2023

Bank of Ireland (UK) plc
Annual Report

Bank of Ireland UK

In 2023, Bank of Ireland (UK) delivered strong financial results, strategic progress and business performance. This represents a positive start to our three year strategic cycle and our aim to help customers, colleagues, shareholders and society to thrive.

Inside this report

Strategic Report	**3**
2023 key performance highlights	3
Chair's review	4
Chief Executive's review	6
Our strategy	8
Sustainability at Bank of Ireland UK	10
Governance structure	22
Section 172(I) Statement	23
Financial Review	**26**
Risk Management	**36**
Risk management framework	37
Management of key risks	41
Capital management	54
Governance	**56**
Directors and other information	56
Report of the Directors	64
Financial Statements	**66**
Statement of Directors' Responsibilities	66
Independent Auditor's report to the members of Bank of Ireland (UK) plc	67
Financial statements	76
Other Information	**166**
Principal business units and addresses	166
Performance measures	167
Abbreviations	168

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www.bankofirelanduk.com

Business Review

2023 key performance highlights

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.

Financial Performance

Statutory profit before tax
£331m
(2022: £251m)

Statutory cost income ratio (excluding impairments)
39%
(2022: 46%)

- £331 million underlying profit before tax[1] *(2022: £278 million)*.
- Statutory net interest income of £583 million was 5% higher than 2022.
- Statutory net interest margin (NIM) of 3.46% *(2022: 2.85%)*.
- Gross new lending £3.6 billion *(2022: £2.9 billion)* with a continued focus on lending at sustainable returns.
- £349 million statutory operating profit before impairment losses *(2022: £286 million)*.
- Statutory operating expenses[2] reduced 10% year on year to £222 million *(2022: £247 million)*.

Asset Quality and Capital

Net impairment charge
£43m
(2022: £64m)

CET1 ratio
17.9%
(2022: 18.4%)

- Net impairment charge £43 million *(2022: £64 million)*.
- Maintained non-performing exposure (NPE) ratio of 2.1% during 2023, through NPE sale of business banking loans.
- £250 million dividend paid, optimising capital position.
- Strong CET1 ratio of 17.9% (*2022: 18.4%*) and total capital ratio 22.2% (*2022: 22.8%*).

Transformation

- Extension of the Post Office (PO) partnership for a further five years, providing continued funding stability.
- Conclusion of financial services partnership with the AA and the cessation of the provision of unsecured personal loan products.
- Completed the Northern Ireland (NI) branch refurbishment.
- Continued investment in and delivered enhanced propositions and digital journeys for customers across all product lines.
- Enhanced leadership programmes launched, focusing on digital progression, environmental responsibilities, and societal challenges.

Customers and Colleagues

- To support our mortgage customers experiencing financial pressures, signed up to the UK Mortgage Charter.
- Launched 'Thrive', the Group's Performance Development hub, ensuring a simple and consistent performance platform for all colleagues.
- To attract and retain talent, re-introduction of variable pay for colleagues.
- Implemented the Financial Conduct Authority (FCA) new Consumer Duty regulation with the commitment to deliver good customer outcomes.

Further information on measures referred to in our key performance highlights is found in Alternative performance measures on page 167.

[1] Underlying profit before taxation excludes non-core items which the Group believes obscure the underlying performance trends in the business. See page 26 for further details.
[2] Operating expenses, where mentioned throughout the report, do not include impairments.

Chair's review

Our overarching purpose in the Group is "helping you thrive". 2023 saw periods of economic volatility, and against this challenging background we continued to make progress against our purpose, by delivering for our customers, colleagues and society.

Peter Herbert *Chair*

Introduction

For two years in succession, the UK economy has experienced volatility. Further increases in interest rates during 2023, by the Bank of England (BOE), sought to tackle inflation amid concerns of a protracted recession. However, unemployment has remained low and there was a marked reduction in inflation towards the year end. Despite signs of improvement, challenges remain for our customers and colleagues as the impact of higher interest rates and ongoing geopolitical risks continue to impact the wider global economy.

Strategy

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

In the face of a competitive market and challenging economic conditions, we have taken some difficult decisions including our decision to cease unsecured personal loan offering and end our partnership with the AA, by mutual consent.

We will continue to build on the strong foundations we have achieved over recent years. In 2024 we will refresh our 2023-25 strategy, guided by our purposes of helping our customers colleagues and society to thrive.

Key achievements in 2023 included:

- In the face of periods of significant interest rate volatility in the markets, we maintained our focus on value over volume as well as on targeting market segments where we have expertise and can further build sustainable competitive advantage;
- We are pleased to have extended our distribution agreement with the PO for a further five years;
- We completed the NI branch refurbishment project, in response to accelerating changes in how customers are banking;
- We successfully implemented the FCA's new Consumer Duty regulation. We have a lot to do in 2024, in line with the Financial Services Industry. The Group is committed to delivering great customer outcomes which is at the heart of Consumer Duty;
- We invested in and delivered enhanced customer experience and digital journeys across key product areas; and
- We signed the UK Mortgage Charter, formalising the provision of temporary concessions to UK mortgage customers experiencing financial difficulties.

Purpose and Culture

Our overarching purpose in the Group is "helping you thrive". This clear purpose has served us well in guiding our approach, as we navigated further economic volatility with high inflation and market instability. An appropriately embedded corporate culture is more important than ever in achieving our purpose and the Board exercises close oversight of progress in this regard.

A UK Culture Action plan was agreed for 2023 with actions well underway. The Group is pleased to be making significant and meaningful positive progress and continues to drive cultural transformation for the benefit of colleagues and also for customers, with significant focus on great customer outcomes.

Sustainability at Bank of Ireland UK

During 2023, our Parent published its renewed Sustainability Report, reporting progress against its inaugural Responsible and Sustainable Business (RSB) Report published the year previously. This presented the refreshed strategy for 2023-2025, which leverages the Group's business model and strengths. The refreshed strategy is built on three strategic pillars; building stronger relationships with customers and colleagues; continuing to simplify our business; and, creating a culture of constant improvement in the company's sustainability.

Board

During 2023, 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.

The Board's composition and diversity is reviewed regularly to ensure we have the right balance of skills and experience on the Board. In 2023, we had a number of changes to Board composition. Dave Sutherland, Interim Chief Executive Officer was appointed to the Board in August 2023 when Ian McLaughlin stepped down to take a position outside the Group.

There have been a number of changes to the Board early in 2024, with the appointment of Gail Goldie as Bank of Ireland UK Chief Executive Officer and Executive Board Director, effective from 22 January 2024. I would like to extend warm thanks to Dave Sutherland, on behalf of the Board, for fulfilling the role of Interim Chief Executive Officer and wish him every success in his new position with the wider Bank of Ireland Group.

Gail is a very welcome addition to the Board and we wish her every success in her new role.

Polina Ievskaya, UK Chief Risk Officer, tendered her resignation during the year to take up a senior position outside of the Group, effective from February 2024 and Non-Executive Director and Customer & Consumer Duty Champion, Alison Burns resigned as a Non-Executive Director, effective from 31 January 2024. Helen Page has been appointed, as Non-executive Director and Customer and Consumer Duty Champion, effective from 9 February 2024.

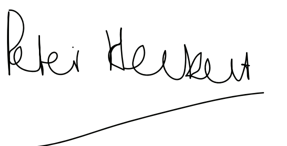
I also extend thanks to Polina, Ian and Alison, on behalf of the Board, for their contribution during their respective terms and wish them every success in the future.

Outlook

We have made significant progress to date in the execution of our strategic transformation programme. In 2024, we will continue to invest in this journey, maintaining our focus on stronger relationships with our customers, ensuring great customer outcomes, simplifying and digitising customer experiences. We will also continue to focus on building a sustainable business.

Despite the inevitable uncertainties in the macro economic environment, I am confident that we are well positioned to navigate the challenges ahead.

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



Peter Herbert
Chair

Chief Executive's review

The Group delivered a strong financial performance and further progressed our strategic transformation programme, while continuing to support our customers, colleagues and society to thrive.

Gail Goldie *Chief Executive Officer and Executive Director*

Introduction

In 2023, the Group delivered strong financial performance through the continued successful execution of our value over volume strategy, supported by a favourable interest rate environment. Last year also saw strong progress against our strategic transformation plans, delivering improvements to customer experience and capability enhancements.

Delivering on our strategic pillars

Last year saw continued strategic progress, including:

Stronger Relationships

2023 saw the introduction of the FCA's new Consumer Duty. The Group has made significant investment in ensuring that customer outcomes are at the the core of everything we do and providing a product range that meets the needs of our customers. Supporting customers and delivering fair value, continues to be our focus.

Simpler Business

We have simplified customer journeys including quicker access to products, improved application processes and faster completions for Mortgage customers; better query resolution through web chat for mortgage brokers; and easier customer engagement via the Northridge self-service portal.

In June, we launched a refreshed Group website enhancing access and customer experience.

Sustainable Company

We continue to transform our culture to prioritise the wellbeing and development of our colleagues. This includes a refreshed recognition programme providing support for mental, physical and financial wellbeing, enhancing learning and development opportunities, and implementing improved family friendly policies. Development of our culture remains a key strategic priority.

Supporting the local communities in which our customers live and work is an important part of our sustainable business activity. In 2023, we supported a range of local initiatives, working to foster inclusion and build capability amongst under-served groups through our Begin Together platform.

The external environment

The UK economy has remained relatively resilient during 2023, with unemployment, inflation and interest rates close to historic lows and house prices rising slowly towards the end of the year. The housing market has been characterised by reduced transaction activity reflected in a tighter mortgage market, but despite financial conditions there have been few indications of material deterioration in asset quality or stress across the market.

With cost of living pressures still evident, prospects for growth remain weak as the impact of earlier interest rate hikes continues to percolate the domestic economy. Geopolitical risks remain elevated with ongoing conflicts in Ukraine and Israel and elections scheduled for the US and UK.

Despite continued challenging economic conditions and a cautious outlook, we will continue to support our customers and deliver for all our stakeholders in 2024.

2023 Business and Financial Performance

Despite geopolitical risks and cost of living pressures, the Group benefited from a higher interest rate environment, the continued rightsizing of the balance sheet and ongoing cost discipline.

The Group posted a statutory profit before tax of £331 million for 2023, increase on 2022 of £80 million. This increase is driven by an increase in income during the year of £38 million, reduced operating expenses of £25 million and a reduction in impairments of £21 million.

The Group's loan book at the end of 2023 was £14.1 billion. The business achieved new lending volumes of £3.6 billion, £0.7 billion higher year on year.

Net interest income of £583 million was 5% higher than 2022. This was driven by the higher base rate environment and strong margins on new lending. The Group's NIM of 3.46%, was up 61 basis points in the year.

Cost discipline is core to our strategy, we reduced our statutory operating expenses by 10%, a decrease of £25 million from £247 million in 2022 to £222 million in 2023. This reduction reflects, operating efficiencies including reduced staff costs and under spend on a number of projects during 2023. This is offset by expenses associated the cessation of our partnership with the AA. Managing our costs remains a key focus while continuing to support our customers through investment in strategic transformation.

An impairment charge of £43 million on financial instruments in 2023 compared to a charge of £64 million in 2022. This is reflective of the impact of loan loss experience in the period, model updates for Forward Looking Information and macroeconomic assumptions and a

management adjustment relating to the sale of non-performing exposures within the business banking portfolio during the year.

Share of profits from the First Rate Exchange Services Limited (FRES) joint venture of £25 million, a reduction of £3 million compared to 2022, when we benefited from increased travel post the removal of Covid 19 travel restrictions.

We have maintained our focus on value over volume, targeting specific market segments where we have expertise, can build sustainable competitive advantage, and deliver improvements in the provision of products and services to our customers.

The Group extended the partnership with the Post Office for a further five years to a minimum end date of 2031, and will continue to provide Post Office branded savings products. The extension will provide the Group with continued funding stability supporting planned asset growth in line with our financial plan.

To achieve our strategic priorities, some difficult decisions were taken including our decision to cease our unsecured personal loan offering and end our partnership with the AA.

We are embarking on the next phase of our strategic journey and in conjunction with our Parent, we continue to invest in strengthening our customer propositions and delivering improved customer outcomes. We are continuously exploring opportunities for asset growth, optimising our funding costs and driving efficiencies.

Outlook

2023 was a year of strategic process with very strong financial performance and we continued to deliver strong net organic capital generation. We look to the future with confidence, while we are mindful of the risks presented by the external environment, the overall outlook for our core markets remains positive.

The Group's motor finance business is participating in the FCA's review of historical commission arrangements, with an update expected later in the year.

The combination of the positive outlook, highly attractive core markets and our strategic clarity and focus supports this confidence in our prospects. We remain on track to deliver the financial and non-financial targets set over strategic cycle 2023-2025.

