2021

Bank of Ireland (UK) plc
Annual Report

Bank of Ireland UK

Bank of Ireland (UK) has made significant strategic progress during 2021 and this can be seen in the strength of our financial performance. We have continued to focus on the needs of our customers as they have managed the health and economic impacts of the COVID-19 pandemic. Every day our great people demonstrate our commitment to our purpose – to enable our customers, colleagues and communities to thrive.

Inside this report

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

View this report online
This Annual Report and other information relating to Bank of Ireland is available at:
www.bankofirelanduk.com

Business Review

2021 key performance highlights

Financial Performance

Statutory profit before tax
£410m
(2020: £40m)

- £263 million statutory operating profit before impairment losses *(2020: £185 million)*
- Statutory net interest margin improved to 2.13% *(2020: 1.84%),* with a focus on value versus volume
- Gross new lending £3.5 billion *(2020: £4.8 billion)*
- £335 million underlying profit before tax[1] *(2020: £50 million)*

Asset Quality

Net impairment gain
£54m
(2020: £151m charge)

- Net impairment gain £54 million *(2020: £151 million charge)*
- Net impairment gain reflects impacts of improving economic outlook and limited loan loss activity.
- Impairment loss provision coverage ratio 1.08% *(2020: 1.27%)*
- 3.19% of loans credit impaired *(2020: 2.48%)*

Transformation

Cost income ratio
51%
(2020: 63%)

- Balance sheet reduced in line with agreed strategy, including £2.9 billion mortgage asset sale to the Parent, realising a profit on disposal of £94 million
- Statutory operating expenses reduced 12% year on year to £272 million
- £37 million non-core costs including £31 million for costs associated with strategic transformation initiatives
- Northern Ireland (NI) physical branch footprint optimised, with additional investment in remaining branches and new technology

Capital

CET1 ratio
17.5%
(2020: 13.7%)

- Strong organic capital growth
- Optimitised capital position and returns, with £500 million capital repatriated to Parent
- Maintained strong CET1 ratio 17.5% (2020: 13.7%)
- Total capital ratio 21.4 % (2020: 19.1%)

Further information on measures referred to in our key performance highlights is found in Alternative performance measures on page 182.

[1] *Underlying profit before taxation excludes non-core items which the Group believes obscure the underlying performance trends in the business. See page 28 for further details.*

Chair's review

Our overarching purpose in the Group is to enable our customers, colleagues and communities to thrive. 2021 turned out to be another "roller coaster" year; the UK economy and society as a whole demonstrated significant resilience, buoyed by the successful COVID-19 vaccination programme and pandemic support measures. Against this challenging background we continued to make progress against our purpose, by delivering for our customers, colleagues and communities and meeting their needs. We also reported a significantly improved financial performance compared with 2020.

Peter Herbert *Chair*

Introduction

The macroeconomic environment in 2021 saw significant, albeit patchy, improvements. Nonetheless our customers, partners and colleagues again faced a wide range of challenges throughout the year. I would like to express my warm appreciation to our customers and partners for their support, and our colleagues for their continued hard work and fortitude during 2021.

Strategy

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

Key achievements in 2021 included:

- Restructure of our business in NI to respond to significant and accelerating changes in how customers are banking. We are investing in our 13 retained NI branches and 3 business centres as well as enhancing our digital customer propositions;
- Our mortgage business built out its "Bespoke" proposition, providing tailored mortgages for customers with more complex needs, and more generally we are repositioning towards higher value mortgage business;
- We upgraded our mortgage platform while consolidating our intermediary distribution under a single Bank of Ireland brand;
- We invested in our personal loans and savings businesses so as to deliver enhanced propositions and digital journeys for customers; and
- Our partnerships with Post Office (PO) and the Automobile Association (AA) remain very important to us, and we continue to deepen customer relationships in our areas of expertise.

Over the forthcoming years we will continue to focus on a number of specific markets, serving customer needs where we can build sustainable competitive advantage and build on our existing distribution partnerships, to deliver improved returns and become more efficient and further optimise costs.

Capital and Regulation

In 2021, we continued to maintain strong capital and liquidity ratios, significantly greater than regulatory requirements. During the year, given strong profitability and a planned reduction in our lending volume, we restructured our capital and repatriated £500 million to our Parent.

Purpose and Culture

Our overarching purpose in the Group is to enable our customers, colleagues and communities to thrive. This clear purpose has served us well in guiding our approach as the COVID-19 crisis continued through 2021. We recognise the importance of an appropriately embedded corporate culture in achieving our purpose and the Board exercises close oversight of progress in this regard.

Responsible and Sustainable Business

Being a Responsible and Sustainable Business remains a priority for the Group and in March 2021, a new 3 year strategy 'Investing in Tomorrow' was launched. In line with our purpose to enable our colleagues, customers and communities to thrive, our Responsible and Sustainable Business strategy gives us an opportunity to bring this purpose to life by making a positive contribution today as well as investing in the future.

The strategy is centered on investing in our colleagues, enhancing our customers' financial wellbeing and supporting the green transition. For our colleagues, we are further developing certain skills, such as digital skills. This will strengthen the Group's overall digital capability and our colleagues employability. We are also focused on building a more inclusive workplace which is more reflective of society and our customer base.

Through our commitment to enhancing financial wellbeing, we aim to empower customers to thrive financially by enabling them to make better financial decisions for themselves and for the people that matter most in their lives. Also, we understand the important role we can play in helping our customers and communities to transition to a green, sustainable economy and we are developing further products to support our customers as we start that journey.

Board

During 2021, the Board continued to exercise its responsibilities with care and diligence. I would like to thank all of my Board colleagues for their tremendous commitment and support.

We review the Board's composition and diversity regularly and are committed to ensuring we have the right balance of skills and experience on the Board. There were several changes to the composition of our Board in 2021. We appointed three new Non-Executive Directors:

- Alison Burns joined the Board in January 2021 and has added real value as our Customer Director;
- Clare Salmon joined in July 2021 and was appointed Chair of the Remuneration Committee in October. Clare has also taken on the responsibilities of Colleague Engagement Director in the Group; and
- Richard Sommers joined the Board in August 2021 and was appointed Chair of the Risk Committee.

We are delighted that Alison, Clare and Richard have joined our Board.

John Baines, a Non-Executive Director and Audit Committee Chair since May 2018 stepped down from the Board in May 2021 and I would like to thank John for his considerable support, commitment and direction to the UK business. Philip Moore, who joined our Board in April 2018 assumed the role of Audit Committee Chair.

Outlook

We have made significant progress to date in the execution of our strategic transformation programme, and in 2022 we will continue to invest in this journey with a focus on great customer outcomes, increasing our digital banking capabilities, and supporting both new and existing customers and partners.

With the risks from COVID-19 appearing to recede, the recovery of the UK economy is expected to continue in 2022 although forecasts for growth, inflation and interest rates will be more sensitive to various exogenous factors including the unfolding economic and market consequences from the conflict in Ukraine. While we will no doubt experience further challenges and uncertainties that may affect our future plans, the Group's response to date gives me great confidence in how we will prioritise and manage these unknowns in 2022 and beyond.

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

Peter Herbert
Chair

Chief Executive's review

2021 was a strong year for the Group, as we significantly improved our financial performance, while continuing to support our customers, colleagues and communities, and invest in our multi-year UK restructuring programme.

Ian McLaughlin *Chief Executive Officer and Executive Director*

Introduction

Our UK business has delivered a strong performance despite the continued impact of COVID-19 restrictions and is being reshaped reflecting the strategic choices we are implementing. Notwithstanding the ongoing challenges presented by COVID-19, 2021 has been a year of economic rebound although one marked by varying impacts, with the COVID-19 Delta and Omicron variants and a dislocation between supply and demand starting to weigh on the pace of recovery.

Through this, we have continued to support our customers, colleagues and communities, and enhanced our relationships with our key brokers and partners. While acknowledging our transformation journey is not finished, we have made good progress in executing against our strategy, delivering improvements to our customers' experience with the Group and are further investing in transforming our culture and systems.

2021 performance

2021 has seen a strong recovery in our financial performance. The Group has reported a statutory profit before tax of £410 million (2020: £40 million), with increased returns on capital and an improvement in our statutory cost income ratio, which for 2021 was 51% (2020: 63%).

The external environment

During 2021 and 2020, the UK has neither experienced a "normal" recession nor a "normal" recovery. By November, GDP data indicated that the UK economy had surpassed its pre-pandemic size although the likely effects of Omicron were expected to weigh on growth into early 2022. Staff, materials shortages and supply side bottlenecks appear also to have contributed to a slightly more subdued near-term growth outlook.

Expectations are for GDP to return to more normalised rates of growth in 2022. Significantly, we seem set for a period of inflation, with higher interest rates and a potential squeeze on living standards, particularly for those on fixed and lower incomes. From a consumer perspective, it is clear there is evidence of varying levels of financial resilience and different paces of recovery. The release of pent-up savings during 2021 was modest, consistent with the rather subdued recovery in unsecured credit markets and cautious spending behaviours. Both the residential property and labour markets remained resilient in 2021, influenced by behavioural shifts in the property market, the availability of liquidity and the government furlough scheme.

Customers

During 2021, and over the forthcoming years, to further enhance customer services, we are strengthening data management and ensuring we meet regulatory requirements while reducing operational risk.

We continued to help and support our customers as they managed through what for many was a challenging year. While maintaining both risk and pricing discipline, we supported our customers through £3.5 billion of new lending.

We have invested in improved customer outcomes, including enhancements to our online channels, enabling customers to carry out their banking through a channel, and at a time, which is most convenient to them. We have also understood the needs of our customers by providing video guidance on our website to help remove customer uncertainty and used pop-ups to remind customers when to add important information.

We continued to look for opportunities where we can improve the services we offer to all our customers, including supporting those who are in financial difficulty. We maintained a focus on our vulnerable customers and our 'Tell us once' approach for bereaved customers was extended to offer online access across various products.

The level and pace of regulatory and operational change continues to provide challenges across the entire banking industry and as a Group we are very much focused on pro-actively responding to these changes, with our customers at the centre of everything we do.

Colleagues

Our purpose is fundamental to our DNA and we have seen our people continue to respond in extraordinary ways in extraordinary circumstances. Our purpose and values have helped us navigate and deliver significant change in challenging market conditions – and they will continue to do so as we enhance our culture and adapt to the post pandemic world.

Following colleague feedback, and while recognising a significant number of our colleagues are currently working from home, we have also implemented a new hybrid way of working to empower colleagues to work in a more agile manner. This is supported through the launch of new agile hubs and team charters to help colleagues identify the best ways of working for their specific team.

Supporting our colleagues' physical, mental and financial wellbeing has remained central to enabling our colleagues to thrive, and helping them feel valued and recognised for their contribution to our business. We continue to deliver initiatives through our Wellbeing App, providing colleagues with supports, virtual events and tools to maintain their wellbeing.

We have maintained our focus on the inclusion and diversity agenda, including holding colleague focus groups to identify appropriate actions to drive a strong sense of belonging, and during 2021 we achieved our Women in Finance target of new management and leadership roles filled.

In recognition of how colleagues were supported during a significant year of change for the NI business, our HR team was awarded 'Best Change Management Initiative for 2021' at the CIPD NI HR Awards.

As an employer, the Group recognises it operates in an increasingly competitive landscape when it comes to the attraction and retention of talent, and we continue to address our people risk through our comprehensive colleague value proposition, absent the use of performance related pay.

Communities

We are committed to supporting the communities where we live and work. During 2021, the Bank's community programme for the island of Ireland, "Begin Together", has continued to provide financial support of £700,000 to more than 100 community and arts projects. This included projects which focus on social isolation prevention, groups that work with migrants, educational skills and development for women, and interactive theatre for the disabled.

The Begin Together Community Fund, in partnership with The Community Foundation for Ireland which administers the fund, and supported by the Community Foundation for Northern Ireland, provided grants of up to £17,000. The Begin Together Arts Fund, in partnership with Business to Arts and supported by Arts & Business NI, provided grants of up to £8,500. The Begin Together Fund for Colleagues supports local not-for-profit organisations across the UK which Bank of Ireland colleagues are personally involved with. In addition, the Bank of Ireland UK Community Fund, managed by Quartet Community Foundation helped local charities and community organisations in Bristol, London and Northern Ireland. In 2021, the Fund supported community groups who were impacted by COVID-19.

Also, throughout 2021, the Group continued to support local communities and organisations through sponsorships, such as Open Farm Weekend, which celebrated its tenth anniversary, and Invent 2021, organised by science and technology hub Catalyst, an exciting competition for innovative start-ups and entrepreneurs.

We are very proud of the Awards we have received this year, including the Age Friendly Business Award.

Strategic progress

During 2021, we delivered on our strategic priorities of transforming the Bank, serving customers brilliantly and growing sustainable profits.

Key elements of our strategy include resizing our business, and, over time, reducing the size of our balance sheet, lowering our cost base and focusing on higher margin businesses where we have expertise. Our ambition is to further develop as a leading multi-niche bank in the UK, focusing on a number of market segments, serving specific customer needs, where we can build sustainable competitive advantage and build on our existing distribution partnerships.

I am incredibly proud of the progress we have made over the past year in delivering against this strategy, with some key highlights being:

- Growing our best in class Bespoke mortgage new business year on year by 50%, accounting for 25% of new mortgage business lending; and
- Refocusing our operating model to reduce complexity and put our customers at the heart of what we do.

Together, these actions have supported the delivery of our strong financial performance for the year and improved propositions for our customers.

Awards we received during the year included:

- Best Specialist Lender' at the L&G mortgage awards for Bespoke mortgage proposition;
- Asset Finance Solutions (AFS) "Car Funder of the year" was awarded to Northridge Finance;
- Financial Sector Innovation of the Year' at the FS Tech Awards for our Mortgage Online Offer tool; and
- Gold Ribbons across Savings, Loans and Current Accounts from Fairer Finance for customer experience.

Digital Banking

We are further enhancing our digital offerings, simplifying processes and creating new capabilities to support our customers. We are responding to customer demands for increased digital engagement by investing in customers' most frequent digital journeys. For example, in October 2021, we fully rebranded and refreshed the content of our existing mortgage customer website, improving our customers' journey and experience and offering more relevant and better placed content for both customers and solicitors.

Costs

Our focus on cost efficiency and strategic cost reduction has continued. We reduced our statutory operating expenses by 12% year on year whilst increasing our operating income by 8%. An underlying operating expenses reduction of £27 million, or 10% year on year, has been broad-based across a range of staff and non-staff initiatives supported by our voluntary redundancy programme announced in September 2020. Managing our costs will remain a key focus in 2022, while continuing to invest in strategic transformation and supporting our customers as the UK economy emerges from the impacts of COVID-19.

Responsible and Sustainable Business

During 2021, the Group launched Its Responsible and Sustainable Business strategy, 'Investing in Tomorrow' and we have continued to deliver under our three key pillars:

- Enabling colleagues to thrive;
- Enhancing financial wellbeing; and
- Supporting the green transition.

Behaving in a responsible and sustainable way is fundamental to achieving our purpose of enabling our customers, colleagues and communities to thrive. Work has started, in collaboration with our Parent, on setting science based targets by the end of 2022.

To help support the green transition we are developing new product propositions, including mortgages, by adding a number of product options that reward customers and landlords for choosing more energy efficient homes. These have been positively received by our intermediary partners and customers. In 2022, we are considering how we can further support

Chief Executive's review *(continued)*

existing customers to meet their own energy efficient and sustainable goals. As an organisation we are also decarbonising our own UK banking operations, making progress on our commitment to be net zero by 2030.

Financial Performance
The Group posted a statutory profit before tax of £410 million for 2021, up £370 million from 2020 and operating profit pre-impairment 42% higher year on year.

The Group's loan book reduced by £5 billion during 2021, primarily reflecting the impact of a transfer of £2.9 billion of mortgage assets to the Parent (realising a gain of £94 million on disposal) and other net deleveraging in the mortgage and Northridge Finance portfolios. The business achieved new lending volumes of £3.5 billion, £1.3 billion lower year on year, reflecting the impact of the Group's strategy to focus on higher returning lending segments within agreed risk parameters, and the continuing impact of COVID-19 on unsecured lending markets.

Net interest income of £511 million was 10% higher than 2020 and ahead of our expectations. This was driven by higher margins on our new lending, including mortgages, and reflects our strong commercial pricing discipline. Net interest income also benefited from reduced liability costs as the Group optimised its overall funding base in line with its agreed strategy. The Group's Net interest margin (NIM) of 2.13%, was up 29 basis points in the year. Net other income of £24 million was £8 million lower year on year, primarily reflecting lower income from strategic portfolio divestments. Share of losses from the First Rate Exchange Services Limited (FRES) joint venture remained relatively stable in the year at a £2 million loss, reflecting the ongoing difficult trading conditions in the foreign currency and travel market.

A net credit impairment gain of £54 million on financial instruments in 2021 compared to a charge of £151 million in 2020. The net credit in 2021 reflects: the impact on the Group's impairment models of the Forward Looking Information from the Group's latest macro-economic outlook; a management adjustment related to the risk that longer-term credit supports may be required for customers affected by COVID-19; and actual loan loss experience in the year. The impairment performance in 2021, was better than our expectations, reflecting the improved economic outlook in December 2021 compared to December 2020, combined with muted actual loan loss experience during 2021.

In 2021, through the commitment of all our colleagues we have made good progress in transforming our business, but we have more yet to do. This will include continuing to improve on our customer service, with a focus on good customer outcomes, additional investment in our digital platforms and further investing in our people and control processes.

Ian McLaughlin
Chief Executive Officer

Our Ambition, Purpose and Values

Our Ambition, Purpose and Values were clearly demonstrated during 2021, as we continued to focus on improving our customer experience and supporting our customers through the ongoing pandemic, while enhancing our relationships with key brokers and partners.

Our ambition

Our ambition is to continue to develop as a leading UK multi-niche Bank

As a multi-niche bank we will use our capability in selected market segments and distribution channels to focus on delivering great customer outcomes while achieving required returns. As we work to deliver on this ambition, we continue to transform the Group experience for our customers, colleagues and communities.

During 2021, while there were significant challenges for many, we made significant progress against our ambition, growing selected customer segments further and improving our overall returns, while managing risk and credit discipline.

We invested in our colleagues and their wellbeing and continued to transform customer experiences by progressing with digital transformation initiatives and online products that meet customers' expectations around a shifting digital culture in society. We introduced a range of measures designed to make it easier for our customers to bank with us.

To achieve our ambition, we have set out three clear strategic priorities; to transform the Bank, serve customers' brilliantly and grow sustainable profits.

Our purpose

The Group's purpose is to enable our customers, colleagues and communities to thrive.

Customers are at the heart of our business and always come first. In 2021, we connected and supported them throughout the pandemic, with a range of initiatives and financial and digital supports to assist throughout the crisis.

Colleagues keep our organisation working, by innovating and adapting to meet our customers' needs - never more than in 2021 and 2020 when they went above and beyond to deliver, in spite of challenging circumstances and a rapid transition to remote working.

Communities are where we live and work, and include groups such as our customers, shareholders, regulators and governments. Throughout 2021, we built on these relationships by helping our customers continue to navigate COVID-19 and supported the economic recovery in the communities where we live and work.

Our values

Our purpose is supported by four key values which guide us in everything we say and do and these values are embedded in how we run our business. In 2021, these values guided our actions as we mobilised to continue to serve customers brilliantly.

Customer focused

We seek to understand our customers well. We listen to them to ensure they feel valued and use our insights to consider how best to serve their needs. We take appropriate actions to deliver solutions to meet customers' changing requirements.

One Group, One Team

We know we work smarter when we come together behind our common purpose. We learn from each other and share ideas to expand our thinking. We build an open, trusting and supportive environment, and foster diversity of thought, ideas and experiences to spark creativity and innovation.

Agile

We embrace change with an open mind and a can do attitude. We respond quickly and proactively seek different perspectives. We challenge ourselves to look for new and simplified ways to efficiently deliver the best solutions for our customers.

Accountable

We are empowered to take ownership and trusted to do the right thing to support our customers, colleagues and communities. We lead by example and challenge ourselves and each other to do our best work at all times. We learn from our mistakes and celebrate our successes together.

Our strategy

To transform the Bank, serve customers brilliantly and grow sustainable profits.

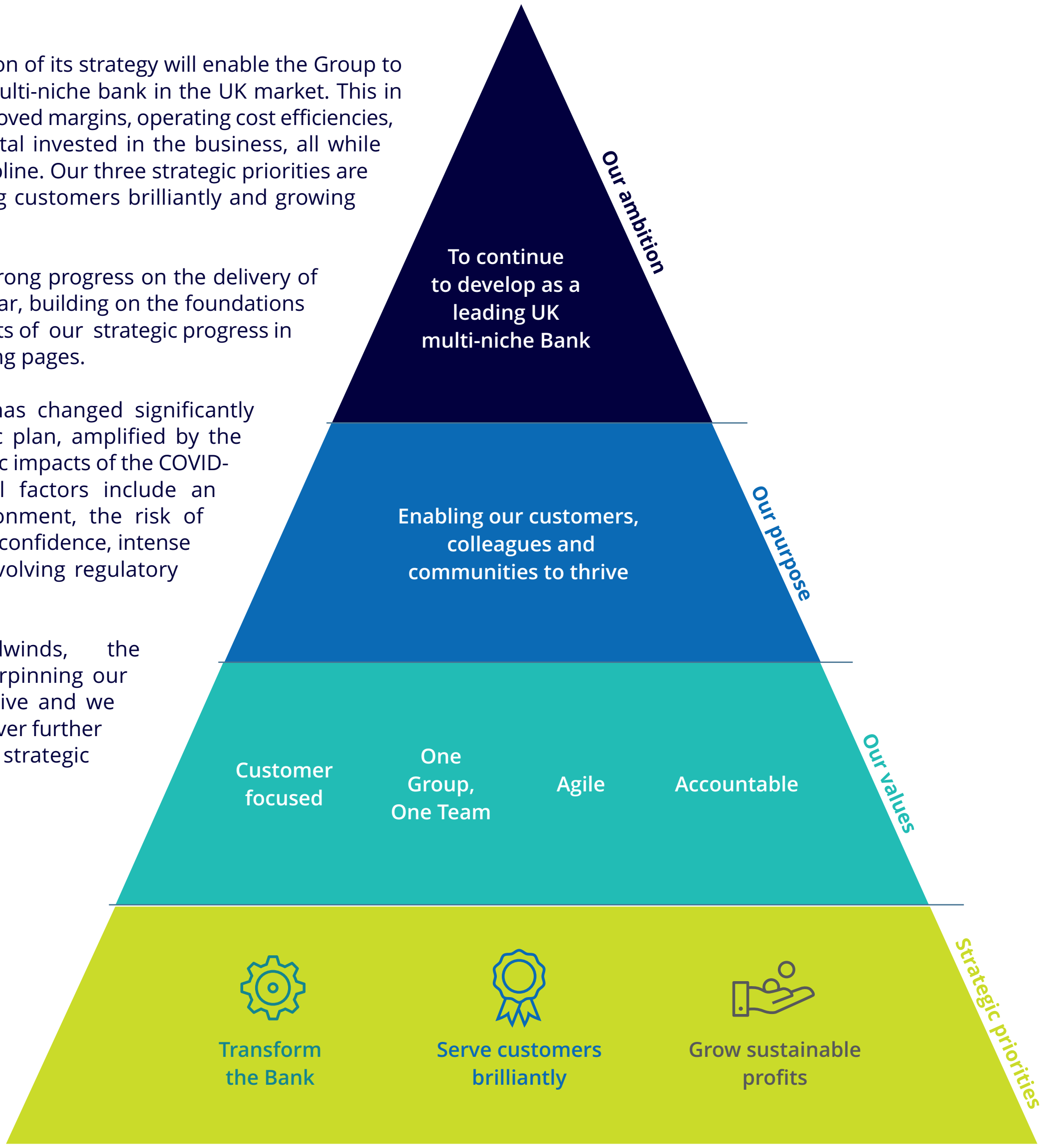
Related pages
Responsible & sustainable business (page 16)
Risk management (page 36)

The Group's successful execution of its strategy will enable the Group to develop further as a leading multi-niche bank in the UK market. This in turn is predicted to deliver improved margins, operating cost efficiencies, and improved returns on capital invested in the business, all while maintaining robust credit discipline. Our three strategic priorities are transforming the Bank, serving customers brilliantly and growing sustainable profits.

We have continued to make strong progress on the delivery of these priorities over the last year, building on the foundations of prior years. The key highlights of our strategic progress in 2021 are set out on the following pages.

Our operating environment has changed significantly since we set out our strategic plan, amplified by the profound societal and economic impacts of the COVID-19 pandemic. Other external factors include an uncertain interest rate environment, the risk of inflation, depressed consumer confidence, intense competition, Brexit and the evolving regulatory and political environment.

Notwithstanding these headwinds, the economic fundamentals underpinning our strategic plan remain supportive and we have clear plans in place to deliver further against each of our three strategic priorities.



Our strategy *(continued)*

Transform the Bank

We are transforming our culture, systems and business model to enable our customers, colleagues and communities to thrive.

Culture

The Group pursue five key cultural areas to support the achievement of its multi-year culture transformation strategy. Continuously evolving and strengthening our culture contributes to positive customer outcomes, long-term customer relationships, growth in sustainable revenue, improved staff engagement and talent acquisition.

Target outcomes

- Demonstrate progress in supporting and implementing the inclusion and diversity strategy.
- Enable sustainable leadership and management development.
- Strengthen internal and external partnerships.
- Reinforce a culture of colleague recognition.
- Drive agile capability.

How we performed in 2021

- The Group has taken steps to increase female representation, demonstrated through the achievement of the UK Women in Finance target of 38% females in senior leadership positions by December 2021 and has committed to setting diversity targets aligned to the protected characteristic categories, all of which are supported by various colleague led inclusion and diversity networks. Good progress has been made in progressing the commitments made in line with the UK Race at Work Charter. The Group has equally made good progress in establishing the demographic make-up of the organisation as a whole and has consequently begun the process of conducting pay gap reviews against these characteristics.

- Management and leadership capability development has remained a key focus area in 2021, with supporting programmes and communications thematically focused on driving a culture of customer focus, regulatory compliance, ruthless simplification and excellence in executing change.

- The Group has focused on senior leaders creating an environment of inclusion and collaboration across teams and various parts of the business, with progress monitored as part of ongoing all-colleague surveys. Additionally, the Group continues to collaborate with its partners (PO / AA) and Financial Services Culture Board member firms on the broader culture, wellbeing and inclusion and diversity agendas.

- Following the review of over 600 nominations from UK colleagues, the 2021 Recognition Awards cycle concluded with a Group-wide virtual awards ceremony in September 2021, where the business celebrated the achievements of our colleagues living our purpose and values every day.

- Various commitments were progressed to support New Ways of Working (NWOW); including video conferencing facilities and working from home supports (IT equipment and furniture), while administration buildings were also upgraded to support NWOW, in line with COVID-19 guidance to allow for colleagues to return to the office. Agile capability continues to improve with an ever increasing number of projects and workstreams making use of the agile methodology.

Our strategy *(continued)*

Transform the Bank

Systems

We are making a significant investment to transform our technology. This investment is critical to support our business growth, as well as improving efficiency and enhancing service to our customers.

Target outcomes

- Improved customer experience.
- Simplification of products and processes.
- Excellence in digitisation.
- Improving our resilience.

How we performed in 2021

- The Group has improved key customer journeys, addressing feedback from customers on how we could serve them better with a focus on digitising journeys and enabling customers to self-serve.
- The enhancements on our mobile app and online banking channels have improved security and functionality for our customers.
- The Group remains conscious that some of our customers require support in using digital journeys and as such five ”how to” video guides have been created across three core journeys which have been viewed over 350,000 times.
- Delivery of the UK IT Strategy is a key part of our journey to becoming a leading multi-niche bank in the UK. This IT strategy sets out clear steps to be taken and a delivery roadmap that addresses the key IT and cyber security risks within the Group.
- The Group continues to invest in and transform our technology across key customer data and security platforms; enhance data management, and ensure regulatory requirements are met while reducing operational risk.
- As the Group maintains focus on operational resilience, in 2021, a major upgrade to our core Mortgage Platform was completed which will also lay foundations for future strategic change.

Business model

We are committed to optimising our business model and ensuring our organisation is efficient and effective. We are simplifying our structures, making our teams more effective and improving the management of third-party providers. This will help us to become leaner, more agile and even closer to our customers.

Target outcomes

- Simplified operating model with clear accountabilities.
- A customer focused organisation.

How we performed in 2021

- The Group implemented a simplified operating model to break down silos and increase customer focus, with three customer facing business channels established, as detailed below:

  - Home Buying and Ownership
  - Savings and Lending
  - NI and Partnership

- As the Group continues to optimise its business, 2021 has seen a 15% reduction in headcount, achieving a comparable reduction in staff related costs.
- However, the Group focus remains on customer-facing areas, and in 2021, we have increased headcount in other key customer facing areas including our Customer Relations team to support vulnerable customers, Complaint Analysis and Collections and Recoveries.
- We identified six key capabilities for the future:

  - Digital solutions
  - Data management
  - Operational resilience
  - IT & information security
  - Sourcing governance and management
  - Change & transformation

  These capabilities will be the focus of learning and development in the coming years as we look to strengthen our ability in these areas. In support of this, we launched our new Digital Academy during Q4 of 2021.

- With the accelerated move to hybrid working post pandemic the Group continued to review and reduce its property footprint.

Our strategy *(continued)*

Serve customers brilliantly

We are committed to building a customer-focused organisation that invests in improving service and digital capabilities, while also getting the basics right. We listen to customers and respond to their feedback.

Embedding voice of customer in our businesses

Customers are always at the very heart of our business, but never more so than this year as we have seen their expectations around product, service and banking preferences - particularly in relation to digital - evolve at an accelerated pace. We are committed to supporting our customers' needs and financial wellbeing by offering customer-centric propositions and services to enable them to thrive in all circumstances.

Target outcomes

- Significant improvement in customer satisfaction and advocacy.
- Serving customers during their key life moments.
- Customer centricity at the heart of our culture.

2021 highlights

- In 2020, the Group rolled out Qualtrics real-time insight monitoring in the UK. This real-time, online insight at key customer interaction points continued in 2021 with consistently high scores for various products. The Group is now progressing this to all customer touch points, including collections, to assess the quality of the interactions against customer expectations. Given the real-time nature of the verbatim feedback, immediate action is enabled to act on feedback.

- Understanding the reason for customer complaints is important to the Group. It helps the Group take customer complaints seriously, continually seeking to reduce complaints. For the second year running 'Complaints per 1000 accounts', have reduced significantly.

- The Group announced branch closures in NI which were completed during 2021. There was a strong communications campaign and ongoing support to customers by the branches during this transition, to mitigate impacts of this change.

- The Group undertook a number of customer initiatives during 2021 including enhancements to the mortgage online self-serve function, the launch of a save and retrieve feature on online loan applications so that customers can now complete their application at a time that suits them and the launch of medical school graduate lending in NI to support a specific need for these customers at a key point in their lives.

- The Group is keen to simplify and enhance its processes further to support customers during difficult times. In 2021, we were proud to support our vulnerable customers by launching our 'Tell Us Once' for bereavement across all our Northridge, Savings, Mortgages, Great Britain (GB) and NI consumer and loans products; with the facility scheduled to be launched for Business banking later in 2022. We also offer an Online Bereavement Notification process, to allow simplified notification, with enhanced document upload functionality. In addition, the Group partnered with Victim Support - the leading charity who can offer customers both emotional and practical support. The Group has a number of Vulnerable Customer Champions who are specifically trained to support vulnerable customers. During 2022, we will further invest in those processes supporting customers in financial difficulty.

Our strategy *(continued)*

Serve customers brilliantly

Investing in digital and physical channels

As 2021 has unfolded, the Group has retained a clear focus on driving improved customer journeys and outcomes alongside the wider transformation agenda with a number of digital initiatives either delivered or initiated in support of the the Group's strategy be a leading UK multi-niche bank.

Target outcomes

- Enable better digital capabilities in our Bespoke Mortgages, Savings, Car Finance, Asset Finance and Personal Loans businesses.
- Extend usage and deliver new features for the Mobile Banking App in NI.
- Remove known pain points across digital journeys and enable customers to engage more with online services.

How we performed in 2021

- Over 100,000 customers have accessed the new Banking 365 platform across App & Web channels. 80% of customers are using the App only and there are an average of 450,000 logins per week. Additionally, we are planning to launch new card management features within the 365 mobile banking app, allowing customers to view their PIN instantly, activate a new card, order a replacement card, and freeze / unfreeze their card.
- Across all of our products and brands we have seen nearly 5 million customer visits to our websites to apply for one of our products or service an existing product. This reflects our strategic focus to develop as a streamlined multi niche Bank in the UK.
- 100% of our personal loan applications, 75% of new mortgage applications and 53% of savings products now originate online.
- We have supported our customers through COVID-19. Our customers continue to avail of our Covid Hub on our website which signposts them towards help with any challenges including finding Money Advice support for Personal Banking.

Our strategy *(continued)*

Grow sustainable profits

We are focused on delivering sustainable returns for our shareholders. This is based on focused business growth in certain niche segments, so as to deliver improved margins, and improved returns on capital invested in the business, while maintaining robust credit discipline. At the same time, we are reducing our costs each year as we drive efficiency and streamline our business.

Reshaping the business

Our focus in the UK is on delivering great customer outcomes and improving sustainable returns. We will focus on "value, rather than volume" which will result in a smaller balance sheet over time, enabling us to lower our funding and operating costs, and focus on higher margin business where we have the necessary expertise.

Target outcomes

- To continue to develop as a leading UK multi-niche bank.
- Improving sustainable returns.
- Improving net interest margins.
- Achieve lower cost of funding, acquisition and servicing.
- Achieve lower cost income ratio.

How we performed in 2021

- The Group's statutory profit before tax of £410 million for 2021 was up £370 million from 2020. The Group's underlying profit before tax of £335 million for 2021, up £379 million from 2020. For further detail please see page 28.

- Statutory return on tangible equity (ROTE) increased to 24.8% in 2021 (2020: 0.9%).

- Net interest margin (NIM) of 2.13%, was up 29 basis points in the year driven by higher margins on our new lending, while net interest income also benefited from reduced liability costs as the Group optimised its overall funding base in line with its agreed strategy.

- In 2021, the Group reduced its statutory cost base by £38 million, improving the cost income ratio from 63% to 51%.

- The Group has continued to grow its Bespoke mortgages. During 2021, there has been gross new lending of £0.5 billion (£0.4 billion net) with a total balance at the year end of £0.9 billion for Bespoke Mortgages (2020: £0.5 billion).

- During November 2021, £2.9 billion of mortgages were transferred to the Parent in order to optimise its liquidity and funding profile. The assets were transferred using a beneficial transfer mechanism; with funds of £2.9 billion transferred by the Parent for the assets and in return the Parent received all material risks and rewards of ownership. The transfer gave rise to a gain of £94 million which reflects a price paid of 102.5% based on an arms-length price. Refer to note 15 for more detail.

Responsible and Sustainable Business at Bank of Ireland UK

Behaving in a responsible and sustainable way is fundamental to achieving our purpose of enabling our customers, colleagues and communities to thrive.

Responsible and Sustainable Business

Behaving in a responsible and sustainable way is fundamental to achieving the Group's purpose of enabling its customers, colleagues and communities to thrive. The Group's Responsible and Sustainable Business (RSB) framework supports its behaviours and the Group's strategic priorities.

In March 2021, our Parent launched the group wide RSB strategy, Investing in Tomorrow. The strategy provides clear commitments to working with customers, colleagues and communities to support their transition to a resilient, net zero economy by 2050.

By enabling customers, colleagues and communities to thrive we can contribute to a better tomorrow. Investing time, money, effort and resources into this is therefore fundamental to our RSB Strategy.

The framework combines the following three pillars:

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

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

Enabling colleagues to thrive

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

Focus areas

Digitally able
Employability
Inclusive development

Enhancing financial wellbeing

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

Focus areas

Financial capability
Financial inclusion
Financial confidence

Supporting the green transition

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

Focus areas

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

Responsible and Sustainable Business *(continued)*

Enabling current and future colleagues to thrive

This pillar focuses on learning and aims to address key organisational and societal challenges including digital transformation. It is important the Group does this in an inclusive and diverse way, building an organisation reflective of society.

Digitally able

The Group must develop skills and capability to support a digitally able society. This is brought to life through a number of internal development programmes such as the Career and Business Agility programmes. The Group is using insights from its Begin Together programme to develop supports to enable a digitally able society.

Employability

The Group wants to enable colleagues, current and potential, to develop skills that allow them to adapt to the constantly changing world of work. The Group does this by developing people leaders and managers with the right behaviours and skills to support a digitally able learning organisation and providing up-skilling opportunities via development programmes such as the Career Agility Programme, the Project Management Programme and the Data fluency programme.

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

During 2021, the Group, in association with the University of Ulster, launched a Degree programme to provide their employees with the opportunity to complete the fully funded part-time course while taking on a new role within the organisation. Successful participants will be awarded a BSc (Hons) Degree in Leading on Customer Operations. The degree is an industry focused course which provides participants with a comprehensive understanding of the knowledge, skills and behaviours necessary to play a principal role in shaping the future of customer operations. The Group also created additional pathways for accessing employment among sectors of society that face significant challenges through work experience, employability skills training, returners and apprenticeship programmes.

Inclusive development

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

Inclusion and diversity

The Group is committed to an inclusive and diverse place to work where colleagues can be themselves and perform to their full potential. The Group wants to attract, promote and retain diverse talent at all levels, to create a more innovative and high-performing business.

A range of initiatives were introduced in 2021 to promote greater ethnic diversity within the Group's workforce. The initiatives are designed to take targeted action in four key areas including:

- Education and training: In 2021, all people managers in the Group completed Unconscious Bias training. This training, designed to help colleagues recognise often unconscious attitudes which can affect how they engage with each other, will help build a stronger, more diverse, and a more inclusive organisation. In addition, inclusion and diversity training was introduced for all colleagues.
- Policy changes: The Group has introduced a Recruitment Charter which sets out clearly its commitment to diverse hiring, with ethnicity monitored at application, shortlisting, and hiring stage.
- Tracking and measuring: The Group has made changes to its HR systems to start to record diversity data among its workforce. This will give the Group better understanding of how ethnic diversity within its workforce compares to diversity in both its customer base and in the communities where it does business, and will allow the Group to track its progress over time.
- Talent development: The Group continues to develop its Ethnic Minority Talent Programme (RISE) designed specifically for colleagues whose ethnicity and race are not those of the majority group. The programme aims to equip colleagues with the skills and knowledge to support their progression into management positions. During 2022, the Group will also participate in the Black British Business Awards (BBBA) Talent Accelerator programme.

The new initiatives being introduced in 2021 build on a range of developments already in place across the Group including the Race At Work Charter UK which the Group signed up to in 2020.

The Group has increased female representation and has achieved the UK Women in Finance target of 38% females in senior leadership positions by end of December 2021.

The Group's commitment to inclusion and diversity has been recognised with the following; Age-Friendly Business Award at Business in the Community's 2021 Responsible Business Awards and CORE accreditation at NI Responsible Business awards.

Financial Wellbeing

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

Financial Capability

The Group wants to enable people to know and do more by improving their financial literacy. The aim is to empower people with the knowledge to help them improve their financial capability and confidence. The Group wants to deliver digital capabilities and tools to help customers manage their day-to-day finances, plan for the future, and to help colleagues improve their financial wellbeing through education, tools and tailored supports.

The Group does this through the following initiatives; literacy programmes for Youth, Business and Seniors such as the Group's partnership with Cinemagic to create a short content piece aimed at young people from the age of 12 to highlight the importance of financial wellbeing.

The Group facilitates an online service called "Your Next Step" which enables our customers to feel empowered to use digital banking. Your Next Step includes 15 online videos which educate our customers on our mobile app features and Secure Customer Authentication.

Responsible and Sustainable Business *(continued)*

Financial inclusion
The Group must protect its most vulnerable customers including those experiencing challenging circumstances.

The Group has a number of initiatives to empower colleagues with the skills, knowledge and confidence to support the needs of vulnerable customers. The Group continues to enhance services and tools to support these customers and their families and in 2021, we partnered with Victim Support - the leading Charity who can offer customers both emotional and practical support.

The Group have signed up to the UK Finance - Financial Abuse code 21 and we have in place a dedicated Financial Abuse Team to support victims and survivors of financial, economic and domestic abuse. We provide an online domestic abuse contact form, enabling victims to tell us when it is safe to call.

Within the Group, we have over 70 Vulnerable Customer Champions of which one third are also Mental Health First Aiders. Quarterly Vulnerable Champion Forums are held to cascade information on best practice guidelines to assist our vulnerable customers. Additionally, we have a Vulnerable Customer Hub which contains support materials and training aids for our colleagues.

During 2021, the Group enhanced the online bereavement notification service with a document upload functionality which supports our 'Tell us Once' approach for bereaved customers.

In order to serve all of our customers we offer alternative forms of communication such as braille, large print and conversion to audio file for visually impaired customers. We offer a text relay service or sign language via live video chat for our hearing impaired customers.

Financial confidence
The Group wants to improve people's ability to trust in their bank and in their own decision making. Importantly, the Group wants to help customers to emerge from financial difficulty in a post COVID-19 world. The Group does this through its Financial Wellbeing Programme which helps its customers improve their financial literacy.

Supporting the Green Transition

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

Supporting the green transition requires the Group to help mitigate climate change by supporting more customers with their sustainability ambitions, reduce the Group's own carbon footprint and make further progress on this critical agenda.

To deliver on this ambition, we have set out the following plan:

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

In collaboration with our Parent, initial work has begun on the setting of science based targets for the UK mortgage book. Baseline emissions have been calculated and this will help inform target setting for the mortgage portfolio. The intention is that targets for the mortgage book will be announced by the end of 2022.

Provide sustainable financing
The Group has developed the mortgage product offerings to help customers improve the energy efficiency of their properties. In 2021, we launched a suite of products for buy to let landlords via the broker network that rewards customers for choosing a property with an EPC of C or above. We now offer both Green and non-Green buy to let products and have an overall objective to increase the penetration rate of A-C properties from the current level of 36%.

In September, we took the next step along the Green product roadmap through the launch of products offering enhanced terms on mortgages for A & B EPC rated new build houses under the Bespoke proposition.

The focus of the mortgage business is now on how the Group can further support existing customers, both landlords and owner occupiers, to meet both Government driven and their own energy efficient and sustainable goals.

Northridge, our asset finance business introduced a product variant specifically for used electric vehicles in October 2021. In addition, the proportion of diesel cars in the Northridge portfolio reduced by 10% over 2021, with diesel cars now making up 38% of the book. The move from new Internal Combustion Engine (ICE) cars continued in Marshall Leasing with alternatively fuelled vehicles making up 40% of new orders, an increase of 12% compared to 2020 figures.

Decarbonising our own operations
The Group is included within its Parent's commitment to make its own operations Net Zero by 2030. Highlights in 2021 include energy efficient air conditioning upgrade in our Temple Quay office and LED lighting upgrades in our retail banking branches.

Managing climate-related risks
The Group continues to progress the work initiated in 2019 as part of its Climate Programme which includes broad membership from across the business, with representatives from both first and second lines of defence. Existing committees and governance have been leveraged to manage and report on Financial Risks from Climate Change (FRCC). The Climate Programme has reported on progress against SS3/19 to Executive Risk Committee (ERC) and Board Risk Committee (BRC) on a quarterly basis. The Chief Risk Officer (CRO) is the Senior Management Function (SMF) and accountable executive in respect of the management of FRCC across the Group.

During 2021, the Group has further matured its internal framework to identify, measure, assess and monitor the potential financial impacts emerging from climate change risk on the UK Mortgages portfolio covering both physical (flood, subsidence, coastal erosion) and transitional (energy efficiency) risk perspectives. ERC and BRC discussed climate change as a substantive agenda item on four occasions throughout 2021. BRC received updated climate risk training in Q4 2021 delivered by external experts.

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

Our progress has been assessed by external consultants through the lenses of Governance, Risk Management, Scenario Analysis and Disclosures, and has provided assurance to senior management on the appropriateness of the overall approach followed by the Group.

Responsible and Sustainable Business *(continued)*

Risk measurement
Materiality and impact assessments have been an annual exercise since 2019 encompassing an assessment of physical and transition risks against principal risk categories (such as credit, operational, business and strategic risk) and material asset classes on the balance sheet. The Group's mortgages are the most material portfolio, followed by motor finance and commercial banking activities.

Following the initial annual assessment in 2019, the Group worked with a third party, Landmark Information Group, to further understand climate related risks to the mortgage portfolio.

In partnership with Landmark Information Group, analysis of the Group's mortgage portfolio at individual property level has been undertaken in 2021 and 2020 including the impact of physical and transition risk scenarios anchored around the Paris Agreement commitments.

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

Scenario ID	Emissions Scenario illustration	Increase in temp by 2100
RCP2.6	Significant global reduction	1.4 - 3.2°C
RCP4.5	All countries implement Paris Accord	2.1 - 4.2°C
RCP6.0	All signatories implement Paris Accord	2.5 - 4.7°C
RCP8.5	Business as usual	3.4 - 6.2°C

The analysis considered the following:

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

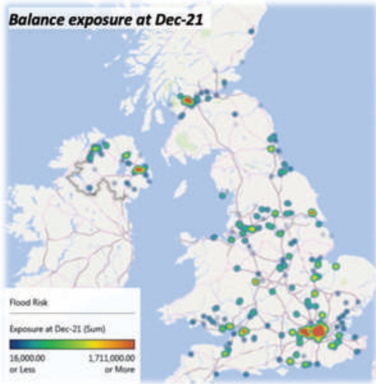
This analysis was able to measure the impact of climate on the mortgage portfolio on any decade from 2020 to 2080. The first three climate risks used JBA Risk Management data. Whilst the results have not identified any significant portfolio concentrations, the analysis has helped inform consideration of certain capital sensitivities in the stress and scenario analysis and in the setting of early warning indicators to help monitor portfolio risks over time and take management action, as appropriate.

The latest analysis shows that the incidence of cases with a corresponding physical climate risk has reduced since the previous assessment made in 2020 and remains very low in materiality.

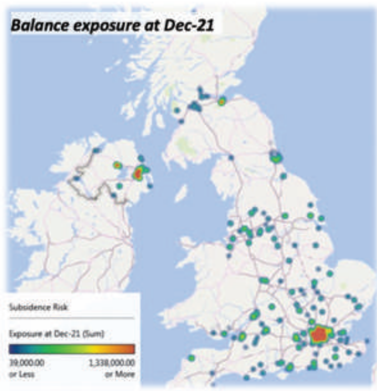
1. Flood Risk
Each loan in the mortgage portfolio is allocated a probability of a flood event occurring by 2030 under the Representative Concentration Pathway (RCP) 8.5 scenario (BAU) which expects a temperature increase between 3.4-6.2 degrees Celsius by 2100.

As of December 2021, 94% of our mortgage lending is on properties with low to negligible risk of a flood event.

Flood Risk probability	Book proportion
High: >5%	2.8%
Medium: >1%	3.7%
Low: >0.1%	7.4%
Very low: >0.01%	5.4%
Negligible: <0.01%	80.7%

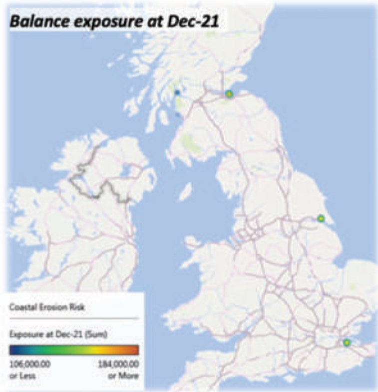


2. Subsidence Risk
Similarly, 91% of UK Mortgages book relates to properties with low to negligible probability of a subsidence event occurring by 2030. Of the 9.2% that sits within a medium probability of a subsidence event by 2030, the value at risk is minimal for these properties.



Subsidence Risk probability	Book proportion
High: >5%	0.0%
Medium: >1%	9.2%
Low: >0.1%	78.9%
Very low: >0.01%	11.6%
Negligible: <0.01%	0.3%

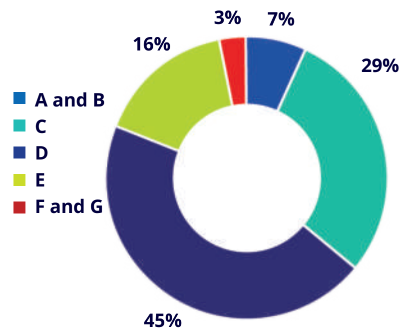
3. Coastal Erosion
The coastal erosion risk exposure to the UK Mortgages portfolio is deemed negligible where less than 0.01% of our book shows a probability of an event occurring by 2030.



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

The EPC data is available for mortgages amounting to £11.6 billion (66% of our mortgages portfolio in the UK).

Total England and Wales Mortgages with EPC data available (£11.6 billion)



Responsible and Sustainable Business *(continued)*

Currently, 36% of our book corresponds to properties already in EPC ratings A to C. This is broadly in line with housing stock in England. The progress made in 2021 regarding the management of climate change risk helped the Group understand what the current acquisition and retention strategy is having on the climate risk profile of the book. The analysis also culminated in a suite of climate-related metrics being incorporated into monthly reporting during 2021 as well as a specific metric within the UK Credit Risk Appetite for 2022 for Buy-to-Let properties with an energy performance rating of C or above.

From an operational risk perspective Landmark Information Group data was also used to understand the potential physical risks on the Group's own UK footprint as this may impact our ability to provide services to customers. No significant physical risks were identified, with the current business continuity plans that are in place sufficiently covering this risk.

