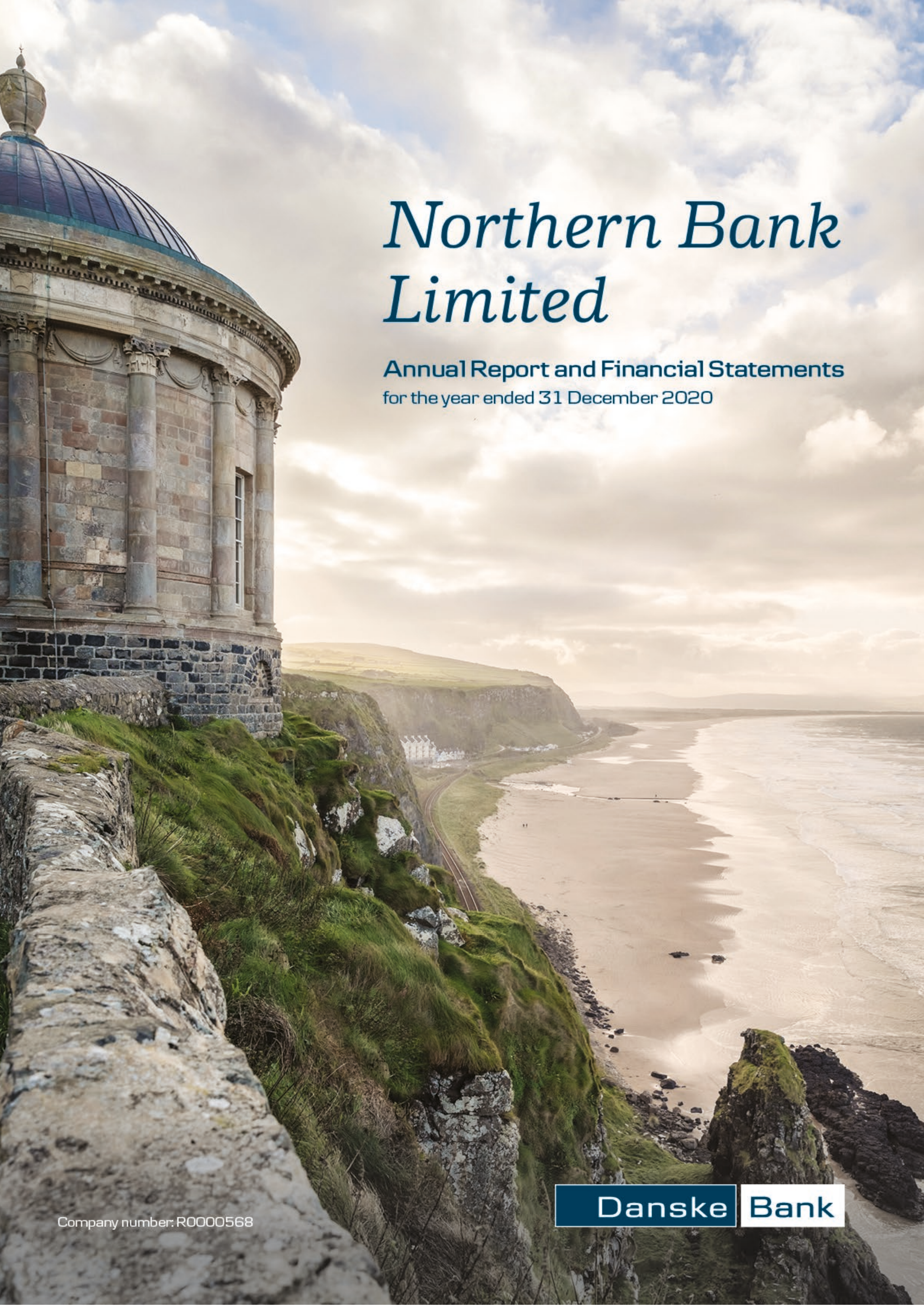


Northern Bank Limited

Annual Report and Financial Statements

for the year ended 31 December 2020

Company number: R0000568

Danske Bank

Danske Bank

Contents

Danske Bank

2020 highlights – at a glance

2020 - Financial performance outcome

£205m
Total operating income

£13m
Profit before tax

2%
Customer lending growth

16%
Common Equity Tier 1 capital ratio

£3bn
Surplus liquidity

26%
Customer deposit growth

2020 – Other key performance outcomes

Achieved Gold level in the NI Business In The Community's CORE responsible business standard

Over 5,000 of COVID-19 related mortgage loan holidays arranged to support our local customers

Over £450m of COVID-19 related business support loans to support our local businesses

Achieved Platinum level in the NI Business In The Community's Environmental Benchmarking Survey

Achieved Silver level in NI Gender Diversity Charter Mark

'Check in and Chat' Programme made over 14,000 customer calls during the COVID-19 lockdown

A force for good in Northern Ireland

Strategic report

Basis of presentation

Danske Bank is the trading name of Northern Bank Limited (the 'Bank'), the biggest bank in Northern Ireland and part of the local community for over 200 years.

The Directors of Northern Bank Limited present their Strategic Report for the year ended 31 December 2020.

Northern Bank Limited is a wholly-owned subsidiary of Danske Bank A/S ('the Group' or 'the Parent'), a company incorporated in Denmark. The Bank's 2020 Financial Statements have been prepared under International Financial Reporting Standards (IFRS).

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).

Principal activities

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

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

Our vision

The Bank's vision is to be the "Best Bank" within each of its areas of activity.

We will achieve this vision by 'making more possible' across our key stakeholders:

Customers – be the first choice for helping our personal and business customers to achieve their financial goals, primarily in Northern Ireland, and in our chosen customer segments in the rest of the UK.

Colleagues – be considered by current and prospective colleagues as the best place to work in financial services in Northern Ireland.

Partners – achieve the balanced scorecard targets set for us by our sole shareholder Danske Bank A/S and widen our proposition suite by leveraging partnerships with third parties.

Society – to exceed the expectations of our society by being recognised as a trusted institution that is a force for good in Northern Ireland, promoting responsible business values in everything we do, meeting the expectations of our regulators and maintaining open and positive relationships.

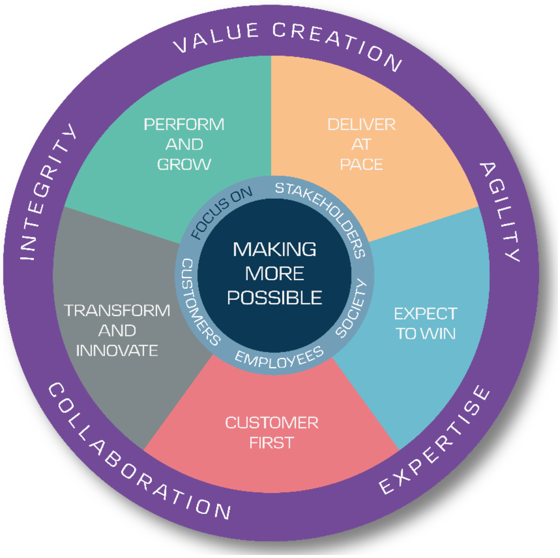
Further detail on the Bank's responsible business strategy, activities and performance during 2020 is detailed within the Bank's annual Responsible Business Report, available at www.danskebank.co.uk

Our strategy

The Bank's strategic focus is to remain a stable, strong and risk-astute Bank – consolidating our leading position in Northern Ireland and serving as a force for good in the local economy plus growing via prudent and considered opportunities in the rest of the UK. Complementing this approach, we have the ambition to deliver a strong future for our Bank as a more efficient, geographically diverse and digitally orientated business, achieving sustainable growth.

Our values

The Bank's core values and culture are fundamental components of who we are - they set us apart - and are an integral part of our vision to be the "Best Bank".



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

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

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

Business review

The global COVID-19 pandemic and ongoing uncertainty about the effects of Brexit in 2020 has resulted in a wide range of impacts on the Bank and our customers.

We made a deliberate decision to strive to be a 'force for good' during the pandemic and prioritised supporting our customers and looking after our colleagues, who, as key workers, have continued to provide reliable, trusted and responsive banking services for our personal and business customers. This was reflected in strong personal and business customer satisfaction scores throughout the year.

Best bank for our customers

Supporting personal customers

Throughout the pandemic we continued to support our customers, whether on the phone, online or in branch. All of our branches remained open, offering customers greater branch availability, in terms of opening hours, than any other bank operating in Northern Ireland.

Following a strong opening quarter, lockdown restrictions saw the Northern Ireland housing market go into a period of inactivity for three months, heavily impacting new mortgage lending. Mortgage growth received a boost after the second quarter lockdown period finished and the housing market reopened, but then reverted to more modest levels.

We responded by continuing to provide competitive products whilst improving processes to ensure customers receive a high quality service. This included streamlining our digital application processes and creating new operational teams to handle the volume of customers requesting support. We arranged c.5,000 mortgage repayment holidays, with a further 675 personal loans and credit card repayment holidays.

In the last number of years, the way customers use branches has changed significantly. Now, many are choosing to use different ways of banking with us, such as online banking or banking on the telephone.

We must respond to these changes and while this meant making the difficult decision to close four branches in 2020, we also invested over £500,000 to upgrade an additional four branches as part of our ongoing branch transformation programme.

Supporting customers in vulnerable circumstances

The lockdown and social distancing restrictions introduced as a result of the public health crisis impacted on customers' personal, health and financial wellbeing and we responded by introducing a range of extra support measures.

We set up dedicated phone lines for older people and healthcare workers and set aside the first hour of opening in branches each day for more vulnerable and older customers.

Strategic report

COVID-19 support pages on our website provided help for customers worried about their financial situation and included details of other organisations who could help.

The impact of the pandemic and associated lockdown restrictions meant that some people had to adapt quickly to doing their banking from the safety of their home rather than visiting their local branch. To help those customers we created a 'Step by Step' guide to banking from home covering everything from how to get cash to using online banking for day-to-day needs.

We also created a 'Plan Ahead' guide outlining options for customers to allow someone they trust to help with their bank accounts, and a carer's account whereby a customer can allow a trusted friend or family member to withdraw cash or pay for goods without having to share their card details or Personal Identification Number (PIN).

To ensure our services are inclusive and accessible to everyone, we became the first local bank in Northern Ireland to sign up to the Hidden Disabilities Sunflower Lanyard Scheme – helping to identify people with a hidden disability who may need some extra support.

One of our most impactful initiatives was our 'Check In and Chat' programme which we launched at the beginning of the first lockdown as a dedicated team to proactively call older customers for a chat and if the Bank could provide any additional support. Many of these customers were self-isolating for a prolonged period and were feeling isolated. This then evolved from a dedicated team to being part of our volunteering programme, open to all colleagues. In total, our colleagues contacted 14,000 customers, referred 550 customers to Age NI for extra support and sent out 740 'Step by Step' booklets.

Investment in digital banking channels

Digital touchpoints already far outnumbered other customer interactions with the Bank, but the impacts of COVID-19, coupled with the continued investment in improving our digital proposition, has driven even greater customer adoption of our digital channels, with more than 5.5 million digital logons per month and a 34% increase in digital transactions year-on-year.

Digital transformation and data played a crucial role in our response to the challenges of COVID-19 and in particular our ability to process the government-backed business loan scheme applications more quickly than we had ever had to process loan applications before.

In just seven days, our in-house robotics team had built an end-to-end solution with automated approval, digital signing and automated product fulfilment options that made it easy for the customer. The solution launched on time and meant that the majority of customers applying for loans through the scheme were able to be handled digitally.

In July, customer video meetings were launched across the branch network. Meetings can now happen in a socially distant way while still maintaining a good connection between customers and colleagues. Over 1,500 video meetings took place by the end of the year.

Supporting businesses

Supporting our business customers through utilising the government-backed lending schemes was a key focus for us from the start of the pandemic.

In total, we approved over £450 million worth of COVID-19 related business support loans in 2020, with over £395 million of this volume provided through the government-backed Coronavirus Business Interruption Loan Scheme ('CBILS') and Bounce Back Loan Scheme ('BBLS'). This assistance spans over 10,000 local business-funding approvals.

Outside of the Government schemes, our capacity to support new business lending remained strong, however demand for lending was subdued as a result of uncertainty around both the impact of the pandemic and the prolonged Brexit process.

In difficult times, customers value being able to speak to someone who can empathise and provide expert advice. Our network of 17 branch-based Small Business Advisers across Northern Ireland supported customers throughout the pandemic dealing with loan applications, payment holidays and business growth plans.

To engage with customers, industry bodies and raise awareness of the support available to customers, we appointed a dedicated Head of Business Sector Engagement role at the start of the pandemic, complementing the experience and sectoral knowledge of our locally based relationship managers in our Business Centres and Corporate Banking.

We also sought to provide insights and knowledge by continuing our series of Danske Advantage thought leadership events, moving them online and working in partnership with business organisations to provide access to inspirational thought leaders. To complement our series of events and webinars we also launched our own business podcast series.

As of February 2020, there were around 80 members based at the Catalyst Belfast Fintech Hub on the ground floor of our city centre headquarters, representing more than 35 different technology start-ups. Due to the COVID-19 pandemic and to ensure the safety of members, the re-opening of the space has been postponed for 12 months. We are continuing to collaborate with Catalyst and are discussing new partnership ideas to support tech start-ups during this time.

Strategic report

Making more possible for our colleagues

2020 has been a year of unprecedented change and our colleagues have responded by showing exceptional resilience, agility and commitment to continuing to serve and deliver for our customers.

We had to adapt to ensure that the majority of teams could work remotely during lockdown. This resulted in c. 75% of staff working from home.

During the first lockdown period, over 2,000 hours of COVID-19 related skills training was delivered, with over 1,300 colleagues gaining additional skills to provide support where it was needed. Virtual Leadership workshops for all people leaders covered staying connected, building trust virtually and supporting performance.

We supported colleagues as they adapted to many new challenges and working practices by focusing on physical and mental wellbeing and resilience. Physical wellbeing was extensively supported by the provision of COVID-19 testing and aftercare support, free flu vaccinations and access to clinical support 24/7.

Recruitment practices also had to adapt, with virtual interviews and assessments becoming the default. To build a pipeline of future IT talent in areas like cyber security and data analytics, we launched a new 'Danske TechFutures' apprenticeship programme in partnership with Belfast Metropolitan College. Seven colleagues began a fully-funded foundation degree whilst rotating between different roles within the Bank.

We strengthened our equality, diversity and inclusion agenda and developed a new cohesive strategy, 'Danske Belong', bringing together our colleague networks – the Gender Diversity Network; Rainbow Network; and Enable, the Danske Disability Network.

It was a year in which the Bank's progress on the diversity agenda was formally recognised with a Silver Diversity Charter Mark. Danske Bank is the only bank in Northern Ireland to have reached this level of accreditation and one of only two companies awarded it across all sectors.

Making more possible for our partners and society

In 2020, we continued to build on our strong position as Business in the Community's (BITC) Responsible Company of the Year 2019.

While the delivery of some of our community programmes was impacted by lockdown and social distancing restrictions, we prioritised the health and wellbeing of our colleagues and our customers and adapted our community programmes to respond to the crisis as a 'force for good' in society.

At the start of the year we appointed a new charity partner, Extern NI, and raised over £75,000 on top of in-kind support and donations of essential items to help improve the lives of some of Northern Ireland's most vulnerable young people and families.

We adapted our Danske 'Time to Give' corporate volunteering programme to enable colleagues to volunteer in their local communities during lockdown and to contact vulnerable customers through our 'Check In and Chat' programme, recording over 400 volunteering hours.

As part of our broader societal activities we want to actively play our part in assisting Northern Ireland transition to a 'net-zero' carbon future. We appointed a dedicated Head of Climate Risk & Strategy, became a founding member of the Business in the Community Business Action on Climate campaign and signed the Climate Pledge, a commitment to reducing our greenhouse gas emissions by 50% by 2030.

We retained Platinum level, the highest level in Business in the Community's annual Environmental Benchmarking Survey, continuing to lead the way in the local financial services sector.

Developments in 2021

As Northern Ireland's biggest bank we play an integral role in Northern Ireland's economy. Standing alongside our customers, we are facing extremely challenging economic times. The economic impact of COVID-19 looks set to continue into 2021 and the uncertainty around the implementation of the new UK/European Union (EU) trade agreement arrangements still prevails.

As Northern Ireland's biggest bank we remain steadfast in our commitment to customers and society, and we look forward to playing an important role in helping Northern Ireland grow again.

Financial review

2020 has been an exceptionally challenging financial year for Danske Bank.

However, as Northern Ireland's leading retail bank, Danske Bank has strongly focused on being a 'force for good' across Northern Ireland by supporting and delivering for its customers, colleagues, partners and society and at the same time, maintaining a robust and stable financial position.

Throughout 2020, the Bank introduced several initiatives to support its customers through these challenging times, and the digital transformation of the Bank accelerated.

Key performance measures

The Bank has established a set of key performance measures to track its financial performance:

	31 December 2020	31 December 2019
Profit before tax (£m)	13.1	90.0
Profit before loan impairments and tax (£m)	58.5	90.8
Loan to deposit ratio (%) (1)	61%	75%
Cost: income ratio (2)	69%	59%
Net interest margin (3)	1.69%	2.15%
CET1 ratio	16.1%	13.4%

Notes:

(1) Loan to deposit ratio is calculated by dividing year end customer loans by customer deposits
(2) Cost: income ratio is calculated by dividing operating expenses by operating income
(3) Net interest margin is calculated by dividing the net interest income by the average interest earning assets.

2020 financial performance

Overall profit before tax decreased to £13.1m (2019: £90.0m) reflecting the significant disruption to day-to-day customer activities as a result of the COVID-19 pandemic measures, record low UK interest rates and continued uncertainty surrounding the UK's exit from the EU, and how a EU/UK trade agreement would impact the Northern Ireland economy.

The Bank's personal lending activity levels remain satisfactory, supported by the continued success of the Bank's strong mortgage finance proposition.

The Bank's corporate and business lending activity was particularly strong supporting COVID-19 related business support lending. The level of other new corporate and business lending was subdued as a result of the continuing trade uncertainties surrounding the UK's exit from the EU and the developing impact of COVID-19 on day-to-day trading activities. Consequently, some larger customers have delayed their investment decisions.

Net interest income decreased by 9% to £161.9m (2019: £178.6m) over the financial year, primarily driven by sharp UK base rate reductions introduced in March 2020 to help mitigate the economic shock of COVID-19.

With balance sheet growth driven by exceptional growth in customer deposits and lower average UK interest rates in the current year, the Bank's Net Interest Margin (NIM) has decreased to 1.7% in the current year (2019: 2.2%).

Non-interest income decreased by 24% to £43.2m (2019: £56.8m) over the financial year, primarily driven by a general decrease in customer activities during the pandemic due to safety restrictions (i.e. public lockdowns). In addition, fee income continued to be impacted by reductions in certain personal banking fees and charges as part of an UK industry-wide 'high cost of credit' review.

Operating expenses increased by 2% to £142.2m (2019: £139.7m). reflecting continued investment and increased staffing partially offset by cost efficiency initiatives.

Primarily as a result of the challenging income environment, the Bank's overall cost/income ratio increased to 69% in the current year (2019: 59%).

2020 loan impairment provisions

Given the ongoing economic uncertainties and trading challenges affecting some of its customers, the Bank has continued to take a thorough approach to its credit impairment provisioning to reflect the impact of any future economic deterioration on its customers. For the financial year ended 31 December 2020, the Bank recognised a net loan impairment charge of £45.4m (2019: £0.8m).

The application of forward looking macro-economic scenarios and assumptions at 31 December 2020 within the Bank's 'expected credit loss' credit impairment model reflects:

- the significant level of uncertainties arising from the ongoing COVID-19 pandemic and how future restrictions (i.e. lockdowns, furlough schemes) might impact the Northern Ireland economy; and
- the significant level of uncertainties arising from the implementation of the new EU/UK trade agreement and how the 'Northern Ireland Protocol' arrangements might impact the Northern Ireland economy.

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

The Bank recorded a statutory profit after tax of £7.6m (2019: £64.1m). The Bank's Income Statement on page 71 provides a breakdown of the financial performance during the year ended 31 December 2020.

Danske Bank

Strategic report

The Bank's effective tax rate (ETR) for the year ended 31 December 2020 was 42.3% (2019: 28.8%). The ETR increase was primary driven by a derecognition in the level of deferred tax asset related to tax losses brought forward from previous years, along with the impact of UK Government's cancellation of a enacted corporation tax reduction.

The profit attributable to the shareholders for the year ended 31 December 2020 amounted to £2.5m (2019: £58.5m).

2020 financial position

Total customer lending increased by 2% to £6.2bn (2019: £6.1bn). Overall growth in personal lending volumes was driven primarily through the Bank's strong mortgage proposition throughout 2020. Other personal lending volumes (i.e. credit card and overdrafts) have experienced a marginal decrease over 2020 as general consumer spending has been impacted by pandemic restrictions.

Corporate and business term lending and overdraft volume growth remained subdued throughout 2020 due to continued uncertainties over future trading arrangements arising from UK/EU trade negotiations. In addition, economic uncertainty further deteriorated with the introduction of various pandemic safety restrictions, which in certain cases, resulted in the temporary closure of entire business operations.

To support its corporate and business customers throughout the COVID-19 pandemic, the Bank has provided more than £450m in COVID-19 related business support loans during 2020, with more than £395 million of this lending support coming through the government backed BBLS, CBILS and the Coronavirus Large Business Interruption Loan Scheme (CLBILS).

Total customer deposits increased by 26% to £10.2bn (2019: £8.1bn). The overall growth in customer deposits reflects additional liquidity being held by both business and personal customers.

Overall, the loan-to-deposit ratio decreased to 61% (2019: 75%). We remain well positioned for any increased demand for credit.

The Bank continued to increase its portfolio of investment securities held during 2020 with £1.4bn held at 31 December 2020 (2019: £1.3bn). Cash and balances at central bank increased to £4.2bn at 31 December 2020 (2019: £2.2bn) as a direct consequence of higher customer deposit volumes. Consequently, the Bank continues to report a strong liquidity position.

The funded status of the defined benefit pension scheme was a surplus of £219.7m at 31 December 2020 (2019 £195.9m). The scheme surplus increased during the year primarily due to the increase in the value of the pension assets, partly offset by an increase in the value of the pension liabilities as a result of the fall in the discount rate applied.

A property revaluation in Q4 2020 was undertaken by external valuers and this decreased the carrying value of properties by £0.9m. The previous property valuation was at 30 June 2019. During 2020 the Bank disposed of one property (2019: one property) and has one property held for sale at 31 December 2020 (2019: two properties). Details of the key movements in the properties is further detailed in disclosure note 17 of the financial statements.

A net deferred tax liability of £34.2m was recognised at 31 December 2020 (2019: £20.1m). The increase in the net deferred tax liabilities for 2020 was primarily driven by £11.7m increase in the tax effect of the higher defined benefit pension scheme surplus at 31 December 2020 (as outlined above).

Overall, the Bank's Balance Sheet remains robust as the Northern Ireland economy continues to recover from exceptional challenges.

The Bank's Balance Sheet on page 73 provides a breakdown of the financial position at year ended 31 December 2020.

2020 capital position

The Bank remains well capitalised and this is reflected in its CET1 ratio of 16.1% (2019:13.4%).

During the year, as a result of COVID-19 and recommendations from the Regulators, no interim dividends were paid to the Bank's ultimate parent undertaking, Danske Bank A/S (2019: £100m).

Throughout 2020, the Bank did not require any additional Minimum Requirement for Eligible Liabilities ('MREL') funds as the Bank held sufficient funds to meet the Bank of England's MREL requirements.

Page 47 provides further detail of the Bank's capital position at year ended 31 December 2020.

2020 liquidity position

The Bank continues to have a strong funding position. The loan to deposit ratio was 61% at 31 December 2020 (2019: 75%). Regulatory liquidity requirements were met at all times throughout the year.

A substantial amount of the Bank's funding is from customer deposit balances, which makes up 83% (2019: 81%) of its total liabilities and shareholders' equity.

Under Capital Requirements Directive IV ('CRD IV'), the key liquidity metric is a minimum Liquidity Coverage Ratio (LCR) requirement. The LCR regulatory limit was set at 100%. As at 31 December 2020, the Bank's LCR was 264% (2019: 217%) which remains consistently in excess of this requirement.

Page 39 provide a further outline of how the Bank's manages its Liquidity Risk.

Section 172(1) statement

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

a) the likely consequences of any decision in the long-term,
b) the interests of the company's employees,
c) the need to foster the company's business relationships with suppliers, customers and others,
d) the impact of the company's operations on the community and the environment,
e) the desirability of the company maintaining a reputation for high standards of business conduct, and
f) the need to act fairly as between members of the company.

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

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

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
Our customers s172(1)(c)(d)(e) The users of our financial products and services. We have c.470k personal customers and c.40k business customers. We are enhancing our customer experience to attract new and retain loyal customers.	***At Board level***: The Bank has a number of dedicated teams that focus on delivering positive customer outcomes. This includes our Conduct and Customer Experience team that reports to the Executive Committee on a monthly basis and updates are provided to Board on a regular basis in relation to Conduct and managing our Customer Satisfaction and Willingness to Recommend Key Performance Indicators (KPI). ***At Business level***: The Bank uses customer feedback and insights as a core input to help shape strategic investment decisions utilising independent customer research, satisfaction surveys, mystery shopping and impact assessments. The Bank has also established cross-functional Customer Journey Squads to drive enhancements across key journeys. Additionally, the Bank's Data Team provide key insights and analytics on customer behaviour to shape decisions and identify needs. One particular focus for the Bank is supporting customers in vulnerable circumstances. External partnerships and stakeholder engagement with vulnerable customer representative groups are key facets of this work to ensure our services are accessible to all our customers.	Customer satisfaction scores and feedback received influences decision-making at Board level. This has been reflected with 'customers' being one of the Bank's four 'Making More Possible' strategic pillars and core values, which are a fundamental part of the Bank's Corporate Plan. The Bank aims to be the first choice for helping our customers and businesses to achieve their financial goals in Northern Ireland. Every employee of the Bank has improving customer satisfaction as a core, and significant, element of their KPIs. As part of an ongoing multi-year programme, the Bank remains committed to delivering a distribution network that meets the varying needs of our customer base. The growth of digital banking supports our investment plans in these areas, but the Bank continues to recognise the importance of branch services to the communities it serves and the resulting benefits to the Bank of providing a network that covers all of the major towns across the Northern Ireland with at least one branch in each county. In 2020, the Bank continued to focus on customers in vulnerable circumstances, working with a wide range of external partners to improve the support we offer to all customers, particularly during the COVID-19 pandemic.

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
Our people s172(1)(b)(e) We create an environment in which our people can make a positive contribution, develop their careers and reach their potential. At the end of December 2020, the Bank had c.1400 employees.	***At Board level:*** Colleagues are a core pillar in the Bank's strategy and form a fundamental part of the Board-approved Corporate Plan. The Board receives regular updates on progress against the Bank's Colleague-focused strategic objectives and KPIs in addition to an annual update on our People Plan agenda provided by the Human Resources (HR) Director. To facilitate engagement, the Board established a People Board including Executive Committee members. ***At Business level:*** Our people are a fundamental asset of our business and play a key role in the success of the Bank. Their views are taken into account throughout the Bank's Corporate Planning process, in which the HR Director plays a key role as a member of the Executive Committee. Engagement with our people takes many forms with regular and ongoing discussions, both at 1-2-1 and team level, divisional 2-way update sessions, CEO and Executive Committee updates and Employee Engagement surveys.	During 2020 the Bank has delivered Board approved colleague initiatives to motivate, engage and support high performance and retain key talent. **Early careers** In 2020 the Bank continued with our apprenticeship programme called Danske Futures, and developed a new Danske Tech apprenticeship which focuses on growing the data and analytics skills that the Bank needs for the future. Our Graduate Programme has also provided us with a positive talent pipeline into some of our key roles across the Bank. **Continuous development** Investing in professional development remains a key component of our strategy – with c.20% of colleagues studying for professional qualifications. **Leadership development** The Bank has pivoted many of our leadership interventions to a virtual format – and introduced a suite of new Leading Virtually propositions that equip all of our leaders to operate effectively in our new context. Our newly introduced Navigator programme has been designed to support those "new to leadership" through a blend of resources and virtual workshops. Leadership development programmes and interventions are in place to support all key milestones in a leadership journey and the Bank has made these even more accessible by switching to virtual formats. **Diversity and wellbeing** The Bank's commitment to embracing diversity and creating an inclusive culture where differences are seen as a strength and where people feel valued and realise their full potential, has been reflected in the achievement of the Silver Diversity Mark – the first bank in Northern Ireland to do so. The Bank won the Diversity Champion award and has been highly commended in the Best Employer Large Organisation and Best Disability Initiative categories at the Equality and Diversity Awards NI. Our Belong strategy has been further embedded, with quarterly Belong Steering meetings attended by the Bank's Executive Directors and the appointment of a dedicated Diversity and Inclusion Lead. Our commitment to helping our employees manage their physical and mental wellbeing has been reflected in the breadth of wellbeing initiatives that the Bank has put in place, leveraging our external partners, particularly the Bank's Charity Partner Extern and Benenden to provide a range of support. The Bank has refreshed its Wellbeing Hub to ensure a contemporary and accessible range of wellbeing resources for our colleagues and their families. During the COVID 19 pandemic, the Bank put in place a wide range of measures to support our teams both practically and emotionally. The Bank procured COVID-19 tests to ensure our staff can be tested in the comfort of their own home rather than travel to Public Health Agency (PHA) test sites and the Bank has continued to provide a winter flu vaccination service free to staff.