Closing Summary

I joined the Group in January 2024 and am extremely proud to be leading a business that has delivered such strong progress; with strong financial performance underpinned by successful strategic execution.

In 2024 we will refresh our 2023-2025 strategy, guided by our purposes of helping our customers, colleagues, and society to thrive. We will define the next horizon of our journey in terms of both, plans for targeted asset growth and the next phase of our transformation roadmap; while maintaining our focus on improving our customer service and underlying capabilities to continue to deliver good customer outcomes.

Gail Goldie
Chief Executive Officer

Our Strategy

Related pages
Sustainability at Bank of Ireland UK (page 10)
Risk Management (page 36)

Delivering stronger relationships with customers and a simpler and more efficient business, with a focus on sustainability.

In March 2023, the refreshed Group Strategy for 2023-2025 was launched. This strategy is guided by our purpose, which is to help customers, colleagues and society to thrive. Our values are central to how we work to deliver this strategy.

Our strategy is built on three strategic pillars: building stronger relationships with our customers, continuing to simplify our business for customers and colleagues, and creating a culture of constant improvement in the sustainability of the company for the future. Customers continue to remain at the core of everything we do. We are deepening customer relationships through our market leading financial wellbeing programme and enhancing customer experiences through digital and data.

The Group continues to evolve it's business model in to a strong and differentiated position as a result of key strategic actions executed and outcomes delivered. The fundamentals underpinning our strategic plan remain supportive and we have clear plans in place to continue to deliver further progress. Highly attractive core markets continue to support momentum in delivering against our 2025 strategic outcomes, in particular the diverse and sizeable mortgage, asset finance and car leasing markets. However, we are mindful of the potential impact of global themes such as the higher interest rate environment, evolving customer needs, uncertainty around inflation and ongoing geo-political unrest, as the Group aims to support our customers and society to navigate these trends. We will continue to build on the strong foundations we have achieved over recent years. In 2024 we will refresh our 2023-25 strategy, guided by our purposes of helping our customers colleagues and society to thrive.

Year one saw strong progress made against our strategic plan and targeted outcomes and builds on the positive financial progress that we have made in recent years. For our customers, we are meeting more of their financial needs throughout their lifecycle, by enhancing functionality, simplifying customer experiences and delivering greater service capabilities.

For our colleagues, progress continues to be made on creating a differentiated colleague experience, with flexibility and wellbeing at its heart. For society, our focus remains on supporting the financial wellbeing of all customer segments in addition to supporting the green transition. We are also seeking to put in place a more diverse workforce that more closely represents the society we live in.

The Group also had a very strong year financially and continued to deliver strong net organic capital generation in 2023. This strong performance strategically and financially provides positive momentum for the remaining two years of the current strategic cycle so that we can continue to deliver against our targeted outcomes by 2025.

Strategic progress in 2023

Completed extension of PO contract by five Years
Successfully signed in H2 2023

Concluded the partnership with the AA and cessation of personal loans lending
To refocus the Group on core business lines

Doubled asset finance provided for Alternatively fueled vehicles during 2023
To support our Sustainability strategy

Successful execution of our strategy
Delivering strong returns and net organic capital generation

Our Strategy *(continued)*

Stronger relationships

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

Progress in 2023 towards our 2025 target outcomes

After the first year of delivery under the 2023-2025 strategy, we remain on track to deliver against our 2025 target outcomes, with notable key achievement outlined below:

- PO contract five-year extension agreed to 2031, providing retail deposits funding stability.
- Significant new mortgage volumes during 2023, of £1.7 billion, an increase of £0.7 billion compared to 2022. Bespoke mortgages, meeting more complex customer needs, accounted for £0.3 billion of mortgage new lending.
- Multi-million pound investment in the UK mortgage business commenced, to improve customer journeys and operational efficiency.
- Refreshed UK website launched in 2023, addressing the two main customer challenges, ease of locating relevant content and ease of navigation, resulting in a 15% increase compared to 2022 of website 'click-throughs' to product application forms.

2025 target outcomes:

- Targeted asset growth over the 2023-25 period in selected segments where the Group has expertise whilst maintaining risk and commercial discipline.
- Increase new mortgage lending volumes by 2025.
- Increase NI Relationship Net Promoter Score, demonstrating stronger customer relationships by 2025.

Simpler business

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

Progress in 2023 towards our 2025 target outcomes

After the first year of delivery under the 2023-2025 strategy, we remain on track to deliver against our 2025 target outcomes, with notable key achievement outlined below:

- New Mortgage Customer Hub launched in 2023, allowing improved registration process for new customers and more simplified services to all customers.
- Investment in digitisation continues to benefit our customers with an almost 5% year on year increase in active 365 online and Business Online users. Additionally, 455,000 website visits were recorded with over 25,000 documents uploaded during 2023.
- Together with the Parent, we have rolled out over 60 enhancements to the mobile app in 2023 reducing customer effort and bringing new features to the market at a faster pace including biometrics, enhanced narrative for pending transactions, and additional fraud monitoring.
- Enterprise-wide, colleague-led simplification strengthened with the 2023 launch together with the Parent, of 'Voice of Colleague', a framework to capture and repond to colleague ideas for simplification across the enterprise, ensuring that colleagues are heard and represented, and identifying improvements for both customers and colleagues.

2025 target outcomes:

- Maintain cost discipline and sustainable Cost:Income ratio over the 2024-25 period.
- Improve Customer Effort Scores across our savings journeys through enhancement of our Savings Capability.
- In conjunction with the Parent, improvement in Colleague experience score by 2025.

Sustainable company

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

Progress in 2023 towards our 2025 target outcomes

After the first year of delivery under the 2023-2025 strategy, we remain on track to deliver against our 2025 target outcomes, with notable key achievement outlined below:

- Supporting our colleagues through delivery of events such as the People Manager summit enabling colleagues to have better quality conversations, encompassing performance, career development and growth and wellbeing and the launch of the 'My Reward' flexible benefits platform for colleagues, supporting our people and their financial wellbeing.
- Focused on retaining diverse talent at all levels with the launch of female talent programme (RISE) and an ethnic minority RISE programme, to create a more innovative and high-performing business which reflects the diverse needs of customers and wider society.
- UK Mortgage defined Green Strategy supporting the management of its targets, developing new sustainable products and supporting customers through education.

2025 target outcomes:

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

Sustainability at Bank of Ireland UK

By operating as a Sustainable company, we will deliver impact on the most critical challenges facing our customers, colleagues and society.

Sustainability at Bank of Ireland UK

The Group is committed to supporting the effort to combat climate change. Building upon extensive development work, our Parent launched a strategy refresh focused on three strategic pillars: Stronger relationships, Simpler Business and Sustainable Company. The strategy provides clear commitments to working with customers, colleagues and society to support their transition to a resilient, net zero economy by 2050.

In 2023, the Group focused on embedding this strategy across the organisation, strengthening governance and establishing working groups and steering committee and creating dedicated Environmental, Social and Governance (ESG) roles within the business.

Our strategy is centered around three pillars:

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

Our Sustainability Strategy

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

Build a Future Ready Workforce
Create a Differentiated Colleague Experience and Workplace
Simplify Ways of Working

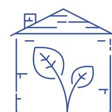
Enhancing financial wellbeing

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

Focus areas

Financial capability
Financial inclusion
Financial confidence

Supporting the green transition



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

Focus areas

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

Sustainability at Bank of Ireland UK *(continued)*

Enabling current and future colleagues to thrive

In 2023, responding to colleague feedback, our values were refined to better align with our updated corporate strategy. The Group's guiding principle, 'Helping you Thrive', shapes our culture and influences our day-to-day operations.

The Group recognises the importance of fostering a future-ready workforce to achieve the Group's ambition through continuous learning, ongoing career development and workplace inclusivity.

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

- Build a future ready workforce;
- Create a differentiated colleague experience and workplace; and
- Simplify ways of working.

Build a future ready workforce

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

The Group will grow and strengthen core skills which will support digital enhancement in the future. The Group is upskilling and re-skilling the workforce, focused on attracting, retaining, engaging and developing the talented and diverse group of colleagues needed for a sustainable future. Inclusion is at the centre of our strategy, delivering positive change in culture and diversity, and driving more positive employee engagement scores.

To better understand each colleague's unique skills and motivations, a new digital platform, 'Careers Lab', is in place for all colleagues. Individual Development Plans (IDP) are completed, with colleagues then provided with a personalised and dynamic career pathway. A full suite of tailored learning and development opportunities, including recommendations to learn on the job, from others, and through future skills-based training, supports individuals to secure the role which is right for them.

Create a differentiated colleague experience and workplace

The Group is committed to enabling all colleagues to grow and develop to reach their potential, ensuring colleagues feel valued and supported in their roles, and promoting behaviours that reflect our values and purpose.

The Group strives to attract, promote and retain diverse talent at all levels, to create a more innovative and high-performing business which reflects the diverse needs of customers and wider society. The Group has aim female talent programmes (RISE and ACCELERATE), which aim to equip participants with the skills and knowledge to support their progression into management roles. In addition to this, an ethnic minority RISE programme was launched to provide the same support for colleagues from ethnic minorities.

In 2023, an amplified focus on ethnic diversity was supported through achieving accreditation as an 'Investing in Ethnicity' employer and commitment to ensuring the Group is tackling barriers that colleagues from ethnic minority backgrounds may face in recruitment and progression.

Supporting Group colleagues' physical, mental and financial wellbeing has remained central to enabling our colleagues to thrive. The Group continues to create awareness of the importance of our colleagues' and customers' wellbeing through a number of initiatives including a Managing Stress Campaign. The campaign focused on encouraging open conversations about workload stress, burnout and how to identify stress signs and the supports available to alleviate stress.

Ensuring colleagues feel valued in their roles and recognised for behaviours that reflect our values remains a key priority for the Group. Development has continued through a Recognition Programme refresh and launch of shout outs with increased nominations that are communicated across the Group.

During 2023, the Group launched 'Thrive', the Performance Development hub. This has been developed based on colleague feedback. The hub is focused on colleague growth through more frequent conversations with managers around well-being, development and performance, while still being designed to support variable pay. Thrive ensures a simple and consistent experience for all colleagues.

In recognising the importance of attracting and retaining talent, the Group has reintroduced variable pay following changes to remuneration restrictions, which will allow better pay linkage to our long term strategic goals.

To further support our colleagues in the workplace the Group acknowledges the support required for personal circumstances whether that be through expanding their family or during challenging times. In 2023, the Domestic Abuse policy was introduced and sought to protect and support colleagues during their most vulnerable times, including paid emergency accommodation, flexibility and emotional support. A number of new, more inclusive family friendly policies were introduced including surrogacy, fertility and foster care support. The menopause policy was implemented during the year to recognise the life changing event our colleagues experience and provide support to them through natural life stages and to create an open, respectful culture.

Progress against the Group's objectives and targets is tracked and measured at a senior leader level, with a detailed implementation plan in place which supports the achievement of these targets. The plan outlines the investment, internal engagement, and external support required to drive the delivery of our objectives. In 2023, every colleague had a goal included as part of their performance achievement to help support a more inclusive and diverse place to work.

By measuring colleague contribution towards I&D within performance reviews, each colleague felt empowered to embed inclusive development activities throughout the work place. In addition, people managers have specific measures which require each manager to create an environment that supports the wellbeing of their own team.

Simplify ways of working

The Group is committed to promoting ways of working that reflect the Group's ambitions, values and culture. Our ambition is to be one of the best places to work, this is supported through a number of initiatives two of which being our hybrid and flexible working arrangements. The Group recognises that a hybrid model is good for our work effectiveness, life balance, and mental health. However, meeting colleagues regularly, in-person, is important for collaboration, connection and creating the culture that the Group aspires to. The Group continues to monitor effectiveness and look for areas of improvement in the hybrid model, and looks forward to relocating to a new London Office in 2024 that will provide colleagues with a new place to collaborate and connect with one another.

Sustainability at Bank of Ireland UK *(continued)*

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 society.

This is achieved by focusing on three areas:

- Improving financial capability and literacy;
- Fostering financial inclusion; and
- Increasing financial resilience.

Improving financial capability and literacy

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

During 2023, the Group commissioned a comprehensive financial literacy survey that updated the Bank of Ireland Financial Wellbeing (FWB) Index Score. The FWB index for NI recorded a score of 59 in 2023, a decline of 1 since the last survey in 2022. This decline was not surprising, as increases in the cost of living have contributed to a deterioration in overall financial wellbeing in NI. The Financial Literacy Index Score increased from 53% in 2022 to 55% in 2023. Financial literacy is the primary component of financial capability, and this presents a challenge for those who are not financially literate.