The Group has also expanded the annual treasury credit counterparty review to incorporate a qualitative climate risk assessment.

Future developments
We continue to monitor regulatory, governmental and industry developments in relation to new climate change risk related standards. Representation in industry working groups has helped inform the Group's approach.

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

Transparently reporting
The Group has established a Climate Change Programme to work towards compliance with upcoming disclosure requirements, for example, the mandated Task Force on Climate-related Financial Disclosures (TCFD) and proposed Sustainability Disclosure Requirements. We will contribute and support the Parent TCFD where appropriate.

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

Responsible and Sustainable Business *(continued)*

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

Summary of SECR	**2021**	**2020**
Total Energy consumption used to calculate emissions kWh (million)	9.12	8.71
Scope 1 Emissions in metric tonnes of carbon dioxide equivalent (tCO2e)[1,2]:		
Gas[3]	556	529
LPG[3]	13	12
Kerosene Fuel[3]	42	36
Gas Oil[3]	69	80
F-Gas[4]	31	136
Petrol Car[5]	86	132
Diesel Car[5]	48	120
Total Scope 1	**845**	**1,045**
Scope 2 Emissions (tCO2e):		
Purchased Electricity Location - based[6]	1,186	1,239
Purchased Electricity Market - based[7]	22	659
Total Scope 2	22	659
Total Gross emissions (tCO2e)	867	1,704
Intensity ratio Tonnes CO2e per m2[8]	**0.02**	**0.04**

Scope 3 Emissions in metric tonnes of carbon dioxide equivalent (tCO2e)[9]	**2021**
Business travel	59
Waste	6
Purchased goods and services	5
Total Scope 3	**70**

The graph below represents, in metric tonnes of carbon dioxide equivalent reduction under scope 1 and scope 2 during 2021 versus 2020.

	2021	**2020**
tC02/m2	0.0444	0.0228

1 *tCO2e - Carbon dioxide equivalent is the measure of greenhouse gas emissions.*
2 *2021 and 2020 UK greenhouse gas reporting conversion factors used(www.gov.uk).*
3 *Consumption figures obtained from utility bills and landlord consumption reports.*
4 *Fluorinated Greenhouse gases (F-Gas) Figures from maintenance reports.*
5 *Emissions form staff car fleet.*
6 *Purchased Electricity Location based using UK 2021 and 2020 national grid conversions.*
7 *Purchased Electricity Market - based using UK 2021 and 2020 national grid conversions for GB and Northern Ireland is on 100% renewable energy except 3 small offices in GB using 104,995 kWhs.*
8 *Calculated as the sum of (SECR) emissions divided by the meters squared of buildings portfolio NI,GB 37,969 m2 for 2021 & 38,419 m2 for 2020.*
9 *Note that scope 3 is not included in overall gross emissions and we only have current year data to present.*

Non-financial information statement

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

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

Reporting Requirement	Policies	Risk and Management (The Group)	Risk and Management (Bank of Ireland Group plc)
Environmental matters	Group Environment policy (ISO 14001)[1]	Responsible and sustainable business *(page 16)*	Environment and Energy *(page 37)*
	Group Energy policy (ISO 50001)[1]	Financial risks from climate change *(page 35)*	
Social and employee matters matters	Inclusion and Diversity policy	Responsible and sustainable business *(page 16)*	Vulnerable customers *(page 26)*
	Group Code of Conduct[1]	Responsible and sustainable business *(page 16)*	Inclusion and diversity *(page 25)*
	Equal Opportunities policy	Responsible and sustainable business *(page 16)*	Learning *(page 24)*
	Group Health and Safety policy	Conduct risk *(page 59)*	Wellbeing *(page 24)*
	Employee Data Privacy	Business and strategic risk *(page 57)*	Communities *(page 44)*
	Group Vulnerable Customers policy		People risk *(page 140)*
	Group Learning policy		
Respect for human rights	Modern slavery and human trafficking statement[1]	Operational Risk *(page 56)*	Information security *(page 45)*
	Group procurement policy		Operational risk *(page 52)*
	Group data protection and privacy policy		Human trafficking *(page 45)*
Bribery and corruption	Group Code of Conduct[1]	Responsible and sustainable business *(page 16)*	Code of conduct *(page 44)*
	Speak Up policy	Conduct risk *(page 59)*	Anti-bribery and corruption *(page 44)*
	Group Anti-Money Laundering policy (AML)		Anti-Money Laundering *(page 44)*
	Group Anti-bribery and Corruption policy		Conduct risk *(page 185)*
	Conflict of Interest Policy		
Diversity report	Board Diversity policy[1]	Corporate Governance arrangements *(page 68)*	Corporate Governance Statement *(page 78)*
Business model		Business operations *(page 31)*	Divisional Review *(page 64)*
Policies followed, due diligence and outcome		Risk management framework *(page 37)*	Risk management framework *(page 150)*
Description of principal risks and impact of business activity		Principal risks and uncertainties *(page 33)*	Key risk types *(page 52)* Principal risks and uncertainties *(page 138)*
Non-financial key performance indicators		Responsible and sustainable business *(page 16)*	Key highlights *(page 3)*

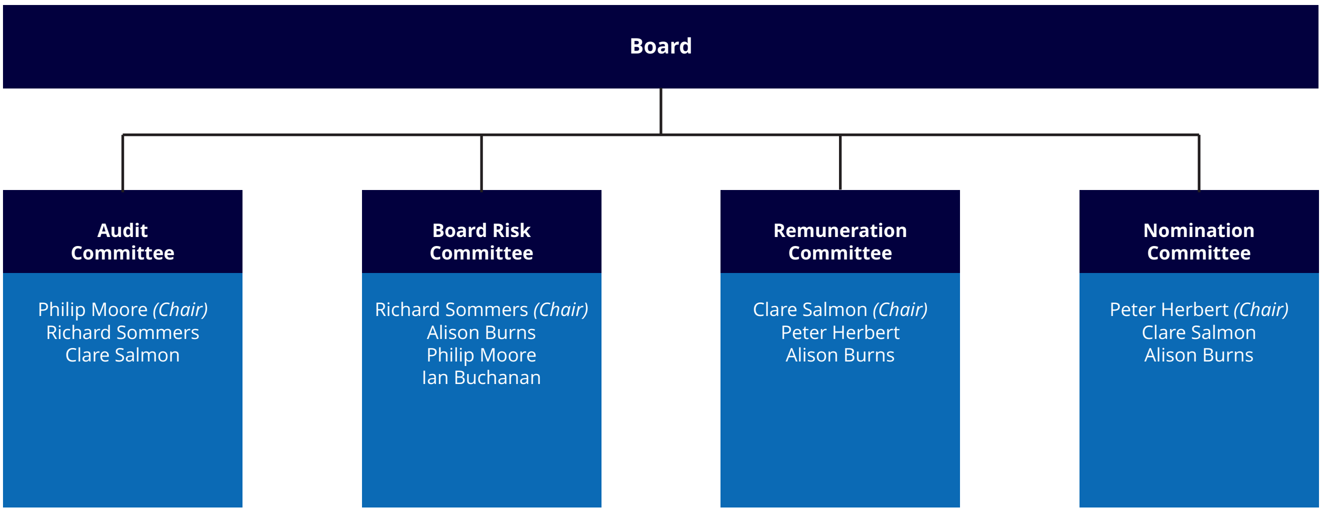
[1] *These polices are available on the Bank of Ireland Group plc website, www.bankofireland.com. All other policies listed are not published externally.*

Governance structure

The Board sets the Group's strategic aims and risk appetite to support the strategy, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives. During 2021, the Board met 15 times. Further details are included in the Governance section on page 63.

The Board provides leadership of the Group within the boundaries of risk appetite and a framework of prudent and effective controls which enable risk to be identified, assessed, measured and controlled. The Board has delegated specific responsibilities to the following Board Committees: Audit Committee, Nomination Committee, Remuneration Committee and Risk Committee; and each of these committees provides detailed focus to different areas of the Board's work. An overview of each of the committees is set out below.

Our Board



The Board is supported by a number of Committees:

Audit Committee

Philip Moore

Chair

Monitors the integrity of the financial statements, oversees all relevant matters pertaining to the external auditors and reviews the Group's internal controls, including financial controls, and the effectiveness of the internal audit function. The Committee meets at least four times a year. In 2021, the Committee met seven times.

Board Risk Committee (BRC)

Richard Sommers

Chair

Monitors risk governance and assists the Board in discharging its responsibilities in ensuring that risks are properly identified, reported, assessed, and controlled and that strategy is cognisant of the Group's risk appetite. The Committee meets at least five times a year. In 2021, the Committee met 17 times, including 5 out of course meetings in relation to the implementation of the UK strategy.

Remuneration Committee

Clare Salmon

Chair

Holds delegated responsibility for setting remuneration strategy and policy for Executive Directors and senior management. The Committee meets at least twice a year. In 2021, the Committee met seven times.

Nomination Committee

Peter Herbert

Chair

Responsible for leading the process for Board, Board Committee and senior management appointments and renewals. The Committee regularly reviews succession plans for the Board, and the senior management team, and makes appropriate recommendations to the Board. The Committee meets at least twice a year. In 2021, the Committee met eight times.

Section 172(1) Statement

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

S172 factor	Relevant disclosures
A) the likely consequences of any decision in the long term;	Our Ambition, Purpose and Values (page 9) Our Strategy (page 10) Responsible & Sustainable Business (page 16)
B) the interests of the company's employees;	Responsible and Sustainable Business (page 16) Our Ambition, Purpose and Values (page 9) Our Strategy (page 10)
C) the need to foster the company's business relationships with suppliers, customers and others;	Responsible and Sustainable Business (page 16) Our Ambition, Purpose and Values (page 9) Our Strategy (page 10)
D) the impact of the company's operations on the community and the environment;	Responsible and Sustainable Business (page 16)
E) the desirability of the company maintaining a reputation for high standards of business conduct; and	Responsible and Sustainable Business (page 16)
F) the need to act fairly as between members of the company.	Our Ambition, Purpose and Values (page 9) Our Strategy (page 10)

Methods used by the Board

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

- A clear and robust Governance structure with clear lines of accountability and responsibility for the Board, Committees and Executive Team;
- A three lines of defence approach for Risk Governance. Further information on this approach is available in the Risk Management Section of the Annual Report on page 36;
- A focused schedule of technical and business Board and Committee training is agreed annually. For further information on the training provided to the Board and Committees during 2021, see the Wates Principles in Corporate Governance Arrangements (page 68).
- A review of the Board's effectiveness undertaken in 2020 by Allen & Overy Consulting concluded that the Board and its Committees operated effectively. Actions implemented during 2021 to enhance Board effectiveness include:
  - the appointment of three new non-Executive Directors to the Board with skills and experience to enhance the overall Board;
  - continued improvements to Board papers and information, including the addition of dedicated People and Customer reports to the Board Management Information (MI) pack and a quarterly Culture Dashboard;
  - appointed Colleague Engagement and Customer Directors; and
  - introduced quarterly, virtual Board breakfast sessions as a way for different Colleagues across the Group to engage directly with Board directors outside the Boardroom.
- The Board reviewed and reconfirmed its support for the transformation strategy in 2021 at its annual Board Strategy Day in March 2021.
- Matters reviewed and approved by the Board in 2021, included the Group's Risk Appetite Statement; ICAAP, ILAAP and Recovery Plan.
- External Assurance is received through auditors and other professional advisors, for example PA Consulting on Operational Resilience and EY on the Financial Risks of Climate Change.

Principal Decisions Made During the Year

In accordance with Section 172 of the Companies Act 2006, the Board took into consideration all stakeholders when making decisions for the Group. During 2021, the Board reviewed and approved a number of strategic initiatives and played a key role in all material decisions including review and confirmation of its commitment to the multi-year transformation strategy; the Implementation Plan for the closure of some branches; and the £2.9 billion mortgage asset sale to the Parent.

Stakeholder Engagement

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

Stakeholder	How We Engage	Further Examples of Engagement
Shareholder	The Group is focused on delivering sustainable returns for its shareholder via a multi-year restructuring programme that began in 2020 and will focus on "value, rather than volume" and this will result in a smaller balance sheet over time, enabling the Group to lower its funding and operating costs, and focus on higher margin businesses where it has the required expertise. Three of the Group's Board Directors are also members of the Parent's Group Executive and Group Executive Risk Committees. To ensure appropriate flow of information and representation between the Group Board and the Parent Board and the Parent's Group Executive Committee, three Parent-nominated non-executive directors sit on the UK Board and the Board regularly receives updates and reports from the Parent, including a twice-yearly update from the Chief Executive Officer of the Parent. In addition, at least annually, the Chairs of the Group Risk and Audit Committees attend their equivalent Parent Board Committees; with the Parent's Board Chair and Board Audit Committe Chairs attending equivalent Group meetings at least annually. Other informal interactions take place throughout the year between the Group and Parent Group Board Committee Chairs.	- Business Review: 2021 key performance highlights (page 3) - Chair's Review (page 4) - Chief Executive's Review (page 6) - Our ambition, purpose and values (page 9) - Our strategy (page 10)
Customers	The Group seeks to behave responsibly towards its customers, treating them fairly and equally so that they too, may benefit from the successful delivery of the Group's strategy. The core Group value of being customer focused supports this objective. The Group's focus has been on delivering solutions aligned with FCA guidance and supporting all customers, and in particular those most vulnerable as a direct result of COVID-19. The Board consistently reviews its customer strategy, receives updates on implementation and reviews progress at formal Board meetings and through regular interaction with and updates from management. The Board's understanding of customer perspectives is informed by deep dives on customer themes and customer complaints and underpinned by a focus on continued improvement in customer outcomes. The Group has established an Executive Customer Board which is responsible for oversight and delivery of the Group's Customer Plan through formalised engagement and collaboration between the Executive Committee (ExCo) members accountable and the business heads responsible for and/or significantly involved in its delivery. The Board has also appointed an independent non-Executive Director as Customer Director. The objective of the Customer Director is to support and encourage focus on good customer outcomes at the Board, applying a customer lens to all matters. In March 2021, the Group launched a new 3 year strategy "Investing in Tomorrow", an objective of which is to enhance customers' financial wellbeing (see p.4 of the Chair's Statement).	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our ambition, purpose and values (page 9) - Our strategy (page 10) - Responsible and Sustainable Business (page 16) - Customer Director
Communities	The Group seeks to enable communities to thrive, through a tangible and visible commitment that brings its purpose to life. The Group supports the wider community through charity and community activities and by playing an active role in society. Employees are actively involved in fundraising and volunteering in charitable events across the UK for a range of charities and community projects. In 2020, in conjunction with the Parent, the Group rolled out its new approach to community investment, Begin Together. Begin Together is a three year campaign across the island of Ireland to improve the financial, physical and mental wellbeing of communities, while supporting the underlying local economies as they reboot and recover from the impact of COVID-19. The Group also has a UK Community Giving Fund which provides grants to local community organisations and charities through the Community Foundations based in NI, Bristol and London.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our ambition, purpose and values (page 9) - Our strategy (page 10) - Responsible and Sustainable Business (page 16)
Colleagues	The Group's people are fundamental to the delivery of its strategy. The Group aims to be a responsible employer and is committed to enabling its people to thrive, ensuring they are engaged and have the skills and capabilities to serve customers brilliantly. The Board receives regular updates on the progress of the Culture programme via a Quarterly Culture dashboard; regular People updates; updates on the progress in implementing actions in response to Colleague feedback; and reviews the outputs from the Group's Open View employee survey. The Board's understanding of employee perspectives is informed by direct engagement with colleagues including informal virtual 'Board breakfast' sessions. In 2021, the Board appointed an independent non-executive director as Colleague Engagement Director. The objective of the Colleague Engagement Director is to ensure that Colleagues' views are heard and considered fully as part of Board decision-making. The Group's 3-year "Investing in Tomorrow" strategy, launched in March 2021, includes investing in new skills, such as digital, to strengthen the Group's digital capability and Colleagues' employability. The Financial Services Culture Board attended a Group Board meeting in November 2021.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our ambition, purpose and values (page 9) - Our strategy (page 10) - Responsible and Sustainable Business (page 16) - Colleague Engagement Director - Board represenation at the Group-wide Recognition Awards

Section 172(1) Statement *(continued)*

Stakeholder	How We Engage	Further Examples of Engagement
Regulators	The Chair of the Board and Chairs of the Audit and Risk Committees regularly meet with regulators including the PRA and FCA. Core themes of discussion include regulation and supervision, risk governance and oversight, the future of the banking industry, operational resilience, strategic challenges and culture. The PRA attended a Group Board meeting in September 2021.	- Responsible and Sustainable Business (page 16) - Principal Risks and Uncertainties (page 33) - Credit Risk (page 42) - Conduct Risk (page 59) - Regulatory Risk (page 55) sections
Suppliers	The Group assesses its suppliers across a number of key risk areas, at the on-boarding stage for all suppliers and annually thereafter for suppliers providing services of high criticality and dependency to the Group. The Parent is a material supplier of services to the Group, the services are managed via a Master Service Agreement and subject to a number of Service Level Agreements. For further details see note 9 and note 43. The Board requires the Group to seek assurances (where appropriate) from its suppliers that they are complying with applicable laws and regulations including laws relating to minimum wages, working conditions, overtime, child labour and other applicable labour and environmental laws. This ensures the Group selects only those suppliers who adhere to appropriate standards. The Group has adopted a risk based approach to review its supply chains that fall within industries that carry a high risk of modern day slavery. For further details, the Bank of Ireland Group plc Modern Slavery Statement is available on its website (https://www.bankofireland.com/about-bank-of-ireland/corporate-governance/modern-slavery-human-trafficking-statement/).	- Our strategy (page 10)
Partners	The Group's strategy has been designed to enable its customers, colleagues and communities to thrive. This is achieved through the distribution of simple, flexible, financial services to UK customers both directly and through partnerships with well-known UK brands. These include an exclusive financial services relationship and foreign exchange joint venture with the Post Office; a long-term financial services partnership with the AA; partnering with a number of intermediaries via the Group's successful mortgage business; a full service retail and commercial bank in NI; a car and asset finance business throughout the UK, under the Northridge Finance brand and Marshall Leasing Limited.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 10) - Responsible and Sustainable Business (page 16)
Environment	The Group recognises that combating climate change is one of the greatest challenges of global society and understands the important role it has in facilitating the transition to a resilient, low-carbon economy. The Group is committed to working together with customers, colleagues and communities to support their transition to a resilient, Net Zero economy by 2050, in line with UK government ambitions. The Board considers the risks of climate change seriously in setting the long term sustainable strategy for the Group, and has delegated responsibility to the BRC to oversee the plan for managing the financial risks from climate change in relation to its overall business strategy and risk appetite, through regular risk reporting and other related exercises.	- Responsible and Sustainable Business (page 16) - Principal Risks and Uncertainties (page 33)

Financial Review

Basis of presentation

The strategic report has been presented on a consolidated basis for the years ended 31 December 2021 and 31 December 2020.

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

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

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

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

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

2021 Financial results

Statutory profit before tax
£410m
(2020: £40m)

Underlying profit before tax
£335m
(2020: £50m)

Reduction in statutory operating expenses
12%/£38m
(2020: 2%/£12m)

Impairment gain
£54m
(2020: £151m loss)

Group income statement

2021

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

2020

			Non-Core items			
Summary consolidated income statement	**Underlying basis[1] £m**	**Strategic portfolio divestments £m**	**Transformation investment costs £m**	*Cost of restructuring programmes £m*	*Other transformation charge £m*	**Statutory basis £m**
Net interest income	464	-	-	-	-	464
Net other income	-	31	-	-	-	31
Total operating income	**464**	**31**	**-**	**-**	**-**	**495**
Operating expenses	(262)	(22)	(26)	(26)	-	(310)
Operating profit/(losses) before net impairment losses on financial instruments	**202**	**9**	**(26)**	**(26)**	**-**	**185**
Net impairment gains/(losses) on financial instruments	(151)	-	-	-	-	(151)
Share of loss after tax of joint venture	(1)	-	-	-	-	(1)
Profit on disposal of business activities	-	7	-	-	-	7
Profit on sale of financial asset	-	-	-	-	-	-
Profit before taxation	**50**	**16**	**(26)**	**(26)**	**-**	**40**
Taxation charge	-	-	-	-	-	(13)
Profit for the period	**-**	**-**	**-**	**-**	**-**	**27**

[1] *Underlying profit before taxation excludes non-core items which the Group believes obscure the underlying performance trends in the business. Refer to page 28 for further details.*

Group income statement *(continued)*

For further information on performance measures referred to, see page 182.

The Group income statement on page 27 provides a reconciliation between the statutory profit before tax of £410 million (2020: £40 million) and the underlying profit before tax of £335 million (2020: £50 million).

Underlying performance excludes non-core items, which are those items that the Group believes obscure the underlying performance trends of the business. Where the Group has made a strategic decision to exit an area of the business the related income and expenses are treated as non-core. The Group has treated the following items as non-core in the year ended 31 December 2021:

Strategic portfolio divestments

- during 2021, the Group completed a mortgage asset sale to the Parent which generated a gain of £94 million;
- the income and costs of the Automatic Teller Machine (ATM) business agreement to transfer ownership of c.1,400 ATMs directly to the PO was announced in 2020. The disposal of devices is to be completed by early 2022; and
- during 2019, the Group disposed of its credit card portfolio and entered into a servicing contract with the purchaser to service the portfolio during the migration period. The portfolio was successful migrated in 2020 with some close out transactions in 2021. The fee income earned for servicing the portfolio and the associated servicing costs are included as non-core.

Restructuring costs

In 2020, the Group undertook a strategy review as competitive market conditions necessitated further restructuring and transformation of the business. As part of the multi-year transformation programme, these costs were associated with determining and designing the future state operating and business model. This was with a view of providing improved customer outcomes, supporting our Partnerships and modernising the IT architecture.

During 2021, the Group recognised a charge for transformation investment costs of £31 million. Included in this charge are restructuring costs of £21 million and other transformation costs of £10 million relating to the planning and scoping of the strategic review.

The Group's voluntary redundancy scheme concluded in the third quarter of 2020. The Group has taken a phased approach to colleague departures, which began in 2020 and will progress into 2022, to ensure customer operations continue smoothly during the transition. Please refer to note 9 for further information.

As a result of strategic portfolio divestments and restructuring costs, £17 million of operating income , £37 million of operating expenses and the £94 million gain in relation to the mortgage asset sale to the Parent have been recognised as non-core for the year ended 31 December 2021.

Statutory profit before tax of £410 million in 2021 was £370 million higher than 2020, driven by the factors listed below.

Statutory net interest income increased by £47 million or 10% compared to the previous year. This increase was primarily driven by higher margins on new lending, including mortgages, and other changes in lending product mix. Net interest income also benefited from reduced liability costs as the Group optimised its overall funding base in line with its agreed strategy.

Statutory net other income of £24 million, decreased by £8 million. Excluding the non-core income related to credit cards and ATMs, underlying net other income increased by £8 million, primarily due to lower net fee and commission expenses.

Statutory operating expenses of £272 million decreased by £38 million, primarily reflecting operating efficiencies including the reduction of staff costs supported by the implementation of the voluntary redundancy programme. The Group continued to focus on reducing its operational costs, while maintaining transformational investment in regulatory compliance, technology and business growth.

The Group recognised a net impairment gain of £54 million on financial instruments in 2021 compared to a charge of £151 million in 2020, a decrease of £205 million on the previous year. The net credit in 2021 reflects: the impact on IFRS 9 models of Forward Looking Information from the Group's latest macro-economic outlook; a management adjustment related to the risk that longer-term credit supports may be required for customers affected by COVID-19; and actual loan loss experience in the year.

Approximately 52% of the impairment loss was recognised for assets that are not credit-impaired consistent with the recognition of expected credit loss under IFRS 9.

Income from the joint venture relates to the Group's foreign exchange joint venture with the PO, First Rate Exchange Services Holdings Limited (FRESH). The loss in 2021 reflects the impact of economic uncertainty and extensive travel restrictions on the UK travel and foreign exchange market. For further information refer to note 22.

The **taxation charge** for the Group was £12 million compared to £13 million for 2020. Excluding the tax credit of £43 million arising from the reassessment of the value of tax losses carried forward (refer to note 15), the effective tax rate for the year ended 31 December 2021 was a taxation charge of 14% (2020: taxation credit of 13%). For further information on the taxation charge refer to note 15.

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

Group balance sheet

Summary consolidated balance sheet	2021 £m	2020 £m	Change %
Cash and balance with central banks	3,456	2,050	69%
Loans and advances to banks	1,574	1,672	(6)%
Loans and advances to customers	16,325	21,300	(23)%
Debt securities at amortised cost	798	922	(13)%
Assets classified as held for sale	1	-	100%
Total other assets	551	475	16%
Total assets	**22,705**	**26,419**	(14)%
Deposits from banks	3,399	4,202	(19)%
Customer accounts	15,753	18,256	(14)%
Subordinated liabilities	190	290	(34)%
Debt securities in issue	448	511	(12)%
Total other liabilities	1,172	1,359	(14)%
Total liabilities	**20,962**	**24,618**	(15)%
Equity attributable to owners of the parent	1,743	1,801	(13)%
Total equity and liabilities	**22,705**	**26,419**	(14)%
Statutory return on tangible equity	24.8%	0.9%	
Return on assets[1]	1.75%	0.10%	
Loan to deposit ratio	104%	117%	
Liquidity coverage ratio (LCR)	268%	142%	
Net stable funding ratio	139%	133%	

Loans and advances to customers	2021 £m	2021 % of book	2020 £m	2020 % of book
Residential mortgages	12,132	74%	16,787	78%
Non-property SME and corporate	1,416	8%	1,469	7%
Commercial property and construction	274	2%	369	2%
Consumer	2,681	16%	2,948	13%
Loans and advances to customers (before impairment provisions)	**16,503**	**100%**	**21,573**	**100%**
Impairment provisions	(178)		(273)	
Loans and advances to customers (after impairment provisions)	**16,325**		**21,300**	

The Group's **cash and balances with central banks**, which is cash placed with Bank of England, increased year on year by £1.4 billion at 31 December 2021. This increase was primarily driven by the timing of a mortgage asset sale transaction with the Parent which was completed in November 2021.

The Group's **loans and advances to banks** of £1.6 billion decreased year on year by £0.1 billion since 31 December 2020, due to decreases in amounts due from the Parent.

Loans and advances to customers of £16.3 billion decreased by £4.9 billion reflecting gross new lending of £3.5 billion offset by redemptions of £5.5 billion and the impact of the sale of £2.9 billion of mortgage assets to the Parent.

Gross new lending of £3.5 billion is £1.3 billion lower when compared to 2020 due to the impact of the Group's strategy to focus on higher returning lending segments within agreed risk parameters, and the impact of COVID-19 on credit demand.

New residential mortgages originated during 2021 were £2 billion, offset by the asset sale of £2.9 billion, repayments, and redemptions on the existing portfolio, resulting in a net decrease in the mortgage portfolio of £4.6 billion.

Northridge Finance net lending volumes decreased by £0.2 billion in the year. New personal lending through the Group's partners, the PO and the AA, was £0.5 billion, a decrease of 17% on 2020.

Gross new commercial lending was £0.2 billion in 2021, partially offset by repayments and the continued deleverage of the GB Business Banking portfolio, with a net decrease of £0.2 billion.

During 2021, the impairment provision on loans and advances to customers of £178 million decreased by £95 million compared to 31 December 2020. Further details are included in note 20.

Debt securities at amortised cost of £0.8 billion comprises £0.2 billion of UK Government treasury bills, £0.4 billion of Multilateral Development Bank bonds and £0.2 billion of covered bonds at 31 December 2021.

Customer accounts decreased by £2.5 billion to £15.8 billion at 31 December

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

Group balance sheet *(continued)*

2021, reflecting the Group's strategy to optimise its funding mix. Current account balances in NI increased by £0.4 billion, offset by a reduction in other UK deposit balances of £2.9 billion.

Deposits from banks of £3.4 billion at 31 December 2021 decreased by £0.8 billion primarily reflecting the maturity of the Bank of England Term Funding Scheme.

Debt securities in issue were £448 million at 31 December 2021 (2020: £511 million), down £63 million from 2020 due to a decrease in residential mortgage backed securities.

The Group's LCR increased to 268% at 31 December 2021 (2020: 142%), reflecting the impact of increased cash and balances with central banks, offset by other movements including decreases in customer accounts.

The Group's equity of £1.7 billion is £500 million lower than 2020, reflecting £500 million capital repatriated to the Parent during 2021.

Retained earnings increased by £126 million primarily due to profit for the year of £398 million offset by a share buy back transaction for £250 million. Further details are included in note 30.

Customer accounts	**2021 £m**	**2020 £m**
Bank of Ireland deposits and current accounts	6,286	5,871
PO deposits	9,123	11,865
AA deposits	344	520
Total customer accounts	**15,753**	**18,256**

Return on tangible equity	**2021 Statutory basis £m**	**2021 Underlying basis £m**	**2020 Statutory basis £m**	**2020 Underlying basis £m**
Profit for the period attributable to shareholders	398	398	27	27
Coupon on AT1 securities, net of tax	(17)	(17)	(18)	(18)
Amortisation of intangible assets, net of tax	3	3	4	4
Reassessment of tax losses carried forward (see note 15)	-	(43)	-	18
Non-core items, net of tax (see page 27)	-	(78)	-	9
	384	**263**	**13**	**40**
Shareholders' equity, excluding AT1 capital	1,592	1,592	1,501	1,501
Intangible assets and goodwill	(32)	(32)	(36)	(36)
Shareholders' tangible equity	**1,560**	**1,560**	**1,465**	**1,465**
Average shareholders' tangible equity	**1,546**	**1,546**	**1,478**	**1,478**
Return on tangible equity	**24.8%**	**17.0%**	**0.9%**	**2.7%**

Capital

31 December 2020			31 December 2021	
Regulatory[1] %	Fully loaded[2] %		Regulatory[1] %	Fully loaded[2] %
		Capital ratios[3]		
13.7%	12.9%	Common equity tier 1	17.5%	17.2%
16.4%	15.7%	Tier 1	19.2%	19.0%
19.1%	18.3%	Total capital	21.4%	21.2%
6.7%	6.3%	Leverage ratio	7.3%	7.2%

The Group is strongly capitalised with a total capital ratio on a regulatory basis of 21.4% (2020: 19.1%). Total regulatory capital resources decreased by £208 million to £1.9 billion. For further information please refer to page 61.

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

Income statement - by business unit

The Group manages the business operations under four units:

- GB Consumer Banking – offering consumer banking products through strategic partnerships with the PO, the AA, other intermediaries and the asset finance and leasing business of Northridge Finance and Marshall Leasing Limited;
- NI - a full service retail bank operating through a distribution network of branches and business centres and via direct channels (telephone, mobile and on-line). The Bank is also authorised to issue bank notes in NI;
- GB Business Banking - legacy commercial lending business which is undergoing a continued programme of deleveraging; and
- Group Centre - centralised management of risk and control functions and the Group's funding, liquidity and capital positions.

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

Income statement - by business unit *(continued)*

2021 Consolidated income statement	GB consumer banking £m	NI £m	GB business banking £m	Group centre £m	Total £m
Operating income	349	132	10	27	518
Operating expenses	(107)	(74)	-	(54)	(235)
Operating profit / (loss) before net impairment losses on financial instruments	**242**	**58**	**10**	**(27)**	**283**
Net impairment losses on financial instruments	35	12	3	4	54
Share of losses of joint venture	(2)	-	-	-	(2)
Profit / (loss) on disposal of business activities	-	-	-	1	1
Underlying profit / (loss) before taxation	**275**	**70**	**13**	**(22)**	**335**
Non-core items	105	-	-	(31)	75
Statutory profit before taxation	**380**	**70**	**13**	**(53)**	**410**

2020 Consolidated income statement	GB consumer banking £m	NI £m	GB business banking £m	Group centre £m	Total £m
Operating income	314	125	10	15	464
Operating expenses	(120)	(79)	(1)	(62)	(262)
Operating profit / (loss) before net impairment losses on financial instruments	**194**	**46**	**9**	**(47)**	**202**
Net impairment losses on financial instruments	(107)	(36)	(8)	-	(151)
Share of losses of joint venture	(1)	-	-	-	(1)
Profit / (loss) on disposal of business activities	-	-	-	-	-
Underlying profit / (loss) before taxation	**86**	**10**	**1**	**(47)**	**50**
Non-core items	15	-	-	(25)	(10)
Statutory profit before taxation	**101**	**10**	**1**	**(72)**	**40**

GB Consumer Banking
The statutory profit of GB Consumer Banking increased by £279 million compared to 2020. This is primarily due to reduced impairment charges of £142 million and improving pre impairment profits due to higher margins on new mortgage lending, reduced liability funding costs and the gain on the mortgage asset sale to the Parent of £94 million. Operating expenses continue to reduce in line with the UK's strategy focus on efficiency.

NI
The statutory profit of the NI business increased by £60 million, largely due to reduced impairment charges of £54 million and increased earnings on customer account balances.

GB Business Banking
The statutory profit in the deleveraging GB Business Banking portfolio increased by £12 million compared to 2020 primarily due to movements in impairment losses reflecting the improving economic outlook.

Group Centre
The Group Centre statutory loss has decreased by £19 million, down 26% compared to 2020, primarily due to lower operational costs, while maintaining transformational investment in regulatory compliance, technology and business growth.

Principal risks and uncertainties

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

The Group has also supported its customers through the COVID-19 pandemic by ensuring the relevant payment break and forbearance schemes are in place.

The Group has also taken steps to mitigate the negative effects of Brexit, such as implementing measures to ensure that contracts will continue to be enforceable and that it maintains all necessary regulatory permissions. However, there remains ongoing uncertainty in respect of Brexit and COVID-19 and the associated economic impacts on the Group's performance.

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

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

Principal risks	Potential risk impact	Key controls and mitigating factors
Credit risk *For definition, Credit Risk (Section 2.1 – Page 42)*	Should commercial or consumer customers or banking/foreign counterparties be unable to meet their obligations in relation to borrowings from the Group, the Group may suffer increased losses and this would have an adverse impact on the Group's financial position.	• Board approved Credit Policy and risk appetite limits, together with a framework for cascade to business. • Defined credit processes, policies, limits and controls aligned to risk appetite. • Reporting to the ERC, BRC and the Board. • Strategies to maximise recoveries from impaired assets whilst providing suitable and sustainable options that are supportive of vulnerable customers.
Liquidity and funding risk *For definition of Liquidity and funding risk (section 2.2 Page 51)*	A loss of confidence in the Group's business, either the financial services industry, partner brands, or the Parent, or as a result of a systemic shock could result in unexpectedly high levels of customer deposit withdrawals or lead to a reduction in the Group's ability to access funding on appropriate terms. This in turn would have a materially adverse effect on the Group's results, financial condition and liquidity position.	• Board approved risk appetite limits. • A Liquidity and Funding Risk Management Framework (RMF) which is reviewed annually, is in place. • Daily monitoring and management of the liquidity position. • Active management of the funding position and forward looking analysis including stress testing. • Regular reporting to the Asset and Liability Committee (ALCO), the ERC, the BRC and the Board. • Significant contingent liquidity. • Comprehensive Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery Plan in place.
Regulatory risk *For definition, see Regulatory Risk (Section 2.4 – Page 55)*	Non-compliance with legislative and regulatory obligations may result in customer harm and financial loss, financial penalties placed upon the Group, directions from statutory authorities, other regulatory sanction including limitations on its business and reputational risk to the Group.	• The Group has no appetite for failure to comply with its regulatory or legislative obligations. • Regular and open communication with the FCA, PRA, European Central Bank (ECB), Competition and Markets Authority and Open Banking Implementation Entity on all aspects of the Group's activities. • Regular reporting to senior management, the Regulatory and Operational Risk Committee (R&ORC), the ERC, the BRC and the Board.
Operational risk *For definition, see Operational Risk (Section 2.5 – Page 56).*	Risk to the continuance of Important Business Services (and Mission Critical Services). Risks that materialise through day-to-day execution of business process. Risk associated with major change and delivery of strategic programmes. Risks arising as a result of cyber security attacks.	• Board approved risk appetite limits. • Mandatory Group-wide training and education in place. • UK Board approval of proposed transformation and strategic initiatives with second line oversight of progress. • An Operational Risk Management Framework (ORMF) supporting risk management activities and enablers for the identification, measurement, mitigation, control and reporting. • Regular monitoring and reporting to the R&ORC, the ERC, the BRC and the Board.
Financial Crime risk *is the risk of the firm being used in connection with money laundering or terrorist financing and that the measures adopted by the Group to money laundering, terrorist financing or sanctions evasion are not effective and/or do not meet regulatory expectations.*	Non-compliance with legislative and regulatory obligations may result in financial penalties, regulatory sanctions and reputational risk to the Group.	• Board approved risk appetite limits. • Specific policies, policy standards, and risk mitigation measures for financial crime risks. • Regular monitoring and reporting to the R&ORC, the ERC, the BRC, the Board, and Parent Committees, as required. • A robust AML RMF which includes automation of customer due diligence, screening and transaction monitoring.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors
Business and Strategic risk *For definition, see Business and Strategic Risk (Section 2.6 – Page 57).* *COVID-19* *2021 has been a year of uneven and incomplete recovery underpinned by the scale of Government pandemic support measures. The macroeconomic prospects for 2022 suggest a more normalised pace of GDP growth.* *Brexit* *The impacts on the Group are expected to be largely indirect and of a credit nature, primarily via the impact on some of the Bank's business customers reflecting potentially new trading arrangements and labour market changes as an outcome of the NI Protocol.*	Adverse changes in the Group's revenue and / or costs resulting in reduced profitability. Enhanced competition in chosen markets effecting margins. Economic conditions driving uncertainty in chosen markets. Capability and capacity driven by employment conditions and people risk.	• A clearly defined strategic plan is developed within the boundaries of the Board approved risk appetite and risk identity, ensuring balanced growth in consumer lending with a stable funding profile that is appropriate for the asset mix. • Clearly defined and regularly monitored KPIs are reviewed at both Executive and Board committee level through regular reporting of business and strategic risks to ERC, BRC and Board supported by close monitoring of competitor product developments. • The business continues to monitor the medium-long term customer and economic impact of the COVID-19 pandemic, and to provide forbearance support beyond payment breaks for customers who remain in financial difficulty. • Developments relating specifically to the NI Protocol, including customer and political risks, are monitored closely and are a standing item on the agenda of the monthly NI Senior Management Team (SMT).
Reputation Risk *For definition, see Reputational Risk (Section 2.7 – Page 58).*	Adverse public or industry opinion, resulting from the actual or perceived manner in which the Group conducts its business activities may adversely impact the Group's ability to have a positive relationship with key stakeholders and / or strategic partners and / or keep and attract customers.	• The embedding and management of a positive customer conduct culture to ensure the interests of consumers remain at the heart of the Group's operation.
Conduct Risk *For definition, see Conduct Risk (Section 2.8 – Page 59).*	Conduct risk and / or poor outcomes for customers could lead to customer remediation, loss of business, adverse media coverage, financial penalties and / or other regulatory sanction.	• Board approved risk appetite limits. • A Group Conduct Risk Framework is in place which is reviewed annually and which sets out the approach to conduct risk management. • Specific conduct risk policies are in place which set out the approach to management of conduct risk across the Group, including a vulnerable customer policy. • Regular reporting, complaints oversight and root cause analysis reviewed at the R&ORC, Customer Board, BRC and Board. • Assurance processes in place and where issues are identified, swift action to address is taken with oversight from ERC, BRC and Board. • A dedicated Customer Board to oversee the customer experience.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors
Financial Risks from Climate Change (FRCC) *Financial risks to the firm's business model, strategy and the overall risk profile arising from risks related to physical impacts of climate change (acute or chronic extreme weather events) and transition to lower carbon economy (changes in government policy, low-carbon technologies and market preferences towards greener solutions).*	The Group's businesses, operations and assets could be affected by climate change and climate-related risks. Accelerating climate change could lead to sooner than anticipated physical risk impacts to the Group and the wider economy and there is uncertainty in the scale and timing of technology, commercial and regulatory changes associated with the transition to a low carbon economy. The risk that the Group's business model and strategy does not respond adequately to the risks arising from climate change, the move to Net Zero and evolving consumer preferences impacting its sustainability.	• Governance and risk management arrangements in place to manage FRCC and continue to embed. • FRCC included in the qualitative and quantitative Risk Appetite Statement and metrics. • FRCC included in the Objectives and Key Results. • A suite of early warning indicators (EWI's) developed and reported against for the most material portfolio (residential mortgages). • Materiality assessments undertaken annually across all Group portfolios. • FRCC sensitivities included in the Group ICAAP and scenario analysis. • Partnership with Landmark Information Group provides insights into FRCC risks in the mortgage portfolio at individual property and aggregate level modelled against physical and transition risks and anchored around Paris Agreement scenarios. • FRCC reporting to ERC and BRC commenced and BRC specialist training on FRCC delivered.
Geopolitical Uncertainty *The risk associated with wars, terrorist acts, and tensions between states that affect the normal and peaceful course of international relations. Geopolitical risk captures both the risk that these events materialise, and the new risks associated with an escalation of existing events.*	The key impact from the emerging Ukraine and Russian conflict will be the implementation of economic Sanctions on Russia which will likely evolve as the situation unfolds. The impact and nature of these Sanctions is currently uncertain, however the Group will continue to monitor and comply with all applicable Sanctions regimes and take steps to appropriately manage any exposures. Other potential impacts remain uncertain, including but not limited to, on economic conditions, inflation, supply constraints, asset valuations, interest rate expectations and exchange rates. The extent of these impacts on the UK economy and the Group are unclear at this stage.	• The Group has in place real time customer and payment screening systems and monitor against all applicable Global Sanctions lists. • Executive and Board level committees will continue to monitor geopolitical uncertainty.

The Strategic report on pages 9 to 35 is approved by the Board of Directors and signed on its behalf by:

Thomas McAreavey
Director

10 *March 2022*

Company number: 07022885

Risk Management

The information below in sections or paragraphs denoted as audited in sections 2 and 3 and all the tables (except those denoted unaudited) in the Risk Management Report form an integral part of the audited financial statements as described in the Basis of Preparation on page 89. All other information in the Risk Management Report is additional disclosure and does not form part of the audited financial statements.

1 Risk management framework *(unaudited)*

The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into consideration and that the Group's overall business strategy and remuneration practices are aligned within its risk and capital management strategies. The Group's formal governance process to risk management is set out in the risk management framework, which has the objective of ensuring that risks are managed and reported in a consistent manner across the Group. The Framework outlines the approach for setting risk appetite, risk identification, assessment, measurement, monitoring and reporting.

Principal risk categories

Credit Risk	The risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Bank in respect of loans or other financial transactions. Credit Risk includes default risk, recovery risk, counterparty risk, country risk, credit concentration risk and settlement risk.
Liquidity & Funding Risk	Liquidity Risk is the risk that the Bank will experience difficulty in financing its assets and/or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds. Funding Risk is the risk that the Bank does not have sufficiently stable and diverse sources of funding or has an inefficient funding structure.
Market Risk	The risk of loss arising from movements in interest rates, FX rates or other market prices. Market risk arises from the structure of the balance sheet, the firm's business mix and discretionary risk taking.
Regulatory Risk	The risk of failure to meet new or existing regulatory and/or legislative requirements and deadlines or to embed requirements into processes.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. This definition includes Legal and Model risk but excludes Strategic and Reputational Risk. Legal Risk relates to the risk of being the subject of a claim or proceedings due to an infringement of laws, contracts or regulations. Model risk relates to the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports.
Business & Strategic Risk	The risk of volatility to the Bank's projected outcomes, including income statement and balance sheet impact and/or damage to the franchise, including that of the Group's partnerships. It includes volatilities caused by changes in the competitive environment, new market entrants, new products or failure to develop and execute a strategy or anticipate or mitigate a related risk.
Reputation Risk	The risk to earnings or franchise value arising from adverse perception of the Bank's image on the part of customers, suppliers, partners, regulators or counterparties. This risk typically materialises through a loss of business in the areas affected.
Conduct Risk	The risk that the Group or its staff undertake business in an inappropriate or negligent manner that leads to poor customer outcomes or customer harm.
Capital Adequacy Risk	The risk that the Bank holds insufficient capital to absorb extreme and unexpected losses, which could eventually result in insolvency.

1.1 Risk governance framework

1.1.1 Risk governance

The identification, assessment and reporting of risk in the Group is controlled within the Risk Governance Framework which incorporates the Board, Risk Committees appointed by the Board (e.g. BRC and Audit Committee) and its appointed committees (e.g. ERC and R&ORC).

The **Board** is responsible for ensuring that an appropriate system of internal control is maintained, and for reviewing its effectiveness. Each of the Risk Committees (including the **BRC** and **Audit Committee**) has detailed terms of reference, approved by the Board or its parent committee, setting out its respective roles and responsibilities.

Further details outlining the key responsibilities of the Group's Board Level risk committees can be found on page 68 within the Corporate Governance Arrangements.

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

1.1.1 Risk governance *(continued)*

The ERC is the most senior executive risk committee and is established as the principal Risk Committee for the end-to-end proactive risk management and oversight of the Firm's strategy. It is chaired by the Chief Risk Officer (CRO) and its membership comprises members of the ExCo and control function executives. It met 20 times during 2021, reflective of additional governance required in response to COVID-19 and due to the UK strategic review.

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

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

1.1.1 Risk governance *(continued)*

The relevant committees are set out in the following table:

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

Three lines of defence approach

The Risk Governance Framework is supported by the Group's management body, with risk responsibilities extending throughout the organisation based on a three lines of defence approach.

First line of defence – Primary responsibility and accountability for risk management lies with line management across the business and front-line functions. They are responsible for the identification and management of risk against risk appetite at a business unit level including the implementation of appropriate controls and the reporting of all major risk events. In addition, the Group's treasury function is responsible for capital management, liquidity planning and management, transfer pricing, balance sheet management, cash and market risk management and as part of the Group's Recovery Plan, contingent capital and funding management actions. The UK Treasurer reports directly to the Chief Financial Officer (CFO).

The Group's operations team manages the delivery of technology and operational services provided by the Parent and third party service providers, and ensures compliance with FCA SYSC8 and MiFID requirements as well as the Group's Sourcing Strategy, Framework, Policy and Guidance. The Operations Director reports directly to the Chief Executive Officer (CEO).

Second line of defence – The Second Line Risk Function is responsible for maintaining independent risk oversight and ensuring an adequate and effective risk control framework is in place. In order for the BRC, the ERC, and other risk committees to fulfil their risk governance responsibilities, they are supported by the Risk Function which is responsible for establishing the RMF and designing risk policies and communicating these to all business units. The Risk Function also provides assurance monitoring, measurement, analysis and reporting of key risks. This includes the monitoring and credit underwriting of individually significant credit exposures in the commercial loan book.

Third line of defence – The Internal Audit function provides independent and reasonable assurance to key stakeholders on the effectiveness of the Group's risk management and internal control framework. The Parent's Internal Audit function, Group Internal Audit (GIA), carries out risk based assignments covering Group businesses and functions (including outsourced service providers), with ratings assigned as appropriate. The Parent's Credit Review (GCR) function, an independent function within Internal Audit, is responsible for reviewing the quality and management of credit risk assets across the Group.

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

1.2 Risk culture, strategy and principles

Risk culture

The Group promotes a strong risk culture as being fundamental to the Group's management. Considerations about risk inform the Board and management decisions, whilst employees are encouraged to highlight and address risk issues promptly, supported by a Speak Up policy which protects employees who wish to raise concerns under whistleblowing arrangements. Clearly defined roles and responsibilities ensure risk is owned and controlled effectively across the organisation.

The Risk Culture Framework which has been approved by the Board, is aligned to the FCA's supervisory principles relating to culture and governance, (under the headings of Purpose, Leadership, Governance and Incentives) and provides a common framework which supports appropriate risk awareness, behaviours and judgements about risk taking, bolsters effective risk management, and ensures that emerging risks or risk taking activities beyond the Bank's risk appetite are recognised, assessed, escalated and addressed in a timely manner.

A Risk Culture Review is conducted annually, with outcomes being reported to the BRC. The 2020 review, undertaken in March 2021, concluded that good progress continues to be made in establishing and embedding frameworks and day-to-day working practices to support and maintain a strong risk culture, particularly noting the background of significant internal strategic change within the Bank and the far-reaching impacts associated with operating throughout the pandemic.

The annual review highlighted a number of indicators that demonstrated appropriate risk awareness and good risk management behaviours and decisions; which were supported by the Risk Management Framework and risk governance arrangements. The review acknowledged that a number of customer-impacting issues had required remediation and management attention during the period; but also noted the pro-active steps taken by management to self-identify and address these, and to ensure this remains a key area of focus for the senior management of the firm. It was further acknowledged that building and embedding a strong risk culture is an evolving process that needs to adapt as the internal and external risk profiles change; and will always require ongoing nurturing, enhancement and an enduring and supportive 'tone from the top'.

Risk strategy

The Group's Risk Strategy is to protect its balance sheet, customers and reputation as well as those of its strategic partners, and support the business in pursuit of its strategic objectives and generating sustainable profits in a risk prudent manner, including bringing this to the attention of BRC where required. The Group seeks to accomplish this by:

- establishing risk appetite as the boundary condition for the Group's Strategic Plan and Annual Operating Plan / Budget;
- defining and implementing a RMF to manage risk using an integrated approach;
- defining risk principles upon which risks may be accepted;
- allocating clear roles and responsibilities / accountability for the control of risk within the Group; and
- engendering a prudent risk management culture.