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
		Managing performance During 2020 the Bank introduced a new approach to managing performance – focused equally on both 'What' and 'How' elements of performance. A comprehensive set of communications and workshops have been delivered to support the successful introduction of this new approach and a dynamic reporting tool developed.
Our suppliers s172(1)(c)(e) Provide our goods and services which we rely on to deliver for our customers.	***At Board level:*** Reports are submitted to the Board on matters of importance regarding the supply of goods and services. They are also advised when adverse incidents that affect the Bank's ongoing operations are live and have been resolved. ***At Business level:*** The Bank has robust procurement policies (including sustainability, responsible sourcing and supply chain resilience) and manages its obligations under outsourcing in accordance with European Banking Authority (EBA) guidelines. Supplier/Stakeholder meetings are conducted on a regular basis in accordance with Bank policy on outsourcing. The Bank maintains service level agreements with its parent Danske Bank A/S for the provision of key services to the Bank such as IT.	The Board approves the Modern Slavery Statement annually and we expect all our suppliers to be compliant with the Modern Slavery Act. We work closely with our suppliers and peers to build on our knowledge and promote best practice particularly in relation to anti-bribery and corruption. Our suppliers provide the Bank with a range of key goods and services that directly or indirectly help us to deliver for our customers and society. During the COVID-19 pandemic, we explored ways to support our suppliers during this difficult period and were the first member of the Danske Bank Group to implement procedures to ensure the accelerated payment of our suppliers' invoices.
Our regulators s172(1)(c) The FCA and the Bank of England (including its subsidiary, the PRA), regulate our business.	***At Board level***: It is the Bank's policy to interact with the Regulators in an open and cooperative way. Members of the Board meet with the FCA and PRA on a regular basis. The Regulatory Reporting Committee meets quarterly and is attended by one member of the Board. The FCA and PRA also receive copies of Board papers. ***At Business level:*** We submit an extensive range of returns to the Regulators on all areas of the business as and when required. Senior management regularly engage with the Regulators to ensure all submitted returns are complete, accurate, consistent, timely and in compliance with the Regulators' requirements. The Bank's Chief Risk Officer meets with the PRA on a fortnightly basis to ensure there is a high degree of open engagement and, in addition, the Regulators undertake visits and reviews covering specific topics of interest.	Feedback received from the Regulators influences decision making at Board level including areas of critical importance such as the review and approval of risk appetite and setting key regulatory requirements in relation to capital, liquidity etc. The Bank aims to maintain our positive relationship with the Regulators by following an approach of early and regular engagement regarding such decisions. As per previous years, the Regulator attended the September Board meeting to discuss current areas of regulatory focus.

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
Our community and the environment S172(1)(d)(e) We recognise our role supporting the community in Northern Ireland. We are conscious of the impact of our operations and the need to manage our impact on the environment.	***At Board level***: Society is a core pillar of the Bank's Making More Possible strategy and firmly embedded in the culture of the Bank. It is a key pillar in the Bank's strategy and forms a core part of the Board-approved Corporate Plan. The Board is regularly updated on progress against the Bank's Society-focused strategic objectives and KPIs in addition to receiving an annual update on our Society agenda. ***At Business level***: The Bank's Responsible Business Board meets quarterly, and is chaired by our Chief Executive Officer (CEO). The Bank's impact on the environment, both direct and indirect, has become a factor in decision-making. We recognise both the UK's policy announcements in addition to the EU's guidance in relation to the Non-Financial Reporting Directive, which encourages reporting in this area using the recommendations of the Climate Change Taskforce on Climate-related Financial Disclosures (TCFD). We are committed to supporting local communities and do so through our charity initiatives, volunteering, sponsorships and financial education programmes.	The Bank's Corporate Plan recognises this focus by including strategic objectives and selected Key Performance Indicators aimed at supporting our local community within the Board-level Balanced Scorecard that is reviewed at each Board meeting. The Board recognises that climate change must take greater prominence both at senior management and Board levels in 2020 and beyond. Positive outcomes resulting from our community programmes include: - Gold (the highest) level in BITC's CORE responsible business standard; - Platinum level in BITC's NI Environmental Benchmarking Survey for the second year; - Silver (the highest) level in NI Gender Diversity Charter Mark; - Our Charity partner Extern has benefited from our support through volunteering, fundraising, providing outdoor advertising space, donating hampers and providing professional advice to support vulnerable people and families across Northern Ireland; - As part of our Check in and Chat programme, which was set up to call elderly customers during lockdown, we have made over 14,000 calls, 550 referrals to third party support agencies and sent out 740 step-by-step guides; - Our employees Charity Group has donated £13,000 to multiple small charities across Northern Ireland throughout the COVID-19 disruption; - Platinum (the highest) in BITC's Business & Biodiversity Charter; - BITC Climate Champion and signatory to the BITC Climate Pledge.
Business relationships and conduct s172(1)(e) The Bank conducts its business responsibly, protecting customer interests resulting in appropriate customer outcomes, ensuring regulatory compliance and high standards of professional conduct.	***At Board level:*** The Bank's CGF allows the Board and management to assess and monitor culture. The Board has oversight of the culture and the standards of business culture promulgated throughout the Bank. ***At Business level:*** Acting responsibly and ethically, our Responsibility Policy governs and outlines our approach to conducting our business in a responsible and transparent manner and is an integral part of daily decision-making through strategies, policies, targets, business procedures and processes. Corporate Responsibility is an integral part of our core business through our vision and strategy. This provides the strategic framework including KPIs and reporting.	The Board is committed to embedding the section 172(1) factors in the culture of the business and decision making at all levels of management. This is evidenced by the empowerment of sub committees and management teams for each key stakeholder group. The Bank's focus on conducting its business responsibly is highlighted in the Bank's second annual Responsible Business Report on our website www.danskebank.co.uk.

Strategic report

Stakeholders	Form of engagement	How stakeholders influence the Board agenda and long term decision making
	High standards of professional conduct are communicated via our Code of Conduct and also workforce training in areas such as anti-bribery and corruption, Anti-Money Laundering (AML) and ethics. The Bank has a dedicated Conduct and Customer Experience team led by a Senior Manager that reports into the Bank's Conduct Committee which is attended by Executive Committee members.	
Our company and its parent s172(1)(f) As a strong, stable and predictable bank, we seek to create long-term value through the delivery of sustainable returns. Through the delivery of our Corporate Plan, the Bank aims to optimise returns, support our Parent, and invest in the business in an efficient and cost-effective way.	***At Board level:*** The Bank, its Executive Management and Board are closely engaged with our Parent. The Bank's Board includes two Group Directors (both of whom are members of the Group's Executive Leadership Team). Group updates are also provided by these two Directors to the Bank's Board. The Bank's Executive Committee is closely aligned to Group counterparts and through regular Board updates provides insight into Group interactions. At senior decision-making level we share with Group a strategic vision to promote the success of the Bank for the benefit of all its Stakeholders. The Bank normally has an annual Board Meeting at its parent site in Copenhagen, at which senior Group employees present updates to the Board on specific areas of interest; given the COVID-19 pandemic, this meeting did not take place in 2020. The Bank's three Executive Directors virtually attended the Group Leaders Conference in October 2020. In addition to Bank employees, the Board regularly receives updates from Group stakeholders across areas including Finance, IT, Risk, Business Development and Strategy. These stakeholders also provide inputs to the Bank's Corporate Planning process and are integral parts of delivering developments for the Bank.	The Board is focused on leveraging and strengthening relationships with Group, through our participation in Group wide initiatives, knowledge sharing with Group on UK developments, for instance, in the areas of regulation, robotics and automation and by taking a leading role in the setting up of the Danske Pride forum. The Board in its decision making process takes into account the impacts of the decision on the return to the Group on its capital investment in the company. The Board also considers annually whether a dividend should be paid from surplus capital. In addition, the new Group CEO visited Belfast in January this year, holding meetings with the Board and Executive Committee and holding a Q&A session with 65 local colleagues, representing all business units.

Strategic report

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

Decision	Stakeholder	Considerations made
Climate change Following Board's approval of the 'Financial Risks from Climate Change – Risk Management Plan' and the appointment of the Chief Risk Officer as subject matter expert for climate change in 2019. During 2020, the Board prioritised the identification of physical and transition climate change risks that will materially impact the Bank's clients, shareholders, employees and local communities, both in the short and long term.	Our customers Our regulators Our people Our communities Our suppliers Our parent	The Board endorsed management's decision to appoint a senior manager as Head of Climate Risk & Strategy in Q2 2020 to lead the: - development and implementation of the Bank's Climate Risk Framework (including climate risk limits/appetite); - development of the Bank's green finance offering; and - development of a range of climate focused initiatives to support the Bank's Corporate Responsibility ethos. Noting the benefits of engaging with external climate risk experts to inform the Bank's thinking in this area, the Board approved the appointment of Baringa Partners to identify and map climate change risks to the Bank's existing risk taxonomy and assess the relative materiality of the climate risks identified. This work led to the Board's approval of the Risk Appetite Statement (RAS) for 2021, which included reference to the climate change risks identified by Baringa and new climate risk metrics. The Board also acknowledged the significant opportunity to support customers with new financing solutions that contribute to decarbonising the communities in which the Bank operates and improving physical resilience to climate change. As a result, Board collaborated on and subsequently approved the 2021 Corporate Plan, which includes climate change finance objectives developed by management and plans to launch green products and financing solutions. In addition, the Board demonstrated its continued commitment to the Bank's Corporate Responsibility ethos by supporting management's decision to collaborate with Business in the Community to support Northern Ireland businesses in their transition to a more sustainable and climate friendly operating model.
COVID-19 pandemic response The Board played an active role in the Bank's response to the COVID-19 pandemic. The Board held weekly meetings from early April to mid-May, and fortnightly meetings from mid-May to the end of June to enable the Directors to ensure that all actions and decisions taken in the context of balancing short term financial threats with the longer term business resilience were designed to protect key stakeholders and ensure that the Bank emerges from the crisis as a "force for good".	Our customers Our regulators Our people Our communities Our suppliers Our parent	The Board supported management in taking pragmatic decisions as required, balancing the interests of the Bank and our customers whilst considering our role in the community and in society as a whole. Board collaborated on and endorsed the following decisions of management during the COVID-19 pandemic: - Establishment of a project to lead the Bank's response; - Prioritising digitisation of processes and introducing web forms to enable customers to apply for mortgage payment holidays, government backed loan schemes, etc. providing critical support quickly in an unprecedented time; - Pausing of the previously announced overdraft increases for three months initially and then for a further three months plus the introduction of a £500 interest free overdraft buffer, which resulted in up to 86,000 customers benefitting from interest free/ lower charging; - Introduction of measures to protect staff and customers in our branches through the use of personal protective equipment (PPE) and enhanced cleaning measures and the introduction of measures to support our non-branch staff, such as social distancing, one way systems and temperature checking in offices and provision of appropriate technology to enable working from home; - Keeping all 40 branches open, with greater availability than any other local bank and one hour per day set aside for vulnerable customers in designated branches, allowing them to bank in a safe environment; - Redeployment of staff and delivery of 2,000+hrs of training to ensure staff were providing support and meeting customer demand in the most appropriate areas. This resulted in the Bank's local contact centre

Strategic report

Decision	Stakeholder	Considerations made
		remaining fully operational for calls and messaging, with exclusive lines for vulnerable customers & NHS workers and an average call waiting time of 34 seconds during the lockdown period; - Taking a leading position early in the pandemic by appointing a Senior Manager to educate Corporate & Business customers and the wider community on government support schemes; - Introduction of the check in and chat service, with over 14,000 proactive calls made to vulnerable and elderly customers; and - Management undertook a 'Better Ways of Working and IT Equipment Survey' to consult with staff on post COVID-19 working practices. The outcome of this engagement with staff and the issues identified through this survey at an operational level were presented to and considered by the Board at its regular COVID-19-focused meetings and this engagement informed Board's views and support for management's decisions on the nature and timing of post COVID-19 working practices.
Brexit planning The Bank's Brexit contingency plans were monitored closely by the Board throughout 2020 via specific regular updates, covering both operational status and external developments, a suite of early warning indicators and corresponding risk mitigation plans.	Our customers Our regulators Our people Our communities Our suppliers Our parent	When reviewing the possible impacts of the UK's decision to leave the EU, the Board has given particular consideration to our strong NI focus and NI-centric strategy, with specific emphasis on the trading, financial, operational and reputational impacts for the Group, and the continued support of our customers. We implemented a programme to assess the potential impacts and risks surrounding Brexit (including those associated with a no-deal outcome) and to identify appropriate preparatory steps, such as assessing credit risk, updating documentation, considering any impacts on payment systems and communicating with our customers. Board was continually updated on and confirmed its support for the contingency plans being put in place so as to manage potential EU exit scenarios. Board was supportive of the Chief Economist's leading position in the community with regard to engagement on Brexit through Danske Advantage events and webinars for Business and Corporate Customers and commentary in the local media. Additionally the Bank's CEO chaired a discussion with local trade bodies on the implications of Brexit for the local economy. The Board is committed to taking such action as is necessary to ensure that the Bank is well placed to deal with the NI specific challenges which will be faced as a result of the UK leaving the EU.
Dividend payment The decision to suspend payment of a dividend to the Bank's parent was taken following stakeholder feedback and extensive consideration and discussion at both management and Board level.	Our regulators Our parent	The Board considered the feasibility of payment of a dividend in the context of the economic impacts of the global COVID-19 pandemic and the expectations of the regulator, along with the impact on the Danske Bank Group, the Bank's sole shareholder. The management team consulted with internal and external advisers, with approaches by other financial institutions considered, and engaged with the regulators. The Board also looked at various financial scenarios in the light of the global pandemic, all of which assumed suspension of dividends to the Bank's parent in the current year as part of the Bank's capital preservation plan. In making their decision, Directors took into account the Bank's strong capital position, achieved through organic capital build and optimising its capital usage, and noted the suspension of dividend payments to the Bank's parent as a key factor in the Bank's efforts to help support the economy through 2020. The Board will continue to take the views of the Bank's shareholder and the regulator into account in considering a resumption of dividend payments, whilst promoting the long-term sustainable success of the Bank.

Principal risks and uncertainties

High-level risk principles

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

- Having a conservative risk appetite across all risk types reflected through the implementation of specific risk limits. The Board seeks that the Bank at all times has optimal control of all types of risk to ensure a stable basis for the Bank's future development;
- Ensuring overall sound business and risk management of the Bank and for ensuring that it acts in the best interests of shareholders and customers; treating customers fairly and delivering good customer outcomes;
- Supporting the promotion of an acceptable level of risk across all risk types;
- Controlling risks within tolerances set to ensure that financial or non-financial exposures do not cause material damage to the Bank;
- 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.

The Bank has made several changes to the Enterprise Risk Management taxonomy this year ensuring closer alignment to the Group taxonomy. Conduct risk was previously a Level 2 risk in the local taxonomy but in alignment with Group it is now classified as a cross taxonomy risk and risk driver. This move reiterates the local view of Conduct as a key aspect of regulatory focus across all business areas. Climate change has moved from a distinct Level 2 risk under Operational risk to a defined risk driver recognising the far-reaching implications of this risk category.

Risk appetite

The Board's setting and review of the Bank's risk appetite is an ongoing process achieved via its approval of key risk frameworks, policies, documents (Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment Process (ILAAP) 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.

Primary risks and drivers

The Bank's ten key risks: Credit risk, Market risk, Liquidity Funding & Capital risks, Pension risk, Operational risk, Model risk, Financial Crime risk, Regulatory Compliance risk, Business risk (i.e. Financial Control and Strategic risk) and Information Technology risk; with controls and mitigating factors, are set out below with the four risk drivers: Climate risk, Group risk, Conduct risk, and Reputational risk.

Group risk is the risk that the financial position of the business may be adversely affected by its financial and non-financial relationship with other entities in the Group or by risks which may affect the financial position of the whole Group. The impact of Group risk is considered as part of all the Bank's risk assessment activities and across all risk categories.

Whilst this section provides a summary of key risks and uncertainties, it should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing the Bank. Other factors not yet identified or not currently assessed as material may subsequently affect the Bank.

Primary risks	Outlook	Key controls and mitigating factors
Credit risk The risk of loss arising from the failure of a borrower or obligor to meet its contractual obligation towards the Bank. Credit risk includes default risk, recovery risk, concentration risk and credit residual risk (i.e. failure of the Bank's credit assessment tools).	↑ Increasing risk	• Board approved Risk Appetite Limits within a specific Risk Appetite Framework for the provision for credit; • Board endorsed Group Credit Policy and credit parameters set for the Bank's market area and for various borrower types, and sectors, aligned to the Bank's credit appetite limits; • A formal governance structure to monitor credit quality and activity ensure compliance with policies and limits including reporting to the Bank's Credit Oversight Forum (COF) and Board Risk Committee (BRC) / Board; • Responsible lending practices and active portfolio management applied in accordance within the Bank's Risk Appetite Framework; • A range of Delegated Lending Authorities (DLAs) issued to many of the Bank's customer facing staff based on their role, skills, competency and experience; • Active management of multiple credit risk concentrations through structured analysis and review; • Active co-management of certain commercial exposures to manage specific risk; • Dedicated work-out teams focused on the co-management of exposures, with the objective of restoring the credit quality to within appetite limits; • Dedicated Insolvency and Recoveries team focussed on achieving optimal outcomes for the Bank and its customers; • Regular reviews of credit assessment underwriting metrics and tools (e.g. credit models) ensuring operation in accordance with expectations by testing and validation. Performance is reviewed by a dedicated sub-committee of Credit Oversight Forum; and • Continual assessment of training needs, development and skills sets of Bank employees engaged in customer interaction and credit risk management activities.
Market risk The risk of loss in on and off-balance sheet positions arising from adverse movements in market prices. The sources of market risk for the Bank are interest rate risk and foreign exchange risk.	↑ Increasing risk	• Board approved Risk Appetite limits within a specific Risk Appetite Framework for market risk; • Daily and monthly monitoring of market risk positions; • Dynamic interest rate risk hedging strategy-making use of natural offsets in the balance sheet, supplemented with derivative financial instruments and debt securities; and • The Bank does not trade in derivatives. Derivatives are only entered into to manage net open positions deriving from transactions with customers or for hedging.
Liquidity, Funding & Capital risk: The risk of not having sufficient liquidity and funding which can result in having to issue instruments at excessive costs, inability to pursue the business strategy, or failing payment obligations.	↔ Stable risk	• Board approved Risk Appetite Framework limits within a specific Risk Appetite Framework for liquidity, funding and capital risk; • Daily and monthly monitoring of liquidity and funding risk positions; • Comprehensive liquidity and funding strategy to ensure the Bank continues to maintain a strong, stable funding base in both business as usual and stressed conditions; • Monthly monitoring of capital positions; • Capital plans supported by stress testing to ensure that the Bank maintains a strong capital base; and • Detailed plans in place to ensure the Bank complies with MREL requirements as they roll out in 2021.

Pension risk Pension obligation risk is the risk of a shortfall in the Bank's Defined Benefit Pension Scheme that necessitates the Bank having to make additional contributions to cover its pension obligations.	↔ Stable risk	• Board approved Risk Appetite limits within a specific Risk Appetite Framework for Pension Risk; • Quarterly monitoring of asset and liability positions; • Pension risk has been significantly mitigated by the closure of the Scheme to new members in 2004, the purchase 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; and • The Bank's strategic focus for pension risk is to continue to review and oversee implementation of strategies to reduce pension risk.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events including legal risks. Operational risk includes Product & Services practices, Process & Reporting management, Employment practices & workplace safety, Damage to physical assets, Outsourcing risk & third party risk, Legal risk and Business Continuity risk.	↔ Stable risk	• Board approved Risk Appetite Framework and limits; • Group Non-Financial Risk framework and policy (GNFR) which sets out the principles and standards of operational risk management in the Group; • Specific policies and risk mitigation measures for material operational improvement of our security systems: focus on data classification, leak prevention and detection process; • Security training, ethical phishing and ongoing security / fraud awareness; • Continued focus on and regular review of User Access Management to ensure user access privileges are appropriately aligned to role requirements; • Monitoring and management of outsourced supplier relationships to ensure agreed service levels are met; • The Bank has established an Outsourcing and Third Party Risk Management committee, supported by robust Outsourcing policies and frameworks; • Business Continuity framework in place. This ensures the Bank can respond to, recover and learn from any unplanned operational disruption; • A Board approved people strategy to enable us to focus on creating the right operational culture, colleague experience and environment to protect both the wellbeing of our colleagues and enable our people to perform at their best. Our focus on diversity and inclusion aims to ensure a sense of belonging for all our colleagues; • 'My Journey' approach to performance, where 'what' we do and 'how' we do it are considered equally important; • Regular monitoring and reporting to senior management via the Operational Risk & Compliance Committee (ORCC), All Risk Management Committee (ARMC), Board Risk Committee (BRC), and the Board; • Delivery of new products and services as part of the Bank's business strategy with assessment of the operational risks prior to implementation; • Risk and Control Self-Assessment (RCSA) captures the risks related to process and change management; and • Board provided support to an internally established COVID-19 response project – see S172(1) statement for further detail.

Model risk Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk includes model design error, model usage error and data and other input limitations.	↔ Stable risk	• The Model Risk policy sets out the principles and standards of Model risk management in the Bank. The policy defines roles and responsibilities, tiering approach for models (High, Medium and Low risk) and principles for development, use, control, reporting and validation of models; • A comprehensive Model Risk Management Framework to ensure existing or emerging model risks are identified and mitigated effectively and efficiently. Model Risk Instructions in place for High and Medium Risk Models; • Risk Governance processes have been refreshed and strengthened to manage model risk; • Models are reviewed at regular intervals depending on the materiality of the model and the impact to the Bank; • Performance of models and any mitigants are reported to various committees including the Board and Board Risk Committee (BRC); and • The Bank is enhancing its capability on managing models and has recruited specialist resource to support this area.
Financial crime risk The risk of internal or external parties using the Bank's infrastructure and services to steal, defraud, manipulate or circumvent established rules, laws and regulations, particularly in the areas of money laundering, terrorist financing, economic sanctions as well as bribery and corruption.	↔ Stable risk	• Zero appetite for breach of financial crime obligations; • Inclusion of Financial Crime Risk within Board approved Risk Management Framework; • Risk based approach to the management of the Financial Crime Risk including significant investment in the Customer Protection Centre; • Open and transparent communications with supervisory regulators; • Regular reporting to senior management via the Operational Risk & Compliance Committee (ORCC), Board Risk Committee (BRC), and the Board; • Monitoring, assessment and reporting of financial crime horizon risks to ensure the Bank meets new regulatory requirements; • Financial Crime risk advice to support business and key initiatives; • Risk-based Financial Crime monitoring by an independent monitoring team; • Annual training and awareness programme; and • Whistleblowing framework plus Board appointed Whistleblowing Champion to support open good anti-financial crime risk culture.
Regulatory compliance risk The risk of or incurring regulatory, criminal or administrative sanctions, material financial loss, or loss of reputation, which the Bank may suffer as a result of its failure to comply with laws, rules and standards applicable to the Bank's activities as overseen by Compliance.	↔ Stable risk	• No appetite for failure to comply with regulatory or legislative obligations; • Risk based approach to the management of the Regulatory Compliance Risk; • Open and transparent communications with supervisory regulators; • Regular reporting to senior management via the Operational Risk & Compliance Committee (ORCC), Board Risk Committee (BRC), and the Board; • Monitoring, assessment and reporting of horizon risks to ensure the Bank meets new Regulatory Compliance Risk requirements; • Compliance advice to support business and key initiatives; • Risk-based Regulatory Compliance Risk monitoring by an independent monitoring team; • Annual training and awareness programme; and • Whistleblowing framework and Board appointed Whistleblowing Champion to support good compliance culture.

Business risk (financial control and strategic risk) The risk of opportunity loss arising from possible changes in general business conditions such as market environment, customer behaviour, the Bank's (or Group's) reputation and technological progress to which the Bank may not be able to adjust sufficiently quickly. The Bank's business risk assessment also considers reputational risk.	↑ Increasing risk	• A clearly defined Corporate Plan, within the boundaries of the Board approved risk appetite, is prepared annually. This Corporate Plan is based on a balanced growth of lending and deposits with a stable funding profile that is appropriate for the asset mix; • Formal assessment of risk completed once annually with the results included in the ICAAP; • A Risk Appetite Framework is in place and aligned with the Group's overall strategy; • Review and monitoring of the Bank's competitive environment to identify market developments, using external research and economic updates; • Active management of all internal and external communications; • The Bank has a programme to identify, monitor and mitigate risks associated with the implementation of the new UK / EU trade agreement and Northern Ireland protocol arrangements and the COVID-19 pandemic; and • Key performance indicators are clearly defined and are closely and regularly monitored.
Information technology risk The potential that a given threat will exploit vulnerabilities of an asset or group of assets and thereby cause harm to the Bank. It includes data and system risk such as unforced failures in technical infrastructure or data integrity.	↔ Stable risk	• Board approved Risk Appetite for Information Technology (IT); • Quarterly reporting to IT Risk Committee; • CRO (Chief Risk Officer)reporting (quarterly) to Board Risk Committee (BRC) and the Board; • Other reporting on IT risks to Board Risk Committee (BRC) and Board as necessary; • IT service level agreement with defined IT performance metrics that are tracked and aligned to IT risk appetite; • Group IT Risk Management Policy & Security Policy; and • Risk Forums – at both IT Operations and more broadly Operations level – active tracking and review of risks within Operational Risk Management System.

Key risk drivers

Primary risk drivers	Risk impact and key mitigating factors
Conduct risk	Conduct risk is the risk of behaving in a way that causes, or has the potential to cause, detriment to customers; the financial stability of the Bank; the Bank's reputation and / or the integrity of, and confidence in, the financial markets in which we operate. Conduct risk has risen in profile and is now defined as a cross taxonomy risk driver that applies to any financial and / or non-financial risk type in the Bank's Enterprise Risk Management Framework. The Bank is committed to ensuring the activities of the firm and its employees comply with the FCA's rules and expectations in relation to Conduct risk and that a focus on good customer outcomes is embedded within its culture. The Conduct risk framework is owned and determined by the Senior Manager, Regulatory Risk and is based on the concept of Three Lines of Defence , which is an important element in ensuring the effective governance and oversight of Conduct Risk. The Three Lines of Defence model ensures everyone has a role to play and that roles and responsibilities are clearly documented. The Conduct Risk framework is made up of: • A conduct risk appetite and key risk indicators (KRIs); • A conduct risk policy; • A conduct risk assessment and control framework, including annual Group wide conduct risk assessment and monthly business unit conduct risk outcomes RAG assessment; • The conduct risk outcomes management information (MI); • Escalation and consideration of conduct risks and their impacts via the Conduct Risk Committee (CRC) with regular onward reporting to Board level; • Mandatory annual conduct-risk behavioural training (CBT) and ad hoc bespoke targeted training; and

Primary risk drivers	Risk impact and key mitigating factors
Conduct risk *(continued)*	• 2nd and 3rd line monitoring programme to assess the adequacy and effectiveness of the Conduct Risk framework; identify any deficiencies and assess remedial actions to address these. The Bank recognises the importance of identifying and understanding Conduct risks as they emerge and acknowledges the responsibility of each individual, Executive and Board Committee to consider customer impact in all of its activities in order to support embedding a 'Doing the Right Thing' culture within the Bank. The Bank will continue to focus on Conduct risks arising from ongoing impacts of the pandemic as the government support schemes come to an end and the implementation of the new UK / EU trade agreement and Northern Ireland protocol arrangements. The Bank endeavours to be a force for good and ensure fair treatment of all customers including those that are most vulnerable.
Climate risk	The Bank recognises that climate change will affect value creation over time as physical and transition risks emerge. The Bank has made a long-term commitment to managing the impacts of climate change and assisting clients, shareholders, employees and local communities in the transition to a low carbon economy. Acknowledging the recommendations of the TCFD, and recognising the need to enhance climate change risk management year on year, in 2020 the Bank sought external expertise to assist with the identification of material climate change risks across the risk taxonomy. The collaboration resulted in the categorisation of climate impacts, on traditional risks types, as low, medium or high: • Low climate impact: Market risk, Liquidity, Funding and Capital risk, Model risk, Operational risk, Financial Crime risk, Regulatory risk, Conduct Risk and Business risk. • Medium climate impact: Pension risk. • High climate impact: Credit risk. Evidently climate change has far reaching implications. As a result the Bank has taken the decision to classify Climate risk as a risk driver in the 2021 Risk Management Framework. At present the Bank has chosen to focus efforts on mitigating climate change risk in: Credit risk; Pension risk; Liquidity, Funding and Capital risk, Operational risk and finally Business risk. Shadow Climate Change risk metrics have been developed to monitor these five risk areas. Senior risk owners in these five risk areas are all represented at the ARMC. ARMC is therefore responsible for initially approving the process through which climate risks are identified, assessed, agreed and embedded into the Bank's governance process. To manage exposure to climate impacts, the Bank has embedded Climate risk into the risk governance processes. For example, the 2020 Risk Management Framework describes the Bank's risk taxonomy and ultimately assigns responsibility for managing Climate risk. Furthermore the Board approved shadow Climate risk metrics which will aid the evolution of the Climate risk limits included in RAS. The Bank will implement full metrics and a complete RAS in relation to climate risk by the end of 2021. The Corporate Plan, the ILAAP and ICAAP for 2020 all consider the Banks climate risk appetite. In 2021, climate risk will be discussed at ARMC quarterly and incorporated into the CRO Report to the Board Risk Committee (BRC) and Board. The Board have been identified as the ultimate approval authority for Climate risk. The Bank is aware that risk and opportunity often are interlinked. Indeed climate change presents a significant area of opportunity as society transitions to a low carbon economy. The Bank endeavours to develop these opportunities in a proactive way, by continually reviewing financing solutions that fall within the Bank's climate change risk appetite.

