairment in the value of shares in subsidiary undertakings are recognised in the income statement.

Interest income and expenses

Interest income and expenses arising from interest-bearing financial instruments measured at amortised cost and bonds at fair value through Other comprehensive income are recognised according to the effective interest rate method on the basis of the cost of the individual financial instrument. Interest includes amortised amounts of fees that are an integral part of the effective yield on a financial instrument, such as origination fees, and amortised differences between cost and redemption price, if any. Interest on loans included in stage 3 for the calculation of expected credit losses is recognised on the basis of the impaired value. The interest rate risk on some fixed rate loans and advances to customers recognised at amortised cost is hedged by derivatives using fair value hedge accounting. Note 11 provides more information on hedge accounting. Interest income calculated using the effective interest method and presented as a separate line item in the income statement excludes the impact from hedge accounting.

Further, interest income and expenses includes interest on financial instruments measured at fair value through profit or loss.

Net trading income

Net trading income includes realised and unrealised capital gains and losses on financial assets and financial liabilities recognised at fair value through profit or loss.

For financial assets and liabilities subject to fair value hedge accounting, the fair value adjustments of the hedged financial instrument and the hedging instruments is recognised in Net trading income. Therefore, any hedge ineffectiveness is presented in Net trading income.

Fee income and expenses

Fee income is recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services. The Bank identifies the performance obligation agreed with the customer and the consideration, and recognises income in line with the transfer of services, the performance obligation, agreed with the customer.

For each performance obligation identified, the Bank determines at contract inception whether it satisfies the performance obligation over time or at a point in time, whether the consideration is fixed or variable, including whether consideration is constrained due, for instance, to external factors outside the Bank's influence. Consideration is subsequently allocated to the identified performance obligation.

2. Net interest and net trading income

	2018 £'000	2017 £'000
Interest income		
Financial assets at amortised cost:		
Due from other banks and central bank	12,160	5,323
Investment securities - hold to collect	6,674	9,025
Investment securities - hold to collect and sell	2,474	1,017
Loans and advances to customers	173,974	161,455
Interest income on defined benefit pension scheme surplus (Note 22)	4,100	1,200
	199,382	178,020
Financial portfolios at fair value:		
Derivative financial instruments	(1,754)	(3,128)
Total interest income	197,628	174,892
Interest expense		
Due to other banks	3,155	580
Deposits from customers	13,800	9,282
Subordinated debt	3,230	2,359
Total interest expense	20,185	12,221
Net interest income	177,443	162,671
Net trading income		
Net gain on financial instruments at fair value	318	517
Margin on foreign exchange brokerage	9,244	10,775
Gain on disposal of VISA Inc. preference shares	-	808
	9,562	12,100

Interest income includes £601,000 (2017: £81,000) received from Danske Bank A/S. Interest expense includes £nil (2017: £6,000) paid to Danske Bank A/S.

Trading income in 2017 includes a one-off gain of £808,000 arising on the sale of 1,400 series C convertible preference shares in VISA Inc. to its parent, Danske Bank A/S. These shares were acquired from the above sale of the investment held in Visa Europe Limited following its acquisition by Visa Inc.

3. Fee and commission income/expense

	2018 £'000	2017 £'000
Fee income		
Financing (loans, advances and guarantees)	7,933	6,817
Investment (securities trading, asset management, custody and advisory services)	543	5,387
Services (payment services)	48,046	45,847
Total	56,522	58,051
Fee expenses		
Financing (loans, advances and guarantees)	797	482
Investment (securities trading, asset management, custody and advisory services)	107	162
Services (payment services)	6,877	4,888
Total	7,781	5,532

4. Other operating income

Other income includes rental income, invoice finance fee income, profit on sale of tangible assets and sundry income.

	2018 £'000	2017 £'000
Profit on sale of wealth business	-	4,454
Other income	1,484	1,156
Total	1,484	5,610

5. Operating expenses

	2018	2017
	£'000	£'000
Staff costs		
- wages and salaries	43,289	42,523
- social security costs	4,514	4,515
- pension costs		
- defined benefit cost (Note 22)	9,168	12,658
- past service cost (Note 22)	2,527	(38,049)
- defined contribution	2,956	1,265
	62,454	22,912
Property related expenses	8,590	9,805
Information technology expenses	25,514	20,542
Administrative expenses	45,500	58,416
	142,058	111,675

Operating expenses include net recharges from Danske Bank A/S of £33,969,000 (2017: £28,511,000).

The average number of full time equivalent employees of the Bank during the year is outlined in note 42.

6. Operating profit

	2018	2017
	£'000	£'000
This is stated after:		
Income		
Aggregate amounts receivable, including capital repayments under finance leases and hire purchase contracts (net of depreciation £137,031,000 (2017: £123,176,000))	9,109	8,849
Charges		
Depreciation of tangible fixed assets (Note 16)	3,378	2,849
Amortisation of intangible fixed assets (Note 15)	108	85
Loss on disposal of property, plant and equipment	4	-
Hire of computers and equipment	565	510
Rental of premises held under operating leases	2,035	2,221
Auditor's remuneration		
Audit of these Financial Statements		
- Audit fee	138	138
- IFRS reporting requirements	40	40
Amounts receivable by the auditor and their associates in respect of:		
- Audit of the financial statements of subsidiary companies	28	28
- Other assurance services	75	80
	281	286

7. Directors' emoluments

	2018 £'000	2017 £'000
Aggregate emoluments	**1,788**	1,176
Bank pension contributions to money purchase pension schemes	**28**	40
	1,816	1,216

In addition to the amounts shown above, social security costs were payable in respect of emoluments to Directors amounting to £252,000 (2017: £152,000). This includes £105,000 in respect of the emoluments of the highest paid Director in the year ended 31 December 2018 (2017: £59,000).

Where Non Executive Directors are employed by Danske Group, they are remunerated for their services by Danske Bank A/S.

Three Directors hold conditional shares (2017: three) and 3,778 were exercised during the year (2017: 493 shares). Further details are disclosed in note 43 of the Financial Statements. For the year ended 31 December 2018 the total emoluments disclosed do not include the value of shares or share rights awarded under long term incentive schemes in accordance with Schedule 5 paragraph 1(3)(a) of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

Two Directors (2017: Two) accrued retirement benefits under a money purchase pension scheme and no Director (2017: None) accrued retirement benefits under the Bank's defined benefit pension scheme.

The aggregate emoluments (including benefits in kind and pension contributions paid by the Bank) of the highest paid Director were £732,000 (2017: £455,000). Of these emoluments, £233,000 (2017: £Nil) was in connection to services provided at the specific request of Danske Bank A/S and in respect of which the Bank was reimbursed. The Director is a member of the Northern Bank Defined Contribution Pension Scheme to which the Bank paid contributions of £Nil (2017: £Nil) on his behalf. The highest paid Director exercised conditional shares during the year.

8. Tax expense

	2018 £'000	2017 £'000
Current tax		
UK corporation tax		
Current year	**10,315**	15,713
Current year - corporation tax surcharge on Banking profits	**4,191**	6,987
Adjustment in respect of prior years	**395**	709
	14,901	23,409
Deferred tax note (Note 18)		
Current year	**6,906**	16,161
Adjustment in respect of prior years	**(54)**	(1,572)
Previously unrecognised tax losses recognised in the year	**(3,135)**	(10,184)
	3,717	4,405
Tax charge	**18,618**	27,814

The effective taxation rate for the year ended 31 December 2018 is a charge of 21.0% (2017: 18.9%).

The tax assessed for the year differs from the standard rate of corporation tax in the UK (19.0%). A reconciliation from the expense implied by the standard rate to the actual tax expense is as follows:

	2018 £'000	2017 £'000
Profit on ordinary activities before tax	**88,792**	147,476
Tax charge based on the standard rate of Corporation Tax in the UK of 19.0% (2017 19.25%)	**16,870**	28,389
Effects of:		
Additional Tier 1 payments	**(1,016)**	-
Expenses not deductible for tax purposes	**250**	1,248
Rate differences	**(1,481)**	(1,628)
Adjustments in respect of prior years	**341**	(862)
Previously unrecognised tax losses recognised in the year	**(3,135)**	(10,184)
Effect of corporation tax surcharge on Banking profits	**6,789**	10,851
	18,618	27,814

8. Tax expense (continued)

The statutory rate of UK corporation tax is 19% from 1 April 2017. A reduction in that rate was enacted by Finance Act 2016 to 17% from 1 April 2020. Finance Act (No.2) 2015 also introduced the Bank Surcharge from 1 January 2016, being an 8% charge on taxable profits above £25m before the offset of brought forward losses or group relief.

The impact of the corporation tax rate change, restriction on loss utilisation, and the impact of management's concurrent reassessment of the recoverability of the deferred tax asset is discussed in note 18, Deferred Tax.

9. Cash and balances at central bank

	2018 £'000	2017 £'000
Cash in hand	624,764	614,590
Balances at central bank	1,417,159	1,265,501
	2,041,923	1,880,091

Cash and balances at central bank include mandatory deposits of £969,208,000 (2017: £906,263,000) which are not available for the Bank's day-to-day activities . Balances at central bank include cash ratio deposits which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998.

10. Due from other banks

Amounts due from other banks are held with the objective of collecting the contractual cash flows and therefore classified as "hold to collect" under IFRS 9. These amounts have basic lending features with the contractual cash flows solely representing the repayment of principal and interest on the principal amount outstanding i.e. the SPPI test. As a result these amounts are recognised at amortised cost.

Amounts due from other banks are stated at amortised cost.

	2018 £'000	2017 £'000
Other amounts due	41,543	52,016

	2018 £'000	2017 £'000
Analysed by remaining maturity:		
- on demand or at short notice	41,543	52,016

	2018 £'000	2017 £'000
Amounts include:		
Due from parent and fellow subsidiary undertakings	33,800	32,161

11. Trading portfolio assets and liabilities

Trading portfolio assets and liabilities comprise all derivatives with positive and negative fair values, respectively.

(a) Trading portfolio assets

	2018 £'000	2017 £'000
Derivatives with positive fair value	9,857	7,258

(b) Trading portfolio liabilities

	2018 £'000	2017 £'000
Derivatives with negative fair value	11,992	13,958

11. Trading portfolio assets and liabilities (continued)

(c) Explanation of derivatives

The Bank uses derivatives to hedge positions created by customer transactions. The Bank does not trade in any financial instruments including derivatives and therefore does not have a trading book.

The most common type of interest rate and currency derivatives used by the Bank are:
- swaps;
- forwards; and.
- options.

Derivatives are recognised and measured at fair value. Some of the Bank's loans carry fixed rates. Generally, such items are recognised at amortised cost. The Bank uses fair value hedge accounting if the interest rate risk on fixed rate financial assets is hedged by derivatives. Some of the Bank's loans carry floating rates. The Bank uses cash flow hedge accounting if the exposure to variability in interest rates is hedged by derivatives.

Derivatives - hedging

	Positive Fair Value		Negative Fair Value	
	Notional amount £'000	Carrying amount £'000	Notional amount £'000	Carrying amount £'000
At 31 December 2018				
Currency contracts				
Forwards	396,088	7,885	356,075	6,513
Options	7,634	98	7,634	98
Interest rate contracts				
Swaps	354,259	1,815	387,395	5,321
Options	52,675	59	52,675	60
Total derivatives	810,656	9,857	803,779	11,992
Counterparty				
Ultimate parent and fellow subsidiary undertakings	620,983	4,597	702,270	9,384
Other	189,673	5,260	101,509	2,608
Total	810,656	9,857	803,779	11,992

	Positive Fair Value		Negative Fair Value	
	Notional amount £'000	Carrying amount £'000	Notional amount £'000	Carrying amount £'000
At 31 December 2017				
Currency contracts				
Forwards	245,950	5,877	312,938	5,922
Options	2,308	17	2,663	20
Interest rate contracts				
Swaps	156,420	1,294	307,685	7,946
Options	67,562	70	67,562	70
Total derivatives	472,239	7,258	690,848	13,958
Counterparty				
Ultimate parent and fellow subsidiary undertakings	345,704	5,137	562,061	8,534
Other	126,535	2,121	128,787	5,424
Total	472,239	7,258	690,848	13,958

11. Trading portfolio assets and liabilities (continued)

(d) Fair value hedge accounting

The Bank manages the fixed interest rate risk on financial assets and liabilities measured at amortised cost as a combination of economic hedges (matching of interest rate risk from assets and liabilities at amortised cost) and hedges using interest rate swaps. The interest rate is considered fixed if the interest rate resets to a reference rate with a term longer than three months. In the risk management process, economic hedges are established and/or identified. This includes the acquisition of 'hold to collect' fixed interest rate bonds and the identification of fixed rate loans extended by the Bank to hedge the fixed interest rate risk on liabilities (including core demand deposits).

For hedged assets and liabilities to which a fixed rate of interest applies for a specified period of time starting at the commencement date of the agreement, future interest payments are split into basis interest and a customer margin and into periods of time. By entering into swaps or forwards with matching payment profiles in the same currencies and for the same periods, the Bank hedges the risk at portfolio level from the commencement date of the hedged items. The fair values of the hedged interest rate risk and the hedging derivatives are measured at frequent intervals to ensure that changes in the fair value of the hedged interest rate risk lie within a band of 80-125% of the changes in the fair value of the hedging derivatives. Portfolios of hedging derivatives are adjusted if necessary.

Hedge ineffectiveness relates to the fair value change of the hedged items being measured based on the interest rate curve relevant for each hedged item while the fair value of the hedging fixed leg in the derivatives is measured based on a swap curve. Further, the adjustment of the portfolios of hedging two derivatives to changes in hedged position is not done instantly, and some hedge ineffectiveness can therefore exist.

The Bank uses the option in IFRS 9 to continue to use the fair value hedge accounting provisions in IAS 39. With effective hedging, the hedged interest rate risk on hedged assets and liabilities is measured at fair value and recognised as a value adjustment of the hedged items. Value adjustments are presented in the income statement under Net trading income. Any ineffective portion of a hedge that lies within the range for effective hedging is therefore also included under Net trading income.

At 31 December 2018 the carrying amounts of effectively hedged fixed rate assets were £449,753,000 (2017: £420,406,000). The table below shows the value adjustments of these assets and the hedging derivatives. The value adjustments have been recognised in the income statement as net trading income.

	2018	2017
	£'000	£'000
Effect of interest rate asset hedging on profit		
Hedged loans and advances to customers	(3,329)	(3,149)
Hedging derivatives	3,307	3,151
Total	(22)	2

(e) Cash flow hedge accounting

The exposure to variability in cash flows attributable to interest rate risk associated with some floating rate assets is hedged by derivatives.