The Group has developed the youth financial literacy programme for primary and secondary schools in NI which has delivered thousands of hours of financial literacy education. Designed to help students build their knowledge and confidence around finances, the free financial literacy programme for secondary schools brings finances to life in practical ways. This will help students improve their financial confidence, enabling them to make informed decisions as they prepare to take charge of their financial future. Youth Financial Literacy is a key pillar of the Group's ambition to support its customers and community.

Fostering financial inclusion

The Group remains committed to ensuring both our colleagues and services are equipped to support customers who may be impacted by a variety of different challenges and circumstances.

The Group's Help and Guidance website page is updated to reflect latest guidance and additional information to support customers who may be effected by Long-term or Critical Illness and Modern Slavery, including Human Trafficking.

During 2024, as part of the commitment to UK Finance's Financial Abuse Code; exploration of options to help us further align with their new Domestic, Financial and Economic Abuse framework will take place. This has been specifically designed to assist victim survivors regain control of their independence and personal finances.

New online disclosure capability enables customers to pro-actively and securely advise us of their personal circumstances and any associated requirements.

As part of our commitment to supporting access to banking services for those who are in danger of being excluded, the Group works with prospective customers with a refugee status to ensure banking facilities can be provided. To support this a number of key documents have been translated in to other languages.

Our website's 'Next Steps' videos have been designed to support customers in preparing for and using online banking, on all common devices, providing straightforward guidance on navigating secure customer authentication, online shopping and other routine tasks.

The Group is looking to extend the support it offers to our d/Deaf customers. In a small, but beneficial initiative, the Group recently revised branch practices to allow all Assistance Dogs, rather than just Guide Dogs, to accompany customers when visiting our retail sites.

The Group will continue to progress further vulnerability focused initiatives during 2024.

Increasing financial resilience

The Group is fully committed to enhancing financial resilience, enabling its customers to withstand the financial impact of an unexpected day-to-day expense or major life event.

In September 2023, a new service on the mobile banking app was launched which provides customers with tailored insights and alerts, enabling them to become more aware of their spending habits and financial behaviours. The Group, through its Financial Wellbeing initiatives, helps customers improve their financial literacy and emerge from any financial difficulty.

Supporting the Green Transition

Addressing the global challenge of climate change remains a key challenge for our society. The Group recognises the significant role it can play in facilitating the shift towards a resilient, low-carbon economy. Committed to collaboration with customers, colleagues, and society, the Group aims to support the transition to a resilient, net zero economy by 2050, aligning with the UK government's goals.

UK Climate-related Financial Disclosure (CFD)

Governance - Incorporating ESG into decision making

The Group's Board is responsible for the oversight, development, implementation and future management of climate related matters, risks and opportunities. Existing committees and governance have been developed to consider, manage and report on Financial Risks from Climate Change (FRCC). The Chief Risk Officer (CRO) is the Senior Management Function (SMF) and accountable executive in respect of the management of FRCC across the Group.

In 2023, to support the Group's commitment to deliver outcomes on the most critical challenges facing our customers, colleagues and society, sustainable company became a strategic pillar for the Group. During this time, the Board approved a three year Sustainability Strategy, setting out our approach on the green transition by reducing our own carbon footprint, supporting customers to transition to more sustainable products and habits, and managing climate related risks. Management are responsible for delivering against climate risks and opportunities identified.

Supporting the green transition consists of a five point climate action plan outlining the actions the Group will take based on the outcomes of the materiality assessments when developing the strategy. These five areas have been identified as those the Group can most control and influence including, managing Science Based Targets (SBT's), providing sustainable finance, decarbonising our own operations, managing climate related risks and transparently reporting against our progress.

The Group's Sustainability Governance was enhanced through the creation of a Sustainability Committee which is chaired by the Chief Financial Officer (CFO) and consists of Executive Committee (ExCo) members, business heads and representation from the Parent's sustainability team. This Committee is

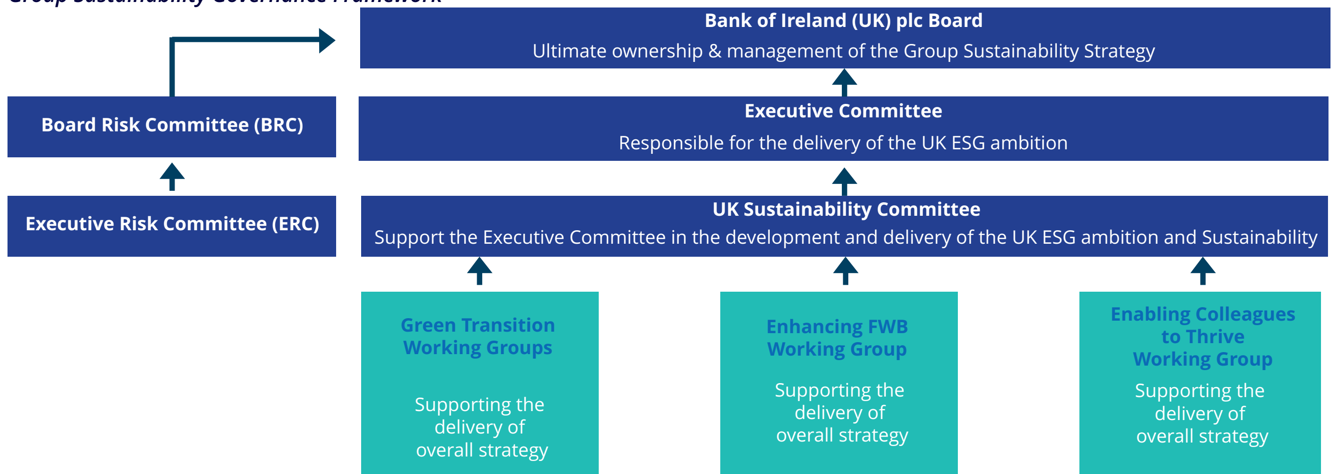
Sustainability at Bank of Ireland UK *(continued)*

responsible for supporting ExCo in the delivery of the Sustainability Strategy and climate related risks and opportunities. The Sustainability Committee meet monthly to review progress against the strategy and provide oversight and guidance on challenges preventing delivery of the strategy.

To support the Sustainability Committee, working groups have been established with first and second line representatives from across the Group's to deliver the day-to-day actions against the Groups Climate pillar 'supporting the green transition'. Findings and actions from the working groups feed into the Sustainability Committee.

The Group works with its Parent in delivering the wider Sustainability Strategy. The UK Sustainability Strategy and approach to the management of climate-related risks are aligned to the Parent Company. The Group and Parent have representation within each other's sustainability committees to aid collaboration and alignment.

Group Sustainability Governance Framework



The role of the risk committees

The Board is collectively responsible for the long term sustainable success of the Group and ensuring there is a strong corporate structure in place. It provides leadership to the Group, setting strategic aims, within the boundaries of the risk appetite and a framework of prudent and effective controls. Existing risk governance committees have been leveraged to oversee climate risk management.

Overview of Risk Governance Committees

BRC	Responsible for monitoring risk governance including climate risk and assisting the Board in discharging its responsibilities in ensuring that climate risks are identified, assessed and reported.
ERC	Responsible for monitoring climate related risks identified in the annual risk and opportunity assessments.
Audit Committee	Responsible for monitoring the integrity of all climate related disclosures across the Group.

Sustainability Strategy

Overview of the strategy

In 2023, the Group implemented a new strategic pillar, Sustainable Company, into its strategy. To achieve this objective, a rolling three year Sustainable Strategy was approved by Board. This strategy sets out the Group's ambitions across ESG topics along with the actions it will take over the next three years, this includes a five point climate action plan:

Managing Science Based Targets	Providing Sustainable Finance	Decarbonising our own operations	Managing climate related risks	Transparently reporting against progress
In association with our Parent Company, decarbonise our lending portfolios in line with emission reduction targets.	Support customers through the delivery of sustainable finance.	Make our own operations net zero by 2030.	Build resilience by embedding climate related impacts in our decision making processes.	Commit to transparently report on the progress the Group is making towards our ambitions.

Sustainability at Bank of Ireland UK *(continued)*

Risks and Opportunities

Risk and opportunity assessments are undertaken annually encompassing an assessment of physical and transition risks against principle risk categories (such as credit, operational, business and strategic risk) and material asset classes on the balance sheet. Timelines are defined in line with our Parent, following industry standards and ECB guidelines. This assessment considered the impacts across the following time periods:

- Short term (less than 3 years)
- Medium term (3-5 years)
- Long term (Greater than 5 years)

A summary of the key risks and opportunities identified are detailed below.

Climate related risks

Principal Risk Types		Risk Assessment	Transition Risk Impacts	Physical Risk Impacts	Quantified Potential Impacts[1] Short	Med	Long
Principal Risk Types	Operational Risks	Conduct risk	• Failures in the design of ESG/green product design, market practice (e.g. mortgage prisoners) or customer engagement could lead to regulatory sanctions and brand damage, if there is a lack of transparency and misleading classification (greenwashing)	• Failures in the design of ESG/green product de sign, market practice (e.g. mortgage prisoners) or customer engagement could lead to regulatory sanctions and brand damage, if clients suffer unexpected loss due to climate risks	●●	●●	●●
Principal Risk Types	Operational Risks	Regulatory risk	• Failure to implement in a timely manner ongoing changes in climate regulation could affect the Group's profitability through regulatory sanctions	• Potential for regulatory sanctions if physical risks impact our business continuity plans with consequent impact to services we provide to clients (e.g. transaction processing).	-	-	-
Principal Risk Types	Operational Risks	Other Operational risk	• Climate driven impacts on operational processes include increasing levels of systems, data, model and sourcing risk to manage	• Extreme floods or storms at multiple locations impacting our business continuity plans with consequent impact to services we provide to clients (e.g. transaction processing)	●●	●●	●●
Principal Risk Types	Financial Risks	Credit risk	• Borrowers' ability to repay if operating in sensitive sectors (e.g. Agriculture) • Changes in emission regulation or in user sentiment	• Collateral depreciation leading to negative im pacts on Loan To Value (e.g. flooding, storms) • Borrowers' ability to repay in sectors more sensi tive to weather impacts like floods and storms	●●	●●	●●●
Principal Risk Types	Financial Risks	Market risk	• The traded instruments held across the Group are subject to market risk as the underlying companies and sovereigns may be subject to value erosion due to climate change	• The traded instruments held across the Group are subject to market risk as the underlying companies and sovereigns may be subject to value erosion due to climate change	-	-	-
Principal Risk Types	Financial Risks	Funding & Liquidity risk	• Based on scenario analysis, climate risks would have a negligible impact on the Group's current Funding & Liquidity risk profile	• Based on scenario analysis, climate risks would have a negligible impact on the Group's current Funding & Liquidity risk profile.	-	-	-
Principal Risk Types	Financial Risks	Business & Strategic risk	• Long term franchise impacts if strategic commitments are not achieved and product offering does not adapt to changing market dynamics	• Potential need to increase resilience of our net work, supply chain and production process where off-shore operations are more exposed to increasing physical climate risks	●●	●●	●●
Principal Risk Types	Financial Risks	Capital Adequacy risk	• Represents the risk of increased capital depletion from the impact of transition risks across the Group's other principal risks i.e. sum of the impacts adjusted for double count across certain risk types	• Represents the risk of increased capital depletion depletion from the impact of physical risks across the Group's other principal risks i.e. sum of the impacts adjusted for double count across certain risk types	●●●	●●●	●●●

Climate Related Opportunities

The Group recognise the transition to net zero will require investment across the economy by our customers to help support the UK's net zero objectives. In recognition of this, providing sustainable finance is a key action point in our climate action plan which underpins the Sustainable Company strategic pillar. The Group identified opportunities in the following areas and will support the overall Group purpose of enabling our customers, colleagues and communities to thrive.

[1] *An estimation of: (i) The time horizon at which each risk is likely to materialise: short term, within 3 years; medium term, between 3 and 5 years; or long-term, more than 5 years. (ii) The relative materiality of each risk: Negligible (-); Low (●); Moderate (●●); Significant (●●●).*

Sustainability at Bank of Ireland UK *(continued)*

Mortgages - green buy-to-let

A green mortgage strategy was developed, supporting customer education and development of green products, helping customers to improve the energy efficiency of their home. Enhanced focus will be given to creating further lending propositions and improving data capability. During the year we continued providing various green mortgages for residential properties with higher Energy Performance Certificate (EPC) ratings, across the range of A to B. Throughout 2023, the Group has continued to drive forward its green offering for mortgage customers, with preferential rates offered to customers for buy-to-let homes with higher energy efficiency ratings and a Bespoke, Green New Build home product with enhanced criteria, offering 90% LTV on new build houses.