Strategic report

Primary risk drivers	Risk impact and key mitigating factors
Reputational risk and Group risk	There is inherent, prevailing Reputational risk for the Bank given the current COVID-19 crisis and resulting negative impact to the Northern Ireland economy, impacting the financial health of both customers and the Bank itself. The COVID-19 pandemic has had wide-ranging impacts affecting business and personal customers. The Bank has provided extensive support to customers, notably through personal payment holidays and additional business borrowing through government schemes. To mitigate against this risk the Bank has adopted a 'force for good' strategy. This has included fulsome support for both business and personal customers, alongside up-scaling initiatives that support society. Extensive stakeholder management continues to be a feature of the 'force for good' strategy, with regular outreach to key influencers, such as the media, politicians, business groups and consumer bodies. Throughout 2020 the Bank has proactively communicated the positive things it has done to help customers, colleagues and society. This included over 90 positive media stories and the Bank's social media channels being viewed over two million times. The Bank has continued to support our customers, whether on the phone, online or in person in a branch. All of our branches remained open, offering customers greater branch availability, in terms of opening hours, than any other local bank. To engage with customers, industry bodies and raise awareness of the support available to customers, the Bank appointed a dedicated Head of Business Sector Engagement role at the start of the pandemic, complementing the experience and sectoral knowledge of our locally based relationship managers. Danske Bank Group is still 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 has limited impact locally. Another prevailing risk is the implementation of the new UK / EU trade agreement and the Northern Ireland protocol arrangements, which continue to bring uncertainty for the Bank and customers. A senior management level Brexit Steering group has been in place since the referendum and continues to meet regularly. The Bank has also carried out a number of actions required of it to ensure compliance with potential Brexit outcomes. Reputational risk is monitored daily across the business, in addition to regular reporting to senior management and Board. The 'force for good' strategy will continue in 2021 to help safeguard the Bank's reputation, alongside positioning the Bank as a key stakeholder in 'helping Northern Ireland grow again'.

Climate strategy

Our obligation to clients, shareholders, employees and local communities

Climate change has the potential to impact the UK both through physical and transition risks resulting from the move to a low carbon economy. In line with our ethos of corporate responsibility, we want to ensure our clients, shareholders, employees, and local communities are protected from the impacts of climate change. The Bank is committed to continually advancing its approach to managing the short, medium and long-term impacts of climate change in line with the TCFD recommendations.

TCFD Implementation plan

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

	2020 (Progress)	2021	2022
Governance	• The Board governed climate risks and opportunities through the Risk Management Framework and the establishment of climate related risk metrics. • Climate included in the ICAAP, ILAAP and the Corporate Plan. • Head of Climate Risk and Strategy appointed.	• Refine climate management responsibilities across relevant committees and working groups. • Develop enhanced climate scenario analysis.	• Incorporate outcomes from scenario analysis into major strategic decisions. • Align Risk Appetite Statement with the 2°C Paris Agreement.

Strategy	• Prioritised risk groups established.
	• Commenced assessment of transition and physical risk in the mortgage portfolio.
	• Undertook sectoral review of climate risk.
		• Expand scenario analysis to aid portfolio-level assessment of transition and physical risk.
		• Develop strategic responses to:
		  ○ Client engagement.
		  ○ Green products.
		• Enhance sectoral and geographic breakdown of climate risk.
			• Mature approach to scenario analysis.
			• Further portfolio-level strategic responses to ensure climate resilience.
			• Enhance measurement of the likelihood and impact of short, medium and long term climate risks.

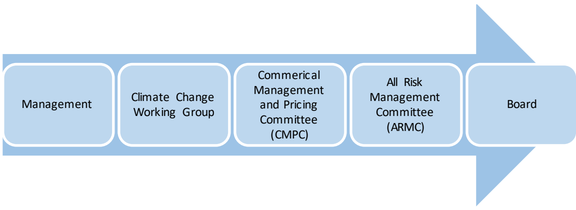
Risk management	• Climate risk elevated to risk driver status. • Climate risk training provided to Board and Executive Committee. • Climate risk metrics developed. • Alignment with Danske Group Environmental, Social & Governance (ESG) policy.	• Enhance customer level ESG Risk Assessment. • Expand climate training to relationship managers. • Scenario analysis and stress testing used to assess and prioritise climate risks.	• Ongoing review and update of climate appetite and metrics. • Further climate training. • Expand depth of ESG Risk assessment.
Metrics and targets	• Signed the BITC Climate Action Pledge: Scope 1 and 2 emissions reduction.	• Implement the BITC Climate Action Pledge: Scope 1 and 2 emissions reduction. • Develop deeper understanding of financed emissions.	• Paris Aligned Green House Gases emissions targets. • Increase the relative % of green assets at a portfolio level.

Climate governance

The flow diagrams below illustrate the progression of climate risks and opportunities through the Bank's governance framework, with the Board ultimately responsible for approving the identification, assessment, and management of climate risk and opportunity.

Governance process for Climate Risk

Governance process for Climate Opportunity



Training

In 2020 Climate risk training was delivered to the Board, the Executive Committee and members of the Climate Change Working Group. The Bank is aiming to build on climate training year on year to enhance Bank wide climate management capabilities.

Climate strategy

The Bank is committed to identifying, assessing and managing climate related risks and opportunities, as they emerge over the short, medium and long term. The Bank's current climate strategy prioritises increasing understanding of actual and potential climate impacts. It is expected that the climate strategy will evolve over time to appropriately account for all material risks and opportunities.

Three pronged climate strategy

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

Risk and compliance

Identifying and assessing physical and transition risk

The Bank collaborated with external experts to map climate risk to the traditional risk taxonomy. The collaboration resulted in the categorisation of climate impacts, on traditional risks types, as low, medium or high:

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

Credit risk recognises the potential physical and transition risks in both Personal Banking and Corporate & Business Banking. For example, Personal Banking, which includes the mortgage business, may be affected physically, as a result of increased flooding, but also transitionally because of the decreasing desirability of energy inefficient properties.

In addition to mapping climate risk to the traditional risk taxonomy, the Bank also analysed the S&P Global Risk Atlas and concluded that the real estate, agribusiness & commodity foods, and engineering & construction sectors have the potential to be the most material, given their share of the Bank's balance sheet and considering their level of exposure to transition risk and physical risk.

Managing physical and transition risk

The analysis conducted provided an initial basis for the Bank to develop climate risk metrics in the following five areas: Credit risk; Pension risk; Liquidity, Funding & Capital risk; Operational risk; and finally Business risk. In addition, the Bank operates under ESG credit policy set at Danske Bank Group, which details the Group's position on high ESG risk sectors such as weapons, fossil fuels, forestry, agriculture and mining & metals.

Looking to the future: increasing ambition

Scenario analysis is required to identify and assess, and subsequently manage, climate related risks and opportunities, as they emerge over the short, medium and long term. The Bank is aiming to disclose the results of scenario analysis in the 2021 and 2022 Annual Reports. This is in line with the PRA Policy Statement (PS3/19), which requires that UK banks develop scenario analysis and stress testing to identify climate risks that will affect the viability of the Bank's business model.

Strategic report

Growth and impact

Identifying and assessing physical and transition opportunities

In 2019, the Bank's parent organisation, Danske Bank Group, developed a Green Bond Framework with 'Green' criteria that aligns with the core components of the ICMA Green Bond Principles. The climate products the Bank is developing all align with Group's 'Green' criteria.

Looking to the future: increasing ambition

The Bank is looking to expand and develop a suite of climate awareness tools and services which will support both Personal and Business customers on their transition journeys to a net-zero carbon future.

Responsible business

2020 Carbon Footprint

	Heating	Electricity	Air Travel	Car Travel	Paper Use
Emissions (tCO2e)	571	900	75	111	62
Energy Use (mWh)	2,576	3,155	-	-	-

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

Metrics and targets

Climate risk metrics

The Board approved climate risk metrics will aid the evolution of the Climate risk limits included in the Bank's RAS. The Bank will fully implement these metrics and a complete RAS in relation to Climate risk by the end of 2021.

Emissions reduction targets

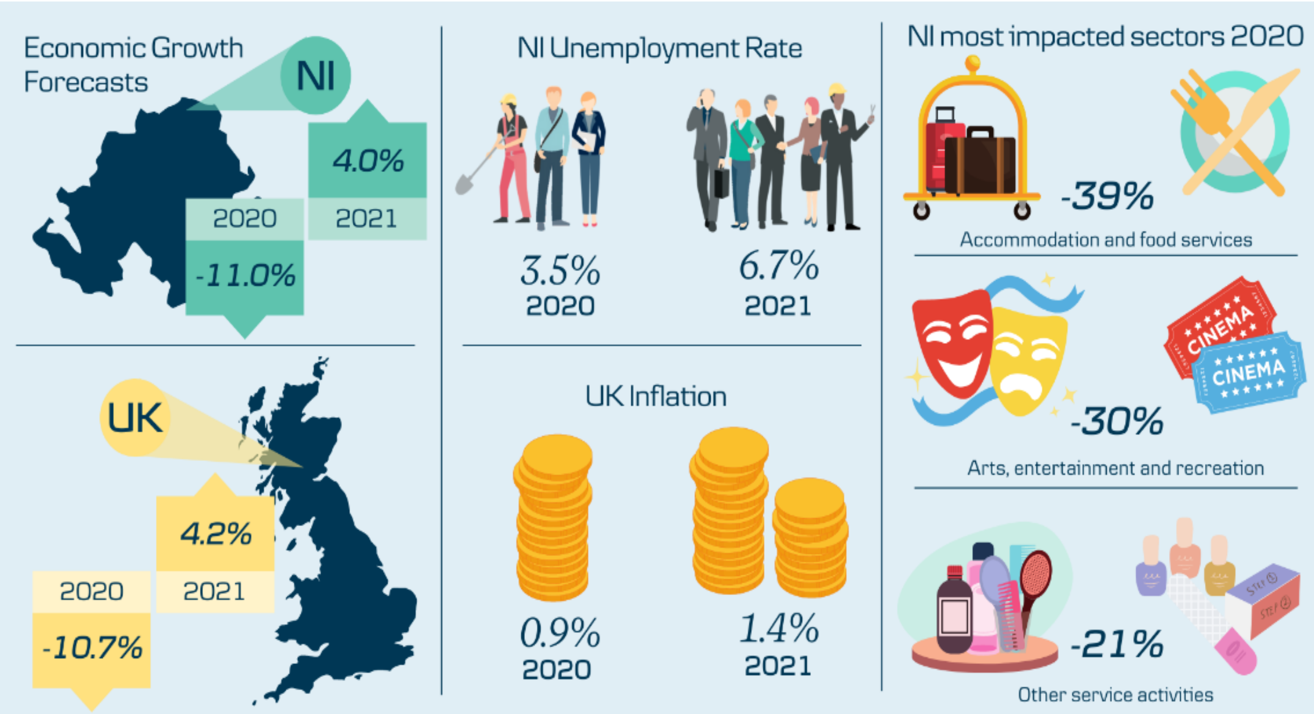
The Bank met its 2020 target to decrease energy consumption by 25% compared to 2015 levels. In December 2020, the Bank was the first bank in Northern Ireland to sign the BITC NI Climate Action Pledge ,which commits the Bank to reducing Scope 1 and 2 emissions by 50% by 2030 (compared to 2015 levels). The Bank will disclose progress against the BITC NI Action on Climate Pledge in 2021.

Looking to the future: increasing ambition

The entire Danske Bank Group is committed to working towards the 2°C Paris Agreement. As part of the Danske Bank Group, the Bank has been carbon neutral since 2009. The Bank achieved this by limiting its CO2 emissions and by purchasing renewable energy and carbon credits. However, in order to meet this challenging 2°C Paris Agreement goal, the Bank must reduce emissions, not just in its own operations, but both upstream and downstream of the organisation (Scope 3 emissions). Consequently, in 2021 the Bank is aiming to develop a deeper understanding of its financed emissions along with undertaking scenario analysis, both of which will contribute to setting Paris aligned targets.

Economic commentary

The impacts of the COVID-19 pandemic and Brexit-related uncertainty meant that 2020 was a particularly challenging year for both the UK and Northern Ireland economies.



Economic performance - 2020

The lockdown introduced to reduce the spread of COVID-19 during the first half of 2020 led to a sharp drop in economic activity as many businesses had to close and people were asked to stay at home. During the summer and the early autumn, activity levels began to rise as COVID-19 restrictions were gradually eased, but the resurgence in case numbers towards the end of the year saw stringent restrictions introduced once again.

The UK economy experienced a contraction of 9.9% in 2020 and in its Northern Ireland Quarterly Sectoral Forecasts 2020 Q4 report, Danske Bank estimated that the Northern Ireland economy contracted by around 11% in 2020. The extent of the decline in output emphasises the difficult trading conditions that the Bank operated in during the year.

The labour market in Northern Ireland also weakened during 2020 but government support measures, such as the COVID-19 Job Retention Scheme, helped to limit the effects of the pandemic on employment levels. The average unemployment rate in 2020 was 3.0%, slightly higher than the 2.7% observed in 2019 but still relatively low.

However, other labour market metrics, such as the annual total of proposed redundancies in 2020, have been much weaker and suggest that the full impacts of the pandemic on employment levels are yet to fully materialise. In its Northern Ireland Quarterly Sectoral Forecasts 2020 Q4 report, Danske Bank projected that the average number of employee jobs in Northern Ireland would decline by 3% in 2021, with the average annual unemployment rate rising to 6.7%.

In response to the COVID-19 pandemic, the Bank of England's Monetary Policy Committee cut base rate to a new historic low of 0.1% in March 2020. On average over the year, Bank Rate in 2020 was 0.23% which was lower than the 0.75% in 2019 and exerted sizable downward pressure on the Bank's income levels during the year.

The housing market in Northern Ireland performed above expectations during 2020 with the average annual house price rising by 3.6%. This relatively strong housing market performance occurred despite the economic impacts of the pandemic and supported the Bank's mortgage lending once the COVID-19 restrictions changed to allow house moves to take place again in June 2020.

Economic outlook

Looking forward, the rollout of the COVID-19 vaccine programme is expected to see the gradual economic recovery restart in the second quarter of 2021, after the tighter restrictions in both the final quarter of 2020 and the first quarter of 2021 caused the recovery to stall. The extra trade frictions related to Brexit are expected to weigh on economic growth in the short-term but businesses are likely to start becoming more familiar with the new processes required as we move later into 2021. Overall, it is likely to be a number of years before output returns to its pre-COVID-19 level and there is still a great deal of uncertainty and risk to the economic outlook.

The key factors expected to impact the performance of the economy in 2021 include:

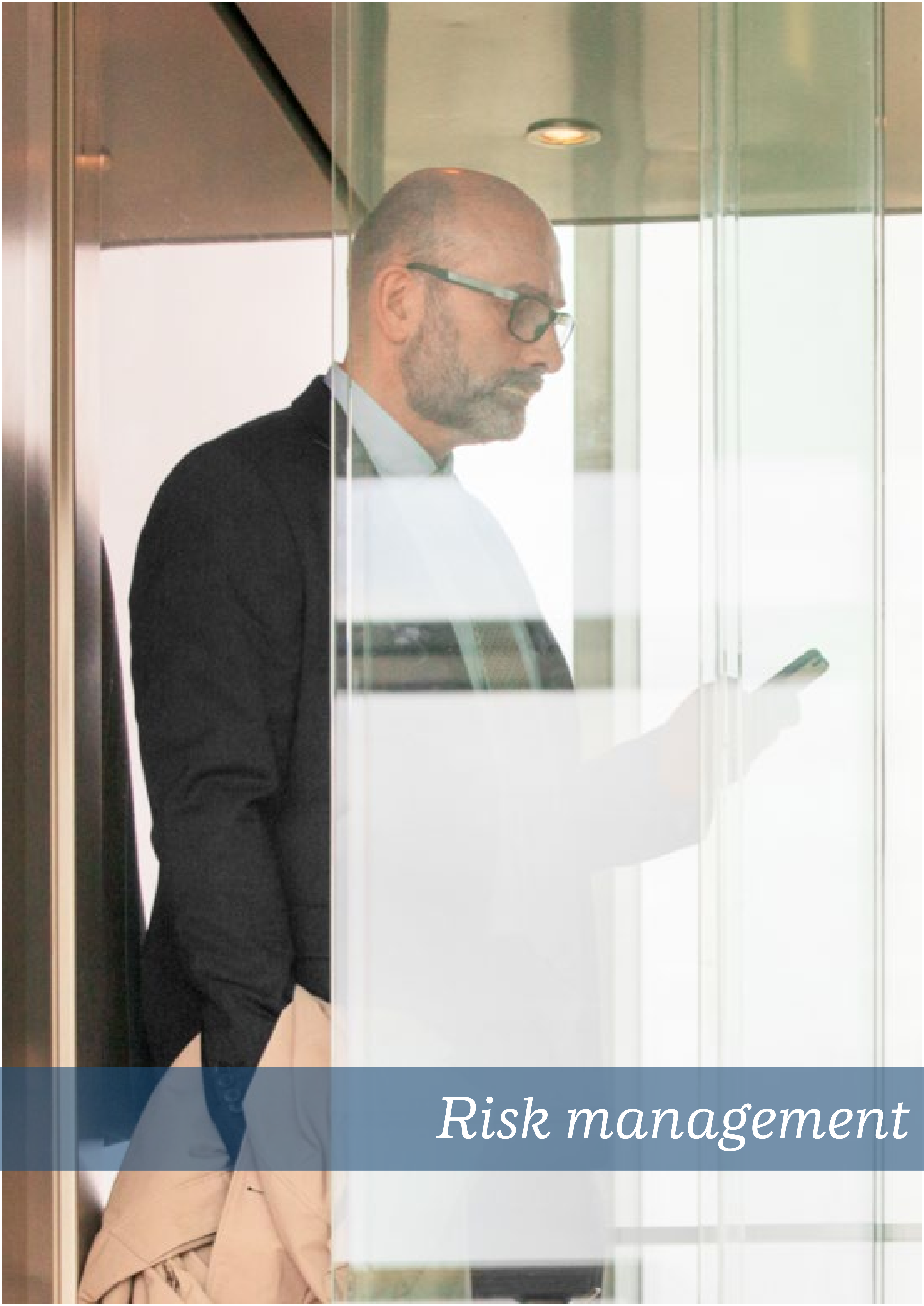
- the extent of restrictions to limit the spread of COVID-19;
- an expected deterioration in the performance of the labour market;
- more cautious consumer and business behaviours;
- extra trade frictions due to Brexit; and
- the extent to which policy measures facilitate a return to economic growth.

In its Northern Ireland Quarterly Sectoral Forecasts 2020 Q4 report, Danske Bank projected that the Northern Ireland economy would expand by around 4% in 2021.

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

Fiona Sturgess
Company secretary

12 March 2021



Risk management

Enterprise Risk Management

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

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

ERM sets out the Bank's common standards for how it coordinates its activities to identify and respond to the risks it faces. ERM, therefore, helps the Bank to meet its objective to be a solid, balanced and predictable bank for its customers and stakeholders.

Risk management principles

Establishment of high level risk principles form an essential building block of ERM and are a qualitative statement of the Board's core risk ethos, with the Board:

- Having a conservative risk appetite across all risk types, reflected through the implementation of specific risk limits. The Board seeks that the Bank at all times has optimal control of all types of risk to ensure a stable basis for the Bank's future development;
- 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; treating customers fairly and delivering good customer outcomes;
- Supporting the promotion of an acceptable level of risk across all risk types;
- Controlling risks within tolerances set to ensure that financial or non-financial exposures do not cause material damage to the Bank and manage risk based on realistic trade off decisions between the cost of mitigating a risk and the potential loss of accepting risk without mitigation;
- 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.

Purpose and scope

The purpose of ERM is to foster a cross-organisational understanding of risks across the Bank's activities in order to implement greater coordination of its risk efforts and support it in being prepared and proactive in adapting and responding to challenges and opportunities.

ERM is the overall governing document of risk related information and therefore sets the overall direction for how the Bank wants to manage risks. This means that ERM sets the aspiration for how the Bank aims to achieve best practice standards for sound risk management. ERM is supported by the underlying risk policies, directives, instructions and frameworks, which govern each risk type. The scope of ERM is to specify the Bank's standards for:

- **People and risk culture**: Outlining the risk mind-set and the required competences that the Bank wants to underpin its risk management.
- **Risk taxonomy**: Defining key risks across the Bank and providing a common language around the risks faced in order to ensure appropriate ownership for their management and control.
- **Risk appetite**: Outlining the Bank's forward-looking risk profile by specifying the types and size of risks that it is willing to take in pursuit of the Bank's strategy.
- **Roles and responsibilities**: Defining the segregation of duties across the Three Lines of Defence (LoD) when it comes to risk ownership, oversight and assurance throughout the organisation.
- **Risk governance**: Outlining how accountability and oversight of risks are established and practiced across the Bank through its committees and specifying the delegation of risk authority to ensure proper escalation routes.

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

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

Risk culture

Being compliant and managing risk are at the core of how the Bank wants to do business. The Bank wants to do the right thing for its customers and society, conducting its business in a way that lives up to its standards and values and meets regulatory requirements.

Identifying and managing risks is an integral part of everything the Bank does, and each employee has a responsibility for the risks associated within their role. The Bank needs to build and maintain a strong risk culture where every individual takes personal responsibility, and where colleagues collaborate with each other and openly discuss risks and events in order to share knowledge and lessons learned. By having a strong risk culture, the Bank creates trust, maintains integrity and lays the foundation to become the customers' preferred financial partner.

Risk competencies

Doing the right thing requires the Bank to acquire the necessary expertise to do it right. It also supports the Bank's vision in being the best bank for its customers, colleagues, partners and society. The Bank's risk culture is further strengthened by building and maintaining the right set of risk skills and competences. The organisation has the capabilities to implement an effective ERM and to manage and oversee all risks in the risk taxonomy within the Bank's risk appetite and in line with regulatory requirements. The Bank can develop and maintain these competencies through workforce planning, tailored risk and compliance training, co-creation of tools and processes, and through dialogue on lessons learned to ensure that the Bank continuously improves the way it works.

Risk taxonomy

In the Bank, risk taxonomy is a common set of risk categories and definitions that are used across the Bank and enables proactive management of risk.

By clearly categorising and describing its risks, the Bank helps align its risk language and terminology in order to i) identify and categorise risks, ii) define risk roles and responsibilities, iii) structure risk escalation and reporting, iv) set risk appetite and v) mitigate risks. The taxonomy therefore provides the foundation for common overview and language of the risks that the Bank faces.

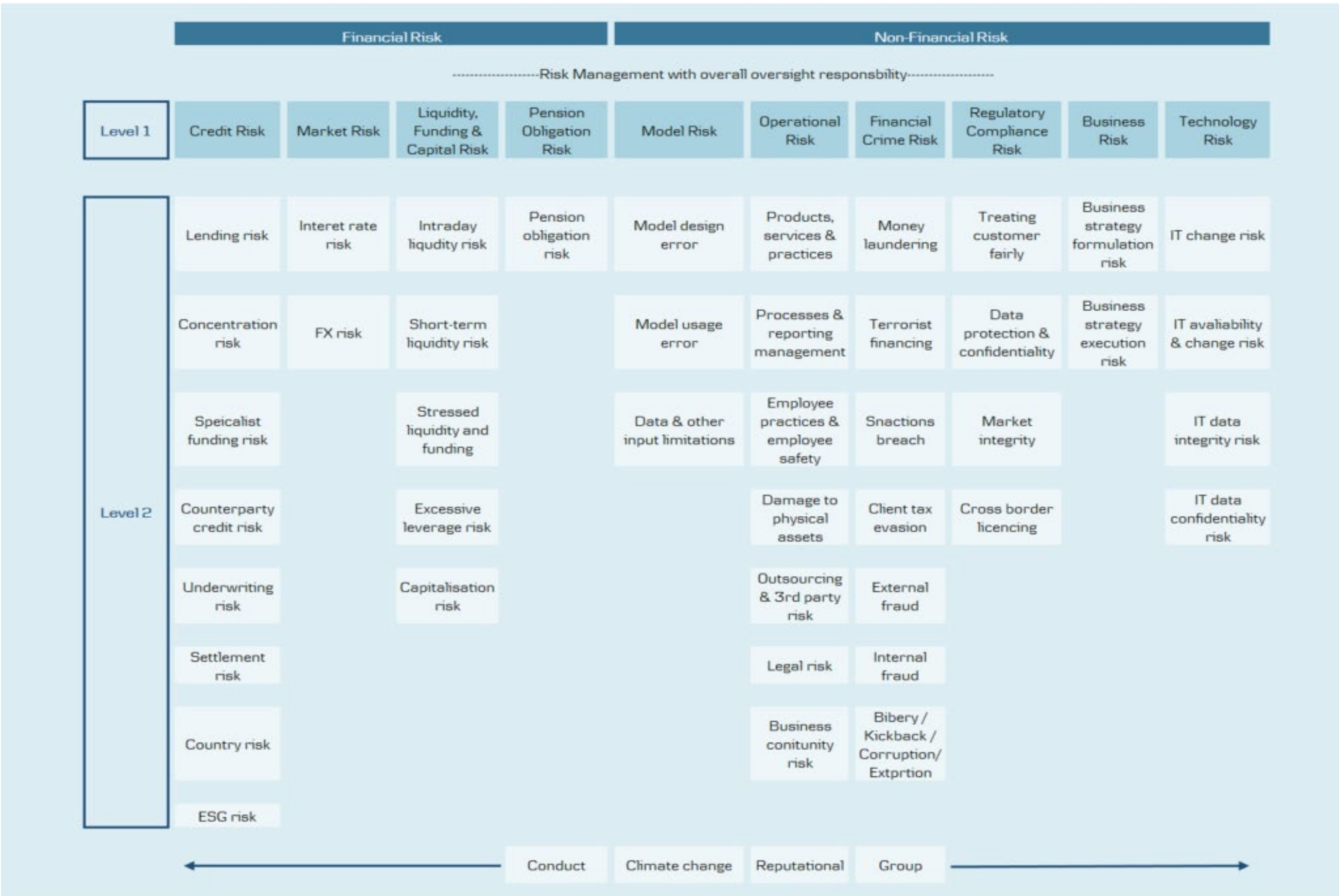
The taxonomy distinguishes between financial and non-financial risks and is structured in a hierarchy of three levels. The level one (L1) risk categories are the grouping of the Bank's most material risk types and the level two (L2) further specify the L1 category. The level three (L3) risks exist where relevant in order to provide further clarifications or break down of the L2 risk types.

Risk categories and risk types

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

In addition to the L1 risk types the Bank also has an increased focus on reputational risk which goes across all risk types. Reputational risk is defined as failure to meet stakeholders' expectations arising from any event, behaviour, action or inaction in the course of our business, with possible damage to the Bank brand and reputation.

Climate Change and Conduct risk can arise across all different risk types and are referred to as risk drivers due to their cross taxonomy scope. Conduct risk is similarly viewed as a cross taxonomy risk at Group. Climate Change has been termed as a risk driver as this is currently the approach adopted in wider industry in recognition of the far reaching implications of this risk category. The maturity of the Climate Change risk framework continues to evolve over time.



Risk management

Risk appetite

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

As a financial institution, the Bank takes as well as avoids risk in order to achieve its strategic objectives and to ensure the right balance between risk and return. The Bank's risk appetite defines the aggregate level of risk it is willing to accept in pursuit of achieving its strategy as well as maintaining trust and a strong position in society.

The underlying principle of the Bank's risk appetite is that the Bank wants to be a solid, balanced and predictable bank, committed to being able to serve its customers through the economic cycle. That means that it wants to be able to serve its customers even in a period of severe economic stress.

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

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

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

Breaches and expected breaches of risk appetite statements are reported to the Committee that owns and sets the respective risk appetite statement.

Risk appetite is set on an annual basis, which allows for ongoing monitoring, management and review of the risk profile of the Bank. It is regularly monitored in the respective governance committees that set limits and review adherence to these. Risk Appetite is embedded in the organisation's strategic and financial planning processes to ensure that risk is an integrated part of the strategic decision-making process.

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

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

CGF

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

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

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

The Board of Directors

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

Board Audit Committee (BAC)

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

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

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;

Risk management

- 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 L1 risks.

Board Remuneration Committee (RemCo)

The RemCo is responsible for reviewing and recommending for the approval of the Board the overarching principles and governance framework of the Bank's remuneration policy, and for approving the remuneration outcomes for senior staff.