A portfolio cash flow hedge approach has been adopted, and effectiveness is assessed on a monthly basis by means of a capacity test. There is no change to the accounting for the hedged item and the derivative is carried at fair value, with changes in value reported in other comprehensive income to the extent that the hedge is effective.

	Positive Fair Value		Negative Fair Value	
	Notional amount	Carrying amount	Notional amount	Carrying amount
	£'000	£'000	£'000	£'000
Cash flow hedges				
Swaps	149,000	368	96,000	84

These hedges are included in the derivatives table above.

	2018	2017
	£'000	£'000
Derivatives held as cash flow hedges	245,000	15,000

	2018	2017
	£'000	£'000
Gains recognised in Other Comprehensive Income for the year	192	5

12. Investment securities

(a) Hold to collect (securities at amortised cost)

	2018 £'000	2017 £'000
Issued by public bodies		
Investment securities		
- listed	518,082	637,310
Unamortised premiums/(discounts)		
- on investment securities	17,082	22,310

(b) Hold to collect and sell (securities measured at FVOCI)

	2018 £'000	2017 £'000
Listed investments	647,572	370,629

The liquidity portfolio is part of the balance sheet management to optimise the balance sheet composition, to hedge the interest rate risk in the banking book and to manage the Bank's liquidity need. The management of the interest rate risk in the banking book is carried out through a combination of hedges with derivatives and partly through matching of the duration on the fixed interest rate deposits (the interest risk on core deposits) and with investment securities with a matching duration. The implementation of IFRS 9 did not lead to reclassifications between the different measurement categories.

Financial assets measured at amortised cost (AMC)
This portfolio includes the part of the liquidity bond portfolio that is held in a business model being 'hold to collect' the contractual cash flows, i.e. with the purpose of generating a return until maturity. Further, the bonds included in the portfolio have contractual cash flows that passes the SPPI test. In 2017, this bond portfolio was classified as Hold-to-maturity bonds.

The performance is measured based on the collection of the contractual cash flows. The fair value of the portfolio is monitored for liquidity purposes as the bonds can be used in repo transactions. Sales from the portfolio are infrequent. When sales are made they reflect:
- sales close to maturity (the proceeds from the sale approximate the collection of contractual cash flows);
- sales are managed to risk concentration (e.g. the sale of bonds due to a concentration of currency risk); and
- sales due to increase in credit risk above a certain level (i.e. outside the investment policy)

The bonds are UK government securities.

Financial assets measured at fair value through other comprehensive income (FVOCI)
This portfolio includes the part of the liquidity bond portfolio where both the collection of the contractual cash flows and sales are an integrated part of achieving the objectives with the acquired bond portfolio. Further, the bonds included in the portfolio have contractual cash flows that passes the SPPI test. In 2017 this bond portfolio was classified as Available-for-sale.

The performance of the portfolio is measured on a combination of the collection of the contractual cash flows and sales proceeds. Sales typically occur when market opportunities arise, or when there is a need to adjust the portfolio to hedge part of the interest rate risk on the Bank's core deposits. There is no objective of short-term profit taking, and the performance reporting related to this portfolio reflects a combination of the collection of the contractual cash flows and realising fair value market changes. The business model is therefore 'hold to collect and sell'.

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

SPPI test applied for bonds at FVOCI or AMC
The SPPI test is applied for each bond to assess that the contractual cash flows represents repayment of principal amount and interest on the principal amount outstanding. Bonds that are included in the portfolios at FVOCI or AMC are generally plain vanilla bonds that:
- have a fixed maturity, i.e. no perpetual bonds;
- do not have terms that introduce exposure to risk or volatility, e.g. by a yield that refers to changes in equity or commodity prices;
- are not subordinated or convertible bonds; and
- can be prepaid (e.g. at par plus accrued interest), with the fair value of the prepayment option being insignificant at initial recognition. In general, this will be the case if the premium/discount to the contractual par amount is insignificant at initial recognition.

13. Loans and advances to customers

Loans and advances to customers are held with the objective of collecting the contractual cash flows and therefore classified as "hold to collect" under IFRS 9. These loans and advances have basic lending features with the contractual cash flows solely representing the repayment of principal and interest on the principal amount outstanding i.e. the SPPI test. As a result these loans and advances are recognised at amortised cost.

Loans and advances to customers are stated at amortised cost.

	2018 £'000	2017 £'000
Analysed by remaining maturity:		
- on demand or at short notice	1,180,433	1,088,091
- 3 months or less	348,396	389,011
- 1 year or less but over 3 months	468,855	522,005
- 5 years or less but over 1 year	1,449,781	1,314,998
- over 5 years	2,570,990	2,198,485
	6,018,455	5,512,590
Allowance account	(92,095)	(90,297)
	5,926,360	5,422,293

At 1 January 2018, the Bank implemented IFRS 9. The comparative information has not been restated as retrospective application of the impairment requirements is not possible without the use of hindsight. Loans at amortised cost consist of loans held in a business model being 'hold to collect' and with contractual cash flows that passes the SPPI test. For loans at amortised cost, the major change from IAS 39 to IFRS 9 is the calculation of expected credit losses (ECL) (either as 12 months expected credit losses or lifetime expected credit losses depending on whether facilities are in stage 1, 2 or 3) and the inclusion of forward-looking elements.

Reconciliation of loans and advances to customers

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount at 1 January 2018	4,712,770	440,338	359,482	5,512,590
Transferred from Stage 1 to Stage 2	(256,058)	256,058	-	-
Transferred from Stage 2 to Stage 1	126,668	(126,668)	-	-
Transferred from Stage 3 to other stages	3,643	46,557	(50,200)	-
Transferred to Stage 3 from other stages	(58,949)	(18,331)	77,280	-
New assets*	1,466,188	93,011	18,964	1,578,163
Assets derecognised*	(688,063)	(69,696)	(42,470)	(800,229)
Assets written-off	(3)	(8)	(17,452)	(17,463)
Other changes	(201,789)	(29,743)	(23,075)	(254,607)
Gross carrying amount at 31 December 2018	5,104,406	591,520	322,529	6,018,455

* Revolving credit facilities on renewal are included as new assets and assets derecognised in the above reconciliation.

The transfer of the gross carrying amounts between ECL stages has been disclosed on an annual basis.

Classification and measurement – The SPPI test (solely payment of principal and interest on the principal amount outstanding)
Each loan is assessed to establish if the contractual cash flows are consistent with the SPPI test. The principal amount reflects the fair value at initial recognition less any subsequent changes, e.g. due to repayment. The interest shall represent consideration for the time value of money, credit risk, other basic lending risks and profit margin consistent with basic lending features, only. If the cash flows introduce more than de minimis exposure to risk or volatility that is not consistent with basic lending features, the loan is mandatorily recognised at fair value through profit or loss. Features that are not genuine do not affect the classification. A feature is not genuine if it affects the contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur.

13. Loans and advances to customers (continued)

Classification and measurement – The SPPI test (solely payment of principal and interest on the principal amount outstanding) (continued)

In general, the SPPI test of the Bank's portfolios of loans covers, for instance, the following elements:

- Compensation for the time value of money. For some of the Bank's variable rate loans, the market standard for these loans is that the reset frequency and the tenor of the reference rate do not match. It has been assessed that the mismatch does not significantly modify the compensation for the time value of money. No loans have interest rates that are leveraged or linked to, for instance, the development in share prices;
- Prepayment options are consistent with the SPPI test, if the prepayment amount represents the principal amount outstanding, accrued interest and may include a reasonable compensation for the early repayment.
- Extension options are consistent with the SPPI test, if the cash flows during the extension period represent cash flows that are solely payments of principal and interest on the principal amount outstanding.
- Compensation for credit risk and other basic lending risks. The interest rate includes a credit margin to compensate the Bank for the credit risk, and may be fixed initially. The Bank does not incorporate profit sharing agreements, for example by contractual terms that increase the credit margin if the customer's earnings increases;
- Non-recourse features. In general, the Bank does not grant loans that legally are non-recourse; and
- Non-payment is not a breach of contract. The Bank does not grant loans where non-payment would not constitute a breach of contract.

Financial instruments in scope of the expected credit loss impairment model in IFRS 9
Impairments for expected credit losses apply to all financial assets recognised at amortised cost or at fair value through other comprehensive income, lease receivables and certain loan commitments and financial guarantee contracts. As a result, the Bank's expected credit loss model also applies to bond portfolios included in the line item Investment securities.

Significant increase in credit risk (transfer from stage 1 to stage 2)
The classification of facilities between stage 1 and 2 for the purpose of calculating expected credit losses depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporate forward-looking information. A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

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

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

Finally, customers subject to forbearance measures are placed in stage 2, if the Bank in the most likely outcome, expects no loss or the customers are in the two-year probation period for performing forborne exposures.

Stage 3 (credit-impaired facilities)
A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, been granted a concession that would not otherwise have been considered; (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; and (e) the purchase or origination of a financial asset at a high rate of discount that reflects the incurred credit loss. It may not be possible to identify a single individual event – instead, the combined effect of several events may cause the financial asset to become credit-impaired. Credit-impaired facilities are placed in rating category 10 or 11. For rating category 11 (default), all exposures are classified as stage 3.

Definition of default
The definition of default used in the measurement of expected credit losses and the assessment to determine movements between stages is consistent with the definition of default used for internal credit risk management purposes and is aligned with Capital Requirements Regulation (CRR). Hence, exposures which are considered to be in default for regulatory purposes will always be considered stage 3. This applies both for 90-days-past-due considerations and unlikely-to-pay factors leading to a regulatory default.

Calculation of expected credit losses
The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EaD) and the loss given default (LGD). In general, the Bank's IFRS 9 impairment models and parameters draw on the Bank's internal models in order to ensure alignment of models across the Bank. New models and calculations have been developed specifically for IFRS 9 purposes, including models for lifetime PD, prepayment and forward-looking LGD. All expected credit loss impairments are allocated to individual exposures. For significant loans in stage 3, the Bank determines the expected credit losses individually.

Expected remaining lifetime
For most facilities, the expected lifetime is limited to the remaining contractual maturity and is adjusted for expected prepayment. For exposures with weak credit quality, the likelihood of prepayment is not included. For exposures that include both a loan and an undrawn commitment, and where a contractual ability to demand prepayment and cancellation of the undrawn commitment do not limit the Bank's exposure to credit losses to the contractual notice period, the expected lifetime is the period during which the Bank expects to be exposed to credit losses. This period is estimated on the basis of the normal credit risk management actions. Products identified as in scope of an expected lifetime longer than the remaining contractual maturity include credit cards, overdraft balances and certain revolving credit facilities.

13. Loans and advances to customers (continued)

Incorporation of forward-looking information

The forward-looking elements of the calculation reflect the current unbiased expectations of the Bank's senior management. The process consists of the creation of macroeconomic scenarios (base case, upside and downside), including an assessment of the probability of each scenario by the Bank's Chief Economist the review and sign-off of the scenarios (through the Bank) and a process for adjusting scenarios given new information during the quarter. The purpose of using multiple scenarios is to model the non-linear impact of the assumptions about macroeconomic factors on the expected credit losses. Management's approval of scenarios can include adjustments to the scenarios, probability weighting and management overlays to cover the outlook for particular high-risk portfolios, which are not provided by the Bank's macroeconomists. The approved scenarios are used to calculate the impairment levels. Technically, the forward-looking information is used directly in the PDs through an estimate of general changes to the PDs and the LGDs in the expected credit loss calculation. However, for significant exposures in stage 3, an individual assessment of the scenarios, changes to expected credit losses and the related probabilities are performed by senior credit officers.

The forward-looking information is based on a three year forecast period converging to steady state in year seven.

Write-off policy

Loans that are considered uncollectible are written off. Write-offs are debited to the allowance account. Loans are written off once the usual collection procedure has been completed and the loss on the individual loan can be calculated. Full write-off of a loss is only recognised when the customer is formally notified that they no longer have a contractual obligation.

Modification

When a loan is modified the Bank assesses whether the modification results in derecognition. This depends on whether the changes to the contractual cash flows or other contractual terms are significant or not. If the changes are significant, the modification is accounted for as derecognition of the original loan and recognition of a new loan. If the changes are not significant, the modification is accounted for as a modification of the original loan. The assessment is based on the following considerations:

- The Bank differentiates between changes in the cash flows or other terms within the original contract and modifications of the contract, i.e. a new contract;
- In general, a significant modification is defined as a full credit process, a pricing decision and the signing of a new contract; and
- An assessment of whether the modification is caused as a forbearance measure or made on commercial terms.

If the financial asset is not derecognised, the original effective interest rate remains unchanged, and the net present value of the changed contractual cash flows represents the gross carrying amount of the financial asset after the modification. The difference between the net present value of the original contractual cash flows and the modified contractual cash flows is recognised in the Income statement as a modification gain or loss.

If the original financial asset is derecognised, a derecognition gain or loss is recognised in the Income statement. The derecognition gain or loss represents the difference between the carrying amount of the original financial asset and the initial carrying amount of the new financial asset plus/minus any cash payments between the parties in relation to the modification.

In terms of stage allocation, a modification that leads to derecognition of the initial loan and recognition of a new loan, the loan will (unless the new loan is credit-impaired at initial recognition) be recognised in stage 1 at initial recognition, i.e. the initial credit risk is reset. If the replacing loan is considered an amendment to the original loan, the initial credit risk is not reset. Loans modified as part of the Bank's forbearance policy, where the modification does not result in derecognition, the loss allowance on the forborne loans will generally only be measured based on 12-months expected credit losses when there is evidence of the borrower's improved repayment behaviour. When a loan in stage 3 is modified, and the modification results in derecognition, the Bank assesses if the new loan is originated credit impaired. The assessment includes factors such as whether the customer's repayment behaviour has improved significantly prior to the modification or not and whether the pricing on the new loan reflects the actual credit risk. New loans that are originated credit impaired remain under a lifetime ECL calculation for the remaining term of the exposure.

Impairment under IAS 39 (in respect of information regarding year ended 31 December 2017)

Under IAS 39, impairment was recognised for incurred credit losses based on objective evidence of impairment.

The impairment charge equals the difference between the carrying amount of the loan and the present value of the most likely future cash flows from the loan. The customer's debt is written down to the amount that the borrower is expected to be able to repay after financial restructuring. If financial restructuring is not possible, the debt is written down to the estimated recoverable amount in the event of bankruptcy, which depends, among other factors, on the value of the collateral received by the Bank. If the borrower's ability to repay depends significantly on the assets that have been provided as collateral (asset financing), the customer's debt is written down to the fair value of the collateral.