Risk principles

Risk owners seeking to accept a risk at transaction, portfolio and Group level must operate in accordance with risk frameworks and policies including bringing this to the attention of the ERC where required. In general, risks may be accepted if:

- they are aligned with the risk identity and within risk appetite;
- the level of risk taking achieves a return on capital in excess of pre-defined hurdle rates and is within the formally approved mandates;
- the Group has the resources and skills to analyse and manage the risks;
- stress and scenario tests around the risks exist, where appropriate, and mitigants identified;
- appropriate risk assessment, governance and procedures have been observed as described in the appropriate documentation (e.g. frameworks, policies, processes, controls) pertaining to individual risk categories or at an aggregate Group-level; and
- acceptance of the risk does not cause undue risk concentration in order to remain within the approved risk appetite portfolio limits and not deviate from the risk identity.

1.3 Risk identity and risk appetite

Risk Identity

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

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

Risk Appetite

Risk appetite defines the amount and nature of risk that the Group is prepared to accept in pursuit of its strategic objectives. It is central to the strategic planning process, forms a boundary condition to strategy and guides the Group in its risk-taking and related business activities. The RAS is defined in accordance with the Group's RMF and is reviewed at least annually by the Risk function and approved by the Board on the recommendation of the BRC.

Risk appetite is defined in qualitative and quantitative terms within a framework that facilitates discussion and monitoring both at the Board and management levels. At the highest level, risk appetite is based on the Group's risk identity, which qualitatively defines the relative positioning of the Group's activities within a spectrum of business models and market opportunities. Quantitative risk appetite measures, which are consistent with the Group's risk identity, are then used to inform the boundaries of the Group's strategy. These measures also inform individual risk limits and targets at management and business unit level.

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

1.3 Risk identity and risk appetite *(continued)*

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

The Group strives to ensure it operates within its risk appetite and therefore its risk appetite and risk profile must be aligned. Where the Group has a risk profile that is in excess of its risk appetite, it will take action to realign the risk profile through increased risk mitigation activities and risk reduction. The key risk mitigating activities are set out on pages 33 to 35 within the Strategic report.

1.4 Risk identification, measurement and reporting

Risk identification

Risks facing the Group are identified and assessed through the Group's risk identification process. Risks that are considered material are included in the Group's RMF, owners are identified, appropriate policies are put in place, and a formalised measurement and management process is defined and implemented. The Group periodically reviews the RMF and risk management policies and systems to reflect changes in markets, products and best market practice. The Group has identified risk types that it believes could have a material impact on earnings, capital adequacy, liquidity and on its ability to trade in the future and these are covered in the principal risks and uncertainties that are set out on pages 33 to 35 of the Strategic report.

Risk measurement

Risk management systems are in place to facilitate measurement, monitoring and analysis of risk and ensure compliance with regulatory requirements. In addition to the assessment of individual risks on a case-by-case basis, the Group also measures its exposure to risk at an aggregate level using, among other techniques, risk-adjusted return estimates and stress testing.

The Group conducts stress tests in order to assess the impacts of adverse scenarios on the Group's impairment charges on financial assets, earnings, capital adequacy, liquidity and financial prospects.

The results of stress tests are used to assess the Group's resilience to adverse scenarios and to aid the identification of potential areas of vulnerability. The tests are applied to the existing risk exposure of the Group and also consider changing business volumes, as envisaged in the Group's business plans and strategies. Macroeconomic scenarios of different levels of severity are combined with assumptions on volume changes and margin development.

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

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

Risk reporting

Risks are measured, reported and monitored by the Group on a daily, weekly, monthly and / or quarterly basis depending on the materiality of the risk. The CEO and CRO Monthly Risk Report (MRR) submitted to each Board meeting provide an update on material risks, key risk issues and performance against core risk appetite metrics. This report is submitted to both the ERC and the BRC prior to issuance to Board.

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

2 Management of key risks

2.1 Credit risk

Key points:

- The Group maintained, at the start of 2021, controls introduced in 2020 as a response to heightened levels of risk arising from the pandemic. The defaults anticipated to come from the economic fallout from COVID-19 did not materialise in 2021 and both the economic performance and outlook developed to be better than expected. Risk controls mostly reverted back to pre-pandemic settings as the year progressed.
- The Group's credit-impaired loans reduced in 2021 in aggregate, but smaller exposures result in an increased level of credit-impaired as a proportion of balances. This is predominantly due to a revised technical definition of default introduced in 2020 that has increased the amount of non-arrears credit-impaired balances. As the economic conditions and outlook improved through 2021, the Group has seen a reduction in impairments and impairment loss allowance, though the latter remains higher than pre-pandemic levels.
- At all times during the financial year, the Group maintained appropriate credit controls reflecting and responding to the changing dynamics of the UK market, in line with regulatory requirements.
- The Group concluded the year within all Group risk appetite measures.

2.1.1 Definition of credit risk *(audited)*

Definition
Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. The risk includes but is not limited to default risk, credit concentration risk, country risk, migration risk and collateral risk. At portfolio level, credit risk is assessed in relation to the degree of name, sector and geographic concentration to inform the setting of appropriate risk mitigation and transfer mechanisms and to assess risk capital requirements.

How credit risk arises
Credit risk arises from loans and advances to customers and from certain other financial transactions the Group enters into with financial institutions, sovereigns and state institutions. The Group is also exposed to credit risk from its derivatives, debt securities and other financial assets.

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

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

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

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

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

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

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

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

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

2 Management of key risks *(continued)*

2.1.2 Credit risk management

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

The Group's credit strategy is to underwrite credit risk within a clearly defined Board approved risk appetite and risk governance framework through the extension of credit to customers and financial counterparties in a manner that results in an appropriate return for the risks taken and on the capital deployed while operating within prudent Board approved risk parameters, and to maximise recoveries on loans that become distressed.

Credit risk management – retail and commercial lending *(audited)*
The management of credit risk is focused on a detailed analysis at origination, followed by early intervention and active management of accounts where creditworthiness has deteriorated. The Chief Credit Officer (CCO) has responsibility for credit management of the retail lending book, business banking book and the Northridge book. Supported by Heads of Credit and the broader risk function, the CCO is responsible for overall credit risk reporting to the ERC, the BRC and the Board. The CCO reports to the CRO, who reports directly to the CEO. The broader risk function, under the management of the CRO, provides independent oversight and management of the Group's credit risk strategy and credit risk management information, as well as the Group's suite of credit risk policies.

Credit policy *(unaudited)*
The core values and principles governing the provision of credit are contained in the Credit Policy and Credit Framework, which are approved by the BRC. Individual sector / portfolio-level credit policies define in greater detail the credit approach appropriate to those sectors or portfolios. These policies take account of the Group's RAS, applicable sectoral credit limits, the markets in which the Group operates and the products provided. Each staff member involved in developing customer relationships and / or assessing or managing credit, has a responsibility to ensure compliance with these policies. Procedures for the approval and monitoring of exceptions to policy are included in the policy documents.

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

All exposures which exceed prescribed levels require approval or ratification by the BRC.

Other exposures are approved by personnel according to a system of tiered individual authorities, which reflect credit competence, proven judgement and experience. Material lending proposals are referred to credit underwriting units for independent assessment and approval, or formulation of a recommendation and subsequent adjudication by the appropriate approval authority.

Controls and limits *(unaudited)*
The Group imposes risk control limits to mitigate significant concentration risk. These limits are formed by the Group's risk appetite, and that of the Parent, and are set in the context of the Group's risk strategy. Limits are reviewed by CRPC for recommendation through to the BRC or the Board. Single name concentrations are also subject to limits.

Credit risk measurement *(unaudited)*
All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The risk, and consequently the credit grade, is reassessed periodically. The use of internal credit rating models, tailored credit scoring tools and reference to extensive performance data from credit reference agencies, enables measurement of the relative degree of risk inherent in lending to specific counterparties and is central to the credit risk assessment and ongoing management processes in the Group. Details of these internal credit rating models are outlined in the section on credit risk methodologies on pages 46 to 50.

Counterparty credit risk *(unaudited)*
The Group has a number of measures in place to mitigate this increased risk. These include:
- reduced individual Group exposures across a wider spread of banking institutions;
- strict credit risk management procedures; and
- application of tight credit policy criteria, where required.

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

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

The identification of loans for assessment as impaired is driven by the Group's credit risk rating systems and by trigger events identified in the Group's credit and impairment policies. It is the Group's policy to provide for impairment promptly and consistently across the loan book. For those loans that become impaired, the focus is on implementing appropriate work-out strategies, including consideration of good customer outcomes and the particular needs of vulnerable customers, which minimise the loss that the Group will incur from such impairment. This may involve entering into restructuring arrangements with borrowers, or taking action to enforce security.

An analysis of the Group's impairment loss allowances at 31 December 2021 is set out in notes 11 and 21.

2 Management of key risks *(continued)*

2.1.3 Credit risk mitigation *(audited)*

An assessment of the borrower's ability to service and repay the proposed level of debt is undertaken for credit requests and is the primary component of the Group's approach to mitigating risk. During 2021, Commercial lending established a new arrangement for the operational Credit assessment for new lending to be outsourced to the Parent under the existing arrangements for policies and controls approved by the Group.

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

Collateral

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

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

The Group takes collateral as a secondary source of repayment which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed.

A variety of types of collateral are accepted, as follows:
- residential and commercial real estate;
- physical assets (motor vehicles, plant and machinery, stock etc.);
- financial assets (lien over deposits, shares etc.); and
- other assets (debentures, debtors, guarantees, insurance etc.).

The Group's requirements around completion, valuation and management of collateral are set out in appropriate Group or business unit policies and procedures. Details of the valuation methodologies are set out in the credit risk methodologies section on page 46.

2.1.4 Credit risk reporting and monitoring *(unaudited)*

It is Group policy to ensure that adequate up-to-date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio.

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. This monthly reporting includes detailed information on loan book volume, the quality of the loan book, concentrations and loan impairment provisions, including details of any large individual impaired exposures.

Performance against specified credit risk limits, as detailed in the RAS, is monitored and reported to senior management and to the BRC. The format of reports and commentaries are consistent across the Group to enable an assessment of trends in the loan book. Along with the regular suite of monthly and quarterly reporting, ad hoc reports are submitted to senior management and the BRC as required. Credit Review, an independent function within GIA, reviews the quality and management of credit risk assets across the Group and provides an update to the CRPC on a half yearly basis.

Regular portfolio review meetings covering the NI and GB commercial challenged portfolios are also conducted. Risk personnel as well as business and finance senior management review and confirm the appropriateness of impairment provisioning methodologies and the adequacy of impairment provisions on a half yearly basis. Their conclusions are reviewed by the BRC, the Parent's Credit Risk function and the Parent's Group Credit Risk Committee (GCRC).

2 Management of key risks *(continued)*

2.1.5 Management of challenged assets *(audited)*

A range of initiatives, dependent on the nature of the risk, are in place to deal with the effects of the deterioration in the credit environment and decline in asset quality including:

- enhanced collections and recoveries processes;
- utilisation of specialist management teams to ensure early intervention in vulnerable cases;
- intensive review cycles for 'at risk' exposures and the management of excess positions;
- support from central teams in managing 'at risk' portfolios at a business unit level;
- modified and tighter lending criteria for specific sectors; and
- a reduction in certain individual bank exposures.

The segregation of certain challenged portfolios and the realignment of resources to manage these assets allows the remaining portfolio managers to focus on the loan book classified as 'acceptable quality' or better and to work closely with those customers.

Forbearance strategies

Forbearance occurs when a borrower is granted a concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. If the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. An exposure continues to be classified as forborne until such time as it satisfies conditions to exit forbearance in line with European Banking Authority (EBA) guidance.

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

The forbearance strategies adopted by the Group seek to maximise recoveries and minimise losses arising from non-repayment of debt, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances. Such strategies may include, where appropriate, one or a combination of measures such as a temporary reduction in contractual payments, a term extension, capitalisation of arrears, adjustment or non-enforcement of covenants and / or more permanent restructuring measures. Forbearance requests are assessed on a case by case basis, taking due consideration of the individual circumstances and risk profile of the borrower.

The Group has an operating infrastructure in place to assess and, where appropriate, implement such options on a case-by-case basis. Group credit policy outlines the core principles and parameters underpinning the Group's approach to forbearance with individual business unit policies defining in greater detail the forbearance strategies appropriate to each unit.

A request for forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a deterioration in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed and may also result in the loan being considered to have experienced a "significant increase in credit risk" or becoming classified as credit-impaired.

Where appropriate, and in accordance with the Group's credit risk management structure, forbearance requests are referred to credit units for independent assessment prior to approval by the relevant approval authority.

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

Borrower compliance with revised terms and conditions may not be achieved in all cases. Non-compliance could for example arise because the individual circumstances and risk profile of the borrower continue to deteriorate, or fail to show an expected improvement, to the extent that an agreed reduced level of repayment can no longer be met. In the event of non-compliance, a request for further forbearance may be considered. It is possible that the Group, by virtue of having granted forbearance to a borrower, could suffer a loss that might otherwise have been avoided had enforcement action instead been taken. This could for example arise where the value of security held in respect of a loan diminishes over the period of a forbearance arrangement which ultimately proves unsustainable.

As outlined on page 50, in line with regulatory guidance and wider industry practice, cases where customers availed of COVID-19 payment breaks or concessions were typically not classified as forborne.

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

2 Management of key risks *(continued)*

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

Asset quality methodology

The Group has allocated financial instruments into one of the following categories at the reporting date:

- **Stage 1 – 12 month Expected Credit Losses (ECL) (not credit-impaired):** Financial instruments which have not experienced a significant increase in credit risk since initial recognition and are not credit-impaired.

- **Stage 2 – Lifetime ECL (not credit-impaired):** Financial instruments which have experienced a 'significant increase in credit risk since initial recognition' and are not credit-impaired.

- **Stage 3 – Lifetime ECL (credit-impaired):** Credit-impaired financial instruments, other than Purchased or Originated Credit-Impaired (POCI) financial assets.

- **POCI:** Financial assets that were credit-impaired at initial recognition. A POCI is not subject to any initial impairment loss allowance but an impairment loss allowance is subsequently recognised for the cumulative changes in lifetime ECL since initial recognition.

Further information on the approach to identifying a 'significant increase in credit risk since initial recognition' and in identifying credit-impaired assets is outlined in the credit risk methodologies section on pages 46 to 50.

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

Forborne loans

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

'Forborne collateral realisation' loans (FCRs)

(i) credit-impaired loans which includes loans where the borrower is considered unlikely to pay in full without recourse by the Group to actions such as realising security, and / or loans where the borrower is greater than or equal to 90 days past due and the arrears amount is material; and

(ii) other / probationary loans as aligned with regulatory requirements.

Quantitative information about credit risk can be found in the credit risk exposures note on page 134 in the financial statements.

2.1.7 Credit risk methodologies *(audited)*

The Group's credit risk methodologies in respect of impairment are as set out below. The Group's approach to internal credit rating models and rating systems is set out below.

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

Internal credit rating models

The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group. The primary model measures used are:

- PD: the probability of a given counterparty defaulting on any of its borrowings from the Group within the next twelve months;
- Exposure at Default (EAD): the exposure the Group has to a defaulting borrower at the time of default; and
- Loss Given Default (LGD): the loss incurred (after the realisation of any collateral) on a specific transaction should the borrower default, expressed as a percentage of EAD.

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

For the Group's retail consumer and smaller business portfolios, the credit risk assessment is grounded on application and behavioural scoring tools. For larger commercial and corporate customers, the risk assessment is underpinned by statistical risk rating models which incorporate quantitative information from the customer (e.g. financial statements) together with a qualitative assessment of non-financial risk factors such as management quality and market / trading outlook. Lending to financial institutions is assigned an internal rating supported by external ratings of the major rating agencies.

PD Calculation

For the purposes of internal credit rating models, the Group produces estimates of PD on either or both of the following bases:

- Through-the-Cycle estimates are estimates of default over an entire economic cycle, averaged to a twelve month basis. These are in effect averaged expectations of PD for a borrower over the economic cycle; and
- Cyclical estimates are estimates of default applicable to the next immediate twelve months. These cyclical estimates partially capture the economic cycle in that they typically rise in an economic downturn and decline in an economic upturn but not necessarily to the same degree as default rates change in the economy.

Internal rating systems

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

Uses of internal estimates

The specific uses of internal estimates differ from portfolio to portfolio, and for retail and non-retail approaches, but typically include:

- credit decisioning / automated credit decisioning and borrower credit approval;
- credit management;
- calculation of Risk Adjusted Return on Capital (RAROC);
- internal reporting; and
- internal capital allocation between businesses of the Group.

2 Management of key risks *(continued)*

2.1.7 Credit risk methodologies *(audited)*

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

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

When issues are raised on risk rating or impairment models, plans are developed to remediate or replace such models within an agreed timeframe.

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

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

In general, a loss allowance is recognised for all financial instruments in scope for the impairment requirements of IFRS 9. However, this may not be the case for very highly collateralised loans, such as residential mortgages at low LTV ratios. There have been no significant changes in the quality of collateral or credit enhancements as a result of changes in the Group's collateral policies during the year. The Group's methodologies for valuation of property collateral are set out on page 49, noting further that FLI (see page 50) is applied to UK property collateral values in measuring impairment loss allowances under IFRS 9. The Group's critical accounting estimates and judgements, including those with respect to impairment of financial instruments, are set out in note 2 to the financial statements.

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

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

ECLs are calculated as the sum of the marginal losses for each time period from the reporting date. The key components of the ECL calculation are PD, EAD and LGD (which is expressed as a percentage of EAD) and are described below. Other components include discount rate and maturity. The current contractual rate is generally used as the discount rate as it is considered a suitable approximation of the effective interest rate determined at initial recognition. For term lending including committed revolving credit facilities, contractual maturity is used in the ECL calculation. For other revolving facilities, behavioural life is generally used.

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

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

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

Due to the unprecedented nature of the COVID-19 macroeconomic scenario, a greater degree of management judgement (based on available reasonable and supportable internal and external information) was incorporated into IFRS 9 PD estimates at 31 December 2020.

For the year ending 31 December 2021, management assessed the modelled PD estimates, with reference to updated macroeconomic forecasts, and determined that incorporation of management judgement into PD estimates was not required.

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

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

IFRS 9 Loss Given Default
Current point-in-time LGD is the loss that would be incurred should default occur in the next 12 months. To facilitate the calculation of lifetime ECL, future point-in-time LGDs are calculated for each year from the start of year 2 to maturity of the

2 Management of key risks *(continued)*

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

exposure. The starting point for individual components of the calculation is historical data. Cure rate is incorporated as appropriate into the calculation and represents the expected propensity of borrowers to return to the non-defaulted book without a loss having been realised. FLI is also incorporated into LGD where UK property collateral is held. IFRS 9 LGD may differ from regulatory LGD as conservatism and downward assumptions are generally removed.

The approach to applying forward-looking forecasts for residential and commercial property prices into the estimation of stage 3 impairment loss allowances in relevant models and discounted cash flow analysis (see below) was reviewed in 2021. The review considered regulatory guidance on non-performing loans. Following this review, the approach was refined whereby property price forecasts used to estimate stage 3 impairment loss allowances are adjusted so that the property collateral value at the point of liquidation does not incorporate an improvement on the current market condition. The combined impact of this change is a c.£1.3 million increase in impairment loss allowance (c.£0.91 million for residential mortgages and c.£0.4 million for property and construction).

Individual discounted cash flow analysis

For credit-impaired financial instruments in Business Banking and certain other relationship-managed portfolios, the impairment loss allowance is primarily determined by an individual discounted cash flow analysis completed by lenders in business units and subject to review, challenge and, potentially, revision by independent credit professionals in underwriting units within the Group.

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

The approach taken to incorporate forward-looking information into the estimation of stage 3 impairment loss allowances for relationship-managed cases where recovery values are dependent on non-property related cash flows and / or collateral was reviewed in 2021. Following this review an enhanced approach was implemented whereby discounted cash flow analysis is flexed with respect to forward-looking information scenarios. This had a minimal impact at implementation on impairment loss allowance due to the restriction on future property gains for Stage 3 accounts.

Modelled loss rates

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

Identifying a significant increase in credit risk

The Group's standard criteria to identify financial instruments which have had a 'significant increase in credit risk since initial recognition' are applied to the vast majority of loans and advances to customers. 'Credit risk' in this context refers to the change in the risk of a default occurring over the expected life of the financial instrument. Unless credit-impaired or a POCI, a financial instrument is generally allocated to stage 2 if any of the following criteria are met at the reporting date:

- remaining lifetime PD is more than double and more than 50 basis points higher than the remaining lifetime PD at the reporting date as estimated based on facts and circumstances as at initial recognition (adjusted where relevant for changes in prepayment expectations);
- a contractual payment is greater than 30 days past due;
- the credit management PD risk rating for an individually assessed/relationship managed asset is above a defined threshold; and/or
- the exposure is a forborne loan or a non-performing exposure.

The above criteria are automatically applied as part of the monthly execution of the Group's impairment models. In addition, management considers whether there is reasonable and supportable information that would not otherwise be taken into account that would indicate that a significant increase in credit risk had occurred.

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

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

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

Identifying defaulted assets and credit-impaired assets

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

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

- greater than or equal to 90 days past due (based on calendar days) and the past due amount is material;
- a forbearance arrangement is put in place where future reliance on realisation of collateral is expected for repayment in full when this was not

2 Management of key risks *(continued)*

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

originally envisaged;
- more than 3 full monthly payments past due (retail credit facilities only);
- legal action is underway by the Group to enforce repayment or realise security;
- the Group or a receiver takes security into possession;
- the exposure is classified as non-performing for supervisory reporting purposes;
- residential mortgages where more than 20% of overall balance sheet exposure to the customer in the mortgage portfolio is in default; and
- the Group has formally sought an insolvency arrangement in respect of the borrower.

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

All portfolios:
- a forbearance measure has been requested by a borrower and formally assessed;
- the non-payment of interest (e.g. via interest roll-up, arrears capitalisation etc.) as a result of the terms of modification of loans, including refinancing and renegotiation of facilities where during the renegotiation process, the lender becomes aware that the borrower is under actual or apparent financial distress;
- evidence of fraudulent activity by the borrower or another party connected with the loan;
- there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows;
- a borrower's sources of recurring income are no longer available to meet regular loan repayments;
- the contractual maturity date has passed without repayment in full; or
- it becomes known that the borrower has formally sought an insolvency arrangement.

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

Larger SME / corporate and property loans:
- internal credit risk rating, or external credit rating, has been downgraded below a certain level;
- financial statements or financial assessment indicates inability of the borrower to meet debt service obligations and / or a negative net assets position;
- the borrower has ceased trading;
- a fall in the assessed current value of security such that the LTV ratio is greater than or equal to 120% (property and construction only);
- the borrower has breached the covenants of a credit contract with the group;
- there is a crisis in the sector in which the counterparty operates combined with a weak position of the counterparty in this sector;
- a fall in net rent such that it is inadequate to cover interest with little / no other income to support debt service capacity (investment property exposures only); or
- a fall in the assessed gross development value such that sale proceeds are no longer expected to fully repay debt (development exposures only).

Review of credit-impaired loans

It is Group policy to review credit-impaired loans above agreed thresholds semi-annually or on receipt of material new information, with the review including a reassessment of the recovery strategy and the continued appropriateness of a credit-impaired classification. The minimum requirements for a credit-impaired loan to return to non credit-impaired status are that the borrower must not be greater than 90 days past due (on a calendar days basis) on a material amount, the borrower must be considered likely to pay in full without recourse by the Group to actions such as realising security and there must be no forbearance arrangement in place where future reliance on realisation of collateral is expected for repayment in full when this was not originally envisaged. Typically, an updated assessment of the borrower's current financial condition and prospects for repayment is required with the borrower to have satisfactorily met repayments required under the original or modified agreement regularly for a reasonable period of time.

Methodologies for valuation of property collateral

The Group's approach to the determination of property collateral values is set out in a CRPC-approved Group Property Collateral Valuation Policy, supported by the Group Property Collateral Valuation Guidelines, and is summarised below. The Group's approach to applying FLI to those values for the purposes of measuring impairment loss allowance for the year ended 31 December 2021 is set out in the BRC approved Group Impairment Policy and is described below.

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

Commercial property valuations may include formal written valuations from external professionals or internally assessed valuations. Internally assessed valuations are informed by the most appropriate sources available for the assets in question. This may include property specific information / characteristics, local market knowledge, comparable transactions, professional advice (e.g. asset management reports) or a combination thereof, in line with more detailed guidance and metrics which are approved at least annually by the CRPC. These guidelines and metrics are informed by both internal and externally sourced market data / valuation information, including input from the Parent's Real Estate Advisory Unit.

Internally assessed valuations are subject to review, challenge and, potentially, revision by experienced independent credit professionals in underwriting units within the Group's risk function and are approved as part of the normal credit process.

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

2 Management of key risks *(continued)*

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

COVID-19

In response to the COVID-19 pandemic and the imposition of social restrictions, the Group established a range of supports for personal and business customers, including credit-related supports such as payment breaks for impacted customers; working capital funding (including access to government supported schemes); and other concessions such as covenant waivers /amendments.

The Group's processes in relation to payment breaks were in line with the common industry-wide approaches agreed through industry bodies and regulatory authorities in the UK.

The Group has considered regulatory and supervisory statements issued since the onset of the pandemic, which provided guidance on the treatment of COVID-19 payment breaks, including both PRA and EBA guidelines on the criteria applicable in determining whether such payment breaks should be considered as forbearance. The approach adopted by the Group in response to COVID-19 is consistent with regulatory guidance.

At 31 December 2021, there were c.40,000 cases (c.£2.0 billion exposure) for which the Group granted payment breaks during 2020-21. At 31 December 2021, all payment breaks had expired and 1% had been approved for new and / or additional forbearance. Where customers that previously availed of payment breaks required further support, these cases are classified as forborne within the associated portfolios. Customers that did not require further support following expiry of payment breaks are subject to standard credit management processes as outlined above. However, management has assessed certain portfolios for latent risk associated with ongoing government supports, that may mask credit risk in standard risk metrics, and have applied post model Group management adjustments to impairment loss allowances where considered to be appropriate.

FLI

FLI refers to probability-weighted future macroeconomic scenarios approved semi-annually by the ERC and used in the assessment of significant increase in credit risk and in the measurement of impairment loss allowances under IFRS 9.

Further details on the selected FLI scenarios for the reporting period, Group management adjustments and management judgement incorporated into impairment model parameters are provided in the Critical Accounting Estimates and Judgements on pages 104 to 114.

Quantitative information about credit risk within financial instruments held by the Group can be found in the credit risk exposure note on page 134 to the financial statements.

2.2 Liquidity and funding risk

Key points:

- **At all times during the financial year, the Group maintained appropriate levels of unencumbered liquid resources and an appropriate liquidity position, in line with regulatory and internally set requirements and limits.**
- **The Group held liquid assets of £4.3 billion at 31 December 2021 (2020: £3.1 billion) which was in excess of regulatory liquidity requirements and within the Group's internal risk appetite. This represented a prudent liquidity position.**
- **The Group's loan to deposit ratio decreased from 117% at 31 December 2020 to 104% at 31 December 2021, which reflects that assets have reduced more than deposits primarily due to the reduction in residential mortgages post the £2.9 billion sale to the Parent.**
- **The Group's LCR at 31 December 2021 was 268% (2020: 142%). The Group's NSFR at 31 December 2021 was 139% (2020: 133%).**

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

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

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

Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or has an inefficient funding structure.

Liquidity and funding risk management *(unaudited)*
The liquidity and funding RAS is set by the Board and is reviewed on an annual basis and sets out the level of liquidity and funding risk that the Board has deemed acceptable. The Group has established a liquidity and funding RMF, that is aligned to the Group's risk appetite and which is aligned with its overall strategy to be primarily a self- funded business, with funding diversification through the use of wholesale funding.

The Group's liquidity and funding RMF is designed to ensure that the Group manages and monitors its liquidity in accordance with the defined liquidity and funding RAS. The operational oversight and adherence to risk appetite is delegated to the ALCO, an executive subcommittee of the ERC.

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

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

The Group is predominantly funded by retail deposits, but also utilises wholesale funding and drawdowns from Bank of England (BOE) TFSME schemes. The Group maintains an unencumbered liquid asset portfolio, comprising of cash placements (including cash balances with the Bank of England, UK Government Gilts, Supranational and Agency Bonds, UK Covered Bonds and Interbank placements with counterparties and parent bank) and securities that can be used to raise liquidity either by sale or through secured funding transactions.

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

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

At 31 December 2021 and 2020, the Group had the following encumbered assets.

2 Management of key risks *(continued)*

2.2 Liquidity and funding risk *(continued)*

Encumbered and unencumbered assets	2021 Encumbered[1] £m	2021 Unencumbered £m	2021 Total £m	2020 Encumbered[1] £m	2020 Unencumbered £m	2020 Total £m
Cash and balances with central banks	-	3,456	3,456	-	2,050	2,050
Mandatory deposits with central banks	1,050	30	1,080	1,145	20	1,165
Loans and advances to other banks[2]	58	130	188	66	135	201
Loans and advances to banks - related party transactions	28	278	306	70	236	306
Loans and advances to customers	3,260	13,065	16,325	2,579	18,721	21,300
Assets classified as held for sale	-	-	-	-	-	-
Debt securities at amortised cost	32	766	798	25	897	922
Other assets	-	552	552	-	475	475
Total assets	**4,428**	**18,277**	**22,705**	**3,885**	**22,534**	**26,419**
Encumbered cash and balances with central banks:						
Note cover[3]	978			1,072		
Cash ratio and other mandatory deposits	72			73		
	1,050			1,145		

[1] *Included in the encumbered assets at 31 December 2021 is £28 million (2020: £70 million) of collateral placed with the Parent in respect of derivative liabilities.*
[2] *Encumbered assets includes assets that are segregated in order to meet the Financial Resilience requirements of the PRA's Supervisory Statement 9/16 'Operational Continuity in Resolution'.*
[3] *Note cover relates to mandatory collateral with the Bank of England in respect of banknotes in circulation in NI.*

2 Management of key risks *(continued)*

2.2 Liquidity and funding risk *(continued)*

Bank of Ireland UK ratings (unaudited)	2021	2020
Moody's	Baa1 stable outlook	Baa1 stable outlook
Fitch	BBB+ stable outlook	BBB+ negative outlook

Maturity analysis of financial assets and liabilities *(unaudited)*

The following tables summarise the contractual maturity profile of the Group's financial assets and liabilities, at 31 December 2021 and 31 December 2020, based on the contractual discounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity, instead the Group manages liquidity risk by adjusting the contractual cash inflows and outflows of the balance sheet to reflect them on a behavioural basis. This includes the incorporation of the inherent stability evident in the retail deposit book.

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

2021 Maturity analysis of financial assets and liabilities (discounted basis) (unaudited)	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Financial assets						
Cash and balances with central banks	3,456	-	-	-	-	3,456
Derivative financial instruments	-	5	8	72	3	88
Loans and advances to banks	142	1,097	29	-	-	1,268
Loans and advances to banks - related party transactions	305	1	-	-	-	306
Debt securities at amortised cost	-	128	138	402	130	798
Loans and advances to customers (before impairment loss allowance)	411	919	1,654	5,833	7,686	16,503
Total assets	**4,314**	**2,150**	**1,829**	**6,307**	**7,819**	**22,419**
Financial liabilities						
Deposits from banks	41	-	-	2,300	-	2,341
Deposits from banks - related party transactions	255	3	350	450	-	1,058
Lease Liabilities	-	1	2	7	5	15
Customer accounts	12,450	1,193	1,546	564	-	15,753
Derivative financial instruments	1	6	6	5	47	65
Debt securities in issue	-	-	-	148	300	448
Subordinated liabilities	-	-	-	-	190	190
Total liabilities	**12,747**	**1,203**	**1,904**	**3,474**	**542**	**19,870**
Net total assets and liabilities	**(8,433)**	**947**	**(75)**	**2,833**	**7,277**	**2,549**
Cumulative net assets and liabilities	**(8,433)**	**(7,486)**	**(7,561)**	**(4,728)**	**2,549**	**2,549**

2 Management of key risks *(continued)*

2.2 Liquidity and funding risk *(continued)*

2020 Maturity analysis of financial assets and liabilities (discounted basis) (unaudited)	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Financial assets						
Cash and balances with central banks	2,050	-	-	-	-	2,050
Derivative financial instruments	1	8	7	7	30	53
Loans and advances to banks	148	1,185	33	-	-	1,366
Loans and advances to banks - related party transactions	183	122	-	-	1	306
Debt securities at amortised cost	-	28	280	614	-	922
Loans and advances to customers (before impairment loss allowance)	733	710	1,967	7,302	10,861	21,573
Total assets	**3,115**	**2,053**	**2,287**	**7,923**	**10,892**	**26,270**
Financial liabilities						
Deposits from banks	102	100	250	1,378	-	1,830
Deposits from banks - related party transactions	193	104	425	1,650	-	2,372
Lease Liabilities	-	1	3	9	6	19
Customer accounts	13,816	1,464	2,050	922	4	18,256
Derivative financial instruments	-	6	19	87	2	114
Debt securities in issue	-	-	-	211	300	511
Subordinated liabilities	-	-	-	-	290	290
Total liabilities	**14,111**	**1,675**	**2,747**	**4,257**	**602**	**23,392**
Net total assets and liabilities	**(10,996)**	**378**	**(460)**	**3,666**	**10,290**	**2,878**
Cumulative net assets and liabilities	**(10,996)**	**(10,618)**	**(11,078)**	**(7,412)**	**2,878**	**2,878**

2.3 Market risk *(audited)*

Key points:

- **The Group does not engage in speculative trading for the purposes of making profits as a result of anticipation of movements in financial markets. Therefore, no discretionary risk is taken by the Group.**
- **During 2021, the Group continued to manage interest rate and foreign exchange exposure within risk appetite, by seeking natural hedge solutions within the balance sheet and by hedging remaining exposures with the Parent as the hedging counterparty.**
- **Basis risk continued to be hedged through the netting of asset and liability positions and the execution of fixed versus floating term swaps during 2021.**
- **The Group's structural risk continued to be managed within defined risk limits.**

Definition

Market risk is the risk of loss arising from movements in interest rates, foreign exchange rates or other market prices. Market risk arises from the structure of the balance sheet and the Group's business mix and discretionary risk taking.

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

Market risk management

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

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

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

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

(i) naturally hedge within the balance sheet;
(ii) execute derivative hedging contracts

2 Management of key risks *(continued)*

2.3 Market risk *(audited) (continued)*

with the Parent; or
(iii) execute on balance sheet cash hedges.

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

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

Although the impacts of COVID-19 have been visible in market volatility and foreign exchange movements, there has been no material impact on the Group's market risk position, or ability to manage such risk.

Market risk measurement and sensitivity

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

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

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

The impact on the Group's economic value from an immediate and sustained 50 basis points shift, up or down, in the sterling yield curve applied to the banking book at 2021 and 2020, is shown below.

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

	2021 £m	2020 £m
Economic impact (profit and loss) + 50 basis points	0.06	0.06
Economic impact (profit and loss) - 50 basis points	(0.06)	(0.06)

2.4 Regulatory risk *(unaudited)*

Key points:

- **The Group has zero risk appetite for failures to comply with regulatory or legislative obligations and manages regulatory risk through its RMF.**
- **Regulatory focus during 2021 continued to be applied on the management of the COVID-19 pandemic. Additionally, regulators raised sectorial level concerns in relation to affordable lending and collections activities; ensuring that during periods of change, effective and adequate governance is extended; the furtherance of compliance with operational resilience requirements; and the need for banks to continue to focus on their financial crime and anti-money laundering controls.**
- **The Group has responded proactively and positively to these focus areas and continued to act with forbearance to ensure that affected customers impacted by the pandemic continued to access the banking services required. The Group offered a range of supports including; payment breaks for impacted customers and working capital funding (including access to government supported schemes) as required by FCA guidance, this included the appropriate support to borrowers who continue to be impacted by long-term financial difficulties.**
- **The Group applied a strong focus on other areas of regulatory concern, specifically in relation to Operational Resilience where it is continuing to develop its approach in line with finalised regulatory guidance.**

2 Management of key risks *(continued)*

2.4 Regulatory risk *(unaudited) (continued)*

Definition

Regulatory risk is the risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. The associated risk of regulatory change is the risk that a change in laws and regulations that govern the Group will materially impact the Group's business, profitability, capital, liquidity, products or markets; that the Group fails to take timely action; and/or that the Group fails to effectively manage the regulatory change process.

Risk management and measurement

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

Risk mitigation

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

Risk reporting

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

Financial Crime

Protecting the financial system from financial crime risks including money laundering, terrorist financing, and bribery and corruption is of intrinsic importance to the Group. The Group Anti-Money Laundering Policy, Group Sanctions and Countering the Financing of Terrorism (CFT) policy and the Group Anti-bribery and corruption policy among others all support this objective. All colleagues complete annual mandatory training and assessment in relation to key areas.

2.5 Operational risk *(unaudited)*

Key points:

- The business control framework has continued to mature and has included learning from events which emerged during the year, resulting in enhanced risk identification, assessment and mitigation.
- Continuous improvement of risk and control standards through embedded risk and control libraries and the continued maturity of control certification and testing. The delivery of the Group Process Universe enables the pivot from process mapping to process reliability, driving risk management through a process lens. It seeks to reduce the volume and repeat of events (particularly errors, breaches and complaints) through more precise root cause analysis and focused remediation of the underlying weaknesses. It drives a continuous improvement on the control environment.
- The Group continues its multi-year programme to make substantial investment in its IT systems and given the risk attendant to any large transformation, there is continued focus to ensure the sustainability, integrity and resilience of operations and important business services.
- Continuous review of operational risk arising from COVID-19 and the embedding of a new flexible model of working that ensure approaches that work for colleagues, teams and customers.
- An Established Operational Resilience Roadmap, Target Operating Model and multi-year plan which sets out BOI UK's operational resilience strategy, measures, evidential standards and maturity for March 2022 as well as the high level activities over the next three years to March 2025 including ongoing areas of improvement and annual requirements. These are underpinned by a formalised Operational Resilience Policy and framework which formalises the minimum requirements to establish and maintain regulatory compliance.

2 Management of key risks *(continued)*

2.5 Operational risk *(unaudited) (continued)*

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

This risk includes Business Continuity Risk, Data Quality and Reliability, Fraud, Information Security and Cyber Risk, Information Technology (including Transformation Risk), Insurable, Legal and Contractual, Model, Payments, Sourcing, Unauthorised Trading and Business Processes.

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

The objective of operational risk management is not to eliminate operational risk altogether but to manage it within appetite, taking into account the cost of mitigation and the level of reduction in the operational risk exposure that can be achieved in a cost effective manner.

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

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

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

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

Reporting includes assessment of individual risk profiles against key operational risk categories from the Risk owner (First line of defence) which is then subject to oversight and challenge from Second Line of defence subject matter experts.

2.6 Business and strategic risk *(unaudited)*

Key points:

- On an annual basis the Board reviews the Group's strategic objectives to confirm that the strategic shape and focus of the Group remains appropriate. Longer-term viability is monitored through its ICAAP and multi-year planning processes.
- The impact of COVID-19 continues to extend across all business and strategic risks. It has accelerated existing trends, with consumer activity switching rapidly to digital alternatives and new ways of working impacting customers, colleagues and partners. Despite a robust economic recovery, the Group continues to monitor key segments of the customer base for economic stress as certain groups of customers and sectors benefit from the recovery at differing scales and speeds, and the impact of external macroeconomic pressures on energy prices, cost of living and increasing interest rates are felt.
- In terms of Brexit, the Group continues to monitor the trading relationship between the EU and UK and the potential impacts on customers of the NI Protocol, identifying, monitoring and mitigating risks associated with the current trade agreement.
- The competitive environment in the UK banking sector remains intense with increasing pressure on margins affecting the Group's ability to generate profitability. The Group's cost base is reviewed regularly to ensure the Group remains competitive.
- The Group is committed to the UK market where its focus is on improving sustainable returns. The Group is continuing on its multi-year restructuring programme, that will, over time, reduce its balance sheet size, enabling it to lower its cost base and focus on higher margin businesses across mortgages, car finance and travel money.

2 Management of key risks *(continued)*

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

Definition

Business and Strategic Risk is defined as the risk of volatility to the Group's projected outcomes, including income statement and balance sheet impact and / or damage to the franchise, including that of the Group's joint ventures and partnerships.

The risk may arise from a change in the competitive environment, new market entrants, new products, or a failure to anticipate or mitigate a related risk, and a breakdown / termination of a relationship with, or a significant underperformance of, a distribution partner.

Risk management, measurement and reporting

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

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

Risk mitigation

The Group mitigates business risk through business planning methods, such as the diversification of revenue streams, cost base management and oversight of business plans which are informed by expectations of the external environment and the Group's strategic priorities.

At an operational level, the Group's annual budget process sets expectation at a business unit level for volumes, capital returns and margins. The regular tracking of actual and forecast volumes and margins against budgeted levels, is a key financial management process in the mitigation of business risk.

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

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

2.7 Reputation risk *(unaudited)*

Key points:

- **The Group's reputation continues to be influenced and shaped by a range of factors including: macroeconomic and political environment, media, public and customer commentary and general sector developments. More specifically, the Group's decisions and actions in pursuit of its strategic and tactical business objectives and its interaction with the external environment will also influence its reputation.**
- **Throughout 2021, the Group continued to actively manage, measure and report on its reputation risk and to take this into account in its strategic decision making.**

Definition

Reputation risk is defined as the risk to earnings or franchise value arising from adverse perception of the Group's image on the part of customers, partners, suppliers, counterparties, shareholders, investors, staff, legislators or regulators.

This risk typically materialises through a loss of business in the areas affected. Reputation is not a standalone risk but overlaps with other risk areas and may often arise as a consequence of external events or operational risk related issues.

Risk management, measurement and reporting

Reputation risk indicators and risk appetite are monitored on an ongoing basis.

These indicators are:

- media monitoring;
- market trends and events;
- monitoring of customer feedback and engagement;
- stakeholder engagement and monitoring; and
- risk events which may have the potential to impact the Group.

The Group reviews reputation risk as part of the annual risk identification process. Regular updates are reported to the ERC, the BRC and the Board.

Risk mitigation

The Group's reputation is taken into account in decision-making and this is paramount in mitigating against reputation risk.

2 Management of key risks *(continued)*

2.8 Conduct risk *(unaudited)*

Key points:

- **The Group recognises the importance of fairness and is committed to placing customers at the heart of its strategic and operational decision-making.**
- **In 2021, the Group continued its focus on ensuring that its responses to COVID-19 delivered appropriate outcomes to all affected customers. These measures included: ensuring that customers continued to be able to access cash and other critical day-today banking services during the period of lockdown; ensuring that its bereavement services responded sympathetically; flexing processes and procedures to ensure that customers across a range of situations were able to bank appropriately; and dealing with those borrowers in short and long-term financial difficulties, ensuring they were supported appropriately.**
- **The Group also took appropriate steps to minimise the risk of detriment occurring as a result of strategic changes taking place within its business, for example, it took appropriate steps to understand and minimise the impact of its branch closure programme on its customers base, in particular those that were considered to be vulnerable; it also supported customers through the recently launched deposit simplification programme initiated as part of its savings simplification programme.**

Definition

Conduct risk is the risk that the Group or its staff undertake business in an inappropriate or negligent manner that leads to customer harm.

Customer Experience

The Group continues to focus on its strategic priority to serve customers brilliantly and to help enable customers, colleagues and communities to thrive. Throughout 2021, the Group has continued to focus on improving customer experience and outcomes, to ensure its standards are in line with with evolving industry and regulatory expectations and in anticipation of the FCA Consumer Duty, in particular for those customers experiencing financial difficulty or some other form of vulnerability. Enhancements were made to services provided through digital platforms. Alongside the rest of the industry, the Group continues to make adjustments to cater for the needs of vulnerable customers including ensuring they are treated fairly. The Vulnerable Customer Board oversees the Group's approach to vulnerable customers, and sets out desired outcomes and standards expected of business units and third party outsourced service providers in the treatment of those consumers that may be vulnerable and who are therefore susceptible to detriment in the event that the Group does not act with the appropriate level of care.

Risk management

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

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

Conduct risk policy

The Group's exposure to conduct risk is governed by a policy approved by the BRC in accordance with the Board approved risk appetite and within the overall Group risk governance structure outlined on pages 37 to 39.

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

Conflicts of interest

The Group has a conflicts of interest policy which guides staff on what should be reported and assessed by the Group. The policy is underpinned by training to alert staff to activities or situations which may create an actual or potential conflict of interest. Whenever a conflict of interest is identified appropriate measures must be taken to either remove it or mitigate it; the policy reminds all those subject to it that failure to comply with the policy may constitute serious misconduct and may be subject to disciplinary measures.

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

Risk reporting

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

3 Capital management

Key points:

- **At all times during the financial year the Group maintained appropriate capital resources in line with regulatory requirements.**
- **CET1 ratio is 17.5% at 31 December 2021 (2020: 13.7%) under the transitional basis and 17.2% under the fully loaded basis (2020: 12.9%)**
- **The Group at 31 December 2021 was required to hold CET1 capital requirements of 8.0% and Total Capital Requirements of 12%.**
- **Sustained strong capital position enabled the share buyback of £250 million, as well as net £150m Additional Tier 1 and £100m Tier 2 capital repayments in the year.**
- **The leverage ratio is 7.3% at 31 December 2021 under the transitional basis and 7.2% under the fully loaded basis.**
- **MREL ratio of 24.9% as at 31 December 2021.**

Capital adequacy risk *(unaudited)*
Capital adequacy risk is the risk that the Group holds insufficient capital to absorb extreme and unexpected losses, which could eventually result in the Group not being able to continue operating.

Capital management objectives and policies *(unaudited)*
The Group manages its capital position to ensure that it has sufficient capital to cover the risks of its business, support its strategy and to comply at all times with regulatory capital requirements.

Capital adequacy and its effective management is critical to the Group's ability to operate its businesses, grow organically and pursue its strategy. The Group's business and financial condition could be adversely affected if it is not able to manage its capital effectively or if the amount or quality of capital held is insufficient. This could arise in the case of a materially worse than expected financial performance (including, for example, reductions in profits and retained earnings as a result of impairment losses or write downs) and increases in RWA.

ICAAP *(unaudited)*
The ICAAP is carried out by the Group on an annual basis. This process facilitates the Board and senior management in adequately identifying, measuring and monitoring the Group's risk profile. Underpinning the ICAAP process, the Group prepares detailed financial projections. Base case projections are prepared using consensus macroeconomic forecasts together with Group specific assumptions, and the stress case is prepared based on a severe but plausible stress macroeconomic scenario.

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

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

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

The Group's stress testing is designed to:
- confirm the Group has sufficient capital resources;
- inform the setting of capital risk appetite measures; and
- ensure the alignment between the Group's RMF and senior management decision making.

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

The Group also undertakes reverse stress testing on an annual basis which informs, enhances and integrates with the stress testing framework by considering extreme events that could cause the Group to fail. This testing also improves risk identification and risk management and the results are also approved by the Board, as part of the Group's ICAAP.
The Group's capital planning process includes a review of the Group's expected capital position which is reviewed and challenged on a monthly basis by senior management.

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

Capital requirements and capital resources *(audited)*
The Group complied with all its regulatory capital requirements throughout 2021.
The Group manages its capital resources to ensure that the overall amount and quality of resources exceeds the Group's capital requirements. Capital requirements are determined by the CRD, the CRR and firm specific requirements imposed by the PRA. The minimum requirements are typically driven by credit risk, market risk and operational risk, and also require stress-absorbing buffers.

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

In March 2020, in response to COVID-19, the Financial Policy Committee (FPC) reduced the countercyclical buffer from1% to and it remained at 0% throughout 2021.

In December 2021, the FPC announced that it is increasing the CCyB to 1% from December 2022 and should the economic recovery proceed in line with the MPC's central case, the FPC would expect to increase the rate to 2% effective Q2 2023.

The Group's regulatory requirements are summarised in the table above which

3 Capital management *(continued)*

shows the minimum CET1 regulatory requirements of the Group. These requirements do not include the PRA buffer, which is not disclosed in line with regulatory preference.

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

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

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

The revised standards will take effect from 1 January 2023, with a phase-in period of five years for the aggregate output floor. The Group is currently assessing the impact of these revisions although any impact will depend on the implementation at UK level, for which a Policy Statement is expected in Q3 2022.

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

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

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

The Group issued £300 million of non-preferred senior debt in December 2019 and no further MREL issuances have since been necessary to meet MREL requirements.

End-state MREL requirements will be effective from 1 January 2023. The Group considers the impact of MREL as part of the strategic and capital planning process, noting that the Parent as the sole shareholder and provider of capital is also expected to provide any future core MREL resources.

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

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

Regulatory capital and key capital and leverage ratios *(unaudited)*
The Group is strongly capitalised with a total capital ratio on a regulatory basis of 21.4% at 31 December 2021 (2020: 19.1%).

Total regulatory capital resources decreased by £208 million during 2021 to £1.9 billion due to:
- profit after tax for 2021 of £398 million for the regulatory capital group;
- an increase in other reserves of £ £3 million; and
- an increase in regulatory adjustments of £35 million for deferred tax.

Offset by:
- a reduction in retained earnings of £250 million due to the completion of a share buyback (which also resulted in a reduction in share capital of £75 million which was offset by the an increase in the capital redemption reserve of £75 million);
- additional tier 1 coupons of £25 million paid to the Parent;
- the net repayment of £150 million of Tier 1 capital; and
- a reduction of £96 million in Tier 2 capital due to the net repayment of £100 million of Tier 2 offset by £4m reduction in Tier 2 amortisation.