The Executive Committee (ExCo)

ExCo is responsible for the strategic and day to day operational management of the Bank. Within this remit, ExCo implements the Bank's business strategy, provides oversight of the Bank's systems and controls, determines the Bank's priorities and targets and manages the Bank's resources. In broad terms the ExCo will:

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

Subsidiary risk governing committees

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

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

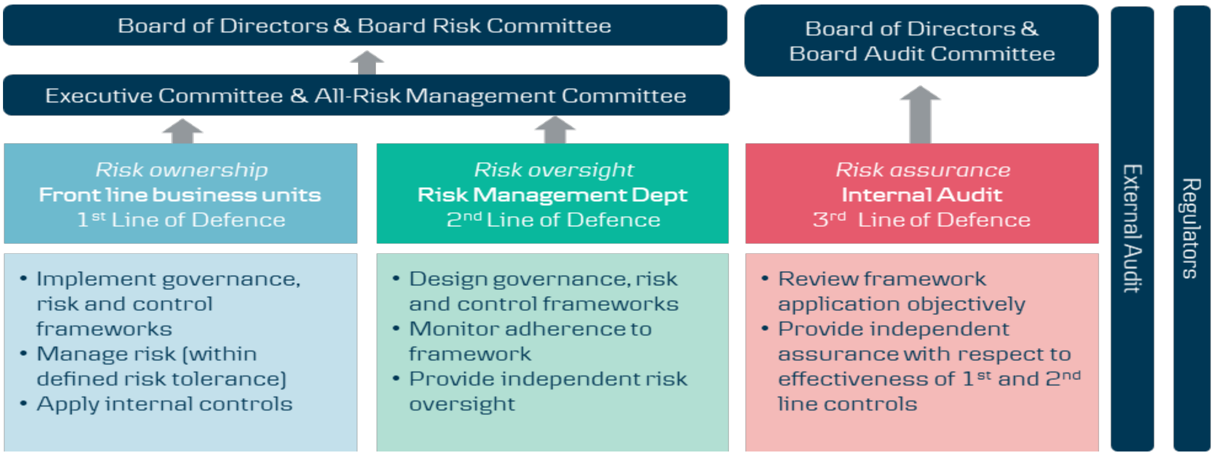
The ARMC has delegated individual risk categories to the following key governing committees:

Risk committee	Type of risk
Operational Risk and Compliance Committee (ORCC)	- Operational risk excluding IT - Regulatory risk - Financial crime risk
Information Technology Risk Committee (ITRC)	- IT risk cyber-crime and security
Asset and Liability Committee (ALCO)	- Liquidity risk - IRRBB - Market risk - Capital adequacy risk
Credit Oversight Forum (COF)	- Credit risk - Concentration risk - Residual risk - Model risk
Commercial Management and Pricing Committee (CMPC)	- Business risk - Reputational risk
Change Control Committee (CCC)	- All risks in relation to projects
Conduct Risk Committee (CRC)	- Conduct risk
Pension Risk Committee (PRC)	- Pension obligation risk

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

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

Executive ownership of The Three Lines of Defence rests with the Chief Risk Officer. Material changes to the 3LoD concept, should they occur, are presented to the BRC as and when they arise.



As outlined above, all employees are responsible for contributing to the management of risks within the scope of their role and responsibilities. The Three Lines of Defence are divided into different roles with clear segregation of duties; risk ownership, oversight and assurance.

First Line of Defence

The 1LoD comprises the first line risk & control functions. The 1LoD owns the risks and is responsible for their operational management. For that purpose, the 1LoD should have appropriate processes and controls in place which aim to ensure that risks are identified, analysed, measured, monitored, managed and reported. The risks should be kept within the Bank's risk appetite, comply with external and internal requirements and be managed in line with the delegated responsibilities and policies set by the 2LoD.

The 1LoD assigns risk ownership to the senior executive (ExCo member) for the function in the 1LoD, who is ultimately responsible and accountable for ensuring the risk is managed appropriately, and who has the authority enabling them to act upon the risk, or request risk acceptance (by the appropriate committee). Where a risk owner has inadequate resources to mitigate the risk to meet the risk tolerance or which they believe requires mitigation, the ownership should be elevated to the next level of management.

Second Line of Defence

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

The 2LoD provides oversight and challenge in relation to all L1 risk categories. The 2LoD is also responsible for setting the standards under which the 1LoD operates with regard to independent compliance and risk management. The 2LoD has the authority to challenge where risks are not aligned with the Bank's standards and / or compliant with relevant regulatory requirements.

Third Line of Defence

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

- risk management
- controls
- governance

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

Management of key principal risks

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

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

- Credit risk;
- Market risk;
- Liquidity, funding and capital risk;
- Pension risk;
- Model risk;
- Operational risk;
- Financial crime risk
- Regulatory risk;
- Information technology risk; and
- Business risk

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

Risk management

i) Credit Risk

- As a lending institution, credit risk is the key risk faced by the Bank;
- The impact of the COVID-19 crisis has been an overriding feature in the business and economic environment during 2020 and the Bank's focus has been to support businesses that have experienced disrupted cash flow during these challenging times. Lack of clarity around the outcome of the implementation of the new UK / EU trade agreement and NI protocol arrangements in the run up to the end stages of the transition period also created uncertainty for our customers;
- The Bank's lending portfolio remains predominantly NI based and is diversified across industry sectors, exposure type and single name concentration risks;
- At all times during the financial year, the Bank maintained appropriate credit controls reflecting and responding to the changing market place, in line with regulatory requirements.

Definition of Credit risk	Credit risk is the risk that the Bank will incur losses as a result of a customer or counterparty being unable or unwilling to meet a credit exposure commitment that it has entered into. The risk includes but is not limited to default risk, credit concentration risk, country risk and collateral risk. At portfolio level, credit risk is assessed in relation to the degree of individual name, sector and geographic concentration.
Risk management measurement and reporting	• The management of credit risk is governed by the Bank's Risk Appetite Statement within its Risk Management Framework as set by the Bank's Board. • All credit transactions are assessed at origination and throughout the duration of their term for credit quality and the borrower is assigned a credit grade based on analysis of the probability of default within 12 months. The use of internal credit rating models and other credit scoring tools and reference to extensive performance data from credit reference agencies, enables measurement of the relative degree of risk inherent and is central to the credit risk assessment process. • The identification of loans for impairment assessment is driven by the Bank's credit risk rating systems and by trigger events identified through ongoing analysis and assessment. It is the Bank's policy to provide for impairment promptly. For those loans where ongoing repayment capacity is in doubt, appropriate work out strategies are put in place, in conjunction with the respective customer, including consideration of vulnerable customers. • It is Bank policy to ensure that adequate up-to-date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio. Information is produced on a timely basis and at a frequency interval that reflects the purpose of the report. Credit risk information at a product / sector level is reported on a monthly basis to senior management and periodically to the Bank's Board. This monthly reporting includes detailed information on loan book volume, the quality of the loan book, including the profile of the lending book and new business written viewed against the Risk Appetite Statement metrics, concentrations and loan impairments.
Risk mitigation	• 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 and connected counterparties for both on balance sheet and off balance sheet exposures; - Satisfaction with repayment capacity and integrity of the counterparty; - Use of collateral and financial covenants; - Use of automated decision models and statistical scorecards; - Consideration of economic and industry conditions; and - An objective customer rating assessment system. • The Bank mitigates credit risk through the application of its comprehensive Credit Policy which reflect the Bank's credit risk appetite and ongoing monitoring to ensure that its credit assessment and underwriting standards are upheld. • The Bank also carries out regular risk re-assessment on larger cases in accordance with policy. • Credit risk mitigation also includes the requirement to obtain appropriate collateral which may be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed. • The Bank also carries out regular and comprehensive reviews of its credit models and other credit assessment tools to ensure that these are performing in line with expectations, carrying out any recalibrations required.

Risk management

ii) Market Risk

- As the Bank does not take any active proprietary positions and does not engage in any active trading in equity, debt or derivative markets, Market risk relates only to the banking book.
- The sources of market risk for the Bank are interest rate risk and foreign exchange risk.
- The primary sources of Interest Rate Risk derive from the Bank's fixed rate loans and mortgages, and non-maturing deposits.
- Interest rate risk management is primarily performed through natural offsets in the Bank's balance sheet, with additional derivative financial instruments and debt securities where required.
- The Bank has limited foreign exchange risk where it acts as a counterparty to satisfy the needs of business and corporate banking customers.

Definition of Market risk	Market risk is the risk that the Bank will suffer losses caused by changes in the market value of financial assets and liabilities resulting from changes in market prices or rates (interest rates, foreign exchange, equity prices, commodity prices and indices). The primary source of market risk for the Bank is interest rate risk, driven by the Bank's fixed loans and mortgages, and non-maturing deposits. Interest rate risk is the risk of losses the Bank will incur as a result of an increase or a decrease in interest rates. The operations of the Bank are subject to the risk of interest rate fluctuations, to the extent that there is a difference between the amount of interest-earning assets and interest-bearing liabilities that mature or reprice in specified periods. The primary drivers of the Bank's structural interest rate position are fixed rate loans and mortgages and non-maturing deposits.
Risk management measurement and reporting	• The management of market risk is covered by the Bank's Risk Appetite Statement and the Market Risk Policy. Market risk is monitored through the ALCO, which has primary responsibility for the oversight of risk within the Bank's risk appetite. Market risk is reported to ARMC, BRC and the Board. Day to day management of market risk is performed by Treasury. The principal objective of market risk management is to protect net interest income and the economic value of the Bank's balance sheet. • 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). This is performed using balance sheet simulation processes to capture the contractual and behavioural repricing of assets, liabilities and off-balance sheet items. This position is then subject to stress scenarios (interest rate shocks) to assess the sensitivity of Net Interest Income and Economic Value of Equity to market risk stresses. These tests are undertaken across banking operations on a daily and monthly basis. • The results of balance sheet simulations, together with other balance sheet risk management information and strategies, are presented and reviewed at ALCO and at scheduled Board meetings. Limits are applied at Board and ALCO level. The Bank has an interest rate risk strategy to ensure risk positions remain within risk appetite. This uses a combination of natural balance sheet offsets, supplemented with derivative financial instruments transacted with the Parent and the purchase of LCR level 1 debt securities. • Foreign exchange risk is relevant to the Bank's activity in which it primarily acts as a counterparty to satisfy customer needs through the provision of a full range of foreign exchange and interest rate related services including derivative financial instruments. These transactions are hedged with the parent. • The interest rate benchmark (London Inter-Bank Offered rate) LIBOR is expected to cease after the end of 2021 and firms must transition to alternative rates before this date. The Bank currently has various Business and Corporate Banking products that are priced with LIBOR, and to a smaller extent other IBORs as a reference rate. This reference rate is being removed and, where relevant, replaced with an alternative Risk Free Reference Rate. The Bank also, from a risk management perspective, uses LIBOR for fixed rate swaps and holds LIBOR linked bonds in its Liquid Asset Buffer (LAB), all of which require changes in reference rates.
Risk mitigation	• The Bank mitigates market risk through the application of its comprehensive governance and limit framework which reflects the Bank's market risk appetite. • The interest rate risk position is reviewed on a monthly basis and approved by ALCO at least annually. • The Bank carries out regular and comprehensive reviews of its market risk models.

iii) Liquidity, funding & capital Risk

- Taking on liquidity risk is an integral part of the Bank's business strategy. By its nature, there will be a mismatch between the terms associated with lending and those associated with deposits.
- The Bank must always have a liquidity position that enables it to meet its obligations and strategies, in particular regulatory obligations and business strategies.
- The Bank has a strong, diversified funding base and a strong liquidity position.
- The Bank conducts intensive stress testing, forecasting and planning to support liquidity and funding risk management.

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

Risk management measurement and reporting	• The management of Liquidity and Funding risk is covered by the Bank's Risk Appetite Statement and the Liquidity and Funding Risk Policy. Liquidity and Funding risk is monitored through ALCO, which has primary responsibility for the oversight of risk within the Bank's risk appetite. Liquidity and Funding risk is reported to ARMC, BRC and the Board.
	• In the current market environment the Bank's liquidity risk appetite is conservative and the Bank maintains a strong liquidity and funding position. The Bank is obliged to produce an ILAAP report at least annually, which details risk appetite, measurement, management and stress testing.
	• The Bank conducts regular liquidity risk stress testing in accordance with its liquidity stress testing policy. The Bank conducts two forms of stress tests:
	  o Internal stress tests including three standard scenarios: a scenario specific to the Bank, a general market crisis scenario and a combination of both; and
	  o LCR regulatory stresses, ensuring that the Bank has sufficient liquidity to survive for a 30 day period.
	• The Risk Appetite Statement details the current Board approved limits for surplus liquidity in both internally defined and regulatory prescribed stress scenarios. Additionally, the Board has approved a risk appetite which details a minimum customer loan to deposit ratio. This risk appetite is designed to prevent aggressive asset growth being funded by excessive levels of wholesale funds, which could prove volatile in a stressed situation. Retail deposits are a valuable, stable funding source for the Bank. Most of the retail deposits are covered by the Financial Services Compensation Scheme, and analysis indicates that they are indeed stable over time.
	• The Bank must maintain at all times a liquidity buffer sufficient to cover the need for liquidity that may arise over a period of both normal and stressed conditions. The assets in the liquidity buffer must be freely available at all times and of a quality sufficient to ensure that they can provide liquidity to the Bank even in a stressed situation. The minimum size of the liquidity buffer is determined by internal stress test analyses and regulatory requirements. In particular, the Bank must comply with the PRA regulatory requirement to maintain a liquidity buffer based on LCR requirements. The assets held within the liquidity buffer must comply with Articles 6-19 of the European Commission Delegated Regulation (EU) 2015/61 (Delegated Act), dated 10 October 2014, at all times.
	• The liquid asset portfolio is primarily comprised of cash at the Bank of England, UK Government Securities (Gilts) and listed securities. The Bank has evolved its approach to managing and reducing the cost of the LAB while still holding high quality, low risk liquid assets, by broadening the composition of the portfolio. The Bank has diversified by investing in a broader range of European covered bond issuances, non-domestic sovereign and multilateral development banks.

Risk mitigation	• The Bank mitigates liquidity and funding risk through the application of its comprehensive governance and limit framework which reflects the Bank's market risk appetite. • Liquidity and funding stress testing is carried out on a monthly basis, and the ILAAP assessment of liquidity risk in both business as usual and stressed conditions is updated on an annual basis. • The Bank carries out regular and comprehensive reviews of its liquidity and funding risk models.

Risk management

iv) Pension Risk

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

Definition of Pension risk	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.
Risk management measurement and reporting	• The management of pension risk is covered by the Bank's Risk Appetite Statement and the Pension Risk Policy. Pension risk is monitored through the Pension Risk Committee, which has primary responsibility for the oversight of risk within the Bank's risk appetite. Pension risk is reported to ARMC, BRC and the Board. Day to day oversight of pension risk is performed by Treasury Finance. • The potential for a deficit in a defined benefit plan arises from a number of factors which could include: o Investments delivering a return below that required to provide the projected plan benefits. This could arise, for example, when there is a fall in the market value of equities held or when increases in long-term interest rates cause a fall in the value of fixed income securities held; o A change in either interest rates or inflation which causes an increase in the value of the Scheme liabilities; and o Scheme members living longer than expected i.e. longevity risk. • The trustees are solely responsible for the investment of the Scheme's assets. The trustees must agree on the investment principles and the funding plan. The Scheme assets are held separately from the assets of the Bank. The Bank and the Scheme 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 participating employers. • Based on the report and having obtained actuarial, financial and legal advice, the trustees enter into negotiations with the Bank in order to agree a schedule of contributions i.e. contributions required to meet administration costs and potential deficiency contributions. The advice given includes an independent assessment of the sponsor's covenant. • The Scheme is currently in surplus, and risk has been further 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. • Pension risk is assessed by way of an economic capital model that takes into account potential variations in factors, using a Value-at-Risk measure. The Board has defined risk targets for the Bank's defined benefit pension fund. The Bank uses quarterly risk reports that analyse the financial status of the 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.
Risk mitigation	• The Bank mitigates pension risk through the application of its comprehensive governance and limit framework which reflects the Bank's pension risk appetite. • The Bank has appointed an actuarial advisor to support in the measurement and management of pension risk. • The Bank carries out regular and comprehensive reviews of its pension risk models.

Risk management

v) Model Risk

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

Definition of Model risk	A model refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. Model risk is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Model risk includes model design error, model usage error and data and other input limitations.
Risk management measurement and reporting	• The management of model risk is governed by the Bank's Risk Appetite Statement within its Risk Management Framework as set by the Bank's Board. • Model performance is reviewed on a regular basis and reported to Credit Models Committee for credit models and other subsidiary risk committees for non-credit models. • Models and their performance is also reported to the BRC at least on an annual basis outlining residual risks for all high / medium risk models. • Models are validated by an Independent model validation unit who provide a view of the performance of these models. The models are reviewed from both qualitative and quantitative perspective. The validation process collates quantitative performance ratings and qualitative performance ratings on different aspects of the models. These two performance ratings are aggregated to give an overall performance assessment. The quantitative performance as well as the qualitative performance are built using several blocks e.g. concentration, segmentation, ranking and precision.
Risk mitigation	• The Bank mitigates model risk by reviewing model performance on an ongoing basis and reporting any issues to relevant committees. • The relevant model developer maintains a close dialogue with the model owner in the Model Management Framework to identify any emerging risks. • The model developer works with model owners as well as business units in the development of models, including final written signoff on model documentation. • Detailed model development and maintenance guidelines are in place. • Mandatory four eye-view in all model approval phases, incorporated in the technical system setup where possible. • Detailed monitoring setup on a monthly basis, overviewing model decisions.

Risk management

vi) Operational Risk

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

Definition of Operational risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The key sub-classes of operational risk are defined as follows: products & services practices, process & reporting management, employment practices and workplace safety, damage to physical assets, outsourcing & third party risk, legal risk and business continuity risk.
Risk management measurement and reporting	• The Bank seeks at all times to have optimal control of all types of operational risk and seeks to mitigate operational risk to a level consistent with its risk appetite and thresholds as set out in the RAS. The Bank recognises that operational risk exists as an inherent part of doing business and the objective generally is not to eliminate the risk but to ensure the risk is effectively managed at an acceptable level in a cost effective manner. • The Bank operates an Operational Risk Framework which defines its approach to managing operational risk and consists of: o Operational risk appetite; o Operational risk policy, procedures and tools; o Risk identification, assessment and treatment approaches monitored via the Risk Mitigation Acceptance process; o Incident reporting, oversight and monitoring; and o Operational risk management information analysis and reporting. • The Bank undertakes an annual ICAAP in order to determine the appropriate level of capital it must hold to protect itself against extreme but plausible operational risk exposures. The Bank's regulatory minimum capital requirement (Pillar 1) is determined by using the standardised approach (TSA) and the Bank uses scenario analysis to set the capital requirement for Pillar 2.
Risk mitigation	• The Bank has systems and processes in place to capture and analyse loss events. The data from these processes is used to identify and correct any control weaknesses. The Bank also uses root cause analysis to identify emerging themes, to prevent or reduce the impacts of recurrence and to support risk reporting and RCSA. The Bank utilises an operational risk management system (ORMS) to record the outputs of RCSAs.

vii) Financial Crime Risk

- The Bank has no appetite for breaches of financial crime obligations.
- The Bank has included Financial Crime Risk within Board approved Risk Management Framework.
- A Group 'Roadmap' is underway to enhance core platform and framework capabilities.
- The Bank has project governance structures in place to manage 5th Anti Money Laundering Directive, Sanctions and Anti-Money Laundering Act 2018, and Confirmation of Payee assurance.

Definition of Financial Crime risk	Financial crime risk is the risk of internal or external parties using the Group's infrastructure and services to steal, defraud, manipulate or circumvent established rules, laws and regulations, particularly in the areas of money laundering, terrorist financing, economic sanctions as well as bribery and corruption. Financial crime risk comprises the sub-risks of money laundering, terrorist financing, economic sanctions, client tax evasion, external fraud, internal fraud, and bribery / kickback, corruption and extortion.
Risk management measurement and reporting	• The Bank has a zero appetite for breaches of financial crime. This is measured against annually approved Key Risk Indicator metrics. • Financial crime risk is included in a Board approved Risk Management Framework. • A 'Three Lines of Defence' model applies. • Escalation mechanisms exist through the Bank's Corporate Governance Framework, Escalation Policy, and Whistleblowing Policy.
Risk mitigation	• A risk based approach is taken to the management of financial crime risk. • Communications with supervisory regulators are conducted in an open and transparent manner. • There is regular reporting to senior management via the ORCC, BRC and the Board. • Key taxonomy risks within financial crime risk are annually risk assessed. This informs the Bank's control environment and ensures that residual risks are managed within risk appetite. • Horizon risks are monitoring and assessed to meet new regulatory requirements. • Financial crime advice is provided to business areas and key initiatives. • Risk-based monitoring is conducted on financial crime risk in accordance with an annually approved monitoring plan. • Regular training and awareness is provided to all staff on key financial crime risks.

viii) Regulatory Risk

- The Bank has no appetite for failure to comply with regulatory or legislative obligations.
- The Bank has included Regulatory Compliance Risk within Board approved Risk Management Framework.
- The Bank has put in place project governance structures to manage key risk drivers of Brexit, LIBOR transition, and EBA Outsourcing Guidelines requirements.
- The Bank has enhanced its focus on COVID-19 transition and downturn risks during the financial year.

Definition of Regulatory risk	Regulatory compliance risk is the risk of incurring regulatory, criminal or administrative sanctions, material financial loss, or loss of reputation, which the Group may suffer as a result of its failure to comply with laws, rules and standards applicable to the Group's activities as overseen by Compliance. It comprises the sub risks of treating customers fairly, market integrity, data protection & confidentiality, and cross-border licencing.
Risk Management measurement and reporting	• The Bank has no risk appetite for failure to comply with its regulatory or legislative obligations and monitors this against annually approved Key Risk Indicator metrics. • Regulatory compliance risk is part of the Bank's Risk Management Framework. • A 'three lines of defence' model applies. • Escalation mechanisms exist through the Bank's Corporate Governance Framework, Escalation Policy, and Whistleblowing Policy. •
Risk mitigation	• Risk based approach to the management of regulatory compliance risk. • Communications with supervisory regulators are conducted in an open and transparent manner. • There is regular reporting to senior management via the ORCC, BRC and the Board. • Key risks within the regulatory compliance risk family are annually risk assessed. This informs the Bank's control environment and ensures that residual risks are managed within risk appetite. • Horizon risks are monitoring and assessed to ensure compliance with new regulatory requirements. • Compliance advice is provided to support the business and key initiatives. • Risk-based monitoring is conducted on regulatory compliance risk in accordance with an annually approved monitoring plan. • Regular training and awareness is given on key regulatory compliance risks.

Risk management

ix) Information Technology Risk

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

Definition of Information Technology risk	Technology risk is the business impact associated with IT risk and relates to the potential for any resulting significant business impact which may result in direct customer detriment, reputational damage and /or regulatory fines. The risk may arise as a result of process/governance failures; technology failure – e.g. errors within core infrastructure that underpins technology-enabled services; planned change initiatives – i.e. the introduction of new or changed products or services; supplier performance issues; or direct cyber attack.
Risk management measurement and reporting	• IT Operations are responsible for capturing and tracking IT risks that relate to core aspects of technology service provision (e.g. infrastructure risks; failure of core IT system; and cyber-attack). For Danske based systems, management of the IT risk also is monitored through the delivery of key performance indicators agreed within a Service Level Agreement between the Bank and Danske Bank A/s. • Meanwhile, business areas across the Bank are also responsible for capturing and tracking IT risks that relate to their particular processes, products and services. In some cases common IT risks can be aggregated up to 'top of Bank' level. • These risks are overseen by the various business areas through monthly risk forums (chaired by embedded risk managers in the business areas).
Risk mitigation	• There is regular reporting to senior management via the ITRC, BRC and the Board.

x) Business Risk

- On an annual basis the Bank reviews its strategic objectives and focus in preparation of its Corporate Plan which is approved by the Board and serves as the basis for managing Business risk.
- Longer term viability is monitored through the ICAAP which is completed annually to formally assess the potential impact of Business risk on the Bank's business model, this process identifies whether additional capital should be held in the event these risks materialise.
- Uncertainty over the implementation of the EU/UK trade agreement and how the Northern Ireland protocol arrangement might impact the Bank and its customers, along with the unknown road to recovery from the COVID-19 pandemic, continues to mean forecasts for the macroeconomic environment are challenging.
- The UK banking sector remains competitive, coupled with the prolonged low interest rate environment, this continues to put increasing pressure on margins affecting banks' ability to generate profitability.

Definition of Business risk	Business risk is defined as the risk of opportunity loss arising from possible changes in general business conditions such as market environment, customer behaviour, the Bank's (or Group's) reputation and technological progress to which the Bank may not be able to adjust sufficiently quickly. The Bank's business risk assessment also considers reputational risk.
Risk management measurement and reporting	• Key performance indicators are clearly defined for each business unit and are closely and regularly monitored. • Active management of all internal and external communications including social media and media monitoring which leads to escalation and, where required, management actions. • The risk is overseen monthly by the Bank's governance committees through regular reporting on performance, competitive environment, new or emerging market trends and technological advances.
Risk mitigation	• The Bank mitigates business risk through business planning methods such as preparing a clearly defined Corporate Plan annually, within the boundaries of the Board approved risk appetite, informed by expectations of the external environment and the Bank's strategic priorities. • At an operational level regular tracking of actual volumes and margins against forecast is a key financial management process in the mitigation of business risk. Regular review and monitoring of the Bank's competitive environment is also completed to identify market developments, using external research and economic updates as required. • A formal assessment of business risk is completed once annually with the results included in the ICAAP. • Reputational risk is mitigated through policies and procedures in place to minimise reputational risk. • Senior management, and the Board, receive regular updates on the progress of risk mitigation in this area. In the event of any of these business risk scenarios threatening to develop, early remedial action would be taken.

Danske Bank

Risk management

Capital Management

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

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

Capital requirements and capital resources

The Bank remained in compliance with its regulatory capital requirement in 2020. The key components of the Bank's capital strategy are as follows:

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

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

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

The Bank of England Financial Policy Committee announced in March 2020 that the countercyclical buffer rate for UK exposures fell from 1% to 0% with immediate effect, due to the economic uncertainty surrounding the COVID-19 pandemic. The Bank's capital plan, prepared as part of the ICAAP, considers proposed changes to the regulatory capital requirements of the Bank.

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

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

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

Stress testing and capital planning

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

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

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

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

Through the stresses, the Bank determines the extent to which additional capital is required 'today' to absorb the potential losses and the deterioration in the Bank's capital position, ultimately to determine its internally assessed CET1 capital buffer needs. This second stress scenario is also used to test the Bank's compliance with its risk appetite under an extreme event.

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

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

Capital management reporting

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

Minimum Requirements for Own Funds and Eligible Liabilities

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

From 1 January 2020, the Bank is required to hold internal MREL equivalent to 18% of total Risk-weighted Exposure Amount (REA), with a PRA prescribed scaling factor applied. This is expected to hold, subject to annual review, until 1 January 2023, when the Bank will be required to hold internal MREL equivalent to two times its Pillar 1 and Pillar 2A (excluding capital buffers), with a PRA prescribed scaling factor applied. During 2020, the Bank held sufficient capital resources to meet its MREL requirement.

CRD and CRR developments

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

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

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

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

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

Revisions to the standardised approach to credit risk, the credit valuation adjustment (CVA) and operational risk frameworks were due to be implemented from 1 January 2022, however in light of the current economic uncertainty, in March 2020 the BCBS announced that it will delay the implementation of Basel IV until January 2023. The Bank is currently assessing the impact of these revisions.

The Bank actively monitors these developments and seeks to effectively comply with the new requirements when finalised. In addition to the new Basel rules, there are a number of changes to European Central Bank (ECB)/ EBA regulatory requirements planned for the coming years that will impact the Bank's regulatory capital and risk weighted exposure amounts (REA). These include new ECB and EBA non-performing loans guidelines and EBA standard and guidelines on definition of default.

Capital and leverage position (unaudited)

The Bank remains well capitalised and this is reflected in its total capital ratio of 20.7% (2019: 18.0%).

During the year no dividends were paid to the Bank's ultimate parent undertaking, Danske Bank A/S (2019: £100m).

The Bank's Common Equity Tier 1 (CET1) ratio (on a UK PRA basis) increased from 13.4% in December 2019 to 16.1% in December 2020.

Key capital and leverage ratios at 31 December 2020 and 2019 are set out below:

	31 December 2020	31 December 2019
Common Equity Tier 1 ratio	16.1%	13.4%
Tier 1 ratio	18.1%	15.4%
Total capital ratio	20.7%	18.0%
Total Capital Requirement	10.6%	10.6%
Leverage ratio	5.2%	6.3%

Risk management

Regulatory capital (unaudited)

The following table details the Bank's capital regulatory capital at 31 December 2020 and 2019.

	31 December 2020 £'000	31 December 2019 £'000
Common Equity Tier 1 capital		
Permanent share capital	**218,170**	218,170
Retained earnings	**182,282**	165,194
Profit yet to be verified for inclusion in regulatory capital	**(7,552)**	(13,658)
Share premium account	**306,590**	306,590
Revaluation reserve	**34,965**	35,906
Reserve for Investment securities - Hold to collect and sell	**7,190**	1,594
IFRS 9 transitional adjustment	**24,545**	15,503
Less : pension fund asset (net of tax)	**(160,365)**	(148,258)
Less : deferred tax asset ineligible for Common Equity Tier 1 capital	**(19,329)**	(18,060)
Less : prudent valuation adjustment	**(505)**	(434)
Less : intangible asset	**(157)**	(212)
Total Common Equity Tier 1 capital after deductions	**585,834**	562,335
Additional Tier 1 (AT1) capital		
AT1 capital instrument	96,958	97,069
AT1 regulatory restriction (1)	(25,063)	(12,902)
CRD IV compliant instrument	71,895	84,167
Tier 2 capital		
Subordinated loan debt	126,000	126,000
Subordinated loan regulatory restriction (1)	(30,141)	(15,254)
Dated CRD IV compliant subordinated loan instruments	95,859	110,746
Total capital after deductions	**753,588**	757,248

Note

(1) The PRA expects the Bank's Total Capital Requirement (Pillar 1 and Pillar 2A) to be met with at least 56% CET1 capital, no more than 44% Additional Tier 1 capital and no more than 25% Tier 2 capital. As a result of the reduction in the Bank's Pillar 2A capital requirement during 2019, a portion of the Bank's Additional Tier 1 capital and Tier 2 capital is no longer eligible to be included in the Bank's regulatory total capital as it falls above the capital restrictions.

Risk weighted exposure amounts (unaudited)

The following table details the Bank's risk weighted exposure amounts at 31 December 2020 and 2019.