Loans without objective evidence of impairment are included in a collective assessment of the need for impairment charges. The collective assessment also includes customers with objective evidence of impairment, but without a need for impairment. Collective impairment charges are calculated for loans with similar credit risk characteristics to recognise the losses that occur when the expected cash flow from a group of customers deteriorates, i.e. when an increase in credit risk is not accompanied by adjustments to the interest rate charged to the customer to reflect the increase in credit risk. A charge is therefore recognised for customers that have been downgraded without changes being made to the credit margin.

13. Loans and advances to customers (continued)

Impairment under IAS 39 (in respect of information regarding year ended 31 December 2017) (continued)

When external market information indicates that an impairment event has occurred, even though it has not yet caused a change in rating, the Bank registers an “early event” impairment charge. Early events represent an expected rating change because of deteriorating market conditions in an industry. If a rating downgrade does not occur as expected, the charge is reversed. A management judgement is therefore applied to adjust the collective impairment charge if the Bank becomes aware of market conditions at the balance sheet date that are not fully reflected in the Bank's models.

Collective impairment charges are calculated as the difference between the carrying amount of the loans in the portfolio and the present value of expected future cash flows. The cash flows used to determine the present value of future cash flows are specified by means of parameters used for solvency calculations and historical loss data adjusted for use in the financial statements, for example. The adjustment reflects the loss identification period shown by the Bank's empirical data. This period is the period from the first significant downgrade to the determination of a loss at customer level.

Impairment charges for loans and guarantees are booked in an allowance account and set off against loans or recognised as provisions for guarantees. Impairment charges for loans are recognised under Loan impairment charges in the Income statement. If subsequent events show that impairment is not permanent, charges are reversed.

In accordance with the effective interest method, interest is recognised on the basis of the value of the loans less impairment charges. Consequently, part of the allowance account balance is set aside for future interest income.

For non-significant loans for which default or other objective evidence of impairment is identified, the Bank calculates the individual impairment charge statistically. Loans for which objective evidence of impairment has not been identified are included in an assessment of collective impairment at portfolio level. For individual impairment charges calculated statistically and for collectively assessed loans, the impairment charges are calculated as the difference between the carrying amount of the loans in a portfolio and the present value of expected future cash flows.

Previous collective impairments aimed at capturing specific high-risk areas are incorporated as forward-looking elements into the individual expected credit loss calculation.

Reconciliation of total allowance account
The allowance account below is reconciled by measurement category. The allowance account for loans at amortised cost is credited against the related loans, whereas the allowance account related to loan commitments and guarantees is recognised as a liability and presented under Other liabilities. The transfer between ECL stages has been disclosed on a monthly basis.

Reconciliation of total allowance account

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Collective and individual impairment charges under IAS 39 as at 31 December 2017	596	109	90,411	91,116
Transition effect (ECL at 1 January 2018)	4,606	11,908	(126)	16,388
Charge for the year				
- transferred from Stage 1 during the year	-	1,693	3,001	4,694
- transferred from Stage 2 during the year	7,723	-	4,437	12,160
- transferred from Stage 3 during the year	1,322	5,546	-	6,868
- transferred to Stage 1 during the year	-	(7,723)	(1,322)	(9,044)
- transferred to Stage 2 during the year	(1,693)	-	(5,546)	(7,239)
- transferred to Stage 3 during the year	(3,001)	(4,437)	-	(7,438)
- ECL on new assets	6,282	894	-	7,176
- ECL on assets derecognised	(3,273)	(5,891)	(20,481)	(29,644)
Impact of net remeasurement of ECL (incl. changes in models)	964	1,303	5,501	7,768
Impact of net remeasurement of ECL (Stage Change)	(7,583)	11,437	15,815	19,669
Recovery of amounts written off in previous years	-	-	(2,072)	(2,072)
	741	2,822	(667)	2,896
Write-offs/recoveries applied to the allowance account				
- Write-offs debited to the allowance account	(3)	(8)	(17,452)	(17,463)
- Recoveries of amounts written off in previous years	-	-	2,072	2,072
Foreign exchange and other adjustments	1	13	790	804
As at 31 December 2018	5,941	14,844	75,028	95,813

13. Loans and advances to customers (continued)

Allowance account broken down by balance sheet items

	2018 £'000	2017 £'000
Due from credit institutions and central banks	65	-
Loans at amortised cost	92,095	90,297
Loan commitments and guarantees	3,653	819
Total	95,813	91,116

Loan impairment charges include impairment charges for expected credit losses against loans, lease receivables, bonds at amortised cost, certain loan commitments and financial guarantee contracts.

Investment securities, exposures with central bank and derivative financial instruments are subject to the expected loss credit model in IFRS 9 but, on the basis of materiality, the related IFRS 9 allowance has not been included in the Financial Statements.

Significant accounting estimates related to expected credit losses

For information on significant accounting estimates related to expected credit losses, see note 1(b).

14. Investment in subsidiaries

	2018 £'000	2017 £'000
Ordinary shares in subsidiaries	250	250

Movements on shares and investments in subsidiary undertakings

	2018 £'000	2017 £'000
At start of year	250	250
Companies dissolved	-	-
At end of year	250	250

Investments in subsidiary undertakings are included at historical cost.

	2018 £'000	2017 £'000
Subsidiary undertakings		
- other	250	250
Total - all unlisted	250	250

The Bank holds 100% of the ordinary share capital of its subsidiaries. All its subsidiary undertakings are incorporated in the UK. None of the subsidiaries of the Bank traded during the current year.

The subsidiary undertakings of the Bank are:

	Share class	Country of registration/ origination	% of equity share capital and voting rights held	Company number
Northern Bank Factors Limited	Ordinary	Northern Ireland	100%	NI 13062
Northern Bank Nominees Limited	Ordinary	Northern Ireland	100%	NI 4468
Northern Bank Pension Trust Limited	Ordinary	Northern Ireland	100%	NI 3155
Northern Bank Executor and Trustee Company Limited	Ordinary	Northern Ireland	100%	NI 4467

These subsidiaries of the Bank are dormant and are expected to remain so.

The registered office of all the subsidiary undertakings is Donegall Square West, Belfast BT1 6JS.

15. Intangible assets

	2018 £'000	2017 £'000
Cost at 1 January 2018	359	-
Additions	249	86
Transfer from property, plant and equipment	-	273
Cost at 31 December 2018	608	359
Accumulated amortisation at 1 January 2018	85	-
Amortisation charge for the year	108	85
Accumulated amortisation at 31 December 2018	193	85
Net book value at 31 December 2018	415	274

Intangible assets consist of acquired software.

16. Property, plant and equipment

	Freehold land and buildings £'000	Leases of 50 years and over unexpired £'000	Leases of under 50 years unexpired £'000	Motor vehicles, fixtures and equipment £'000	Total 2018 £'000
Cost at 1 January 2018	11,349	25,873	3,378	26,297	66,897
Additions	-	-	76	2,552	2,628
Disposals	-	-	-	(135)	(135)
Transferred to assets held for sale	(530)	-	-	(121)	(651)
Revaluation	(174)	(430)	-	-	(604)
Cost at 31 December 2018	10,645	25,443	3,454	28,593	68,135
Accumulated depreciation at 1 January 2018	112	312	881	19,609	20,914
Depreciation charge for the year	219	618	385	2,156	3,378
Accumulated depreciation on disposals	-	-	-	(135)	(135)
Transferred to assets held for sale	(4)	-	-	(121)	(125)
Revaluation	(224)	(622)	(6)	-	(852)
Accumulated depreciation at 31 December 2018	103	308	1,260	21,509	23,180
Net book value at 31 December 2018	10,542	25,135	2,194	7,084	44,955

	Freehold land and buildings £'000	Leases of 50 years and over unexpired £'000	Leases of under 50 years unexpired £'000	Motor vehicles, fixtures and equipment £'000	Total 2018 £'000
Cost at 1 January 2017	11,952	24,704	2,413	23,310	62,379
Additions	-	-	978	3,364	4,342
Disposals	-	-	-	(104)	(104)
Transferred to intangible assets	-	-	-	(273)	(273)
Revaluation	(603)	1,169	(13)	-	553
Cost at 31 December 2017	11,349	25,873	3,378	26,297	66,897
Accumulated depreciation at 1 January 2017	145	346	711	17,889	19,091
Depreciation charge for the year	235	613	177	1,824	2,849
Accumulated depreciation on disposals	-	-	-	(104)	(104)
Revaluation	(268)	(647)	(7)	-	(922)
Accumulated depreciation at 31 December 2017	112	312	881	19,609	20,914
Net book value at 31 December 2017	11,237	25,561	2,497	6,688	45,983

16. Property, plant and equipment (continued)

Freehold properties and leasehold properties where the original lease is more than thirty years, are revalued on a five year cycle. An interim valuation was carried out by external qualified valuers (as defined in the Royal Institution of Chartered Surveyors (RICS) "RICS Valuation Standards 6th Edition"), Osborne King, Chartered Surveyors as at 30 June 2018. The basis of valuation is existing use value and the professional valuations have been made in accordance with RICS Practice Statements and Guidance notes

Land and buildings occupied for own activities

	2018 £'000	2017 £'000
Net book value	**37,871**	39,295

On the historical cost basis, freehold and leasehold land and buildings would have been included as follows:

	2018 £'000	2017 £'000
Cost	**20,054**	19,943
Accumulated depreciation	**(19,732)**	(18,575)
Net book value	**322**	1,368

17. Assets held for sale

	2018 £'000	2017 £'000
Assets held for sale	**526**	150

Assets held for sale are measured at the lower of cost and fair value less expected costs to sell. During the year assets held for sale were written down by £Nil (2017: £30,000).

Properties held for sale consists of properties which have been closed as part of a review of the business. One property was sold during the year (2017: no properties were sold during the year.)

18. Deferred tax

Movement in net deferred tax asset

	2018 £'000	2017 £'000
At 1 January	534	18,489
Restatement for adoption of IFRS 9 (Note 45)	4,144	-
Restated balance at 1 January	4,678	18,489
Recognised in the income statement (Note 8)	(3,717)	(4,405)
Recognised directly in equity:		
- Tax on actuarial loss/(gain)	1,609	(13,849)
- Investment securities hold to collect and sell	619	372
- Cash flow hedge reserve	(48)	-
- Transfer to revaluation reserve	91	(73)
At 31 December	3,232	534

The Bank recognises deferred tax attributable to the following items:

	31 December 2018 £'000	31 December 2017 £'000
Deferred tax assets		
Tax losses carried forward	23,830	24,220
Investment securities - hold to collect and sell	992	373
Accelerated capital allowances	5,382	5,757
Other timing differences	10,344	6,978
	40,548	37,328
Deferred tax liabilities		
Defined benefit pension asset	34,795	34,228
Net gain on revaluation of properties	2,472	2,565
Cash flow hedge reserve	49	1
	37,316	36,794
Net deferred tax asset	3,232	534

At 31 December 2018 the Bank had an unrecognised deferred tax asset of £20,510,000 (2017: £23,600,000) representing trading losses with a gross value of £120,650,000 (2017: £139,000,000). A deferred tax asset has not been recognised in respect of these losses as the Directors have insufficient certainty over their recoverability in the foreseeable future. Under current UK tax legislation there is no prescribed time period for loss utilisation however, the UK tax environment for banks in particular is unsettled and has been subject to repeated change and increased restrictions, principally on the use of historic losses as discussed below. As a result the period over which brought forward losses will be used to offset taxable profits has increased considerably.

The statutory rate of UK corporation tax is 19% from 1 April 2017. A reduction in that rate was enacted by Finance Act 2016 to 17% from 1 April 2020. In accordance with IAS 12, these rates are taken into account in assessing the value at which assets are expected to be realised and liabilities settled. From 1 April 2016, only 25% of a bank's profits can be relieved by brought forward losses, significantly extending the timeframe taken to realise value for existing tax losses.

As a result and in accordance with IAS 12, the Directors have assessed the recoverability of the deferred tax asset and have chosen to recognise deferred tax assets relating only to those losses that the Bank expects to utilise within the Bank's current corporate planning horizon. The combined impact of the legislative changes outlined above, and the Directors' reassessment of the recoverability horizon, results in a tax credit of £3,135,000, within a total deferred tax charge of £3,717,000.

19. Other assets

	2018 £'000	2017 £'000
Accrued interest	**21,813**	22,192
Prepayments and other amounts due	**9,678**	6,808
	31,491	29,000

20. Due to other banks

	2018 £'000	2017 £'000
Transaction balances with other banks	**22,624**	34,420
Term Funding Scheme (Bank of England)	**350,000**	-
	372,624	34,420

	2018 £'000	2017 £'000
Analysed by remaining maturity		
Repayable on demand	**22,624**	34,420
Amounts include:		
Due to parent and fellow subsidiary undertakings	**17,605**	29,790

21. Deposits from customers

	2018 £'000	2017 £'000
Current accounts	**4,395,663**	4,047,184
Demand deposits	**2,379,038**	2,189,217
Time deposits	**790,438**	793,688
	7,565,139	7,030,089

	2018 £'000	2017 £'000
Analysed by remaining maturity		
Repayable on demand	**6,774,701**	6,236,401
- 3 months or less but not repayable on demand	**501,355**	441,167
- 1 year or less but over 3 months	**268,541**	316,233
- 5 years or less but over 1 year	**20,542**	36,288
	7,565,139	7,030,089

22. Pension asset

The Bank operates a defined benefit scheme (the Scheme) within which benefits built up before 1 January 2008 are linked to final salary and after this date are based on career average earnings. With effect from 1 January 2004, the Scheme was closed to new members and a spo alone defined contribution pension scheme was created for new staff. This did not affect the pension arrangements of existing employees. Tl closed to future accrual on 30 September 2018 and this resulted in a negative past service cost of £40,400,000 being recognised in the ye December 2017. All future contributions from the date of cessation of accrual will be made to an alternative pension arrangement.

In relation to the defined contribution scheme the pension charge for the Bank for the year to 31 December 2018 was £2,956,000 (2017: £ There were no outstanding contributions or prepayments made in the current or prior financial year in respect of the defined contribution sc figures that follow relate to the defined benefit scheme only.

In future years, the service cost of the Scheme will be zero, following closure of the Scheme to future accrual from 30 September 2018. For 31 December 2018, there is a pro-rated service cost.

The latest triennial funding valuation was carried out as at 31 December 2015. The results of this valuation were updated by an independen IAS 19 basis and the major assumptions used were:

	2018 % p.a.
Inflation (RPI)	3.15
Inflation (CPI)	2.15
Rate of future increase in salaries	N/A
Rate of increase for pre-1997 pensions in payment	2.15
Rate of increase for 1997-2008 pensions in payment	2.95
Rate of increase for post-2008 pensions in payment	2.30
Discount rate	2.70
Post retirement mortality	
Current pensioners at 60 - males (years)	28.20
Current pensioners at 60 - females (years)	29.70
Future pensioners at 60 - males (years)	29.70
Future pensioners at 60 - females (years)	31.30

The assumptions used by the actuary are the best estimate chosen from a range of possible actuarial assumptions which, due to the timesc not necessarily be borne out in practice.