Business Banking

Throughout 2023, the Group has continued to help make a positive impact to its customer base and the society in which it serves, including through the support it offers to local businesses. The Group has provided £500,000 funding to Green Energy Engineering Limited, to enable the business to fulfil a number of Public Sector contracts to de-carbonise schools and universities in Great Britain and facilitate future growth in NI & the Republic of Ireland. This funding will enable building upgrades such as insulation and internal heat distribution networks, and to introduce innovative renewable energy products such as heat pumps, biomass boilers, wood pellet stoves, solar panels, and electricity battery storage.

Northridge Finance and Marshall Leasing

During 2023, Northridge reduced the number of diesel cars financed from 37% to 33%. Finance for hybrid and battery electric vehicles, collectively known as Alternatively Fuelled Vehicles (AFV) increased from 6% to 9%. The Group will continue monitoring the car finance market to ensure risks are managed while identifying opportunities for developing further AFV funding propositions.

Looking forward, focus will continue around customer education, green proposition development and data capability. Training was implemented across the Group for all colleagues with a 98% completion rate. Additional training will be delivered in 2024, to continue embedding ESG into our culture. Strengthening our data capabilities will be a focus area over 2024, which will continue over the next three years to further enhance the management of climate risk and optimise the opportunities associated with climate change. During 2023, we implemented tracking of SBT's for Mortgages and Own Operations. The UK ESG team was established across first and second line of defence creating a continued focus and accountability within the Group.

Scenario Analysis

Supporting the green transition also requires the Group to assess its own resilience to climate change. To address this requirement, the Group in conjunction with its Parent, undertakes scenario analysis and stress testing.

Forward looking climate scenarios are being used to help manage climate related risks and explore the resilience of the Group to physical and transition risks.

The Group has integrated climate scenario analysis into the Internal Capital Adequacy Assessment Process (ICAAP) as a key step in what will be an ongoing development of the Group's data, modelling and risk management capabilities.

Approach to climate scenario analysis

Climate related risk modeling is based on three climate scenarios as summarised below, each of which reflects a different climate policy pathway and are drawn from a set of scenarios published by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The NGFS has developed the scenarios to provide a common starting point for the financial sector to analyse physical and transitional climate related risks. Internal scenarios and methodologies to quantify the potential impact of climate related risks across the Group's portfolios were developed.

Each scenario has a separate risk driver profile (made up of both physical and transitional risks) that have implications for credit quality, including the probability of default. These scenarios and their associated risk profiles are then applied to understand the implications for credit quality for that sector.

Sustainability at Bank of Ireland UK *(continued)*

1 Orderly transition (1.5°C)

Nature of transition

Early and orderly implementation of required policies.

Scenario description

Under this best-case scenario, climate policy measures are well calibrated and implemented in a timely and effective manner, thus the costs stemming from transition and physical risks are comparatively limited. From a climate perspective, the scenario entails meeting the Paris Agreement targets of 'well below 2°C' by the end of the century.

2 Disorderly transition (2.0°C)

Nature of transition

Late and disorderly implementation of required climate policies.

Scenario description

This scenario assumes delayed implementation of the requisite climate policy measures and that policy action is introduced in an abrupt way, hence transition risks and their associated costs are significant. Additionally, as global warming starts being mitigated only from 2023, a disorderly transition scenario also implies the build-up of greater physical risk than would be the case with an orderly transition.

3 Hothouse world (>3.0°C)

Nature of transition

No transition with only policies that were in place before 2021 implemented.

Scenario description

In this scenario, no policy aimed at limiting climate change is introduced, leading to extremely high physical risks. Transition costs are minimal (as transition does not occur) but costs due to natural catastrophes are extreme. Under these circumstances, global warming would not remain limited, global temperatures would rise by at least 3°C above pre-industrial levels until 2100 and the Paris Agreement targets would not be met.

In addition, the Group has worked with a third party, Landmark Information Group, to further understand climate related risks (flood, subsidence, coastal and energy efficiency) to the Mortgage portfolio. This analysis measured the impact of climate on the 2023 Mortgage portfolio in five-year increments over the period 2020 to 2080. Whilst the results have not identified any significant portfolio concentrations, the analysis has helped inform certain capital sensitivities in the stress and scenario analysis. Scenarios used to model the potential climate impact are detailed in the table to the right.

Representative Concentration Pathways (RCP)	Emissions scenario illustration	Increase in temp by 2100
RCP 2.6	Significant global reduction	0.9 - 2.3°C
RCP 4.5	All countries implement Paris Accord	1.7 - 3.2°C
RCP 6.0	All signatories implement Paris Accord	2.0 - 3.7°C
RCP 8.5	Business as usual	3.2 - 5.4°C

Managing climate related risk

Guided by the Group's Risk Management Framework (RMF) and leveraging existing risk governance and processes, climate risk is being progressively embedded into the Group's key risk processes, with climate treated as a cross-cutting risk. Additionally, the Group ESG RMF sets out the approach to the management of ESG risk factors across the Group. This supports identification, measurement, monitoring, management and reporting against climate risk.

Risk and opportunity assessments are completed across the business on an annual basis to mitigate against this risk and since November 2023, assessments are reviewed quarterly and reported within monthly BRC and ERC management information. During 2023, Risk Policies across the Group have been reviewed to ensure climate risk is captured appropriately. The Group, in conjunction with a third party supplier, have undertaken individual property risk identification within the mortgage portfolio. To identify the potential impact of climate risk and the Group's resilience to this, scenario analysis is undertaken across each of the principal risks types (credit risk, business and strategic risk, operational risk, and conduct risk) over the short term (3 years), medium term (3-5 years), and long term (>5 years) (see below). Risk Appetite Statement (RAS) metrics are in place specific to climate risk, including monitoring mortgage EPC ratings for Buy to Let properties and number of Internal Combustion Engine (ICE) Vehicles. ERC and BRC are updated on progress against risk controls via the monthly management information. The Group has identified data enhancements as a key focus for 2024, to improve existing risk management processes and reporting requirements.

The outcomes of scenario analysis used to further understand climate related risk to the residential mortgage portfolio are outlined below:

Sustainability at Bank of Ireland UK *(continued)*

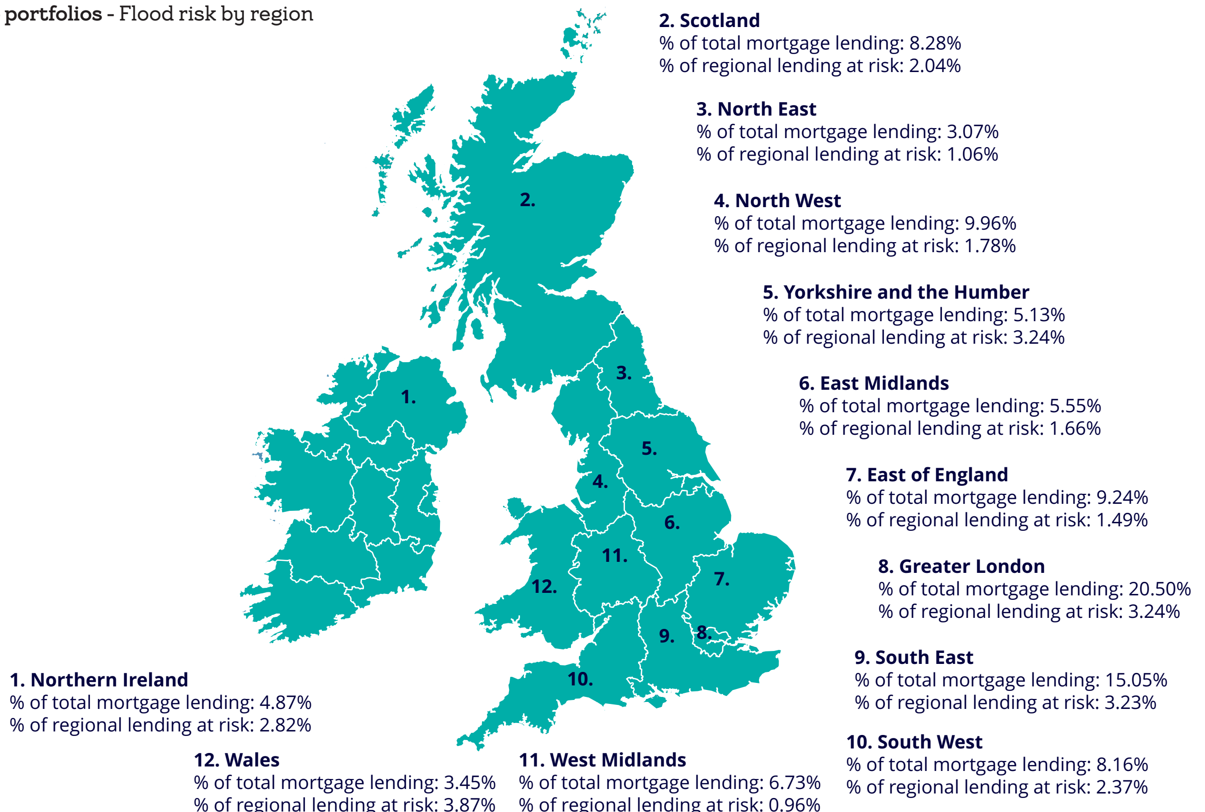
Scenario Analysis outcomes

Based on data from July 2023, analysis shows that the incidence of cases with a corresponding physical climate risk has remained broadly stable, when compared to the previous assessment in 2022. Physical risk remains low in materiality.

1. Flood Risk

Each loan in the mortgage portfolio is allocated a probability of a flood event occurring by 2030 under the Representative Concentration Pathway (RCP) 8.5 scenario which expects a temperature increase between 3.2-5.4 degrees Celsius by 2100. As of July 2023, 92.14% of the Group's mortgage lending is on properties with low to negligible risk of a flood event.

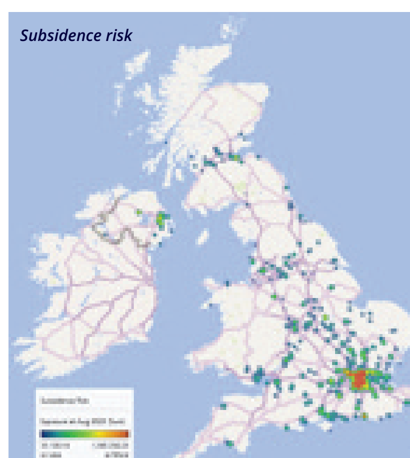
Flood Risk probability	Book proportion
High: >5%	2.46%
Medium: >1%	3.75%
Low: >0.1%	6.11%
Very low: >0.01%	5.14%
Negligible: <0.01%	80.89%



2. Subsidence Risk

Subsidence risk is calculated to Change to July. 2023, where 85.9% of the Mortgages book relates to properties with low to negligible probability of a subsidence event occurring by 2030. Of the 14.1% that sits within a medium probability of a subsidence event by 2030, the value at risk increased slightly due to adjustments in house values but it still remains minimal for these properties.

Subsidence Risk probability	Book proportion
High: >5%	0.00 %
Medium: >1%	14.1 %
Low: >0.1%	72.7 %
Very low: >0.01%	13.0 %
Negligible: <0.01%	0.21 %



3. Coastal Erosion

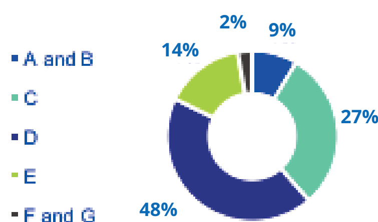
Less than 0.1% of properties within the mortgage portfolio have been identified as being within 100 metres of the coast in areas where coastal erosion is a possibility.

4. Transitional Risk – Energy Efficiency

Energy efficiency is measured by EPC ratings, with A indicating the best and G the worst in terms of energy efficiency. The Group has EPC ratings available for 80% of its properties. The charts below summarise the energy efficiency of the Group's mortgage portfolios, based on a combination of actual and estimated EPC ratings. Currently, 9% of properties in the mortgage portfolio are A to B rated. The EPC makeup of the portfolio remains broadly in line with last year.

Sustainability at Bank of Ireland UK *(continued)*

Total England and Wales Mortgages with EPC data available



Currently, 36% of the book which has available EPC data corresponds to properties with EPC ratings to A-C. This compares with approximately 45% of properties having an EPC of A-C according to the UK government EPC register. The Group has a specific metric in Credit Risk Appetite for Buy-to-Let properties with an EPC rating of C or above.

Overall the mortgage book exposure to physical risks is deemed as low to negligible. The results have not identified any significant portfolio concentrations and exposure to physical risks is broadly in line with average UK exposure. Transitional risk mostly focuses on the energy efficiency of the properties finance is provided on.

The Group is committed as part of its sustainability ambitions to support customers in increasing their residential property energy efficiency whilst also encouraging the purchase of higher energy efficient properties.