RWAs decreased by £2.2 billion to £8.7 billion reflecting a reduction in each of the main lending portfolios including Northridge, commercial lending, personal lending and mortgages which was significantly reduced post the mortgage asset sale to the Parent.

The Group's leverage ratio on a regulatory basis has increased from 6.7% to 7.3% at 31 December 2021 which is in excess of the minimum leverage requirement of 3.25% that the PRA expects firms to adhere to, regardless of whether or not a firm is subject to a minimum leverage requirement.

3 Capital management *(continued)*

31 December 2020 (audited)[3] Regulatory[1] £m	31 December 2020 (audited)[3] Fully loaded[2] £m		31 December 2021 (audited)[3] Regulatory[1] £m	31 December 2021 (audited)[3] Fully loaded[2] £m
197	197	Ordinary share capital	122	122
324	324	Capital contribution and capital redemption reserve fund	399	399
898	898	Retained earnings	1,036	1,036
23	23	Other reserves	(9)	(9)
1,442	1,442	**Total equity**	**1,548**	**1,548**
47	(51)	**Regulatory adjustments**	**(21)**	**(51)**
(15)	(15)	*- Deferred tax assets relying on future profitability*	*(50)*	*(50)*
(7)	(7)	*- Intangible assets*	*(4)*	*(4)*
(21)	(21)	*- Cashflow hedge reserve*	*13*	*13*
(8)	(8)	*- Retirement benefit asset*	*(10)*	*(10)*
-	-	*- Prudent valuation adjustment*	-	-
98	-	*- IFRS 9 transitional adjustment*	30	-
1,489	1,391	**Common equity tier 1 capital**	**1,527**	**1,497**
		Additional tier 1		
300	300	Subordinated perpetual contingent conversion additional tier 1 securities	150	150
1,789	1,691	**Total tier 1 capital**	**1,677**	**1,647**
		Tier 2		
286	286	Dated loan capital	190	190
286	286	**Total tier 2 capital**	**190**	**190**
2,075	1,977	**Total capital**	**1,867**	**1,837**
10,879	10,780	**Total risk weighted assets (unaudited)**	**8,717**	**8,686**
26,806	26,708	**Total leverage ratio exposures (unaudited)**	**22,909**	**22,879**

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

Governance

Directors and other information

Chair of the Board
Peter Herbert (appointed to the Board 1 May 2020) (N) (RE)

Non-Executive Directors
Philip Moore (RI) (A)
Richard Sommers (RI) (A)
Ian Buchanan (RI)
Jacqueline Noakes
Mark Spain
Alison Burns (N) (RE) (RI)
Clare Salmon (RE) (A) (N)

Executive Directors
Ian McLaughlin
Thomas McAreavey

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

Company Secretary
Hill Wilson Secretarial Limited

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

Registered Number
07022885

Independent Auditor
KPMG
Chartered Accountants, Statutory Audit Firm
1 Harbourmaster Place
Dublin 1
Ireland

The Board of Directors

Peter Herbert
Chair, Non-Executive Director

Term of office
Appointed in May 2020

Independent
Yes

External appointments
Chair and Non-Executive Director at Zopa Bank
Non-Executive Director at WiZink Bank (Spain)

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

Ian McLaughlin
Chief Executive Officer

Term of office
Appointed in December 2019

Independent
No

External appointments
None

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

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

Thomas McAreavey
Chief Financial Officer

Term of office
Appointed in March 2017

Independent
No

External appointments
None

Experience
Appointed Chief Financial Officer of Bank of Ireland (UK) plc in March 2017. Thomas has over 20 years of experience in the Bank of Ireland Group, having held various senior management positions within Finance, including leading a range of strategic projects. Prior to that, he held a management position within PricewaterhouseCoopers LLP. Thomas is a Fellow Chartered Accountant and is a qualified Certified Bank Director.

Thomas is also a Director of a number of Bank of Ireland Group subsidiaries, including NIIB Group Limited.

Abbreviations

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

The Board of Directors *(continued)*

Jackie Noakes
Group Chief Operating Officer
- Bank of Ireland Group plc

Term of office
Appointed in October 2018

Independent
No

External appointments
One Family Limited

Experience
Appointed Non-Executive Director of Bank of Ireland (UK) plc in October 2018. Jackie joined Bank of Ireland Group plc as a Group Chief Operating Officer in August 2018. In her role as Chief Operating Officer Jackie oversees a range of services across technology, infrastructure and operations. Jackie has held a number of senior positions in the financial services sector, most recently at Legal & General (UK) as Chief Executive Officer of Mature Savings. Jackie also held the roles of Managing Director of Legal & General's Savings business, as well as Group IT & Shared Services Director and Chief Operating Officer for the Firm's largest operating entity, Legal & General Assurance Society.

Mark Spain
Chief Strategy Officer
- Bank of Ireland Group plc

Term of office
Appointed in December 2019

Independent
No

External appointments
None

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

Alison Burns
Non-Executive Director

Term of office
Appointed in January 2021

Independent
Yes

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

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

The Board of Directors *(continued)*

Philip Moore
Non-Executive Director

Term of office
Appointed in April 2018

Independent
Yes

External appointments
Non-Executive Director and Chair of the Audit and Risk Committee of Codan A/S
Non-Executive Director and Chair of the Risk Committee of Wesleyan Assurance Society
Non-Executive Director of Skipton Building Society
Trustee and Chair of the Finance Committee of the Royal British Legion

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

Richard Sommers
Non-Executive Director

Term of office
Appointed in August 2021

Independent
Yes

External appointments
Chair of Sidmouth Cricket Tennis and Croquet Club

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

Ian Buchanan
Non-Executive Director

Term of office
Appointed in September 2018

Independent
No

External appointments
None

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

Clare Salmon
Non-Executive Director

Term of office
Appointed in July 2021

Independent
Yes

External appointments
Non-Executive Director, Chair of the Risk Committee, and designated Director for Workforce Engagement at CMC Markets Plc

Independent Member, Scottish Widows Independent Governance Committee

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

Corporate Governance Arrangements 2021

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

Compliance with the Wates Principles

Principle 1: Purpose and leadership

- The Board is responsible for the leadership of the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board approves the Group's strategy, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance.
- The Board has oversight of the Group's values and standards, the development of the Group's culture, the allocation of Prescribed Responsibilities under the UK Regulatory Regime and ensures that the Group's obligations to its shareholder, regulators, customers and other stakeholders are understood and met. The Board approves the Group's risk appetite, capital, liquidity and operating plans.
- The Group's purpose, "Enabling our customers, colleagues and communities to thrive", is supported by four key values: Customer focused; One Group, One Team; Accountable; and Agile. Details are set out under "Our purpose and values" in the Strategic Report on page 9.
- The Group's strategy is "to transform the bank, to serve customers brilliantly and to grow sustainable profits". Details are set under "Our Strategy" on page 10.
- The Board recognises that culture is critical to the Group's competitive advantage and creation and protection of long-term value. To support its commitment to embedding the Group's culture and values, the Board receives regular updates on Open View survey results as well as a Quarterly Culture Dashboard. The Nomination Committee reviews information on Management Hires and Exits.
- The Group has signed up to the UK Race at Work Charter and has committed to meeting and in certain cases, exceeding, the standards set out in that Charter. The Board pledges its commitment to zero tolerance for any form of racial harassment, bullying or inappropriate behaviours whether from management, colleagues, customers or contractors.
- The Audit Committee leads on the establishment of transparent policies in relation to raising concerns about misconduct and unethical practices (Speak-Up).
- In its deliberations, the Board has taken into account the long-term interests of shareholders, investors, customers, colleagues and other stakeholders in the Group and the public interest. The Board has also given due consideration to laws, regulations and any published guidelines or recommendations. The Board is accountable to its Shareholder for the overall direction and control of the Group.
- The Board met 15 times in 2021.

Principle 2: Board composition

- The roles of the Chair and CEO are separate to ensure a balance of power and effective decision-making.
- There was a significant change to the composition of the Board in 2021 as outlined below:
  - Peter Hebert was formally appointed as Chair of the Board on 12 February 2021.
  - Alison Burns was appointed to the Board on 1 January 2021 and was subsequently appointed to the role of Customer Director in October 2021.
  - Clare Salmon was appointed to the Board on 1 July 2021 and was subsequently appointed to the role of Colleague Engagement Director in October 2021. Clare was appointed Chair of the Remuneration Committee on 5 October 2021.
  - Richard Sommers was appointed to the Board and as Chair of the Risk Committee on 3 August 2021;
  - John Baines resigned from the Board and as Chair of the Audit Committee on 1 May 2021; and
  - Philip Moore was appointed as Audit Committee Chair in May 2021.
- The Nomination Committee regularly considers the Board size and structure to ensure it remains appropriate to meet the strategic needs and challenges of the Group and enables effective decision-making.
- The Group ensures that individual Directors of the Board have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships held by any individual Director.
- A schedule of technical and business Board training is developed annually and reviewed throughout the year. In 2021, the Board and Board Committees received training in the following areas:
  - Corporate Governance Developments;
  - Financial Risks of Climate Change;
  - Customer Immersion Sessions;
  - LGBT Ally Training;
  - Culture;
  - Personal IT Security;
  - Cyber Crime; and
  - BEIS Consultation on Audit and Corporate Governance Reform.
- The Board and Committee review the agenda for the next meeting at the end of each scheduled meeting which allows all Directors to shape the areas of discussion for future meetings.
- The Board has established a set of matters reserved for the Board and an annual rolling agenda to ensure control over key decision making.
- In accordance with the Articles, the Board has established the following Board Committees:
  - Audit Committee;
  - Nomination Committee;
  - Risk Committee; and
  - Remuneration Committee
- Each Board Committee has specific delegated authority as set out in its terms of reference (https://www.bankofirelanduk.com/about/corporate-governance/documents/).
- In 2020, the Board also established a Strategic Transformation sub-committee to facilitate focused review, challenge and oversight as to the progress of the Group's strategic transformation. There were 10 meetings of this Committee in 2021.
- The Board comprises a mix of Executive Directors; independent Non-Executive Directors; and Non-Executive Directors from the Parent.
- The Board recognises and embraces the benefits of diversity among its own members, including diversity of skills, experience, background, gender, ethnicity and other qualities and is committed to achieving the most appropriate blend and balance of diversity possible over time. The Board has retained its gender diversity target of 33% of female Directors by the end of 2022 and had achieved 30% by the end of 2021. The Board Diversity Policy, is available here: https://www.bankofirelanduk.com/ab

Corporate Governance Arrangements 2021 *(continued)*

out/corporate-governance/documents/
- All appointments are made on merit against objective criteria (including the skills and experience the Board as a whole requires to be effective) with due regard for the benefits of diversity on the Board. Upon appointment, each Director receives a detailed and tailored induction, including a briefing on directors' duties.
- Before the appointment of a Director, the Nomination Committee assesses the time commitment involved and identifies the skills and experience required for the role, having regard to Board succession planning. The recruitment process for all other colleagues. is supported by an experienced third-party professional search firm which develops an appropriate pool of independently assessed candidates as well as providing independent assessment of candidates. The Nomination Committee then shortlists candidates, conducts interviews and completes comprehensive due diligence. The Nomination Committee then makes a recommendation to the Board.

Principle 3: Director responsibilities
- The Board held 15 meetings during 2021. Principal decisions made by the Board during 2021, are set out in the Section 172 Companies Act 2006 Report on pages 24 to 26.
- The Board Terms of Reference provide a clear line of accountability and responsibility. Each Committee has a Terms of Reference outlining accountability and responsibility.
- The Terms of Reference for the Board and Board Committees are reviewed annually by the Company Secretary with any recommended changes presented to the Board for approval.
- The Board has adopted terms of reference that set out matters reserved for the Board.
- The Board undertakes an effectiveness review annually. In 2020, Allen and Overy Consulting was engaged to undertake a Board effectiveness review. The review concluded that the governance of the Board and its committees has been designed appropriately and the Board and committees are effective in their operation and in discharging their responsibilities. Recommendations implemented to enhance the Board's performance during 2021 are described in more detail in the S.172 statement on pages 25 and 26 .
- The Board has adopted a Conflicts of Interest Policy setting out how conflicts should be identified and managed at Board level.
- The Audit and Risk Committees hold meetings with control function heads without executive management present at least annually.
- The Risk Committee holds private meetings with the CRO at the end of each scheduled Risk Committee meeting.
- Board papers and supporting information are accurate, clear, comprehensive and up to date. Papers contain a broad range of information sources; a summary of the contents; inform the Directors as to what is being requested of them; and, wherever possible, are issued in good time ahead of Board meetings.

Principle 4: Opportunity and risk
- The Board considers major projects and has delegated authority from the Shareholder for the approval of business strategy and direction for Group, within the parameters of the Parent's strategy.
- The Risk Committee and the Board considered the proposals made in support of delivery of the Group's multi-year strategic transformation programme which commenced in 2020. Further information on the Group's Strategy can be found on page 10.
- The Board has established a dedicated Risk Committee with responsibility for monitoring risk governance and to assist the Board in discharging its responsibilities in ensuring that risks are properly identified, reported, assessed and managed appropriately. In addition to regular review of the Group's Principal Risks (see -Principal Risks and Uncertainties (page 33), matters considered by the Risk Committee during 2021 included:
  - Operational Risks
  - ICAAP
  - ILAAP
  - Any breaches of Risk Appetite Metrics
  - Deep dives on specific areas within the Group's Business Portfolios
  - Forward Looking Information
  - The loan loss and impairment process for the Report and Accounts
  - Operational Resilience
  - Financial Risks of Climate Change.
- The Group has a robust framework for reviewing and refreshing the RAS. This includes an agreed approach to reporting, including frequency of reporting and the points at which decisions are made and escalated. For further details on the main features of the internal control and risk management systems, refer to the Risk Governance Report.

Principle 5: Remuneration
- The Board has established a dedicated Remuneration Committee. The Remuneration Committee's primary objective is to consider and make recommendations to the Board in respect of remuneration strategy and policy for Executive Directors, Senior Management and the Group appointed Senior Management Functions (as defined under the UK Senior Managers & Certification Regime).
- The Remuneration Committee is responsible for overseeing the operation of a gender-neutral and appropriately inclusive remuneration policy, for Executive directors, Senior management and all other Colleagues.
- In framing remuneration strategy, frameworks and policies, the Remuneration Committee seeks to promote executive remuneration structures aligned to the long-term sustainable success of the Group, taking into account pay and conditions elsewhere in the Group.
- The Group is currently operating under a number of remuneration restrictions, which cover all Directors, senior management, employees and certain service providers across the Group. For further information, refer to the Remuneration Report of Bank of Ireland Group plc.

Principle 6: Stakeholders relationships and engagement
- Behaving in a responsible and sustainable way is fundamental to the Group's achievement of its purpose of "enabling our customers, colleagues and communities to thrive". A Responsible and Sustainable Business framework supports the Group's behaviours and strategic priorities. Further details are set out in the Responsible and Sustainable Business section of the Strategic Report on page 16.
- Workforce policies and practices are aligned with the Group's purpose and values. Employees have access to a Speak-Up Policy and are actively encouraged to report any concerns or worries, either internally or externally

Corporate Governance Arrangements 2021 *(continued)*

via a confidential, externally facilitated advice line. The Board monitors these reports and follows up actions regularly through the Audit Committee.

- Executive and Non-Executive Senior Management Function role holders meet regularly with the Group's regulators; and the PRA and FCA present an annual update to the Board. The Chair of the Parent attends a Board Meeting annually and the CEO of the Parent presents to the Board at least once a year.

See Section 172(1) Statement (page 24) for further details on stakeholders and engagement.

Report of the Directors

The Directors of the Group present their consolidated audited report and financial statements for the year ended 31 December 2021. The financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Directors are listed in the Governance section on pages 63 to 67. The Group's structure is set out in note 45 to the financial statements and the future developments of the Group are incorporated in the strategic report.

Principal activities

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

Financial performance

The Group's profit for the year ended 31 December 2021 was £398 million (2020: £27 million). There was no profit or loss attributable to non-controlling interests for the year ended 31 December 2021 (2020: £nil). An analysis of performance is set out in the strategic report on pages 27 to 32.

Dividends

There was no dividend paid to the Parent during 2021 (2020: £nil).

Return of capital

During the year we restructured our capital and repatriated £500 million to our Parent.

Board membership

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

- Alison Burns, Non-Executive, 1 January 2021.
- Clare Salmon, Non-Executive, 1 July 2021.
- Richard Sommers, Non-Executive, 3 August 2021.

John Baines (resigned 1 May 2021) was the only director to resign during the year and up to the date of signing.

Corporate governance

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

Corporate responsibility

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

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

Risk management

The Group's principal risks and uncertainties are discussed in the strategic report on pages 33 to 35.

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

Employees

For the year ended 31 December 2021, the Group had an average of 386 direct employees (2020: 304 direct employees) and 439 employees (2020: 520 employees) who work under long-term secondment arrangements from the Parent.

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

The Group has a number of programmes to support colleagues who become disabled or acquire a long-term health condition.
To support continued employment and training, career development and promotion of all employees, the Group provides a suite of learning and development activities which are facilitated in conjunction with the Parent. Through the Group's ongoing employee performance monitoring and appraisal process, incorporating frequent line manager and employee discussions, individual employees are encouraged and supported to pursue their own personal development.

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

Political donations

No political donations were made during the year ended 31 December 2021 or in the year ended 31 December 2020.

Voting Rights

Voting at any general meeting is by a show of hands or by poll. The Annual General Meeting of the Group is scheduled to take place on 12 April 2022, and a copy of the notice of the meeting will be available on the Group's website when it is issued. The Group is a wholly owned subsidiary of the Governor and Company of the Bank of Ireland. Details of the Parent's shareholding can be found in the Notes to the Accounts in note 38.

Auditors

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

Disclosure of information to the external auditor

In accordance with the provisions of the Companies Act 2006, the Directors serving

Report of the Directors *(continued)*

at the date of approval of this report confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Going concern
The Directors have considered the appropriateness of the going concern basis in preparing the financial statements, for the year ended 31 December 2021, on page 89 which forms part of the Report of the Directors.

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

Post balance sheet events
These are described in note 48 to the financial statements.

Financial Statements

Statement of Directors' Responsibilities

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

Company law requires the Directors to prepare Group and Bank financial statements for each financial year. Under that law they have elected to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law and have elected to prepare Bank financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Bank and of their profit or loss for that period. In preparing each of the Group and Bank financial statements, the Directors are required to:

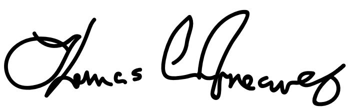
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- state whether, for Bank financial statements, applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

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

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



Thomas McAreavey
Director

10 March 2022

Company number: 07022885

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

1 Our opinion is unmodified

We have audited the financial statements of Bank of Ireland (UK) plc ("the Bank") and its subsidiaries ("the Group") for the year ended 31 December 2021, which comprise the consolidated and Bank balance sheets, consolidated and Bank income statements, consolidated and Bank statements of other comprehensive income, consolidated and Bank statements of changes in equity, consolidated cash flow statement and the related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in the preparation of the Group financial statements is UK Law, UK adopted international accounting standards and, as regards the Bank financial statements, UK Law and FRS 101 Reduced Disclosure Framework.

In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2021 and of the Group's and Bank's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Bank's financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

KPMG, or a predecessor firm (that is part of the same network), were first appointed as auditor by the directors on 1 May 2018. The period of total uninterrupted engagement is for the four financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality Group financial statements as a whole	**£7 million (2020: £4.1million)** 2.1% of underlying profit before tax (2020: 1% of revenue)
Coverage	99.7% (2020: 92%) of group profit before tax 99.9% (2020: 100%) of group total operating income 99% (2020: 99%) of total assets

Key audit matters		**vs 2020**
Recurring risks	IFRS 9 expected credit loss	◀▶
	Recognition of effective interest income	◀▶
	Recoverability of deferred tax asset	◀▶
	The impact of IT access controls on the effectiveness of the control environment	▼

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

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

Key audit matter	The risk	Our response
IFRS 9 expected credit loss on loans and advances to customers *£178 million and £155 million for Group and Bank respectively (2020: £273 million and £245 million)* *Refer to section 2.1 credit risk (pages 42 – 50) of the risk management disclosures, pages 92 – 94 (accounting policy), Note 2a (critical accounting estimates and judgements) and notes 20 and 21 (financial disclosures)* *This is relevant to both the Group and Bank financial statements*	The measurement of expected credit losses ('ECL') involves significant judgements and estimates. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's and Bank's financial statements include but are not limited to: **Probability of default (PD) model estimations** The calculation of expected credit losses uses complex and inherently judgemental modelling techniques including the application of adjustments to the probability of default (PD) assumptions to reflect current economic conditions. The PD models are the key drivers of the staging of assets and the calculation of the expected credit loss calculation. The criteria selected to identify significant increase in credit risk is a key area of judgement within the Group's and Bank's ECL calculation as these criteria determine whether a 12 month or lifetime ECL is recorded. The resultant ECL that is calculated may be inappropriate if it does not accurately predict defaults over time or becomes out of line with wider industry experience, or fails to reflect the credit risk of loans and advances to customers'.	Our procedures included: **Controls testing** We performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. Our testing included general and application IT controls over key systems and the following key procedures: • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models; • Evaluation of the validation control over the modelling process; • Testing key controls over economic scenarios, assumptions and weights; and • Evaluation of controls over collateral management processes, management assessment and challenge of key assumptions applied in the impairment assessment over stage 3 base case impairment allowance assessment. **Our modelling expertise:** Using our own credit risk assurance specialists, we performed the following: • Evaluated the appropriateness of the impairment methodologies, including the staging criteria used; • Re-performed the calculation of certain components of the ECL model calculations, including the staging criteria; • For a sample of models which were changed or updated during the year, we evaluated whether the changes (including the updated model code) were consistent with the impairment methodologies by re-performing key model validation procedures; and • For all material models, assessing the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences.

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

Key audit matter	The risk	Our response
	Economic scenarios IFRS 9 requires the measurement of ECLs on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them especially when considering the current uncertain economic environment including the impacts of COVID 19. **Post model adjustments (PMAs)** There is a high degree of estimation uncertainty and management judgement involved in the estimation of post-model adjustments raised to address model limitations, data limitations market uncertainty and/or emerging trends. Management raised PMAs which account for 24% (2020: 15%) of the impairment allowance as at 31 December 2021 for the Group. **Stage 3 loans expected credit loss** The estimation of ECLs involves the application of significant judgment in the determination of the realisable cash flows from recovery strategies. These are most significant for the Business Banking loans. The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	**Our economic scenario expertise** Using our own economic specialists, we performed the following: • Assessed and evaluated the appropriateness of the methodology for determining the economic scenarios and probability weights and appropriateness of economic scenarios selected; • Assessed and evaluated the overall plausibility of the baseline and alternative scenario forecasts by comparing against our own modelled forecasts and external data; and • Assessed and evaluated management's sensitivity assessment of key assumptions. As part of this work we challenged the reasonableness of considerations of the economic uncertainty relating to COVID 19. **Post model adjustments** Using our own credit risk assurance specialists, we performed the following: • Assessed and evaluated the rationale for holding PMAs and the respective methodologies and calculations. • Benchmarked key assumptions and methodologies used by the Group and Bank in determining the post model adjustments and challenged the appropriateness of the management adjustments. **Stage 3 business banking expected credit loss** • For a risk based sample of stage 3 Business Banking loans, where relevant, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment allowance and challenged the key assumptions through comparing estimates to external support where available. • Where appropriate, we used our own valuation experts to challenge the collateral valuation assumptions. **Assessing transparency** We assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the expected credit losses. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgements and key assumptions made, including in respect of COVID-19, was sufficiently clear. **Our results:** We found the ECL charge and impairment allowance recognised to be acceptable (2020 result: acceptable).

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

Key audit matter	The risk	Our response
Recognition of effective interest rate income *Impact of prepayment estimates on the determination of effective interest rate on mortgages and fair value unwind on the acquired mortgage portfolio* *Effective interest rate adjustment to mortgages interest income £9 million (2020: £4 million)* *Fair value unwind of acquired portfolio £28 million (2020: £30 million)* *Refer to page 90 – 91 (accounting policy), Note 2d - e (critical accounting estimates and judgements) and Note 3 (financial disclosures)* *This is relevant to both the Group and the Bank financial statements*	Interest earned and fees earned and incurred on loans and advances to customers are recognised using the effective interest rate ('EIR') method that spreads directly attributable expected income over the expected lives of the loans. This requires management to apply judgement in estimating the expected lives of the mortgage portfolios. This judgement is informed by past customer behaviour of when loans are repaid, with the EIR balance and amount recognised in the Income Statement being highly sensitive to minor changes in assumptions. The expected behavioural lives were impacted by COVID-19 and management has adjusted these assumptions by taking the customer experience prior to the pandemic. As such, we continue to identify greater levels of management judgement and have placed increased levels of audit focus on these key assumptions. These key assumptions impact both the acquired mortgage portfolio, as this was acquired at a discount, with any change in the expected life requiring the discount to be adjusted and spread over the remaining expected life, and the portfolio which has been originated since inception of the Bank. The effect of these matters is that, as part of our risk assessment we determined the impact of prepayment estimates has a high degree of estimation uncertainty, with a potential range of reasonable outcomes that could be greater than our materiality in the estimation of the EIR balance and unwinding of the fair value on the acquired mortgage portfolio.	Our procedures included: **Controls testing:** We performed an end-to-end process walkthrough to identify the key applications and process controls. We tested design, implementation and operating effectiveness of key controls relating to completeness and accuracy of the model inputs and outputs. **Test of details:** • We critically assessed the methodology used to estimate the behavioural lives against our own knowledge of industry experience. • We critically assessed management's assessment by performing sensitivity analysis for the key assumptions, including expected behavioural lives and the impact of taking the customer experience prior to the pandemic. • We engaged our data analytics specialists to recalculate the behavioural lives and reperform the EIR calculation. We also reperformed the FV adjustment calculations. • We tested the accuracy of inputs to the models by agreeing back to source systems or documents. • We considered the adequacy of the Group and Bank's disclosures about the changes in estimate that occurred during the period and the sensitivity analysis of the estimate. **Our results:** We found the EIR and unwinding of fair value adjustments to be acceptable (2020 result: acceptable).
Recoverability of deferred tax asset *(£77 million; 2020: £23 million)* *Risk of error relating to the recognition and measurement of deferred tax asset* *£77 million and £66 million for the Group and Bank respectively (2020: £23 million and £16 million)* *Refer to page 101 and 102 (accounting policy), note 2b (critical accounting estimates and judgements) and note 26 (financial disclosures)* *This is relevant to both the Group and Bank financial statements*	**The risk:** The estimate of the recoverability of the deferred tax asset ('DTA') relies on judgements relating to the probability, timing and sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions, business performance (including the impacts of changes to the Group's business model) and current legislation governing the use of historical trading losses carried forward. The amount of the Bank's annual taxable profits that can be offset by trading losses carried forward is restricted by legislation. The impact of this restriction is such that it increases the period over which the DTA is realised. Given the level of estimation uncertainty from such a period, management has restricted the recoverability of the DTA to 10 years. The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of the DTA has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: **Controls testing:** We evaluated and tested the design, implementation and operating effectiveness of key controls over the determination and approval of the forecast taxable profits used to support the recognition of the deferred tax asset. **Test of details:** • We critically assessed management's ability to estimate future taxable income, considering past performance versus past projections. • We challenged the reasonableness of management's key assumptions and compared them against our knowledge of the industry outlook and our understanding of the Group's strategy and the wider economy. • We engaged our tax specialists to assess the accuracy of the deferred tax calculations. • We assessed the adequacy and transparency of the disclosures in relation to the key assumptions and judgements around the estimation of forecast cash flows and determination of the deferred tax asset. **Our results:** We found the recognition and recoverability of the deferred tax asset to be acceptable (2020 result: acceptable).

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

Key audit matter	The risk	Our response
The impact of IT access controls on the effectiveness of the control environment *This is relevant to both the Group and Bank financial statements*	**The Risk** The Group is highly dependent on IT systems for the processing and recording of significant volumes of transactions. The Group has a complex IT environment. Our audit approach relies extensively on automated controls within these systems and therefore on the effectiveness of controls over IT systems. We consider IT user access management controls for the systems considered relevant for financial reporting to be critical in ensuring that only approved changes to applications and underlying data are authorised and made appropriately. Effective access controls contribute to mitigating the risk of potential fraud or error as a result of changes to applications and data. The Group and Bank have an ongoing risk management programme in place to identify, rate, mitigate and report on risk arising from ineffective user access controls. As a result of these programs and implementation of technologies that support enhanced user access management, we have noted the Group has sustained their improvement of its user access controls over IT applications relevant to financial reporting in comparison to findings from previous years.	Our procedures included: **Controls testing:** • In conjunction with our IT specialists we updated our understanding of the Group's and Bank's IT environment, integrated IT plan and the governance framework over the IT infrastructure. • Tested general IT controls for IT applications we considered relevant to the financial reporting process, including access management, program development and change management. • We also tested the design, implementation and operating effectiveness of key IT application controls, including the configuration and accuracy of end user computing controls. **Evaluating IT deficiencies** Where we noted IT control deficiencies, we performed additional procedures which included evaluating and assessing the impact of the deficiencies on the IT environment. **Our results:** While we continue to identify certain design and operating effectiveness deficiencies with user access management, the existence of compensating controls and additional procedures to assess the impact of deficiencies provides us with sufficient evidence to rely on the operation of IT systems for the purposes of our audit (2021 result: acceptable).

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

Application of materiality

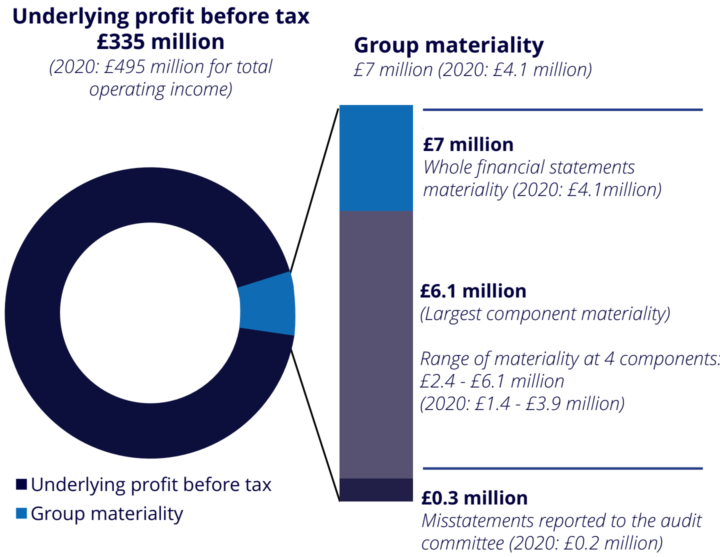
Materiality for the Group financial statements as a whole was set at £7 million (2020: £4.1 million), determined with reference to a benchmark of Group underlying profit before tax, of which it represents 2.1% (2020: 1% of revenue).

Materiality for the Bank financial statements as a whole was set at £6.1 million (2020: £3.8 million), determined with reference to a benchmark of underlying profit, of which it represents 1.8% (2020: 1% of revenue).

Our materiality benchmark reference has been changed to underlying profit from total operating income used in the prior year. We consider profit before tax from continuing operations to be the most appropriate benchmark due to return to profit in the current year.

Performance materiality for the Group and Bank was set at 65% (2020: 75%) of materiality for the financial statements as a whole, which equates to £4.6 million and £4.0 million respectively. We applied this percentage in our determination of performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.3 million (2020: £0.2 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.



Overview of component scoping, oversight and reporting

Of the Group's eight reporting components (2020: eight reporting components), we subjected two to full scope audits for group purposes (2020: two components subjected to full scope audits) and three to specified risk focused audit procedures (2020: one component subjected to risk focused audit procedures). The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.

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

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

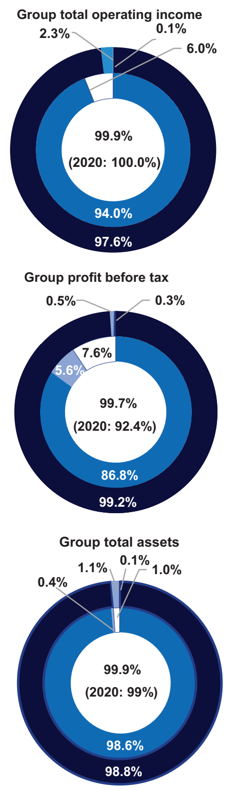
The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £2.4 million to £6.1 million (2020: £1.4 million to £3.9 million), having regard to the mix of size and risk profile of the Group across the components. The work on one component was performed by the component auditor and the rest, including the audit of the Bank, was performed by the Group team.

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

Overview of centralised processes testing, oversight and reporting

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

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



■ Full scope for group audit purposes (2021) ■ Specified risk-focused audit procedures (2021) ■ Full scope for group audit purposes (2020)
■ Specified risk-focused audit procedures (2020) □ Residual components

4 Conclusions relating to going concern

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

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

- the availability of funding and liquidity in the event of a market wide stress scenario including the impact in which the global COVID-19 pandemic continues to unfold and the impact of the UK withdrawal from the European Union; and
- the impact on regulatory capital requirements in the event of an economic slowdown or recession.

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

Our procedures also included an assessment of whether the going concern disclosures in note 1 (page 89) to the financial statements gives a complete and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:
- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the Bank's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 (page 89) to be acceptable.

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

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

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

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Management has disclosed the potential future risks relating to the applicability of the government guarantee over losses arising on the government bounce back loan scheme. We have compared the disclosure against our own understanding of the nature and rules of the scheme and have concluded it is appropriate.

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

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

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

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

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

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

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the directors' report or the strategic report;
- in our opinion, the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion, the directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

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

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

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

We have nothing to report in these respects.

8 Respective responsibilities and restrictions on use

Directors' responsibilities

As explained more fully in their statement set out on page 73, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

N. Marshall

Niamh Marshall Senior Statutory Auditor
for and on behalf of KPMG, Statutory Audit Firm
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1
IRELAND

10 March 2022

Income statement
(for the year ended 31 December 2021)

	Note	Group 2021 £m	Group 2020 £m	Bank 2021 £m	Bank 2020 £m
Interest income calculated using the effective interest method	3	532	564	555	596
Other interest income	3	78	89	-	3
Total interest income		**610**	**653**	**555**	**599**
Interest expense	4	(99)	(189)	(97)	(186)
Net interest income		**511**	**464**	**458**	**413**
Net leasing income		14	9	-	-
- Other leasing income	5	*55*	*58*	-	-
- Other leasing expense	5	*(41)*	*(49)*	-	-
Commission income	6	57	78	57	78
Fee and commission expense	6	(50)	(56)	(50)	(56)
Net trading income / (expense)	7	3	(2)	3	(2)
Other operating income	8	-	2	40	15
Total operating income		**535**	**495**	**508**	**448**
Operating expenses	9	(272)	(310)	(246)	(278)
Operating profit before impairment charges on financial assets		**263**	**185**	**262**	**170**
Net impairment gains / (losses) on financial instruments	11	54	(151)	53	(135)
Operating profit		**317**	**34**	**315**	**35**
Share of profit after tax of joint venture	12	(2)	(1)	-	-
Profit on disposal of business activities	13	1	7	1	7
Profit on sale of financial assets	14	94	-	94	-
Profit before taxation		**410**	**40**	**410**	**42**
Taxation charge	15	(12)	(13)	(8)	(8)
Profit for the year		**398**	**27**	**402**	**34**

Statement of other comprehensive income
(for the year ended 31 December 2021)

	Note	Group 2021 £m	Group 2020 £m	Bank 2021 £m	Bank 2020 £m
Profit for the year		398	27	402	34
Items that may be reclassified to profit or loss in subsequent periods					
Net change in cash flow hedge reserve (net of tax)[1]		(35)	14	(35)	14
Total items that may be reclassified to profit or loss in subsequent periods		**(35)**	**14**	**(35)**	**14**
Items that will not be reclassified to profit or loss in subsequent periods					
Net actuarial gain on defined benefit schemes[2]	35	2	-	-	-
Net change in revaluation reserve, net of tax		1	(1)	1	(1)
Total items that will not be reclassified to profit or loss in subsequent periods		**3**	**(1)**	**1**	**(1)**
Other comprehensive (expense) / income for the year, net of tax		**(32)**	**13**	**(34)**	**13**
Total comprehensive income for the year, net of tax		**366**	**40**	**368**	**47**

[1] *Net of tax credit £14 million (2020: charge of £5 million).*
[2] *Net of tax £1 million (2020: £nil).*

Balance sheet
(as at 31 December 2021)

		Group		Bank	
	Note	2021 £m	2020 £m	2021 £m	2020 £m
Assets					
Cash and balances at central banks	16	3,456	2,050	3,456	2,050
Items in the course of collection from other banks		101	111	101	111
Derivative financial instruments	17	88	53	88	53
Loans and advances to banks	18	1,574	1,672	1,457	1,542
Debt securities at amortised cost	19	798	922	798	922
Loans and advances to customers	20	16,325	21,300	16,426	21,397
Investment in subsidiaries		-	-	8	8
Interest in joint venture	22	47	49	2	2
Intangible assets and goodwill	23	32	36	4	6
Property, plant and equipment	24	143	126	33	36
Current tax assets		8	8	7	8
Other assets	25	42	59	39	53
Deferred tax assets	26	77	23	66	16
Retirement benefit asset	35	13	10	-	-
Assets classified as held for sale	27	1	-	1	-
Total assets		**22,705**	**26,419**	**22,486**	**26,204**
Equity and liabilities					
Deposits from banks	28	3,399	4,202	3,392	4,199
Customer accounts	29	15,753	18,256	15,798	18,365
Items in the course of transmission to other banks		62	67	62	67
Derivative financial instruments	17	65	114	65	114
Debt securities in issue	30	448	511	300	300
Current tax liabilities		2	3	-	-
Other liabilities	31	1,010	1,137	991	1,120
Lease liabilities	32	15	19	15	18
Provisions	33	14	15	14	14
Loss allowance provision on loan commitments and financial guarantees	34	4	4	3	4
Subordinated liabilities	36	190	290	190	290
Total liabilities		**20,962**	**24,618**	**20,830**	**24,491**
Equity					
Share capital	38	122	197	122	197
Retained earnings		1,083	957	996	869
Other reserves		388	347	388	347
Other equity instruments	39	150	300	150	300
Total equity attributable to owners of the Bank		**1,743**	**1,801**	**1,656**	**1,713**
Total equity and liabilities		**22,705**	**26,419**	**22,486**	**26,204**

The financial statements on pages 84 to 180 were approved by the Board on 10 March 2022 and were signed on its behalf by:

Thomas McAreavey
Director

10 March 2022

Company number: 07022885

Statement of changes in equity
(for the year ended 31 December 2021)

	Note	Group 2021 £m	Group 2020 £m	Bank 2021 £m	Bank 2020 £m
Share capital					
Balance at 1 January		197	255	197	255
Share repurchase	38	(75)	(58)	(75)	(58)
Balance at 31 December		**122**	**197**	**122**	**197**
Retained earnings					
Balance at 1 January		957	1,149	869	1,054
Profit for the year attributable to equity holders of the Bank		398	27	402	34
Distribution on other equity instruments - Additional tier 1 coupon		(25)	(24)	(25)	(24)
Share repurchase	38	(250)	(195)	(250)	(195)
Remeasurement of the net defined benefit pension asset		3	-	-	-
Balance at 31 December		**1,083**	**957**	**996**	**869**
Other equity instruments					
Balance at 1 January		300	300	300	300
Repayments during the year	39	(300)	-	(300)	-
Issuance during the year	39	150	-	150	-
Balance at 31 December		**150**	**300**	**150**	**300**
Other reserves:					
Revaluation reserve - property					
Balance at 1 January		2	3	2	3
Revaluation of property		1	(1)	1	(1)
Balance at 31 December		**3**	**2**	**3**	**2**
Cash flow hedge reserve					
Balance at 1 January		21	7	21	7
Changes in fair value		(51)	13	(51)	13
Transfer to income statement (pre tax)		2	6	2	6
Deferred tax on reserve movements		14	(5)	14	(5)
Balance at 31 December		**(14)**	**21**	**(14)**	**21**
Capital contribution					
Balance at 1 January		266	266	266	266
Balance at 31 December		**266**	**266**	**266**	**266**
Capital redemption reserve fund					
Balance at 1 January		58	-	58	-
Share repurchase	38	75	58	75	58
Balance at 31 December		**133**	**58**	**133**	**58**
Total other reserves		**388**	**347**	**388**	**347**
Total equity		**1,743**	**1,801**	**1,656**	**1,713**
Included in the above:					
Total comprehensive income attributable to owners of the Bank		366	40	368	47
Total comprehensive income for the year		**366**	**40**	**368**	**47**

Consolidated cash flow statement
(for the year ended 31 December 2021)

	Note	2021 £m	2020 £m
Cash flows from operating activities			
Profit before taxation		410	40
Interest expense on subordinated liabilities and other capital instruments	4	17	18
Interest expense on lease liabilities	4	-	1
Depreciation and amortisation	23, 24	31	35
(Gain) / loss on disposal of business activities	13	(1)	(7)
(Gain) / loss on disposal of financial assets	14	(94)	-
Net impairment (gains) / losses on financial instruments	11	(54)	151
Impairment of intangible assets and goodwill	23	-	8
Impairment of property, plant and equipment	24	-	2
Share of results of joint venture	12	2	1
Net change in prepayments and interest receivable	25	10	11
Net change in accruals and interest payable	31	(28)	(43)
Charge for provisions	33	13	6
Other non-cash items		7	30
Cash flows from operating activities before changes in operating assets and liabilities		**313**	**253**
Net change in items in the course of collection to / from banks		5	5
Net change in derivative financial instruments		(9)	(19)
Net change in loans and advances to banks		4	203
Net change in loans and advances to customers		2,051	(202)
Net change in deposits from banks		(803)	702
Net change in customer accounts		(2,495)	(820)
Net change in debt securities in issue		(63)	(96)
Net change in provisions		(14)	(15)
Net change in retirement benefit obligation		(1)	(1)
Net change in other assets and other liabilities		(90)	(49)
Net cash flow from operating assets and liabilities		**(1,415)**	**(292)**
Net cash flow from operating activities before taxation		**(1,102)**	**(39)**
Taxation paid		(53)	(9)
Net cash flow from operating activities		**(1,155)**	**(48)**
Investing activities (section (a) - see below)		3,013	(77)
Financing activities (section (b) - see below)		(546)	(241)
Net change in cash and cash equivalents		**1,312**	**(366)**
Opening cash and cash equivalents		3,689	4,055
Closing cash and cash equivalents	16	**5,001**	**3,689**
(a) Investing activities			
Proceeds from sale of financial assets		2,942	-
Disposal of business activities		-	-
Additions to debt securities at amortised cost	19	(252)	(143)
Disposal / redemption of debt securities at amortised cost	19	359	65
Dividends received from joint venture	22	-	14
Additions to intangible assets	23	-	-
Additions to property, plant and equipment	24	(54)	(37)
Disposal of property, plant and equipment		18	24
Cash flows from investing activities		**3,013**	**(77)**
(b) Financing activities			
Share repurchase	38	(250)	(195)
Dividend paid on ordinary shares	43	-	-
Proceeds from issue of AT1		150	-
Redemption of AT1		(300)	-
Additional tier 1 coupon paid	43	(25)	(24)
Redemption of subordinated liabilities	36	(200)	-
Proceeds from issue of subordinated liabilities	36	100	-
Interest paid on subordinated liabilities	4	(17)	(18)
Payment of lease liability	32	(4)	(4)
Cash flows from financing activities		**(546)**	**(241)**

Notes to the consolidated financial statements

1 Group accounting policies

Basis of preparation

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

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

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

The consolidated financial statements of the Group are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 (IFRS).

The financial statements of the Bank are prepared under FRS 101 'Reduced disclosure framework'. In preparing these financial statements the Bank applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006, but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- the requirements of IAS 7 Statement of Cash Flows;
- disclosure requirements of IAS 24 in respect of transactions with wholly-owned subsidiaries;
- certain requirements of IAS 1 'Presentation of financial statements'; and
- the effects of new but not yet effective IFRSs (IAS 8).

The financial statements have been prepared on the going concern basis, in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

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

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

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2021, is a period of twelve months from the date of approval of these financial statements ('the period of assessment'). In making this assessment, the Directors considered the Group's business, profitability projections, liquidity, funding and capital plans, under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the UK economy and the impact of Brexit and COVID-19. The Directors also considered the position of the Bank's parent, the Governor and Company of the Bank of Ireland as, in addition to being the Bank's sole shareholder, it is a provider of significant services to the Bank under outsourcing arrangements.

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

Capital

The Group has developed detailed capital plans and forecasts under both base and stress scenarios which show that a surplus over total capital requirements is forecast to be maintained, as is compliance with minimum liquidity ratios. As part of those forecasts, the Directors have modelled the impact of a severe but plausible downside stress scenario the severity of which is aligned to the Bank of England stress scenario published in January 2021. Therefore the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment.

Funding and liquidity

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

The Bank's Parent

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

The Directors note that the Court of the Bank's Parent has concluded that there are no material uncertainties that may cast significant doubt about the Bank of Ireland Group's ability to continue as a going concern and that it is appropriate to prepare financial statements on a going concern basis. The audit report on the financial statements of the Bank's Parent signed 25 February 2022 is not qualified and does not contain an emphasis of matter paragraph in respect of going concern.

Conclusion

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

Comparatives

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

Adoption of new and amended accounting standards

The following amendments to standards have been adopted for the year ended 31 December 2021:

1 Group accounting policies *(continued)*

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

The Interest Rate Benchmark Reform - Phase 2 amendments deal with issues affecting financial reporting during the implementation of the benchmark rate (BMR) reform. The amendments provide practical expedients related to accounting for changes in the basis for determining contractual cash flows of financial instruments and lease contracts, arising as a direct consequence of the BMR reform. The amendments also provide additional temporary exceptions from applying specific hedge accounting requirements of IAS 39 and IFRS 9 to hedge accounting relationships, which will generally allow hedging accounting relationships directly affected by the BMR reform to continue.

The key amendments adopted by the Group are as follows:

Changes in the basis for determining contractual cashflows
On transition to an alternative BMR, changes in the basis of determining the contractual cash flows of a financial instrument are treated in the same way as changes to market rates for a floating rate instrument by updating the effective interest rate, without the recognition of a modification gain or loss. This practical expedient is only applied where:
- the change to the contractual cash flows is necessary as a direct consequence of the BMR reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

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

Hedge accounting changes
The Group applies the following reliefs where changes are made to hedge relationships as a result of the BMR reform:
- amending the formal hedge designations and documentation to reflect one or more of specified changes required by the BMR reform, without discontinuing those hedge accounting relationships;
- when performing retrospective hedge effectiveness assessment for hedge accounting relationships where hedge designations are amended as a direct result of the BMR reform, electing on the amendment date to reset the cumulative fair value changes of the hedging instrument and the hedged item to zero;
- when the description of the hedged item is amended to reference the alternative BMR, the amount accumulated in the cash flow hedge reserve in equity is deemed to be based on the alternative BMR on which the hedged future cash flows are determined; and
- allocating hedged items to sub groups based on the benchmark rate being hedged and designating the benchmark rate for each sub-group as the hedged risk when an item in a group of items designated as the hedged items is amended as a direct result of the BMR reform.

These amendments do not have a significant impact on the Group during the year ended 31 December 2021.

Voluntary change in accounting policy on the presentation of interest income and expense on derivatives designated as hedging instruments

The Group has voluntarily changed its accounting policy for the presentation of interest income and expense on derivatives designated as hedges of financial assets and liabilities.

In prior periods, interest on the hedging derivatives was presented on the same line as the interest income or expense on the hedged item. Interest on the hedging derivatives was presented as interest income where the hedged item was an asset, and as interest expense where the hedged item was a liability.

To provide reliable and more relevant information on the impact of hedge accounting on the Group's performance, the Group has adopted an amended accounting policy in 2021, such that:
- interest income or expense on derivatives designated as hedging instruments continues to be presented in net interest income, in line with the underlying hedged asset or liability;
- for macro fair value hedges of financial liabilities and macro fair value hedges and cash flow hedges of financial assets, the Group aggregates the interest income or expense on the assets or liabilities with the interest income or expense on the related derivatives designated as hedging instruments. Where the resulting total is an expense, the amount is presented as interest expense on the assets or liabilities. Where the resulting total is income, it is presented as interest income on the assets or liabilities; and
- for micro fair value hedges of financial assets or liabilities, the Group aggregates, for each hedged asset or liability separately, the interest income or expense on the asset or liability with the interest income or expense on the related derivative or derivatives designated as hedging instruments. Where the resulting total for an asset or liability is an expense, the amount is presented as interest expense on the asset or liability. Where the resulting total is income, it is presented as interest income on the asset or liability.

The Group believes this revised accounting policy provides reliable and more relevant information on the Group's interest income and expense, and in particular the impact of hedge accounting.

This change in accounting policy has been accounted for retrospectively as required under IAS 8, but has not had a material impact on the Group in 2021 or 2020. As a result, comparative figures have not been restated.

Interest income and expense
Interest income and expense are recognised in the income statements using the effective interest method for financial instruments measured at amortised cost and financial assets which are debt instruments measured at fair value through other comprehensive income in accordance with IFRS 9.
The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income. The Group presents interest resulting from negative effective interest rates on financial assets as interest expense.