The expected defined benefit pension fund contribution to be paid by the Bank and other participating employers within the Danske Bank Gro ending 31 December 2019 is £6,700,000.

Members no longer make contributions to the defined benefit scheme following Scheme closure on 30 September 2018.

A salary sacrifice arrangement was introduced with effect from March 2008. The service cost reflects the notional salary (i.e. before any a salary sacrifice) paid to relevant employees. The Bank's share of the service cost has been calculated by netting off the actual contributions p members who do not participate in the salary sacrifice arrangement.

Scheme asset information

The fair values of the Scheme's assets and liabilities are inherently uncertain because:
- the Scheme's assets are based on the value at the balance sheet date even though they are not intended to be realised in the short term an to significant change before they are realised; and
- the Scheme's liabilities are derived from cash flow projections over long periods.

22. Pension asset (continued)

Scheme asset information (continued)

	Market value 31 December 2018 £'000
Equity securities	102,042
Debt securities	474,245
Real estate/property	61,810
Derivatives	60,220
Other	4,917
Buy-in annuity	577,326
Fair value of Scheme assets	1,280,560

The Scheme has not invested in any of the Bank's own financial instruments nor in other assets used by the Bank.

Reconciliation to the Balance Sheet

	2018 £'000
Analysis of defined benefit obligation by status	
- Active members	-
- Deferred pensioner members	542,300
- Pensioners	588,000
Present value of defined benefit obligation	1,130,300
Fair value of plan assets	1,280,560
Net defined benefit asset	150,260

	2018 £'000
Net defined benefit asset at beginning of year	154,261
Service cost (including past service costs)	
- the Bank	(11,695)
- other participating employers	(32)
Administration costs incurred over the year	(816)
Net interest on net defined benefit asset	4,100
Employers' contributions	
- the Bank	10,845
- other participating employers	32
Remeasurement effects recognised in OCI	(6,435)
Net defined benefit asset at end of year	150,260

Movement in present value of defined benefit obligation

	2018 £'000
Defined benefit obligation at beginning of year	1,194,100
Gross current service cost	
- the Bank	9,168
- other participating employers	32
- contributions paid by members	10
Past service costs	
- the Bank	2,527
Interest cost on the defined benefit obligation	27,800
Actuarial gain - experience	4,856
Actuarial gain - demographic assumptions	10,052
Actuarial loss - financial assumptions	(67,860)
Benefits paid by the Scheme	(50,385)
Defined benefit pension obligation at end of year	1,130,300

22. Pension asset (continued)

Movement in fair value of Scheme assets

	2018
	£'000
Fair value of Scheme assets at beginning of year	1,348,361
Interest income on Scheme assets	31,900
Return on Scheme assets greater than discount rate	(59,387)
Employers' and employees' contributions paid into the Scheme	
- participating employers	10,845
- other participating employers	32
- member contributions	10
Benefits paid by the Scheme	(50,385)
Administration costs paid	(816)
Fair value of Scheme assets at end of year	1,280,560

Scheme expense recognised in the Income Statement

	2018
	£'000
Current service cost	
- the Bank included within operating expenses	9,168
- other participating employers	32
Past service cost and curtailments (including Guaranteed Minimum Pension)	2,527
	11,727
Net interest on net defined benefit asset	(4,100)
Administration costs incurred during the year	816
Scheme expense	8,443

Amount recognised in Other Comprehensive Income (OCI)

	2018
	£'000
Return on Scheme assets (greater)/less than discount rate	59,387
Actuarial loss/(gain) due to liability experience	4,856
Actuarial (gain)/loss due to assumption changes	(57,808)
Remeasurement effects recognised in OCI - loss/(gain)	6,435

Actual return on Scheme assets

	2018
	£'000
Interest income on Scheme assets	31,900
Return on Scheme assets greater/(less) than discount rate	(59,387)
Actual return on Scheme assets	(27,487)

Plan characteristics and associated risks

	2018
	£'000
Maturity profile of Defined Benefit Obligation	
- Expected benefit payments during fiscal year ending 31 December 2019	51,500
- Expected benefit payments during fiscal year ending 31 December 2020	52,600
- Expected benefit payments during fiscal year ending 31 December 2021	53,700
- Expected benefit payments during fiscal year ending 31 December 2022	54,900
- Expected benefit payments during fiscal year ending 31 December 2023	56,100
- Expected benefit payments during fiscal year ending 31 December 2024 through 31 December 2028	299,100

	2018
	Years
Weighted average duration of Defined Benefit Obligation (years)	20

22. Pension asset (continued)

The Bank is exposed to a number of risks relating to the Scheme including assumptions not borne out in practice. The most significant risks

Asset volatility

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

Change in bond yields

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

Inflation risk

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

Life expectancy

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

Significant actuarial assumption sensitivities

Discount rate
Change in DBO at year end from a 50 basis points increase
Change in DBO at year end from a 50 basis points decrease

Price inflation (RPI measure)*
Change in DBO at year end from a 50 basis points increase
Change in DBO at year end from a 50 basis points decrease

Pension increases**
Change in DBO at year end from a 50 basis points increase
Change in DBO at year end from a 50 basis points decrease

Post retirement longevity
Change in DBO at year end from a one year increase in longevity
Change in DBO at year end from a one year decrease in longevity

*Including consistent change to the pension increases, CPI related increases in deferment and salary growth.
**Derived assuming RPI has increased and decreased by 0.5% per annum respectively. This does not include a consistent change to any CP
increases in deferment or salary growth.

22. Pension asset (continued)

Significant actuarial assumption sensitivities (continued)

The Scheme is exposed to a number of investment and demographic risks. The sensitivity of the defined benefit obligation to different scena above. Note that these scenarios do not represent upper or lower bounds on what could happen. In addition, the sensitivity figures are base calculations and therefore may not be sufficiently accurate for use in any actuarial calculations whose results are intended for disclosure in Financial Statements.

It should be noted that a change in the RPI assumption does not have a linear effect due to the relevant caps and collars on inflation linked inc

The Bank quantifies and holds capital specifically in respect of pension risk.

23. Other liabilities

	2018 £'000
Accrued interest	3,457
Provision for off balance sheet financial guarantees and loan commitments	3,653
Accruals and sundry creditors	21,794
Corporation tax	5,955
	34,859

The Bank has issued a number of loan commitments and guarantee instruments. If an instrument is likely to result in a payment obligation, a recognised corresponding to the present value of expected payments.

24. Provisions

	PPI £'000	FSCS levy £'000	Other £'000
At 1 January 2018	5,920	623	850
Credit to income statement	(1,865)	(339)	(24)
Provisions utilised	(901)	(142)	-
At 31 December 2018	3,154	142	826

Provisions broken down by expected due date:

	2018 £'000
Provisions due:	
- 1 year or less	4,122
- over 1 year	-
Total	4,122

24. Provisions (continued)

Payment Protection Insurance "PPI"

In common with the wider UK retail banking sector, the Bank continues to deal with complaints and redress issues arising out of historic sal During the year, the Bank reassessed the level of provision that was considered appropriate to meet current and future expectations in relat mis-selling of PPI policies and this reflected, ahead of the August 2019 industry deadline, the impact of heightened media coverage, the FCA campaign and increased activity by claims management companies. The provision has taken into account a revision of the Bank's expectatio customer initiated complaints in light of current experience, with the overall provision based on a number of assumptions derived from a cor past experience, estimated future experience, industry comparison and the exercise of judgement in the key areas identified. There remain r uncertainties in relation to these assumptions and consequently in relation to the ultimate costs of redress, including: (i) the number of PPI c the extent to which this is influenced by the activity of claims management companies, the application of a time bar, Plevin, and FCA advertisi number of those claims that ultimately will be upheld; (iii) the amount that will be paid in respect of those claims; and (iv) any additional amour need to be paid in respect to previously handled claims.

As such, the factors discussed above mean that there is a risk that existing provision for PPI customer redress may not cover all potential c this, the eventual costs of PPI redress may therefore differ materially from that estimated and further provision could be required.

The number of complaints received is monitored against past experience and future expectations and the Bank will continue to reassess the provision for this matter and the assumptions underlying the provision calculation based upon experience and other relevant factors as mat

Financial Services Compensation Scheme (FSCS) levy

The Financial Services Compensation Scheme (FSCS) provides compensation to depositors in the event that a financial institution is unable amounts due. Following the failure of a number of financial institutions, claims were triggered against the FSCS, initially to pay interest on bo the FSCS has raised from the UK Government to support the protected deposits. During 2015, the FSCS levy was also invoiced to institutio of three annual levies to cover capital repayments to the UK Government. The principal of these borrowings, which remains after the three a been paid, is anticipated to be repaid from the realisation of the assets of the defaulted institutions. The FSCS has however confirmed that th future levies will be kept under review in light of developments from the insolvent estates. The FSCS has estimated levies due to 31 March 2 provision of £142,000 (2017: £623,000) is held for the Bank's calculated liability to that date. The ultimate FSCS levy as a result of the failu

Other

This represents provision for costs arising in respect of a number of legal actions and claims arising in the ordinary course of the Bank's bus with onerous leases.

25. Subordinated debt

	2018 £'000
Balance at 1 January	126,000
Additions	-
Balance at 31 December	126,000

On 12 January 2015 £100,000,000 of CRD IV compliant subordinated instruments were issued to Danske Bank A/S. The rate of interest a instruments is 200bps over 3 month LIBOR. The subordinated instruments are dated loan capital and may be redeemed by the issuer, Nort Limited, subject to regulatory approval, on 12 January 2022.

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

26. Balance sheet items broken down by expected due date

The Bank presents the balance sheet items in order of liquidity instead of distinguishing between current and non-current items. The table b
balance sheet items expected to mature within the year (current) and after more than one year (non-current).

	2018	2018	2017
	< 1 year	> 1 year	< 1 year
	£'000	£'000	£'000
Assets			
Cash and balances at central bank	1,072,715	969,208	973,828
Items in the course of collection from other banks	40,137	-	55,463
Due from other banks	37,544	3,999	44,383
Derivative financial instruments	6,240	3,617	4,333
Investment securities - hold to collect	99,879	418,203	150,321
Investment securities - hold to collect and sell	6,004	641,569	-
Loans and advances to customers	2,440,640	3,485,720	1,762,519
Investment in subsidiaries	-	250	-
Intangible assets	-	415	-
Property, plant and equipment	-	44,955	-
Assets held for sale	526	-	150
Deferred tax assets	-	3,232	-
Defined benefit pension asset	-	150,260	-
Other assets	28,797	2,694	28,020
Total assets	3,732,482	5,724,122	3,019,017
Liabilities			
Due to other banks	22,624	350,000	34,420
Items in course of transmission to other banks	17,854	-	17,826
Derivative financial instruments	5,487	6,505	4,633
Deposits from customers	5,126,446	2,438,693	4,793,486
Notes in circulation	-	489,091	-
Provisions	4,122	-	4,287
Other liabilities	9,412	25,447	14,415
Subordinated debt	-	126,000	-
Total liabilities	5,185,945	3,435,736	4,869,067

Deposits include fixed term deposits and demand deposits. Fixed term deposits are recognised according to maturity. Demand deposits ha
contractual maturities but are considered a stable funding source with an expected maturity of more than one year.

27. Contractual dates of financial liabilities

The contractual due dates of financial liabilities are broken down by maturity time bands in the table below. The maturity analysis is based or date on which the Bank can be required to pay and does not reflect the expected due date. The sections on liquidity risk in the Strategic Repc management notes provide information about the Bank's liquidity risk and liquidity risk management.

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years
	£'000	£'000	£'000	£'000
At 31 December 2018				
Liabilities				
Due to other banks	22,624	-	-	350,000
Deposits from customers	6,774,701	501,355	268,541	20,542
Derivative financial instruments	-	2,167	4,199	4,421
Subordinated debt	-	-	-	-
	6,797,325	503,522	272,740	374,963
Off balance sheet items				
Contingent liabilities	92,056	-	-	-
Commitments	926,244	-	-	-
	1,018,300	-	-	-
At 31 December 2017				
Liabilities				
Due to other banks	34,420	-	-	-
Deposits from customers	6,236,401	441,167	316,233	36,288
Derivative financial instruments	-	2,289	3,583	6,370
Subordinated debt	-	-	-	-
	6,270,821	443,456	319,816	42,658
Off balance sheet items				
Contingent liabilities	104,965	-	-	-
Commitments	854,874	-	-	-
	959,839	-	-	-

For liabilities with variable cash flows, for example variable rate financial liabilities, disclosure is based on the contractual conditions at the ba date.

Usually deposits are contractually very short term funding but, in practice, they are considered a stable funding source as amounts disburse amounts received. A number of loan commitments and guarantees expire without being utilised. Loan commitments and guarantees are inc earliest date on which the Bank can be required to pay.

For guarantees, included within contingent liabilities, to result in a payment obligation to the Bank, a number of individual conditions must be possible to breakdown the earliest dates on which such conditions are met by maturity bands, all guarantees are included in the 'on demand'

28. Offsetting of financial assets and liabilities

There is no offsetting of financial assets and liabilities in the Financial Statements. In the event the counterparty or the Bank defaults, furthei take place. This note shows netting according to enforceable master netting agreements (i.e. in the event of default) and collateral provided c under these agreements.

	Gross amount	Legal right of offset	Further offsetting, master netting agreement	Collateral /offset
	£'000	£'000	£'000	£'000
At 31 December 2018				
Financial assets				
Cash and balances at central bank	2,041,923	-	-	(489,091)
Due from other banks	41,543	-	(17,605)	-
Derivatives with positive fair value	9,857	-	(4,597)	(897)
Loans and advances to customers	5,926,360	(482,426)	-	-
Financial liabilities				
Due to other banks	372,624	-	(17,605)	-
Derivatives with negative fair value	11,992	-	(4,597)	(897)
Deposits from customers	7,565,139	(482,426)	-	-
Notes in circulation	489,091	-	-	(489,091)
At 31 December 2017				
Financial assets				
Cash and balances at central bank	1,880,091	-	-	(470,601)
Due from other banks	52,016	-	(29,790)	-
Derivatives with positive fair value	7,258	-	(5,137)	(1,291)
Loans and advances to customers	5,422,293	(399,496)	-	-
Financial liabilities				
Due to other banks	34,420	-	(29,790)	-
Derivatives with negative fair value	13,958	-	(5,137)	(1,291)
Deposits from customers	7,030,089	(399,496)	-	-
Notes in circulation	470,601	-	-	(470,601)

29. Fair value information for financial instruments

Financial instruments are carried in the balance sheet at fair value or amortised cost. The Bank breaks down its financial instruments by val
(Note 1 provides additional information).