Climate risk considerations are being embedded in key processes where the associated climate risks are material. The ICAAP and ILAAP are key annual planning processes for the Group and facilitates the Board and senior management in identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital and liquidity to support its risk profile. Climate is considered in ICAAP with additional add-ons within Pillar 2, this assessment considers the Landmark information above as well as Parent scenario analysis.

Climate risk has been incorporated into the credit decision processes. The mortgage valuation process considers climate risk considerations. Buy-To-Let Mortgage applications must meet minimum EPC legislative requirements or be included within the exemption list. The Parent's Responsible and Sustainable Sector Statement, sets the risk appetite for lending to potentially sensitive sectors which the Group believe cause environmental and/or social harm to society and its communities. Applying to all new lending arrangements within Business Banking, the Group will not provide financing to customers who are deemed to engage in its defined list of excluded business activities. In addition, certain sectors are identified which require the Group to perform additional due diligence, in advance of onboarding the customer. The Group's current portfolio is materially aligned with these arrangements and by embedding these exclusions at origination stage these criteria can continue to evolve in line with our Sustainability Strategy.

To help manage the risk of Greenwashing, the product and service lifecycle management process incorporates climate risk considerations. Greenwashing guidance for business units is in place ensuring any climate or sustainability claims are fully substantiated.

ESG risk factors such as climate-related risks are managed within the frameworks the Group has in place for its established Principal Risk types. Therefore, the Group is integrating the management of climate risk into its existing policies, controls, reporting and operating procedures. The Group has dedicated resources to lead the co-ordination of the Group's approach to ESG risk management, both in First Line of Defence (1LOD) and in Second Line of Defence (2LOD).

The Group intends to support customers and the economy as it transitions to net zero and look for opportunities to help customers. However the Group is aware of potential conduct issues if the risk management approach to climate is applied in a disproportionate way and the consequential potential harm this could do to new or existing customers.

Climate-related metrics and targets

The Group in association with its Parent has committed to reducing greenhouse gas (GHG) emissions from its own operations (scope 1 and 2) by 49% and the mortgage portfolio by 48% by 2030, while supporting the UK and Irish Government's journey to net zero by 2050.

Carbon emissions from our own operations

The Group, in association with its Parent, has achieved a 42% reduction from its 2020 baseline to 2023 (from 6,238 tonnes of carbon dioxide equivalent (tCO2e) to 3,625 tCO2e). The Group will continue to transparently report against progress made against Scope 1 and 2 emissions as set out in the Streamlined Energy and Carbon Reporting Act (SECR).

Key initatives contributing to the decrease in energy use and carbon emissions in 2023 included:

- Continued operational implementation of the ISO 50001 Energy Management Standards across the the Group to drive energy efficiencies and carbon reductions.
- Installation of LED lighting across the branch and admin buildings network.
- Energy review conducted across the branch and admin buildings to eliminate wasteful use of energy particularly in hot water, air conditioning and heating systems.
- Rolling out of internal communications for staff to encourage positive behaviours and habits both at home and in work to reduce energy use.
- Updated contract switching to renewable energy for the office at 1 Temple Quay, Bristol, BS1 9HY. Further switches in other locations will take place during 2024.

Building on our collective achievements to date, the Group in association with its Parent, will continue implementing actions to achieve its net zero commitment for own operations. Initiatives planned for 2024 include:

- Further updating of our offices' LED lighting to further reduce energy consumption.
- Continued operational implementation of ISO 50001 Energy Management Standard.
- Transition from fossil fuel based heating systems to electric heating systems in the NI Branch network.
- Continued roll out of internal communications for staff to encourage positive behaviours at home and in the office.
- In October 2023, the Group announced plans to relocate the London office from Bow Bells House to The Gresham St Pauls which has a BREEAM excellent sustainability rating.

Carbon emissions from UK Mortgages

The Parent Company achieved a 6% reduction in residential mortgage emissions from its 2020 baseline. The UK business contribute to this overall reduction, with a Board agreed UK specific target reduction of 29% by 2030, to contribute to the overall Parent reduction target of 48%.

Sustainability at Bank of Ireland UK *(continued)*

The Group has controls and risk appetite metrics in place across mortgages to manage transition risk of the portfolio including:

- Buy to Let (BTL) properties with EPC below C.
- Owner occupier properties with EPC below E.

The Group acknowledges that achieving these targets will be reliant on multiple stakeholders working together, to deliver a net-zero economy. This includes the UK policy landscape, Government, and industry collaboration to transition the economy successfully. Alongside this the Group delivered:

- Launch of Green mortgage strategy outlining how the Group will achieve the committed SBT, while supporting customers wishing to improve the energy efficiency of their homes, through education and new products. The strategy supports the continued development of the Group's data capability and reporting.
- Compared to 2022, lending volume for green mortgages during 2023, increased by 33.7%.
- Updated lending criteria for Green buy-to-let mortgages from November 2023 to EPC A – B.
- Undertook an annual risk and opportunity assessment to identify the transition and physical risks and opportunities across all business areas including Mortgages.

Car Finance

Northridge Finance and Marshall Leasing

Northridge Finance, provides finance for new and used cars, commercial vehicles and other motorised vehicles such as motor homes and agricultural vehicles. Marshall Leasing provides leasing for cars and commercial vehicles, including minibuses. RAS metrics are in place monitoring the number of ICE vehicles within the portfolio. The combined Northridge and Marshall Leasing lending portfolio consists of approximately 92% ICE vehicles which is in line with the wider market (91%). During 2023, Northridge reduced the number of diesel cars financed from 37% to 33%. Finance for hybrid and battery electric vehicles (AFVs) increased from 6% to 9%. During 2024, the Group will continue tracking new business volumes by fuel type compared to the market, across Northridge Finance and Marshall Leasing. Further analysis will be conducted assessing the potential for setting sustainable finance and emission targets.

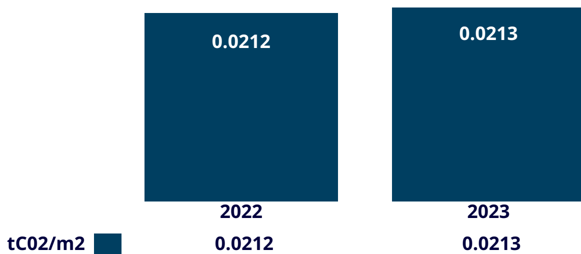
Marshall Leasing continued the transition from petrol and diesel fuelled cars, with AFVs now representing 34% of Marshalls Leasing total car fleet, an increase of 6% since 2022. As a result the average $CO2$ emissions per car on the fleet reduced from 110.38 grams of $Co2e$ in December 2021 to 105.49 grams at December 2023.

Sustainability at Bank of Ireland UK *(continued)*

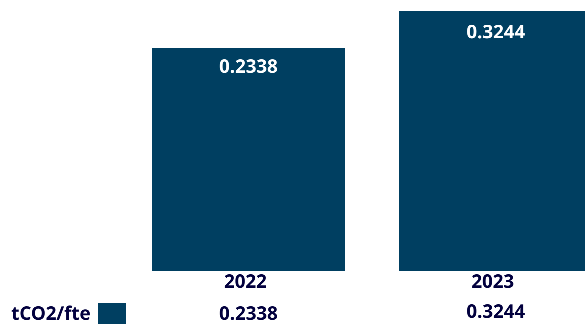
The following table shows the Group's greenhouse gas emissions as required by the UK Streamlined Energy and Carbon Reporting (SECR) Regulations.

Summary of SECR	**2023**	**2022**
Total Energy consumption used to calculate emissions kWh (million)	5.58	6.85
Energy consumption break down (kWh):		
Gas	1.97	2.51
Electricity	3.50	4.11
LPG	0.02	0.02
Kersone fuel	0.10	0.10
Gas oil	-	0.12
Scope 1 Emissions in metric tonnes of carbon dioxide equivalent (tCO2e)[1,2]:		
Gas[3]	360	457
LPG[3]	4	4
Kerosene Fuel[3]	24	24
Gas Oil[3]	-	32
F-Gas[4]	45	80
Petrol Car[5]	64	82
Diesel Car[5]	27	29
Hybrid card[(5)]	9	-
Plug in hybrid car[(5)]	43	-
Electric vehicle[(5)]	38	-
Total Scope 1	**614**	**708**
Scope 2 Emissions (tCO2e):		
Purchased Electricity Location - based[6]	724	794
Purchased Electricity Market - based[7]	10	12
Total Scope 2 purchased electricity	**10**	**12**
Scope 3 Emissions in metric tonnes of carbon dioxide equivalent (tCO2e):		
Business travel	460	322
Waste	6	4.5
Purchased goods and services	8	6.5
Total Scope 3[10]	**474**	**333**
Total Gross emissions in metric tonnes (tCO2e)	**1,098**	**1,053**
Intensity ratio scope 1 & 2 Tonnes CO2e per m2[8]	**0.0213**	**0.0212**
Intensity ratio scope 3 Tonnes CO2e per FTE[9]	**0.3244**	**0.2338**

The graph below represents, in metric tonnes of carbon dioxide equivalent by metres squared (m2) for scope 1 and scope 2
2022 versus 2023.



The graph below represents, in metric tonnes of carbon dioxide equivalent per fte for scope 3
2022 versus 2023.



[1] *tCO2e - Carbon dioxide equivalent is the measure of greenhouse gas emissions.*
[2] *2023 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 from staff car fleet.*
[6] *Purchased Electricity Location - based using UK 2023 national grid conversions.*
[7] *Purchased Electricity Market - based using UK 2023 national grid conversions. GB and Northern Ireland are on 100% renewable energy except 2 small offices in GB using 47,546 kWhs equating to 10 tCO2e.*
[8] *Calculated as the sum of (SECR) emissions divided by the metres squared of buildings portfolio NI,GB 29,320 m2 for 2023.*
[9] *Calculated as the sum of (SECR) emissions divided by the Full time employees 1461 (fte) BOI UK.*
[10] *Scope 3 emissions were higher than in 2022 reflecting ongoing normalisation of business travel post-pandemic.*

Non-financial and sustainability 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]	Sustainability at Bank of Ireland UK *(page 10)*	Environment and Energy *(page 30)*
	Group Energy policy (ISO 50001)[1]	Financial risks from climate change *(page 34)*	
Climate disclosures	n/a	Sustainability at Bank of Ireland UK *(page 10)*	Sustainability *(page 14)*
Social and employee matters	Inclusion and Diversity policy	Sustainability at Bank of Ireland UK *(page 10*	Vulnerable customers *(page 20)*
	Group Code of Conduct[1]	Sustainability at Bank of Ireland UK *(page 10)*	Inclusion and diversity *(page 19)*
	Equal Opportunities policy	Sustainability at Bank of Ireland UK *(page 10)*	Learning *(page 19)*
	Group Health and Safety policy	Conduct risk *(page 53)*	Wellbeing *(page 19)*
	Employee Data Privacy	Business and strategic risk *(page 52)*	Communities *(page 21)*
	Group Vulnerable Customers policy		People risk *(page 181)*
	Group Learning policy		
Respect for human rights	Modern slavery and human trafficking statement[1]	Operational Risk *(page 51)*	Information security *(page 22)*
	Group procurement policy		Operational risk *(page 181)*
	Group data protection and privacy policy		Human trafficking *(page 22)* Human rights *(page 22*
Bribery and corruption	Group Code of Conduct[1]	Sustainability at Bank of Ireland UK *(page 10)*	Code of conduct *(page 21)*
	Speak Up policy	Conduct risk *(page 53)*	Anti-bribery and corruption *(page 21)*
	Group Anti-Money Laundering policy (AML)		Anti-Money Laundering *(page 21)*
	Group Anti-bribery and Corruption policy		Conduct risk *(page 154)*
	Conflict of Interest Policy		
Diversity report	Board Diversity policy[1]	Corporate Governance arrangements *(page 62)*	Corporate Governance Statement *(page 76)*
Business model		Business operations *(page 30)*	Divisional Review *(page 61)*
Policies followed, due diligence and outcome		Risk management framework *(page 36)*	Risk management framework *(page 143)*
Description of principal risks and impact of business activity		Principal risks and uncertainties *(page 32)*	Principal risks and uncertainties *(page 135)*

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

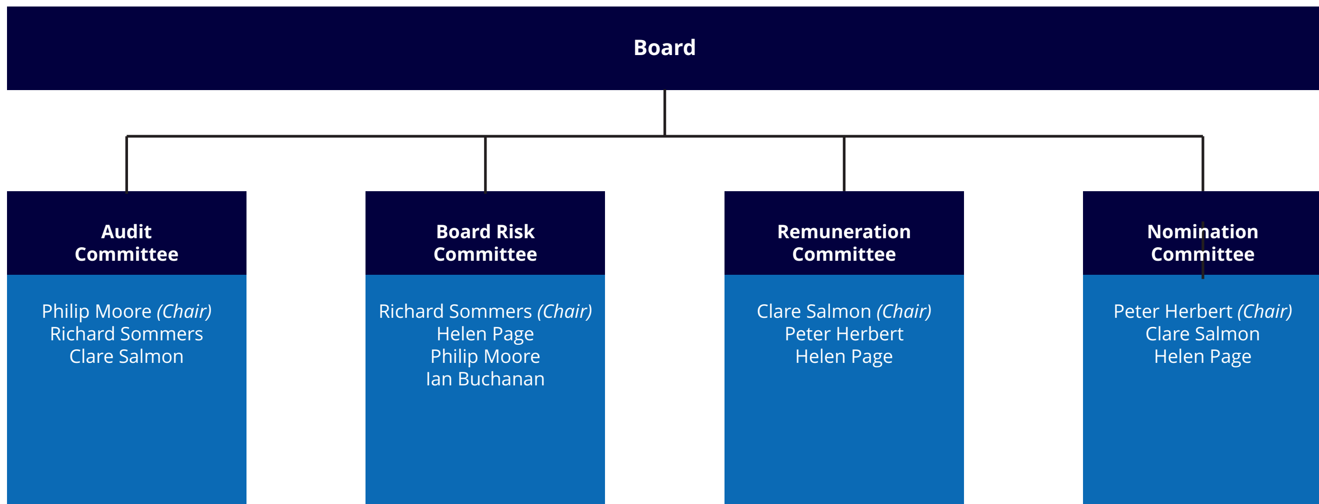
Governance structure

The Board is collectively responsible for the long-term sustainable success of the Group and ensuring there is a strong corporate structure in place. It provides leadership of the Group, setting strategic aims, within the boundaries of the risk appetite and a framework of prudent and effective controls. During 2023, the Board met 14 times. Further details are included in the Governance section on page 62.