The effective interest method is the method that is used in the

1 Group accounting policies *(continued)*

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

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

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

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

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

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

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

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

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

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

Interest income on debt financial assets measured at FVTPL, excluding assets held for trading, is recognised when earned and presented within other interest income.

Interest expense on financial liabilities held at FVTPL, which are used to fund assets, is recognised when incurred and presented in other interest expense.

Modifications

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

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

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

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

Fee and commission income

The Group accounts for fee and commission income which is not an integral part of the effective interest rate of a financial instrument, when the contract with the customer is agreed and each party's rights under the contract, together with the payment terms, are identified. In addition it must be probable

1 Group accounting policies *(continued)*

that the Group will collect the consideration to which it is entitled. Fee and commission income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Fee income on the provision of current accounts to customers is recognised as the service is provided. Loan syndication and arrangement fees are recognised at a point in time when the performance obligation is completed. Other fees including interchange income, ATM fees and foreign exchange fees are recognised on completion of the transaction and once the Group has completed its performance obligations under the contract.

Financial assets

(1) Recognition, classification and measurement:

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

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

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

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

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

(a) Financial assets at amortised cost.

Debt instruments

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

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

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

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

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

Debt instruments

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

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

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

Equity instruments

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

1 Group accounting policies *(continued)*

investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment.

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

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

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

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

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

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

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

(3) Derecognition
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred substantially all the risks and rewards of ownership. Where the Group retains the obligation to service the transferred financial asset, the transferred asset is derecognised if it meets the derecognition criteria and an asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (an asset) or is less than adequate (a liability) for performing the servicing. Where a modification results in a substantial change, on a quantitative or qualitative basis, to the contractual cash flows of a financial asset, it may be considered to represent expiry of the contractual cash flows, resulting in derecognition of the original financial asset and recognition of a new financial asset at fair value. The Group reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Impairment of financial instruments

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

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

Basis for measuring impairment
The Group allocates financial instruments into the following categories at each reporting date to determine the appropriate accounting treatment.

Stage 1: 12-month ECL (not credit-impaired)
These are financial instruments where there has not been a significant increase in credit risk since initial recognition. An impairment loss allowance equal to 12-month ECL is recognised. This is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

Stage 2: Lifetime ECL (not credit-impaired)
These are financial instruments where there has been a significant increase in credit risk since initial recognition but which are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised. Lifetime ECL are the ECL resulting from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime ECL (credit-impaired)
These are financial instruments which are credit-impaired at the reporting date but were not credit-impaired at initial recognition. An impairment loss allowance equal to lifetime ECL is recognised.

Purchased or originated credit-impaired financial assets
These are financial assets that were credit-impaired at initial recognition. They are not subject to any initial impairment loss allowance but an impairment loss allowance is subsequently recognised for the cumulative changes in lifetime ECL since initial recognition. A purchased or originated credit-impaired financial asset remains classified as such until it is derecognised, even if

1 Group accounting policies *(continued)*

assessed as no longer credit-impaired at a subsequent reporting date.

With the exception of purchased or originated credit-impaired financial assets, a financial instrument may migrate between stages from one reporting date to the next.

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

Credit-impaired
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:
(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Measurement of ECL and presentation of impairment loss allowances
ECL are measured in a way that reflects:
(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(b) the time value of money; and
(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECLs are measured as follows:
- financial assets that are not credit-impaired at the reporting date: the present value of the difference between all contractual cash flows due to the Group in accordance with the contract and all the cash flows the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover, discounted at an appropriate risk-free rate.

Expected cash flows arising from the sale on default of a loan are included in the measurement of expected credit losses under IFRS 9 where the following conditions are met:
- selling the loan is one of the recovery methods that the Group expects to pursue in a default scenario;
- the Group is neither legally nor practically prevented from realising the loan using that recovery method; and
- the Group has reasonable and supportable information upon which to base its expectations and assumptions.

For financial assets, the discount rate used in measuring ECL is the effective interest rate (or 'credit-adjusted effective interest rate' for a purchased or originated credit-impaired financial asset) or an approximation thereof. For undrawn loan commitments, it is the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment.

Impairment loss allowances for ECLs are presented in the financial statements as follows:
- **financial assets at amortised cost:** as a deduction from the gross carrying amount in the balance sheet;
- **loan commitments and financial guarantee contracts:** generally, as a provision in the balance sheet; and
- **debt instruments at fair value through other comprehensive income:** an amount equal to the allowance is recognised in other comprehensive income as an accumulated impairment amount.

Utilisation of impairment loss allowances
The Group reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. Indicators that there is no reasonable expectation of recovery include the collection process having been exhausted or it becoming clear during the collection process that recovery will fall short of the amount due to the Group. The Group considers, on a case-by-case basis, whether enforcement action in respect of an amount that has been written off from an accounting perspective is or remains appropriate. Any subsequent recoveries are included in the income statement as an impairment gain.

Forbearance
Forbearance occurs when a borrower is granted a concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance, the Group performs an assessment of a customer's financial circumstances and ability to repay and assesses whether the loan is credit-impaired. Where the loan is credit-impaired, it is allocated to stage 3 (unless a purchased or originated credit-impaired financial asset). If a forborne loan has a variable interest rate, the discount rate for measuring ECL is the current effective interest rate

1 Group accounting policies *(continued)*

determined under the contract before the modification of terms.

Financial assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with EBA guidance on non-performing and forborne classifications. Forborne financial assets which are not credit-impaired are generally allocated to stage 2. A financial asset can only be classified from stage 3 when certain conditions are met over a pre-defined period of time or probation period.

Where the cash flows from a forborne loan are considered to have expired due to the loan being restructured in such a way that results in a substantial modification, the original financial asset is derecognised and a new financial asset is recognised, initially measured at fair value. Any difference between the carrying value of the original financial asset and the fair value of the new financial asset on initial recognition are recognised in the income statement. The new financial asset may be initially allocated to stage 1 or, if credit-impaired, be categorised as a purchased or originated credit-impaired financial asset.

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

Financial liabilities

The Group classifies its financial liabilities as being measured at amortised cost unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities mandatorily at fair value through profit or loss such as derivative liabilities. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For financial liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

When a financial liability that is measured at amortised cost is modified without resulting in derecognition, a gain or loss is recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified contractual cash flows discounted at the original effective interest rate.

A financial liability may be designated as at fair value through profit or loss only when:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or

(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The movement in own credit risk related to financial liabilities designated at fair value through profit or loss is recorded in other comprehensive income unless this would create or enlarge an accounting mismatch in profit or loss for the Group (in which case all gains or losses are recognised in profit or loss).

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

If a hybrid contract contains a host that is not a financial asset within the scope of IFRS 9, an embedded derivative is separated from the host and accounted for as a derivative if, and only if, its economic characteristics and risks are not closely related to those of the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at fair value through profit or loss.

Financial guarantees

A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Where the Group is the holder of such a guarantee and it is considered integral to the contractual terms of the guaranteed debt instrument(s), the guarantee is not accounted for separately but is considered in the determination of the impairment loss allowance for expected credit losses of the guaranteed instrument(s).

The Group's liability under an issued financial guarantee contract is initially measured at fair value. The liability is subsequently measured at the higher of the amount of the impairment loss allowance for expected credit losses determined in accordance with the requirements of IFRS 9, and the initial measurement less the cumulative amount of income recognised in accordance with the principles of IFRS 15.
Any change in the liability is taken to the income statement and recognised on the balance sheet within provisions.

Where the Group issues a financial liability which contains a financial guarantee, the liability is measured at amortised cost using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No impairment loss allowance for expected credit losses is recognised on a financial asset, or portion thereof, which has been offset.

Valuation of financial instruments

The Group recognises assets and liabilities designated at fair value through profit or loss and derivatives at fair value in the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the

1 Group accounting policies *(continued)*

principal, or in its absence, the most advantageous market to which the Group has access at that date.

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Group uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses. Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

For liabilities designated at fair value through profit or loss, the fair values reflect changes in the Group's own credit spread.

Transfers between levels of the fair value hierarchy
The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. The Group provides these disclosures in note 42.

Group financial statements

(1) Subsidiaries

Subsidiary undertakings are investees (including structured entities) controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it controls an investee when facts and circumstances indicate that there are changes to one or more elements of control. The existence and effect of potential voting rights are considered when assessing whether the Group controls an investee only if the rights are substantive.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such entities by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns from the entity.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial year.

Business combinations
Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations other than business combinations involving entities or business under common control. Under the acquisition method of accounting, the consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Foreign exchange gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(2) Associates and Joint Ventures

Associates are all entities over which the Group has significant influence but not control, over the entity's financial and operating decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint arrangement is an arrangement of which two or more parties have joint control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

The Group accounts for the assets, liabilities, revenues and

1 Group accounting policies *(continued)*

expenses relating to its interest in joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Accounting policies of associates and joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(3) Common control transactions

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: 'Business Combinations'. The exemption is applicable where the combining entities or businesses are controlled by the same party, both before and after the combination. Where such transactions occur, the Group, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement, management considers the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. Management also considers the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or interpretation. Accordingly, the Group applies the guidance set out in FRS 6: 'Acquisitions and Mergers' as issued by the Accounting Standards Board.

Where a transaction meets the definition of a group reconstruction or achieves a similar result, predecessor accounting is applied. The assets and liabilities of the business transferred are measured in the acquiring entity, upon initial recognition, at their existing book value in the consolidated financial statements of the Bank of Ireland Group, as measured under IFRS. The Group incorporates the results of the acquired businesses only from the date on which the business combination occurs.

Similarly, where the Group acquires an investment in an associate or joint venture from an entity under common control with the Group, the investment is recognised initially at its existing book value in the consolidated financial statements of the Bank of Ireland Group.

(4) Securitisations

Certain Group undertakings enter into securitisation transactions in order to finance specific loans and advances to customers.

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

- the rights to the cash flows have expired or been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group. In this case the asset is derecognised entirely if the transferee has the ability to sell the financial asset. Otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where the above conditions apply to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

Foreign currency translation

The consolidated financial statements of the Group and the financial statements of the Bank are presented in Sterling, which is the functional currency. Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities, classified at fair value through other comprehensive income, are recognised in other comprehensive income.

Operating profit/loss

Operating profit/loss includes the Group's earnings from ongoing activities after net impairment losses and before share of profit or loss on joint ventures (after tax), profit/loss on sale of financial assets and profit/loss on disposal of business activities.

Leases

Identifying a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee

The Group recognises a Right of Use (RoU) asset and lease liability at the lease commencement date. RoU assets are initially measured at cost, and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of lease liabilities. The recognised RoU assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease term. RoU assets are subject to impairment under IAS 36 'Impairment of assets'.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

RoU assets, comprised of leases of buildings which do not meet the definition of investment properties are presented in property, plant and equipment. RoU assets which meet the definition of investment properties are presented within investment properties.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate if the interest rate implicit in the lease is not readily determinable. Lease payments include fixed rental payments. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on

1 Group accounting policies *(continued)*

the lease liability and decreased by lease payments made. It is remeasured if there is a change in future lease payments, a change in the lease term, or as appropriate, a change in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured a corresponding adjustment is made to the ROU asset and/or profit or loss, as appropriate.

The Group has applied judgement in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and RoU assets recognised.

Lessor

When assets are held under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between gross receivables and the present value of the receivable is recognised as unearned finance income. Lease income is included within net interest income and is recognised over the term of the lease reflecting a constant periodic rate of return on the net investment in the lease.

However, under IFRS 16, where the Group is an intermediate lessor the subleases are classified with reference to the RoU asset arising from the head lease, not with reference to the underlying asset. Where the Group continues to retain the risks and rewards of ownership as the intermediate lessor, it retains the lease liability and the RoU asset relating to the head lease in its balance sheet. If the Group does not retain the risks and rewards of ownership as the intermediate lessor, these subleases are deemed finance leases. During the term of the sublease, the Group recognises both finance lease income on the sublease and interest expense on the head lease.

Sale and repurchase agreements

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

Securities purchased under agreements to resell ("reverse repos") are treated as collateralised loans and recorded as loans and advances to banks or customers, as appropriate.

The difference between sale and repurchase price is treated as interest and recognised in the income statement over the life of the agreement using the effective interest method.

Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return the securities is recorded at fair value as a trading liability.

Issued debt and equity securities

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities. The coupons on these instruments are recognised in the income statement as interest expense using the effective interest method. Where the Group has absolute discretion in relation to the payment of coupons and repayment of principal, the instrument is classified as equity and any coupon payments are classified as distributions in the period in which they are made.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other operating income, net of any costs or fees incurred.

Derivative financial instruments and hedge accounting

The Group has made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39. Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each reporting date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:

(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge relationships are concluded to be effective if the hedging instruments that are used in hedging transactions offset the changes in fair value or cashflow of the hedged items within a range of 80% to 125%.

(a) Fair value hedge (micro)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The hedged item in a micro fair value hedge is a single specified item e.g. a fixed commercial loan.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The

1 Group accounting policies *(continued)*

cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method for micro hedges. When a hedged item held at amortised cost that is designated in a micro fair value hedge or included in a repricing time period of a portfolio hedge is derecognised, the unamortised fair value adjustment included in the carrying value of that hedged item is immediately reclassified to the income statement.

(b) Fair value hedge (macro)
The hedged item in a macro fair value hedge is a pool of assets or liabilities with similar risk characteristics and profiles, such as a pool of fixed rate mortgages. Unlike micro fair value hedge accounting, macro fair value hedge accounting is not discontinued if an individual asset or liability within the pool of hedged items is sold, so long as the overall pool of hedged items retains its characteristics as documented at inception of the hedge. In addition, hedge effectiveness testing is performed on a portfolio basis rather than on an individual hedge relationship by hedge relationship basis.

The Group also avails of the relaxed hedge accounting provisions permitted by IAS 39 'Financial Instruments: recognition and measurement'. The Group applies these relaxed provisions to portfolio fair value hedges of interest rate risk on its demand deposit and mortgage lending books. The Group resets its macro fair value hedges on a monthly basis.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the straight line method for macro hedges.

(c) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement. The Group resets its macro cash flow hedges on a monthly basis.

Property, plant and equipment

Freehold and long leasehold land and buildings are initially recognised at cost, and subsequently are revalued annually to open market value by independent external valuers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the reporting date.

Right of Use assets recognised as property, plant and equipment are measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of lease liabilities.

All other property, plant and equipment, including freehold and leasehold adaptations, are stated at historical cost less accumulated depreciation.

Increases in the carrying amount arising on the revaluation of land and buildings are recognised in other comprehensive income. Decreases that offset previous increases on the same asset are recognised in other comprehensive income: all other decreases are charged to the income statement.

The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material.

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:

- adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease;
- computer and other equipment - maximum of ten years;
- motor vehicles held for leasing - over the lease term; and
- the recognised RoU assets are depreciated on a straight-line basis over the earlier of the end of the useful life of the RoU asset or the end of the lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. If the asset being disposed of had previously been revalued then any amount in other comprehensive income relating to that asset is reclassified directly to retained earnings on disposal, rather than the income statement.

Intangible assets

(a) Computer software
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.
Costs associated with research activities or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software

1 Group accounting policies *(continued)*

development, employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised using the straight line method over their useful lives, which is normally between five and ten years.

(b) Other intangible assets

Other intangible assets are carried at cost less amortisation and impairment, if any, and are amortised on a straight line basis over their useful lives which range from five years to twenty years and assessed for impairment indicators annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such indicators exist, the assets recoverable amount is estimated. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

(c) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment or more frequently if there is any indication that it may be impaired, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. An impairment loss arises if the carrying value of the CGU exceeds the recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use, where the value in use is the present value of the future cash flows expected to be derived from the CGU.

Assets and liabilities classified as held for sale

An asset or a disposal group is classified as held for sale if the following conditions are met:

- its carrying amount will be recovered principally through sale rather than continuing use;
- it is available for immediate sale; and
- the sale is highly probable within the next few months.

When an asset (or disposal group) is initially classified as held for sale, it is measured at the lower of its carrying amount or fair value less costs to sell at the date of classification, except for deferred tax assets, financial assets and assets arising from employee benefits, which are measured in accordance with the accounting policies applied to those assets prior to their classification as held for sale.

Impairment losses on initial classification of an asset (or disposal group) as held for sale, and on subsequent remeasurement of the asset (or disposal group), are recognised in the income statement. Increases in fair value less costs to sell of an asset (or disposal group) that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset (or disposal group).

Impairment losses are allocated to non-current assets within the measurement scope of IFRS 5 and the amount of impairment losses recognised in the financial statements is limited to the carrying value of those assets. Other assets and liabilities are measured in accordance with applicable IFRSs in both initial and subsequent measurement of the asset (or disposal group) held for sale. As a result, in accordance with IFRS 5 any impairment losses in excess of the carrying value of the non-current assets within the measurement scope of IFRS 5 are not recognised until disposal.

When an asset (or disposal group) is classified as held for sale, amounts presented in the balance sheet for the prior period are not reclassified.

Where the criteria for the classification of an asset (or disposal group) as held for sale cease to be met, the asset (or disposal group) is reclassified out of held for sale and included in the appropriate balance sheet headings.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those employees affected by the restructuring by starting to implement the plan or announcing its main features.

A levy payable to a Government is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy.

Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

Employee benefits

(a) Pension obligations

The Group operates one defined benefit scheme, the NIIB Group Limited (1975) Pension Scheme. In addition, certain of the Group's employees are members of other Bank of Ireland Group schemes, and these are accounted for as defined contribution schemes in the Group.

The schemes are funded and the assets of the schemes are held in separate trustee administered funds. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the

1 Group accounting policies *(continued)*

currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Where a plan amendment, curtailment or settlement occurs and the net defined benefit asset/liability is remeasured to determine past service cost or the gain or loss on settlement, the current service cost and net interest for the remainder of the period are remeasured using the same assumptions.

Service cost and net interest on the net defined benefit asset/liability are recognised in profit or loss, within operating expenses.

Remeasurements of the net defined benefit asset/liability, that are recognised in other comprehensive income include:
- actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions; and
- the return on plan assets, excluding amounts included in net interest on the net defined benefit asset/liability

A settlement is a transaction that eliminates all further legal and constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

(b) Short term employee benefits
Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered.

(c) Termination payments
Termination payments are recognised as an expense at the earlier of:
- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:
- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

Income taxes

(a) Current income tax
Income tax payable on profits, using the tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date, is recognised as an expense in the period in which profits arise. Tax provisions are provided on a transaction by transaction basis using either the 'most likely amount' method or the 'expected value' method as appropriate for the particular uncertainty and by management assessing the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that there will be a future outflow of funds to a fiscal authority to settle the obligation. Interest on tax liabilities is recognised as interest expense.

(b) Deferred income tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The rates enacted, or substantively enacted, at the reporting date, are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The tax effects of income tax losses available for carry forward are recognised as deferred tax assets to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. Deferred tax assets and liabilities are not discounted.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax on items recognised in other comprehensive income is also recognised in other comprehensive income and is subsequently reclassified to the income statement, together with the deferred gain or loss. Income tax on items recognised directly in equity is recognised directly in equity, except for the income tax consequences of dividends on a financial instrument classified as equity, which are recognised according to where the previous transactions or events that generated distributable profits were recognised.

(c) Uncertain tax positions
The Group considers uncertain tax positions together or separately depending on which approach better predicts how the uncertainties will be resolved. Where the Group concludes it is not probable that a tax authority will accept its assessment of an uncertain tax position, it reflects the effect of the uncertainty using either the 'most likely amount' method or the 'expected value' method, as appropriate for the particular uncertainty.

Where the Group concludes it is probable that a tax authority will accept its assessment of an uncertain tax position, the taxable profit or loss, the tax bases, unused tax losses, unused tax credits and the tax rates are determined consistently with the tax treatment used or planned to be used in the income tax filing.

1 Group accounting policies *(continued)*

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

Share capital and reserves
a) **Equity transaction costs**
Incremental external costs directly attributable to equity transactions, including the issue of new equity stock or options, are shown as a deduction from equity, net of tax.

(b) **Dividends on ordinary shares**
Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Bank's shareholders or the Board of Directors, as appropriate.

(c) **Cash flow hedge reserve**
The cash flow hedge reserve represents the cumulative changes in fair value (net of tax) excluding any ineffectiveness of cash flow hedging derivatives. These are transferred to the income statement when the hedged transactions impact the Group's profit or loss.

(d) **Capital contribution**
The capital contribution is measured as the initial amount of cash or other assets received.

(e) **Capital redemption reserve fund**
On 1 May 2015, preference stock of £300 million was repurchased. On the same date £300 million was transferred from capital contribution to the capital redemption reserve fund in order to identify these reserves as non-distributable. On 4 June 2019, the UK High Court of Justice approved the Board's application to cancel the capital redemption reserve fund and the balance was transferred to retained earnings. In November 2021, the Group carried out a share buy back transaction whereby it repurchased 250 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £75 million reduction in share capital with a corresponding increase in the capital redemption reserve. In March 2020, the Group carried out a share buy back transaction whereby it repurchased 195 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £58.5 million reduction in share capital with a corresponding increase in the capital redemption reserve. See note 38.

(f) **Other equity instruments**
Other equity instruments represents Additional tier 1 securities issued by the Group to the Parent. See note 39 for details.

(g) **Revaluation reserve**
The revaluation reserve represents the cumulative gains and losses on the revaluation of property. The revaluation reserve is not distributable.

Collateral
The Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the Group balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised in deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

In certain circumstances, the Group pledges collateral in respect of liabilities or borrowings. Collateral pledged, in the form of securities or loans and advances, continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

Impact of new accounting standards
The following standards, interpretations and amendments to standards will be relevant to the Group but were not effective at 31 December 2021 and have not been applied in preparing these financial statements. The Group's current view of the impact of these accounting changes is outlined below.

1 Group accounting policies *(continued)*

Pronouncement
IFRS 17 'Insurance Contracts'

Nature of change
IFRS 17 replaces IFRS 4 'Insurance Contracts', which was introduced as an interim standard in 2004. IFRS 17 addresses the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosures of insurance contract liabilities, ensuring an entity provides relevant information that faithfully represents those contracts.

The standard is still subject to endorsement by the UK Accounting Standards Endorsement Board ('UKEB').

Effective date
The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted.

Impact
The amendment is not expected to have any impact on the Group.

Pronouncement
Amendments to IAS 1 - Classification of liabilities as current or noncurrent

Nature of change
The purpose of these amendments is to promote consistency in application and to clarify the requirements on determining whether a liability is current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. The amendments also clarify the situations that are considered to be the settlement of a liability.

The amendments are still subject to endorsement by the UK Accounting Standards Endorsement Board ('UKEB').

Effective date
The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted..

Impact
The amendments are not expected to have a significant impact on the Group.

Pronouncement
Amendments to IAS 8 – Definition of accounting estimates

Nature of change
The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are still subject to endorsement by the UK Accounting Standards Endorsement Board ('UKEB').

Effective date
The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted.

Impact
The amendments are not expected to have a significant impact on the Group.

Pronouncement
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies

Nature of change
The effect of the amendment is an entity will disclose its material accounting policies, instead of its significant accounting policies. Further amendments are made to IAS 1 to explain how an entity can identify a material accounting policy. To support the amendments, IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments are still subject to endorsement by the UK Accounting Standards Endorsement Board ('UKEB').

Effective date
The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted.

Impact
The amendments are not expected to have a significant impact on the Group.

2 Critical accounting estimates and judgements

In preparing the financial statements, the Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Due to the inherent uncertainty involved in estimating the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Group's financial statements are set out below.

(a) Impairment loss allowance on financial assets

The measurement of impairment loss allowance requires significant judgement and estimation and is dependent in large part on complex impairment models.

In arriving at impairment loss allowances, accounting estimates which could change and have a material influence on the quantum of impairment loss allowance and net impairment charge within the next financial year include:

- generation of forward looking macroeconomic scenarios and their probability weightings which are used in both the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances; and
- valuing property collateral (including residential property).

Accounting judgements which could change and have a material influence on the quantum of impairment loss allowance and net impairment charge within the next financial year include determining if Group management adjustments may be necessary to impairment model outputs to address impairment model limitations or late breaking events.

Other key accounting estimates which are not expected to change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include:

- determining the period over which to measure ECL for uncommitted revolving credit facilities; and
- determining timeframes to realisation and likely net sale proceeds.

Other key accounting judgements which are not expected to change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include:

- the Group's criteria for assessing if there has been a significant increase in credit risk since initial recognition such that a loss allowance for lifetime rather than 12 month ECL is required;
- the selection of appropriate methodologies and model factors for internal risk rating and impairment models;
- the approximation made at transition to IFRS 9 of the residual lifetime PD expectations for most exposures originated prior to adoption of IFRS 9; and
- selection of the most relevant macroeconomic variables for particular portfolios and determining associations between those variables and model components such as Probability of Default (PD) and Loss Given Default (LGD).

The Group's approach to measurement of impairment loss allowances and associated methodologies is set out in the credit risk methodologies section on pages 47 to 50.

Changes in estimates

Forward Looking Information

Forward Looking Information (FLI) refers to probability weighted future macroeconomic scenarios governed semiannually by ALCO and by Audit Committee and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9. The Group has used four UK FLI scenarios at 31 December 2021, a decrease from five scenarios in 2020, comprising of a central scenario, an upside scenario, and two downside scenarios, all extending over a five year forecast period, with reversion to long run averages for property for years beyond the forecast period. The Group keeps under review the number of FLI scenarios.

The central FLI scenario as at 31 December 2021 is based on internal and external information and management judgement and follows the same process as used in prior periods.

The upside and downside scenarios in previous reporting periods were generated using a simulation model that used historical volatilities and correlations for key macroeconomic variables to generate a distribution around the central forecast.

However, due to the unprecedented nature of the COVID-19 economic shock, the Group employed an amended approach for the selection of the upside and downside FLI scenarios for the 31 December 2021 and 31 December 2020 reporting dates in order to avoid counter-intuitive trends in the respective periods.

In order to incorporate available reasonable and supportable information and apply meaningful upside and downside FLI scenarios, three narrative driven alternative scenarios (one upside and two downside) were constructed to reflect different lengths of restrictions, depth of downturn and pace of economic recovery.

The existing FLI methodology was leveraged to assign probability weightings to the narrative driven scenarios. The FLI methodology is a simulation tool that uses recent actual observed values and historical data to produce a number of possible paths for the relevant economic variables based on their historical relationships and volatilities. The FLI model is used for scenario generation for a defined probability weighting and for assessing probability weights for a given scenario.

The narrative-driven scenarios were assessed relative to the simulated distribution. The probability weightings attached to the scenarios are a function of their relative position on the distribution, with a lower probability weighting attached to the scenarios that were assessed to be more distant from the centre of the distribution. The weightings were also informed by external forward looking information (e.g. equity market indicators).

The following table shows the mean average forecast values for the key macroeconomic variables under each scenario for the forecast period 2022 to 2026, together with the scenario weightings.

[1] *Annual growth rate.*
[2] *Average yearly rate.*
[3] *Year-end figures.*

2 Critical accounting estimates and judgements *(continued)*

2021	Central Scenario	Upside Scenario	Downside Scenario 1	Downside Scenario2
Scenario probability weighting	45%	20%	25%	10%
GDP Growth[1]	2.3%	2.8%	1.7%	0.7%
GNP Growth[1]	n/a	n/a	n/a	n/a
Unemployment rate[2]	4.4%	3.8%	5.8%	8.0%
Residential property price growth[3]	1.8%	3.0%	(1.2%)	(3.6%)
Commercial property price growth[3]	1.6%	2.8%	(0.4%)	(3.4%)

The table below sets out the forecast values for 2022 and 2023 and the average forecast values for the period 2024 to 2026 for the key macroeconomic variables which underpin the above mean average values.

	2022	2023	2024-2026
Central scenario - 45% weighting			
GDP Growth[1]	5.2%	1.8%	1.5%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	4.6%	4.4%	4.3%
Residential property price growth[3]	3.0%	0.0%	2.0%
Commercial property price growth	0.0%	1.0%	2.3%
Upside - 20% weighting			
GDP Growth[1]	6.6%	2.1%	1.7%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	4.3%	3.8%	3.7%
Residential property price growth[3]	5.0%	1.0%	3.0%
Commercial property price growth	2.0%	2.0%	3.3%
Downside scenario 1 - 25% weighting			
GDP Growth[1]	3.2%	1.6%	1.2%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	6.0%	5.9%	5.8%
Residential property price growth[3]	(1.0%)	(3.0%)	(0.7%)
Commercial property price growth	(3.0%)	(1.0%)	0.7%
Downside scenario 2 - 10% weighting			
GDP Growth[1]	0.3%	(0.3%)	1.2%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	7.1%	8.5%	8.2%
Residential property price growth[3]	(6.0%)	(6.0%)	(2.0%)
Commercial property price growth	(8.0%)	(6.0%)	(1.0%)

2 Critical accounting estimates and judgements *(continued)*

2020	Central Scenario 1	Central Scenario 2	Upside Scenario	Downside Scenario 1	Downside Scenario2
Scenario probability weighting	45%	5%	20%	25%	5%
GDP Growth[1]	3.2%	2.7%	4.0%	1.3%	0.4%
GNP Growth[1]	n/a	n/a	n/a	n/a	n/a
Unemployment rate[2]	5.5%	5.6%	4.5%	8.5%	10.6%
Residential property price growth[3]	0.4%	0.2%	1.4%	(1.6%)	(2.8%)
Commercial property price growth[3]	(0.2%)	(0.7%)	0.5%	(1.4%)	(2.2%)

The table below sets out the forecast values for 2021 and 2022 and the average forecast values for the period 2023 to 2025 for the key macroeconomic variables which underpin the above mean average values.

	2021	2022	2023-2025
Central scenario 1 - 45% weighting			
GDP Growth[1]	6.3%	4.0%	1.9%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	7.1%	6.0%	4.7%
Residential property price growth[3]	(3.0%)	(1.0%)	2.0%
Commercial property price growth	(3.5%)	0.0%	0.8%
Central scenario 2 - 5% weighting			
GDP Growth[1]	4.3%	2.8%	2.1%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	7.3%	6.2%	4.9%
Residential property price growth[3]	(4.0%)	(1.5%)	2.2%
Commercial property price growth	(5.0%)	(1.5%)	1.0%
Upside - 20% weighting			
GDP Growth[1]	9.3%	4.3%	2.1%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	5.9%	4.8%	3.9%
Residential property price growth[3]	(1.0%)	0.0%	2.7%
Commercial property price growth	(1.5%)	1.0%	1.0%
Downside scenario 1 - 25% weighting			
GDP Growth[1]	(1.0%)	2.4%	1.8%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	9.8%	9.2%	7.8%
Residential property price growth[3]	(7.0%)	(4.0%)	1.0%
Commercial property price growth	(7.0%)	(2.5%)	0.8%
Downside scenario 2 - 5% weighting			
GDP Growth[1]	(1.5%)	(1.0%)	1.5%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	10.5%	11.7%	10.2%
Residential property price growth[3]	(8.0%)	(6.0%)	0.0%
Commercial property price growth	(8.0%)	(4.0%)	0.3%

There was acceleration in the incidence of COVID-19 and related announcements on increased social restrictions in the UK in late December 2020. In light of these late-breaking events a post-model management adjustment to the Group's impairment loss allowance (£4.2 million) has been recognised as at 31 December 2020. This adjustment reflects the estimated impact on impairment loss allowances if the probability weightings applied to the Group's multiple economic scenarios utilised in its impairment models (per the table above) were adjusted so that the upside scenario weighting was reduced to 15% (from 20%) and the downside scenario 1 weighting was increased to 30% (from 25%).

[1] *Annual growth rate.*
[2] *Average yearly rate.*
[3] *Year-end figures.*

2 Critical accounting estimates and judgements *(continued)*

The central, upside and downside scenarios included in the 2021 forward looking information are described below:

Central scenario
The roll-out of COVID-19 vaccines and the re-opening of the UK economy have boosted activity, with the country set to post robust GDP growth in 2021. The economy is continuing to recover the ground it lost during the pandemic. Large GDP gains are also in store for 2022 as consumer spending and business investment increase further, followed by more moderate growth over the rest of the forecast horizon. Against this backdrop, the Central Scenario has the unemployment rate tracking lower. Inflation is expected to pick up in the short term though reflecting inter alia high energy prices and COVID-19 and post-Brexit supply bottlenecks before easing over the medium term.

Upside scenario
With vaccines keeping the public health situation under control and COVID-19 restrictions lifted, the Upside Scenario sees the UK economy benefitting from stronger confidence effects. Amid a consumer spending splurge and buoyant business activity, GDP expands vigorously in 2021 and again in 2022. Solid growth continues over the remainder of the forecast horizon and unemployment settles at a low rate.

Downside scenario 1
Vaccines fail to prevent a resurgence of COVID-19 in the downside scenario 1, leading to the re-imposition of some public health restrictions. These persist through much of 2022 and briefly tip the UK economy into mild recession. Cautious consumer behaviour and increasing business failures keep a lid on the subsequent GDP recovery and mean the unemployment rate stays high out the forecast horizon.

Downside scenario 2
The downside scenario 2 sees an intensification of COVID-19 related bottlenecks and post-Brexit disruption (including the termination of the EU-UK trade agreement) which, together with higher oil prices, dampens economic activity and adds significantly to inflation. Financial conditions tighten considerably as markets price in rising interest rates, further depressing consumer and business confidence and spending. GDP growth slows sharply in the early years of the forecast horizon, with the economy in recession for a time in 2022 and again in 2023. Activity picks up and inflation eases in later years but the unemployment rate remains elevated.

Property Price Growth, all scenarios
In the central scenario, following significant growth throughout 2021 residential price growth slows to 3% in 2022. Growth is flat in the UK in 2023. From 2024 onwards the UK market records stable positive growth of 2% pa. Following marginal growth in 2021 commercial property prices are flat in 2022 before recovering in 2023 to 1% and remaining in a range of 2-2.5% pa in remaining years.

In the downside scenarios, residential prices in 2021 and 2022 are incrementally negatively impacted relative to the central scenario out to 2025 (and into 2026 in downside scenario 2) before flat prices in the final year. Downside scenario 1 produces a trough point from 2022 of -6% whilst downside scenario 2 produces -18%. Similarly, commercial prices see additional negativity in 2022 with this negativity persisting into 2023 in downside scenario 1 and 2024 and 2025 in downside scenario 2 before returning to flat growth in 2026. Downside scenario 1 produces a trough from 2022 of -4% and downside scenario 2 -17%.

In the upside scenario residential prices slow from a high level of growth in 2021 to 5% in 2022 before slowing further to 1% in 2023. Price growth remains positive through the remainder of the forecast period increasing by 3% in each year. Commercial prices are marginally positive in 2022 before showing modest growth levels of 2% to 3.5% p.a. out to the end of the forecast period.

The quantum of impairment loss allowance is impacted by the application of four probability weighted future macroeconomic scenarios. The following table indicates the approximate extent to which the impairment loss allowance at 31 December 2021 was increased by virtue of applying multiple scenarios rather than only a central scenario. This analysis excludes post model Group management adjustments, as such adjustments to impairment loss allowance are applied using management judgement outside of the macro-economic conditioned ECL model framework (refer to the Management Judgement in Impairment Measurement section below).

Comparative figures as at 31 December 2020 are also outlined below (and in subsequent tables in this section). Changes in the figures as at 31 December 2021 compared to the previous reporting date reflect a number of inter-related dynamics including changes in forward-looking scenarios and associated probability weights; impairment model methodology updates in the year; and the composition of the underlying portfolios at the respective reporting dates.

2 Critical accounting estimates and judgements *(continued)*

2021 **Impact of applying multiple scenarios rather than only a central scenario**	**Additional impairment loss allowance** **Stage 1** **Impact £m**	**Impact %**	**Stage 2** **Impact £m**	**Impact %**	**Stage 3** **Impact £m**	**Impact %**	**Total** **Impact £m**	**Impact %**
Residential mortgages	0.8	58%	0.4	68%	0.8	8%	2.0	17%
Non-property SME and corporate	0.1	2%	0.8	8%	0.1	0.2%	0.9	3%
Property and construction	(0.1)	(14%)	0.8	22%	0.1	1%	0.8	8%
Consumer	2.4	11%	1.2	7%	-	0%	3.6	5%
Total	**3.2**	**11%**	**3.1**	**10%**	**0.9**	**1%**	**7.3**	**6%**

2020 **Impact of applying multiple scenarios rather than only a central scenario**	**Additional impairment loss allowance** **Stage 1** **Impact £m**	**Impact %**	**Stage 2** **Impact £m**	**Impact %**	**Stage 3** **Impact £m**	**Impact %**	**Total** **Impact £m**	**Impact %**
Residential mortgages	1.4	19%	1.6	46%	1.1	7%	4.1	15%
Non-property SME and corporate	0.4	9%	2.6	16%	-	-	3.0	7%
Property and construction	-	8%	0.5	11%	0.1	1%	0.6	2%
Consumer	10.4	18%	1.6	10%	-	-	12.0	11%
Total	**12.2**	**18%**	**6.3**	**16%**	**1.2**	**1%**	**19.7**	**9%**

The following table indicates the approximate extent to which impairment loss allowance, excluding Group management adjustments, would be higher or lower than reported were a 100% weighting applied to the central, upside and downside future macroeconomic scenarios respectively:

2021 **Impact of applying single scenario rather than multiple probability weighted scenarios**	**Multiple scenarios** **Impairment loss allowance £m**	**Central scenario 1** **Impairment Impact allowance £m**	**Impact £m**	**Upside only scenario** **Impairment loss allowance £m**	**Impact %**	**Downside 1 scenario** **Impairment loss allowance £m**	**Impact %**	**Downside 2 only scenario** **Impairment loss allowance £m**	**Impact %**
Residential mortgages	13	(2)	(15%)	(2)	(18%)	7	55%	30	222%
Non-property SME and corporate	35	(1)	(3%)	(2)	(4%)	1	3%	7	20%
Property and construction	11	(1)	(7%)	(1)	(13%)	1	9%	5	47%
Consumer	80	(4)	(5%)	(6)	(7%)	5	6%	16	19%
Total	**139**	**(7)**	**(5%)**	**(11)**	**(8%)**	**15**	**10%**	**57**	**41%**

2020 **Impact of applying only downside scenarios rather than multiple probability weighted scenarios**	**Multiple scenarios** **Impairment loss allowance £m**	**Downside scenario 1** **Impairment Impact allowance £m**	**Impact %**	**Downside scenario 2** **Impairment loss allowance £m**	**Impact %**
Residential mortgages	31.6	31.6	100%	64.2	203%
Non-property SME and corporate	44.1	12.3	28%	23.9	54%
Property and construction	27.1	2.2	8%	3.6	13%
Consumer	125.8	35.2	28%	57.8	46%
Total	**228.6**	**81.3**	**36%**	**149.5**	**65%**

2 Critical accounting estimates and judgements *(continued)*

2020 **Impact of applying only central scenarios rather than multiple probability weighted scenarios**	Multiple scenarios Impairment loss allowance £m	Central scenario 1 Impairment Impact allowance £m	Central scenario 1 Impact %	Central scenario 2 Impairment loss allowance £m	Central scenario 2 Impact %
Residential mortgages	31.6	(4.1)	(13%)	(2.5)	(8%)
Non-property SME and corporate	44.1	(3.0)	(7%)	(1.6)	(4%)
Property and construction	27.1	(0.6)	(2%)	0.2	1%
Consumer	125.8	(12.0)	(10%)	(6.4)	(5%)
Total	**228.6**	**(19.7)**	**(9%)**	**(10.3)**	**(5%)**

2020 **Impact of applying only upside scenarios rather than multiple probability weighted scenarios**	Multiple scenarios Impairment loss allowance £m	Upside scenario Impairment loss allowance £m	Upside scenario Impact %
Residential mortgages	31.6	(7.7)	(24%)
Non-property SME and corporate	44.1	(5.1)	(12%)
Property and construction	27.1	(1.5)	(6%)
Consumer	125.8	(26.2)	(21%)
Total	**228.6**	**(40.5)**	**(18%)**

The following table indicates the approximate extent to which impairment loss allowances for the residential mortgage portfolios, excluding post-model Group management adjustments, would be higher or lower than the application of a central scenario if there was an immediate change in residential property prices. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Groups impairment loss allowance for residential mortgages to a once-off change in residential property values.

2021 **Impact of an immediate change in residential property prices compared to central scenario impairment loss allowances**	Impairment loss allowance - Central scenario £m	Residential property price reduction of 10% Impact £m	Residential property price reduction of 10% Impact %	Residential property price reduction of 5% Impact £m	Residential property price reduction of 5% Impact %	Residential property price increase of 5% Impact £m	Residential property price increase of 5% Impact %	Residential property price increase of 10% Impact £m	Residential property price increase of 10% Impact %
Residential mortgages	12	6	56%	3	25%	(2)	(20%)	(4)	(34%)
Total	**12**	**6**	**56%**	**3**	**25%**	**(2)**	**(20%)**	**(4)**	**(34%)**

2 Critical accounting estimates and judgements *(continued)*

The sensitivity of impairment loss allowances to stage allocation is such that a transfer of 1% of Stage 1 balances at 31 December 2021 to Stage 2 would increase the Group's impairment loss allowance by approximately £6 million excluding Group management adjustments.

2020 Impact of an immediate change in residential property prices compared to central scenario 1 impairment loss allowances	Impairment loss allowance - Central scenario £m	Residential property price reduction of 10% Impact £m	 Impact %	Residential property price reduction of 5% Impact £m	 Impact %	Residential property price increase of 5% Impact £m	 Impact %	Residential property price increase of 10% Impact £m	 Impact %
Residential mortgages	28	13	2%	6	1%	(5)	(1%)	(9)	(2%)
Total	**28**	**13**	**2%**	**6**	**1%**	**(5)**	**(1%)**	**(9)**	**(2%)**

The sensitivity of impairment loss allowances to stage allocation is such that a transfer of 1% of Stage 1 balances at 31 December 2020 to Stage 2 would increase the Group's impairment loss allowance by approximately £7 million excluding Group management adjustments.

Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, the data shown gives insight into the sensitivity of the Groups impairment loss allowance to a once-off change in residential property values.

Management Judgement in Impairment Measurement

Management judgement has been incorporated into the Group's impairment measurement process for 2021 . Management judgement can be described with reference to:

- management judgement in impairment model parameters; and
- post-model Group management adjustments to impairment loss allowance and staging classification.

Management judgement in impairment model parameters

In 2020 initial Probability of Default (PD) estimates from impairment models were considered to be unreasonable when benchmarked against observed default rates and / or pre COVID-19 expectations. Management judgement was utilised to select appropriate PDs for the central scenario. Corresponding PDs in the upside and downside scenarios were derived from the central scenario taking into account the severity of the respective scenarios. PD adjustments in 2020 reflected the macroeconomic situation, including the impact of COVID-19 and related governmental income supports, which was unprecedented compared to historic experience. This resulted in impairment models generating PD estimates that in certain cases were not considered to be reasonable.

For the year ending 31 December 2021, management has assessed the modelled PD estimates, with reference to updated macroeconomic forecasts, and concluded that the PD adjustments are not required. Modelled impairment loss allowances and stage classifications are subject to review for post model Group management adjustments as outlined below.

The approach taken to incorporate forward-looking information into the estimation of Stage 3 impairment loss allowances for relationship-managed cases where recovery values are dependent on non-property related cash flows and / or collateral was updated in 2021. An enhanced approach was implemented whereby discounted cash flow analysis is flexed with respect to forward-looking scenarios. The combined impact of this change in approach is a negligible net increase in impairment loss allowance.

Furthermore the approach to applying forward-looking forecasts for residential and commercial property prices into the estimation of stage 3 impairment loss allowances in relevant models and discounted cash flow analysis was updated in 2021. The approach was refined whereby property price forecasts used to estimate stage 3 impairment loss allowances are adjusted so that the property collateral value at the point of liquidation does not incorporate an improvement on the current market condition. The combined impact of this change is a c.£1.4 million increase in impairment loss allowance (c.£1 million for residential mortgages and c.£0.4 million for property and construction).

Post-model Group management adjustment

To ensure that the measurement of impairment reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions, the need for a Group management adjustment to the outputs of the Group's staging and impairment measurement methodologies is considered at each reporting date in arriving at the final impairment loss allowance. Such a need may arise, for example, due to a model limitation or late breaking event. At 31 December 2021, the Group's stock of impairment loss allowance of £178 million includes a c.£40 million total post-model Group management adjustment. Details of the components of the post-model Group management adjustment are outlined below.

2 Critical accounting estimates and judgements *(continued)*

2021

Impact of applying Post Model Adjustments to the Impairment Loss Allowances	**Modelled Impairment Loss Allowances £m**	**COVID-19 Post Model Adjustment £m**	**LGD Post Model Adjustment £m**	**Final Impairment Loss Allowances £m**
Residential mortgages	13	2	18	33
UK SME and property and construction portfolios	44	7	-	51
Consumer	81	13	-	94
Total	**138**	**22**	**18**	**178**

2020

Impact of applying Post Model Adjustments to the Impairment Loss Allowances	**Modelled Impairment Loss Allowances £m**	**COVID-19 Post Model Adjustment £m**	**LGD Post Model Adjustment £m**	**Final Impairment Loss Allowances £m**
Residential mortgages	32	12	-	44
UK SME and property and construction portfolios	71	7	-	78
Consumer	126	21	-	147
Total	**229**	**40**	**-**	**273**[1]

Group management adjustment for COVID-19

At 31 December 2021, the Group considered the data and measurement limitations arising from the unprecedented impact of COVID-19, including the availability of government supports and the general availability of payment breaks in 2020 and early 2021 to all customers regardless of credit status.

While all payment breaks have expired prior to the reporting date the Group's view is that modelled impairment losses at 31 December 2021 may not fully capture expected COVID-19 related credit losses as ongoing government supports in particular may be masking increased credit risk for certain cohorts of customers.

As a result, a total post-model management adjustment of c.£22 million was applied. The equivalent figure at 31 December 2020 was £40 million. £1.9 million of the total adjustment is related to UK residential mortgages, a further £6.7 million relates to the UK SME and property and construction portfolios, £13.4 million is related to the Consumer portfolios. The total post model adjustment comprises a c.£0.8 million reduction in Stage 1 impairment loss allowance and a c.£3.9 million increase in Stage 2 impairment loss allowance.

Sector-level COVID-19 risk assessments for the business banking portfolios were completed informed by management judgement with reference to observed credit performance in 2021, and internal and external sectoral analysis. In line with the position at 31 December 2020, certain sectors (e.g. hospitality and entertainment) were identified to be highly impacted where the COVID-19 risk was not considered to be adequately captured in the modelled PD estimates. Furthermore, other risk indicators (e.g. utilisation of a second payment break, payment performance post expiry of payment break) were also considered to identify highly impacted cases in micro-SME portfolios.

Similarly the mortgage, consumer and asset finance portfolios were reviewed to identify highly impacted customers, with reference to the outputs of the IFRS 9 impairment models, combined with other available data sources including a customer vulnerability assessment and management judgement. The vulnerability assessments were informed by data on loans that previously availed of payment breaks (particularly customers who availed of a second payment break) with cross reference to other credit characteristics (e.g. credit reference agency data; employment type; employment status; employment sector; IFRS 9 staging status).

The post model Group management adjustment includes the application of a staging adjustment whereby highly impacted customers, as referenced above, that impairment models classify as stage 1 are classified as Stage 2 with a lifetime impairment loss allowance applied. The impact of this staging adjustment is a c.£0.63 billion increase in Stage 2 volumes and a c.£3 million increase in impairment loss allowances (£0.6 million of which relates to residential mortgages; £2.5 million to SME and property and construction).

Given the level at which the management adjustment review was performed for consumer and asset finance portfolios, the Group did not reclassify any exposures into a different stage than that initially identified by the impairment models for these portfolios. The Group’s management adjustment includes a £13.4 million impairment loss allowance in Stage 1 for these portfolios and is broadly equivalent to the impact from a transfer of c.£49 million of Stage 1 assets into Stage 2.

The requirement to apply this post-model adjustment for latent risk associated with COVID-19 will continue to be assessed during 2022 as government supports are unwound and underlying customer specific risk can be identified in risk management models and credit metrics.

[1] *A Late Break Events PMA of £4.2m was applied as at 31st Dec 2020 to reflect the acceleration in Covid cases and increased social restrictions in late December 2020. This is included in the Total figure for 2020.*

2 Critical accounting estimates and judgements *(continued)*

Group management adjustments for residential mortgages
The Loss Given Default (LGD) component of the residential mortgages impairment models has been reviewed in 2021, including internal and external information available at the period end.

It was considered appropriate to recognise a post-model management adjustment to account for risk associated with increased uncertainty and diminished internal data on distressed asset sales in recent years, which limits the Group's ability to appropriately calibrate LGD estimates for variances between indexed valuations and individual property values for distressed sales. The quantification of this post-model adjustment has been estimated with reference to application of LGD floors for residential mortgage impairment loss allowance calculation.

Accordingly a £18 million post-model management adjustment is included in the residential mortgages impairment loss allowance at 31 December 2021. The requirement for this post-model adjustment will continue to be assessed with reference to further review of the residential mortgage LGD methodology in 2022.

(b) Taxation
At 31 December 2021, the Group had a net deferred tax asset (DTA) of £77 million (2020: £23 million), of which £50 million (2020: £15 million) related to trading losses. See note 26.

A significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset (DTA) relating to trading losses. The recognition of a deferred tax asset relies on management's estimate of the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences against which the losses can be utilised.