(a) Financial instruments at fair value

The only financial instruments that are recognised at fair value are derivatives and investment securities - hold to collect and sell.

The fair value is the amount for which a financial asset or a financial liability can be exchanged between knowledgeable, willing parties. Fair va
on the basis of the following hierarchy:

The fair value hierarchy

- Quoted price (level 1) consists of financial instruments that are quoted in an active market. The Bank uses the price quoted in the principa
- Valuation based on observable input (level 2) consists of financial instruments valued substantially on the basis of observable input other t price for the instrument itself. If a financial instrument is quoted in a market that is not active, the Bank bases its measurement on the mo transaction price. Adjustment is made for subsequent changes in market conditions, for instance, by including transactions in similar fina instruments that are assumed to be motivated by normal business considerations. For a number of financial assets and liabilities, no marl such cases, the Bank uses recent transactions, in similar instruments and discounted cash flows or other generally accepted estimation a techniques based on market conditions at the balance sheet date, to calculate an estimated value.
- Valuation based on significant non-observable input (level 3): The valuation of certain financial instruments is based substantially on non-ol

If, at the balance sheet date, a financial instrument's classification differs from its classification at the beginning of the year, the classificatior
instrument changes. Such changes are considered to have taken place at the balance sheet date.

Valuation techniques

The most frequently used valuation techniques include the pricing of transactions with future settlement and swap models that apply preser
calculations, credit pricing models and options models, such as Black & Scholes models. As part of the Bank's control environment, valuatio
validated by units that are independent of the business units that develop the models and trade in the products covered by the models. Valid
to test the implementation, quality and operating stability of models to ensure that the models can be used for pricing and risk management
products.

The valuation of investment securities - hold to collect and sell is based on quotations on an active market.

The value of derivatives, primarily long-term contracts, is determined on observable yields extrapolated using yield curves for the full duratio

Amortisation of initial margin

If, at the time of acquisition, a difference arises between the model value of a financial instrument, calculated on the basis of non-observable i
cost (day-one profit or loss), and the difference is not the result of transaction costs, the Bank adjusts model parameters to actual cost to ta
the initial margin. The valuation of derivatives thus includes amortisation of the value of initial margins over the remaining term to maturity.
margins cover future administrative expenses, capital consumption, funding costs, initial credit risk, etc.

	2018 £'000
Unamortised initial margins at 1 January	399
Amortised to the income statement during the year	(928)
Initial margins on new derivatives contracts	892
Terminated derivatives contracts	-
Unamortised initial margins at 31 December	363

29. Fair value information for financial instruments (continued)

	Level 1 £'000	Level 2 £'000	Level 3 £'000
At 31 December 2018			
Financial assets			
Investment securities - hold to collect and sell	647,572	-	-
Interest rate and equity contracts	-	1,869	5
Currency contracts	-	7,900	83
Total	647,572	9,769	88
Financial liabilities			
Interest rate and equity contracts	-	5,376	5
Currency contracts	-	6,527	84
Total	-	11,903	89
At 31 December 2017			
Financial assets			
Investment securities - hold to collect and sell	370,629	-	-
Interest rate contracts	-	1,359	5
Currency contract	-	5,881	13
Total	370,629	7,240	18
Financial liabilities			
Interest rate contracts	-	8,011	5
Currency contracts	-	5,927	15
Total	-	13,938	20

Derivatives valued on the basis of non-observable input

	2018 £'000
Fair value at 1 January	1
Acquisitions	2
Sale and redemption	(2)
Fair value at 31 December	1

The value adjustment through the income statement is recognised under net trading income.

29. Fair value information for financial instruments (continued)

(b) Financial instruments at amortised cost

In this section, the fair value of financial instruments recognised at amortised cost is presented. The fair value is based on quoted market pr
If quoted prices are not available, the value is approximated to reflect the price that would have been fixed, had the terms been agreed at the
date.

The fair values disclosed below are determined on the basis of the following principles:

Investment securities - hold to collect and sell

Quoted prices in an active market exist for these financial instruments.

Other financial instruments

The determination of the fair value of financial instruments recognised at amortised cost is based on the following preconditions relating to i
rate risk:

- For a number of the Bank's loans, the interest rate depends on the standard variable rate set by the Bank. The rate is adjusted only upon c
  in market conditions. Such loans are considered to carry interest at a variable rate, as the standard variable rate applied by the Bank at an
  both new and existing arrangements.

- The interest rate risk on some fixed-rate financial assets is hedged by derivatives. The Bank uses the interest rate risk on core free funds
  securities to manage the remaining interest rate risk. Consequently, only the fair value of unhedged fixed-rate loans is presented in the tab

For financial instruments that are only to a limited extent influenced by changes in credit risk, the amortised cost, including the adjustment fc
hedge accounting of the interest rate risk, is a reasonable approximation of fair value. This is the case for due from/to other banks, cash and
central bank and deposits from customers.

On 1 January 2018 the Bank implemented IFRS 9 including expected credit loss impairment. It is assessed that the amortised cost of loans
reasonable proxy for the fair value of the credit risk. In 2017, for loans, impairment charges are assumed to equal the fair value of the credit
following adjustments:

- The calculation of impairment charges for loans subject to individual impairment is based on the most likely outcome, and loans that are c
  finance are written down to the fair value of collateral provided, i.e. assuming that restructuring is not possible. The fair value is adjusted b
  possible outcomes. For other loans, impairment charges are recognised if a customer is downgraded to reflect a change in the probability
- The credit margins on individual risks are accounted for by adjusting the fair value for the difference between the current credit premium a
  premium demanded at the balance sheet date.

In the table below, fair value is presented for classes of financial instruments for which the carrying amount is not a reasonable approximatic

	Carrying amount £'000	Fair value £'000	Level 1 £'000	Level 2 £'000
Financial assets				
Investment securities (Note 12)	**518,082**	**520,950**	**520,950**	**-**
Loans at amortised cost	**5,926,360**	**5,926,360**	**-**	**-**
At 31 December 2018	**6,444,442**	**6,447,310**	**520,950**	**-**
Financial assets				
Investment securities (Note 12)	637,310	645,777	645,777	-
Loans at amortised cost	5,422,293	5,430,935	-	-
At 31 December 2017	6,059,603	6,076,712	645,777	-

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28.30
29.70
29.80
31.30

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Market value 31 December 2017 £'000
194,173
397,795
59,940
66,983
10,625
618,845
1,348,361

2017 £'000
357,700
211,300
625,100
1,194,100
1,348,361
154,261

2017 £'000
39,949
25,390
(42)
(1,076)
1,200
33,198
42
55,600
154,261

2017 £'000
1,239,300
12,658
42
11
(38,049)
31,700
(20,916)
(18,300)
34,879
(47,225)
1,194,100

2017
£'000
1,279,249
32,900
51,262
33,197
42
12
(47,225)
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1,348,361

2017
£'000
12,658
42
(38,049)
(25,349)
(1,200)
1,076
(25,473)

2017
£'000
(51,262)
(20,917)
16,579
(55,600)

2017
£'000
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51,262
84,162

2017
£'000
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49,200
50,300
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52,500
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	(41,000)

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£'000
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(1,043)
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2017
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Net amount
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1,552,832
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7,082,713
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Total
£'000
647,572
1,874
7,983
657,429
5,381
6,611
11,992
370,629
1,364
5,894
377,887
8,016
5,942
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Level 3 £'000
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-
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5,430,935

30. Share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
Ordinary shares of £1 each - equity		
At 31 December	**218,170**	218,170

The share capital consists of shares of a nominal value of £1 each. All shares carry the same rights therefore there is only one class of share.

31. Reserve for bonds at fair value

The reserve covers unrealised fair value adjustment, other than expected credit losses and foreign exchange gains and losses, of bonds measured at fair value through Other comprehensive income. Unrealised fair value adjustments of hedged interest rate risks that qualify for fair value hedge accounting are recognised in the Income statement and are not included in the reserve. When bonds are sold, the Bank reclassifies unreduced value adjustments from the reserve to the Income statement.

32. Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative post-tax gains and losses on derivatives designated as cash flow hedging instruments that will be recycled to the Income statement when the hedged items affect profit or loss.

As at 31 December 2018, the cash flow hedge reserve reflected a cumulative gain of £197,000 (2017: £5,000). This was offset by a deferred tax liability of £49,000 (2017: £1,000).

33. Additional Tier 1 capital

At the end of 2018, the total nominal value of issued Additional Tier 1 capital amounted to £96,000,000 (2017: £96,000,000). Capital notes of £16,000,000 were issued on 19 December 2017 and £80,000,000 issued on 12 January 2015.

The Bank may, at its sole discretion, omit interest and principal payments to bond holders. Any interest payments must be paid out of retained earnings of the Bank. The Additional Tier 1 capital will be written down temporarily if the common equity tier 1 ratio falls below 7% for the Bank (or Danske Bank Group). The ratio at 31 December 2018 is disclosed in the Strategic Report. In respect of the capital notes issued, interest is paid at a rate of 525 bps over three month LIBOR for capital notes issued on 12 January 2015 and 355 bps over 3 month LIBOR for the capital notes issued on 19 December 2017. If certain conditions are fulfilled, including approval of the Prudential Regulatory Authority, the issued bonds may be redeemed at par from January 2022 and December 2022 respectively.

34. Contingent liabilities

Contingent liabilities consist of possible liabilities arising from past events. The existence of such liabilities will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the Bank's control. Contingent liabilities that can, but are not likely to, result in an outflow of economic resources are disclosed.

The Bank uses a variety of loan-related financial instruments to meet customers' financial requirements. Instruments include loan offers and other credit facilities, guarantees and instruments not recognised in the balance sheet. If an instrument is likely to result in a payment obligation, a liability is recognised under other liabilities corresponding to the present value of expected payments.

	2018 £'000	2017 £'000
Contingent liabilities		
Guarantees and irrevocable letters of credit	**92,056**	104,965
Commitments		
Irrevocable loan commitments shorter than 1 year	**608,604**	584,774
Irrevocable loan commitments longer than 1 year	**317,639**	270,100
	926,243	854,874

The Bank is named in and is defending a number of legal actions arising in the ordinary course of business. The current provision is deemed adequate based on the known facts and circumstances of each case.

35. Capital commitments

The Bank had future capital expenditure which had been contracted but not provided for in the Financial Statements at 31 December 2018 of £747,000 (2017: £Nil).

36. Leasing

The Bank leases a variety of assets to third parties under finance lease arrangements, including vehicles and general plant and machinery. The costs of assets acquired by the Bank during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £8,939,000 (2017: £12,623,000) and £116,167,000 (2017: £124,550,000) respectively.

The total closing balances of finance leases and hire purchase contracts were £19,580,000 (2017: £18,966,000) and £202,565,000 (2017: £204,385,000) respectively.

Finance lease and hire purchase receivables

	2018 £'000	2017 £'000
Gross investment in finance lease and hire purchase receivables		
Due within one year	16,642	15,902
Due within one to five years	191,225	202,654
Due after five years	26,284	17,662
Total gross investment in finance lease receivables	234,151	236,218
Unearned income	(12,006)	(12,865)
Net investment in finance lease and hire purchase receivables	222,145	223,353

Within the Bank, at 31 December 2018, there are impairment provisions of £694,000 (2017: £779,000) in relation to finance lease receivables.

Operating leases

	Land and buildings 2018 £'000	Land and buildings 2017 £'000
Operating lease expiring		
- within 1 year	225	148
- in 1 - 5 years	976	1,056
- after 5 years	969	988
	2,169	2,192
Where the Bank is the lessee the future minimum lease payments under non-cancellable operating leases are:		
- within 1 year	2,169	2,192
- between 1 and 5 years	6,186	6,423
- over 5 years	2,678	3,646
	11,033	12,261

37. Reconciliation of liabilities arising from financing activities

This note provides further information on the cash flow statement, including a reconciliation of the cash flows arising from financing activities.

Financing activities include cash flows from the Bank's issued subordinated debt and AT1 capital.

	AT 1 Capital £'000	Subordinated debt £'000
At 1 January 2018	96,000	126,000
Instruments issued	-	-
At 31 December 2018	96,000	126,000
At 31 December 2017	96,000	126,000

38. Implementation of IFRS 16 Leases

Changes and impact on the Bank's financial statements from IFRS 16 Leases

On 1 January 2019, the Bank will adopt IFRS 16 Leases issued by the IASB in January 2016. The standard provides revised principles for lessees, which are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, there are no changes to the Bank's accounting principles for lessor accounting.

For lease agreements, where the Bank is the lessee, the Bank will use the "simplified transition approach", and comparative information will not be restated. Lease liabilities will be measured at the present value of the remaining lease payments, discounted, using the Bank's incremental borrowing rate at 1 January 2019. The lease assets are set equal to the lease liabilities.

Impact assessment

The Bank's existing lease agreements (mainly property) will result in a recognition of right of use assets and lease liabilities of £8,300,000.

There will be no implementation impact on shareholders´ equity. Compared to IAS 17, the costs under IFRS 16 are front loaded, but will, accumulated over the lease period, be the same. As a result of the front loading, the expected impact on profit before tax in 2019 is a reduction of around £278,000.

IFRS 16 requires the application of judgements and estimates. A key judgement has been to evaluate the reasonable certainty of extension and termination options, which has an effect on the lease term. The operating lease commitment as of 31 December 2018, disclosed in note 36, includes solely minimum lease payments under the non-cancellable period. The increase in the balance sheet due to the implementation of IFRS 16 includes further lease payments for periods where the Bank is reasonably certain to remain in the lease agreement.

Below, the changes due to the implementation of IFRS 16, including the new accounting policy are further explained.

Accounting principles

The Bank assesses whether a contract is or contains a lease, at its inception . For the Bank, the new definition in IFRS 16 has not changed the scope of contracts that meets the definition of a lease. The Bank recognises a right-of-use asset and a lease liability for all lease agreements except for short-term leases (lease term of 12 month or less) and leases of low value assets.

The lease liability is initially measured at the present value of the future payments from lease components, discounted using the incremental borrowing rate for the individual lease. The lease liability is subsequently measured by increasing the carrying amount, to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The Bank remeasures the lease liability, using a revised discount rate when the lease term is changed or the lease contract is modified (Modification not accounted for as a separate lease). The Bank remeasures the lease liability, using the initial discount rate, when lease payments changes due to changes in an index. Corresponding adjustment is the related right-of-use asset.