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

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

Our Board



The Board is supported by a number of Committees:

Audit Committee
Philip Moore
Chair

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

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.

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.

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.

Section 172(1) Statement

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

S172 factor	Relevant disclosures
A) the likely consequences of any decision in the long term;	Our Strategy (page 8) Sustainability at Bank of Ireland UK (page 10)
B) the interests of the company's employees;	Sustainability at Bank of Ireland UK (page 10) Our Strategy (page 8)
C) the need to foster the company's business relationships with suppliers, customers and others;	Sustainability at Bank of Ireland UK (page 10) Our Strategy (page 8)
D) the impact of the company's operations on the community and the environment;	Sustainability at Bank of Ireland UK (page 10)
E) the desirability of the company maintaining a reputation for high standards of business conduct; and	Sustainability at Bank of Ireland UK (page 10)
F) the need to act fairly as between members of the company.	Our Strategy (page 8)

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 2023, see the Wates Principles in Corporate Governance Arrangements (page 62).
- Following internal review of the Board's effectiveness in 2022, actions implemented during 2023 to enhance Board effectiveness include:
  - continued improvements to Board papers and information, including monthly Board Management Information (MI);
  - re-appointed Colleague Engagement Director; and
  - continued quarterly, virtual Board visibility sessions as a way for different cohorts across the Group to engage directly with Board directors outside the Boardroom.
- External Assurance is received through auditors and other professional advisors, for example Kearney on ESG and EY on Consumer Duty.

Principal Decisions Made During the Year

In accordance with Section 172 of the Companies Act 2006, the Board took into consideration all stakeholders when making decisions for the Group. During 2023, 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 at the annual Board Strategy days, the Consumer Duty implementation plan, ILAAP, ICAAP and the Funding Strategy.

Stakeholder Engagement

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

Section 172(1) Statement *(continued)*

Stakeholder	How We Engage	Further Examples of Engagement
Shareholder	The Group is focused on delivering sustainable returns for its shareholder via a multi-year restructuring programme that began in 2020, with a continued focus on "value, rather than volume" enabling the Group to lower its funding and operating costs, and focus on higher margin businesses where it has the required expertise. Three of the Group's Board Directors are also members of the Parent's Group Executive and Group Executive Risk Committees. To ensure appropriate flow of information and representation between the Group Board and the Parent Board and the Parent's Group Executive Committee, three Parent-nominated non-executive directors sit on the UK Board and the Board regularly receives updates and reports from the Parent, including a twice-yearly update from the Chief Executive Officer of the Parent. In addition, at least annually, the Chairs of the Group Risk and Audit Committees attend their equivalent Parent Board Committees; with the Parent's Board Chair and Board Audit Committe Chairs attending equivalent Group meetings at least annually. Other informal interactions take place throughout the year between the Group and Parent Group Board and Board Committee Chairs.	- Business Review: 2023 key performance highlights (page 3) - Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 8)
Customers	The Group is focused on putting customer outcomes at the forefront of every decision. The Group's focus has been on delivering solutions aligned with FCA guidance and supporting all customers, and in particular those most vulnerable as a direct result of cost of living and inflationary pressures. The Board consistently reviews its customer strategy, receives updates on implementation and reviews progress at formal Board meetings and through regular interaction with and updates from management. The Board's understanding of customer perspectives is informed by deep dives on customer themes and customer complaints and underpinned by a focus on continued improvement in customer outcomes. The Group has established an Executive Customer Board which is responsible for oversight and delivery of the Group's Customer Plan through formalised engagement and collaboration between the Executive Committee (ExCo) members accountable and the business heads responsible for and/or significantly involved in its delivery. The Board has also appointed an independent non-Executive Director as Customer & Consumer Duty Champion to support and enhance Board discussions on good customer outcomes. In March 2021, the Group launched a new 3 year strategy "Investing in Tomorrow", an objective of which is to enhance customers' financial wellbeing (see page 4 of the Chair's Statement).	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 8) - Sustainability at Bank of Ireland UK (page 10) - Customer & Consumer Duty Champion
Society	The Group seeks to enable society to thrive, through a tangible and visible commitment that brings its purpose to life. The Group supports the wider community through charity and community activities and by playing an active role in society. Employees are actively involved in fundraising and volunteering in charitable events across the UK for a range of charities and community projects. In 2020, in conjunction with the Parent, the Group rolled out its new approach to community investment, Begin Together. Begin Together is a campaign across the island of Ireland to improve the financial, physical and mental wellbeing of society, while supporting the underlying local economies adjusting to the impacts of cost of living and inflationary pressues. An update on this work can be found in the CEO review. 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 strategy (page 8) - Sustainability at Bank of Ireland UK (page 10)
Colleagues	The Group's people are fundamental to the delivery of its strategy. The Group aims to be a responsible employer and is committed to enabling its people to thrive, ensuring they are engaged and have the skills and capabilities to serve customers brilliantly. The Board's understanding of employee perspectives is informed by direct engagement with colleagues including informal virtual 'Board visibility' and 'Colleague engagement ' sessions. In 2023, the Board re-appointed an independent non-executive director, Clare Salmon as Colleague Engagement Director. The objective of the Colleague Engagement Director is to ensure that Colleagues' views are heard and considered fully as part of Board decision-making. The Group's 3-year "Investing in Tomorrow" strategy, launched in March 2021, includes investing in new skills, such as digital, to strengthen the Group's digital capability and Colleagues' employability.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 8) - Sustainability at Bank of Ireland UK (page 10) - Colleague Engagement Director - Board representation at the Group-wide Recognition Awards

Section 172(1) Statement *(continued)*

Stakeholder	How We Engage	Further Examples of Engagement
Regulators	The Chair of the Board and Chairs of the Audit and Risk Committees regularly meet with regulators including the PRA and FCA. Core themes of discussion include regulation and supervision, risk governance and oversight, the future of the banking industry, operational resilience, strategic challenges and culture. In addition, Executive Directors meet regularly with regulators. The PRA attended a Group Board meeting in September 2023. The FCA announced in January 2024 that they are using their powers under Section 166 of the Financial Services and Markets Act 2000 to review historical motor finance commission arrangements and sales across several firms. The Group's motor finance business is participating in the FCA's review of historical commission arrangements, with an update expected later in the year.	- Sustainability at Bank of Ireland UK (page 10) - Principal Risks and Uncertainties (page 32) - Credit Risk (page 41) - Conduct Risk (page 53) - Regulatory Risk (page 50)
Suppliers	The Group assesses its suppliers across a number of key risk areas, at the on-boarding stage for all suppliers and annually thereafter for suppliers providing services of high criticality and dependency to the Group. Additionally, the Group conducts its business in a responsible and sustainable manner. Central to this is the Group Code of Supplier Responsibility. This code is supported by the Group procurement policy and ongoing supplier due diligence which assesses supplier behaviours and capabilities. 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 40. 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 8)
Partners	The Group's strategy has been designed to enable its customers, colleagues and society to thrive. This is achieved through the distribution of simple, flexible, financial services to UK customers both directly and through partnerships with well-known UK brands. These include a financial services relationship and foreign exchange joint venture with the PO; partnering with a number of intermediaries via the Group's mortgage business; a full service retail and commercial bank in NI; and a car and asset finance business throughout the UK, under the Northridge Finance and Marshall Leasing business brands.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 8) Sustainability at Bank of Ireland UK (page 10)
Environment	The Group recognises that combating climate change is one of the greatest challenges of global society and understands the important role it has in facilitating the transition to a resilient, low-carbon economy. The Group is committed to working together with customers, colleagues and society to support the transition to a resilient, net zero economy by 2050, in line with UK government ambitions. The Board considers the risks of climate change seriously in setting the long term sustainable strategy for the Group, and has delegated responsibility to the BRC to oversee the plan for managing the financial risks from climate change in relation to its overall business strategy and risk appetite, through regular risk reporting and other related exercises.	- Sustainability at Bank of Ireland UK (page 10) - Principal Risks and Uncertainties (page 32)

Financial Review

Basis of presentation

The strategic report has been presented on a consolidated basis for the years ended 31 December 2023 and 31 December 2022.

Percentages presented throughout this document are calculated on the absolute actual 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 41.

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

2023 Financial results

Statutory profit before tax
£331m
(2022: £251m)

Underlying profit before tax
£331m
(2022: £278m)

Reduction in statutory operating expenses
10%/£25m
(2022: 9%/£25m)

Impairment loss
£43m
(2022: £64m)

Group income statement

2023

Summary consolidated income statement	Underlying basis[1] £m	Non-Core items: Strategic portfolio divestments £m	Non-Core items: Transformation investment costs £m	Statutory basis £m
Net interest income	561	22	-	583
Net other income	(15)	3	-	(12)
Total operating income	**546**	**25**	**-**	**571**
Operating expenses	(214)	(21)	13	(222)
Operating profit/(losses) before net impairment losses on financial instruments	**332**	**4**	**13**	**349**
Net impairment gains/(losses) on financial instruments	(26)	(17)	-	(43)
Profit on sale of property, plant and equipment	-	-	-	-
Share of gain after tax of joint venture	25	-	-	25
Profit before taxation	**331**	**(13)**	**13**	**331**
Taxation charge				(72)
Profit for the period				**259**

2022

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

[1] *Underlying profit before taxation excludes non-core items which the Group believes obscure the underlying performance trends in the business. Refer to page 27 for further details.*

Group income statement *(continued)*

For further information on performance measures referred to, see page 167.

The Group income statement on page 26 provides a reconciliation between the statutory profit before tax of £331 million (2022: £251 million) and the underlying profit before tax of £331 million (2022: £278 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 2023:

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

During 2023, the Group realised a charge, for strategic portfolio divestments, of £13 million (2022: £nil). In December 2023, the Group announced the conclusion of its financial services partnership with the AA. Additionally, the Group ceased the provision of unsecured personal loan products under the Bank of Ireland UK and PO brand. From September 2023, income and expenditure relating to personal lending business lines has been classified as non-core, strategic portfolio divestments. At 31 December 2023 this business line had loans to customers of £1 billion. Included within this overall net charge was income of £25 million, expenditure of £21 million and impairment charges of £17 million.

During 2023, the Group recognised a gain of £13 million in relation to amounts received in respect of transformation projects.

Statutory profit before tax of £331 million in 2023 was £80 million higher than 2022, driven by the factors listed below.

Statutory net interest income increased by £28 million or 5% compared to the previous year. This increase was primarily driven by the marco economic environment, with gains arising from the increased BOE base rate improving margins, combined with strong lending volumes with the continued focus on value over volume.

Statutory net other income increased by £10 million. This is primarily due to our asset finance business benefiting from the buoyant used car market.

Statutory operating expenses of £222 million decreased by £25 million, primarily reflecting operating efficiencies including the reduction of staff costs and under spend across a number of projects. The Group continued to focus on reducing its operational costs, while maintaining transformational investment in regulatory compliance, technology and business growth.