This is particularly relevant due to the material impact of COVID-19 on business and financial performance in the previous period.

Under current UK tax legislation there is no time restriction on the utilisation of these losses.

UK legislation restricts the proportion of a bank's annual taxable profit that can be offset by carried forward losses to 25%. This restriction significantly lengthens the period over which the Group could use its UK trading losses and has been considered in the context of the measurement and recognition of the deferred tax asset at 31 December 2021.

Judgement
The Group's judgement takes into consideration the impact of both positive and negative evidence in assessing the recoverability of the deferred tax asset.

Positive factors which have been considered include:

- The Group has a sustained history of operating profits and it is considered likely that the Group's activities will be profitable into the future;
- the absence of any expiry dates for UK tax losses; and
- external forecasts for the UK which indicate continued economic growth and improved employment levels in 2022.

The Group also considered negative evidence and the inherent uncertainties in any long term financial assumptions and projections, including:
- the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- the challenge of projecting over a long period, taking account of the level of competition, the potential impacts from COVID-19 and the uncertain but low interest rate environment; and
- accelerated transformation of banking business models.

The Directors believe that the Group will be profitable for the foreseeable future but acknowledge external challenges facing the UK banking industry and wider economy. In particular, during 2021 and 2020 the economic environment in which the Bank operates has become more uncertain with changing customer product and service expectations, accelerated transformation of the banking business models, increased volatility in interest rate projections, and residual uncertainties over the medium term impacts of the COVID-19 pandemic.

Therefore, notwithstanding the absence of any expiry date for trading losses in the UK, but acknowledging the economic and industry-wide headwinds the Directors believe it continues to be appropriate to restrict the recognition of the DTA relating to the tax losses of the Bank to the amount of losses that are expected to be used within ten years. This ten year timescale is supported by forecast taxable profits and takes into account the Group's long-term financial and strategic plans and reflects the period over which the Group believes it can conclude that it is probable that future taxable profits will be available in the Bank.

Due to improved profitability projections primarily driven by higher projected market interest rates, lending mix and margins, and reduced funding costs, the Group are projecting a greater utilisation of tax losses in the Bank than had been projected at December 2020; which results in a further reassessment and increase of the DTA relating to trading losses of £43 million at 31 December 2021 (2020: reduction of £18 million).

There is a risk that the final taxation outcome could be different to the amounts currently recorded. If future profits or subsequent forecasts differ from current forecasts, a further adjustment may be required to the deferred tax asset.

Sources of estimation uncertainty
To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required to support the conclusion that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

The Group's estimate of future profitability takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation, and future reversals of existing taxable temporary differences.

The Group's assessment of deferred tax recoverability for the Bank is based on forecasts covering its five year initial

2 Critical accounting estimates and judgements *(continued)*

planning period. The forecast for year five onwards is based on the projections within that fifth year of the initial planning period. The deferred tax recoverability is most sensitive to the forecasts in the initial planning period. These forecasts assume a sustainable UK market return on equity in the high single digits for the Group over the long term, and a profitability growth rate of 2% (including GDP of 1%). The Group's profitability projections are based on its agreed strategic priorities of transform the bank, serve customers brilliantly and grow sustainable profits, where the focus will be on value over volumes, increase overall returns, improve cost efficiencies and grow sustainable profits.

If the projected rate of growth of taxable profits after the fifth year of the initial planning period was decreased by one percentage point, the Group estimates that this would only reduce the associated DTA by £1 million. The Bank expects to recover approximately 48% of the deferred tax asset within five years of the balance sheet date.

c) Impairment review of goodwill and intangible assets

Goodwill of £30 million and other intangible assets of £10 million arose on the acquisition of Marshall Leasing Limited (MLL) on 24 November 2017, as set out in note 23. Goodwill is not amortised as it is deemed to have an indefinite useful life. As a result of the impairment review carried out during 2020, the goodwill was determined to be impaired by £8 million, which was charged to the income statement and included within operating expenses. No further impairment was required in 2021.

The Group's carrying value of MLL (including goodwill and other intangible assets) is reviewed annually for impairment. The Group's impairment reviews normally estimate the recoverable amount of the relevant cash generating unit using projections based on the Group's most recent forecasts covering an initial five year period with a terminal growth rate of 0% thereafter. However, for the MLL subsidiary, given ongoing market uncertainty around the motor finance market since the December 2019 year end, the impairment review has been prepared using an initial three year period for the MLL cash generating unit (which is linked to the average term of the leases) with a terminal growth rate of 0% thereafter. These cash flows are then discounted at a pre tax discount rate of 10.6% (2020:11.6%) to estimate the recoverable amount of the cash generating unit (based on its value in use). The discount rate applied to MLL is the pre-tax weighted average cost of capital for the Group increased to include a risk premium to reflect the specific risk profile of the CGU to the extent that such risk is not already reflected in the forecast cash flows.

The Group's strategic plan comprises forecasts of revenue, staff costs and overheads based on current and anticipated market conditions. Whilst the Group operates a robust forecasting process, it is acknowledged that the revenue projections contain an element of uncertainty.

The impairment review is most sensitive to: (a) changes in the discount rate; and
(b) the terminal growth rate used to project the cashflows after year 3.

As a result of the uncertainty regarding the longer term shape of the motor vehicle financing sector, including concerns regarding combustion engines, alternative fuels and changing customer behaviours, it is also currently unknown to what extent COVID-19 may lead to, for example, a longer term shift to remote working on a larger scale, and what impact this may have on the car market. Management have factored this additional uncertainty into the cash flow projections used for the impairment review during 2021 and 2020.

The table below includes reasonably possible changes in assumptions upon which the recoverable amount is estimated, which would lead to the following changes in the net present value of MLL:

Change in assumption	Decrease in recoverable amount £m
Increase in discount rate by 1%	6
Reduction in terminal growth rate of 1%	3

Management have also calculated a breakeven scenario which assumes an increase in the pre tax discount rate of 9%.

(d) Unwind of fair value adjustments on acquired mortgages

Between 2012 and 2014 the Group acquired a number of tranches of mortgages from the Parent at fair value. These assets were initially recognised on the balance sheet at fair value plus transaction costs. The differential between the initial carrying value of the assets and the principal balances is considered to be a 'fair value adjustment'. This fair value adjustment is amortised to the income statement, as part of the effective interest rate of the assets, over their remaining expected lives. At 31 December 2021, the impact of the fair value adjustment was to reduce the carrying amount of loans and advances to customers by £116 million (2020: £159 million). In 2021, there was a benefit of £28 million (2020: £30 million) to the income statement from the unwind of, and revisions to, the fair value adjustment. In addition, the fair value adjustment was reduced by £15 million as a result of the sale of mortgages to the Parent in November 2021.

The most significant judgement relating to the fair value adjustment relates to the timing of the unwind. This requires significant management judgement in relation to customer repayment assumptions which determines the expected lives of the relevant loans, and therefore impacts on the amount of interest income recognised in each financial year. In arriving at the expected lives and hence the amount of the unwind, a sensitivity analysis is carried out which considers the impact of various scenarios, as follows:

- a reduction in the rate of repayments, resulting in the expected life of the buy to let mortgage portfolio increasing by 3 months, would give rise to a reduction in interest income of £6 million being recognised in 2021; and
- an increase in the rate of repayments, resulting in the expected life of the buy to let mortgage portfolio shortening by 3 months, would give rise to an increase in interest income of £6 million being recognised in 2021.

(e) Effective interest rate

IFRS 9 requires interest to be recognised using the effective interest rate, being the rate that exactly discounts
estimated future cash flows over the expected life of the financial instrument to the net carrying amount of the

2 Critical accounting estimates and judgements *(continued)*

financial instrument.

Adjustments to the carrying value of financial instruments may be required when actual cash flows vary from the initial estimation of future cash flows, with the corresponding adjustment being made to the income statement.

For secured mortgage lending, management model future expected cash flows for each tranche of lending. In determining the future cash flows, management use judgement to estimate the average life curve of each lending tranche. Management estimate expected future payments of interest and capital based on expected interest rates and redemption profiles of customers based on previous customer behaviour, incorporating estimates of the proportion of borrowers expected to incur early redemption charges. In particular, a key assumption in the effective interest rate models relates to the length of time which borrowers remain on a reversionary rate after the end of the fixed rate period.

Management considers the estimated life curve to be the most significant estimate, the accuracy of which could be impacted by customer repayment behaviour being different to expectations. In concluding on the estimated life curves to be used in the effective interest rate calculation for the year ended 31 December 2021, management have considered a number of factors which could impact observed and future customer behaviour including historic and forecasted movements in external macro-economic indicators such as UK base rates, GDP and inflation, together with the impact of competition and pricing, and the timing and impact of governmental COVID-19 support schemes and their withdrawal. During 2021, management consider certain customer behaviours have been temporary in nature, driven by COVID-19 market dislocation, which during 2021 increased the length of time certain borrowers remained on reversionary rates, and consequently the impact of these temporary behaviours has been excluded from the curves.

If the impact of these temporary behaviours were incorporated into the curves, this would lead to the recognition of an additional £25 - £30 million of income in 2021.

Sensitivity analysis shows that a one month reduction in the weighted average expected life of buy to let mortgages would give rise to an additional income statement charge of £5 million and a reduction of 1 month in the weighted average expected life of standard mortgages would give rise to an additional income statement charge of £17 million.

(f) Retirement benefit obligations

The Group's subsidiary, NIIB Group Limited, operates a defined benefit pension scheme. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future development and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, member mortality and other demographic assumptions.

Sources of estimation uncertainty

There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. A quantitative analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 35.

3 Interest income

Included in interest income for the year ended 31 December 2021, is £nil in respect of income earned by the Group on loans and advances to banks, relating to amounts placed with the Parent (2020: £2 million) offset by interest on hedging derivatives of £22 million which are also held with the Parent (2020: £25 million).

Group share of joint operation interest income for the year ended 31 December 2021 is £45 million (2020: £46 million). Refer to note 22.

Other interest income includes £nil (2020: £3 million) in relation to non-trading derivatives held with hedging intent, but for which hedge accounting is not applied (economic hedges), held with the Parent.

In 2021, £14 million of interest income was recognised on credit-impaired loans and advances to customers (2020: £14 million). In 2021, £15 million of interest income was received on credit-impaired loans and advances to customers (2020: £15 million).

Interest income also includes £28 million relating to the unwind of, and revisions to, fair value adjustments associated with mortgages acquired from the Parent in prior years (2020: £30 million).

For the year ended 31 December 2021, interest recognised on total forborne loans and advances to customers was £7 million (2020: £7 million).

Finance lease and hire purchase receivables interest income arises from the Northridge Finance business.

3 Interest income *(continued)*

Group	2021 £m	2020 £m
Financial assets measured at amortised cost		
Loans and advances to customers	542	568
Loans and advances to banks	-	2
Debt securities at amortised cost	9	12
Interest on hedging derivatives	(22)	(25)
Cash and balances with central banks	3	7
Interest income on financial assets measured at amortised cost	**532**	**564**
Interest income calculated using the effective interest rate method	**532**	**564**
Other interest income		
Interest income on finance leases and hire purchase receivables	78	86
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	-	3
Interest income	**610**	**653**

4 Interest expense

Included in interest expense for the year ended 31 December 2021, is £36 million in respect of interest paid to the Parent on deposits and subordinated liabilities (2020: £38 million).

Other interest expense includes £4 million (2020: £7 million) in relation to non-trading derivatives held with hedging intent, but for which hedge accounting is not applied (economic hedges), held with the Parent.

Group share of joint operation interest expense for the year ended 31 December 2021, is £3 million (2020: £7 million). Refer to note 22.

Group	2021 £m	2020 £m
Customer accounts	59	134
Deposits from banks	17	26
Subordinated liabilities	17	18
Debt securities in issue	2	3
Lease liabilities	-	1
Interest expense on financial liabilities measured at amortised cost	**95**	**182**
Interest expense calculated using the effective interest rate method	**95**	**182**
Other interest expense		
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	4	7
Interest expense	**99**	**189**

5 Other leasing income and expense

Other leasing income and expense relate to the business activities of Marshall Leasing Limited (MLL). MLL is a car and commercial leasing and fleet management company based in the UK. Other leasing expense includes depreciation of £23 million related to vehicles leased under operating leases (2020: £24 million). See note 24.

Group	2021 £m	2020 £m
Other leasing income	55	58
Other leasing expense	(41)	(49)
Net leasing income	**14**	**9**

6 Fee and commission income and expense

Group **Fee and commission income**	2021 GB Consumer Banking[1] £m	 NI and GB Business Banking[2] £m	 Total £m	2020 GB Consumer Banking[1] £m	 NI and GB Business Banking[2] £m	 Total £m
Retail banking customer fees	27	23	50	33	23	56
- ATM fees	*27*	-	*27*	*33*	-	*33*
- Other fees	-	*23*	*23*	-	*23*	*23*
Other fees received[3]	4	3	7	19	3	22
Total	**31**	**26**	**57**	**52**	**26**	**78**

	2021 £m	2020 £m
Amounts include:		
Group share of joint operation (note 22)	-	1

No impairment losses were recognised in relation to the Group's receivables arising from contracts with customers in 2021 and 2020.

	2021 £m	2020 £m
Fee and commission expense - external	43	48
Fees paid to the Parent	7	8
Fee and commission expense	**50**	**56**
Amounts include:		
Group share of joint operation (note 22)	(3)	2

[1] Great Britain (GB) Consumer Banking: offers consumer banking products through strategic partnerships with the Post Office, the AA and intermediaries.

[2] Northern Ireland (NI): the business includes the results of the Northern Ireland Bank of Ireland UK branch network and business centres, personal lending, together with the credit card and mortgage portfolio and the note issuing activity in Northern Ireland. Great Britain (GB) Business Banking: includes commercial lending and retail deposits. The commercial lending business is undergoing a continued programme of deleveraging.

[3] Other fees received in the GB Consumer Banking business in 2020 included £14.3 million of fees related to servicing the disposed consumer credit card portfolio during the migration period. This portfolio was fully migrated to the purchaser in October 2020.

7 Net trading income / (expense)

Net trading income / (expense) from the Parent primarily comprises fair value movements on derivatives with the Parent.

Group Net trading income / (expense)	2021 £m	2020 £m
Financial instruments held for trading	3	(2)
Net trading income / (expense)	**3**	**(2)**
Amounts include:		
Net trading income / (expense) from the Parent	142	(61)

8 Other operating income

Group	2021 £m	2020 £m
Other operating income	-	2
Total other operating income	**-**	**2**

9 Operating expenses

Group Operating expenses	2021 £m	2020 £m
Administrative expenses		
Staff costs[1] (a)		
- Wages and salaries	50	58
- Social security costs	5	6
- Other pension costs[2]	7	8
Total staff costs	**62**	**72**
Other administrative expenses	74	72
Other administrative expenses – related parties (b)	130	148
Amortisation and depreciation	6	8
Impairment of RoU assets	-	2
Impairment of goodwill	-	8
Total operating expenses	**272**	**310**
Amounts include:		
Group share of joint operation (note 22)	12	12

[1] *Staff costs include amounts of £42 million (2020: £50 million) for wages and salaries, £5 million (2020: £5 million) for social security costs and £6 million (2020: £7 million) for other pension costs recorded in the Bank financial statements.*

[2] *Other pension costs include £1 million (2020: £1 million) in relation to the NIIB scheme which is accounted for as a defined benefit scheme (see note 35) with the balance relating to other schemes which are accounted for on a defined contribution basis.*

9 Operating expenses *(continued)*

(a) Staff costs

Staff costs of £62 million (2020: £72 million) include all gross salaries, related social security costs, and pension contributions attributable to those employees directly employed by the Group. Staff costs include £2 million (2020: £12 million) related to voluntary redundancy costs for employees that had exited the Group by 31 December 2021 and employees for which the Group has exit plans in place and has made appropriate communications as at 31 December 2021. Gross salaries also include those costs associated with specified staff seconded to the Group from the Parent under various contractual agreements. The monthly average number of staff (direct and seconded full time equivalents) was 826 (2020: 823), of which 661 related to the Bank (2020: 652). Refer to note 43 for details of compensation paid to key management personnel (KMP).

(b) Other administrative expenses – related parties

Other administrative expenses are the costs incurred by the Group in relation to services provided by the Parent under a number of service level and other contractual agreements. These comprise of services across a number of different activities and areas including, but not restricted to, product design, manufacture, distribution and management, customer service, and IT. Included in this management charge is the cost of a number of employees who carry out services for the Group on behalf of the Parent. These employees' employment contracts are with the Parent and their remuneration is included in the Parent's financial statements. Due to the nature of the services provided it is neither possible to ascertain separately the element of the management charge that reflects the employee staff charge, nor disclose separately employee numbers relevant to the Group's activities.

10 Auditors' remuneration

The Group's Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors. Audit related assurance services consist of fees in connection with accounting matters and regulatory compliance based work. It is the Group's policy to subject all major assignments to a competitive tender process. The audit fee is borne by the Parent on behalf of the Group.

Group	2021 £000's	2020 £000's
Fees payable for the audit of the Bank and Group financial statements	1,377	564
Audit of the Bank's subsidiaries pursuant to legislation	132	142
Audit related assurance services	54	51
Other assurance services	81	357
Auditors' remuneration	**1,644**	**1,114**

11 Net impairment (gains) / losses on financial instruments

Group	2021 £m	2020 £m
Loans and advances to customers (note 20)	(54)	149
- Cash recoveries	*(6)*	*(7)*
- Movement in impairment (gains) / losses	*(48)*	*156*
Loans and advances to banks	-	-
Loan commitments (note 34)	-	2
Guarantees and irrevocable letters of credit (note 34)	-	-
Net impairment (gains) / losses on financial instruments	**(54)**	**151**

11 Net impairment (gains) / losses on financial instruments *(continued)*

Loans and advances to customers at amortised cost

Net impairment losses / (gains)

The Group's net impairment losses / (gains) on loans and advances to customers at amortised cost is set out in this table.

Group	2021 £m	2020 £m
Residential mortgages	(11)	23
Non-property SME and corporate	(9)	29
Property and construction	(4)	14
Consumer	(30)	83
Total	**(54)**	**149**

12 Share of profit after tax of joint venture

This represents the Group's 50% share of profit after tax of its joint venture in FRESH with Post Office Limited. It is accounted for using the equity method of accounting. See note 22 for further information.

Group	2021 £m	2020 £m
First Rate Exchange Services Holdings Limited	(2)	(1)
Share of profit after tax of joint venture	**(2)**	**(1)**

13 Loss on disposal of business activities

In 2019 the Group incurred a loss of £19 million on disposal of its consumer credit card portfolio. At that time, the Group made a provision related to the costs of migration and other costs associated with the disposal. This provision was based upon management's best estimates at that time of the length of the migration period and the related costs.

In October 2020, the migration concluded and consequently management adjusted their provision during 2020 to reflect the actual costs and timing of the migration. This resulted in a release of £7 million during 2020 which was reflected as an adjustment to the loss on disposal during the period. A further adjustment of £1 million was taken to the income statement in 2021 upon final review of any residual costs.

14 Profit on sale of financial assets

In November 2021, the Bank sold £2.9 billion of performing mortgages to the parent, resulting in a gain on sale before taxation of £94 million (December 2020: £nil). The transaction, carried out at arm's length, was part of a funding optimisation exercise with the Bank of Ireland Group. Refer to note 43.

15 Taxation charge

The effective tax rate for the year is a charge of 3% (2020: charge of 32%). This rate is lower than the standard rate of 19% largely due to the impact of the re-assessment of the value of tax losses carried forward (see note 26), together with the non-taxable profit on sale of financial assets, the tax treatment of the previously acquired mortgage portfolio and the corporation tax rate change.

Group	2021 £m	2020 £m
Current tax		
Current year charge / (credit)	51	(1)
Adjustment in respect of prior year	1	2
Total current taxation charge	**52**	**1**
Deferred tax		
Current year charge	11	-
Adjustment in respect of prior year	(1)	(1)
Impact of corporation tax rate change (see note 26)	(7)	(5)
Re-assessment of the value of tax losses carried forward	(43)	18
Total deferred taxation (credit) / charge	**(40)**	**12**
Taxation charge	**12**	**13**

This table shows a reconciliation of tax on the profit before taxation, at the standard UK corporation tax rate, to the Group's actual tax charge for the years ended 31 December 2021 and 31 December 2020.

Group	2021 £m	2020 £m
Profit before taxation	**410**	**40**
Multiplied by the standard rate of Corporation tax in UK of 19% (2020: 19%)	78	8
Effects of:		
Re-assessment of the value of tax losses carried forward (see note 26)	(43)	18
Impact of UK banking surcharge	15	-
Non-taxable income on the unwind of fair value adjustments on acquired mortgages (see page 113)	(8)	(6)
Impact of corporation tax rate change	(7)	(5)
Adjustment in respect of prior year	-	1
Tax credit on AT1 coupon	(5)	(5)
Non-taxable profit on sale of financial assets	(18)	-
Other	-	2
Taxation charge	**12**	**13**

16 Cash and cash equivalents

Cash and cash equivalents	Group 2021 £m	Group 2020 £m	Bank 2021 £m	Bank 2020 £m
Cash	33	21	33	21
Balances at central banks	3,424	2,029	3,424	2,029
Less impairment loss allowance on cash and balances at central banks	(1)	-	(1)	-
Total cash balances included in cash and cash equivalents	**3,456**	**2,050**	**3,456**	**2,050**
Loans and advances to banks	1,574	1,672	1,457	1,542
Less: amounts with a maturity of three months or more	(29)	(33)	(29)	(33)
Total loans and advances to banks included in cash and cash equivalents	**1,545**	**1,639**	**1,428**	**1,509**
Total cash and cash equivalents	**5,001**	**3,689**	**4,884**	**3,559**
Due from the Parent	306	305	306	298

The impairment loss allowance for Group and Bank of £1 million (2020: £0.3 million) is related to 12 month ECL not credit-impaired.

17 Derivative financial instruments

The Group's utilisation of objectives and policies in relation to managing the risks that arise in connection with derivatives, are included in the Risk Management section, on pages 36 to 62. The notional amounts of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The Group holds certain derivatives with the Parent principally for interest rate risk management. The Group has applied hedge accounting to the majority of these derivatives, which are classified as held for hedging in the table below.

The Group also holds certain derivatives entered into with economic hedging intent to which hedge accounting is not applied and these are considered to be held for trading in the table below. These primarily include foreign exchange forward contracts with customers, with a corresponding foreign exchange contract to hedge foreign exchange risk with the Parent.

As set out in the risk management policy on page 43, the Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of £88 million at 31 December 2021 (2020: £53 million):

- £86 million (2020: £43 million) are available for offset against derivative liabilities under CSA and ISDA standard documentation. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities. At 31 December 2021, cash collateral of £28 million (2020: £70 million) was received against these assets and is reported in deposits from banks (note 28); and
- £2 million (2020: £10 million) are not covered under CSA and ISDA standard documentation.

17 Derivative financial instruments *(continued)*

Group and Bank	2021			2020		
	Contract notional amounts	Fair values		Contract notional amounts	Fair values	
Derivatives held for trading	£m	Assets £m	Liabilities £m	£m	Assets £m	Liabilities £m
Foreign exchange derivatives						
Currency forwards	336	1	6	359	9	3
Currency forwards – with the Parent	336	6	1	359	3	9
Currency swaps	115	1	1	76	1	-
Currency swaps - with the Parent	115	1	1	76	-	1
Total foreign exchange derivatives held for trading	**902**	**9**	**9**	**870**	**13**	**13**
Interest rate derivatives						
Interest rate swaps - with the Parent	1,534	3	3	3,782	5	5
Cross currency interest rate swaps - with the Parent	184	-	-	203	-	-
Total interest rate derivatives held for trading	**1,718**	**3**	**3**	**3,985**	**5**	**5**
Total derivatives held for trading	**2,620**	**12**	**12**	**4,855**	**18**	**18**
Derivatives held as fair value hedges						
Interest rate swaps - with the Parent	5,631	71	26	5,938	2	87
Derivatives held as cash flow hedges						
Interest rate swaps - with the Parent	1,447	5	27	3,402	33	9
Total derivative assets / liabilities held for hedging	**7,078**	**76**	**53**	**9,340**	**35**	**96**
Total derivative assets / liabilities	**9,698**	**88**	**65**	**14,195**	**53**	**114**

Hedge accounting

In applying hedge accounting, the Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

The timing of the nominal amounts (excluding those subject to a dynamic macro-hedging process) and the applicable average rates were as follows:

Group and Bank			2021				2020			
Hedging Strategy	**Risk Category**	**Hedging Instrument**	Up to 1 year £m	1-2 years £m	2-5 years £m	>5 years £m	Up to 1 year £m	1-2 years £m	2-5 years £m	>5 years £m
Fair Value Hedge	Interest Rate Risk	Interest rate swap	31	121	57	130	256	133	178	-
		Average fixed interest rate	0.58	0.73	0.69	0.68	2.13	1.54	0.72	0.60
Cash Flow Hedge	Interest Rate Risk	Interest rate swap	150	310	171	816	675	1,098	226	1,403
		Average fixed interest rate	1.06	0.27	0.66	0.42	0.57	0.37	0.10	0.40

17 Derivative financial instruments *(continued)*

Interest rate benchmark reform

At 31 December 2021, the Group had no hedge accounting relationships that are subject to BMR reform. The process being used by the Group to manage the transition to alternative benchmark rates is further discussed in the Interest rate benchmark reform note 47 on page 179.

Fair value hedges

Certain interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate exposure on the Group's fixed rate financial assets and liabilities.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year are shown in the table below:

Group and Bank

Risk Category	Hedging Instrument[1]	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument Assets £m	Carrying amount of the hedging instrument Liabilities £m	Changes in value used for calculating hedge ineffectiveness[2,3] £m	Ineffectiveness recognised in profit or loss[2,3] £m	Nominal amount of the hedging instruments affected by BMR reform £m
2021							
Interest rate risk	Interest rate swaps	5,631	71	(26)	(125)	(1)	-
2020							
Interest rate risk	Interest rate swaps	5,938	2	(87)	50	1	2,500

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within net trading income / (expense) on the income statement.*
[3] *There are no material causes of ineffectiveness in the Group's fair value hedges.*

17 Derivative financial instruments *(continued)*

Group and Bank

Risk Category	Line item on the balance sheet in which the hedged item is included	Carrying amount of the hedged item Assets £m	Carrying amount of the hedged item Liabilities £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Assets £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Liabilities £m	Changes in value used for calculating hedge ineffectiveness £m	Remaining adjustments for discontinued hedges £m
2021							
Interest rate risk	Debt securities at amortised cost	339	-	(3)	-	(12)	-
	Loans and advances to customers	4,337	-	(72)	-	(119)	1
	Customer accounts	-	898	-	5	7	(4)
Total		**4,676**	**898**	**(75)**	**5**	**(124)**	**(3)**
2020							
Interest rate risk	Debt securities at amortised cost	554	-	11	-	1	-
	Loans and advances to customers	5,465	-	53	-	51	5
	Customer accounts	-	71	-	(2)	(2)	(5)
Total		**6,019**	**71**	**64**	**(2)**	**50**	**-**

Cash flow hedges

The Group designates certain interest rate derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year are as follows.

Risk Category	Hedging Instruments[1]	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument Assets £m	Carrying amount of the hedging instrument Liabilities £m	Changes in value used for calculating hedge in-effectiveness £m	Changes in the value of the hedging instrument recognised in other comprehensive income £m	In-effectiveness recognised in profit or loss[2,3] £m	Amount reclassified from the cash flow hedge reserve to profit or loss[3,4] £m	Nominal amount of the hedging instruments affected by BMR reform £m
2021									
Interest rate risk	Interest rate swaps	1,447	5	27	47	(46)	1	2	-
2020									
Interest rate risk	Interest rate swaps	3,402	33	9	(17)	16	(1)	6	479

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within trading income / (expense) on the income statement.*
[3] *There are no material causes of ineffectiveness in the Group's cash flow hedges.*
[4] *£nil relates to amounts transferred to profit or loss for which hedge accounting was previously applied but for which hedged future cash flows are not expected to occur.*

17 Derivative financial instruments *(continued)*

The amounts relating to items designated as hedged items for the period are as follows.

Group and Bank	2021 Changes in the hedged risk used for calculating hedge ineffectiveness £m	2021 Cash flow hedge reserve £m	2021 Remaining adjustments for discontinued hedges £m	2020 Changes in the hedged risk used for calculating hedge ineffectiveness £m	2020 Cash flow hedge reserve £m	2020 Remaining adjustments for discontinued hedges £m
Interest rate risk	(46)	23	(2)	16	(23)	(5)
Foreign exchange risk	-	-	-	-	-	-
Total	**(46)**	**23**	**(2)**	**16**	**(23)**	**(5)**

This table below shows a reconciliation of the movements in the cash flow hedge reserve for 2021 and 2020.

Group and Bank **Cash flow hedge reserve**	**2021 £m**	**2020 £m**
Changes in fair value		
Interest rate risk	(51)	13
Transfer to income statement		
Interest income		
- Interest rate risk	2	2
Net trading income / (expense)		
- Interest rate risk	-	4
Deferred tax on reserve movements	14	(5)
Net change in cash flow hedge reserve	**(35)**	**14**

In 2021 and 2020, there were no forecast transactions to which the Group had applied hedge accounting which were no longer expected to occur. Movements in the cash flow hedge reserve are shown in the Consolidated statement of changes in equity (see page 86).

18 Loans and advances to banks

Loans and advances to banks are classified as financial assets at amortised cost. The associated impairment loss allowance on loans and advances to banks is measured on a 12 month and lifetime ECL approach.

	Group		Bank	
	2021 £m	2020 £m	2021 £m	2020 £m
Placements with other banks	494	507	377	377
Mandatory deposits with central banks	1,080	1,165	1,080	1,165
	1,574	**1,672**	**1,457**	**1,542**
Less impairment loss allowance on loans and advances to banks	-	-	-	-
Loans and advances to banks at amortised cost	**1,574**	**1,672**	**1,457**	**1,542**
Loans and advances to banks at fair value through profit or loss	-	-	-	-
Total loans and advances to banks	**1,574**	**1,672**	**1,457**	**1,542**
Amounts include:				
Due from the Parent	306	306	306	298

Amounts due from the Parent, which are included within placements with other banks in the above table, arise from transactions with the Parent, which primarily relates to the management of the Group's interest rate risk position. Amounts due to the Parent are also disclosed in note 28. From a counterparty credit risk perspective, while these two amounts are disclosed on a gross basis, the Group has in place a contractual Master Netting Agreement with the Parent, whereby, in the event of default of either party, all amounts due or payable will be settled immediately on a net basis.

Represented in mandatory deposits with central banks is:

- an amount of £1,009 million relating to collateral with the Bank of England in respect of notes in circulation (2020: £1,092 million). £575 million of this relates to non-interest bearing collateral (2020: £627 million); and
- an amount of £72 million in relation to mandatory cash ratio deposits, which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998 (2020: £73 million).

All loans and advances to banks for Group and Bank are stage 1.

19 Debt securities at amortised cost

The following table details the significant categories of debt securities at amortised cost.

	Group		Bank	
	2021 £m	2020 £m	2021 £m	2020 £m
Government bonds	180	256	180	256
Other debt securities at amortised cost	618	666	618	666
Less impairment loss allowance	-	-	-	-
Debt securities at amortised cost	**798**	**922**	**798**	**922**

19 Debt securities at amortised cost *(continued)*

The following table shows the movement in debt securities at amortised cost for the year ended 31 December 2021. All debt securities at amortised cost were stage 1 (12 month ECL not credit-impaired) throughout the year ended 31 December 2021.

Group and Bank **2021** **Gross carrying amount** **(before impairment loss allowance)**	**Total** **£m**
Closing balance 31 December 2020	922
Additions	252
Redemptions, repayments and disposals	(359)
Measurement reclassification and other movements	(17)
Gross carrying amount at 31 December 2021	**798**

20 Loans and advances to customers

	Group		**Bank**	
	2021 **£m**	**2020** **£m**	**2021** **£m**	**2020** **£m**
Loans and advances to customers at amortised cost	14,609	19,497	16,581	21,642
Finance leases and hire purchase receivables (see below)	1,894	2,076	-	-
Less impairment loss allowance on loans and advances to customers	(178)	(273)	(155)	(245)
Total loans and advances to customers[1]	**16,325**	**21,300**	**16,426**	**21,397**
Amounts include:				
Share of joint operation (note 22)	633	646	633	646
Due from subsidiaries	-	-	2,026	2,214
Due from entities controlled by the Parent	6	6	6	6
Finance leases and hire purchase receivables				
Gross investment in finance leases:				
Not later than 1 year	667	704	-	-
Later than 1 year and not later than 5 years	1,366	1,524	-	-
Later than 5 years	7	8	-	-
	2,040	**2,236**	**-**	**-**
Unearned future finance income on finance leases	(146)	(160)	-	-
Net investment in finance leases	**1,894**	**2,076**	**-**	**-**
Not later than 1 year	619	654	-	-
Later than 1 year and not later than 5 years	1,268	1,415	-	-
Later than 5 years	7	7	-	-
	1,894	**2,076**	**-**	**-**

Included within loans and advances to customers is £288 million (2020: £295 million) of lending in relation to the UK government-backed BBLS and CBILS schemes. An ECL of £2.9 million (2020: £2.8 million) was recognised in the impairment loss allowance in relation to loans drawn under the BBLS which reflects the risk that there may be some exposures where the bank might not be able to call on the government guarantee. The bank has sought to mitigate this risk through extending the scheme to existing customers only.

[1] *At 31 December 2021, loans and advances to customers included £986 million (2020: £1,363 million) of residential mortgage balances that had been securitised but not derecognised. Refer to note 45.*

20 Loans and advances to customers *(continued)*

The following tables show the gross carrying amount, the movement in the gross carrying amount, impairment loss allowances and movement in impairment loss allowances subject to 12 months and lifetime ECL on loans and advances to customers at amortised cost.

Transfers between stages represent the migration of loans from Stage 1 to Stage 2 following a 'significant increase in credit risk' or to Stage 3 as loans enter defaulted status. Conversely, improvement in credit quality and loans exiting default result in loans migrating in the opposite direction. The approach taken to identify a 'significant increase in credit risk' and identifying defaulted and credit-impaired assets is outlined in the credit risk section of the Risk Management Report on page 48 and the Group accounting policies note on page 94 with updates for 2021 outlined in the Credit Risk section of the Risk Management Report on pages 42 to 50.

Group 2021 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	11,178	987	60	2,544	14,769
Stage 2 - Lifetime ECL (not credit impaired)	631	331	167	79	1,208
Stage 3 - Lifetime ECL (credit impaired)	323	98	47	58	526
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2021	**12,132**	**1,416**	**274**	**2,681**	**16,503**

Group 2020 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	16,001	890	72	2,781	19,744
Stage 2 - Lifetime ECL (not credit impaired)	464	488	239	102	1,293
Stage 3 - Lifetime ECL (credit impaired)	322	91	58	65	536
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2020	16,787	1,469	369	2,948	21,573

Group 2021 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total gross carrying amount £m**
Opening balance 1 January 2021	19,744	1,293	536	-	21,573
Total net transfers	(501)	326	175	-	-
- to 12-month ECL not credit-impaired	*1,489*	*(1,488)*	*(1)*	-	-
- to lifetime ECL not credit-impaired	*(1,876)*	*1,993*	*(117)*	-	-
- to lifetime ECL credit-impaired	*(114)*	*(179)*	*293*	-	-
Net changes in exposure	(1,506)	(411)	(132)	-	(2,049)
Impairment loss allowances utilised[1-]	-	-	(52)	-	(52)
Sale of financial assets	(2,866)	-	-	-	(2,866)
Measurement reclassification and other movements[2]	(102)	-	(1)	-	(103)
Gross carrying amount at 31 December 2021	**14,769**	**1,208**	**526**	**-**	**16,503**

[1] *Impairment loss allowance utilised on loans and advances to customers at amortised cost includes £33 million (2020: £25 million) of contractual amounts outstanding that are still subject to enforcement activity.*
[2] *Measurement reclassification and other movements primarily comprise hedge accounting adjustments and the unwind of fair value adjustments on acquired mortgages.*

20 Loans and advances to customers *(continued)*

Group 2020 Gross carrying amount at amortised cost amount (before impairment loss allowance)	**Stage 1 - 12 month ECL (not credit-impaired)** £m	**Stage 2 - Lifetime ECL (not credit-impaired)** £m	**Stage 3 - Lifetime ECL (credit-impaired)** £m	**Purchased / originated credit-impaired** £m	**Total gross carrying** £m
Opening balance 1 January 2020	20,497	569	279	1	21,346
Total net transfers	(1,320)	944	376	-	-
- to 12-month ECL not credit-impaired	*701*	*(684)*	*(17)*	-	-
- to lifetime ECL not credit-impaired	*(1,846)*	*1,963*	*(117)*	-	-
- to lifetime ECL credit-impaired	*(175)*	*(335)*	*510*	-	-
Net changes in exposure	491	(221)	(87)	(1)	182
Impairment loss allowances utilised[1]	-	-	(33)	-	(33)
Measurement reclassification and other movements[2]	76	1	1	-	78
Gross carrying amount at 31 December 2020	19,744	1,293	536	-	21,573

On initial implementation of the Group's revised definition of default in 2020, £182 million of assets were reclassified as credit-impaired (Stage 3), comprising £107 million in residential mortgages, £36 million in 2020 in non-property SME and corporate, £17 million in commercial property and construction, and £22 million in consumer. This resulted in a £11.3 million increase in impairment loss allowances as at 31 December 2020, comprising £3.9 million in residential mortgages, £3.0 million in non-property SME and corporate, £2.7 million in commercial property and construction, and £1.7 million in consumer, which has been recognised within the impairment charge for the year.

Group 2021 **Impairment loss allowance**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	5	3	1	38	47
Stage 2 - Lifetime ECL not credit impaired	6	16	5	19	46
Stage 3 - Lifetime ECL credit impaired	22	21	5	37	85
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2021	**33**	**40**	**11**	**94**	**178**

Group 2020 Impairment loss allowance	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	20	7	-	90	117
Stage 2 - Lifetime ECL not credit impaired	8	22	6	19	55
Stage 3 - Lifetime ECL credit impaired	18	21	22	40	101
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2020	46	50	28	149	273

[1] *Impairment loss allowance utilised on loans and advances to customers at amortised cost includes £33 million (2020: £25 million) of contractual amounts outstanding that are still subject to enforcement activity.*
[2] *Measurement reclassification and other movements primarily comprise hedge accounting adjustments and the unwind of fair value adjustments on acquired mortgages.*

20 Loans and advances to customers *(continued)*

Group 2021 Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total impairment loss allowance £m
Opening balance 1 January 2021	117	55	101	-	273
Total net transfers	16	(17)	1	-	-
- to 12-month ECL not credit-impaired	*25*	*(25)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(7)*	*20*	*(13)*	-	-
- to lifetime ECL credit-impaired	*(2)*	*(12)*	*14*	-	-
Net impairment (gains) / losses in income statement	(84)	8	28	-	(48)
- Re-measurement	*(32)*	*24*	*45*	-	*37*
- Net changes in exposure	*(9)*	*(13)*	*(9)*	-	*(31)*
- ECL model parameter and / or methodology changes	*(43)*	*(3)*	*(8)*	-	*(54)*
Impairment loss allowances utilised	-	-	(52)	-	(52)
Sale of financial assets	(2)	-	-	-	(2)
Measurement reclassification and other movements	-	-	7	-	7
Impairment loss allowance at 31 December 2021	**47**	**46**	**85**	**-**	**178**

Group 2020 Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total gross carrying amount £m
Opening balance 1 January 2020	48	27	71	-	146
Total net transfers	-	(8)	8	-	-
- to 12-month ECL not credit-impaired	*19*	*(16)*	*(3)*	-	-
- to lifetime ECL not credit-impaired	*(11)*	*27*	*(16)*	-	-
- to lifetime ECL credit-impaired	(8)	(19)	27	-	-
Net impairment (gains) / losses in income statement	70	35	51	-	156
- Re-measurement	*10*	*30*	*73*	-	*113*
- Net changes in exposure	*31*	*(14)*	*(14)*	-	*3*
- ECL model parameter and / or methodology changes	29	19	(8)	-	40
Impairment loss allowances utilised	-	-	(33)	-	(33)
Measurement reclassification and other movements	(1)	1	4	-	4
Impairment loss allowance at 31 December 2020	117	55	101	-	273

Bank 2021 Gross carrying amount at amortised cost (before impairment loss allowance)	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	11,178	2,618	60	1,090	14,946
Stage 2 - Lifetime ECL (not credit impaired)	631	295	167	40	1,133
Stage 3 - Lifetime ECL (credit impaired)	323	96	47	36	502
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2021	**12,132**	**3,009**	**274**	**1,166**	**16,581**

20 Loans and advances to customers *(continued)*

Bank **2020** **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	16,001	2,774	72	1,164	20,011
Stage 2 - Lifetime ECL (not credit impaired)	464	386	239	38	1,127
Stage 3 - Lifetime ECL (credit impaired)	322	86	58	38	504
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2020	16,787	3,246	369	1,240	21,642

Bank **2021** **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total gross carrying amount £m**
Opening balance 1 January 2021	**20,011**	**1,127**	**504**	**-**	**21,642**
Total net transfers	(535)	370	165	-	-
- to 12-month ECL not credit-impaired	*1,385*	*(1,385)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(1,815)*	*1,927*	*(112)*	-	-
- to lifetime ECL credit-impaired	*(105)*	*(172)*	*277*	-	-
Net changes in exposure	(1,563)	(364)	(118)	-	(2,045)
Impairment loss allowances utilised[1]	-	-	(48)	-	(48)
Sale of financial assets	(2,866)	-	-	-	(2,866)
Measurement reclassification and other movements[2]	(101)	-	(1)	-	(102)
Gross carrying amount at 31 December 2021	**14,946**	**1,133**	**502**	**-**	**16,581**

Bank **2020** **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total gross carrying amount £m**
Opening balance 1 January 2020	20,677	514	260	1	21,452
Total net transfers	(1,125)	767	358	-	-
- to 12-month ECL not credit-impaired	*683*	*(671)*	*(12)*	-	-
- to lifetime ECL not credit-impaired	*(1,654)*	*1,763*	*(109)*	-	-
- to lifetime ECL credit-impaired	*(154)*	*(325)*	*479*	-	-
Net changes in exposure	380	(155)	(87)	(1)	137
Impairment loss allowances utilised[1]	-	-	(28)	-	(28)
Measurement reclassification and other movements[2]	79	1	1	-	81
Gross carrying amount at 31 December 2020	20,011	1,127	504	-	21,642

On initial implementation of the Group's revised definition of default in 2020, £170 million of assets were reclassified as credit-impaired (Stage 3), comprising £107 million in residential mortgages, £36 million in non-property SME and corporate, £17 million in commercial property and construction, and £10 million in consumer. This resulted in a £9.6 million increase in impairment loss allowances as at 31 December 2020, comprising £3.9 million in residential mortgages, £3.0 million in non-property SME and corporate, £2.7 million in commercial property and construction, and £nil in consumer, which has been recognised within the impairment charge for the year.

[1] *Impairment loss allowances utilised on loans and advances to customers at amortised cost includes £29 million (2020: £21 million) of contractual amounts outstanding that are still subject to enforcement activity.*

[2] *Measurement reclassification and other movements primarily comprise hedge accounting adjustments and the unwind of fair value adjustments on acquired mortgages.*

20 Loans and advances to customers *(continued)*

Bank **2021** **Impairment loss allowance**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	5	3	1	32	41
Stage 2 - Lifetime ECL (not credit impaired)	6	13	5	16	40
Stage 3 - Lifetime ECL (credit impaired)	22	20	5	27	74
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2021	**33**	**36**	**11**	**75**	**155**

Bank **2020** **Impairment loss allowance**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	20	6	-	81	107
Stage 2 - Lifetime ECL (not credit impaired)	8	21	6	15	50
Stage 3 - Lifetime ECL (credit impaired)	18	19	22	29	88
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2020	**46**	**46**	**28**	**125**	**245**

Bank **2021** **Impairment loss allowance**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total impairment loss allowance £m**
Opening balance 1 January 2021	107	50	88	-	245
Total net transfers	15	(16)	1	-	-
- to 12-month ECL not credit-impaired	*24*	*(24)*	-	-	-
- to lifetime ECL not credit-impaired	*(7)*	*19*	*(12)*	-	-
- to lifetime ECL credit-impaired	*(2)*	*(11)*	*13*	-	-
Net impairment (gains) / losses in income statement	(79)	6	26	-	(47)
- Re-measurement	*(29)*	*19*	*41*	-	*31*
- Net changes in exposure	*(8)*	*(11)*	*(7)*	-	*(26)*
- ECL model parameter and / or methodology changes	*(42)*	*(2)*	*(8)*	-	*(52)*
Impairment loss allowances utilised	-	-	(48)	-	(48)
Sale of financial assets	(2)	-	-	-	(2)
Measurement reclassification and other movements	-	-	7	-	7
Impairment loss allowance at 31 December 2021	**41**	**40**	**74**	**-**	**155**

20 Loans and advances to customers *(continued)*

Bank **2020** **Impairment loss allowance**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total impairment loss allowance £m**
Opening balance 1 January 2020	45	24	62	-	131
Total net transfers	8	(11)	3	-	-
- to 12-month ECL not credit-impaired	*16*	*(15)*	*(1)*	-	-
- to lifetime ECL not credit-impaired	*(7)*	*23*	*(16)*	-	-
- to lifetime ECL credit-impaired	*(1)*	*(19)*	*20*	-	-
Net impairment (gains) / losses in income statement	55	36	48	-	139
- Re-measurement	*12*	*32*	*70*	-	*114*
- Net changes in exposure	*17*	*(12)*	*(14)*	-	*(9)*
- ECL model parameter and / or methodology changes	*26*	*16*	*(8)*	-	*34*
Impairment loss allowances utilised	-	-	(28)	-	(28)
Measurement reclassification and other movements	(1)	1	3	-	3
Impairment loss allowance at 31 December 2020	**107**	**50**	**88**	**-**	**245**

Composition of COVID-19 payment breaks

In response to the COVID-19 pandemic, in 2020 the Group introduced, for a temporary period, a comprehensive range of supports for customers which included payment breaks for customers whose income was impacted by the pandemic. Customers were able to apply for these COVID-19 arrangements until March 2021. As at 31 December 2021, no loans and advances to customers were being operated under these earlier arrangements.

Modified financial assets

The following table provides analysis of financial assets for which the contractual cash flows have been modified while they had an impairment loss allowance measured at an amount equal to lifetime expected credit loss, and where the modification did not result in derecognition.

The Group recognised a modification loss of £nil during the year ended 31 December 2021 (2020: £6 million).

	2021 £m	**2020 £m**
Financial assets modified during the period		
Amortised cost before modification	70	76
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which impairment loss allowance has changed from lifetime to 12 month ECL during the year as at 31 December	17	8

21 Credit risk exposures

The following disclosures provide quantitative information about credit risk within financial instruments held by the Group. Details of the credit risk methodologies are set out on pages 46 to 50.

In addition to credit risk, the primary risks affecting the Group through its use of financial instruments are: liquidity and funding risk and market risk. The Group's approach to the management of these risks, together with its approach to capital management, are set out in the Risk Management Report included on pages 36 to 62.

The table below illustrates the relationship between the Group's internal credit risk rating grades as used for credit risk management purposes and Probability of Default (PD) percentages, and further illustrates the indicative relationship with credit risk ratings used by external rating agencies.

Internal credit risk ratings		
PD Grade	**PD %**	**Indicative S&P type external ratings**
1-4	PD < 0.26%	AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB
5-7	0.26% ≤ PD < 1.45%	BBB-, BB+, BB, BB-
8-9	1.45% ≤ PD < 3.60%	B+
10-11	3.60% ≤ PD < 100%	B, Below B
12 (credit-impaired)	100%	n/a

Financial assets

Composition and risk profile

The table below summarises the composition and risk profile of the Group's financial assets subject to impairment.

Group 2021 Financial asset exposure by stage (before impairment loss allowance)	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	14,769	1,208	526	-	16,503
Loans and advances to banks	1,574	-	-	-	1,574
Debt securities	798	-	-	-	798
Other financial assets[1]	3,558	-	-	-	3,558
Total financial assets measured at amortised cost	**20,699**	**1,208**	**526**	**-**	**22,433**

Group 2020 Financial asset exposure by stage (before impairment loss allowance)	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	19,744	1,293	536	-	21,573
Loans and advances to banks	1,672	-	-	-	1,672
Debt securities	922	-	-	-	922
Other financial assets[1]	2,161	-	-	-	2,161
Total financial assets measured at amortised cost	**24,499**	**1,293**	**536**	**-**	**26,328**

[1] *Other financial assets includes cash and balances at central banks and items in the course of collection from other banks.*

21 Credit risk exposures *(continued)*

Bank **2021** **Financial asset exposure by stage** **(before impairment loss allowance)**	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	14,946	1,133	502	-	16,581
Loans and advances to banks	1,457	-	-	-	1,457
Debt securities	798	-	-	-	798
Other financial assets[1]	3,558	-	-	-	3,558
Total financial assets measured at amortised cost	**20,759**	**1,133**	**502**	**-**	**22,394**

Bank **2020** **Financial asset exposure by stage** **(before impairment loss allowance)**	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	20,011	1,127	504	-	21,642
Loans and advances to banks	1,542	-	-	-	1,542
Debt securities	922	-	-	-	922
Other financial assets[1]	2,161	-	-	-	2,161
Total financial assets measured at amortised cost	**24,636**	**1,127**	**504**	**-**	**26,267**

Impairment loss allowance

The impairment loss allowance on financial assets is set out in the tables below.