The initial right-of-use assets comprise the amount of the initial measurement of the lease liability, lease payments made at or before the commencement day, initial direct costs and costs to restore the underlying asset. The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset.

When the Bank is an intermediate lessor, the Bank accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

39. Management of risk and types of risk

a) Management of risk

Financial services organisations face an array of risks. Management of such risks is fundamental to the Bank as a Northern Ireland financial services provider and an essential element of the Bank's overall strategy.

The Risk Management Framework is designed to direct risk management activities and behaviours in the Bank, and defines the Bank's key risk frameworks and policies, the linkages between them and how they have been embedded throughout the Three Lines of Defence model (3LoD).

A sound risk management framework is a pre-requisite for an effective assessment of the Bank's overall risk. The framework supports strategic risk decision making, and assists the Risk Management function fulfil its vision "To deliver a forward looking, dynamic risk culture that helps the Bank to be recognised as the best bank in Northern Ireland".

39. Management of risk and types of risk (continued)

a) Management of risk (continued)

The framework presents all risks identified in the Bank's business activities, allowing the Bank to focus risk mitigation techniques on risk-related business activities. It supports the Internal Capital Adequacy Assessment Process (ICAAP), which ensures an adequate allocation of capital to cover the Bank's total risk exposure.

The framework, with the ICAAP, provides the Bank's Board of Directors (the Board) with clear line of sight of all risk policies for all material risk types.

Corporate Governance Framework (CGF)

The Board Risk Committee (BRC) is responsible for the overall sound business and risk management of the Bank and for ensuring that it acts in the best interests of shareholders and customers. Good corporate governance and effective risk management is a fundamental part of the culture and operations of the Bank and is an essential element of the Bank's strategy.

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

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

The Board of Directors (Board)

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

Board Audit Committee (BAC)

The Board Audit Committee of the Board of Directors is instrumental in the Board's fulfilment of its oversight responsibilities relating to:
- the integrity of the Bank's Financial Statements;
- the qualifications, independence and performance of the Bank's external auditor;
- monitoring the performance of the Bank's internal audit function and;
- the business practices and ethical standards of the Bank.

Board Risk Committee (BRC)

The Risk Committee of the Board of Directors is instrumental in the Board's fulfilment of its oversight responsibilities relating to:
- the Bank's overall risk profile and risk appetite, being the extent and types of risks that the Board considers acceptable for the Bank, keeping in mind current and potential risks and the operating environment;
- the Bank's risk culture and fair customer outcomes;
- the Bank's compliance with legal and regulatory requirements and best practice in risk matters and internal control;
- approving the adequacy and effectiveness of the Bank's risk management framework which shall cover principles, policies, guidelines, instructions, methodologies, systems, processes, procedures and people;
- monitoring the robustness and application of the policies and processes for identifying and assessing business risks and the management of those risks by the Bank.
- in particular, but not exclusively the BRC is responsible for oversight of risk relating to capital and liquidity, credit and impairments, whistleblowing, regulation and anti money laundering, IT and related security risks.

39. Management of risk and types of risk (continued)

a) Management of risk (continued)

Board Remuneration Committee (RemCo)

The Remuneration Committee of the Board of Directors is instrumental in the Board's fulfilment of its governance responsibilities relating to:
- recommending for approval of the Board the remuneration policy of the Bank, and to review this annually;
- giving the Board such assurance as it may reasonably require regarding the remuneration policy of the Bank and, in particular, that it promotes sound and effective risk management, does not induce excessive risk-taking, is fair and will facilitate the attraction and retention of high calibre staff;
- acting on behalf of the Board in the approval of bonus programmes, participants in any bonus programme and, awards to be made;
- reviewing implementation of the remuneration policy on an annual basis to ensure compliance with the policies and procedures adopted;
- being aware of and providing advice to the Board on major changes to employee benefits;
- overviewing and approving the remuneration of the Chief Executive Officer (CEO) to ensure that the conditions of service and remuneration facilitate the employment and retention of an individual of the highest calibre who is expected to perform at the highest standard;
- overviewing and approving the remuneration of Code Staff – being those employees as defined by the HR Director and the Chief Risk Officer who perform a significant influence function, perform activities that have or could have a material impact on the Bank's risk profile, to ensure that the conditions of service and remuneration facilitates the employment and retention of individuals of the highest calibre who are expected to perform at the highest standards;
- overviewing and approving the Performance Management and Variable Remuneration Overview conducted by the Chief Risk Officer and the Head of Internal Audit to ensure that he has evaluated, from a risk perspective, the assessment of the performance of senior managers;
- overviewing the KRAs and KPIs of the CEO and those set for Code Staff by reference to corporate goals and objectives resolved by the Board from time-to-time;
- considering and approving, for the CEO or any member of Code Staff, the compensation payable in connection with any loss or termination of office or early retirement arrangements (where this represents a deviation from the Remuneration Policy), to ensure that they are in accordance with the relevant contractual terms and that they are otherwise fair, reasonable, appropriate in the circumstance, and not excessive;
- agreeing the policy for authorising expenses for the CEO;
- overviewing and approving the list of Material Risk Takers;
- ensuring that no Director, Senior Executive or member of Code Staff is involved in deciding their own remuneration;
- preparing an annual remuneration statement to ensure compliance with regulatory and accounting requirements in relation to disclosure;
- reporting on these matters and any other matters referred to it by the Chairman of the Board at the first convenient Board meeting or in a Remuneration Committee Chairman's Report to the Board.

The Executive Committee (ExCo)

ExCo is responsible for the strategic and day to day operational management of the Bank. Within this remit, ExCo implements the Bank's business strategy, provides oversight of the Bank's systems and controls, determines the Bank's priorities and targets and manages the Bank's resources. In broad terms the ExCo will:
- recommend and implement strategy;
- manage priorities, targets and resources;
- share key strategic and operational management information;
- ensure the core values are embedded in the organisation; and
- consider the risk of treating customers unfairly or delivering inappropriate outcomes.

Subsidiary Risk governing committees

The Bank operates under an enterprise risk management framework that is designed to identify, assess, measure and manage its exposures to risks.

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

The ARMC is a sub-committee of ExCo. The purpose of ARMC is to provide oversight and take overall responsibility for the risks associated with the Bank ensuring the risks are managed within the Bank's risk appetite. Layering on top of the activities of the individual risk governing committees, the ARMC ensures an appropriate enterprise risk view is provided for emerging and existing risks, both across the business units and within the industries that may impact on the Bank and from a Danske Bank Group (the Group) risk perspective.

39. Management of risk and types of risk (continued)

a) Management of risk (continued)

Risk governing committees (continued)

The ARMC has delegated individual risk categories to the following key governing committees:

Risk Committee	*Type of Risk*
Operational Risk and Compliance Committee	Operational risk (excluding IT risk) Regulatory risk
Information Technology Risk Committee	IT risk and security
Asset and Liability Committee	Liquidity risk Interest rate risk in the Banking Book Market risk Capital adequacy risk
Credit Oversight Forum	Credit risk Concentration risk Residual risk
Commercial and Pricing Committee	Business risk Reputational risk
Change Control Committee	All risks in relation to projects
Pension Risk Committee	Pension obligation risk

A separate Conduct Risk Committee, reporting to ARMC, has since been established, meeting for the first time on 29 January 2019.

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

The Bank's risk structure is based on the 3LoD concept. An effective risk framework is not limited to the risk function but requires a comprehensive risk management structure and culture throughout the Bank:

- the business is the first line of defence and primary accountability for risk management lies with it. The business should have sufficient controls in place to demonstrate a strong risk management framework in its own right;

- the Risk Management department is the main second line of defence and is responsible for the independent oversight of risk, the provision of a suitable Bank-wide risk management framework (subject to the exclusions noted for specialist business units) and Senior Management Function responsibilities (SMF); and

- the third line of defence is Internal Audit which undertakes independent assessment of the risk framework and control environment providing assurance to the Board.

Risk Appetite Framework (RAF)

The RAF sets out the Board Risk Committee approved risk appetite which, in turn, drives business unit and risk owner risk appetites across the Bank. The RAF defines Board risk limits and tolerances as well as high level risk principles defining the Board's core risk ethos.

The Bank's Risk Appetite Framework comprises:

- *High level risk principles*

These principles are a qualitative statement of the Board's core risk ethos with the Board:
- having a conservative risk appetite reflected through the implementation of specific risk limits. The Board seeks that the Bank, at all times, has optimal control of all types of risk to ensure a stable basis for the Bank's future development;
- responsible for the overall sound business and risk management of the Bank and for ensuring that it acts in the best interests of shareholders and treats customers fairly and delivering good customer outcomes;
- supporting the promotion of an acceptable level of regulatory risk;
- viewing good corporate governance and effective risk management as a fundamental part of the culture and operations of the Bank and an essential element of the Bank's strategy; and
- approving the three lines of defence model which includes placing primary risk ownership with the business units and independent risk oversight with Risk Management; with Internal Audit assessing the risk framework and internal control environment.

39. Management of risk and types of risk (continued)

a) Management of risk (continued)

Risk Appetite Framework (RAF) (continued)

- *High level financial principles (continued)*

These principles are a qualitative statement, setting out the broad parameters within which the Board seeks that management guides the business with the focus to be on:
- Financial Performance: generating a strong financial performance;
- Cost Management: maintaining a strong control of discretionary costs, and FTEs, and attracting customers towards lower cost to serve distribution channels and;
- Capital Management: maintaining a strong capital position that is able to withstand severe stress tests, meet the regulatory requirements and the Bank's own risk appetite, while seeking to maximise the return on capital.

- *Strategic boundaries*

These boundaries are a qualitative statement, setting out the broad parameters within which the Board seeks that management guides the business with the focus to be on:
- Personal Customers: aiming to be the first choice for affluent and mass affluent personal customers, the Bank will operate mainly in Northern Ireland. In the personal market, the Bank will focus on maintaining an appropriate level of deposits, mortgages (with an ongoing focus on increasing mortgage growth through the switcher market as a preference over high LTV first time buyers) and private banking. Any growth of the personal loan and credit card portfolios will be on the basis of acceptable credit quality;
- Business Customers: aiming to be the first choice for top business customers the Bank will operate mainly in Northern Ireland. Lending acquisition will focus on SME and corporate acquisition, with no appetite for complex high risk based lending relationships;
- Credit: maintaining a sound credit quality that is higher than the local average in the Northern Ireland market and improving credit expertise generally among employees;
- Information Technology (IT): aiming to develop, deliver and maintain effective IT solutions that make the Bank the first choice for technologically literate customers. At the same time the Bank's IT infrastructure and systems are to be resilient, recoverable and secure, with successful change control processes minimising the risk of incidents impacting on availability of service; and
- People: aiming to attract, develop and retain high performing motivated people who feel encouraged to create sustainable results. Focus will remain on offering a competitive employee value proposition that links shareholder and employee interests. At the same time ensuring that our employees are appropriately skilled and display behaviours in line with our Code of Conduct.

- *Risk limits and tolerances*

These quantitative risk appetite measures articulate the Bank's risk appetite, linking the above principles and boundaries with actual risk taking activities.

The measures in place for all key risk classes, are articulated at length in the ICAAP and Risk Management Framework, and the key targets are reported to the Board.

Risk Assessment Methodology

Risk Management has overall responsibility for the Risk Assessment framework. It provides business units with advice and guidance in relation to the implementation, completion and maintenance of their Risk assessment. In addition, it advises the business in the formation of risk strategies and shares industry information with the business as appropriate.

The Risk Assessment is conducted on an ongoing basis with a view to identifying all material risks the Bank is subject to through its products, systems, activities and external events. The Risk Assessment is based on the likelihood of four parameters: regulatory, customer, reputational and financial impact.

We prioritise the highest inherent risks for a residual risk assessment and identify key causes of each prioritised risk. We undertake a control effectiveness review and report key findings to the relevant committee for oversight.

b) Types of risk

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

40. Credit risk disclosures

Credit risk

The Bank offers loans, credits, guarantees and other products as part of its business model and this takes on credit risk.

Credit risk is the risk of losses because counterparties or debtors fail to meet all or part of their payment obligations to the Bank.

The Bank grants credits on the basis of information about customers' individual financial circumstances and monitors their financial situation with the aim of assessing whether the basis for granting credit facilities has changed. Facilities should adhere to the guidelines outlined in the Bank's Credit Policy, including the Principles of Responsible Lending. The Principles of Responsible Lending focus on customers' understanding of the consequences of borrowing, on an assessment of their needs and ability to repay, and on possible conflicts with the Bank's ethical guidelines. Facilities should match customers' financial situation, including their earnings, capital and assets, and business volume with the Bank to a reasonable degree, and customers must be able to substantiate their repayment ability. In order to mitigate credit risk, the Bank uses collateral, guarantees and covenants.

Credit exposure

Credit exposure consists of balance sheet items and off-balance-sheet items that carry credit risk. Most of the exposure derives from lending activities in the form of secured and unsecured loans. The overall management of credit risk covers credit risk from direct lending activities, counterparty risk on derivatives and credit risk from security positions.

Breakdown of credit exposure

At 31 December 2018	Lending activities	Counterparty risk derivatives	Inter group	Other	Total
	£'000	£'000	£'000	£'000	£'000
Balance sheet items					
Balances at central bank	1,417,159	-	-	-	1,417,159
Items in the course of collection from other banks	40,137	-	-	-	40,137
Due from other banks	7,743	-	33,800	-	41,543
Trading portfolio assets	-	9,857	-	-	9,857
Investment securities- hold to collect	-	-	-	518,082	518,082
Investment securities - hold to collect and sell	-	-	-	647,572	647,572
Loans and advances at amortised cost	5,926,360	-	-	-	5,926,360
Investment in subsidiaries	-	-	250	-	250
Off-balance sheet items					
Guarantees	92,056	-	-	-	92,056
Irrevocable loan commitments shorter than 1 year	608,604	-	-	-	608,604
Irrevocable loan commitments longer than 1 year	317,640	-	-	-	317,640
Total	8,409,699	9,857	34,050	1,165,654	9,619,260

At 31 December 2017	Lending activities	Counterparty risk derivatives	Inter group	Other	Total
	£'000	£'000	£'000	£'000	£'000
Balance sheet items					
Balances at central bank	1,265,500	-	-	-	1,265,500
Items in the course of collection from other banks	55,463	-	-	-	55,463
Due from other banks	19,855	-	32,161	-	52,016
Trading portfolio assets	-	7,258	-	-	7,258
Investment securities- hold to collect	-	-	-	637,310	637,310
Investment securities - hold to collect and sell	-	-	-	370,629	370,629
Loans and advances at amortised cost	5,422,293	-	-	-	5,422,293
Investment in subsidiaries	-	-	250	-	250
Off-balance sheet items					
Guarantees	104,965	-	-	-	104,965
Irrevocable loan commitments shorter than 1 year	584,774	-	-	-	584,774
Irrevocable loan commitments longer than 1 year	270,100	-	-	-	270,100
Total	7,722,950	7,258	32,411	1,007,939	8,770,558

40. Credit risk disclosures (continued)

Credit exposure from lending activities

Credit exposure from lending activities in the Bank's banking business includes loans, amounts due from credit institutions and central banks, guarantees and irrevocable loan commitments. The exposure is measured net of accumulated impairment charges and includes repo loans. For reporting purposes, all collateral values are net of haircuts and capped at the exposure amount.