The Group recognised a net impairment charge of £43 million on financial instruments in 2023 (2022: £64 million), an overall decrease of £21 million on the previous year. The charge in 2023 reflects: the impact on IFRS 9 models of Forward Looking Information from the Group's latest macro-economic outlook; a management adjustment related to the sale of non-performing exposures within the business banking portfolio and actual loan loss experience in the year.

Approximately 70% of the impairment loss was recognised for assets that are not credit-impaired consistent with the recognition of expected credit loss under IFRS 9.

During Q4 2023, the Group completed a non-performing exposures disposal transaction. This was made up of gross business banking lending balances of £36 million, of which, all were Stage 3. All balances within this disposal transaction have been derecognised from the balance sheet. The Expected Credit Losses (ECL) utilitised as a result of the transaction was £9 million.

Income from the joint venture relates to the Group's foreign exchange joint venture with the PO, First Rate Exchange Services Holdings Limited (FRESH). The profit in 2023 decreased by £3m from 2022, which benefited from increased travel post the removal of the Covid 19 travel restrictions. For further information refer to note 20.

The **taxation charge** for the Group was £72 million compared to £23 million for 2022. The effective tax rate for the year ended 31 December 2023 was 22% (2022: 17% after the exclusion of a tax credit of £19 million arising from the reassessment of the value of tax losses carried forward). For further information on the taxation charge refer to note 13.

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

Group balance sheet

Summary consolidated balance sheet	2023 £m	2022 £m	Change %
Cash and balance with central banks	2,213	2,239	(1%)
Loans and advances to banks	1,248	1,461	(15%)
Loans and advances to customers	14,148	14,018	(1%)
Fair value changes of the hedged items in portfolio hedge of interest risk	(100)	(276)	64%
Debt securities at amortised cost	489	528	(7%)
Total other assets	834	901	(8%)
Total assets	**18,832**	**18,871**	**(0%)**
Deposits from banks	3,237	3,107	4%
Customer accounts	11,815	12,222	(3%)
Fair value changes of the hedged items in portfolio hedge of interest risk	(44)	(130)	66%
Subordinated liabilities	190	190	-
Debt securities in issue	549	379	45%
Total other liabilities	1,446	1,458	(1%)
Total liabilities	**17,193**	**17,226**	**(0%)**
Equity attributable to owners of the parent	1,639	1,645	(1%)
Total equity and liabilities	**18,832**	**18,871**	**(0%)**
Statutory return on tangible equity	15.9%	14.8%	
Return on assets[2]	1.32%	1.21%	
Loan to deposit ratio	120%	115%	
Liquidity coverage ratio (LCR)	168%	178%	
Net stable funding ratio	135%	135%	

Loans and advances to customers	2023		2022	
	£m	% of book	£m	% of book
Residential mortgages	9,811	69%	9,742	68%
Non-property SME and corporate	1,306	9%	1,355	10%
Commercial property and construction	216	1%	274	2%
Consumer	2,966	21%	2,831	20%
Loans and advances to customers (before impairment provisions)	**14,299**	**100%**	**14,202**	**100%**
Impairment provisions	(151)		(184)	
Loans and advances to customers (after impairment provisions)	**14,148**		**14,018**	

The Group's **cash and balances with central banks**, which is cash placed with Bank of England, decreased slightly year on year by £26 million at 31 December 2023, as a result of the optimisation of the funding position of the Group in line with the funding strategy.

The Group's **loans and advances to banks** of £1.2 billion decreased year on year by £0.2 billion since 31 December 2022, due to decreases in amounts due from the Parent.

Loans and advances to customers of £14.1 billion increased by £0.1 billion primarily reflecting gross new lending of £3.6 billion offset by redemptions of £3.5 billion.

Gross new lending of £3.6 billion is £0.7 billion higher when compared to 2022 due to the increase in volumes particularly across the mortgage and asset finance portfolios with a continued focus on value and margin.

New mortgages originated during 2023 were £1.7 billion, offset by, equivalent repayments and redemptions on the existing portfolio, resulting in the mortgage book remaining in line with 2022.

Northridge Finance net lending volumes increased by £0.4 billion in the year. New lending increased by £0.3 billion on 2022.

Gross new commercial lending was £0.1 billion in 2023, partially offset by repayments of £0.1 billion.

During 2023, the impairment provision on loans and advances to customers of £43 million decreased by £21 million compared to 31 December 2022. Further details are included in note 13.

Debt securities at amortised cost of £0.5 billion comprises £0.1 billion of UK Government treasury bills, £0.2 billion of Multilateral Development Bank bonds and £0.2 billion of UK covered bonds at 31 December 2023.

Other assets decreased by £67 million with other liabilities also decreasing by £12 million, this is driven by moves on derivative financial instruments.

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

Group balance sheet *(continued)*

Customer accounts decreased by £0.4 billion to £11.8 billion at 31 December 2023, reflecting the Group's strategy to optimise its funding mix.

Customer accounts	2023 £m	2022 £m
Bank of Ireland deposits and current accounts	5,624	6,180
PO deposits	6,111	5,881
AA deposits	80	161
Total customer accounts	**11,815**	**12,222**

Deposits from banks of £3.2 billion at 31 December 2023 increased by £0.1 billion.

Debt securities in issue were £549 million at 31 December 2023 (2022: £379 million), increasing by £170 million from 2022 due to a increase in mortgage backed securities.

The Group's LCR decreased to 168% at 31 December 2023 (2022: 178%), reflecting the impact of decreases in cash and balances with central banks, and decreases in customer accounts.

The Group's equity of £1.6 billion is £6 million lower than 2022.

Retained earnings remained in line with 2022 primarily due to profit for the year of £259 million offset by £250 million dividend paid. Further details are included in note 40.

Return on tangible equity	2023 Statutory basis £m	2023 Underlying basis £m	2022 Statutory basis £m	2022 Underlying basis £m
Profit for the period attributable to shareholders	259	259	228	228
Coupon on AT1 securities, net of tax	(7)	(7)	(7)	(7)
Amortisation of intangible assets, net of tax	1	1	3	3
Reassessment of tax losses carried forward (see note 13)	-	-	-	(19)
Non-core items, net of tax (see page 26)	-	-	-	(19)
	253	**253**	**224**	**186**
Shareholders' equity, excluding AT1 capital	1,489	1,489	1,495	1,495
Intangible assets and goodwill	(27)	(27)	(28)	(28)
Shareholders' tangible equity	**1,462**	**1,462**	**1,467**	**1,467**
Average shareholders' tangible equity	**1,596**	**1,596**	**1,520**	**1,520**
Return on tangible equity	**15.9%**	**15.9%**	**14.8%**	**12.3%**

Capital

31 December 2022			31 December 2023	
Regulatory[1] %	Fully loaded[2] %		Regulatory[1] %	Fully loaded[2] %
		Capital ratios[3]		
18.4%	18.2%	Common equity tier 1	17.9%	17.8%
20.2%	20.1%	Tier 1	19.8%	19.7%
22.8%	22.7%	Total capital	22.2%	22.1%
9.2%	9.1%	Leverage ratio	9.4%	9.3%

The Group is strongly capitalised with a total capital ratio on a regulatory basis of 22.2% (2022: 22.8%). Total regulatory capital resources decreased by £6 million to £1.76 billion. For further information on underlying figures used in calculation of capital ratios please refer to page 55. For information on basis of calculation please refer to page 167.

The Group redeemed its existing MREL eligible Senior Non-Preferred Debt of £300 million at its call date on 11th December 2023 and issued a new £200 million instrument to the Parent on the same date.

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

Income statement - by business unit

The Group manages the business operations under three units:

- GB Consumer Banking - offering mortgages, personal loans and deposits through our agreement with the PO and other intermediaries, as well as motor financing and leasing services through Northridge asset finance and Marshall Leasing businesses.
- NI - a full service retail bank operating through a distribution network of branches and business centres and via direct channels (telephone, mobile and on-line). The Bank is also authorised to issue bank notes in NI. There is also a legacy commercial lending business which is undergoing a continued programme of deleveraging, which is now managed under the NI business.
- Group Centre - centralised management of risk and control functions and the Group's funding, liquidity and capital positions.

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

Income statement - by business unit *(continued)*

2023 Consolidated income statement	GB consumer banking £m	NI £m	Group centre £m	Total £m
Operating income	382	146	18	546
Operating expenses	(134)	(80)	-	(214)
Operating profit / (loss) before net impairment losses on financial instruments	**248**	**66**	**18**	**332**
Net impairment losses on financial instruments	(38)	12	-	(26)
Share of profit of joint venture	25	-	-	25
Profit / (loss) on disposal of business activities	-	-	-	-
Underlying profit / (loss) before taxation	**235**	**78**	**18**	**331**
Non-core items	(13)	-	13	-
Statutory profit before taxation	**222**	**78**	**31**	**331**

2022 (restated)[1] Consolidated income statement	GB consumer banking £m	NI £m	Group centre £m	Total £m
Operating income	370	147	16	533
Operating expenses	(147)	(73)	-	(220)
Operating profit / (loss) before net impairment losses on financial instruments	**223**	**74**	**16**	**313**
Net impairment losses on financial instruments	(39)	(25)	-	(64)
Share of profit of joint venture	28	-	-	28
Profit / (loss) on disposal of business activities	-	1	-	1
Underlying profit / (loss) before taxation	**212**	**50**	**16**	**278**
Non-core items	-	-	(27)	(27)
Statutory profit before taxation	**212**	**50**	**(11)**	**251**

GB Consumer Banking

The statutory profit of GB Consumer Banking increased by £10 million compared with 2022. This is primarily due to increased income of £12 million due a strong performance in our asset finance business and a decrease in operating expenses of £13 million due to the reclassification of personal loans to non-core during the year. This is offset by a slight reduction in impairments of £1 million and a non-core net expense during 2023 of £13 million relating to strategic portfolio divestments.

NI

Statutory profit in NI increased by £28 million, with income in line compared to 2022, and a £7 million increase year on year in operating expenses. Impairments decreased by £37 million year on year, resulting in a net credit of £12 million.

Group Centre

The Group Centre underlying profit increased by £2 million over 2022. Statutory profit increased by £42 million year on year due to non-core transformation investment costs incurred in 2022, offset by a gain, during 2023, of £13 million in relation to previously incurred expenditure for transformation investment.

[1] *2022 figures restated due to a change in cost allocation methodology, £22 million has been reallocated from Group centre to the trading business lines to better reflect individual business unit performance.*

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 continues to face a diverse set of challenges including macroeconomic uncertainty and geopolitical instability, with uncertainty regarding the FCA review of industry-wide motor finance commission practices and monitoring of on-going regulatory change.

In addition there are a range of challenges posed by externally driven regulatory change, these include:

(i) Consumer Duty regulation which remains a key organisational focus with ensuring good outcomes at the heart of all decision-making processes;

(ii) Operational Resilience requirements which come into full effect on 31 March 2025; and

(iii) Required Reimbursement protocols relating to APP fraud which come into effect on 7 October 2024.

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.

All key risk types have in place:
- clearly communicated policies;
- a board approved risk appetite monitored monthly;
- regular reporting via the monthly CRO report to ERC, BRC and Board;
- ongoing monitoring of change horizon and industry developments; and
- Operational Risk reporting to the ERC, BRC and Board.

Credit risk *Section 2.1*

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.

Key controls and mitigating factors
- Exposure limits for credit concentration risk and credit categories.
- Defined credit processes and controls, to support credit decisioning (auto accepts and referrals), affordability assessments, ongoing credit quality assessments and arrears/NPE management.
- Processes to monitor compliance with policies, limits and discretions.
- Enhanced management of credit risk associated with customers affected by the economic impacts of elevated inflation and interest rates.
- Dedicated structures focused on the management of customers in financial difficulty.
- Strategic asset sales.

Funding and liquidity risk *Section 2.2*

A loss of confidence in the Group's business, the financial services industry, partner brands, or the Parent, or 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.

Key controls and mitigating factors
- Funding and liquidity procedures and methodologies in place.
- Comprehensive liquidity monitoring framework including daily monitoring and management.
- Annual Board approved forward looking ILAAP.
- Strategic plan articulating and quantifying deposit projections, wholesale funding and lending projections for the Group.
- Recovery Plan and Resolution Plan in place with annual updates.
- Maintenance of liquid assets and contingent liquidity available for use with market counterparties and/or in liquidity operations offered by the Bank of England.

Regulatory risk

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.

Key controls and mitigating factors
- 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.

Principal risks and uncertainties *(continued)*

Operational risk *Section 2.5*

Failing to adequately manage operational risks inherent in the organisation's processes could lead to risk events across four categories:
1. Financial Loss;
2. Customer Detriment or Inconvenience;
3. Regulatory Breach; and
4. Reputational Damage.

Where such impacts are severe or critical, this could result in an adverse impact on the Group's financial position and risk to the continuance of Important Business Services (and Mission Critical Services).