	31 December 2020 £'000	31 December 2019 £'000
Credit risk	3,249,042	3,802,081
Operational risk	384,135	396,090
Market risk	-	-
Credit value adjustment	1,301	736
Total risk-weighted exposure amount	**3,634,478**	4,198,907

Risk management

Minimum Pillar 1 capital requirement (unaudited)

The following table details the Bank's minimum Pillar 1 regulatory capital requirement at 31 December 2020 and 2019.

	31 December 2020 £'000	31 December 2019 £'000
Credit risk	259,923	304,166
Operational risk	30,731	31,687
Market risk	-	-
Credit value adjustment	104	59
Minimum Pillar 1 capital requirements	290,758	335,912

Regulatory capital to statutory total equity reconciliation (unaudited)

The following table reconciles the Bank's regulatory capital resources to the statutory total equity position at 31 December 2020 and 2019.

	31 December 2020 £'000	31 December 2019 £'000
Regulatory Common Equity Tier 1 capital	585,834	562,335
Add back:		
- Pension fund asset (net of tax)	160,365	148,258
- Deferred tax relying on future profitability	19,329	18,060
- Profit yet to be verified for inclusion in regulatory capital	7,553	13,658
- Intangible assets	157	212
- Cash flow hedge reserve	4,711	2,132
AT1 capital	96,958	97,069
IFRS 9 transitional adjustment	(24,545)	(15,503)
Prudent valuation adjustment	505	434
Statutory total equity	850,867	826,655

Governance

Directors and other information

Non-Executive Chairman	Gerald Gregory	(A)(R)(RE)
Non-Executive Directors	Berit Behring	(D)
	Michael Black	(A)(R)
	Carsten Egeriis (resigned 1 January 2021)	(D)
	Stephan Engels (appointed 9 February 2021)	(D)
	Astrid Grey (appointed 28 February 2020)	(A)(RE)(R)
	Alistair Hamilton (appointed 4 May 2020)	(R)
	Paul Rooney (resigned 31 March 2020)	(R)
	Martin Stewart (appointed 21 January 2020)	(A)(RE)(R)
Executive Directors	Kevin Kingston	
	Vicky Davies	
	Stephen Matchett	

(R) Member of Risk Committee
(A) Member of Audit Committee
(RE) Member of Remuneration Committee
(D) Member of Executive Leadership Team of the Parent

Company Secretary	Fiona Sturgess	
Registered Office	Donegall Square West, Belfast, BT1 6JS	
Registered Company Number	R0000568	
Independent auditors	Deloitte (NI) Limited, Chartered Accountants and Statutory Auditor, Bedford Street, Belfast, BT2 7EJ	
Executive Committee	Kevin Kingston	Chief Executive Officer
	Vicky Davies	Deputy Chief Executive Officer
	Stephen Matchett	Deputy Chief Executive Officer and Chief Financial Officer
	Richard Caldwell	Managing Director, Strategy & Commercial Development
	Liam Curran	Chief Operating Officer
	Shaun McAnee	Managing Director, Corporate and Business Banking
	Aisling Press	Managing Director, Personal Banking
	Philip Smyth	Chief Risk Officer
	Caroline Van Der Feltz	HR Director

Report of the Directors

The Directors of Northern Bank Limited (the "Bank") submit their annual report and audited financial statements (Income Statement, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement) for the year ended 31 December 2020.

The Bank's profits, strategic highlights, business developments and management of risk are set out in the Strategic Report, Risk Management section, Corporate Governance report, together with the Financial Statements.

Financial performance

The Bank's profit after tax was £7.6m for the year ended 31 December 2020 (2019: £64.1m). The Bank's financial performance is further detailed within the Income Statement.

Dividends

The Directors paid no interim dividends during the year (2019: £100,000,000). The Directors do not recommend the payment of a final dividend in respect of this financial year (2019: £Nil).

Financial instruments

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

Political donations

No political donations were made by the Bank during the 2020 financial year (2019: £Nil).

Foreign branches

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

Directors and Directors' interests

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

- Berit Behring
- Michael Black
- Vicky Davies
- Carsten Egeriis (resigned 1 January 2021)
- Stephan Engels (appointed 9 February 2021)
- Gerard Gregory
- Astrid Grey (appointed 28 February 2020)
- Alastair Hamilton (appointed 4 May 2020)
- Kevin Kingston
- Stephen Matchett
- Martin Stewart (appointed 21 January 2020)

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

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

Directors' liabilities

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

Corporate responsibility

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

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

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

Further details on the Bank's social and environmental activities can be found in the Bank's 2020 Responsible Business Report at www.danskebank.co.uk.

Corporate governance statement

The Bank has in place its own governance arrangements which are deemed to be appropriate for a company of its size and nature. Further details on the Bank's Corporate Governance can be found from page 52.

Stakeholder engagement

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

Employee engagement

The Bank carries out an information programme to keep colleagues informed of business objectives and results. This is achieved through regular meetings, 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 Bank colleagues are considered in making decisions which are likely to affect their interests.

The results of the Bank's consultation with its employees on principal decisions made are set out in the Section 172(1) statement contained in the Strategic Report.

Employment policies

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

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

Risk management

The Bank's principal risk and uncertainties are contained in the Strategic Report from page 5. Information on the Bank's risk management framework can be found in the Risk Management section from page 31.

Bribery Act 2010

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

Future developments

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

Streamlined Energy and Carbon Reporting

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

Although this is the first year that the Bank has reported its GHG emissions, the Bank has been calculating and setting targets against our energy use and GHG emissions since 2015. Emissions reduction initiatives since 2015 have included installing LED lights in branches and replacing inefficient gas boilers with alternative heating solutions. In this reporting year (from October 2019 to September 2020), energy efficiency actions include setting up a Cycle to Work scheme and 'greening' the company car policy; only the purchase of hybrid or electric vehicles is supported.

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

Consistent across the Danske Bank Group, the approach to reporting energy consumption emissions is from Q4 in the previous year to Q3 in the reporting year

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

	2020	2019	2018	2017
Emissions from combustion (Scope 1 - tonnes of CO2e)(2)(3)	571	465	515	501
Emissions from electricity purchased for own use, including for the purposes of transport (Location - based Scope 2 - tonnes of CO2e)(4)	900	1,259	1,523	1,685
Emissions from electricity purchased for own use, including for the purposes of transport, taking into account contractual agreements (Market - based Scope 2 - tonnes of CO2e)(5)	0	0	0	0
Emissions from business travel and paper usage (Scope 3 - tonnes of CO2e)(6)	249	428	616	669
Total Market – based tonnes of CO2e	820	893	1,131	1,170
Total emissions per full-time employee (tonnes of CO2e/Full Time Equivalent)	0.61	0.63	0.82	0.83
Total energy use (7) (kWh) (8)	5.73m	5.83m	6.37m	6.35m

Notes:

(1) Emissions calculated by using IEA and DEFRA emission factors. 2019 emissions figures have been verified by a third party.
(2) CO2e: carbon dioxide equivalent.
(3) Scope 1: emissions from electricity, heat and steam generated within the organisational boundaries.
(4) Scope 2 Location- based: emissions originating from the electricity grid delivered directly for the suppliers.
(5) Scope 2 Market- based: emissions from electricity where contractual agreements have been considered. Emissions removed due to Guarantees by Origin and International Renewable Energy Certificates.
(6) Scope 3: emissions from purchased goods and services, paper, and business travel (includes air transport and employee car use).
(7) Total Energy Use: only accounts for Scope 1 and 2.
(8) kWh: kilowatt hour.

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

Going Concern

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

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

The key factors considered in the going concern assessment were:

- *Capital and profitability* - the expected future profitability and thus self-sufficiency from a capital perspective of the Bank. The current Corporate Plan and ICAAP demonstrate that the Bank is expected to generate profits in excess of the capital required for projected lending growth; and
- *Liquidity* - at 31 December 2020 the portfolio of liquid assets was £4.9bn 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 61%;

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

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

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

Disclosure of information to the auditor

The Directors who hold office at the date of approval of this Report of the Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware; and each Director has taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information. The Directors have pleasure in submitting their annual report and audited Financial Statements for the year ended 31 December 2020 to the shareholder.

Auditor

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

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

Fiona Sturgess
Company secretary

12 March 2021

Corporate Governance Statement

For the year ended 31 December 2020, under The Companies (Miscellaneous Reporting) Regulations 2018, the Bank has adopted the Wates principles for large private companies as an appropriate framework when making a disclosure about its corporate governance arrangements.

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

Purpose and Leadership

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

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

The Bank's purpose, and ultimately its vision, is to be the best bank where we operate by "Making More Possible" for our customers, colleagues, partners and society. These four focus areas form the framework of our Corporate Plan, which is developed on an annual basis by management under the Board's direction.

The Board is committed to a culture of strong ethical behaviour as embodied in our five core values – expertise, integrity, value, agility and collaboration - which together are central to the Bank's vision of "Making More Possible".

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

Board composition

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

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

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

The combination of skills of the Directors is considered suitable for the nature of the organisation; Independent Non-Executive Directors bring experience in banking and finance, audit and technology, in addition to perspectives and challenge from outside the banking industry. There is an appropriate mix of local, national and international directors and the Board continues to improve its gender balance noting that by quarter three 2020 gender diversity on the Board was 30%.

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

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

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

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

Director responsibilities

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

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

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

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

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

There is a process in place for regular Board effectiveness reviews to seek independent, objective advice on the effectiveness of the Board's decision-making, its structure, its people and its processes. The Board undertook a formal effectiveness review facilitated by an independent external adviser in 2020. Between externally facilitated assessments, the Board has conducted informal self-assessments which the Board considers important in the identification of key areas for future improvements, focus and for strengthening its overall performance.

Opportunity and risk

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

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

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

Remuneration

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

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

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

A diverse workplace which does not attach specific importance to; age, community background or country of origin, disability, gender, nationality, political opinion, religious belief, or sexuality, ensures that we are able to attract talented employees who will contribute to the Bank's success.

Annually, the RemCo prepares a Remuneration Report which is published on our website www.danskebank.co.uk.

Stakeholder relationships and engagement

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

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

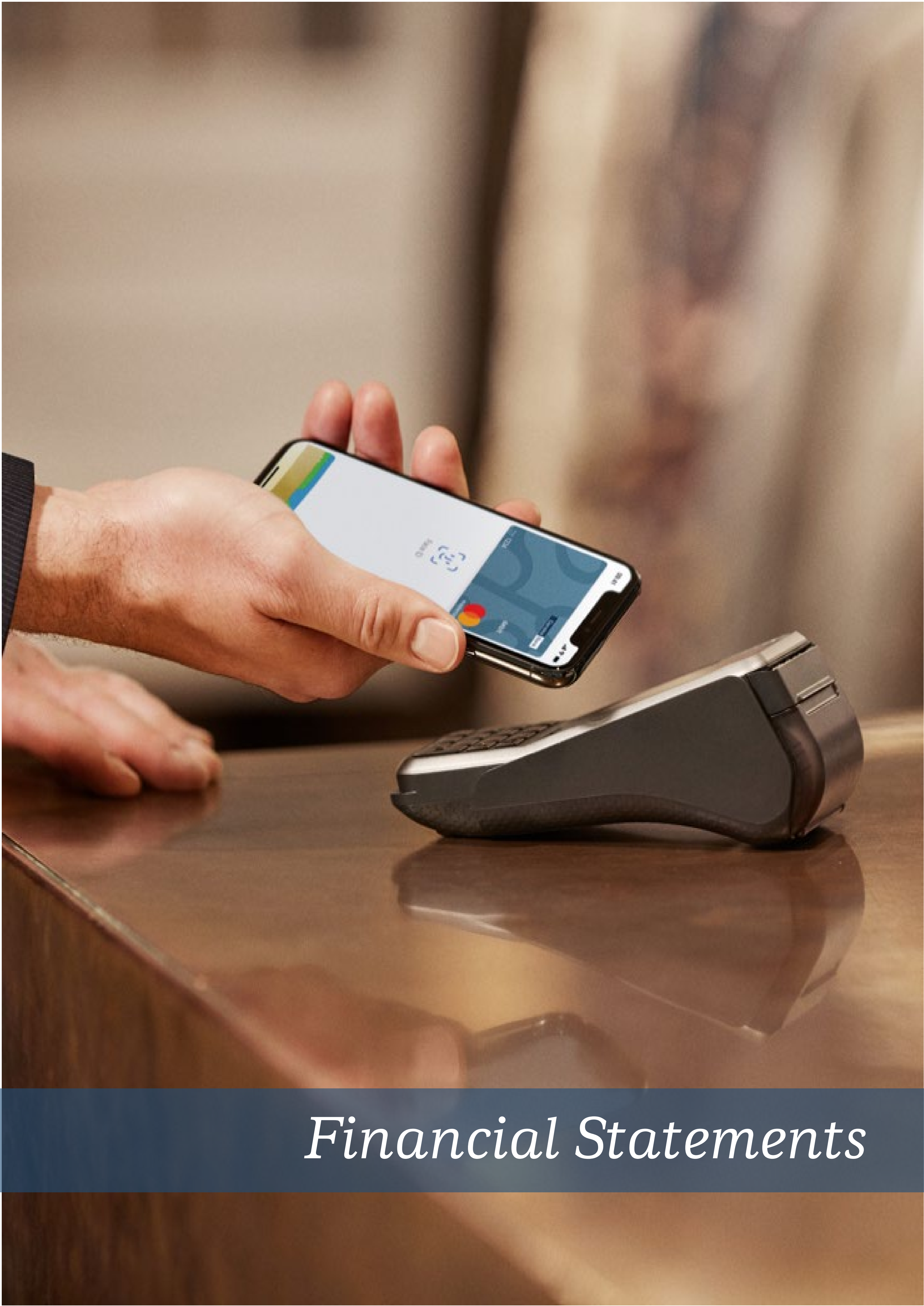
Close dialogue with stakeholders is an integral and natural part of the Bank's operations. Senior leaders welcome dialogue with all external stakeholders, representatives of government and other leading figures within Northern Ireland and beyond and want to engage in a constructive manner, and from a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

Listening to, and empowering employees is critical to achieving the Bank's vision. Formally, employees have a voice through regular 'Pulse' and 'Team Talk' Surveys. The outputs from these employee surveys inform the People Board (a group of senior employees who are responsible for shaping and delivering the people strategy in collaboration with HR) and business unit action plans. In addition, regular employee 'Roadshows' are delivered in locations across Northern Ireland and provide a briefing on the Bank's performance and allow individuals to raise questions and provide feedback.

Northern Bank Pension Trust Limited is the corporate Trustee of the Northern Bank Pension Scheme. Although a wholly-owned subsidiary, the Trustee operates independently of the Bank and in accordance with pension regulations. The Bank, as sponsor of the Scheme, maintains a constructive and open relationship with the Trustee (usually through the Chairman of the Trustee Board). The Trustee Directors comprise individuals nominated either by Scheme members or by the Bank. This support, provided by the Bank, ensures diversity of knowledge and skills on the Trustee Board, thereby facilitating good governance and decision-making (which is in the interests of all Scheme stakeholders).

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

We advocate the benefits of running a responsible business and encourage others to follow. In January 2020, the Bank published its second annual Responsible Business Report, which highlights our contribution to the wider society that we serve and the local communities we are a part of, in areas such as diversity and inclusion, sustainability and climate change.



Financial Statements

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with the IFRS 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.

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

Kevin Kingston
Executive Director and Chief Executive Officer

12 March 2021

Report on the audit of the financial statements

1. Opinion

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

- give a true and fair view of the state of the Bank's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRS as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, which comprise:

- the Income Statement;
- the Statement of Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity;
- the Cash Flow Statement;
- the related notes 1 to 44.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

2. Basis for opinion

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

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

3. Summary of our audit approach

Key audit matters

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

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

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

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

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

Materiality	The materiality that we used in the current year was £5,000,000, which was determined on the basis of total equity.
Scoping	We determined the scope of our audit by updating our understanding of the Bank and its operating environment, including the identification of key controls, and assessing the risks of material misstatement.
Significant changes in our approach	The basis used to determine materiality for the audit for the year ended 31 December 2020 is total equity. For the year ended 31 December 2019, we used the basis of profit before tax. Having considered the impact of COVID-19, and with regulators and stakeholders more focused on capital, we consider total equity to be a more appropriate basis for determining materiality in the current economic environment. An additional significant risk has been identified this year in relation to expected credit loss (ECL) models, specifically the completeness and accuracy of post-model adjustments made to the ECL models. The current evolving economic factors driven by COVID-19 may not be captured in the existing ECL models and therefore post-model adjustments are required to capture additional exposures and provisions. The additional procedures performed to address this risk are detailed in the key audit matters section of this report.

4. Conclusions relating to going concern

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

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

- Evaluating the financial forecast prepared by the Bank, including considering whether key assumptions used in the preparation of the forecast are reasonable and whether the forecast reflects the estimated economic impacts of risks relating to the Bank;
- Evaluating management's ability to forecast accurately based on assessment of the historical accuracy of forecasts;
- Evaluating the Bank's latest capital and liquidity plans (ICAAP and ILAAP), and related stress tests, to assess financial position; and
- Reviewing the disclosures included in the financial statements on going concern and financial viability, taking into consideration our audit procedures and assessing whether they are appropriate.

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

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

5. Key audit matters

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

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

5.1. Expected credit losses on loans and advances to customers

Key audit matter description	As required by IFRS 9 "Financial Instruments", losses on financial assets which are recognised at amortised cost are recognised on an expected credit loss basis. Expected credit losses ('ECLs') are required to incorporate forward-looking information, reflecting management's view of potential future economic environments. The complexity involved required management to develop methodologies

involving the use of significant judgements. This includes the risk that

- inappropriate valuation of collateral is used or other significant cash flows used in the individually assessed Stage 3 provision calculations are materially misstated;
- significant increases in credit risk are not identified resulting in inaccurate staging classification under IFRS 9; and
- post model adjustments are not accurate, complete and valued appropriately.

At 31 December 2020, the ECL on loans and advances to customers was £108.1 million (2019: £79.4 million), representing a coverage level of 1.7% on a total portfolio of £6,338 million (2019: 1.3% on a total portfolio of £6,188 million).
Measurement of the ECL on loans and advances to customers is a key audit matter as the assumptions used in the ECL models are highly subjective due to the level of judgement applied by management. The most significant judgements include:

- Determining the criteria for a significant increase in credit risk and for being classified as credit impaired;
- Choosing the appropriate models and assumptions for measuring ECL with key assumptions being probability of default and loss given default;
- Key assumptions, including collateral valuation, haircuts and cashflow timings, used in discounted cash-flows ('DCFs') of individually assessed loans Stage 3 loans;
- The determination of post model adjustments.
- Establishing the number and relative weightings for forward looking macroeconomic scenarios applied in measuring the ECL. This is highly subjective given that such assumptions are subject to significant uncertainty related to future economic outcomes, including the potential longer-term impacts of COVID-19 and post Brexit EU/UK trade deal on the economy. This results in a wide range of possible outcomes.

The Bank's accounting policy for expected credit loss (ECL) provisions is disclosed in note 1(d) to the financial statements. The key sources of estimation uncertainty in relation to ECL 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 loans and advances to customers focusing on:

- model development, validation and approval to ensure compliance with IFRS 9 requirements;
- review and approval of key assumptions, judgements and forward looking information used in the models;
- front line credit monitoring and assessment controls; and
- review and approval of post model adjustments.

Our testing of key controls included 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 specialists to challenge the judgements and assumptions supporting the ECL requirements. These included assumptions used in the ECL models applied in stage allocation, calculation of probability of default and methods applied to derive loss given default rates.

We assessed the reasonableness of the forward-looking information incorporated into the impairment calculations including assessing management's experts. We also challenged the multiple economic scenarios chosen and the weightings applied. This included benchmarking the economic data used to recognised external data sources.

We critically assessed the policies and processes surrounding the calculation of post model adjustments, and challenged the completeness and accuracy of all significant overlays attributed by management.

We tested a risk based sample of manually rated loans (focusing our significant risk on those stage 2 loans closest to default) to ensure that they have been included in the correct stage in accordance with the Bank's methodology and IFRS 9.

In examining a sample of individually assessed Stage 3 loans cases, we challenged management on the 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 audit procedures performed, we concluded that the data and assumptions used by management in loan impairment provisioning are within a range we consider to be reasonable.

5.2. Valuation and recoverability of deferred tax asset

Key audit matter description	The risk that projection of profitability over a long time period presents inherent uncertainty, involving significant management judgements and therefore inappropriate valuation of deferred tax assets, specifically those in relation to brought forward tax losses. The Bank has recognised a net deferred tax liability at 31 December 2020 of £34.1 million (2019: liability of £20.1 million). This comprises a gross deferred tax asset of £32 million (2019: £31.3 million) and a gross deferred tax liability of £66.2 million (2019: £51.4 million). The gross deferred tax asset includes £19.3 million (2019: £18.1 million) which has been recognised in respect of brought forward tax losses. This is based on the Bank's forecast profitability over a period of 5 years ending 31 December 2025 (2019: 5 years ending 31 December 2024). No asset has not recognised in respect of tax losses where utilisation is uncertain after this date. The 5 year period supporting the recognition is consistent with the period that the Bank prepares its strategic plan for, including profit, capital and liquidity forecasts, and which management have concluded can be forecast with reasonable certainty. The Bank's accounting policy for deferred tax is disclosed in note 1(d), the key sources of estimation uncertainty in relation to deferred tax are disclosed in note 1(b) and further disclosures are presented in note 20 to the financial statements.
How the scope of our audit responded to the key audit matter	We 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 2021 to 31 December 2025, and tested the adjustments to derive taxable profit for reasonableness.
Key observations	Based on the audit procedures performed, we concluded that the assumptions used by management in the recognition of deferred tax assets are within a range we consider to be reasonable.

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

5.3. Valuation of defined benefit pension obligations

Key audit matter description	Determining the key assumptions used to calculate the present value of defined benefit pension scheme obligations of £1,251 million (2019: £1,171 million) included in the pension surplus requires significant management judgement in relation to discount rates, inflation rates and mortality assumptions. This presents a risk that the principal assumptions used to determine the valuation of the pension liability are not supportable and the valuation is inaccurate. We note that the selection of the discount, mortality and inflation rates has a large impact on the overall valuation as set out in sensitivity analysis in note 24 to the financial statements. The Bank's accounting policy for pension costs is disclosed in note 1(d) to the financial statements. The key sources of estimation uncertainty in relation to 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 determined the implementation of controls over the completeness and accuracy of the valuation of the pension obligation. We 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 of management and the Bank's external 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 audit procedures performed, we concluded that the discount rate assumption used in the measurement of the defined benefit obligation is within a reasonable range, but at the more optimistic end of the range. All other key assumptions used by management in the actuarial valuations for defined benefit obligations are within a range we consider to be reasonable.

6. Our application of materiality

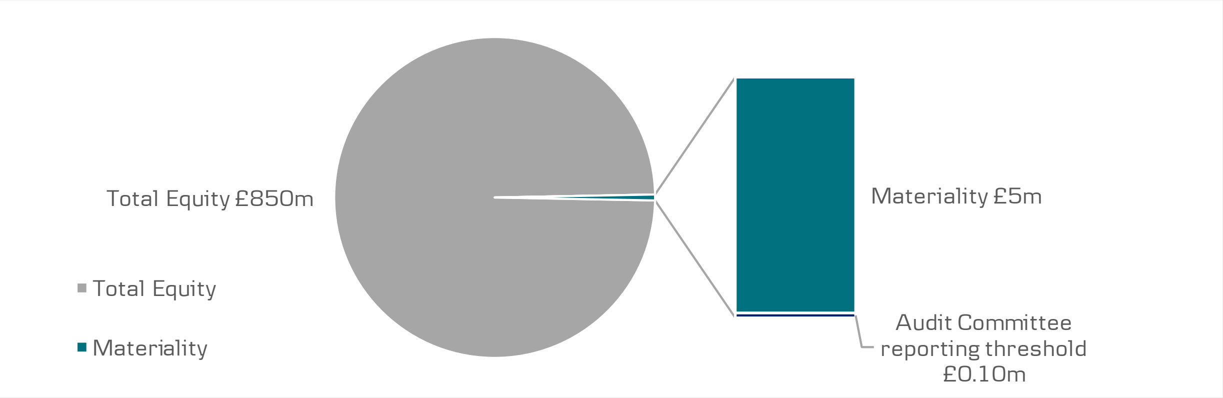
6.1. Materiality

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

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

Materiality	£5,000,000 (2019: £5,000,000)
Basis for determining materiality	0.59% of total equity. (2019: 5.6% of profit before tax). We maintained materiality at £5,000,000 consistent with the financial year ended 31 December 2019 as the balance sheet of Northern Bank Limited had not changed significantly. The basis of materiality used in the 2020 audit is total equity, compared to profit before tax, which was utilised in the 2019 audit.
Rationale for the benchmark applied	As a result of the impact of COVID-19 resulting in increased impairment losses, we did not consider profit to be a stable benchmark upon which to base our materiality. With regulators and stakeholders more focused on capital, we consider total equity to be a more appropriate basis.

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



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

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

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £100,000 (2019: £100,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

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

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

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

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

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

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations 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.

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.

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of ECL provisions, valuation and recoverability of the deferred tax asset, valuation of defined pension obligations, revenue recognition and management override of controls. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Bank operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, pensions legislation, tax legislation, as well as FCA and PRA regulatory requirements.

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

11.2. Audit response to risks identified

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

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee, in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, and the Bank's primary regulators, the Prudential Regulatory Authority and the Financial Conduct Authority.

In addressing the risk of fraud in revenue recognition, we challenged the inputs to and any changes to the assumptions used by management in the calculation of the effective interest rate (EIR) used to determine interest receivable, which included the test the accuracy and completeness of historical information used by the Bank in determining the behavioural life of fees integral to the yield which are included in the EIR applied, and performed journal entry testing over manual adjustments made to revenue account codes to assess the business rationale for such transactions.

In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

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

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

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

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

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

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14.Other matters

14.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the Board of Directors in 2015 to audit the financial statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2015 to 31 December 2020.

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

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

15. Use of our report

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

John McCarroll, FCA (Senior statutory auditor)

For and on behalf of Deloitte (NI) Limited
Statutory Auditor
Belfast, Northern Ireland

12 March 2021

Danske Bank

Income Statement
for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Interest and similar income		175,408	205,645
Interest expense		(13,487)	(27,074)
Net interest income	2	161,921	178,571
Fee and commission income	3	38,701	52,030
Fee and commission expense	3	(5,306)	(7,276)
Net trading income	2	7,850	10,417
Other operating income	4	1,953	1,652
Non-interest income		43,198	56,823
Operating income		205,119	235,394
Operating expenses	5	(142,240)	(139,688)
Depreciation and amortisation expense	6	(4,376)	(4,879)
Profit before loan impairment charge		58,503	90,827
Loan impairment charge	14	(45,426)	(797)
Profit before tax		13,077	90,030
Tax expense	9	(5,525)	(25,926)
Profit for the year		7,552	64,104
Portion attributable to:			
- Shareholders of Northern Bank Limited		2,526	58,544
- AT1 capital holders		5,026	5,560
		7,552	64,104

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

The notes on pages 76 to 130 form part of these Financial Statements.

Statement of Other Comprehensive Income for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Profit for the year		7,552	64,104
Items that will not be reclassified to profit or loss			
Other comprehensive income / (loss):			
- Actuarial gain recognised in retirement benefit scheme	24	19,865	34,531
- Tax on actuarial gain recognised in retirement benefit scheme	20	(5,364)	(8,633)
- (Loss) / gain on property revaluation	17, 19	(954)	856
- Tax on property revaluation transferred to revaluation reserve	20	73	(88)
Items that may be reclassified subsequently to profit or loss			
Change in reserve for investment securities at fair value			
- Unrealised value adjustments of investment securities at fair value		7,724	6,094
- Tax	20	(2,128)	(1,523)
Change in cash flow hedge reserve			
- Gains during the year	12	3,612	2,646
- Tax	20	(1,032)	(662)
Total other comprehensive income		21,796	33,221
Total comprehensive income for the year		29,348	97,325
Portion attributable to:			
Shareholders of Northern Bank Limited		24,322	91,765
Additional Tier 1 capital holders		5,026	5,560
Total comprehensive income for the year		29,348	97,325

The notes on pages 76 to 130 form part of these Financial Statements.

Danske Bank

Balance Sheet as at 31 December 2020

	Note	31 December 2020 £'000	31 December 2019 £'000
Assets			
Cash and balances at central bank	10	4,225,153	2,179,160
Items in the course of collection from other banks		20,190	30,804
Due from other banks	11	50,639	44,198
Derivative financial instruments	12	17,284	11,473
Investment securities	13	1,409,536	1,326,229
Loans and advances to customers	14	6,229,841	6,108,412
Investment in subsidiaries	15	250	250
Intangible assets	16	157	212
Property, plant and equipment	17	41,818	44,242
Right-of-use asset	18	5,568	6,899
Assets held for sale	19	360	485
Defined benefit pension asset	24	219,679	195,883
Current tax assets		3,008	-
Other assets	21	26,706	31,789
Total assets		12,250,189	9,980,036
Liabilities			
Due to other banks	22	373,032	373,024
Items in course of transmission to other banks		12,147	11,731
Derivative financial instruments	12	28,199	14,705
Deposits from customers	23	10,228,137	8,091,540
Notes in circulation		557,942	471,968
Current tax liabilities		-	7,185
Deferred tax liabilities	20	34,194	20,106
Other liabilities	25	36,317	32,084
Provisions	26	3,354	5,038
Subordinated debt	27	126,000	126,000
Total liabilities		11,399,322	9,153,381
Equity			
Share capital	32	218,170	218,170
Other equity instruments	35	96,958	97,069
Share premium account		306,590	306,590
Revaluation reserve		34,965	35,906
Reserve for investment securities at fair value	33	7,190	1,594
Cash flow hedge reserve	34	4,712	2132
Retained earnings		182,282	165,194
Total equity and shareholders' equity		850,867	826,655
Total liabilities and equity		12,250,189	9,980,036

The notes on pages 76 to 130 form part of these Financial Statements.