Classification of customers

The main objectives of risk classification are to rank the Bank's customers according to risk and to estimate each customer's probability of default (PD). As part of the credit process, the Bank classifies customers according to risk and updates their classifications upon receipt of new information. Risk classification comprises rating and credit scoring of customers.

The Bank has developed a number of classification models to assess customer PD and to classify customers in various segments. Large business and financial customers are classified on the basis of rating models, while small business and personal customers are classified by means of scoring models.

In its credit risk management, the Bank uses point-in-time (PIT) PD estimates for risk classification. These PIT PD estimates express a customer's probability of default in the current economic situation. The Bank's classification scale consists of 11 main rating categories with fixed PD bands. During a downturn, a customer's PIT PD may increase, and the customer may migrate to a lower rating category. The effect from a downturn is thus larger when PIT PD is used than if the classification were based on through-the-cycle (TTC) PD, which the Bank uses to calculate the risk of exposure amount for credit risk.

The classification of facilities between stage 1 and 2 for the purpose of calculating expected credit loss impairments under IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. The assessment of whether the credit risk has increased significantly since initial recognition is performed by considering the change in the risk of default occurring over the remaining life of the facility and incorporate forward-looking information. A facility is transferred from stage 1 to stage 2 based on observed increases in the probability of default:

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

In addition, facilities that are more than 30 days past due are moved to stage 2. Finally, customers subject to forbearance measures are placed in stage 2, if the Group, in the most likely outcome, expects no loss or the customers are in the two-year probation period for performing forborne exposures.

A facility is transferred from stage 2 to stage 3 when it becomes credit-impaired. A facility becomes credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. This includes observable data about (a) significant financial difficulty of the issuer or the borrower; (b) a breach of contract, such as a default or past due event; (c) the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, been granted a concession that would not otherwise have been considered; and (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation. It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial asset to become credit-impaired. Credit-impaired facilities are placed in rating category 10 or 11. For customers in rating category 10, the stage 3 classification only applies to customers where a loss is expected in the most likely scenario. For rating category 11 (default), all exposures are classified as stage 3.

Exposures which are considered to be in default for regulatory purposes will always be considered stage 3 under IFRS 9. This applies both to 90-days past-due considerations and unlikely-to-pay factors leading to regulatory default.

40. Credit risk disclosures (continued)

Expected credit losses

From 1 January 2018, the Group uses the expected credit loss impairment model in IFRS 9. The expected credit loss is calculated for all individual facilities as a function of the probability of default (PD), the exposure at default (EaD) and the loss given default (LGD). For exposures in stage 1, 12 months expected credit losses are recognised. For exposures in stage 2-3, lifetime expected credit losses are recognised.

Credit portfolio broken down by rating category and stages in IFRS 9

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

	PD level		31 December 2018 Gross exposure				31 December 2017 Gross exposure
	Upper	Lower	Stage 1	Stage 2	Stage 3	Total	IAS 39
			£'000	£'000	£'000	£'000	£'000
Rating Category							
1	-	0.01	393,908	1,526	-	395,434	78,317
2	0.01	0.03	2,355,751	2,905	1,709	2,360,365	1,987,238
3	0.03	0.06	503,907	2,932	12	506,851	489,183
4	0.06	0.14	1,043,638	5,267	3	1,048,908	1,015,275
5	0.14	0.31	1,289,488	38,971	95	1,328,554	1,029,902
6	0.31	0.63	854,450	30,612	108	885,170	1,037,049
7	0.63	1.90	943,173	317,471	317	1,260,961	1,311,651
8	1.90	7.98	126,250	205,994	294	332,538	454,555
9	7.98	25.70	4,272	37,144	195	41,611	64,218
10	25.70	99.99	292	16,212	139,239	155,743	119,129
11	100.00	100.00	8	1,446	187,923	189,377	227,550
Total			7,515,137	660,480	329,895	8,505,512	7,814,066

	PD level		31 December 2018 Expected Credit Loss				31 December 2017 Impairment charges
	Upper	Lower	Stage 1	Stage 2	Stage 3	Total	IAS 39
			£'000	£'000	£'000	£'000	£'000
Rating Category							
1	-	0.01	2	-	-	2	-
2	0.01	0.03	89	45	11	145	-
3	0.03	0.06	46	12	1	59	-
4	0.06	0.14	239	43	1	283	4
5	0.14	0.31	629	349	6	984	1
6	0.31	0.63	924	305	17	1,246	2,515
7	0.63	1.90	3,238	4,096	31	7,365	2,546
8	1.90	7.98	737	6,667	25	7,429	354
9	7.98	25.70	38	2,437	23	2,498	62
10	25.70	99.99	-	812	13,975	14,787	15,457
11	100.00	100.00	-	78	60,937	61,015	70,177
Total			5,942	14,844	75,027	95,813	91,116

40. Credit risk disclosures (continued)

Expected credit losses (continued)

Credit portfolio broken down by rating category and stages in IFRS 9 (continued)

Rating Category	PD level Upper	PD level Lower	31 December 2018 Net exposure Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	31 December 2017 Net exposure IAS 39 £'000
1	-	0.01	393,906	1,526	-	395,432	78,317
2	0.01	0.03	2,355,662	2,860	1,698	2,360,220	1,987,238
3	0.03	0.06	503,861	2,920	11	506,792	489,183
4	0.06	0.14	1,043,399	5,224	2	1,048,625	1,015,271
5	0.14	0.31	1,288,859	38,622	89	1,327,570	1,029,901
6	0.31	0.63	853,526	30,307	91	883,924	1,034,534
7	0.63	1.90	939,935	313,375	286	1,253,596	1,309,105
8	1.90	7.98	125,513	199,327	269	325,109	454,201
9	7.98	25.70	4,234	34,707	172	39,113	64,156
10	25.70	99.99	292	15,400	125,264	140,956	103,672
11	100.00	100.00	8	1,368	126,986	128,362	157,373
Total			7,509,195	645,636	254,868	8,409,699	7,722,950

Rating Category	PD level Upper	PD level Lower	31 December 2018 Net exposure ex collateral Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000	31 December 2017 Net exposure ex collateral IAS 39 £'000
1	-	0.01	235,957	55	-	236,012	3,071
2	0.01	0.03	1,982,148	918	1,698	1,984,764	1,667,407
3	0.03	0.06	136,176	365	-	136,541	126,322
4	0.06	0.14	342,135	915	2	343,052	402,509
5	0.14	0.31	424,875	21,990	-	446,865	337,276
6	0.31	0.63	227,440	6,746	20	234,206	387,392
7	0.63	1.90	265,839	117,258	14	383,111	526,329
8	1.90	7.98	33,128	59,832	8	92,968	133,437
9	7.98	25.70	778	7,252	10	8,040	19,116
10	25.70	99.99	205	2,171	59,463	61,839	25,821
11	100.00	100.00	8	339	68,549	68,896	78,014
Total			3,648,689	217,841	129,764	3,996,294	3,706,696

Non performing loans

The net exposure from non-performing loans and advances to customers amounted to £254,868,000 at 31 December 2018 (2017: £252,428,000)

40. Credit risk disclosures (continued)

Breakdown of credit exposure (continued)

Credit exposure broken down by industry and stages in IFRS 9

The table below breaks down credit exposure by industry. The industry segmentation follows the classification principles of the Statistical Classification of Economic Activities in the European Community (NACE) Standard.

	31 December 2018 Gross exposure				31December 2017 Gross exposure
	Stage 1	Stage 2	Stage 3	Total	IAS 39
	£'000	£'000	£'000	£'000	£'000
Public institutions	1,854,603	1	-	1,854,604	1,618,678
Agriculture	417,539	117,107	21,155	555,801	548,970
Commercial property	506,033	112,908	68,311	687,252	754,868
Non-profit and associations	483,108	7,112	3,767	493,987	524,304
Personal customers	2,562,795	193,937	79,789	2,836,521	2,419,783
Business customers	1,663,109	229,375	156,873	2,049,357	1,927,162
Other	27,950	40	-	27,990	20,300
Total	7,515,137	660,480	329,895	8,505,512	7,814,066

	31 December 2018 Expected Credit Loss				31December 2017 Expected credit loss
	Stage 1	Stage 2	Stage 3	Total	IAS 39
	£'000	£'000	£'000	£'000	£'000
Public institutions	45	-	-	45	73
Agriculture	542	1,700	2,375	4,617	3,049
Commercial property	1,158	3,411	16,845	21,414	22,195
Non-profit and associations	374	422	1,636	2,432	1,722
Personal customers	1,470	5,520	20,052	27,042	26,661
Business customers	2,349	3,791	34,119	40,259	36,598
Other	4	-	-	4	819
Total	5,942	14,844	75,027	95,813	91,116

	31 December 2018 Net exposure				31December 2017 Net exposure
	Stage 1	Stage 2	Stage 3	Total	IAS 39
	£'000	£'000	£'000	£'000	£'000
Public institutions	1,854,558	1	-	1,854,559	1,618,605
Agriculture	416,997	115,407	18,780	551,184	545,921
Commercial property	504,875	109,497	51,466	665,838	732,673
Non-profit and associations	482,734	6,690	2,131	491,555	522,583
Personal customers	2,561,325	188,417	59,737	2,809,479	2,393,122
Business customers	1,660,760	225,584	122,754	2,009,098	1,890,564
Other	27,946	40	-	27,986	19,481
Total	7,509,195	645,636	254,868	8,409,699	7,722,950

40. Credit risk disclosures (continued)

Breakdown of credit exposure (continued)

Credit exposure broken down by industry and stages in IFRS 9 (continued)

	31 December 2018 Net exposure ex collateral				31December 2017 Net exposure, ex collateral
	Stage 1	**Stage 2**	**Stage 3**	**Total**	IAS 39
	£'000	**£'000**	**£'000**	**£'000**	£'000
Public institutions	1,854,493	1	-	1,854,494	1,616,355
Agriculture	124,909	16,934	1,574	143,417	165,864
Commercial property	103,778	14,230	27,486	145,494	173,848
Non-profit and associations	224,535	1,783	1,720	228,038	239,213
Personal customers	495,625	62,489	23,056	581,170	469,514
Business customers	817,422	122,364	75,928	1,015,714	1,022,556
Other	27,927	40	-	27,967	19,346
Total	3,648,689	217,841	129,764	3,996,294	3,706,696

For financial assets that are credit impaired (stage 3) at 31 December 2018, £12,104,000 of collateral is held as security against these exposures.

Concentration risk

The Bank has implemented a set of frameworks to manage concentration risk encountered by the Bank. These frameworks improve risk control limits and guide points which cover single-name borrower concentration, industry sector concentration and geographical concentration.

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

Industry sector concentration

The Industry Concentration Framework outlines the principles of managing industry exposures and includes various sector caps or limits to be observed in relation to lending within the major industry sectors. These controls are established by senior personnel within the Bank's business units, Credit and Risk Management departments and are approved by the Bank's Board as part of the credit risk appetite process.

Geographical concentration

The Country Risk Framework outlines the principles of managing country exposures. The Bank's strategy is to target markets in which it has the greatest understanding and experience and therefore the Bank accepts its geographical concentration in Northern Ireland as being within its risk appetite as this risk is inherent to the Bank's business model.

Single-name borrower concentration

The Bank has set internal limits regarding its maximum exposure to a single name in the context of the total customer lending and the Bank's total regulatory capital. The Bank's performance against the concentration risk control limits detailed above is reported to the Bank's internal credit risk governance committee and the Board.

40. Credit risk disclosures (continued)

Collateral

The Bank uses a number of measures to mitigate credit risk, including collateral, guarantees and covenants. The main method is obtaining collateral.

The market value of collateral is monitored and evaluated by advisers, internal or external assessors, or automatic valuation models. Automatic valuation models are validated annually and monitored quarterly. The Bank regularly evaluates the validity of external inputs on which the valuation models are based. The collateral system supports the process of reassessing the market value to ensure that the Bank complies with regulatory requirements.

The market value of collateral is subject to a haircut. The haircut reflects the risk that the Bank will not be able to obtain the estimated market value upon the sale of the individual asset in a distressed situation. The haircut applied depends on the type of collateral.

The composition of the Bank's collateral base reflects the product composition of the credit portfolio. The most important collateral type, measured by volume, is real estate/property. For reporting purposes, all collateral values are net of haircut and capped by the exposure amount at facility level.

Collateral value by type (after haircut)

	2018 £'000	2017 £'000
Real estate/property		
Personal	2,224,179	1,922,126
Commercial	1,277,944	1,230,293
Agricultural	390,784	364,732
Equipment	377,874	350,340
Guarantees	1,525	1,992
Deposits	44,226	43,475
Other assets	96,872	103,281
Total collateral	4,413,404	4,016,239
Total unsecured credit exposure	3,996,294	3,706,711
Unsecured portion of credit exposure (%)	48%	48%

Past due amounts (no evidence of credit impairment)

	Total past due amounts		Total due under loans	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
6-30 days	758	911	6,686	8,038
31-60 days	330	88	3,493	5,358
> 60 days	259	667	2,828	4,055
Total past due amounts	1,347	1,666		
Total due under loans			13,007	17,451

Measurement of credit risk

Credit grading and scoring systems facilitate the early identification and management of any deterioration in loan quality. The following credit classifications have been used:

Good upper:	Strong credit with no weakness evident.
Good lower:	Satisfactory credit with weakness evident.
Marginal:	The credit is exhibiting weakness but with the expectation that existing debt can be fully repaid from normal cash flows.
Vulnerable:	Credit where repayment is in jeopardy from normal cash flows and may be dependant on other sources.
Impaired:	A loan is credit impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event/events has an impact such that the present value of future cash flows is less than the current carrying value of the financial asset or group of assets and requires a Stage 3 impairment provision to be recognised in the income statement.