Group **2021** **Impairment loss allowance** **on financial assets**	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	47	46	85	-	178
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	1	-	-	-	1
Total net impairment loss allowance on financial assets	**48**	**46**	**85**	**-**	**179**

Group **2020** **Impairment loss allowance** **on financial assets**	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	117	55	101	-	273
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total net impairment loss allowance on financial assets	**117**	**55**	**101**	**-**	**273**

[1] *Other financial assets includes cash and balances at central banks and items in the course of collection from other banks.*

21 Credit risk exposures *(continued)*

Bank 2021 Impairment loss allowance on financial assets	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	41	40	74	-	155
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	1	-	-	-	1
Total net impairment loss allowance on financial assets	**42**	**40**	**74**	**-**	**156**

Bank 2020 Impairment loss allowance on financial assets	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	107	50	88	-	245
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total net impairment loss allowance on financial assets	**107**	**50**	**88**	**-**	**245**

Loans and advances to customers at amortised cost

Composition and risk profile

The table below summarises the composition and risk profile of the Group's loans and advances to customers at amortised cost. In the tables for the Bank, balances with its subsidiaries, primarily Northridge Finance and Marshall Leasing, are included within the non-property SME and corporate portfolio.

Group	2021				2020			
Loans and advances to customers Composition and risk profile (before impairment loss allowance)	Not credit-impaired £m	Credit-impaired £m	Total £m	Total %	Not credit-impaired £m	Credit-impaired £m	Total £m	Total %
Residential mortgages	11,809	323	12,132	74%	16,465	322	16,787	78%
Non-property SME and corporate	1,318	98	1,416	8%	1,378	91	1,469	7%
Commercial property and construction	227	47	274	2%	311	58	369	2%
Consumer	2,623	58	2,681	16%	2,883	65	2,948	13%
Total	**15,977**	**526**	**16,503**	**100%**	**21,037**	**536**	**21,573**	**100%**
Impairment loss allowance on loans and advances to customers	**93**	**85**	**178**	**100%**	**172**	**101**	**273**	**100%**

21 Credit risk exposures *(continued)*

Bank Loans and advances to customers Composition and risk profile (before impairment loss allowance)	2021 Not credit-impaired £m	2021 Credit-impaired £m	2021 Total £m	2021 Total %	2020 Not credit-impaired £m	2020 Credit-impaired £m	2020 Total £m	2020 Total %
Residential mortgages	11,809	323	12,132	73%	16,465	322	16,787	77%
Non-property SME and corporate	2,913	96	3,009	18%	3,160	86	3,246	15%
Commercial property and construction	227	47	274	2%	311	58	369	2%
Consumer	1,130	36	1,166	7%	1,202	38	1,240	6%
Total	**16,079**	**502**	**16,581**	**100%**	**21,138**	**504**	**21,642**	**100%**
Impairment loss allowance on loans and advances to customers	**81**	**74**	**155**	**100%**	**157**	**88**	**245**	**100%**

Asset quality - not credit-impaired

The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers that are not credit-impaired.

Group 2021 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Stage 1 Loans £m	Stage 1 Loans as % of total advances %	Stage 1 Impairment loss allowance £m	Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans £m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance £m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	11,178	68%	5	0.04%	631	4%	6	0.95%
Non-property SME and corporate	987	6%	3	0.30%	331	2%	16	4.83%
Commercial property and construction	60	-	1	1.67%	167	1%	5	2.99%
Consumer	2,544	16%	38	1.49%	79	-	19	24.05%
Total	**14,769**	**90%**	**47**	**0.32%**	**1,208**	**7%**	**46**	**3.81%**

Group 2020 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Stage 1 Loans £m	Stage 1 Loans as % of total advances %	Stage 1 Impairment loss allowance £m	Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans £m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance £m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	16,001	74%	20	0.12%	464	2%	8	1.72%
Non-property SME and corporate	890	4%	7	0.79%	488	2%	22	4.51%
Commercial property and construction	72	-	-	-	239	1%	6	2.51%
Consumer	2,781	13%	90	3.24%	102	1%	19	18.63%
Total	**19,744**	**91%**	**117**	**0.59%**	**1,293**	**6%**	**55**	**4.25%**

21 Credit risk exposures *(continued)*

Bank 2021 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Stage 1				Stage 2			
	Loans £m	Loans as % of total advances %	Impairment loss allowance £m	Impairment loss allowance as % of loans %	Loans £m	Loans as % of total advances %	Impairment loss allowance £m	Impairment loss allowance as % of loans %
Residential mortgages	11,178	67%	5	0.04%	631	4%	6	0.95%
Non-property SME and corporate	2,618	16%	3	0.11%	295	2%	13	4.41%
Commercial property and construction	60	-	1	1.67%	167	1%	5	2.99%
Consumer	1,090	7%	32	2.94%	40	-	16	40.00%
Total	**14,946**	**90%**	**41**	**0.27%**	**1,133**	**7%**	**40**	**3.53%**

Bank 2020 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Stage 1				Stage 2			
	Loans £m	Loans as % of total advances %	Impairment loss allowance £m	Impairment loss allowance as % of loans %	Loans £m	Loans as % of total advances %	Impairment loss allowance £m	Impairment loss allowance as % of loans %
Residential mortgages	16,001	74%	20	0.12%	464	2%	8	1.72%
Non-property SME and corporate	2,774	13%	6	0.22%	386	2%	21	5.44%
Commercial property and construction	72	-	-	-	239	1%	6	2.51%
Consumer	1,164	5%	81	6.96%	38	-	15	39.47%
Total	**20,011**	**92%**	**107**	**0.53%**	**1,127**	**5%**	**50**	**4.44%**

21 Credit risk exposures *(continued)*

The table below provides analysis of the asset quality of loans and advances to customers at amortised cost that are not credit-impaired based on mapping the IFRS 9 twelve month probability of default (PD) of each loan to a PD grade based on the table provided on page 134.

Group 2021 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages £m	Residential mortgages %	Non-property SME and corporate £m	Non-property SME and corporate %	Commercial property and construction £m	Commercial property and construction %	Consumer £m	Consumer %	Total £m	Total %
Stage 1										
1-4	789	7%	101	8%	-	-	-	-	890	6%
5-7	9,886	84%	772	59%	22	9%	88	3%	10,768	67%
8-9	348	3%	111	8%	30	13%	1,366	52%	1,855	11%
10-11	155	1%	3	-	8	4%	1,090	42%	1,256	8%
Total Stage 1	**11,178**	**95%**	**987**	**75%**	**60**	**26%**	**2,544**	**97%**	**14,769**	**92%**
Stage 2										
1-4	18	-	6	-	-	-	-	-	24	-
5-7	442	4%	128	10%	20	9%	1	-	591	4%
8-9	70	-	126	10%	67	30%	-	-	263	2%
10-11	101	1%	71	5%	80	35%	78	3%	330	2%
Total Stage 2	**631**	**5%**	**331**	**25%**	**167**	**74%**	**79**	**3%**	**1,208**	**8%**
Not credit-impaired										
1-4	807	7%	107	8%	-	-	-	-	914	6%
5-7	10,328	88%	900	69%	42	18%	89	3%	11,359	71%
8-9	418	3%	237	18%	97	43%	1,366	52%	2,118	13%
10-11	256	2%	74	5%	88	39%	1,168	45%	1,586	10%
Total not credit-impaired	**11,809**	**100%**	**1,318**	**100%**	**227**	**100%**	**2,623**	**100%**	**15,977**	**100%**

Group 2020 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages £m	Residential mortgages %	Non-property SME and corporate £m	Non-property SME and corporate %	Commercial property and construction £m	Commercial property and construction %	Consumer £m	Consumer %	Total £m	Total %
Stage 1										
1-4	1,450	9%	100	7%	-	-	-	-	1,550	7%
5-7	11,750	71%	365	27%	30	10%	-	-	12,145	58%
8-9	2,304	14%	344	25%	34	11%	1,616	56%	4,298	20%
10-11	497	3%	81	6%	8	2%	1,165	40%	1,751	9%
Total Stage 1	**16,001**	**97%**	**890**	**65%**	**72**	**23%**	**2,781**	**96%**	**19,744**	**94%**
Stage 2										
1-4	1	-	-	-	-	-	-	-	1	-
5-7	139	1%	45	3%	80	26%	-	-	264	1%
8-9	99	1%	157	11%	67	21%	19	1%	342	2%
10-11	225	1%	286	21%	92	30%	83	3%	686	3%
Total Stage 2	**464**	**3%**	**488**	**35%**	**239**	**77%**	**102**	**4%**	**1,293**	**6%**
Not credit-impaired										
1-4	1,451	9%	100	7%	-	-	-	-	1,551	7%
5-7	11,889	72%	410	30%	110	36%	-	-	12,409	59%
8-9	2,403	15%	501	36%	101	32%	1,635	57%	4,640	22%
10-11	722	4%	367	27%	100	32%	1,248	43%	2,437	12%
Total not credit-impaired	**16,465**	**100%**	**1,378**	**100%**	**311**	**100%**	**2,883**	**100%**	**21,037**	**100%**

21 Credit risk exposures *(continued)*

Bank 2021 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages		Non-property SME and corporate		Commercial property and construction		Consumer		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1										
1-4	789	7%	88	3%	-	-	-	-	877	5%
5-7	9,886	84%	2,417	83%	22	9%	-	-	12,325	77%
8-9	348	3%	111	4%	30	13%	-	-	489	3%
10-11	155	1%	2	-	8	4%	1,090	96%	1,255	8%
Total Stage 1	**11,178**	**95%**	**2,618**	**90%**	**60**	**26%**	**1,090**	**96%**	**14,946**	**93%**
Stage 2										
1-4	18	-	6	-	-	-	-	-	24	-
5-7	442	4%	120	4%	20	9%	-	-	582	4%
8-9	70	-	104	4%	67	30%	-	-	241	1%
10-11	101	1%	65	2%	80	35%	40	4%	286	2%
Total Stage 2	**631**	**5%**	**295**	**10%**	**167**	**74%**	**40**	**4%**	**1,133**	**7%**
Not credit-impaired										
1-4	807	7%	94	3%	-	-	-	-	901	5%
5-7	10,328	88%	2,537	87%	42	18%	-	-	12,907	81%
8-9	418	3%	215	8%	97	43%	-	-	730	4%
10-11	256	2%	67	2%	88	39%	1,130	100%	1,541	10%
Total not credit-impaired	**11,809**	**100%**	**2,913**	**100%**	**227**	**100%**	**1,130**	**100%**	**16,079**	**100%**

Bank 2020 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages		Non-property SME and corporate		Commercial property and construction		Consumer		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1										
1-4	1,450	9%	63	2%	-	-	-	-	1,513	7%
5-7	11,750	71%	2,580	82%	30	10%	-	-	14,360	68%
8-9	2,304	14%	50	2%	34	11%	-	-	2,388	12%
10-11	497	3%	81	2%	8	2%	1,164	97%	1,750	8%
Total Stage 1	**16,001**	**97%**	**2,774**	**88%**	**72**	**23%**	**1,164**	**97%**	**20,011**	**95%**
Stage 2										
1-4	1	-	-	-	-	-	-	-	1	-
5-7	139	1%	45	1%	80	26%	-	-	264	1%
8-9	99	1%	62	2%	67	21%	-	-	228	1%
10-11	225	1%	279	9%	92	30%	38	3%	634	3%
Total Stage 2	**464**	**3%**	**386**	**12%**	**239**	**77%**	**38**	**3%**	**1,127**	**5%**
Not credit-impaired										
1-4	1,451	9%	63	2%	-	-	-	-	1,514	7%
5-7	11,889	72%	2,625	83%	110	36%	-	-	14,624	69%
8-9	2,403	15%	112	4%	101	32%	-	-	2,616	13%
10-11	722	4%	360	11%	100	32%	1,202	100%	2,384	11%
Total not credit-impaired	**16,465**	**100%**	**3,160**	**100%**	**311**	**100%**	**1,202**	**100%**	**21,138**	**100%**

21 Credit risk exposures *(continued)*

The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers at amortised cost that are credit-impaired (i.e. stage 3).

All loans and advances to customers that are greater than 90 days past due are classified as being credit-impaired. All credit-impaired loans and advances to customers are risk rated PD grade 12.

Group	**2021**				**2020**			
Credit-impaired loans and advances to customers Composition and impairment loss allowance	**Credit-impaired loans £m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of credit-impaired loans %**	**Credit-impaired loans £m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of credit-impaired loans %**
Residential mortgages	323	2%	22	7%	322	2%	18	6%
Non-property SME and corporate	98	1%	21	21%	91	-	21	23%
Commercial property and construction	47	-	5	11%	58	-	22	38%
Consumer	58	-	37	64%	65	-	40	62%
Total credit-impaired	**526**	**3%**	**85**	**16%**	**536**	**2%**	**101**	**19%**

Bank	**2021**				**2020**			
Credit-impaired loans and advances to customers Composition and impairment loss allowance	**Credit-impaired loans £m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of credit-impaired loans %**	**Credit-impaired loans £m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of credit-impaired loans %**
Residential mortgages	323	2%	22	7%	322	2%	18	6%
Non-property SME and corporate	96	1%	20	21%	86	-	19	22%
Commercial property and construction	47	-	5	11%	58	-	22	38%
Consumer	36	-	27	75%	38	-	29	76%
Total credit-impaired	**502**	**3%**	**74**	**15%**	**504**	**2%**	**88**	**17%**

21 Credit risk exposures *(continued)*

Risk profile of forborne and non-forborne loans and advances to customers

Group 2021 Loans and advances to customers at amortised cost - Composition	Stage 1 - (not credit- impaired) £m	Stage 2 - (not credit- impaired) £m	Stage 3 - (credit- impaired) £m	Purchased or originated credit-impaired £m	Total £m
Non-forborne loans and advances to customers					
Residential mortgages	11,178	591	262	-	12,031
Non-property SME and corporate	987	299	55	-	1,341
Commercial property and construction	60	144	20	-	224
- Investment	*53*	*130*	*19*	-	*202*
- Land and development	*7*	*14*	*1*	-	*22*
Consumer	2,544	79	58	-	2,681
Total non-forborne loans and advances to customers	**14,769**	**1,113**	**395**	**-**	**16,277**
Forborne loans and advances to customers					
Residential mortgages	-	40	61	-	101
Non-property SME and corporate	-	32	43	-	75
Commercial property and construction	-	23	27	-	50
- Investment	-	*18*	*26*	-	*44*
- Land and development	-	*5*	*1*	-	*6*
Consumer	-	-	-	-	-
Total forborne loans and advances to customers	**-**	**95**	**131**	**-**	**226**
Total loans and advances to customers	**14,769**	**1,208**	**526**	**-**	**16,503**

Group 2020 Loans and advances to customers at amortised cost - Composition	Stage 1 - (not credit- impaired) £m	Stage 2 - (not credit- impaired) £m	Stage 3 - (credit- impaired) £m	Purchased or originated credit-impaired £m	Total £m
Non-forborne loans and advances to customers					
Residential mortgages	16,001	417	265	-	16,683
Non-property SME and corporate	890	457	48	-	1,395
Commercial property and construction	72	224	16	-	312
- Investment	*62*	*200*	*14*	-	*276*
- Land and development	*10*	*24*	*2*	-	*36*
Consumer	2,781	102	65	-	2,948
Total non-forborne loans and advances to customers	**19,744**	**1,200**	**394**	**-**	**21,338**
Forborne loans and advances to customers					
Residential mortgages	-	47	57	-	104
Non-property SME and corporate	-	31	43	-	74
Commercial property and construction	-	15	42	-	57
- Investment	-	*9*	*34*	-	*43*
- Land and development	-	*6*	*8*	-	*14*
Consumer	-	-	-	-	-
Total forborne loans and advances to customers	**-**	**93**	**142**	**-**	**235**
Total loans and advances to customers	**19,744**	**1,293**	**536**	**-**	**21,573**

21 Credit risk exposures *(continued)*

The Group mitigates its credit risk by taking collateral, which may take a variety of forms as set out in section 2.1.3 of the risk management report. The most material type of secured lending is residential mortgages, for which collateral information is given in the table below.

Group	**Standard**		**Buy to let**		**Self certified**		**Total**		
2021 **Loans and advances to customers at amortised cost - Composition**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**
Less than 50%	2,081	59	1,886	41	170	31	4,137	131	4,268
51% to 70%	2,802	60	1,667	41	63	38	4,532	139	4,671
71% to 80%	2,210	20	152	7	8	7	2,370	34	2,404
81% to 90%	703	6	5	1	1	4	709	11	720
91% to 100%	56	2	1	1	-	1	57	4	61
Subtotal	**7,852**	**147**	**3,711**	**91**	**242**	**81**	**11,805**	**319**	**12,124**
101% to 120%	1	1	1	-	1	1	3	2	5
121% to 150%	-	1	-	-	1	1	1	2	3
Adjusted Greater than 150%	-	-	-	-	-	-	-	-	-
Subtotal	**1**	**2**	**1**	**-**	**2**	**2**	**4**	**4**	**8**
Total	**7,853**	**149**	**3,712**	**91**	**244**	**83**	**11,809**	**323**	**12,132**
Weighted average LTV[1]:									
Stock of mortgages at period end	60%	54%	49%	52%	40%	56%	56%	54%	56%
New mortgages during year	74%	71%	65%	55%	24%	-	73%	65%	73%

Group	**Standard**		**Buy to let**		**Self certified**		**Total**		
2020 **Loans and advances to customers at amortised cost - Composition**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**
Less than 50%	2,211	46	2,110	31	282	22	4,603	99	4,702
51% to 70%	3,089	60	2,900	40	215	36	6,204	136	6,340
71% to 80%	2,476	20	495	14	42	10	3,013	44	3,057
81% to 90%	2,476	17	69	4	20	8	2,565	29	2,594
91% to 100%	61	5	2	2	3	2	66	9	75
Subtotal	**10,313**	**148**	**5,576**	**91**	**562**	**78**	**16,451**	**317**	**16,768**
101% to 120%	6	1	1	1	2	2	9	4	13
121% to 150%	3	1	1	-	1	-	5	1	6
Adjusted Greater than 150%	-	-	-	-	-	-	-	-	-
Subtotal	**9**	**2**	**2**	**1**	**3**	**2**	**14**	**5**	**19**
Total	**10,322**	**150**	**5,578**	**92**	**565**	**80**	**16,465**	**322**	**16,787**
Weighted average LTV[1]:									
Stock of mortgages at period end	65%	59%	53%	58%	50%	60%	60%	59%	60%
New mortgages during year	75%	71%	58%	54%	51%	-	72%	66%	72%

[1] *Weighted average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

21 Credit risk exposures *(continued)*

Repossessed collateral on residential mortgages
At 31 December 2021 and 31 December 2020 the Group held collateral as security on residential mortgages as detailed in the table.

Repossessed properties are sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

Group	2021		2020	
Repossessed collateral	Number of repossessions as at balance sheet date	Balance outstanding £m	Number of repossessions as at balance sheet date	Balance outstanding £m
Residential properties				
Owner occupier	7	1	4	1
Buy to let	9	1	4	-
Self certified	3	-	-	-
Total	**19**	**2**	**8**	**1**

Industry analysis of loans and advances to customers
The following table provides an industry breakdown of total loans (before impairment loss allowances).

Group Total loans - by industry analysis	2021 £m	2020 £m
Residential mortgages	12,132	16,787
Finance leases and hire purchase	1,894	2,076
Credit cards	-	-
Personal loans	1,166	1,240
Commercial property and construction	274	369
Business and other services	752	812
Manufacturing and distribution	285	289
Other	-	-
Total	**16,503**	**21,573**

Debt securities at amortised cost - asset quality
For Group and Bank all debt securities were PD grade 1-4 and stage 1 at 31 December 2021 and 31 December 2020. The impairment loss allowance at 31 December 2021 was £0.1 million (2020: £0.1 million).

Loans and advances to banks at amortised cost - asset quality
For Group, all loans and advances to banks were stage 1 at 31 December 2021 with £1.3 billion being PD grade 1-4 (2020: £1.4 billion) and £0.3 billion being PD grade 5-8 (2020: £0.3 billion). The impairment loss allowance at 31 December 2021 was £0.3 million (2020: £0.3 million).

For Bank, all loans and advances to banks were stage 1 at 31 December 2021 with £1.2 billion being PD grade 1-4 (2020: £1.2 billion) and £0.3 billion being PD grade 5-8 (2020: £0.3 billion). The impairment loss allowance at 31 December 2021 was £0.3 million (2020: £0.3 million).

Other financial instruments - asset quality
Other financial instruments as set out in the table below include instruments that are not within the scope of IFRS 9 or are not subject to impairment under IFRS 9. These include derivative financial instruments. The table summarises the asset quality of these financial instruments by equivalent external risk ratings.

21 Credit risk exposures *(continued)*

Other financial instruments with ratings equivalent to:	Group 2021 £m	Group 2020 £m	Bank 2021 £m	Bank 2020 £m
Aaa to Aa3	-	10	-	10
A1 to A3	-	-	-	-
Baa1 to Baa3	86	43	86	43
Lower than Baa3	2	-	2	-
Total	**88**	**53**	**88**	**53**

Exposures by country

The following tables provide an analysis of the Group's exposure to sovereign debt and other country exposures (primarily financial institution exposure), by selected balance sheet line item, as at 31 December 2021 and 31 December 2020. In addition, for these line items, further information is included on the Group's exposures to selected countries and their associated credit ratings from Moody's.

Group 2021 Asset quality: exposures by country	Credit rating[1]	Cash and balances[2] £m	Loans and advances to banks[3] £m	Debt securities at amortised cost[4] £m	Derivative financial instruments £m	Total £m
Ireland	A2	-	416	-	86	502
United Kingdom	Aa3	3,456	1,144	389	2	4,991
Other	-	-	14	409	-	423
Total	**-**	**3,456**	**1,574**	**798**	**88**	**5,916**

Group 2020 Asset quality: exposures by country	Credit rating[1]	Cash and balances[2] £m	Loans and advances to banks[3] £m	Debt securities at amortised cost[4] £m	Derivative financial instruments £m	Total £m
Ireland	A2	-	424	-	43	467
United Kingdom	Aa3	2,050	1,233	496	10	3,789
Other	-	-	15	426	-	441
Total	**-**	**2,050**	**1,672**	**922**	**53**	**4,697**

1 *Based on credit ratings from Moody's.*
2 *Cash and balances in the United Kingdom primarily consist of amounts placed with the Bank of England.*
3 *Loans and advances to banks in Ireland consist primarily of balances with the Parent and balances in the United Kingdom consist primarily of the Bank of England required collateral for notes in circulation.*
4 *Debt securities at amortised cost consist of UK Government gilts, Supranational bonds and UK covered bonds.*

22 Interest in joint venture and joint operations

Joint arrangement	Holding	Classification	Country of operation	Nature of activities
First Rate Exchange Services Holdings Limited (FRESH)	50%	Joint venture	UK	Sale of foreign exchange products through the UK Post Office network
AA Financial Services	n/a	Joint operation	UK	Sale of AA branded personal loans, savings, mortgages and credit cards[1]

Joint venture
The Group owns 50% of the shares in FRESH, a company incorporated in the United Kingdom which provides foreign exchange services.

The following table shows the movement in the Group's interest in FRESH during the years ended 31 December 2021 and 31 December 2020.

The investment in FRESH is unquoted and is measured using the equity method of accounting. There are no significant restrictions on the ability of this entity to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group, nor is there any unrecognised share of losses either for the year ended 31 December 2021 or cumulatively in respect of this entity. The Group does not have any further commitments or contingent liabilities in respect of this entity other than its investment to date.

There are no significant risks associated with the joint venture that have been identified which require disclosure.

	2021 £m	2020 £m
At 1 January	49	64
Share of profit after taxation (note 12)	(2)	(1)
Dividends received	-	(14)
Other	-	-
At 31 December	**47**	**49**

[1] AA branded credit cards were sold as part of the UK consumer credit cards portfolio on 11 July 2019. See note 13 for further details.

22 Interest in joint venture and joint operations *(continued)*

The following amounts represent the Group's 50% share of the revenue, expenses, assets and liabilities of FRESH for the year ended 31 December 2021 and the year ended 31 December 2020.

	2021 £m	2020 £m
Revenue	15	17
Expenses	(17)	(18)
Profit before taxation	**(2)**	**(1)**
Taxation charge	-	-
Profit after taxation	**(2)**	**(1)**
Non-current assets	6	8
Current assets	173	185
Total assets	**179**	**193**
Current liabilities	(132)	(144)
Total liabilities	**(132)**	**(144)**
Net assets	**47**	**49**

Joint operation – AA Financial Services
In July 2015, the Group entered into a strategic partnership with AA Financial Services for the sale of AA branded personal loans, savings, mortgages and credit cards[1].

The above joint arrangement has been accounted for as a joint operation, on the basis that it is not a separate legal entity.

The Group combines its share of the joint operation in individual income and expenses, assets and liabilities and cash flows on a line-by-line basis.

23 Intangible assets and goodwill

	2021				2020			
Group	Goodwill £m	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m	Goodwill £m	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m
Cost								
At 1 January	30	36	87	153	30	36	87	153
Additions	-	-	-	-	-	-	-	-
At 31 December	**30**	**36**	**87**	**153**	**30**	**36**	**87**	**153**
Accumulated amortisation								
At 1 January	(8)	(34)	(75)	(117)	-	(34)	(71)	(105)
Impairment	-	-	-	-	(8)	-	-	(8)
Amortisation charge for the year (note 9)	-	(1)	(3)	(4)	-	-	(4)	(4)
At 31 December	**(8)**	**(35)**	**(78)**	**(121)**	**(8)**	**(34)**	**(75)**	**(117)**
Net book value at 31 December	**22**	**1**	**9**	**32**	**22**	**2**	**12**	**36**

[1] *AA branded credit cards were sold as part of the UK consumer credit cards portfolio on 11 July 2019. See note 13 for further details.*

23 Intangible assets and goodwill *(continued)*

	2021				2020			
Bank	**Goodwill £m**	**Computer software internally generated £m**	**Other externally purchased intangible assets £m**	**Total £m**	**Goodwill £m**	**Computer software internally generated £m**	**Other externally purchased intangible assets £m**	**Total £m**
Cost								
At 1 January	-	35	76	111	-	35	76	111
Acquisitions	-	-	-	-	-	-	-	-
Additions	-	-	-	-	-	-	-	-
At 31 December	**-**	**35**	**76**	**111**	**-**	**35**	**76**	**111**
Accumulated amortisation								
At 1 January	-	(34)	(71)	(105)	-	(34)	(68)	(102)
Amortisation charge for the year	-	-	(2)	(2)	-	-	(3)	(3)
At 31 December	**-**	**(34)**	**(73)**	**(107)**	**-**	**(34)**	**(71)**	**(105)**
Net book value at 31 December	**-**	**1**	**3**	**4**	**-**	**1**	**5**	**6**

Goodwill of £22 million (2020: £22 million) relates to Marshall Leasing Limited. The Group also has intangible assets of £6 million (2020: £7 million) relating to Marshall Leasing Limited.

Goodwill is not amortised as it is deemed to have an indefinite useful life. The Group’s investment in Marshall Leasing Limited has been reviewed for impairment at 31 December 2021 and 31 December 2020 by comparing the carrying value of the cash generating unit to its recoverable amount under the value in use method. No impairment charge was booked in 2021, however an impairment charge of £8 million was booked in 2020.

Other intangible assets have also been reviewed for any indication that impairment may have occurred. No impairment of other intangible assets was identified in the year ended 31 December 2021 or 31 December 2020.

Further detail on the impairment review, including assumptions and sensitivities, is set out in the critical accounting estimates and judgements on page 113.

24 Property, plant and equipment

Group 2021	Computer and other equipment[1] £m	Freehold land and buildings and long leaseholds (held at fair value) £m	Vehicles leased under operating leases £m	Right of use asset - Buildings £m	Total £m
Cost or valuation					
At 1 January 2021	**2**	**24**	**117**	**20**	**163**
Acquisitions	-	-	-	-	-
Additions	-	-	54	-	54
Disposals / write offs	-	-	(31)	-	(31)
Revaluation recognised in OCI	-	1	-	-	1
Other movements	-	(2)	-	-	(2)
As at 31 December 2021	**2**	**23**	**140**	**20**	**185**
Accumulated depreciation					
At 1 January 2021	**(1)**	**-**	**(28)**	**(8)**	**(37)**
Impairment	-	-	-	-	-
Disposals / write offs	-	-	20	-	20
Charge for the year[3]	-	-	(23)	(2)	(25)
As at 31 December 2021	**(1)**	**-**	**(31)**	**(10)**	**(42)**
Net book value at 31 December 2021	**1**	**23[2]**	**109**	**10**	**143**

Group 2020	Computer and other equipment[1] £m	Freehold land and buildings and long leaseholds (held at fair value) £m	Vehicles leased under operating leases £m	Right of use asset - Buildings £m	Total £m
Cost or valuation					
At 1 January 2020	**1**	**25**	**124**	**19**	**169**
Acquisitions	-	-	-	-	-
Additions	1	-	35	1	37
Disposals / write offs	-	-	(42)	-	(42)
Revaluation recognised in OCI	-	(1)	-	-	(1)
Other movements	-	-	-	-	-
As at 31 December 2020	**2**	**24**	**117**	**20**	**163**
Accumulated depreciation					
At 1 January 2020	**-**	**-**	**(28)**	**(3)**	**(31)**
Impairment	-	-	-	(2)	(2)
Disposals / write offs	-	-	24	-	24
Charge for the year[3]	(1)	-	(24)	(3)	(28)
As at 31 December 2020	**(1)**	**-**	**(28)**	**(8)**	**(37)**
Net book value at 31 December 2020	**1**	**24[2]**	**89**	**12**	**126**

[1] *All of which is related to own-use.*
[2] *Includes £6 million (2020: £6 million) of which is subject to operating leases.*
[3] *Depreciation on vehicles leased under operating leases is included in other leasing expense (note 5).*

24 Property, plant and equipment *(continued)*

Bank 2021	Freehold land and buildings and long leaseholds (held at fair value) £m	Right of use asset - Buildings £m	Total £m
Opening balance at 1 January 2021	**24**	**20**	**44**
Revaluation recognised in OCI	1	-	1
Other movements	(2)	-	(2)
As at 31 December 2021	**23**	**20**	**43**
Accumulated depreciation at 1 January 2021	**-**	**(8)**	**(8)**
Impairment	-	-	-
Charge for the year	-	(2)	(2)
As at 31 December 2021	**-**	**(10)**	**(10)**
Net book value at 31 December 2021	**23**[1]	**10**	**33**

Bank 2020	Freehold land and buildings and long leaseholds (held at fair value) £m	Right of use asset - Buildings £m	Total £m
Opening balance at 1 January 2020	25	19	44
Revaluation recognised in OCI	(1)	-	(1)
Other movements	-	1	1
As at 31 December 2020	**24**	**20**	**44**
Accumulated depreciation at 1 January 2020	**-**	**(3)**	**(3)**
Impairment	-	(2)	(2)
Charge for the year	-	(3)	(3)
As at 31 December 2020	**-**	**(8)**	**(8)**
Net book value at 31 December 2020	**24**[1]	**12**	**36**

[1] *Includes £6 million (2020: £6 million) of which is subject to operating leases.*

24 Property, plant and equipment *(continued)*

For vehicles leased under operating leases, the annual depreciation charge is calculated using residual values which represent the estimated net sales proceeds expected from the sale of the assets at the end of the operating lease period. Due to the inherent uncertainty associated with such valuation methodology and in particular the volatility of prices of second hand vehicles, the carrying value of the residual values may differ from their realisable value.

Management is careful to ensure that exposure to residual value risk is effectively managed to minimise the company's exposure to residual value risk. The residual values used mirror those utilised in the creation of the original client contract. Management benchmark internal residual values for the existing fleet of vehicles against industry standard valuation tools by third party providers. The residual values for the entire portfolio are reassessed using an independent valuation tool on a twice yearly basis, with accounting adjustments being made to future periods. The process of realising asset values is effectively managed to maximise net sale proceeds.

Depreciation on vehicles leased under operating leases is presented within net leasing income. See note 5.

The following residual values are included in the calculation of the net book value of fixed assets held for use in operating leases:

Group	2021 £m	2020 £m
Within 1 year	20	20
1 – 2 years	15	15
Greater than 2 years	26	17
Total	**61**	**52**

At 31 December 2021 and 31 December 2020 there was no future capital expenditure authorised by the Directors but not contracted for, or contracted for but not provided for.

The Group has the following amounts of minimum lease receivables under non-cancellable operating leases as follows:

	Group		Bank	
Operating lease receivables	**2021 £m**	**2020 £m**	**2021 £m**	**2020 £m**
Not later than 1 year	24	20	1	1
Later than 1 year and not later than 5 years	27	21	1	2
Later than 5 years	-	1	-	1
Total	**51**	**42**	**2**	**4**

25 Other assets

Other assets	Group 2021 £m	Group 2020 £m	Bank 2021 £m	Bank 2020 £m
Sundry and other receivables	20	26	17	20
Accounts receivable and prepayments	12	18	11	17
Interest receivable	9	13	10	14
Trade receivables	1	2	1	2
Other assets	**42**	**59**	**39**	**53**
Amounts include				
Due from the Parent	-	-	-	-
Maturity profile of other assets				
Amounts receivable within 1 year	42	57	39	53
Amounts receivable after 1 year	-	2	-	-
Total	**42**	**59**	**39**	**53**

26 Deferred tax

Group 2021	Net balance at 1 January £m	Recognised in profit or loss £m	Recognised in OCI £m	Other movements £m	Net £m	Deferred tax assets £m	Deferred tax liabilities £m
Unutilised tax losses	15	35	-	-	50	50	-
Fixed / leased assets	9	5	-	-	14	14	-
Impact of adopting IFRS 9	8	1	-	-	9	9	-
Cash flow hedge reserve	(7)	-	14	-	7	7	-
Property revaluation surplus	(1)	-	-	-	(1)	-	(1)
Other temporary differences – liabilities	(1)	(1)	-	-	(2)	-	(2)
Tax assets/(liabilities) before set-off	**23**	**40**	**14**	**-**	**77**	**80**	**(3)**
Set-off tax						**(3)**	**3**
Net tax assets/(liabilities)						**77**	**-**

Group 2020	Net balance at 1 January £m	Recognised in profit or loss £m	Recognised in OCI £m	Other movements £m	Net £m	Deferred tax assets £m	Deferred tax liabilities £m
Unutilised tax losses	30	(15)	-	-	15	15	-
Fixed / leased assets	6	3	-	-	9	9	-
Impact of adopting IFRS 9	9	(1)	-	-	8	8	-
Cash flow hedge reserve	(2)	-	(5)	-	(7)	-	(7)
Property revaluation surplus	(1)	-	-	-	(1)	-	(1)
Other temporary differences – liabilities	(1)	1	-	(1)	(1)	-	(1)
Tax assets/(liabilities) before set-off	**41**	**(12)**	**(5)**	**(1)**	**23**	**32**	**(9)**
Set-off tax						**(9)**	**9**
Net tax assets/(liabilities)						**23**	**-**

26 Deferred tax *(continued)*

Bank 2021	Net balance at 1 January £m	Recognised in profit or loss £m	Recognised in OCI £m	Net £m	Deferred tax assets £m	Deferred tax liabilities £m
Unutilised tax losses	15	35	-	50	50	-
Fixed / leased assets	-	-	-	-	-	-
Impact of adopting IFRS 9	8	1	-	9	9	-
Cash flow hedge reserve	(7)	-	14	7	7	-
Property revaluation surplus	(1)	-	-	(1)	-	(1)
Other temporary differences – liabilities	1	-	-	1	1	-
Tax assets/(liabilities) before set-off	**16**	**36**	**14**	**66**	**67**	**(1)**
Set-off tax					**(1)**	**1**
Net tax assets/(liabilities)					**66**	**-**

Bank 2020	Net balance at 1 January £m	Recognised in profit or loss £m	Recognised in OCI £m	Net £m	Deferred tax assets £m	Deferred tax liabilities £m
Unutilised tax losses	30	(15)	-	15	15	-
Fixed / leased assets	-	-	-	-	-	-
Impact of adopting IFRS 9	9	(1)	-	8	8	-
Cash flow hedge reserve	(2)	-	(5)	(7)	-	(7)
Property revaluation surplus	(1)	-	-	(1)	-	(1)
Other temporary differences – liabilities	-	1	-	1	1	-
Tax assets/(liabilities) before set-off	**36**	**(15)**	**(5)**	**16**	**24**	**(8)**
Set-off tax					**(8)**	**8**
Net tax assets/(liabilities)					**16**	**-**

The deferred tax asset includes an amount of £50 million (2020: £15 million) in respect of operating losses which are available to be offset against future taxable profits.

The recognition of a deferred tax asset in respect of tax losses carried forward requires the Directors to be satisfied that it is probable that the Group will have sufficient future taxable profits against which the losses can be utilised. In considering the available evidence to support recognition of the deferred tax asset, the Group takes into consideration the impact of both positive and negative evidence including historical financial performance, projections of future taxable income and the impact of tax legislation.

The key judgements and estimates applied in the recognition of deferred tax assets on unused tax losses are set out in note 2 'Critical Accounting Estimates and Judgements'.

The Group has not recognised a DTA of £20 million (2020: £66 million) in respect of unused tax losses which have no expiry date but are currently not projected to be recovered within 10 years.

The first UK Budget of 2021, which was presented on 3 March 2021, announced that the main rate of UK corporation tax would increase from 19% to 25% in April 2023. This amendment was subsequently enacted during 2021 and therefore the impact of this change has been included in the tax charge for the year.

In the second Budget of 2021, presented on 27 October 2021, it was further announced that the bank surcharge rate would decrease from 8% to 3%, also in April 2023. The de minimis level for the surcharge to apply would also increase from £25 million to £100 million from 1 April 2023. This change will reduce future profits that are subject to the surcharge, but has no impact on the December 2021 financial position.

The Organisation for Economic Co-operation and Development ("OECD") released the 15% minimum effective tax rate Model Rules on 20 December 2021. These Model Rules are the first of three expected sets of guidance: the Model Rules; an explanatory Commentary, expected in early 2022; and a more detailed Implementation Framework, expected later in 2022. It is currently expected that the new rules will be brought into law in late 2022 to be effective from 1 January 2023. The UK government published a consultation process in January 2022 seeking views for how a worldwide 15% minimum corporation tax should be domestically implemented. However, as the UK rate of corporation tax is currently in excess of the proposed minimum rate, the proposed changes may not have any impact in the UK.

27 Assets classified as held for sale

At 31 December 2021, the Group is in the process of disposing of some of its NI branch properties with a carrying value of £1.3 million. As a result, these assets have been reclassified from property, plant and equipment to assets classified as held for sale. The assets are measured at their fair value less costs to sell of £1.3 million.

28 Deposits from banks

	Group		Bank	
	2021 £m	2020 £m	2021 £m	2020 £m
Deposits from banks	**3,399**	**4,202**	**3,392**	**4,199**
Amounts include:				
Due to the Parent	1,058	2,372	1,051	2,369

Deposits from banks includes:
- £nil (2020: £427 million) of borrowings under the Bank of England Term Funding Scheme ('TFS') and £2,300 million (2020: £1,301 million) of borrowings under the Bank of England Term Funding Scheme for Small and Medium Sized Entities ('TFSME'), which are both secured primarily with mortgage loans and partly with notes issued by Bowbell 2 plc; and
- £nil (2020: £nil) borrowed under the Bank of England Indexed Long - Term Repo scheme, which is collateralised with notes issued by Bowbell 2 plc.

Drawings under the TFS and TFSME will be repaid within four years from the date of drawdown although there is an option under the TFSME to further extend the drawdown window for periods up to 10 years in respect of amounts up to the volume of lending under the BBLS scheme. The interest charged is based on the quantum of eligible net lending by the Bank and by the Parent's UK branch during the relevant Scheme reference period.

Amounts due to the Parent relates to borrowings in place to fund and manage interest rate risk on the Group's assets. Refer to note 18 for details of amounts due from the Parent, and note 43 in respect of changes in these balances during 2021.

29 Customer accounts

	Group		Bank	
	2021 £m	2020 £m	2021 £m	2020 £m
Term deposits	4,562	6,627	4,562	6,627
Demand deposits	6,931	7,742	6,931	7,742
Non-interest bearing current accounts	4,028	3,676	4,073	3,785
Interest bearing current accounts	232	211	232	211
Customer accounts	**15,753**	**18,256**	**15,798**	**18,365**
Amounts include:				
Share of joint operation (note 22)	344	520	344	520
Due to entities controlled by the Parent	10	9	10	9
Due to subsidiaries	-	-	45	109

30 Debt securities in issue

	Group		Bank	
	2021 £m	2020 £m	2021 £m	2020 £m
Residential mortgage backed securities	148	211	-	-
Floating rate senior non preferred notes	300	300	300	300
Total debt securities in issue	**448**	**511**	**300**	**300**

The residential mortgage backed securities were issued in June 2019 by the Group's securitisation entity, Bowbell 2 plc. For further information refer to note 45.

The floating rate senior non preferred notes were issued to the Parent on 11 December 2019, in order to meet the Group's indicative internal requirements for Minimum Requirement for Eligible Liabilities (MREL).

31 Other liabilities

	Group		Bank	
	2021 £m	**2020 £m**	**2021 £m**	**2020 £m**
Notes in circulation	895	980	895	980
Accrued interest payable	30	61	30	61
Sundry payables	72	86	53	69
Accruals and deferred income	13	10	13	10
Other liabilities	**1,010**	**1,137**	**991**	**1,120**
Amounts include:				
Due to the Parent	2	5	2	5
Share of joint operation (note 22)	9	12	9	12
Maturity profile of other liabilities				
Amounts payable within 1 year	1,010	1,137	991	1,120
Amounts payable after 1 year	-	-	-	-

The Bank is authorised to issue banknotes in NI under the Bank of Ireland (UK) plc Act 2012.

32 Leasing

Group as lessee
The principal contracts where the Group is a lessee under IFRS 16 are in relation to property leases. Further qualitative information on the nature of the leases is set out in the Group accounting policies (note 1) and the undiscounted contractual maturity of total lease liabilities is set out on page 167.

Group as lessor
Accounting for lessors is outlined in the Group accounting policies (note 1). The Group is engaged in finance lease and operating lease activities.

Finance leasing activity and a maturity analysis of the Group's net investment in finance leases are included within Loans and advances to customers (note 20) along with a gross to net reconciliation of the investment in finance leases. Associated income on finance leases is included in Interest income (note 3).

Operating leases where the Group is a lessor primarily relate to the business activities of MLL.

A maturity analysis of undiscounted operating lease receivables set out on an annual basis is included in note 24. Income and expense associated with the Group's operating lease activities is included in note 5.

Amounts recognised in the balance sheet and Income statement
The carrying amount of the Group's RoU assets and the movements during 2021 are set out in note 24.

The carrying amount of the lease liabilities and the movements during 2021 is set out below:

32 Leasing *(continued)*

Balance sheet liabilities	Group 2021 £m	Group 2020 £m	Bank 2021 £m	Bank 2020 £m
As at 1 January	**19**	**20**	**18**	**20**
Payments	(4)	(4)	(3)	(4)
Interest expense (note 4)	-	1	-	1
Other movements	-	2	-	1
As at 31 December	**15**	**19**	**15**	**18**

Group **Summary of amounts recognised in the income statement under IFRS 16 leases**	2021 £m	2020 £m
Amounts recognised in interest expense (note 4)		
Payments	-	1
Amounts recognised in interest income (note 3)		
Finance lease interest	**78**	86
Other leasing income and expense (note 5)		
Finance lease interest	55	58
Other leasing expense	(41)	(49)
	14	9
Amounts recognised in other operating expense (note 9)		
Depreciation of RoU assets in property, plant and equipment	2	3
Impairment of RoU assets	-	2
	2	5

33 Provisions

At 31 December 2021, the Group had provisions for the following items:
Customer provisions, £9 million (2020: £1 million), comprise the estimated cost of making repayments to customers associated with the design and execution of process as part of the Group's business activities.

Provisions associated with restructuring and transformation costs: £5 million (2020: £9 million).

In addition at December 2020 the Group held provisions of £4 million for residual cost associated with the migration of the credit cards portfolio.

2021	Group £m	Bank £m
Closing balance 31 December 2020	15	14
Net charge to the income statement	13	13
Utilised during the year	(14)	(13)
At 31 December 2021	**14**	**14**
Expected utilisation period		
Used within 1 year	13	13
Used after 1 year	1	1

34 Loss allowance provision on loan commitments and financial guarantees

Loan commitments and guarantees and irrevocable letters of credit have been classified and measured in accordance with IFRS 9. This involves measuring the loss allowance provision for loan commitments and financial guarantees and irrevocable letters of credit on a 12 month or lifetime ECL approach.

At 31 December 2021, the Group held an impairment loss allowance of £4 million (2020: £4 million) on loan commitments and financial guarantees, of which £2 million are classified as stage 1 (2020: £1 million), £1 million as stage 2 (2020: £3 million) and £1 million as stage 3 (2020: £nil).

Group	2021 Amount £m	2021 Loss allowance £m	2020 Amount £m	2020 Loss allowance £m
Loan commitments (note 37)	950	4	1,433	4
Guarantees and irrevocable letters of credit (note 37)	18	-	18	-
Total	**968**	**4**	**1,451**	**4**

Bank	2021 Amount £m	2021 Loss allowance £m	2020 Amount £m	2020 Loss allowance £m
Loan commitments (note 37)	898	3	1,411	4
Guarantees and irrevocable letters of credit (note 37)	18	-	18	-
Total	**916**	**3**	**1,429**	**4**

Group 2021 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	280	34%	4	4%	284	31%	9	53%	-	-	9	53%
5-7	455	56%	78	69%	533	57%	5	29%	-	-	5	29%
8-9	62	8%	16	14%	78	8%	3	18%	-	-	3	18%
10-11	19	2%	15	13%	34	4%	-	-	-	-	-	-
Total	**816**	**100%**	**113**	**100%**	**929**	**100%**	**17**	**100%**	**-**	**-**	**17**	**100%**

Group 2020 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	254	20%	1	1%	255	18%	-	-	-	-	-	-
5-7	824	65%	50	35%	874	62%	5	83%	5	45%	10	59%
8-9	175	14%	38	27%	213	15%	-	-	6	55%	6	35%
10-11	21	1%	52	37%	73	5%	1	17%	-	-	1	6%
Total	**1,274**	**100%**	**141**	**100%**	**1,415**	**100%**	**6**	**100%**	**11**	**100%**	**17**	**100%**

34 Loss allowance provision on loan commitments and financial guarantees *(continued)*

Bank 2021 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	228	30%	4	4%	232	26%	9	53%	-	-	9	53%
5-7	455	60%	78	69%	533	61%	5	29%	-	-	5	29%
8-9	62	8%	16	14%	78	9%	3	18%	-	-	3	18%
10-11	19	2%	15	13%	34	4%	-	-	-	-	-	-
Total	**764**	**100%**	**113**	**100%**	**877**	**100%**	**17**	**100%**	**-**	**-**	**17**	**100%**

Bank 2020 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	232	18%	1	1%	233	17%	-	-	-	-	-	-
5-7	824	66%	50	35%	874	63%	5	83%	5	45%	10	59%
8-9	175	14%	38	27%	213	15%	-	-	6	55%	6	35%
10-11	21	2%	52	37%	73	5%	1	17%	-	-	1	6%
Total	**1,252**	**100%**	**141**	**100%**	**1,393**	**100%**	**6**	**100%**	**11**	**100%**	**17**	**100%**

The tables above for Group and Bank show the loan commitments and guarantees and irrevocable letters of credit by PD grade for stage 1 and stage 2. The remaining balances for Group and Bank of £21 million (2020: £18 million) on loan commitments and £1 million (2020: £0.6 million) on guarantees and irrevocable letters of credit are stage 3.

35 Retirement benefit obligations

The Group's employees' membership of a particular pension scheme is dependent on their specific employment contract. Where an employee is seconded directly to the Group, the Group only incurs the cost of the future service contribution to those particular schemes. The Group does not have any liability for payment in respect of increases to pension contributions arising from any historic or future shortfall in the pension assets relative to the pension liabilities of the BOI Group operated schemes. Consequently, the schemes have been accounted for as defined contribution schemes in these financial statements and where applicable will be included in the disclosures for defined benefit schemes in the financial statements of BOI Group.

NIIB Group Limited (1975) Pension Scheme (the 'NIIB scheme')

The NIIB defined benefit scheme is based on final pensionable salary and operates for eligible employees of NIIB Group Limited and its subsidiaries. Contributions by the company and the employees are invested in a trustee-administered fund. As the scheme's underlying assets and liabilities are identifiable as those of the Group the scheme has been accounted for as a defined benefit scheme (as set out in the accounting policy for pension obligations) and the disclosures set out in the remainder of this note relate to this scheme.
In determining the level of contributions required to be made to the scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, WTW.

The scheme has been closed to new members since late 2006.

Regulatory framework

The NIIB scheme operates under the UK pension regulatory framework. Benefits are paid to members from a trustee-administered fund. The trustees are responsible for ensuring that the plan is sufficiently funded to meet current and future benefit payments. If the plan experience is worse than expected, the Group's obligations are increased.

Under UK pensions legislation, the trustees must agree a funding plan with the Group such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (relative to those used to measure accounting liabilities) and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

The trustees' other duties include managing the investment of the plan assets, administration of the plan benefits, ensuring

35 Retirement benefit obligations *(continued)*

contributions are received, compliance with relevant legislation and exercising of discretionary powers. The Group works closely with the trustees, who manage the plan.