These Financial Statements were approved by the Board of Directors on 12 March 2021 and were signed on its behalf by:

Kevin Kingston
Director and Chief Executive Officer

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

Company Number: R0000568

Statement of Changes in Equity for the year ended 31 December 2020

	Note	Share capital	Share premium	Revaluation reserve	Cash flow hedge reserve	Reserve for securities at fair value	Retained earnings	**Total attributable to Shareholders of Northern Bank**	Total attributable to Additional Tier 1 capital holders	**Total Equity**
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2019		218,170	306,590	35,602	148	(2,977)	180,288	737,821	97,101	834,922
Profit for the year		-	-	-	-	-	58,544	58,544	5,560	64,104
Other comprehensive income/(loss):										
- Actuarial gain recognised in retirement benefit scheme	24	-	-	-	-	-	34,531	34,531	-	34,531
- Transfer re property disposals		-	-	(464)	-	-	464	-	-	-
- Property revaluation	17	-	-	856	-	-	-	856	-	856
- Investment securities at fair value		-	-	-	-	6,094	-	6,094	-	6,094
- Change in cash flow hedge reserve	12e	-	-	-	2,646	-	-	2,646	-	2,646
- Tax	20	-	-	(88)	(662)	(1,523)	(8,633)	(10,906)	-	(10,906)
Total other comprehensive income/(loss)		-	-	304	1,984	4,571	26,362	33,221	-	33,221
Total comprehensive income for the year		-	-	304	1,984	4,571	84,906	91,765	5,560	97,325
Transactions with owners:										
Dividends paid		-	-	-	-	-	(100,000)	(100,000)	-	(100,000)
Paid interest on Additional Tier 1 capital		-	-	-	-	-	-	-	(5,592)	(5,592)
		-	-	-	-	-	(100,000)	(100,000)	(5,592)	(105,592)
At 31 December 2019		218,170	306,590	35,906	2,132	1,594	165,194	729,586	97,069	826,655
Profit for the year		-	-	-	-	-	2,526	2,526	5,026	7,552
Other comprehensive income/(loss):										
- Actuarial gain recognised in retirement benefit scheme	24	-	-	-	-	-	19,865	19,865	-	19,865
- Transfer re property disposals		-	-	(60)	-	-	60	-	-	-
- Property revaluation	17	-	-	(954)	-	-	-	(954)	-	(954)
- Investment securities at fair value		-	-	-	-	7,724	-	7,724	-	7,724
- Change in cash flow hedge reserve	12e	-	-	-	3,612	-	-	3,612	-	3,612
- Tax	20	-	-	73	(1,032)	(2,128)	(5,363)	(8,450)	-	(8,451)
Total other comprehensive income		-	-	(941)	2,580	5,596	14,562	21,797	-	21,796
Total comprehensive income for the year		-	-	(941)	2,580	5,596	14,562	21,797	-	21,796
Transactions with owners:										
Dividends paid		-	-	-	-	-	-	-	-	-
Paid interest on Additional Tier 1 capital		-	-	-	-	-	-	-	(5,137)	(5,137)
		-	-	-	-	-	-	-	(5,137)	(5,137)
At 31 December 2020		218,170	306,590	34,965	4,712	7,190	182,282	753,909	96,958	850,867

The notes on pages 76 to 130 form part of these Financial Statements.

Cash flow Statement for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flow from operating activities			
Profit before tax		13,077	90,030
Adjustments for:			
Tax paid		(10,081)	(12,264)
Adjustment for non-cash operating items:			
Amortisation of investment securities		450	4,429
Amortisation of intangible assets	16	141	203
Depreciation of property, plant and equipment	17	2,935	3,321
Depreciation of right-of-use asset	18	1,300	1,355
Loan impairment charges	14	45,426	797
Derivative financial instruments		7,683	1,097
Net defined benefit pension credit	24	(2,822)	(3,066)
Other non-cash items		17,777	5,650
Cash flow from operations before changes in operating assets and liabilities		75,886	91,552
Cash flow from operating capital			
Cash and balances at central bank - mandatory deposits	10	(97,260)	(246,796)
Items in transit		11,030	3,210
Loans and advances to customers		(166,855)	(182,849)
Due to other banks	22	8	400
Deposits		2,136,597	526,401
Notes in circulation		85,974	(17,123)
Defined benefit pension contributions	24	(1,109)	(8,026)
Other assets / liabilities		2,330	(267)
Cash flow from operating assets and liabilities		2,046,601	166,502
Cash flow from investing activities			
Maturity of investments - hold to collect		186,000	100,000
Sale of investments - hold to collect		-	45,020
Sale of investments - hold to collect and sell		145,354	31,128
Purchase of investments - hold to collect		(127,567)	(230,791)
Purchase of investments - hold to collect and sell		(287,543)	(110,359)
Acquisition of intangible assets	16	(86)	-
Acquisition of tangible assets	17	(1,441)	(2,093)
Sale of tangible fixed assets		106	372
Cash flow from investing activities		(85,177)	(166,723)
Cash flow from financing activities			
Dividends paid to shareholders		-	(100,000)
Payments of interest to AT1 capital holders		(5,137)	(5,592)
Principal portion of finance lease payments		(1,113)	(1,090)
Cash flow from financing activities		(6,250)	(106,682)
Cash and cash equivalents, beginning of year		1,007,354	1,114,257
Net change in cash and cash equivalents		1,955,174	(106,903)
Cash and cash equivalents, end of year		2,962,528	1,007,354
Cash in hand and demand deposits with central banks - non mandatory deposits	10	2,911,889	963,156
Deposits with credit institutions and central banks with terms - shorter than 3 months	11	50,639	44,198
Total		2,962,528	1,007,354

The notes on pages 76 to 130 form part of these Financial Statements.

Note 1 – Basis of preparation

(a) General information

Northern Bank Limited is a private company limited by shares that is domiciled and incorporated in the UK. Its registered office is in Northern Ireland as set out on page 52.

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

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 15).

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

Basis of measurement

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

Currency of presentation

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

Segmental reporting

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

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

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

Going concern

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

The Bank’s business activities and strategy, together with the factors likely to affect its future development, performance and position, and how they are managed, are set out in the Risk Management section included within the Annual Report, together with "Principal risk and uncertainties" in the Strategic Report.

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

In assessing the Bank’s going concern at 31 December 2020, the Directors have considered a range of factors including the current net assets position, the Bank’s corporate plan and strategy, and internal stress testing and scenario analysis of the Bank’s capital and liquidity position. In addition, the Directors have assessed the ongoing impact of the current COVID-19 pandemic and remain satisfied that the Bank’s response will continue to mitigate the short term financial threats as well as deliver longer term business resilience to protect key stakeholders.

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

The Bank’s capital ratios and total capital resources remain in excess of the PRA requirements and internal stress testing indicates the Bank can withstand a severe economic stress. In addition, the Bank’s MREL ratio at 31 December 2020 exceeds its internal MREL requirements.

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

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

Note 1 – Basis of preparation (continued)

(b) Significant accounting estimates

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

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

Measurement of expected credit losses on loans measured at amortised cost

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

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

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

The base case scenario is the primary forward-looking economic information driving the calculation of expected credit loss. Expected credit loss is also estimated under an upside and a downside macroeconomic scenario. The base case scenario enters the calculation with a probability of 60%, the downside scenario with a probability of 25% and the upside scenario with a probability of 15%.

Given the high degree of both COVID-19 and Brexit-related uncertainty that prevailed throughout much of 2020, the three macroeconomic scenarios primarily reflect differing degrees of disruption related to how the pandemic and the end of the Brexit transition period could impact the economy going forward.

The table below gives the average current year macroeconomic assumptions in the period 2021-2023 under the three scenarios considered.

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

The table below gives the average prior year macroeconomic assumptions in the period 2020-2022 under the three scenarios considered which were used to determine the ECL (Expected Credit Loss) at 31 December 2019.

Economic assumption	Measurement	Base Case	Upside scenario	Downside scenario
Northern Ireland GVA	Annual % change	1.4	1.7	(0.6)
Northern Ireland unemployment rate	Annual average	4.0	3.7	5.2
Northern Ireland consumer expenditure	Annual % change	1.5	1.8	(0.3)
Northern Ireland house prices	Annual % change	3.6	4.0	(3.1)
UK CPI inflation rate	Annual average	2.0	2.0	2.6
Bank of England base rate	Annual average	0.8	0.9	0.2

Note 1 – Basis of preparation (continued)

Based on these assessments, the allowance account at 31 December 2020 amounted to £120,369,000 (2019: £83,281,000). If the base case scenario was assigned a probability of 100%, the impact on the allowance account (excluding any stage 3 impairments manually assessed by credit officers) would be a decrease of £303,000 (2019: £14,550,000).

Similarly, excluding the impact of any stage 3 impairments which are assessed manually by credit officers, the allowance account would increase by £8,118,000 (2019: £34,961,000) if the downside scenario was assigned a probability of 100%, and the allowance account would decrease by £4,143,000 (2019: £17,584,000) if the upside scenario was assigned a probability of 100%.

Scenario sensitivities are primarily driven by both the changes in the macroeconomic assumptions applied at each year end (as outlined in the macroeconomic assumption tables) and the macroeconomic assumptions and probability weightings applied to each scenario in the assessment of the allowance account as at 31 December 2020. However, it shall be noted that the expected credit losses in the individual scenarios does not represent expected credit loss (ECL) forecasts.

Note 39 and the section on credit risk in the risk management notes provide more details on expected credit losses. At 31 December 2020, loans and advances to customers accounted for about 50.9% of total assets (2019: 61.2%).

Recognition of deferred tax asset

A deferred tax asset of £19,329,000 (2019: £18,060,000) is recognised for unused tax losses to the extent that (defined for this purpose as more likely than not) there will be sufficient future taxable profits against which losses can be used and/or sufficient taxable temporary differences [relating to the same tax authority]. As the recognition of the deferred tax asset relies on the assessment of future profitability and the sufficiency of those profits to absorb losses carried forward, it requires significant estimates to be made about the projection of medium term future profitability because of the period over which recovery extends. If future profits increased/decreased by 10% per annum (p.a.), this would lead to an increase/decrease in the deferred tax asset of £1,100,000.

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

- management actions taken to return the Bank back to a normalised earnings level (as observed in recent trading activities from 2014 - 2019);
- the absence of any expiry date for tax losses; and
- external forecasts for Northern Ireland which indicate continued economic recovery.

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

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

From 1 April 2016, only 25% of the Bank's taxable profits can be relieved by brought forward losses. This has increased the horizon over which losses can be used. As a result, the Bank has restricted the deferred tax asset such that it only reflects those losses that can be relieved against expected profits for the five year period to 31 December 2025 i.e. the current corporate planning horizon. If the time period for expected profits was increased/decreased by one year this would lead to an increase/decrease in the deferred tax asset of £3.4m.

Defined benefit pension scheme

As disclosed in note 24 the Bank operates a defined benefit pension scheme. The Scheme held assets of £1,470,179,000 (2019: £1,367,283,000) and liabilities of £1,250,500,000, (2019: £1,171,400,000) at the year ended 31 December 2020. Overall, the Bank recognised an overall pension scheme surplus at 31 December 2020 of £219,679,000 (2019:£195,883,000).

It is the Bank's assessment that holds an unconditional right to a refund of surplus assets assuming the full settlement of Scheme liabilities in the event of a Scheme wind-up. Furthermore, in the ordinary course of Bank that the Scheme Trustees have no rights to unilaterally wind up, or otherwise augment the benefit due to members of the Scheme. Based on these rights, any net surplus in the Scheme is recognised in full.

The year end recognition of the liabilities under this scheme require a number of significant assumptions to be made including discount rate, price inflation (RPI measure) and post retirement longevity of scheme members.

These assumptions are made by the Bank in conjunction with the scheme's actuary and the Directors are of the view that any estimation should be in line with consensus opinion. Information on the sensitivity of significant actuarial assumptions is given in note 24.

Note 1 – Basis of preparation (continued)

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

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

On 1 January 2020, the Bank implemented amendments to International Accounting Standard (IAS) 1 and IAS 8 (definition of material), IFRS 3, Business Combinations (definition of a business) and amendments to references to the Conceptual Framework in IFRS Standards.

The amendments to IAS 1 and IAS 8 clarify the definition of material and aligns the definition of material used in the Conceptual Framework with that in the IFRS standards. The amendments are effective for annual periods beginning on or after 1 January 2020.

The amendments to IFRS 3 clarifies the definition of a business, with the objective of assisting a preparer to determine whether a transaction should be accounted for as a business combination or as the acquisition of assets. The clarifications are applicable for business combinations after 1 January 2020.

The implementation of the amendments had no impact on the Bank's financial statements.

Standards and interpretations not yet in force

The IASB has issued one new accounting standard (IFRS 17) and amendments to existing international accounting standards (IFRS 1, IFRS 3, IFRS 4, IFRS 7, IFRS 9, IFRS 16, IAS 1, IAS 16, IAS 37, IAS 39 and IAS41) that have not yet come into force.

The section below explains 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.

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

In August 2020, the IASB issued amendments to various standards to cover the effects on financial statements when old interest rate benchmarks are replaced by alternative benchmark rates as a result of the benchmark reform. The amendments are effective 1 January 2021, at which date the Bank will implement the amendments.

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

The amendments further introduce reliefs from existing hedge accounting requirements, for example that hedge accounting would not discontinue solely due to the benchmark reform. The amendments further require that the hedging relationships and documentations are amended to reflect changes in the hedged item, the hedging instrument and the hedged risk (which do not represent a discontinuation of the exiting hedge).

Disclosure requirements are added. The disclosures relate to how the transition to alternative rates is managed, the progress on the transition and the risks arising from financial assets and financial liabilities due to the reform.

The implementation will be applied retrospectively without restatement of prior periods. As the transition to alternative benchmark rates for financial assets and financial liabilities measured at amortised cost has not yet taken place, the implementation of the amendments will have no impact on shareholders' equity at 1 January 2021. Following the reliefs from the existing hedge accounting requirements, the Bank expects that existing hedge relationships will continue to qualify for hedge accounting. The added disclosures on the transition to alternative rates will be included in the Bank's 2021 Annual Report.

Note 1 – Basis of preparation (continued)

(d) Accounting policies

Translation of transactions in foreign currency

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

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

Derivative financial instruments and hedge accounting

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

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

Fair value hedge

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

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

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 12.

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

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

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

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

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

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

Generally, financial liabilities are measured at amortised cost with bifurcation of embedded derivatives not closely related to the host contract. Financial assets

Note 1 – Basis of preparation (continued)

measured at fair value comprise derivatives, the trading portfolio and liabilities designated at fair value through profit or loss under the fair value option. Value adjustments relating to the inherent credit risk of financial liabilities designated at fair value are recognised in other comprehensive income unless this leads to an accounting mismatch.

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

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

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

Loans and advances to customers

Loans and advances include overdrafts, credit card lending, 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 at initial recognition and the redemption value is amortised over the term to maturity as part of the effective interest and recognised under Interest income. If fixed-rate loans and advances and amounts due are hedged effectively by derivatives, the fair value of the hedged interest rate risk is added to the amortised cost of the assets.

The impairment for expected credit losses depends on whether the credit risk has increased significantly since initial recognition and follows a three stage model:

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

The expected credit loss is calculated for all individual facilities as a function of the PD, the EAD and the 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.

Hire purchase and leasing agreements to customers

Leases entered into by the Bank as lessor, where the Bank transfers substantially all the risks and rewards of ownership to the lessee, are classified as finance leases. The leased asset is not held on the Bank’s balance sheet and instead, a finance lease is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Interest income is recognised in interest receivable, allocated to accounting periods to reflect a constant periodic rate of return.

Offsetting of financial assets and liabilities

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

Investment securities - Financial assets measured at AMC

The financial assets consist of bonds held within a business model for the purpose of collecting the contractual cash flows (hold to collect) and with cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that passes the SPPI test in IFRS 9). The bonds are measured at amortised cost. Interest income is recognised according to the effective interest method, including amortisation of the difference between cost and the redemption value over the term to maturity of the bonds. The bonds are subject to the expected credit loss model in IFRS 9 as described in note 39. The interest rate risk on fixed-rate bonds is not hedged.

Note 1 – Basis of preparation (continued)

Investment securities - Financial assets measured at FVOCI

'The financial assets comprise of bonds only, and primarily bonds listed in a liquid market. The bonds are held within a business model for the purpose of collecting contractual cash flows and selling (hold to collect and sell). The bonds have cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that passes the SPPI test in IFRS 9). FVOCI results in the assets being recognised at fair value in the balance sheet and at amortised cost in the income statement, including the recognition of expected credit losses as described in note 39. Hence, gains and losses, except for expected credit losses and foreign exchanges gains and losses, are recognised in other comprehensive income until the bond is derecognised. When a fixed interest rate risk is hedged in a hedge that qualifies for fair value hedge accounting, the fair value changes of the hedged interest risk is further presented in the income statement under Net trading income. When bonds are sold unrealised value adjustments recognised under Other comprehensive income are reclassified to the income statement and presented under Net trading income. The Bank recognises interest income according to the effective interest method, including amortisation of the difference between cost and the redemption value over the term to maturity of the bonds.

Intangible assets

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

Property, plant and equipment

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

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

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

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

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

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

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

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

Assets held for sale

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

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

Right of use lease assets and lease liabilities

The Bank recognises a right-of-use asset and a lease liability at the commencement date, for all lease agreements, that the Bank has entered into as lessee, except short-term leases and leases of low value assets. The lease liability is initially measured as the present value of the future payments from lease components, discounted using the incremental borrowing rate for the individual lease. The lease liability is subsequently measured by increasing the carrying amount, to reflect interest and by reducing the carrying amount to reflect the lease payments made. Further, lease liabilities are changed when remeasurements are needed, with the corresponding adjustment to the related right-of-use asset. Gain or loss from a lease modification, not accounted for as a separate lease, is recognised in profit and loss. The initial right-of-use asset comprises the amount of the initial measurement of the lease liability, lease payments made at or before the commencement date, initial direct costs and costs to restore the underlying asset. The right-of-use asset is subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset.

Note 1 – Basis of preparation (continued)

Operating leases

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

Subordinated debt

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

Subordinated debt is measured at amortised cost.

Loan commitments and guarantees

The Bank issues a number of loan commitments and guarantees. Such instruments are valued at the higher of the received premium amortised over the life of the individual obligation and the provision made, if any. If an instrument is likely to result in a payment obligation, a liability is recognised under other liabilities corresponding to the present value of expected payments. Loan commitments are discounted in accordance with the interest terms. Loan commitments and guarantees are subject to the expected credit loss impairment model in IFRS 9.

Provisions and contingent liabilities

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

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

Additional Tier 1 capital

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

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

Staff costs

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

Pension costs

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

Defined contribution pension scheme

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

Defined benefit pension scheme

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

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

Share-based 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

Note 1 – Basis of preparation (continued)

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

Taxation - *Current tax*

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

Taxation - *Deferred tax*

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

During the current financial year, the Bank changed its accounting estimate in relation to the recognition of tax assets arising from unused tax losses. As permitted under the deferred tax recognition principles within IAS 12, in addition to the recognition of tax assets arising from unused tax losses (where there are sufficient future taxable profits), the Bank has changed its accounting estimate to recognise tax assets on unused tax losses, to the extent there are sufficient taxable temporary differences. This change in accounting estimate has resulted in an additional deferred tax asset of £8,978,000 which is included in the Bank's 2020 year-end deferred tax balance (note 20).

Deferred tax assets and liabilities are offset when they relate to the same tax jurisdiction.

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

Shares in subsidiary undertakings

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

Interest income and expenses

Interest income and expenses arising from interest-bearing financial instruments measured at amortised cost and bonds at fair value through Other comprehensive income are recognised according to the EIR method on the basis of the cost of the individual financial instrument. Interest includes amortised amounts of fees that are an integral part of the effective yield on a financial instrument, such as origination fees, and amortised differences between cost and redemption price, if any. Interest on financial instruments included in stage 3 for the calculation of expected credit losses is recognised on the basis of the carrying amount (net of impairment charges). The interest rate risk on some fixed rate loans and advances to customers recognised at amortised cost is hedged by derivatives using fair value hedge accounting.

Note 12 provides more information on hedge accounting. Interest income calculated using the effective interest method and presented as a separate line item in the income statement excludes the impact from hedge accounting. Further, interest income and expenses includes interest on financial instruments measured at fair value through profit or loss.

Net trading income

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

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

Fee income and expenses

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

For each performance obligation identified, the Bank determines at contract inception whether it satisfies the performance obligation over time or at a point in time, whether the consideration is fixed or variable, including whether consideration is constrained due, for instance, to external factors outside the Bank's influence. Consideration is subsequently allocated to the identified performance obligation. Costs incurred to generate fee and commission income are charged to fees and commissions expense as they are incurred.

Note 2 – Net interest and net trading income

The breakdown of interest income, interest expense and net trading income is analysed by balance sheet item.

	2020 £'000	2019 £'000
Interest income		
Financial assets at amortised cost:		
Due from other banks and central bank	5,557	14,448
Investment securities - hold to collect	4,499	5,680
Investment securities - hold to collect and sell	6,426	4,230
Loans and advances to customers	156,095	179,282
Interest income on defined benefit pension scheme surplus (Note 24)	4,000	4,200
	176,577	207,840
Financial portfolios at fair value:		
Derivative financial instruments	(1,169)	(2,195)
Total interest income	175,408	205,645
Interest expense		
Due to other banks	1,343	4,103
Deposits from customers	8,988	19,410
Subordinated debt	3,023	3,403
Interest expense on lease liabilities	133	158
Total interest expense	13,487	27,074
Net interest income	161,921	178,571
Net trading income		
Net gain on financial instruments at fair value	1,362	1,150
Margin on foreign exchange brokerage	6,488	9,267
	7,850	10,417

Note 3 – Fee income and expenses

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

	2020 £'000	2019 £'000
Fee income		
Financing (loans, advances and guarantees)	5,080	7,081
Investment (securities trading)	35	326
Services (payment services)	33,586	44,623
Total	38,701	52,030
Fee expenses		
Financing (loans, advances and guarantees)	970	748
Investment (securities trading)	103	89
Services (payment services)	4,233	6,439
Total	5,306	7,276

Note 4 – Other operating income

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

	2020 £'000	2019 £'000
Other income	1,953	1,652
Total	1,953	1,652

Note 5 – Operating expenses

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

Operating expenses include net recharges from Danske Bank A/s of £43,448,000 (2019: £37,118.000). Such recharges relate to services provided by Danske Bank A/s under a number of service level agreements.

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

	2020 £'000	2019 £'000
Staff costs		
- wages and salaries	45,112	45,496
- social security costs	4,728	4,589
- pension costs		
- defined benefit cost (Note 24)	-	-
- past service cost (Note 24)	180	147
- defined contribution (Note 24)	7,676	7,139
	57,696	57,372
Property related expenses	7,410	7,588
Information technology expenses	26,721	24,864
Administrative expenses	50,413	49,864
Total	142,240	139,688

Note 6 – Disclosable items included within operating profit

This is stated after:	2020 £'000	2019 £'000
Income		
Aggregate amounts receivable under finance leases and hire purchase contacts (net of depreciation £115,299,000 (2019: £132,798,000))	8,163	8,900
Charges		
Depreciation of tangible fixed assets (Note 17)	2,935	3,321
Depreciation of right-of-use assets (Note 18)	1,300	1,355
Amortisation of intangible fixed assets (Note 16)	141	203
(Gain) / Loss on disposal of property, plant and equipment	(6)	11
Expenses relating to short term and low value leases (including hire of computers and equipment)	626	911

Note 7 – Auditor's remuneration

Auditor's remuneration	2020 £'000	2019 £'000
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	50	75
	256	281

The Bank's Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors. Audit related services consist of fees in connection with accounting matters and regulatory compliance based work.

Note 8 – Directors' emoluments

	2020 £'000	2019 £'000
Aggregate emoluments	1,982	2,325
Bank pension contributions to Danske Bank Master Trust Plan	17	18
	1,999	2,343

In addition to the amounts shown above, social security costs were payable in respect of emoluments to Directors amounting to £263,000 (2019: £337,000). This includes £95,000 in respect of the emoluments of the highest paid Director in the year ended 31 December 2020 (2019: £144,000). 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 (2019: three) and 6,054 were exercised during the year (2019: 10,832 shares). Further details are disclosed in note 42 of the Financial Statements. For the year ended 31 December 2020 the total emoluments disclosed do not include the value of shares or share rights awarded under long term incentive schemes in accordance with Schedule 5 paragraph 1(3)(a) of the Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

During the year two Directors (2019: two) accrued retirement benefits under the Danske Bank Master Trust Plan (the Bank's defined contribution scheme). No Director (2019: 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 £714,000 (2019: £1,015,000). Of these emoluments, £Nil (2019: £354,000) 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 Danske Bank Master Trust Plan to which the Bank paid contributions of £Nil (2019: £Nil) on his behalf. The highest paid Director exercised conditional shares during the year.

Note 9 – Taxation expense

The breakdown provides analysis of Bank's tax charge for the year and its effective tax rate.

Current tax relates to expected tax to be paid on the profit or loss for the year, whereas deferred tax relates to temporary differences between the tax base of assets and liabilities and their carrying amount in the Balance Sheet.

	2020 £'000	2019 £'000
Current tax		
UK corporation tax		
Current year	(1)	10,333
Current year - corporation tax surcharge on Banking profits	-	3,801
Adjustment in respect of prior years	(111)	(640)
	(112)	13,494
Deferred tax note (Note 20)		
Current year	4,647	9,353
Adjustment in respect of prior years	(94)	599
Derecognition of tax losses in the year	1,084	2,480
	5,637	12,432
Tax charge	5,525	25,926

The effective taxation rate for the year ended 31 December 2020 is a charge of 42.3% (2019: 28.8%).

Note 9 – Taxation expense (continued)

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:

	2020 £'000	2019 £'000
Profit on ordinary activities before tax	13,077	90,031
Tax charge based on the standard rate of Corporation Tax in the UK of 19.0% (2019: 19.0%)	2,485	17,106
Effects of:		
Expenses not deductible for tax purposes	249	903
Rate differences	761	(104)
Adjustments in respect of prior years	(205)	(41)
Derecognition of tax losses in the year	1,084	2,480
Effect of corporation tax surcharge on Banking profits	1,151	5,582
	5,525	25,926

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 and this enacted reduction was reflected in the valuation at 31 December 2019. However, this reduction was cancelled in the UK Budget with reversion to a 19% statutory rate enacted on 17 March 2020. In addition, Finance Act (No.2) 2015 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 20, Deferred Tax.

Note 10 – Cash and balances at central bank

	2020 £'000	2019 £'000
Cash in hand	404,238	349,725
Balances at central bank	3,820,915	1,829,435
	4,225,153	2,179,160

Cash and balances at central bank include mandatory deposits of £1,313,264,000 (2019: £1,216,004,000) which are not available for the Bank's day-to-day activities. Balances at central bank include cash ratio deposits which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998.

Note 11 – Due from other banks

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

Amounts due from other banks are stated at amortised cost.

	2020 £'000	2019 £'000
Amounts due from other banks	50,639	44,198

	2020 £'000	2019 £'000
Analysed by remaining maturity:		
- on demand or at short notice	50,639	44,198

	2020 £'000	2019 £'000
Amounts include:		
Due from parent and fellow subsidiary undertakings	48,087	40,794

Note 12 – Trading portfolio assets and liabilities

Note 12(a) – Trading portfolio assets

	2020 £'000	2019 £'000
Derivatives with positive fair value	17,284	11,473

Note 12(b) – Trading portfolio liabilities

	2020 £'000	2019 £'000
Derivatives with negative fair value	28,199	14,705

Note 12(c) – Use of derivative financial instruments

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

The most common type of interest rate and currency derivatives used by the Bank are:

- Swaps;
- Forwards; and
- Options

Derivatives are recognised and measured at fair value. Some of the Bank's 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.

Note 12 – Trading portfolio assets and liabilities (continued)

Note 12(c) – Use of derivative financial instruments (continued)

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

Derivatives - hedging At 31 December 2019	Positive Fair Value Notional Amount £'000	Positive Fair Value Carrying Amount £'000	Negative Fair Value Notional Amount £'000	Negative Fair Value Carrying Amount £'000
Currency contracts				
Forwards	378,385	7,300	288,884	5,511
Interest rate contracts				
Swaps	425,293	4,168	691,122	9,189
Options	38,186	5	39,838	5
Total derivatives	841,864	11,473	1,019,844	14,705
Counterparty				
Ultimate parent and fellow subsidiary undertakings	706,996	8,756	877,044	10,092
Other	134,868	2,717	142,800	4,613
Total	841,864	11,473	1,019,844	14,705

Note 12(d) – Fair value hedge accounting

The Bank manages the fixed interest rate risk on financial assets and liabilities measured at amortised cost as a combination of economic hedges (matching of interest rate risk from assets and liabilities at amortised cost) and hedges using interest rate swaps. Treasury is responsible for the risk management of the interest rate risk in the banking book (i.e. IRRBB). 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). Interest rate risk on certain fixed-rate assets can be hedged using derivatives.

The interest rate is considered fixed if the interest rate resets to a reference rate with a term longer than three months. Once a financial instrument has been designated as a hedged item it will remain as a hedged item for the life of the instrument. For hedged assets to which a fixed rate of interest applies for a specified period of time starting at the commencement date of the agreement, future interest payments are split into 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.