40. Credit risk disclosures (continued)

Measurement of credit risk (continued)

The portfolio of good, marginal, vulnerable and impaired loans and advances to customers (pre impairment provisions) is as follows:

Neither past due nor stage 3 impaired

	Mortgages	Other Personal	Property & Construction	Non Property Business	Total
	2018	2018	2018	2018	2018
	£'000	£'000	£'000	£'000	£'000
Good upper	1,719,696	53,035	818,520	895,181	3,486,432
Good lower	623,502	30,126	385,734	806,353	1,845,715
Marginal	122,743	19,472	53,807	101,521	297,543
Vulnerable	24,481	1,169	12,817	15,877	54,344
Total : Neither past due nor Stage 3 impaired (IFRS 9)	2,490,422	103,802	1,270,878	1,818,932	5,684,034

	Mortgages	Other Personal	Property & Construction	Non Property Business	Total
	2017	2017	2017	2017	2017
	£'000	£'000	£'000	£'000	£'000
Good upper	1,413,830	47,638	226,860	1,137,051	2,825,379
Good lower	564,870	29,355	391,941	869,655	1,855,821
Marginal	124,129	19,295	77,823	149,801	371,048
Vulnerable	11,496	924	18,316	19,481	50,217
Total : Neither past due nor specifically impaired (IFRS 9)	2,114,325	97,212	714,940	2,175,988	5,102,465

Six days plus past due not Stage 3 impaired

	Mortgages	Other Personal	Property & Construction	Non Property Business	Total
	2018	2018	2018	2018	2018
	£'000	£'000	£'000	£'000	£'000
Good upper	1,600	140	10	39	1,789
Good lower	2,473	230	2,011	12	4,726
Marginal	1,554	310	6	1,167	3,037
Vulnerable	2,109	198	945	205	3,457
Total : Days past due not stage 3 impaired (IFRS 9)	7,736	878	2,972	1,423	13,009

	Mortgages	Other Personal	Property & Construction	Non Property Business	Total
	2017	2017	2017	2017	2017
	£'000	£'000	£'000	£'000	£'000
Good upper	1686	118	3000	69	4873
Good lower	1444	254	64	1662	3424
Marginal	2120	323	174	1663	4280
Vulnerable	157	79	368	56	660
Total : Days past due not specifically 3 impaired (IFRS 9)	5,407	774	3,606	3,450	13,237

40. Credit risk disclosures (continued)

Measurement of credit risk (continued)

	Mortgages	**Other Personal**	**Property & Construction**	**Non Property Business**	**Total**
	2018 £'000	**2018 £'000**	**2018 £'000**	**2018 £'000**	**2018 £'000**
Stage 3 impaired (IFRS 9)	**37,152**	**42,507**	**130,780**	**110,973**	**321,412**

	Mortgages	Other Personal	Property & Construction	Non Property Business	Total
	2017 £'000	2017 £'000	2017 £'000	2017 £'000	2017 £'000
Specific impairment (IAS 39)	70,575	54,643	164,157	107,513	396,888

Gross loans and receivables

	Mortgages	**Other Personal**	**Property & Construction**	**Non Property Business**	**Total**
	2018 £'000	**2018 £'000**	**2018 £'000**	**2018 £'000**	**2018 £'000**
Good Upper	**1,721,296**	**53,175**	**818,530**	**895,220**	**3,488,221**
Good Lower	**625,975**	**30,356**	**387,745**	**806,365**	**1,850,441**
Marginal	**124,297**	**19,782**	**53,813**	**102,688**	**300,580**
Vulnerable	**26,590**	**1,367**	**13,762**	**16,082**	**57,801**
Impaired	**37,152**	**42,507**	**130,780**	**110,973**	**321,412**
Gross loans and receivables	**2,535,310**	**147,187**	**1,404,630**	**1,931,328**	**6,018,455**

Gross loans and receivables

	Mortgages	Other Personal	Property & Construction	Non Property Business	Total
	2017 £'000	2017 £'000	2017 £'000	2017 £'000	2017 £'000
Good Upper	1,415,516	47,756	229,860	1,137,120	2,830,252
Good Lower	566,314	29,609	392,005	871,317	1,859,245
Marginal	126,249	19,618	77,997	151,464	375,328
Vulnerable	11,653	1,003	18,684	19,537	50,877
Impaired	70,575	54,643	164,157	107,513	396,888
Gross loans and receivables	2,190,307	152,629	882,703	2,286,951	5,512,590

Forbearance

Forbearance occurs when a concession is made on the contractual terms of a loan in response to the actual or apparent financial stress of a borrower with the purpose of avoiding default, foreclosure or repossession. The Bank operates a policy of providing forbearance to its customers when it is appropriate to the individual's circumstances. The concession can be granted on a permanent or temporary basis following an assessment of the customer's individual circumstances and ability to pay.

The Bank operates a range of forbearance measures across its retail home loan portfolio when customers have been identified as experiencing, or likely to experience, a period of financial difficulty or distress. The Bank considers that forbearance takes place when a concession is granted to a customer with affordable terms and conditions that are more suitable to the customer's current circumstances than those originally contracted for. The Bank remains committed to ensuring that any forbearance strategy agreed with the customer is both affordable and sustainable for the customer with the ultimate aim of minimising the risk of losses for the Bank and its customers.

The Bank makes every effort to follow its principles of treating customers fairly by working with customers at as early a stage as possible in times of distress in order to find a mutually acceptable solution for both the customer and the Bank.

40. Credit risk disclosures (continued)

Forbearance (continued)

The Bank utilises a range of forbearance measures for retail home loan customers which are in arrears or facing potential arrears on contractual loan repayments, determined on a case by case basis.

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

Variation forbearance

In this case, the Bank may consider a temporary variation to the customer's contract with the Bank for an agreed period of time. This may be appropriate where the financial hardship experienced by the customer is deemed to be temporary in nature. After the agreed period of forbearance, it would be expected that the customer would return to the terms of their existing contract with the Bank.

Renegotiation forbearance

This involves a renegotiation of the customer's contract with the Bank, following normal credit assessment, which can include a change to one or more of the following:
- structure;
- repayment amount;
- interest rate;
- term; and
- collateral.

Post default mutual agreement

This is applicable to customers who have defaulted and the Bank seeks to put in place a mutually acceptable arrangement with the customer to avoid repossession. This may include one or more of the following:
- accepting an agreed minimum payment over a period of time pending receipt of funds to repay the debt from a defined source e.g. pending receipt of a lump sum; and
- providing the customer with time to effect a voluntary sale of the property.

Retail home loans subject to forbearance are of low financial significance in the context of the Bank's overall portfolio. The table below summarises the forbearance arrangements in place together with the loan balances and impairment provisions associated with those arrangements.

A small number of customers have agreed a range of forbearance arrangements with the Bank on their loan arrangements. For disclosure purposes, such customers have been categorised under their primary forbearance arrangement.

Where a customer has unsecured personal borrowings of £1,000 or more, the normal approach would be to restructure the debt into a personal loan if affordability can be demonstrated in line with normal criteria. In these cases the personal loan is not considered a forbearance case.

Where a customer has unsecured personal borrowings of less than £1,000 and is experiencing difficulties the main solution is to agree a repayment plan with the customer to repay the debt over a period of time. The Bank has a small number of such arrangements.

	Number of loans	Loan balance	% of total mortgage portfolio	Impairment allowance	Coverage
		£'000		£'000	%
At 31 December 2018					
Variation to the customer's existing contract with the Bank	27	3,711	0.1%	128	3.4%
Renegotiation	2	555	0.0%	79	14.2%
Post default mutual agreement	1	35	0.0%	2	5.7%
	30	4,301	0.1%	209	4.9%
At 31 December 2017					
Variation to the customer's existing contract with the Bank	40	6,139	0.3%	179	2.9%
Renegotiation	5	322	0.0%	13	4.0%
Post default mutual agreement	23	877	0.0%	51	5.8%
	68	7,338	0.3%	243	3.3%

In addition forbearance measures are provided to 16 business customers as at 31 December 2018, having associated facilities of £29,603,184.

40. Credit risk disclosures (continued)

Forbearance (continued)

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

	2018 £'000	2017 £'000
Counterparty risk		
Derivatives with positive fair value	**9,857**	7,258
Credit exposure from other trading and investing activities		
Investments - hold to collect	**518,082**	637,310
Investments - hold to collect and sell	**647,572**	370,629
Investment in subsidiaries	**250**	250
Total	1,175,761	1,015,447

Investment securities

Investment securities are made up of highly rated covered, sovereign, supernational and agency bonds.

41. Related party transactions

(a) Transactions with Directors, Executive Committee members and their close family members

Directors, Executive Committee members, their close family members and companies which they control have undertaken the following transactions with the Bank in the normal course of business. The transactions were made on the same terms and conditions as applicable to other Bank employees, or on normal commercial terms.

	Persons 2018 Number	**Amount 2018 £'000**	Persons 2017 Number	Amount 2017 £'000
Loans - balance at 31 December				
Directors	**4**	**18,615**	3	7
Executive Committee	**6**	**338**	6	561
	10	**18,953**	9	568
Deposits - balance at 31 December				
Directors	**5**	**2,901**	5	965
Executive Committee	**8**	**605**	8	251
	13	**3,506**	13	1,216

No credit impairment has been identified in respect of loans provided to Executive Committee members. Furthermore no debts were written off or forgiven during the year ended 31 December 2018 (2017: £Nil).

Included in the above are seven loans (2017: three) totalling £18,615,000 (2017: £7,000) made to Directors, their close family members and companies which they control. The maximum aggregate amount outstanding during the year in respect of these loans was £19,236,000 (2017: £14,000).

(b) Interests

None of the Directors had any other disclosable interests in the shares or debentures of any UK group undertaking at the end of the year, or were granted or exercised any right to subscribe for shares in, or debentures of, any UK group undertaking during the year.

(c) Other related party transactions

In the normal course of business the Bank maintains accounts and conducts transactions with other members of the Danske Bank Group. This business is conducted at prevailing market rates and terms and includes deposits taken and placed, interest rate and foreign exchange swaps and the provision of technology and other services. The Bank has taken advantage of the exemption not to disclose full details of these transactions as the Bank is a wholly owned subsidiary of Danske Bank Group and the consolidated financial statements of the Danske Bank Group are publicly available.

The Bank has transactions with the Scheme detailed in note 22. The Bank charges the Scheme with the cost of administration which amounted to £77,000 in the year ended 31 December 2018 (2017: £76,000).

42. Employees

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

	2018 Number	2017 Number
Managers	**375**	334
Clerical staff	**907**	959
	1,282	1,293

43. Share based payments

Until 2008 the Bank offered Executive Directors and senior managers incentive programmes that consist of Danske Bank A/S share options and conditional shares. During 2015, the last share options lapsed.

Effective from 2015, the Bank has granted rights to conditional shares - under the bonus structure for material risk takers - for part of their variable remuneration. Rights to Danske Bank A/S shares for material risk takers vest up to seven years after being granted, provided that the employee, with the exception of retirement, has not resigned from the Bank. In addition to this requirement and before pay-out of deferred shares, back testing is conducted to assess whether the initial criteria for granting the bonus are still considered fulfilled, whether the Danske Bank A/S' economic situation has deteriorated significantly and whether the individual has proven fit and proper. The fair value of the conditional shares is calculated as the share price at grant date less the payment made by the employee, if any.

	2018 Weighted average exercise price DKK	**2018 Number of conditional shares**	2017 Weighted average exercise price DKK	2017 Number of conditional shares
Outstanding at the beginning of the year	0.37	**31,039**	0.58	19,582
Granted during the year	0.00	**23,715**	0.00	15,792
Exercised during the year	0.00	**(16,994)**	0.00	(4,335)
Forfeited during the year	0.00	**(1,754)**	0.00	-
Expired during the year	0.00	**-**	0.00	-
Outstanding at the end of the year	0.00	**36,006**	0.37	31,039
Exercisable at the end of year	**-**	**-**	-	-

The weighted average share price at the date of exercise of the conditional shares during the year was DKK 143.86. The conditional shares at 31 December 2018 had a weighted average exercise price of DKK 0.08 and a weighted average remaining contractual life of 2.0 years. As at 31 December 2018 there were 36,006 conditional shares with an exercise price of DKK 0.00. In the year ended 31 December 2018, conditional shares were granted in April 2018. The estimated fair value of the conditional shares granted on this date was £655,000. The charge for the year in respect of share based payments was £570,000 (2017: £850,000).

44. Ultimate parent undertaking

The ultimate parent undertaking, and ultimate controlling party, is Danske Bank A/S, a company incorporated in Denmark. This company also heads the smallest and the largest group in which the results of the Group are consolidated.

Copies of Danske Bank Group's financial statements may be obtained from Danske Bank A/S, Holmens Kanal 2-12, DK 1092, Copenhagen, Denmark.

45. Changes in accounting policies at 1 January 2018

	31 December 2017	Remeasurement (ECL)	1 January 2018
	£'000	£'000	£'000
Assets			
Cash and balances at central bank	1,880,091	-	1,880,091
Items in the course of collection from other banks	55,463	-	55,463
Due from other banks	52,016	-	52,016
Derivative financial instruments	7,258	-	7,258
Investment securities	1,007,939	-	1,007,939
Loans and advances to customers	5,422,293	(16,389)	5,405,904
Investment in subsidiaries	250	-	250
Intangible assets	274	-	274
Property, plant and equipment	45,983	-	45,983
Assets held for sale	150	-	150
Deferred tax assets	534	4,144	4,678
Defined benefit pension asset	154,261	-	154,261
Other assets	29,000	-	29,000
Total assets	8,655,512	(12,245)	8,643,267
Liabilities			
Due to other banks	34,420	-	34,420
Items in course of transmission to other banks	17,826	-	17,826
Derivative financial instruments	13,958	-	13,958
Deposits from customers	7,030,089	-	7,030,089
Notes in circulation	470,601	-	470,601
Other liabilities	38,680	-	38,680
Provisions	7,393	-	7,393
Subordinated debt	126,000	-	126,000
Total liabilities	7,738,967	-	7,738,967
Equity			
Share capital	218,170	-	218,170
Share premium account	306,590	-	306,590
Revaluation reserve	35,364	-	35,364
Reserve for bonds at fair value	(1,119)	-	(1,119)
Cash flow hedge reserve	4	-	4
Retained earnings	260,516	(12,245)	248,271
Shareholders of Northern Bank Limited	819,525	(12,245)	807,280
Additional tier 1 capital holders	97,020	-	97,020
Total equity	916,545	(12,245)	904,300
Total liabilities and equity	8,655,512	(12,245)	8,643,267

No reclassifications of financial instruments between measurement categories were required on adoption of IFRS 9.

The implementation of IFRS 15 had no impact on shareholders' equity, assets or liabilities.