Actuarial valuation of the NIIB scheme

A formal valuation of the NIIB scheme was carried out as at 1 May 2019. The funding method used measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date. Discussions in relation to the valuation were completed in 2020 and a schedule of contributions was agreed between the trustees and the Group and submitted to the Pensions Regulator.

Under the schedule of contributions the Group agreed to make contributions of 45.8% of Basic Salary less member contributions in respect of the cost of future benefit accrual. The contribution rate is inclusive of expenses of running of the scheme (previously these were met directly by the company). The next formal valuation of the NIIB scheme is due to be carried out as at 1 May 2022.

Plan details

The following table sets out details of the membership of the NIIB scheme as at 1 May 2019.

Financial and demographic assumptions

The assumptions used in calculating the costs and obligations of the NIIB scheme, as detailed below, were set after consultation with WTW.

The discount rate used to determine the present value of the obligations is set by reference to market yields on corporate bonds. The methodology was updated at the end of 2017, primarily to remove a number of bonds that did not obviously meet the criteria of 'corporate bonds' from the universe considered.

The methodology used to determine the assumption for retail price inflation uses an inflation curve derived by WTW using market data which reflects the characteristics of the Bank's liabilities with an appropriate adjustment to reflect distortions due to supply and demand.

The assumption for consumer price inflation is set by reference to retail price inflation, with an adjustment applied, as no consumer price inflation linked bonds exist.

The salary assumption takes into account inflation, seniority, promotion and current employment market relevant to the Group.

On 26 October 2018 a court ruling confirmed that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. An allowance of 0.3% is included in the liabilities to allow for the expected impact of this element of GMP equalisation. Following on from the original ruling in 2018, a further High Court ruling on 20 November 2020 provided clarification on the obligations of pension plan trustees to equalise past transfer values allowing for GMP equalisation. The original allowance only considered current members who had GMP liabilities within the scheme (not members who have died without a spouse or members who have transferred out for example). The approximate impact of equalising past transfers from the Scheme has been estimated as being very unlikely to be material and as such no allowance has been made for this in the valuation as at 31 December 2020. Provision made in the previous years will be carried forward to 31 December 2021.

Plan details at last valuation date (1 May 2019)	By number	By % of scheme liability
Scheme members		
Active	66	37%
Deferred	116	26%
Pensioners / dependants	71	37%

Valuation statement at 1 May 2019	£m
Technical provisions	45
Market value of assets	50
Past service (deficit) / surplus	5
Funding level	112.1%

35 Retirement benefit obligations *(continued)*

Financial assumptions

The financial assumptions used in measuring the Group's defined benefit asset / liability under IAS 19 are set out in the table below.

Financial assumptions	2021 % p.a.	2020 % p.a.
Consumer price inflation	2.75	2.30
Retail price inflation	3.35	2.90
Discount rate	1.90	1.55
Rate of general increase in salaries	3.85	3.40
Rate of increase in pensions in payment	3.00	3.00
Rate of increase in deferred pensions	2.75	2.30

Mortality assumptions

The mortality assumptions adopted are outlined in the table below. The mortality assumptions are not typically updated annually, and are reviewed after each triennial valuation. There has been no change to these assumptions to reflect the impact of COVID-19 given the uncertainty regarding its long-term impacts. This is in line with the approach taken for the majority of UK pension schemes.

Post retirement mortality assumptions	2021 Years	2020 Years
Longevity at age 70 for current pensioners		
Men	18.1	18.1
Women	19.5	19.5
Longevity at age 60 for active members currently aged 60 years		
Men	27.2	27.2
Women	29.0	28.9
Longevity at age 60 for active members currently aged 40 years		
Men	28.8	28.7
Women	30.5	30.4

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements.

	2021 £m	2020 £m
Total charge in operating expenses	**(1)**	**(1)**
Total gain in remeasurements[1]	**3**	**-**
Total asset in the balance sheet	**13**	**10**

A surplus of £13 million has been recognised at year-end in line with the trust deed and rules, under which the Employer is able to run off the plan until there are no members and can trigger a wind-up of the scheme, when it would be entitled to recover any surplus via a cash refund.

[1] *Shown before deferred tax.*

35 Retirement benefit obligations *(continued)*

The movement in the net defined benefit asset / obligation is as follows:

	2021			2020		
	Present value of obligation £m	**Fair value of plan assets £m**	**Surplus / (deficit) of plan £m**	**Present value of obligation £m**	**Fair value of plan assets £m**	**Surplus / (deficit) of plan £m**
At 1 January	**(51)**	**61**	**10**	**(44)**	**53**	**9**
Current service cost	(1)	-	**(1)**	(1)	-	(1)
Interest (expense) / income	(1)	1	**-**	(1)	1	-
Total amount in recognised Income statement	**(2)**	**1**	**(1)**	**(2)**	**1**	**(1)**
Return on plan assets not included in income statement	-	2	**2**	-	6	6
Change in demographic assumptions	-	-	**-**	-	-	-
Change in financial assumptions	1	-	**1**	(6)	-	(6)
Experience losses	-	-	**-**	-	-	-
Total remeasurements in other comprehensive income	**1**	**2**	**3**	**(6)**	**6**	**-**
Benefit payments	1	(1)	**-**	1	(1)	-
Employer contributions	-	1	**1**	-	1	1
Other	1	(1)	**-**	-	1	1
Other movements	**2**	**(1)**	**1**	**1**	**1**	**2**
At 31 December	**(50)**	**63**	**13**	**(51)**	**61**	**10**

Asset breakdown	**2021 £m**	**2020 £m**
Equities[1] (quoted)	19	25
Corporate bonds	13	6
Liability Driven Investment (LDI)	15	29
Other quoted securities[1]	14	-
Cash	2	1
Total fair value of assets	**63**	**61**

[1] *These are held indirectly in unquoted managed funds.*

35 Retirement benefit obligations *(continued)*

Sensitivity of defined benefit obligation to key assumptions

The table sets out how the defined benefit obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible at 31 December 2021.

Some of the changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the plan holds a proportion of its assets in Liability Driven Investments (LDI). A fall in the rate of inflation would be expected to lead to a reduction in the value of these assets, thus partly offsetting the reduction in the defined benefit obligation. The extent to which these sensitivities are managed is discussed further below.

Impact on defined benefit obligation	Change in assumptions (%)	Increase in obligations £m	Decrease in obligations £m
Discount rate	0.25	(3)	3
Inflation[1]	0.10	1	(1)
Salary growth	0.10	-	-
Life expectancy	1 year	2	(2)

Future cash flows

The plan's liabilities represent a long-term obligation and most of the payments due under the plan will occur several decades into the future. The duration, or average term to payment for the benefits due, weighted by liability, is 23 years.

Expected employer contributions for the year ended 31 December 2022 are £0.9 million. Expected employee contributions for the year ended 31 December 2022 are £52,000.

Years	Benefit payments from plan assets £m
2022 - 2031	(13)
2032 - 2041	(17)
2042 - 2051	(18)
2052 - 2061	(13)
2062 - 2071	(6)
2072 - 2081	(2)
2082 - 2091	-
2092 - 2101	-
Total	**(69)**

Risks and risk management

The NIIB scheme has a number of areas of risk. The key areas of risk, and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

[1] *Including other inflation-linked assumptions (consumer price inflation, pension increases, salary growth).*

35 Retirement benefit obligations *(continued)*

Risk	Delegated responsibility
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation in the Group's financial statements is calculated using a discount rate set with reference to high quality corporate bond yields. The plan holds a proportion of its assets in equities. The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net defined benefit liability recorded on the balance sheet.
Changes in bond yields	Interest rate and inflation risks, along with equity risk, are the scheme's largest risks. From an accounting liability perspective, the scheme is also exposed to movements in corporate bond spreads. The scheme uses investment Liability Driven Investments (LDI) to assist in managing its interest rate and inflation risk. This portfolio is used to broadly hedge against movements in long-term interest rates and inflation expectations. The portfolio does not completely eliminate risk and addresses only a portion of the scheme's interest rate and inflation risks. Furthermore, it does not hedge against changes in the credit spread available on corporate bonds used to derive the accounting liabilities. The investment in LDI offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	A significant proportion of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plan against inflation.
Life expectancy	The majority of the plan's obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plan's liabilities.

36 Subordinated liabilities

	Group		Bank	
	2021 £m	**2020 £m**	**2021 £m**	**2020 £m**
£200 million subordinated floating rate notes 2025[1]	-	200	-	200
£90 million subordinated floating rate notes 2027[2]	90	90	90	90
£100 million subordinated floating rate notes 2031[3]	100	-	100	-
Subordinated liabilities	**190**	**290**	**190**	**290**

	Group		Bank	
Movement on subordinated liabilities	**2021 £m**	**2020 £m**	**2021 £m**	**2020 £m**
At 1 January	290	290	290	290
Issued during the year	100	-	100	-
Repurchased	(200)	-	(200)	-
At 31 December	**190**	**290**	**190**	**290**

[1] *Callable on any interest payment date from 26 November 2020 until their final maturity date of 26 November 2025. They bear interest at a floating rate of 4.225% per annum above the sterling LIBOR three month rate.*
[2] *Callable on 19 December 2022 or on any date thereafter until their final maturity date of 19 December 2027. They bear interest at a floating rate of 2.80% per annum above compounded daily SONIA.*
[3] *Callable on any interest payment date from 26 November 2026 until their final maturity date of 26 November 2031. They bear interest at a floating rate of 2.61% per annum above compounded daily SONIA.*

36 Subordinated liabilities *(continued)*

These liabilities constitute unsecured obligations of the Group to its Parent, subordinated in right of payments to the claim of depositors, and other unsubordinated creditors of the Group. The subordinated liabilities meet the definition of a financial liability as the Group does not have an unconditional right to avoid the repayment of the principal or interest. Therefore, the liabilities are recognised on the balance sheet at amortised cost, using the effective interest method.

All of the current notes are redeemable in whole but not in part, subject to the prior approval of the PRA, on the fifth anniversary of their drawdown date. In the event of a wind up of the Group, the loans will become immediately due and payable without demand, together with all interest accrued thereon.

37 Contingent liabilities and commitments

	Group		Bank	
	2021 £m	2020 £m	2021 £m	2020 £m
Contingent liabilities				
Guarantees and irrevocable letters of credit	18	19	18	19
Other contingent liabilities	6	6	6	6
Total contingent liabilities	**24**	**25**	**24**	**25**
Loan commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend				
- revocable or irrevocable with original maturity of 1 year or less	905	1,393	853	1,371
- irrevocable with original maturity of over 1 year	45	40	45	40
Total commitments	**950**	**1,433**	**898**	**1,411**

The table sets out the contractual amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral, or security prove worthless. Loss allowance provisions of £4 million (2020: £4 million) recognised on loan commitments and guarantees and irrevocable letters of credit are shown in note 34. Provisions on all other contingent liabilities and commitments are shown in note 33 (where applicable).

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will be required to meet these obligations only in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customer's credit worthiness. Other contingent liabilities also include documentary credits which commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

Management continue to monitor any conduct related matters as they develop to re-evaluate on an ongoing basis to what extent any contingent liabilities exist and whether any provisions are required.

38 Share capital

	Group		Bank	
Ordinary shares	**2021 £m**	**2020 £m**	**2021 £m**	**2020 £m**
At 1 January	197	255	197	255
Capital reduction during the year	(75)	(58)	(75)	(58)
At 31 December	**122**	**197**	**122**	**197**

At 31 December 2021 the Bank had 406 million (2020: 656 million) shares in issue, all of which were held by the Parent and were fully paid. The Bank's authorised share capital at 31 December 2021 and 31 December 2020 was £2.5 billion.

In November 2021, the Group carried out a share buy back transaction whereby it repurchased 250 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £75 million reduction in share capital with a corresponding increase in the capital redemption reserve.

In March 2020, the Group carried out a share buy back transaction whereby it repurchased 195 million shares with a nominal value of £0.30 each for £1 each from the Parent. This resulted in a £58.5 million reduction in share capital with a corresponding increase in the capital redemption reserve.

39 Other equity instruments

Other equity instruments consist of Additional tier 1 securities held by the Parent.

	Group		Bank	
	2021 £m	**2020 £m**	**2021 £m**	**2020 £m**
At 1 January	300	300	300	300
Repayments during the year	(300)	-	(300)	-
Issuance during the year	150	-	150	-
At 31 December	**150**	**300**	**150**	**300**

The balance at 31 December 2021 comprises £150 million issued on 26 November 2021.

The balance at 31 December 2020 comprised £200 million issued on 1 May 2015 and £100 million issued on 26 November 2015. The £100 million instrument was repaid on 26 May 2021, and the £200 million instrument was repaid on 26 November 2021.

The principal terms of the Additional tier 1 securities are as follows:
- the securities constitute direct, unsecured and subordinated obligations of the Group, rank behind tier 2 instruments and in priority to ordinary shareholders;
- the securities bear a fixed rate of interest until the first call date After the initial call date, the Additional tier 1 securities bear interest at rates fixed periodically in advance for five-year periods based on market rates at that time.
- the Group may elect at its sole and full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any interest payment date;
- the securities have no fixed redemption date, and the security holders will have no right to require the Group to redeem or purchase the securities at any time;
- the Group may, in its sole and full discretion, but subject to the satisfaction of certain conditions, elect to redeem all (but not some only) of the securities on the initial call date or on any interest payment date thereafter. In addition, the Additional tier 1 securities are repayable, at the option of the Group, due to certain regulatory or tax reasons. Any repayments require the prior consent of the regulatory authorities; and
- the securities will convert into ordinary shares if the Group's CET 1 ratio (on a CRD IV full implementation basis) falls below 7%.

39 Other equity instruments *(continued)*

	£150 million issued 26 November 2021	£200 million issued 1 May 2015	£100 million issued 26 November 2015
First call date (5 years from date of issue)	26 November 2026	1 May 2020	26 November 2020
Fixed rate of interest applicable until first call date	6.15%	7.9%	8.4%
Interest rate as reset after initial call date	N/A	6.8%	7.3%

40 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities, at 31 December 2021 and 31 December 2020, based on contractual undiscounted repayment obligations. See also Risk Management section 2.2 for details of the maturity of assets and liabilities on a discounted basis.

The Group does not manage liquidity risk on the basis of contractual maturity. Instead, the Group manages liquidity risk based on expected cash flows. The balances shown below will not agree directly to the consolidated balance sheet because the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in a financial penalty being paid by the customer. For such accounts the portion subject to the potential early access has been classified accordingly in the table below as 'demand'.

Group 2021 Maturity profile of financial liabilities	**Demand £m**	**0-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	255	6	363	2,769	-	3,393
Lease liabilities	-	1	3	8	13	25
Customer accounts	12,502	1,202	1,560	572	-	15,836
Debt securities in issue	-	11	11	317	175	514
Subordinated liabilities	-	1	96	116	-	213
Contingent liabilities	24	-	-	-	-	24
Commitments	461	52	392	45	-	950
Total	**13,242**	**1,273**	**2,425**	**3,827**	**188**	**20,955**

Group 2020 Maturity profile of financial liabilities	**Demand £m**	**0-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	295	203	663	3,025	-	4,186
Lease liabilities	-	1	3	11	14	29
Customer accounts	13,839	1,482	2,083	949	-	18,353
Debt securities in issue	-	16	3	10	550	579
Subordinated liabilities	-	3	8	32	306	349
Contingent liabilities	25	-	-	-	-	25
Commitments	511	22	860	40	-	1,433
Total	**14,670**	**1,727**	**3,620**	**4,067**	**870**	**24,954**

40 Liquidity risk *(continued)*

Bank 2021 Maturity profile of financial liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	288	6	363	2,769	-	3,426
Lease liabilities	-	1	3	8	13	25
Customer accounts	12,502	1,204	1,561	573	-	15,840
Debt securities in issue	-	-	10	312	-	322
Subordinated liabilities	-	1	96	116	-	213
Contingent liabilities	24	-	-	-	-	24
Commitments	461	-	392	45	-	898
Total	**13,275**	**1,212**	**2,425**	**3,823**	**13**	**20,748**

Bank 2020 Maturity profile of financial liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	292	203	663	3,025	-	4,183
Lease liabilities	-	1	3	11	14	29
Customer accounts	13,936	1,484	2,089	953	-	18,462
Debt securities in issue	-	-	2	3	300	305
Subordinated liabilities	-	3	8	32	306	349
Contingent liabilities	25	-	-	-	-	25
Commitments	511	-	860	40	-	1,411
Total	**14,764**	**1,691**	**3,625**	**4,064**	**620**	**24,764**

The table below summarises the maturity profile of the Group’s derivative liabilities. The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

Group and Bank 2021 Maturity profile of derivative liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Gross settled derivative liabilities - outflows	(18)	(206)	(168)	(36)	-	(428)
Gross settled derivative liabilities - inflows	4	110	66	2	-	182
Gross settled derivative liabilities - net flows	(14)	(96)	(102)	(34)	-	(246)
Net settled derivative liabilities	-	(1)	(4)	(43)	(9)	(57)
Total derivatives cash flows	**(14)**	**(97)**	**(106)**	**(77)**	**(9)**	**(303)**

Group and Bank 2020 Maturity profile of derivative liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Gross settled derivative liabilities - outflows	(4)	(164)	(181)	(21)	-	(370)
Gross settled derivative liabilities - inflows	2	167	136	6	-	311
Gross settled derivative liabilities - net flows	(2)	3	(45)	(15)	-	(59)
Net settled derivative liabilities	-	(12)	(31)	(54)	(1)	(98)
Total derivatives cash flows	**(2)**	**(9)**	**(76)**	**(69)**	**(1)**	**(157)**

41 Measurement basis of financial assets and financial liabilities

For Group and Bank all derivatives (see note 17) are measured at fair value. All other financial assets and liabilities were held at amortised cost at 31 December 2021 and 31 December 2020.

42 Fair value of assets and liabilities

Fair value of assets and liabilities

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include DCF models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or recent arm's length market transactions.

These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Transfers between different levels are assessed at the end of all reporting periods.

(a) Financial assets and liabilities recognised and subsequently measured at fair value

All financial instruments are initially recognised at fair value. The Group subsequently measures derivatives and certain other financial assets and liabilities designated or mandatorily at fair value through profit or loss at fair value in the balance sheet. These instruments are shown as at fair value through profit or loss in note 41 on the measurement basis of financial assets and liabilities. A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below.

Derivative financial instruments

The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of DCF and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, foreign exchange rates, equity prices and counterparty credit (level 2 inputs).

(b) Financial assets and liabilities held at amortised cost

For financial assets and liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

Loans and advances to banks

The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on discounted cash flows, using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

Loans and advances to customers

Loans and advances to customers are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is estimated using valuation techniques, which include:

- recent arm's length transactions in similar assets (level 2 inputs); and
- the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs).

Debt securities at amortised cost

For these assets where an active market exists, fair value has been determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

Deposits from banks and customer accounts

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows, using interest rates for new deposits with similar remaining maturity (level 2 inputs).

Debt securities in issue

For those instruments where an active market exists, fair value has been determined through an independent broker/investment bank or estimated by benchmarking the yield against similar bonds issued by the Parent, which have similar maturity dates (level 2 inputs).

Subordinated liabilities

As quoted market prices are not available, the fair value is estimated by benchmarking the yield against similar bonds issued by the Parent, which have similar maturity dates (level 2 inputs).

(c) Fair value of non-financial assets

Property

A revaluation of Group property was carried out as at 31 December 2021. All freehold and long leasehold commercial properties were valued by Lisney Ltd (or its partner, Sanderson Weatherall) as external valuers, with the exception of some select properties which were valued internally by the Group's qualified surveyors. The valuations have been carried out in accordance with the Royal Institution of Chartered Surveyors Valuation - Global Standards. External valuations were made on the basis of observable inputs such as completed comparable market lettings and sales transactions (level 2 inputs). Unobservable inputs such as profile, lot size, layout and presentation of accommodation are also used (level 3 inputs). All properties are valued based on highest and best use.

42 Fair value of assets and liabilities *(continued)*

Group	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2021 Total £m	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	1,574	-	1,574	-	1,672	-	1,672
Debt securities at amortised cost	800	-	-	800	924	-	-	924
Loans and advances to customers	-	-	16,612	16,612	-	-	21,380	21,380
Total	**800**	**1,574**	**16,612**	**18,986**	**924**	**1,672**	**21,380**	**23,976**
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	3,399	-	3,399	-	4,202	-	4,202
Customer accounts	-	15,764	-	15,764	-	18,296	-	18,296
Debt securities in issue	-	454	-	454	-	515	-	515
Subordinated liabilities	-	190	-	190	-	295	-	295
Total	**-**	**19,807**	**-**	**19,807**	**-**	**23,308**	**-**	**23,308**

Bank	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2021 Total £m	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	1,457	-	1,457	-	1,542	-	1,542
Debt securities at amortised cost	800	-	-	800	924	-	-	924
Loans and advances to customers	-	-	16,754	16,754	-	-	21,485	21,485
Total	**800**	**1,457**	**16,754**	**19,011**	**924**	**1,542**	**21,485**	**23,951**
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	3,392	-	3,392	-	4,199	-	4,199
Customer accounts	-	15,809	-	15,809	-	18,405	-	18,405
Debt securities in issue	-	305	-	305	-	303	-	303
Subordinated liabilities	-	190	-	190	-	295	-	295
Total	**-**	**19,696**	**-**	**19,696**	**-**	**23,202**	**-**	**23,202**

42 Fair value of assets and liabilities *(continued)*

Group and Bank	2021 Level 1 £m	2021 Level 2 £m	2021 Level 3 £m	2021 Total £m	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m
Financial assets held at fair value								
Derivative financial instruments	-	88	-	88	-	53	-	53
Non-financial assets held at fair value								
Property held at fair value	-	-	23	23	-	-	24	24
Total assets held at fair value	**-**	**88**	**23**	**111**	**-**	**53**	**24**	**77**
As a % of fair value assets	**-**	**79%**	**21%**	**100%**	**-**	**69%**	**31%**	**100%**
Financial liabilities held at fair value								
Derivative financial instruments	-	65	-	65	-	114	-	114
Total financial liabilities held at fair value	**-**	**65**	**-**	**65**	**-**	**114**	**-**	**114**
As a % of fair value liabilities	**-**	**100%**	**-**	**100%**	**-**	**100%**	**-**	**100%**

There were no transfers between levels 1, 2 or 3 during the year ended 31 December 2021 or 31 December 2020.

Movements in level 3 assets

Property held at fair value	Group 2021 £m	Group 2020 £m	Bank 2021 £m	Bank 2020 £m
At 1 January	24	25	24	25
Additions	-	-	-	-
Revaluation of property	1	(1)	1	(1)
Other movements	(2)	-	(2)	-
At 31 December	**23**	**24**	**23**	**24**

Quantitative information about fair value measurements using significant unobservable inputs (level 3)

Group and Bank Level 3 assets	Valuation technique	Unobservable input	Fair Value 2021 £m	Fair Value 2020 £m	Range 2021 %	Range 2020 %
Property held at fair value	Market comparable property transactions	Yields	23	24	6.50% - 12.74%	6.50% - 11.45%

42 Fair value of assets and liabilities *(continued)*

The carrying amount and the fair value of the Group's financial assets and liabilities which are carried at amortised cost are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

	Group				Bank			
	2021		2020		2021		2020	
	Carrying amount £m	Fair values £m	Carrying amount £m	Fair values £m	Carrying amount £m	Fair values £m	Carrying amount £m	Fair values £m
Financial Assets								
Loans and advances to banks	1,574	1,574	1,672	1,672	1,457	1,457	1,542	1,542
Debt securities at amortised cost	798	800	922	924	798	800	922	924
Loans and advances to customers	16,325	16,612	21,300	21,380	16,426	16,754	21,397	21,485
Financial Liabilities								
Deposits from banks	3,399	3,399	4,202	4,202	3,392	3,392	4,199	4,199
Customer accounts	15,753	15,764	18,256	18,296	15,798	15,809	18,365	18,405
Debt securities in issue	448	454	511	515	300	305	300	303
Subordinated liabilities	190	190	290	295	190	190	290	295

43 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or one other party controls both. The definition includes subsidiaries, joint ventures and the Parent, as well as key management personnel.

(a) Parent

The immediate parent and owner of the entire share capital of the Group is The Governor and Company of the Bank of Ireland, a corporation established in Ireland in 1783 under Royal Charter.

Bank of Ireland Group plc is listed as the holding company and ultimate parent of the Bank of Ireland Group and Bank of Ireland (UK) plc. The results of the Group are consolidated in the Bank of Ireland Group plc financial statements, which are available at Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4, Ireland being the registered office of the immediate and ultimate Parent (website: www.bankofireland.com).

The Governor and Company of the Bank of Ireland acts as guarantor for the Bank in its transactions with the Bank of England (including its subsidiary, the Bank of England Asset Purchase Facility Fund Limited). If in any circumstances the Bank fails to make payment of guaranteed amounts to the Bank of England or does not perform any of its other obligations under the relevant agreement, the Governor and Company of the Bank of Ireland may be required to pay the amounts or perform its obligations upon written demand from the Bank of England.

The Group receives a range of services from its Parent and related parties, including loans and deposits, forward exchange, interest rate cover including derivatives and various administrative services. In the course of operating its business, the Group utilises a number of key services from its Parent, which are subject to a number of Service Level Agreements and costs, and these are disclosed in note 9 of the financial statements.

Other transactions with the Parent in 2021 and 2020

(i) In November 2021, the Bank sold £2.9 billion of performing mortgages to the parent, resulting in a gain on sale before taxation of £94 million (year ended 31 December 2020: £nil). The transaction, carried out at arm's length, was part of a funding optimisation exercise with the Bank of Ireland Group.

(ii) During the period to 31 December 2022, the Bank may seek to pursue the disposal of non performing residential mortgage loans to the Parent in the normal course of business, however no legally binding commitment is currently in place to effect such a disposal.

(iii) In November 2021, the Group carried out a share buy back transaction whereby it repurchased 250 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £75 million reduction in share capital with a corresponding increase in the capital redemption reserve.

(iv) On 26 May 2021, the Group repaid a £100 million AT1 instrument and on 26 November 2021, the Group repaid a £200 million AT1 instrument, both of which had been issued to the Parent. On 26 November 2021, a new AT1

43 Related party transactions *(continued)*

instrument for £150 million was issued to the Parent and £100 million subordinated floating rate notes were issued to the Parent.

(v) On 4 May 2021, a coupon payment of £14 million was paid to the Parent in relation to the £200 million Additional tier 1 instrument (2020: £16 million) (refer to note 39). On 26 May 2021, a coupon payment of £3 million was paid to the Parent in relation to the £200 million Additional tier 1 instrument. On 26 November 2021, a coupon payment of £8 million was paid to the Parent in relation to the £100 million Additional tier 1 instrument (2020: £8 million) (refer to note 39).

(vi) The Group and its Parent have agreed that with respect to the cessation of services or the exit of certain staff employed by the Parent ("Govco staff"), who provide services under any of the pre-existing agreements to the Group for 2020 and 2021 or any other understanding or practice, as a result of UK restructuring activities that:

- The Group will not bear any redundancy or exit costs associated with NI related staff, to include NI Branch staff, or mortgage related staff where those staff provide services under Govco contractual service agreements. The Parent has estimated these costs as £4 million in 2021 and £16 million in 2020.
- The Group will pay redundancy costs for certain specified Govco staff involved in the management of the Bank's products and support functions, including Finance, HR and Risk which is estimated at £5 million in total for both 2020 and 2021.

(vi) In March 2020, the Group carried out a share buy back transaction whereby it repurchased 195 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £58.5 million reduction in share capital with a corresponding increase in the capital redemption reserve.

Group Summary - Parent[1]	2021 £m	2020 £m
Income statement		
Interest income (note 3)	(22)	(23)
Interest expense (note 4)	(36)	(38)
Fees and commissions expense (note 6)	(7)	(8)
Net trading (expense) / income (note 7)	142	(61)
Operating expenses paid for services provided (note 9)	(130)	(148)
Total	**(53)**	**(278)**
Assets		
Loans and advances to banks (note 18)	306	306
Loans and advances to customers (note 20)	6	6
Other assets (note 25)	-	-
Derivatives (note 17)	86	43
Total assets	**398**	**355**
Liabilities		
Deposits from banks (note 28)	1,058	2,372
Customer accounts (note 29)	10	9
Debt securities in issue (note 30)	300	300
Other liabilities (note 31)	2	5
Derivatives (note 17)	58	111
Subordinated liabilities (note 36)	190	290
Total liabilities	**1,618**	**3,087**
Net exposure	**(1,220)**	**(2,732)**

At 31 December 2021, the Parent also held the AT1 securities of £150 million (2020: £300 million) issued by the Bank which are classified as other equity instruments (see note 39).

[1] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*

43 Related party transactions *(continued)*

Bank	2021 Parent[1] £m	2021 Joint venture £m	2021 Total £m	2020 Parent[1] £m	2020 Joint venture £m	2020 Total £m
Income statement						
Interest income	(22)	-	(22)	(23)	-	(23)
Interest expense	(36)	-	(36)	(38)	-	(38)
Fees and commission expense	(7)	-	(7)	(8)	-	(8)
Net trading expense	142	-	142	(61)	-	(61)
Other operating income	-	(2)	(2)	-	(1)	(1)
Operating expenses paid for services provided	(122)	-	(122)	(142)	-	(142)
Total income / (expense)	**(45)**	**(2)**	**(47)**	**(272)**	**(1)**	**(273)**
Assets						
Loans and advances to banks	306	-	306	298	-	298
Loans and advances to customers	6	-	6	6	-	6
Other assets	-	-	-	-	-	-
Derivatives	86	-	86	43	-	43
Total assets	**398**	**-**	**398**	**347**	**-**	**347**
Liabilities						
Deposits from banks	1,051	-	1,051	2,369	-	2,369
Customer accounts	10	-	10	9	-	9
Debt securities in issue	300	-	300	300	-	300
Other liabilities	2	-	2	5	-	5
Derivatives	58	-	58	111	-	111
Subordinated liabilities	190	-	190	290	-	290
Total liabilities	**1,611**	**-**	**1,611**	**3,084**	**-**	**3,084**
Net exposure	**(1,213)**	**-**	**(1,213)**	**(2,737)**	**-**	**(2,737)**

(b) Pension funds

The Group provides a range of normal banking and financial services, which are not material to the Group, to various pension funds operated by the Bank of Ireland Group for the benefit of employees, which are conducted on similar terms to third party transactions.

(c) Transactions with key management personnel

i. Loans to Directors

The following information is presented in accordance with Section 413 of the Companies Act 2006. For the purposes of the Companies Act disclosures, 'Directors' means the Board of Directors and any past Directors who were Directors during the relevant year.

All loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons, unconnected with the Group and of similar financial standing. They do not involve more than the normal risk of collectability.

Group (i) Companies Act disclosures Loans to Directors	2021 Balance as at 1 January 2021 £'000	2021 Balance as at 31 December 2021 £'000	2021 Aggregate maximum amount outstanding during the year ended 31 December 2021 £'000	2020 Balance as at 1 January 2020 £'000	2020 Balance as at 31 December 2020 £'000	2020 Aggregate maximum amount outstanding during the year ended 31 December 2020[2] £'000
Loans to Directors	-	-	-	13	-	16

[1] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*
[2] *These figures include credit card exposures at the maximum statement balance. In all cases, Directors have not exceeded their approved limits.*

43 Related party transactions *(continued)*

ii. Key management personnel - loans and deposits

For the purposes of IAS 24 Related Party Disclosures, 'key management personnel' comprise the Directors of the Board, the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Data & Digital Officer, Director of Savings & Lending, Director of Home Buying & Ownership, Chief People Officer, Chief Operations Officer, UK General Counsel, UK Company Secretary, Chief Transformation Officer, Director of NI & Partnership Distribution and any past KMP, who were a KMP during the relevant year.

KMP, including Directors, hold products with the Group in the ordinary course of business. All loans to Non-executive Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to KMP, other than Non-executive Directors, are made on terms similar to those available to staff generally, and / or in the ordinary course of business on normal commercial terms.

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions, between the Group, its KMP (as defined above) and KMP of the Parent, including members of their close families and entities influenced by them are shown in the table.

Group (ii) 2021 Key management personnel	Balance as at 1 January 2021[4] £'000	Balance as at 31 December 2021[1] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2021[2,3] £'000	Total number of KMP as at 1 January 2021	Total number of KMP as at 31 December 2021
Loans	549	29	549	3	3
Deposits	991	1,065	1,820	11	8

Group 2020 Key management personnel	Balance as at 1 January 2020[4] £'000	Balance as at 31 December 2020[1] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2020[2,3] £'000	Total number of KMP as at 1 January 2020	Total number of KMP as at 31 December 2020
Loans	1,043	549	583	9	3
Deposits	816	991	1,245	8	11

[1] *Balance includes principal and interest.*

[2] *These figures include credit card exposures at the maximum statement balance. In all cases, KMP have not exceeded their approved limits. The maximum approved credit limit on any credit card held by KMP during the year was £14,000.*

[3] *The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability, during the year ended 31 December 2021 for any member of KMP and their close family did not exceed £499,000 (31 December 2020: £517,000). The closing balance includes interest accrued and interest paid; the maximum balance includes interest paid.*

[4] *The opening balance includes balances and transactions with KMP who retired during the previous year and are not therefore related parties during the year. Therefore, these KMP's are not included in the maximum amounts outstanding.*

43 Related party transactions *(continued)*

- Total compensation paid to KMP was £5.3 million for the year ended 31 December 2021 and of this amount £1.8 million was paid to Directors. This compared to £5.2 million and £2.1 million respectively for the year ended 31 December 2020.
- The highest total amount paid to any Director for the year ended 31 December 2021 was £911,195 comprising salary and other benefits (2020: £1,020,646). The total accrued pension and accrued lump sum of this Director at the year ended 31 December 2021 was £nil;
- One Executive Director accrued retirement benefits under a defined benefit and defined contribution Bank of Ireland Group Pension Scheme for year ended 31 December 2021;
- There were no additional benefits, paid by the Group or any other party, in respect of compensation to the Directors for their services for managing the Group or its subsidiaries, either for the year ended 31 December 2021 or the year ended 31 December 2020.

Group **Compensation of key management personnel**	**2021** **£000's**	**2020** **£000's**
Remuneration		
Salaries and other benefits[1]	5,060	4,921
Pension benefits	246	309
Total	**5,306**	**5,230**

44 Offsetting financial assets and liabilities

The following items have been offset in the balance sheet, in accordance with paragraph 42 of IAS 32.

In addition, as set out in section 2.1.2 of the Risk management report, the Group's net exposure to the Parent is managed through a contractual master netting agreement with the Parent.

These amounts do not meet the criteria for offset under paragraph 42 of IAS 32 and are presented gross within loans and advances to banks, derivatives and deposits by banks respectively. Further detail on these amounts is set out in notes 18, 17 and 28 to the financial statements.

Group	**2021**			**2020**		
Assets	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities[2] set off in the balance sheet £m**	**Net amounts of financial assets presented in the balance sheet £m**	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities[1] set off in the balance sheet £m**	**Net amounts of financial assets presented in the balance sheet £m**
Loans and advances to customers	39	(39)	-	82	(82)	-

[1] Salaries and other benefits includes termination payments of £393,127 (2020: £536,052).
[2] Loans and advances to customers represent loan agreements entered into by the Group that are fully collateralised by the Parent. Ultimate recourse is to the Parent. These loans are netted on the balance sheet against deposits received from the Parent.

45 Interests in other entities

Group Names	Principal activity	Country of incorporation	Statutory year end	Percentage of ordinary share capital held %	Percentage of voting rights held %	Registered address
NIIB Group Limited	Personal finance and leasing	Northern Ireland	31 December	100	100	1 Donegall Square South, Belfast, BT1 5LR.
Midasgrange Limited	Dormant	England and Wales	30 September	100	100	Bow Bells House, 1 Bread Street, London, EC4M 9BE.
First Rate Exchange Services Holdings Limited[1]	Foreign exchange	England and Wales	31 March	50	50	Great West House, Great West Road, Brentford, London, TW8 9DF.
First Rate Exchange Services Limited	Foreign exchange	England and Wales	31 December	50	50	Great West House, Great West Road, Brentford, London, TW8 9DF.
Marshall Leasing Limited	Vehicle leasing	England and Wales	31 December	100	100	Bow Bells House, 1 Bread Street, London, EC4M 9BE.
Bowbell No.2 plc	Securitisation	England and Wales	31 December	n/a	n/a	10th Floor, 5 Churchill Place, London, E14 5HU.

Copies of the financial statements of these undertakings can be obtained from the relevant addresses listed above.

Management has assessed its involvement in all entities in accordance with the definitions and guidance in:
- IFRS 10: Consolidated Financial Statements;
- IFRS 11: Joint Arrangements;
- IAS 28: Investments in Associates and Joint Ventures; and
- IFRS 12: Disclosure of interests in other entities.

The Group controls an entity when it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Generally, control or significant influence is identified by the level of ownership of ordinary shares and the level of management involvement in the relevant activities of the entity. However, in the case of 'structured entities', management's judgement is required in determining how the investee should be accounted for.

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group.

[1] *This entity is a joint venture with the UK Post Office in which the Group holds 50% of the equity of the company. FRESH holds 100% of the equity in FRES.*

45 Interests in other entities *(continued)*

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

In assessing whether it has control over such an entity, the Group assesses whether it has power over the relevant activities by considering factors such as who manages the assets of these entities, if the Group has lending to them or has a residual interest in them.

In the case of structured entities, the Group considers it has control over the investee where it is a securitisation vehicle whose purpose is to finance specific loans and advances to customers. In such cases the Group considers that it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In June 2019 the Group transferred mortgage loans into a structured securitisation entity, Bowbell No. 2 plc ('Bowbell 2') and issued £2.3 billion of mortgage backed securities, of which £350 million were issued externally to the Group, with the balance held by the Bank.

Bowbell 2 is incorporated in Great Britain, with 100% of its ordinary share capital and voting rights being held by its ultimate holding company (which is not a subsidiary of the Group), Bowbell No. 2 Holdings Limited. The creditors of Bowbell 2 have no recourse to the Group. During 2021 and 2020, there were no contractual arrangements that required the Group to provide financial support to Bowbell 2.

The table below shows the balances of securitised mortgages and debt securities in issue relating to Bowbell 2.

It should be noted that at 31 December 2021, there was also cash of £110 million (2020: £118 million) in the securitisation bank account, hence the total assets of the securitisation entity was greater than the value of the notes.

Group		2021		2020	
Activity	Company	Loans and advances to customers £m	Notes in issue £m	Loans and advances to customers £m	Notes in issue £m
Acquiring mortgage loans and issuing mortgage backed securities	Bowbell No. 2 plc	986	1,075	1,363	1,449

46 Transferred financial assets

At 31 December 2021 and 31 December 2020, the following assets were transferred but not derecognised from the balance sheet:

Group	2021				2020			
Securitisation	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m
Residential mortgage book (Bowbell No. 2 plc)[1]	167	148	177	149	230	211	236	213

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by Bowbell No. 2, held by the Bank.*

46 Transferred financial assets *(continued)*

Bank	2021				2020			
Securitisation	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m
Residential mortgage book (Bowbell No. 2 plc)[1]	986	1,075	1,045	1,080	1,363	1,449	1,396	1,453

The Group is exposed substantially to all the risks and rewards including credit and market risk associated with the transferred assets.

Neither the Group nor the Bank is recognising any asset to the extent of its continuing involvement.

47 Interest rate benchmark reform

Following the financial crisis, the reform and replacement of benchmark interest rates to alternative or nearly risk free rates has become a priority for global regulators. The Group's exposures to benchmark interest rates will be replaced or reformed as part of this market wide initiative.

As Euro Interbank Offered Rate (EURIBOR) was reformed during 2019 and currently complies with the EU Benchmarks Regulation under a new hybrid methodology, the Group expects EURIBOR to continue as a benchmark interest rate for the foreseeable future. Therefore, the Group does not consider EURIBOR to be directly affected by the BMR reform as at 31 December 2021.

On 5 March 2021, the Financial Conduct Authority (FCA) formally announced the cessation timeline for all LIBOR settings subject to the BMR reform and as a result of that announcement the International Swaps and Derivative Association (ISDA) and Bloomberg confirmed that the spread adjustment published by Bloomberg was fixed on that date for all the LIBOR settings. The cessation date for Euro, GBP, Swiss Franc (CHF), Japanese Yen (JPY) and One-Week and Two Month USD LIBOR was 31 December 2021 while the cessation date for USD LIBOR is 30 June 2023.

On 29 September 2021, the FCA confirmed that they will require ICE Benchmark Administration to continue publication of specific GBP and JPY LIBOR settings from 1 January 2022 for a period of at least 12 months, using a synthetic methodology.

On 16 November 2021, the FCA confirmed that they would permit legacy use of the synthetic GBP and JPY LIBOR except for cleared derivatives, and that under their new use restriction power they would prohibit new use of USD LIBOR from end-2021, except in specific circumstances.

In line with regulatory guidance and now established market practice, for the majority of the Groups contracts; Sterling Overnight Index Average (SONIA) has replaced GBP LIBOR and Secured Overnight Financing Rate (SOFR) will replace USD LIBOR.

The majority of the GBP LIBOR exposures held with small and medium sized enterprises transitioned to alternative market acceptable replacement benchmark rates such as the Bank of England Base Rate.

Transition progress

Management of the transition process was co-ordinated through a Group wide Benchmark Reform Programme and transition plans were developed for all impacted customers and products. These included alternative and replacement rate options with supporting customer outreach and communication plans.

The Group has worked to transition the majority of the GBP LIBOR in advance of the 31 December 2021 cessation date. The Group continues to engage with counterparties to transition residual GBP LIBOR exposures, in line with regulatory guidance. The Group has plans in place to support the transition of USD LIBOR products in advance of the cessation date of 30 June 2023.

Nature and extent of risks to which the Group is exposed as a result of the transition

The BMR reform exposed the Group to various risks. The material risks identified include:

- **Conduct and litigation risk**: There is a risk that unfavourable customer outcomes are brought about as a direct result of inappropriate or negligent conduct on the part of the Group, in connection with the BMR transition.
- **Operational risk:** The Benchmark Programme encompasses a number of business products and functions, giving rise to additional operational risks.
- **Financial risk:** There is a risk that markets are disrupted due to the BMR reform. This could give rise to financial losses should the Group be unable to operate effectively in financial markets.
- **Income statement volatility risk:** There is a risk that if contracts subject to reform are transitioned at different

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by Bowbell No. 2, held by the Bank.*

47 Interest rate benchmark reform *(continued)*

times, to different benchmarks or using differing conventions, it could lead to the emergence of new or additional basis risk exposures, and increase hedge accounting ineffectiveness, resulting in volatility to the income statement.

The risks identified above are not expected to result in material changes to the Group's risk management strategy. The key mitigating considerations include:

- a Group wide Benchmark Reform Programme continues to manage the orderly transition to new regulatory compliant benchmarks; and
- the Group Asset and Liability Committee (ALCO) provides oversight to the programme, and updates are provided to the Board Risk Committee (BRC), and the Group's and Parent's Regulatory bodies, (the Prudential Regulation Authority and the Joint Supervisory Team).

The table below shows the principal values of the Group's and Bank's non-derivative exposures that remain subject to BMR Reform as at 31 December 2021, excluding USD LIBOR exposures with contractual maturities prior to the cessation date of 30 June 2023:

Group and Bank	GBP LIBOR £m	USD LIBOR £m	Total £m
Non-derivative financial assets			
Loans and advances to customers	20	1	21
Total non-derivative financial assets	**20**	**1**	**21**

The Group did not have any derivative exposures that are subject to the BMR Reform as at 31 December 2021.

48 Post balance sheet events

There are no post balance sheet events that require disclosure in the financial statements.

49 Approval of financial statements

The Board of Directors approved the financial statements on 10 March 2022.

Other Information

Principal business units and addresses[1]

Bank of Ireland (UK) plc
Bow Bells House,
1 Bread Street, London
EC4M 9BE
Tel: +44 207 236 2000
Website: www.bankofirelanduk.com

Bank of Ireland Great Britain Consumer Banking
Mortgages, Personal Loans
PO Box 27, One Temple Quay, Bristol
BS1 9HY
Tel: + 44 117 979 2222 and + 44 117 909 0900

Bank of Ireland Northern Ireland Business Banking
1 Donegall Square South, Belfast, BT1 5LR
Tel: +44 28 9043 3000

First Rate Exchange Services Limited
Great West House,
Great West Road, Brentford, London,
TW8 9DF
Tel: + 44 208 577 9393, Fax: + 44 208 814 6685
Website: www.firstrate.co.uk

NIIB Group Limited (trading as Northridge Finance)
1 Donegall Square South,
Belfast BT1 5LR
Tel: + 44 844 892 1848
website: www.northridgefinance.com

Marshall Leasing Limited
Bridge House, Orchard Lane,
Huntingdon, Cambridgeshire,
PE29 3QT
Tel: + 44 148 041 4541

[1] *Registered addresses for subsidiary companies are included in note 45.*

Performance measures

Further information related to certain measures referred to in the strategic report.

The Group considers that the alternative performance measures included in the strategic report provide meaningful information to enable a consistent basis for comparing the financial performance between reporting periods.

In arriving at an underlying basis, the effect of certain items that do not promote an understanding of future or historical performance are excluded. Management considers that this presents a more meaningful basis for year on year comparison. These non-core items are set out on page 28.

Alternative performance measures

Average interest earning assets is defined as the twelve month average of total loans and advances to customers (less ECL stage 3 balances), cash placements, securities balances and net balances owed by the Parent (the Governor and Company of the Bank of Ireland).

Cost income ratio is calculated on a statutory basis being operating expenses divided by operating income.

Gross new lending volumes represents loans and advances to customers drawn in the year.

Net interest margin is defined as net interest income for the year divided by average interest earning assets.

Return on assets is calculated as statutory profit after tax divided by total assets, in line with the requirement in the European Union (Capital Requirements) Regulations (CRR) 2014.

Statutory return on tangible equity is calculated as being profit attributable to shareholders (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Underlying return on tangible equity is calculated as being profit attributable to shareholders less non-core items (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Regulatory performance measures

Leverage ratio is calculated as the tier 1 capital divided by total balance sheet assets and off balance sheet exposures.

Liquidity coverage ratio (LCR) is calculated as the high quality liquid assets, divided by net cash outflows over the next 30 days, expressed as a percentage.

Loan to deposit ratio is calculated as net loans and advances to customers including those classified as held for sale expressed as a percentage of customer deposits.

Net stable funding ratio (NSFR) is defined as the total amount of available stable funding divided by the total amount of required stable funding, expressed as a percentage.

Risk weighted assets (RWAs) on and off balance sheet assets are risk weighted based on the amount of capital required to support the assets. The Group adopts a standardised approach for calculating RWAs.

Abbreviations

AA	Automobile Association
ALCO	Asset and Liability Committee
AML	Anti Money Laundering
ATM	Automatic Teller Machine
BBLS	Bounce Back Loan Scheme
BMR	Benchmark Rate
BOI	Bank of Ireland
BRC	Board Risk Committee
BRRD	Bank Recovery and Resolution Directive
CBILS	Coronavirus Business Interruption Loan Scheme
CCO	Chief Credit Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CMA	Competition and Markets Authority
CRD	Capital Requirement Directive (EU)
CRO	Chief Risk Officer
CRPC	Credit Risk Portfolio Committee
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
DCF	Discounted Cash Flow
EAD	Exposure at default
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Loss
EIR	Effective Interest Rate
ERC	Executive Risk Committee
EU	European Union
EURIBOR	Euro interbank offered rate
ExCo	Executive Committee
FCA	Financial Conduct Authority
FCRs	Forborne Collateral Realisation Loans
FLI	Forward Looking Information
FPC	Financial Policy Committee
FRCC	Financial Risks from Climate Change
FRES	First Rate Exchange Services Limited
FRESH	First Rate Exchange Services Holdings Limited
GB	Great Britain
GBP	ISO 4217 currency code for Pound Sterling
GCR	Group Credit Review (Parent)
GDP	Gross Domestic Product
GIA	Group Internal Audit (Parent)
GRPC	Group Risk Policy Committee (Parent)
IAS	International Accounting Standards
IBOR	Interbank offered rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Individual Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
IT	Information Technology
JAM	Just A Minute
KMP	Key Management Personnel
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LLP	Limited Liability Partnership
LTD	Limited
LTV	Loan to Value
MLL	Marshall Leasing Limited
MREL	Minimum Requirements for Own Funds and Eligible Liabilities
MRR	Monthly Risk Report
NI	Northern Ireland
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
ORMF	Operational Risk Management Framework
PD	Probability of Default
PO	Post Office
POCI	Purchased or originated credit-impaired financial assets
PRA	Prudential Regulation Authority
PSAGC	Product & Services Approvals & Governance Committee
RAROC	Risk Adjusted Return on Capital
RAS	Risk Appetite Statement
RMF	Risk Management Framework
ROTE	Return on Tangible Equity
ROU	Right of use
R&ORC	Regulatory and Operational Risk Committee
RWA	Risk Weighted Assets
SECR	Streamlined Energy and Carbon Reporting
SME	Small / Medium Enterprises
SRM	Single Resolution Mechanism
TCFD	Task Force on Climate-related Financial Disclosures
TFS	Term Funding Scheme
TFSME	Term Funding Scheme for Small and Medium Sized Entities
UK	United Kingdom
£m	Million
'000	Thousands