The primary reasons for changes in the fair value of fixed interest rate financial assets are changes in the interest rate risk and the credit risk.

Note 12 – Trading portfolio assets and liabilities (continued)

Note 12(d) – Fair value hedge accounting (continued)

Hedge ineffectiveness relates to the fact that 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.

Interest Rate Benchmark Reform update

Inter-Bank Offered Rates (IBOR) replacement

The ongoing Interest Rate Benchmark Reform will replace existing benchmark IBORs with alternative risk-free rates. To support Interest Rate Benchmark Reform within the Bank, a dedicated LIBOR Programme has been established with stakeholders across the Bank.

During 2020, the Bank's LIBOR programme focussed on the removal of LIBOR as a reference rate for new deposits and lending activities. In 2021, the Bank's LIBOR programme will undertake the transition of legacy products from LIBOR to an alternative reference rate. In addition, the Bank's LIBOR programme will continue to consider and mitigate conduct risks arising during transition processes.

Impact on Hedge Accounting

During the fourth quarter of 2019, the Bank early adopted the amendments to IAS 39 issued by IASB (Interest Rate Benchmark Reform) which, for the assessment of effectiveness of such hedges, assumes that the benchmark reform will not alter the cash flows. Throughout 2020, the Bank continues to apply IBOR reform (Phase 1) temporary reliefs.

Further, a hedge will not disqualify if the actual result of the hedge falls outside the band of 80-125%, if the other requirements for applying hedge accounting is fulfilled. The relief covers the period during which uncertainty on the timing and the amount of the amended or replaced reference rates exists. Based on this, the current uncertainty in relation to reference rates that have not yet been amended or replaced does not have an impact on the Bank's ability to use fair value hedge accounting on existing hedging relationships.

At 31 December 2020 the carrying amounts of effectively hedged fixed rate assets were £460,338,000 (2019: £487,149,000). 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.

	2020 £'000	2019 £'000
Effect of interest rate asset hedging on profit		
Hedged loans and advances to customers	7,868	5,157
Hedging derivatives	(7,679)	(5,084)
Total	189	73

Note 12(e) – Cash flow hedge accounting

The exposure to variability in cash flows attributable to interest rate risk associated with some floating rate assets is hedged by derivatives. A portfolio cash flow hedge approach has been adopted, and effectiveness is assessed on a monthly basis by means of a capacity test.

	Positive Fair Value		Negative Fair Value	
At 31 December 2020	Notional Amount £'000	Carrying Amount £'000	Notional Amount £'000	Carrying Amount £'000
Cash flow hedges	421,000	6,935	25,000	75

Note 12 – Trading portfolio assets and liabilities (continued)

Note 12(e) – Cash flow hedge accounting (continued)

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.

	2020 £'000	2019 £'000
Derivatives held as cash flow hedges	446,000	556,000

	2020 £'000	2019 £'000
Gains recognised in Other Comprehensive Income for the year	3,612	2,646

Note 13 – Investment securities

The liquidity portfolio is part of the balance sheet management to optimise the balance sheet composition, to hedge the IRRBB and to manage the Bank's liquidity need. The management of the IRRBB is carried out through a combination of hedges with derivatives and partly through matching of the duration on the fixed interest rate deposits (the interest risk on core deposits) and with investment securities with a matching duration.

Note 13(a) – Hold to collect (securities measured at amortised cost)

The bonds are primarily UK government securities and highly rated covered, sovereign supernational and agency bonds.

	2020 £'000	2019 £'000
Investment securities		
- Listed investments	531,555	595,554
Unamortised premiums / (discounts) on investment securities	6,555	9,554

This portfolio includes the part of the liquidity bond portfolio that is held in a business model being 'hold to collect' the contractual cash flows, (i.e. with the purpose of generating a return until maturity). Further, the bonds included in the portfolio have contractual cash flows that pass the SPPI test.

The performance is measured based on the collection of the contractual cash flows. The fair value of the portfolio is monitored for liquidity purposes as the bonds can be used in repo transactions. Sales from the portfolio are infrequent. When sales are made they reflect:

- sales close to maturity (the proceeds from the sale approximate the collection of contractual cash flows);
- sales are managed to risk concentration; and
- sales due to increase in credit risk above a certain level (i.e. outside the investment policy).

Note 13(b) – Hold to collect and sell (securities measured FVOCI)

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

	2020 £'000	2019 £'000
Investment securities		
- Listed investments	877,981	730,675

Note 13 – Investment securities (continued)

Note 13(b) – Hold to collect and sell (securities measured FVOCI) (continued)

This portfolio includes the part of the liquidity bond portfolio where both the collection of the contractual cash flows and sales are an integrated part of achieving the objectives with the acquired bond portfolio. Further, the bonds included in the portfolio have contractual cash flows that pass the SPPI test.

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

SPPI test applied for bonds at FVOCI or AMC

The SPPI test is applied for each bond to assess that the contractual cash flows represents repayment of principal amount and interest on the principal amount outstanding. Bonds that are included in the portfolios at FVOCI or AMC are generally plain 'vanilla' bonds that:

- have a fixed maturity, i.e. no perpetual bonds;
- do not have terms that introduce exposure to risk or volatility, e.g. by a yield that refers to changes in equity or commodity prices;
- are not subordinated or convertible bonds; and
- can be prepaid (e.g. at par plus accrued interest), with the fair value of the prepayment option being insignificant at initial recognition. In general, this will be the case if the premium / discount to the contractual par amount is insignificant at initial recognition

Note 14 – Loans and advances to customers

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

Loans and advances to customers are stated at amortised cost.

	2020 £'000	2019 £'000
Analysed by remaining maturity:		
- on demand or at short notice	1,005,592	1,162,819
- 3 months or less	309,459	336,007
- over 3 months but less than 1 year	390,343	360,288
- over 1 year but less than 5 years	1,725,350	1,482,341
- over 5 years	2,907,227	2,846,342
	6,337,971	6,187,797
Allowance account	(108,130)	(79,385)
	6,229,841	6,108,412

Note 14 –Loans and advances to customers (continued)

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

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross carrying amount at 1 January 2019	5,104,406	591,520	322,529	6,018,455
Transferred from Stage 1 to Stage 2	(185,703)	185,703	-	-
Transferred from Stage 2 to Stage 1	173,775	(173,775)	-	-
Transferred from Stage 3 to other stages	2,264	25,912	(28,176)	-
Transferred to Stage 3 from other stages	(67,492)	(33,000)	100,492	-
New assets (1)	1,201,637	123,365	11,007	1,336,009
Assets derecognised (1)	(722,129)	(55,574)	(28,354)	(806,057)
Assets written-off	-	-	(15,127)	(15,127)
Other changes in net exposure (2)	(141,508)	(49,405)	(154,570)	(345,483)
Gross carrying amount at 31 December 2019	5,365,249	614,747	207,801	6,187,797

Notes:

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

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

(2) Other changes in net exposure include customer repayments, interest applied to lending and foreign exchange movements.

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

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

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

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

Note 14 – Loans and advances to customers (continued)

Financial instruments in scope of the expected credit loss impairment model in IFRS 9

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

Significant increase in credit risk (transfer from stage 1 to stage 2)

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

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

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

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

Stage 3 (credit impaired facilities)

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

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 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 PD, EAD and the LGD. In general, the Bank's IFRS 9 impairment models and parameters draw on the Bank's internal models in order to ensure alignment of models across the Bank. Models and calculations have been developed specifically for IFRS 9 purposes, including models for lifetime PD, prepayment and forward-looking LGD. All expected credit loss impairments are allocated to individual exposures. For significant loans in stage 3, the Bank determines the expected credit losses individually.

Expected remaining lifetime

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

Note 14 – Loans and advances to customers (continued)

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.

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.

Note 14 – Loans and advances to customers (continued)

Reconciliation of total allowance account (continued)

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

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
ECL allowance account at 1 January 2019	5,941	14,844	75,029	95,813
				-
Charge for the year				
- transferred from Stage 1 during the year	-	1,917	134	2,051
- transferred from Stage 2 during the year	1,693	-	2,705	4,398
- transferred from Stage 3 during the year	12	1,911	-	1,923
- transferred to Stage 1 during the year	-	(1,693)	(12)	(1,705)
- transferred to Stage 2 during the year	(1,917)	-	(1,911)	(3,828)
- transferred to Stage 3 during the year	(134)	(2,705)	-	(2,839)
- ECL on new assets	3,390	-	-	3,390
- ECL on assets derecognised	(3,309)	(6,003)	(14,266)	(23,578)
Impact of net remeasurement of ECL (incl. changes in models)	1,764	(243)	2,704	4,225
Impact of net remeasurement of ECL (Stage Change)	-	8,271	9,803	18,074
Recovery of amounts written off in previous years	-	-	(1,314)	(1,314)
	1,499	1,455	(2,157)	797
Write-offs/recoveries applied to the allowance account				
- Write-offs debited to the allowance account	-	-	(15,127)	(15,127)
- Recoveries of amounts written off in previous years	-	-	1,315	1,315
Foreign exchange and other adjustments	(4)	(8)	495	483
As at 31 December 2019	7,436	16,290	59,555	83,281

Note 14 – Loans and advances to customers (continued)

Allowance account analysis by balance sheet items:

	2020 £'000	2019 £'000
Due from credit institutions and central banks	925	54
Derivative financial instruments	71	-
Loans at amortised cost	108,130	79,385
Loan commitments and guarantees	11,243	3,842
Total	120,369	83,281

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

Note 15 – Investment in subsidiaries

	2020 £'000	2019 £'000
Ordinary shares in subsidiaries	250	250

There was no movement on shares and investments in subsidiary undertakings this year or in the previous year. Investments in subsidiary undertakings are included at historical cost.

The subsidiary undertakings of the Bank are:

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

All subsidiary undertakings are unlisted with a registered office at Donegall Square West, Belfast BT1 6JS. These subsidiaries of the Bank are dormant and are expected to remain so.

Note 16 – Intangible assets

Intangible assets primarily consist of acquired IT software assets.

	2020 £'000	2019 £'000
Cost at beginning of year	608	608
Additions	86	-
Cost at end of year	694	608
Accumulated amortisation at beginning of year	396	193
Amortisation charge for the year	141	203
Accumulated amortisation at end of year	537	396
Net book value at end of year	157	212

Note 17 – Property, plant and equipment

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

	Freehold land and buildings £'000	Leasehold properties >50years unexpired £'000	Leasehold properties <50 years unexpired £'000	Motor vehicles, fixtures & equipment £'000	Total £'000
Cost at 1 January 2019	10,645	25,443	3,454	28,593	68,135
Additions	-	-	565	1,528	2,093
Disposals	-	-	-	-	-
Transferred to assets held for sale	(360)	-	-	(124)	(484)
Revaluation	(434)	485	(2)	-	49
Cost at 31 December 2019	9,851	25,928	4,017	29,997	69,793
Accumulated depreciation at 1 January	103	308	1,260	21,509	23,180
Depreciation charge for the year	206	610	408	2,097	3,321
Accumulated depreciation on disposals	-	-	-	-	-
Transferred to assets held for sale	-	-	-	(124)	(124)
Revaluation	(206)	(614)	(6)	-	(826)
Accumulated depreciation at 31 December	103	304	1,662	23,482	25,551
Net book value at 31 December 2019	9,748	25,624	2,355	6,515	44,242

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 31 December 2020. The basis of valuation is existing use value and the professional valuations have been made in accordance with RICS Practice Statements and Guidance notes. The valuation method remains constant with the previous financial year.

Note 17 – Property, plant and equipment (continued)

Land and buildings occupied for own activities:

	2020 £'000	2019 £'000
Open market value - at 1 January	37,727	37,890
Additions	107	565
Transfers to assets for sale	-	(360)
Revaluation (loss) / gain	(930)	856
Depreciation charge	(1,446)	(1,224)
Open market value – at 31 December	35,458	37,727

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

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

	2020 £'000	2019 £'000
Cost	20,420	20,449
Accumulated depreciation	(18,561)	(18,279)
Net book value	1,859	2,170

Note 18 – Right-of-use assets

	2020 £'000	2019 £'000
Net book value	5,568	6,899

Right-of-use lease assets are in respect of buildings. The depreciation charge is £1,300,000 (2019: £1,355,000). The interest expense on the corresponding lease liability is £133,000 (2019: £158,000). There were no additions and no significant impairment losses incurred in respect of the right-of-use lease assets. Expenses relating to leases of low value assets are set out in note 38.

Note 19 – Assets held for sale

	2020 £'000	2019 £'000
Assets held for sale	360	485

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 £24,000 (2018: £18,000).

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 (2019: one).

Note 20 – Deferred tax

Movement in net deferred tax (liability)/asset

	2020 £'000	2019 £'000
At 1 January	(20,106)	3,232
Recognised in the income statement (Note 9)	(5,637)	(12,432)
Recognised directly in equity:		
- Actuarial gain on defined benefit pension obligation	(5,364)	(8,633)
- Investment securities hold to collect and sell	(2,128)	(1,523)
- Cash flow hedge reserve	(1,032)	(662)
- Transfer to revaluation reserve	73	(88)
At 31 December	(34,194)	(20,106)

The Bank recognises deferred tax attributable to the following items:

	2020 £'000	2019 £'000
Deferred tax assets		
Tax losses carried forward	19,329	18,060
Accelerated capital allowances	4,836	4,823
Other timing differences	7,844	8,438
	32,009	31,321
Deferred tax liabilities		
Defined benefit pension obligation	59,313	47,625
Net gain on revaluation of properties	2,488	2,560
Investment securities - hold to collect and sell	2,659	531
Cash flow hedge reserve	1,743	711
	66,203	51,427
Net deferred tax liability	(34,194)	(20,106)

At 31 December 2020 the Bank had an unrecognised deferred tax asset of £26,779,000 (2019: £22,990,000) representing trading losses with a gross value of £140,943,000 (2019: £135,237,000). 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 and this enacted reduction was reflected in the valuation at 31 December 2019. However, this reduction was cancelled in the UK Budget with reversion to a 19% statutory rate enacted on 17 March 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.

On 3 March 2021, the UK Chancellor announced plans to increase the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. In addition, the UK Treasury announced a review of the 8% banking surcharge applied. As the proposals have not been substantively enacted at the balance sheet date, its effect on timing differences cannot yet be recognised. Should the proposed change in the main rate of UK corporation tax become enacted, it is assessed that the deferred tax liability would increase by approximately £6.9m.

As a result and in accordance with IAS 12, the Directors have assessed the recoverability of the deferred tax asset, and have chosen to recognise deferred tax assets relating to those losses that the Bank expects to utilise within the Bank's current corporate planning horizon. The combined impact of the legislative changes outlined above and the Directors' reassessment of the recoverability horizon, results in a deferred tax charge of £3,789,000 within a total deferred tax charge of £5,637,000.

Note 21 – Other assets

	2020 £'000	2019 £'000
Accrued interest	16,422	23,187
Prepayments	10,284	8,602
	26,706	31,789

Note 22 – Due to other banks

	2020 £'000	2019 £'000
Transaction balances with other banks	23,032	23,024
Term Funding Scheme (Bank of England) [1]	350,000	350,000
	373,032	373,024

	2020 £'000	2019 £'000
Analysed by remaining maturity:		
- on demand	23,032	23,024
- over 1 year but less than 5 years	350,000	350,000
	373,032	373,024

	2020 £'000	2019 £'000
Amounts include:		
Due to parent and fellow subsidiary undertakings	12,387	19,873

Notes:

[1] £350m was borrowed from the Bank of England in November 2018 under the Term Funding Scheme, secured against pre-positioned collateral.

Note 23 – Deposits from customers

	2020 £'000	2019 £'000
Current accounts	6,297,678	4,694,545
Demand deposits	3,246,410	2,679,921
Term deposits	684,049	717,074
	10,228,137	8,091,540

	2020 £'000	2019 £'000
Analysed by remaining maturity:		
- on demand	9,544,087	7,374,466
- 3 months or less	431,816	502,843
- over 3 months but less than 1 year	241,077	201,704
- over 1 year but less than 5 years	11,157	12,527
	10,228,137	8,091,540

	2020 £'000	2019 £'000
Amounts include:		
Due to parent and fellow subsidiary undertakings	250	250

Note 24 - Pension asset

Danske Bank Master Trust Pension Plan

The Bank operates one defined contribution pension scheme for future pension accrual, the Danske Bank Master Trust Plan (the 'Master Trust'). In relation to this defined contribution scheme, the pension charge for the Bank for the year to 31 December 2020 was £7,676,000 (2019: £7,139,000). There were no outstanding contributions or prepayments made in the current or prior financial year in respect of the defined contribution scheme.

Northern Bank Defined Benefit Pension Scheme

The Bank operates a defined benefit scheme (the 'Scheme') within which benefits built up before 1 January 2008 are linked to final salary and benefits built up after this date are based on career average earnings. With effect from 1 January 2004, the Scheme was closed to new members and a sponsored stand- alone defined contribution pension scheme was created for new staff. This did not affect the pension arrangements of existing employees.

The Scheme closed to future accrual on 30 September 2018. All future contributions from the date of cessation of accrual will be made to the Danske Bank Master Trust Plan.

Actuarial valuation of the Northern Bank Defined Benefit Pension Scheme

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

	2020	2019
	% p.a.	% p.a.
Inflation (RPI)	2.75	2.95
Inflation (CPI)	2.15	2.05
Rate of future increase in salaries	N/A	N/A
Rate of increase for pre-1997 pensions in payment	1.65	1.60
Rate of increase for 1997-2008 pensions in payment	2.65	2.80
Rate of increase for post-2008 pensions in payment	1.80	1.90
Discount rate	1.50	2.05
Post retirement mortality		
Current pensioners at 60 - males (years)	28.80	28.70
Current pensioners at 60 - females (years)	30.50	30.40
Future pensioners at 60 - males (years)	30.30	30.20
Future pensioners at 60 - females (years)	32.00	31.80

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

The expected defined benefit pension fund contribution to be paid by the Bank in the year ending 31 December 2021 is £1,000,000. Members no longer make contributions to the defined benefit scheme following Scheme closure on 30 September 2018.

Note 24 - Pension asset (continued)

Scheme asset information

	Market Value 31 December 2020 £'000	Market Value 31 December 2019 £'000
Equity securities	61,215	83,578
Debt securities	182,385	541,494
Real estate/property	37,190	40,540
Derivatives	-	80,376
Other	1,551	1,322
Managed Account	536,593	-
Buy-in annuity	651,245	619,973
Fair value of Scheme assets	**1,470,179**	1,367,283

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

Movement in fair value of Scheme assets

	2020 £'000	2019 £'000
Fair value of Scheme assets at beginning of year	1,367,283	1,280,560
Interest income on Scheme assets	27,500	34,000
Return on Scheme assets greater than discount rate	130,802	128,817
Employers' and employees' contributions paid into the Scheme		
- participating employers	1,109	8,026
- other participating employers	-	-
- member contributions	-	-
Benefits paid by the Scheme	(55,517)	(83,133)
Administration costs paid	(998)	(987)
Fair value of Scheme assets at end of year	**1,470,179**	1,367,283

Movement in present value of defined benefit obligation

	2020 £'000	2019 £'000
Defined benefit obligation at beginning of year	1,171,400	1,130,300
Gross current service cost		
- the Bank	-	-
- other participating employers	-	-
- contributions paid by members	-	-
Past service costs		
- the Bank	180	147
Interest cost on the defined benefit obligation	23,500	29,800
Actuarial (loss) / gain - experience	(3,998)	286
Actuarial gain - demographic assumptions	1,140	19,000
Actuarial gain - financial assumptions	113,795	75,000
Benefits paid by the Scheme	(55,517)	(83,133)
Defined benefit pension obligation at end of year	**1,250,500**	1,171,400

Note 24 - Pension asset (continued)

Reconciliation of pension asset to the Balance Sheet

	2020 £'000	2019 £'000
Analysis of defined benefit obligation by status		
- Active members	-	-
- Deferred pensioner members	526,100	476,000
- Pensioners	724,400	695,400
Present value of defined benefit obligation	1,250,500	1,171,400
Fair value of Scheme assets	1,470,179	1,367,283
Net defined benefit asset	219,679	195,883

Movement in pension asset

	2020 £'000	2019 £'000
Net defined benefit asset at beginning of year	195,883	150,260
Service cost (including past service costs)		
- the Bank	(180)	(147)
- other participating employers	-	-
Administration costs incurred over the year	(998)	(987)
Net interest on net defined benefit asset	4,000	4,200
Employers' contributions		
- the Bank	1,109	8,026
- other participating employers	-	-
Re-measurement effects recognised in Other comprehensive income (OCI)	19,865	34,531
Net defined benefit asset at end of year	219,679	195,883

Scheme expense recognised in the Income Statement

	2020 £'000	2019 £'000
Current service cost		
- the Bank included within operating expenses	-	-
- other participating employers	-	-
Past service cost and curtailments (including Guaranteed Minimum Pension)	180	147
Net interest on net defined benefit asset	(4,000)	(4,200)
Administration costs incurred during the year	998	987
Scheme expense	(2,822)	(3,066)

Amount recognised in OCI

	2020 £'000	2019 £'000
Return on Scheme assets greater than discount rate	(130,802)	(128,817)
Actuarial (gain) / loss due to liability experience	(3,998)	286
Actuarial loss due to assumption changes	114,935	94,000
Re-measurement effects recognised in OCI - gain	(19,865)	(34,531)

Note 24 - Pension asset (continued)

Actual return on Scheme assets

	2020 £'000	2019 £'000
Interest income on Scheme assets	**27,500**	34,000
Return on Scheme assets greater than discount rate	**130,802**	128,817
Actual return on Scheme assets	**158,302**	162,817

Sensitivity of the Scheme to key assumptions

Changes in assumptions may have an impact to the Scheme's assets and defined benefit obligation (DBO). The management of risk associated within the key assumptions is outlined further below:

	Change in assumption	Increase in assumption £'000	Decrease in assumption £'000
Discount rate	0.50%	(104,000)	119,000
Price inflation (RPI measure) (1)	0.50%	63,000	(58,000)
Pension increases (2)	0.50%	43,000	(41,000)
Post retirement longevity	1 year	45,000	(45,000)

Notes:

(1) Including consistent change to the pension increases, CPI related increases in deferment

(2) Derived assuming RPI has increased and decreased by 0.5% per annum respectively. This does not include a consistent change to any CPI related increases in deferment.

Future cash flows of the Scheme and plan characteristics

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

	2020 £'000	2019 £'000
Maturity profile of Defined Benefit Obligation		
- Expected benefit payments during fiscal year ending 31 December 2021	**56,600**	53,100
- Expected benefit payments during fiscal year ending 31 December 2022	**57,700**	54,200
- Expected benefit payments during fiscal year ending 31 December 2023	**58,800**	55,300
- Expected benefit payments during fiscal year ending 31 December 2024	**59,900**	56,400
- Expected benefit payments during fiscal year ending 31 December 2025	**61,100**	57,500
- Expected benefit payments during fiscal year ending 31 December 2026 through 31 December 2030	**323,800**	305,000

	2020 Years	2019 Years
Weighted average duration of Defined Benefit Obligation	**18**	18

Note 24 - Pension asset (continued)

Scheme risks

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

Asset volatility	There is a risk that a fall in asset values is not matched by a corresponding reduction in the value placed on the Scheme's DBO. The Scheme holds a proportion of growth assets, which are expected to outperform corporate and government bond yields in the long-term but give exposure to volatility and risk in the short-term.
Changes in bond yields	A decrease in the corporate bond yields will increase the value placed on the Scheme's DBO, although this will be partially offset by any increase in the value of the Scheme's corporate bond holdings.
Inflation risk	Part of the Scheme's DBO is linked to inflation where higher inflation will lead to a higher value being placed on the DBO. Some of the Scheme's assets are either unaffected by inflation or loosely correlated with inflation (e.g. growth assets), meaning that an increase in inflation will generally increase the deficit.
Longevity risk	An increase in life expectancy will lead to an increased value being placed on the Scheme DBO. Future mortality rates cannot be predicted with certainty.

Note 25 – Other liabilities

	2020 £'000	2019 £'000
Accrued interest	1,772	3,341
Provision for off balance sheet financial guarantees and loan commitments	11,243	3,842
Accruals and sundry creditors	18,208	18,695
Lease liabilities	5,094	6,206
	36,317	32,084

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

Lease liabilities broken down by expected due date:

	2020 £'000	2019 £'000
Analysed by remaining maturity:		
Less than 1 year	1,248	1,248
More than 1 year	3,846	4,957
Total lease liabilities at end of period	5,094	6,206

The lease liability is initial measured at the present value of the lease payments payable over the lease term, discounted at a rate based on the cost of funding. The maturity analysis of the lease liabilities in the table below is on a discounted basis.

	2020 £'000	2019 £'000
Future minimum payments		
- within 1 year	1,245	1,245
- between 1 and 5 years	3,315	3,907
- over 5 years	880	1,534
	5,440	6,686
Less finance charges	(346)	(480)
	5,094	6,206

Note 26 – Provisions

	PPI redress £'000	Other £'000	Total £'000
At 1 January 2020	2,729	2,309	5,038
Charge to income statement	-	1,122	1,122
Released unutilised	(257)	(90)	(347)
Provisions utilised	(2,259)	(200)	(2,459)
At 31 December 2020	213	3,141	3,354

	2020 £'000	2019 £'000
Analysed by remaining maturity:		
Less than 1 year	2,469	4,153
More than 1 year	885	885
Total	3,354	5,038

Payment Protection Insurance ('PPI') redress

The Bank has made significant progress on addressing the stock of complaints held. As at 31 December 2020, this provision primarily represents PPI redress refunds offered to customers but yet to be accepted.

Other

This represents provisions for costs arising in respect of a number of legal actions and claims arising in the ordinary course of the Bank's business, together with exit costs from property leases following the application of IFRS 16.

Note 27 – Subordinated debt

	2020 £'000	2019 £'000
Balance at 31 December	126,000	126,000

On 12 January 2015 £100,000,000 of CRD IV compliant subordinated instruments were issued to Danske Bank A/S. The rate of interest applied to these instruments is 200bps (basis points) over 3 month LIBOR. The subordinated instruments are dated loan capital and may be redeemed by the issuer, Northern Bank 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 applied to these instruments is 140bps over 3 month LIBOR. The subordinated instruments are dated loan capital and may be redeemed by the issuer, Northern Bank Limited, subject to regulatory approval and giving the appropriate notice on 19 December 2024 or on each interest payment date thereafter. In the absence of this, Northern Bank Limited must redeem the Tier 2 instrument on the maturity date which is 19 December 2029.

Note 28 – Balance sheet items analysed by expected date

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

	2020 < 1 year £'000	2020 > 1 year £'000	2019 < 1 year £'000	2019 > 1 year £'000
Assets				
Cash and balances at central bank	2,911,889	1,313,264	963,156	1,216,004
Items in the course of collection from other banks	20,190	-	30,804	-
Due from other banks	43,153	7,486	39,053	5,145
Derivative financial instruments	8,087	9,197	6,582	4,891
Investment securities - hold to collect	151,323	380,232	186,798	408,756
Investment securities - hold to collect and sell	231,235	646,746	125,019	605,656
Loans and advances to customers	2,114,656	4,115,185	2,546,426	3,561,986
Investment in subsidiaries	-	250	-	250
Intangible assets	-	156	-	212
Property, plant and equipment	-	41,818	-	44,242
Right-of-use asset	1,303	4,267	1,329	5,570
Assets held for sale	360	-	485	-
Defined benefit pension asset	-	219,679	-	195,883
Current tax assets	3,008	-	-	-
Other assets	26,405	300	29,706	2,083
Total assets	5,511,609	6,738,580	3,929,358	6,050,678

	2020 < 1 year £'000	2020 > 1 year £'000	2019 < 1 year £'000	2019 > 1 year £'000
Liabilities				
Due to other banks	23,032	350,000	23,024	350,000
Items in course of transmission to other banks	12,147	-	11,731	-
Derivative financial instruments	9,062	19,137	4,965	9,740
Deposits from customers	7,210,043	3,018,094	5,317,989	2,773,551
Notes in circulation	-	557,942	-	471,968
Current tax liabilities	-	-	7,185	-
Deferred tax liabilities	(2,222)	36,416	(6,080)	26,186
Provisions	2,469	885	4,153	885
Other liabilities	19,593	16,724	4,590	27,494
Subordinated debt	-	126,000	-	126,000
Total liabilities	7,274,124	4,125,198	5,367,557	3,785,824

The analysis by remaining maturity of loans and advances to customers is based on contractual maturity dates, which are the earliest dates on which repayment can be demanded. Past experience would indicate repayment frequently takes place prior to contractual maturity dates.

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

Note 29 – Contractual dates of financial liabilities

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

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years
At 31 December 2020	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Liabilities					
Due to other banks	23,032	-	-	350,000	-
Deposits from customers	9,544,087	431,816	241,077	11,157	-
Derivative financial instruments	-	5,284	3,777	8,398	10,739
Financial lease liabilities	-	-	1,138	3,094	863
Notes in circulation	557,942	-	-	-	-
Subordinated debt	-	-	-	100,000	26,000
	10,125,061	437,100	245,992	472,649	37,602
Off balance sheet items					
Contingent liabilities	84,715	-	-	-	-
Commitments	1,106,123	-	-	-	-
	1,190,838	-	-	-	-
At 31 December 2019	£'000	£'000	£'000	£'000	£'000
Liabilities					
Due to other banks	23,024	-	-	350,000	-
Deposits from customers	7,374,466	502,843	201,704	12,527	-
Derivative financial instruments	-	2,628	3,933	6,252	2,105
Financial lease liabilities	-	-	1,113	3,605	1,488
Notes in circulation	471,968	-	-	-	-
Subordinated debt	-	-	-	100,000	26,000
	7,869,458	505,471	206,750	472,384	29,593
Off balance sheet items					
Contingent liabilities	104,748	-	-	-	-
Commitments	932,172	-	-	-	-
	1,036,920	-	-	-	-

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

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

For guarantees, included within contingent liabilities, to result in a payment obligation to the Bank, a number of individual conditions must be met. As it is not possible to breakdown the earliest dates on which such conditions are met by maturity bands, all guarantees are included in the 'on demand' column.

Note 30 – Offsetting of financial assets and liabilities

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

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

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

At 31 December 2019	Gross amount £'000	Legal right of offset £'000	Further offsetting, master netting agreement £'000	Collateral / offset £'000	Net amount £'000
Financial assets					
Cash and balances at central bank	2,179,160	-	-	(471,968)	1,707,192
Due from other banks	44,198	-	(19,873)	-	24,325
Derivatives with positive fair value	11,473	-	(8,756)	(754)	1,963
Loans and advances to customers	6,108,412	(539,231)	-	-	5,569,181

At 31 December 2019	£'000	£'000	£'000	£'000	£'000
Financial liabilities					
Due to other banks	373,024	-	(19,873)	-	353,151
Derivatives with negative fair value	14,705	-	(8,756)	(754)	5,195
Deposits from customers	8,091,540	(539,231)	-	-	7,552,309
Finance lease liabilities	6,206	-	-	-	6,206
Notes in circulation	471,968	-	-	(471,968)	-

Note 31 – Fair value information for financial instruments

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

(a) Financial instruments at fair value

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

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

The fair value hierarchy

Level 1 Quoted price (level 1) consists of financial instruments that are quoted in an active market. The Bank uses the price quoted in the principal market.

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

Level 3 Valuation based on significant non-observable input (level 3). The valuation of certain financial instruments is based substantially on non-observable input.

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

Valuation techniques

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

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

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

Amortisation of initial margin

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

	2020 £'000	2019 £'000
Unamortised initial margins at 1 January	301	363
Amortised to the income statement during the year	(803)	(1,029)
Initial margins on new derivatives contracts	752	971
Terminated derivatives contracts	(33)	(4)
Unamortised initial margins at 31 December	217	301

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

(a) Financial instruments at fair value (continued)

Analysis of fair value hierarchy levels:

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

At 31 December 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Investment securities - hold to collect and sell	730,675	-	-	730,675
Interest rate and equity contracts	-	3,787	2	3,789
Currency contracts	-	7,684	-	7,684
Land and buildings	-	-	37,727	37,727
Total	730,675	11,471	37,729	779,875
Financial liabilities				
Interest rate and equity contracts	-	5,511	-	5,511
Currency contracts	-	9,192	2	9,194
Total	-	14,703	2	14,705

Derivatives valued on the basis of non-observable input :

	2020 £'000	2019 £'000
Fair value at 1 January	2	1
Acquisitions	-	-
Sale and redemption	(1)	1
Fair value at 31 December	1	2

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

(b) Financial instruments at amortised cost

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

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

Investment securities - hold to collect and sell

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

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

(b) Financial instruments at amortised cost (continued)

Other financial instruments

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

- For a number of the Bank's loans, the interest rate depends on the standard variable rate set by the Bank. The rate is adjusted only upon certain changes in market conditions. Such loans are considered to carry interest at a variable rate, as the standard variable rate applied by the Bank at any time applies to both new and existing arrangements.
- The interest rate risk on some fixed-rate financial assets is hedged by derivatives. The Bank uses the interest rate risk on core free funds and investment securities to manage the remaining interest rate risk. Consequently, only the fair value of unhedged fixed-rate loans is presented in the table below.

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

It is assessed that the expected credit loss impairment model used for loans measured at amortised cost is a reasonable proxy for the fair value of the credit risk.

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

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

	Carrying amount £'000	Fair Value £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial assets					
Investment securities (Note 13)	595,554	597,558	597,558	-	-
At 31 December 2019	595,554	597,558	597,558	-	-

Note 32 – Share capital

	2020 £'000	2019 £'000
Allotted, called up and fully paid		
Ordinary shares of £1 each - equity		
At 31 December	218,170	218,170

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

Note 33 – Reserve for investment securities at fair value

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

Note 34 – Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative post-tax gains and losses on derivatives designated as cash flow hedging instruments that will be recycled to the Income Statement when the hedged items affect profit or loss. As at 31 December 2020, the cash flow hedge reserve reflected a cumulative gain of £6,455,000 (2019: £2,843,000). This was offset by a deferred tax liability of £1,743,000 (2019: £711,000).

Note 35 – Additional Tier 1 capital

At the end of 2020, the total nominal value of issued Additional Tier 1 capital amounted to £96,000,000 (2018: £96,000,000). Capital notes of £16,000,000 were issued on 19 December 2017 and £80,000,000 issued on 12 January 2015. At 31 December 2020, an interest payable amount of £958,000 was accrued in respect of these capital instruments (2019: £1,069,000).

	2020 £'000	2019 £'000
At 1 January	97,069	97,101
Movement in accrued interest	(111)	(32)
At 31 December	96,958	97,069

The Bank may, at its sole discretion, omit interest and principal payments to bond holders. Any interest payments must be paid out of retained earnings of the Bank. The Additional Tier 1 capital will be written down temporarily if the CET1 ratio falls below 7% for the Bank (or Danske Bank Group). The CET1 ratio at 31 December 2020 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.

Note 36 – Contingent liabilities

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

Financial contingent liabilities

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

	2020 £'000	2019 £'000
Contingent liabilities		
Guarantees and irrevocable letters of credit	84,715	104,748
Commitments		
Irrevocable loan commitments shorter than 1 year	630,563	590,025
Irrevocable loan commitments longer than 1 year	475,560	342,147
	1,106,123	932,172

Note 36 – Contingent liabilities (continued)

Other contingent liabilities

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

Note 37 – Capital commitments

The Bank had no future capital expenditure which had been contracted but not provided for in the Financial Statements at 31 December 2020 (2019: £560,000).

Note 38 – Lease receivables

The Bank leases a variety of assets to third parties under finance lease arrangements, including vehicles and general plant and machinery. The costs of assets acquired by the Bank during the year for the purpose of letting under finance leases and hire purchase contracts amounted to £9,101,000 (2019: £8,240,000) and £73,549,000 (2019: £120,675,000) respectively.

The total closing net balances of finance leases and hire purchase contracts were £17,865,000 (2019: £18,890,000) and £177,284,000 (2019: £204,847,000) respectively. The net investment in finance lease and hire purchase receivables is included within total loans and advances to customers (note 14).

Finance lease and hire purchase receivable

	2020 £'000	2019 £'000
Gross investment in finance lease and hire purchase receivables		
Due within one year	14,747	15,329
Due within one to five years	168,498	195,745
Due after five years	24,248	26,563
Total gross investment in finance lease receivables	207,493	237,637
Unearned income	(8,243)	(12,741)
Net investment in finance lease and hire purchase receivables	199,250	224,896

Within the Bank, at 31 December 2020, there are impairment provisions of £307,000 (2019: £171,000) in relation to finance lease customer exposure and impairment provisions of £4,101,000 (2019: £1,159,000) in relation to hire purchase customer exposure.

Operating leases

Operating leases consist of lease commitments with a term of less than twelve months together with lease commitments for low value assets. Property leases over twelve months are recognised as right-of-use assets (note 18).

	2020 £'000	2019 £'000
Operating lease expiring		
- within 1 year	285	243
- in 1 - 5 years	99	149
- after 5 years	-	-
	384	392

Note 38 – Lease receivables (continued)

Operating leases (continued)

	2020	2019
Where the Bank is the lessee the future minimum	£'000	£'000
lease payments under non-cancellable operating leases are:		
- within 1 year	384	392
- between 1 and 5 years	118	247
- over 5 years	-	-
	502	639

Note 39 – Credit risk exposures

a) Credit risk

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

The Bank grants credits on the basis of information about customers' individual financial circumstances and monitors their financial situation with the aim of assessing whether the basis for granting credit facilities has changed. Facilities should adhere to the guidelines outlined in the Bank's Credit Policy, including the Principles of Responsible Lending.

The Principles of Responsible Lending focus on customers' understanding of the consequences of borrowing, on an assessment of their needs and ability to repay, and on possible conflicts with the Bank's ethical guidelines. Facilities should match customers' financial situation, including their earnings, capital and assets, and business volume with the Bank to a reasonable degree, and customers must be able to substantiate their repayment ability.

In order to mitigate credit risk, the Bank uses collateral, guarantees and covenants.

Accounting treatment of the impacts on expected credit losses from the COVID-19 crisis

The effect of the COVID-19 pandemic began to affect the Bank's credit portfolio in the first quarter of 2020. The full impact of the pandemic has been mitigated by various government support packages and there is significant uncertainty as to the full extent of the longer term impact with the negative impact on individual customers of the COVID-19 crisis expected to materialise over the coming quarters.

Customer assessments are made on an ongoing basis and impairments revisited in light of any changing outlook.

In light of the COVID-19 crisis, management has judged it appropriate to recognise further post-model adjustments. The post-model adjustments relate to industries directly affected by the COVID-19 crisis and for which the macroeconomic scenarios themselves do not lead to a sufficient increase in expected credit losses. This includes retailing, hotels and restaurants.

b) Credit exposure

Credit exposure consists of on-balance sheet and off-balance-sheet items that carry credit risk. Whilst the majority of credit risk derives from exposure arising from lending activities in the form of secured and unsecured loans, the overall management of credit risk also covers credit exposures arising from certain treasury related activities (i.e. counterparty risk on derivatives, intergroup funding and credit risk from investment security positions).

Credit risk arising from treasury related exposures are further analysed in note 39(c).

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Breakdown of credit exposure

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

Breakdown of credit exposure

At 31 December 2019	Lending activities £'000	Counterparty risk derivatives £'000	Inter group £'000	Other £'000	Total £'000
Balance sheet items					
Balances at central bank	1,829,435	-	-	-	1,829,435
Items in the course of collection from other banks	30,804	-	-	-	30,804
Due from other banks	3,404	-	40,794	-	44,198
Trading portfolio assets	-	11,473	-	-	11,473
Investment securities- hold to collect	-	-	-	595,554	595,554
Investment securities - hold to collect and sell	-	-	-	730,675	730,675
Loans and advances at amortised cost	6,108,412	-	-	-	6,108,412
Investment in subsidiaries	-	-	250	-	250
Off-balance sheet items					
Guarantees	104,748	-	-	-	104,748
Irrevocable loan commitments shorter than 1 year	590,025	-	-	-	590,025
Irrevocable loan commitments longer than 1 year	342,147	-	-	-	342,147
Total	9,008,975	11,473	41,044	1,326,229	10,387,721

Credit exposure from lending activities

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

Classification of customers

The main objectives of risk classification are to rank the Bank's customers according to risk and to estimate each customer's PD. As part of the credit process, the Bank classifies customers according to risk and updates their classifications upon receipt of new information. Risk classification comprises rating and credit scoring of customers. While rating all large customers, the Bank uses fully automated and statistically based scoring models for small customers such as personal customers and small businesses. Credit scores are updated monthly in a process subject to automated controls.

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

The Bank has developed a number of classification models to assess customer PD and to classify customers in various segments.

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

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

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

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

In addition, facilities that are more than 30 days past due are moved to stage 2. 30 days past due is considered a backstop. Finally, customers subject to forbearance measures are placed in stage 2.

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.

Expected credit losses

The expected credit loss is calculated for all individual facilities as a function of the PD, EAD and the LGD. For exposures in stage 1, 12 months expected credit losses are recognised. For exposures in stage 2-3, lifetime expected credit losses are recognised.

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Credit portfolio broken down by rating category and stages

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

			31 December 2020 Gross Exposure				31 December 2019 Gross Exposure			
Rating	PD Upper level	PD Lower level	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
1	-	0.01	605,168	4,345	1	609,515	303,806	1,087	-	304,893
2	0.01	0.03	783,049	7,977	113	791,139	2,815,740	3,046	-	2,818,786
3	0.03	0.06	4,993,779	7,960	565	5,002,305	792,758	4,258	339	797,355
4	0.06	0.14	1,846,344	14,567	1,644	1,862,554	1,101,042	5,691	-	1,106,733
5	0.14	0.31	799,582	19,991	11,473	831,047	1,328,848	24,873	62	1,353,783
6	0.31	0.63	582,255	31,643	7,601	621,499	846,233	67,661	62	913,956
7	0.63	1.90	434,993	140,760	5,114	580,866	873,892	220,690	143	1,094,725
8	1.90	7.98	112,831	305,489	9,584	427,904	114,785	282,616	11,292	408,693
9	7.98	25.70	2,029	38,685	6,257	46,971	4,505	42,198	3,861	50,564
10	25.70	99.99	2,184	88,322	369,730	460,236	-	35,842	107,778	143,620
11	100.00	100.00	305	479	149,885	150,669	-	1,522	97,626	99,148
Total			10,162,519	660,219	561,967	11,384,705	8,181,609	689,484	221,163	9,092,256

			31 December 2020 Expected Credit Loss (ECL)				31 December 2019 Expected Credit Loss (ECL)			
Rating	PD Upper level	PD Lower level	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
1	-	0.01	204	691	1	896	1	-	-	1
2	0.01	0.03	93	6	0	99	74	2	-	76
3	0.03	0.06	1,150	17	0	1,167	64	101	-	165
4	0.06	0.14	5,321	70	1	5,392	208	20	-	228
5	0.14	0.31	1,631	150	2	1,784	661	155	14	830
6	0.31	0.63	2,336	654	537	3,527	956	439	8	1,403
7	0.63	1.90	1,355	2,582	124	4,061	3,949	2,639	89	6,677
8	1.90	7.98	944	7,257	779	8,980	926	7,207	590	8,723
9	7.98	25.70	8	1,470	691	2,170	596	4,259	316	5,171
10	25.70	99.99	1	1,552	32,407	33,961	-	1,432	14,998	16,430
11	100.00	100.00	0	1	58,261	58,262	-	39	43,538	43,577
Total			13,043	14,450	92,805	120,298	7,435	16,293	59,553	83,281

			31 December 2020 Net Exposure				31 December 2019 Net Exposure			
Rating	PD Upper level	PD Lower level	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
1	-	0.01	604,965	3,654	0	608,619	303,805	1,087	-	304,892
2	0.01	0.03	782,956	7,971	113	791,040	2,815,666	3,044	-	2,818,710
3	0.03	0.06	4,992,630	7,943	565	5,001,138	792,694	4,157	339	797,190
4	0.06	0.14	1,841,023	14,497	1,643	1,857,162	1,100,834	5,671	-	1,106,505
5	0.14	0.31	797,951	19,841	11,471	829,263	1,328,187	24,718	48	1,352,953
6	0.31	0.63	579,919	30,989	7,064	617,972	845,277	67,222	54	912,553
7	0.63	1.90	433,638	138,178	4,989	576,805	869,943	218,051	54	1,088,048
8	1.90	7.98	111,887	298,232	8,805	418,924	113,859	275,409	10,702	399,970
9	7.98	25.70	2,021	37,215	5,566	44,801	3,909	37,939	3,545	45,393
10	25.70	99.99	2,183	86,769	337,323	426,276	-	34,410	92,780	127,190
11	100.00	100.00	305	479	91,623	92,407	-	1,483	54,088	55,571
Total			10,149,476	645,769	469,163	11,264,408	8,174,174	673,191	161,610	9,008,975

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

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

			31 December 2020 Net Exposure (excluding collateral)				31 December 2019 Net Exposure (excluding collateral)			
Rating	PD Upper level	PD Lower level	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
1	-	0.01	243,976	1,416	0	245,392	204,778	-	-	204,778
2	0.01	0.03	137,332	495	42	137,869	2,392,697	421	-	2,393,118
3	0.03	0.06	4,551,908	1,569	449	4,553,927	299,084	1,221	-	300,305
4	0.06	0.14	650,332	1,953	564	652,849	362,131	1,141	-	363,272
5	0.14	0.31	215,392	5,727	10,501	231,620	284,649	8,073	3	292,725
6	0.31	0.63	178,782	9,179	1,684	189,645	199,826	8,493	-	208,320
7	0.63	1.90	121,441	37,165	1,157	159,763	222,733	58,984	-	281,717
8	1.90	7.98	26,365	82,439	2,298	111,102	25,573	114,364	2,566	142,503
9	7.98	25.70	390	6,462	559	7,411	395	6,867	-	7,262
10	25.70	99.99	8	38,578	38,333	76,919	-	10,868	26,281	37,149
11	100.00	100.00	98	46	19,443	19,587	-	238	5,965	6,203
Total			6,126,024	185,029	75,032	6,386,084	3,991,866	210,671	34,815	4,237,352

Non-performing loans

The net exposure from non-performing loans and advances to customers amounted to £543,158,000 at 31 December 2020 (2019: £161,610,000).

Credit exposure broken down by industry and stages

The table below breaks down credit exposure by industry. The industry segmentation follows the classification principles of the Statistical Classification of Economic Activities in the European Community (NACE) Standard that has been adapted to the Bank's business risk approach used for the active management of the credit portfolio.

	31 December 2020 Gross Exposure				31 December 2019 Gross Exposure			
	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
Public institutions	4,312,603	393	100	4,313,096	2,328,370	300	-	2,328,670
Agriculture	425,599	55,983	98,550	580,133	405,212	102,601	31,648	539,461
Commercial property	371,795	96,765	133,461	602,021	436,886	98,474	72,142	607,502
Non-profit and associations	570,169	3,446	4,902	578,517	460,277	11,862	2,257	474,396
Personal customers	2,813,931	284,195	62,706	3,160,832	2,800,509	229,559	51,974	3,082,042
Business customers	1,619,021	217,985	262,134	2,099,139	1,719,355	245,550	63,142	2,028,048
Other	49,402	1,452	114	50,968	30,999	1,138	-	32,137
Total	10,162,519	660,219	561,967	11,384,705	8,181,609	689,484	221,163	9,092,256

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Credit exposure broken down by industry and stages (continued)

	31 December 2020 Expected Credit Loss (ECL)				31 December 2019 Expected Credit Loss (ECL)			
	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
Public institutions	7	4	24	35	49	-	-	49
Agriculture	570	284	8,323	9,177	901	1,458	7,355	9,714
Commercial property	469	1,473	25,612	27,554	1,567	3,331	9,390	14,289
Non-profit and associations	1,408	390	1,625	3,423	366	619	1,589	2,574
Personal customers	3,723	6,712	17,103	27,538	1,489	5,169	17,726	24,384
Business customers	6,866	5,588	40,118	52,572	2,324	5,624	23,493	31,440
Other	-	-	-	-	740	91	-	831
Total	13,043	14,450	92,805	120,298	7,436	16,292	59,553	83,281

	31 December 2020 Net exposure				31 December 2019 Net exposure			
	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
Public institutions	4,312,596	390	76	4,313,061	2,328,322	300	-	2,328,621
Agriculture	425,029	55,699	90,228	570,955	404,311	101,143	24,293	529,747
Commercial property	371,326	95,292	107,849	574,467	435,319	95,143	62,752	593,213
Non-profit and associations	568,761	3,056	3,276	575,094	459,911	11,243	668	471,822
Personal customers	2,810,208	277,483	45,603	3,133,294	2,799,020	224,390	34,247	3,057,658
Business customers	1,612,154	212,397	222,016	2,046,567	1,717,032	239,926	39,649	1,996,608
Other	49,402	1,452	114	50,968	30,259	1,047	-	31,306
Total	10,149,476	645,769	469,163	11,264,408	8,174,173	673,193	161,610	9,008,975

	31 December 2020 Net exposure (excluding collateral)				31 December 2019 Net exposure (excluding collateral)			
	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000	Stage 1 £000	Stage 2 £'000	Stage 3 £'000	Total £'000
Public institutions	4,312,519	340	76	4,312,935	2,328,264	300	-	2,328,564
Agriculture	129,562	20,896	15,653	166,111	90,232	10,644	12,563	113,439
Commercial property	58,067	16,102	20,809	94,977	93,364	16,661	10,450	120,475
Non-profit and associations	247,021	1,507	524	249,052	131,569	1,254	22	132,845
Personal customers	468,410	50,019	4,905	523,334	487,110	58,425	1,554	547,089
Business customers	861,043	94,714	32,951	988,707	831,068	122,341	10,226	963,635
Other	49,402	1,452	114	50,968	30,259	1,046	-	31,305
Total	6,126,024	185,029	75,032	6,386,084	3,991,866	210,671	34,814	4,237,352

For financial assets that are credit impaired (stage 3) at 31 December 2020, £392,429,000 of collateral is held as security against these exposures (2019: £126,796,000).

Concentration risk

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

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Concentration risk (continued)

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

Industry sector concentration	The Industry Concentration Framework outlines the principles of managing industry exposures and includes various sector caps or limits to be observed in relation to lending within the major industry sectors. These controls are established by senior personnel within the Bank's business units, Credit and Risk Management departments and are approved by the Bank's Board as part of the credit risk appetite process.
Geographical concentration	The Country Risk Framework outlines the principles of managing country exposures. The Bank's strategy is to target markets in which it has the greatest understanding and experience and therefore the Bank accepts its geographical concentration in Northern Ireland as being within its risk appetite as this risk is inherent to the Bank's business model.
Single-name borrower concentration	The Bank has set internal limits regarding its maximum exposure to a single name in the context of the total customer lending and the Bank's total regulatory capital. The Bank's performance against the concentration risk control limits detailed above is reported to the Bank's internal credit risk governance committee and the Board.

Collateral

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

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

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

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

Collateral value by type (after haircut):

	2020 £’000	2019 £’000
Real estate/property		
- Personal	2,609,165	2,507,892
- Commercial	1,161,344	1,409,119
- Agricultural	289,026	379,809
Equipment	354,839	381,512
Guarantees	363,140	1,532
Deposits	19,225	31,939
Other assets	81,586	59,820
Total collateral	4,878,323	4,771,623
Total unsecured credit exposure	6,386,084	4,237,352
Unsecured portion of credit exposure (%)	57%	47%

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Past due amounts (no evidence of credit impairment):

	Total past due amounts		Total due under loans	
	2020	2019	**2020**	2019
	£'000	£'000	**£'000**	£'000
6-30 days	**279**	1,054	**5,326**	10,842
31-60 days	**325**	171	**8,219**	6,630
> 60 days	**858**	423	**5,804**	3,134
Total past due amounts	**1,463**	1,648		
Total due under loans			**19,349**	20,606

Measurement of credit risk

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

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

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

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

Neither past due nor stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2019	2019	2019	2019	2019
	£'000	£'000	£'000	£'000	£'000
Good upper	1,899,254	65,505	741,964	1,081,627	3,788,350
Good lower	640,864	62,273	387,984	637,887	1,729,008
Marginal	122,430	16,484	40,747	184,469	364,130
Vulnerable	23,212	1,594	26,807	26,290	77,903
Total: Neither past due nor Stage 3 impaired	2,685,760	145,856	1,197,502	1,930,273	5,959,392

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Measurement of credit risk (continued)

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

Six days plus past due not Stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2019	2019	2019	2019	2019
	£'000	£'000	£'000	£'000	£'000
Good upper	2,367	107	13	4,356	6,844
Good lower	3,174	248	1,077	847	5,346
Marginal	3,355	366	118	863	4,703
Vulnerable	1,635	198	645	1,237	3,713
Total : Neither past due nor Stage 3 impaired	10,530	919	1,853	7,303	20,606

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

Stage 3 impaired	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2019	2019	2019	2019	2019
	£'000	£'000	£'000	£'000	£'000
Total : Stage 3 impaired	24,061	27,923	92,769	63,047	207,800

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

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Measurement of credit risk (continued)

Gross loans and receivables	Mortgages	Other personal	Property & Construction	Non Property Business	Total
	2019	2019	2019	2019	2019
	£'000	£'000	£'000	£'000	£'000
Good upper	1,901,621	65,612	741,977	1,085,984	3,795,194
Good lower	644,038	62,521	389,061	638,734	1,734,354
Marginal	125,785	16,851	40,865	185,332	368,833
Vulnerable	24,847	1,792	27,452	27,526	81,617
Impaired	24,061	27,923	92,769	63,047	207,800
Gross loans and receivables	2,720,352	174,698	1,292,124	2,000,623	6,187,797

Forbearance

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

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

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

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

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

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Forbearance (continued)

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

Variation forbearance

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

Renegotiation forbearance

This involves a renegotiation of the customer's contract with the Bank, following normal credit assessment, which can include a change to one or more of the following:

- structure;
- repayment amount;
- interest rate;
- term; and
- collateral.

Post default mutual agreement

This is applicable to customers who have defaulted and the Bank seeks to put in place a mutually acceptable arrangement with the customer to avoid repossession. This may include one or more of the following:

- accepting an agreed minimum payment over a period of time pending receipt of funds to repay the debt from a defined source e.g. pending receipt of a lump sum; and
- providing the customer with time to effect a voluntary sale of the property.

The table below summarises the forbearance arrangements in place together with the loan balances and impairment provisions associated with those arrangements.

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

As at 31 December 2019	Number of loans	Loan balance	% of total mortgage portfolio	Impairment allowance	% Coverage
		£'000	%	£'000	%
Variation forbearance	29	3,453	0.1%	134	3.9%
Renegotiation forbearance	3	573	0.0%	64	11.2%
Post default mutual agreement	6	1,156	0.0%	52	4.5%
Gross loans and receivables	38	5,182	0.2%	250	4.8%

Note 39 – Credit risk exposures (continued)

b) Credit exposure (continued)

Forbearance (continued)

1,127 Variation cases above with a value of £119m relating to payment holidays granted to assist customers impacted under the COVID-19 pandemic.

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 supported a number of customers through the COVID-19 pandemic and as a result, this has seen an increase in the number of customers in forbearance. The Bank had 179 such cases with values of £940k at 31 December 2020, this includes 141 cases (£809k) relating to customers having personal loans, who were granted a payment holiday due to being impacted under the COVID-19 pandemic.

In addition forbearance measures are provided to 1,186 business customers as at 31 December 2020, having associated facilities of £248m. 963 of these cases were related to the provision of Bounce Bank Loans (BBLs) provided under the Government's' guarantee scheme in relation to the COVID-19 pandemic. Therefore, the associated ECL on the BBLs exposures are minimal.

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

	2020	2019
	£'000	£'000
Counterparty risk		
- Derivatives with positive fair value	**17,284**	11,473
Credit exposure from other trading and investing activities		
- Investment securities - hold to collect	**531,555**	595,554
- Investment securities - hold to collect and sell	**877,981**	730,675
Investment in subsidiaries	**250**	250
Total	**1,427,070**	1,337,952

d) Exposure to Investment securities

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

Note 40 – Related party transactions

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

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

	Persons 2020 Number	Amount 2020 £'000	Persons 2019 Number	Amount 2019 £'000
Loans - balance at 31 December				
Directors	4	16,174	4	17,039
Executive Committee	5	623	4	633
	9	16,797	8	17,672
Deposits - balance at 31 December				
Directors	5	18,792	5	4,403
Executive Committee	6	387	6	215
	11	19,179	11	4,617

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 2020 (2019: £nil).

Included in the above are nine individual loan facilities (2019: seven) totalling £16,174,000 (2019: £17,039,000) made to the Directors, their close family members and / or any companies which they or a close family member control. The maximum aggregate amount outstanding during the year in respect of these loans was £18,962,000 (2019: £18,618,000).

b) Interests

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

c) Other related party transactions

In the normal course of business the Bank maintains accounts and conducts transactions with other members of the Danske Bank Group. This business is conducted at prevailing market rates and terms and includes deposits taken and placed, interest rate and foreign exchange swaps and the provision of technology and other services. The Bank has taken advantage of the exemption not to disclose full details of these transactions as the Bank is a wholly owned subsidiary of Danske Bank Group and the consolidated financial statements of the Danske Bank Group are publicly available. Note 5 provides further details of recharges made by Danske Bank Group.

The Bank has transactions with the Northern Bank Defined Benefit Pension Scheme, as detailed in note 24. The Bank charges the Scheme with the cost of administration which amounted to £81,000 in the year ended 31 December 2020 (2019: £80,000).

Note 41 – Employees

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

	2020 Number	2019 Number
Managers	384	372
Clerical staff	957	947
Total	1,341	1,319

Note 42 – Share based payments

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

	2020 Weighted average exercise price DKK	2020 Number of conditional shares	2019 Weighted average exercise price DKK	2019 Number of conditional shares
Outstanding at the beginning of the year	0.00	44,080	0.00	36,006
Granted during the year	0.00	64,655	0.00	38,537
Exercised during the year	0.00	(25,854)	0.00	(27,278)
Forfeited during the year	0.00	(541)	0.00	(3,185)
Expired during the year	0.00	-	0.00	-
Outstanding at the end of the year	0.00	82,340	0.00	44,080
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 93.98. The conditional shares at 31 December 2020 had a weighted average exercise price of DKK 0.00 and a weighted average remaining contractual life of 2.1 years. As at 31 December 2020 there were 82,340 conditional shares with an exercise price of DKK 0.00. In the year ended 31 December 2020, conditional shares were granted in April 2020.

The estimated fair value of the conditional shares granted on this date was £759,000. There was a release in the year in respect of share based payments of £301,000 (2019: charge £578,000).

Note 43 – Post balance sheet events

There have been no significant events between the financial year end and the date of the approval of the financial statements which would require a change to or additional disclosure in the financial statements.

Note 44– Ultimate parent undertaking

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

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

Glossary of terms

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

Glossary of terms

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

Danske Bank
Donegall Square West
Belfast
BT1 6JS
www.danskebank.co.uk