Key controls and mitigating factors

- Risk management framework, policies and standards covering all key operational risk types including Information Technology, Information and Cyber Security, Sourcing, Operational Resilience and Data Risk.
- Defined processes with controls identified, monitored and tested and ongoing cyclical and trigger based Risk and Control Assessment activity.
- Group-wide education and training in place.

Financial Crime

Financial Crime includes risk that:

- **The Group facilitates money laundering or terrorist financing in breach of law or regulation.**
- **The business activity is undertaken through the Group in breach of sanctions regulations.**
- **Financial loss occurs when an internal or external party acts dishonestly with the intent to obtain an undue benefit, cause a loss to, or to expose the Group or its customers to a risk of loss.**
- **Group employees or third parties engage in bribery or corruption that benefits the Group.**
- **The Group facilitates tax evasion by its customers.**

Key controls and mitigating factors

- A robust Financial Crime RMF, including specific policies, standards and risk mitigation measures for financial crime risks, anti-money laundering (AML), countering the financing of terrorism (CFT), sanctions, facilitation of tax evasion risk, fraud risk and anti-bribery and corruption.
- Risk based systems and controls for automated customer due diligence and risk assessment, customer and payments screening (including sanctions), and transaction monitoring and fraud monitoring.
- Annual entity wide AML, CFT and Sanctions risk assessments measuring the level of inherent and residual financial crime risk for the Group, and the robustness of the control environment.
- Ongoing monitoring of the threat environment ensures effective risk mitigation measures are in place to address threats within the national context and wider geopolitical events, such as the war in Ukraine.
- Group-wide education and training in place.

Business and Strategic risk *Section 2.6*

Risks include:

- **Adverse changes in the Group's revenue and/or costs resulting in reductions in ROTE.**
- **Enhanced competition in chosen markets adversely reducing acquisition volume and / or margin performance.**
- **Economic conditions driving uncertainty or shifts in consumer behaviour in chosen markets, including ESG factors.**
- **Non-generation of sustainable returns over the medium to long term adversely impacting the franchise value.**

Key controls and mitigating factors

- A clearly defined multi-year strategic plan (including ESG) is developed within the boundaries of the Board approved risk appetite and risk identity, ensuring balanced growth, with a focus of value over volume in lending with an appropriate stable funding profile.
- Monitoring of the economic and competitive environment, with additional analysis undertaken in response to the cost of living crisis, particularly the impact on affordability.
- Performance against the strategic plan and clearly defined KPIs are monitored at both Executive and Board level through comprehensive reporting supported by close monitoring of competitor product developments.
- Portfolio deep dives reviewed by Board periodically.
- 2LOD oversight and challenge of the strategic proposals and risk assessments.
- Product pricing mandates approved and monitored by the Assets and Liabilities Committee (ALCO). Pricing policy and framework, return on capital framework and transfer pricing documentation subject to annual review by ALCO.
- Robust ICAAP process subject to Executive and Board review includes base and stress scenario analysis and risk assessments.
- Intra-year re-forecasting of financial projections which are subject to Executive and Board review.
- ESG framework in place which is reviewed annually by the ERC.

Principal risks and uncertainties *(continued)*

Reputation risk

Adverse public, regulatory or industry opinion, resulting from the actual or perceived manner in which the Group conducts its business activities may adversely impact the Group's ability to have a positive relationship with key stakeholders and/or strategic partners and/or keep and attract customers.

Key controls and mitigating factors

- The Group seeks to manage its reputational risk through the proactive prevention of customer and business issues that would lead to adverse public, industry or stakeholder reaction.

  The tools employed in the management process include:
  (i) having in place and embedding a positive customer conduct culture that puts the delivery of good outcomes at the heart of its business and decision making;
  (ii) proactive and ongoing business partner management where issues arise;
  (iii) employing media monitoring and social listening tools which aim to ensure that crystallising issues are identified; and
  (iv) people policies which guide and inform positive behaviour.

Conduct risk *Section 2.7*

The failure by the Group to act to deliver good outcomes to its customers could lead to both financial and / or non-financial harm being caused to the Group's customers. This could lead to a consequential need to remediate impacted customers, a potential loss of business, adverse media coverage, financial penalties and / or other regulatory sanction.

Key controls and mitigating factors

- A Conduct Risk Framework which sets out the approach to conduct risk management.
- Consistent regular reporting on the conduct risk profile of the Group against defined drivers of conduct risk, complaints oversight and root cause analysis reviewed at R&ORC, Customer Board, BRC and Board.
- Assurance processes in place and where issues are identified, swift action to address is taken with oversight from ERC, BRC and Board.
- A dedicated Customer Board to oversee the customer experience.
- Culture strategy developed based on the outcomes we wish to deliver guided by the Group's values.
- Group-wide education and training in place.

Key themes under focus

Environmental, Social and Governance risk

The Group recognises ESG and climate-related considerations continue to be a growing agenda item for financial institutions and stakeholders. ESG risks and opportunities will continue to impact how the Group implements its strategy, business model, customer offering and how it manages risk in the Group. 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. In addition the focus from a stakeholders (investors, regulators, customers, colleagues, etc) and wider societal expectations is seeing an expanding of expectations from largely climate driven focus to the wider ESG agenda with increasing emphasis on a fairer and inclusive society.

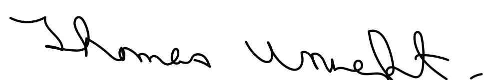
Key controls and mitigating factors

- Conducting the Group's business in a responsible and sustainable way is fundamental to achieving its purpose of enabling its customers, colleagues and communities to thrive. Sustainability is embedded in the Group Strategy as one of the Group's core strategic pillars (Sustainable Company).
- How the Group will achieve this aim is set out in the Group Sustainability Strategy which supports the Group Strategy through its three ESG pillars: Enabling Colleagues to Thrive, Enhancing Financial Wellbeing and Supporting the Green Transition.
- The Group recognises ESG factors (including climate related risks) represent a common risk driver across the Group's Principal Risk types and the Group ESG Risk Management Framework sets out the approach to the management of ESG risk factors in the Group. The Board Risk Report is the primary source of reporting for the impact of ESG related risks on the Group's risk profile.

Principal risks and uncertainties *(continued)*

Key themes under focus
Macroeconomic conditions and geopolitical uncertainty
The Group's businesses may be affected by adverse economic conditions in countries where we have exposures, particularly in the UK, with changes in interest rates and significant inflation creating potential challenges for the firm's customers and internal risk management processes. Geopolitical uncertainties could impact economic conditions thereby potentially reducing returns. The Group businesses may be affected by political, economic, financial and regulatory uncertainty from time to time in its key markets. The Israel-Palestinian conflict, coupled with the continued fallout from Russia's invasion of Ukraine, has the potential to create further inflationary pressures, in particular on oil prices, and create supply chain issues that could impact the global economy. There is also a risk of other countries being drawn into the conflict in the Middle East, further exacerbating the situation, potentially impacting the UK economy, investment markets, and consumer sentiment. The potential impacts of these macroeconomic and geopolitical dynamics represent a risk to the Group in its markets and this could manifest in adverse impacts to pricing, customer confidence and credit demand, collateral values, and customers' ability to meet their financial obligations.
Key controls and mitigating factors • The Group monitors the risks and impact of changing current and forecast macroeconomic conditions on the likely achievement of the Group's strategy and objectives. • The Group manages its exposures in accordance with principal risk policies including maximum single counterparty limits and defined country limits. • The Group has in place a comprehensive stress and scenario testing process. • The Group is diversified in terms of asset class, industry and funding source.

The Strategic report on pages 8 to 35 is approved by the Board of Directors and signed on its behalf by:



Tom Wright
Director

23 July 2024

Company number: 07022885

Risk Management

Index | Page

		Page
1	**Risk management framework**	**37**
1.1	Risk governance	37
1.2	Risk culture, strategy and principles	39
1.3	Risk identity and risk appetite	39
1.4	Risk identification, measurement and reporting	40
1.5	Recovery and resolution planning	40
2	**Management of key risks**	**41**
2.1	Credit risk	41
2.2	Funding and liquidity risk	46
2.3	Market risk	49
2.4	Regulatory risk	50
2.5	Operational risk	51
2.6	Business and strategic risk	52
2.7	Conduct risk	53
3	**Capital management**	**54**

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 81. All other information in the Risk Management Report is additional disclosure and does not form part of the audited financial statements.

1 Risk management framework *(unaudited)*

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

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

Ultimately, the RMF exists to protect the Group. Implementing the RMF across the Group helps us achieve our strategic pillars of stronger relationships, simpler business, and sustainable company.

Principal risk categories

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

1.1 Risk governance

The Board has ultimate responsibility for the governance of risk at the Group. Oversight of risk activities is achieved through a risk governance structure designed to facilitate the risk identification, assessment, monitoring, mitigating and ultimate reporting on risk activities and material considerations to the Board.

Risk governance is exercised through the decision-making authority vested in Risk Committees and accountable officers.

Risk in the Group is controlled within the Risk Governance Framework and by the Board of Directors (Board), the BRC and other appointed committees, for example ERC and ALCO.

Further details outlining the key responsibilities of the Group's Board Level risk committees can be found on page 22 within the Corporate Governance Arrangements.

The ERC is the most senior executive risk committee and is established as the principal Risk Committee for the end-to-end proactive risk management and oversight of the Firm's strategy. It is chaired by the CRO and its membership comprises members of the ExCo and control function executives. It met 21 times during 2023.

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.

1.1 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. The Committee, in line with Consumer Duty, is also responsible for customer product pricing and fair value assessments.
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 Credit 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 Regulatory, Conduct and 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 oversight and challenge at the point of launch or change of any climate related product proposition and climate related claims made by those products proposed by the Group.
Outsourced Services Executive Partnership Committee	Joint management meeting established between the Group and the Parent to ensure strategic alignment, resolve any issues, act as the top level of escalation and maintain an overall view of the Intra-Group service performance and associated risks.

Three lines of defence approach

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

First line of defence (1LOD) – Primary responsibility for managing risk within Risk Appetite, policies and pre-defined triggers.

Second line of defence (2LOD) – Establishing the risk policies under which 1LOD line activities should be managed and taking reasonable steps to ensure that the Group does not suffer outcomes outside of Risk Appetite. This involves:

- Setting and owning Risk Policy, and standards which must be implemented by the 1LOD.
- Ensure that standards are reliably adhered to and thereby ensure a high level of confidence that there are unlikely to be outcomes outside of Risk Appetite.
- Establishing Limits and Triggers to minimise the possibility of having an outcome outside of the Risk Appetite of the Group.
- Using standard methods to conduct oversight of the risk types associated with activity and inadequate controls.
- Independently review, oversee, and monitor the performance of the financial balance sheet and process universe against pre-defined control tolerances.
- Ensuring that and escalation obligations are adhered to.

Third line of defence (3LOD) – Ensuring the 1LOD and 2LOD assess and identify all significant risks and they are appropriately managed and reported by management to the executive and board as well as assessing the adequacy of risk controls.

1.2 Risk culture, strategy and principles

Risk culture

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

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

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

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

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

Risk strategy

The Group's overarching risk strategy is to:

- set and maintain the Risk Management Framework to ensure that the Group has clearly identified and classified the risks it faces;
- set its Risk Appetite through statements of risk tolerance and quantitative limits; and
- through adherence with Risk Policy observe these tolerances and limits as boundaries to its business strategy.

This is achieved through appropriate processes, controls, reporting, and governance in place which enable the Group to:

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

Risk management principles

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

1. Risk Identification and Assessment

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

2. Risk Policies

To ensure that the Group is managed within Risk Appetite there is one set of high-level instructions ('Risk Policy') covering Principal Risk and sub risks. These Risk Policies are owned by the 2LOD Risk function and set out the mandatory minimum standards for the management and mitigation of each such risk.

3. Risk Appetite

The Group's Risk Appetite and the setting of management triggers allows the Group to design its business processes to operate within management accepted risk levels.

The principal risk types are outlined from page 32.

4. Stress Testing and Scenario Analysis

Risk arises when less predictable or unanticipated events materialise. Stress Testing and Scenario Analysis is used to assess potential impacts and ensure adequate controls are in place so that the Group can continue to operate within Risk Appetite.

5. Risk Monitoring and Reporting

Reporting of risk is how the Group ensure management and governance forums can monitor the maintenance of the Group's risk profile within risk appetite. Furthermore, it is a means for bringing management attention to significant changes in the risk profile which bring into question whether the Group can remain within risk appetite in the future, thereby enabling the Group to respond effectively and in a timely manner.

1.3 Risk identity and risk appetite

Risk Identity

The Group's purpose is enabling our customers, colleagues and communities to thrive. In the UK, this is achieved through the vision of being a leading UK multi-niche Bank, delivering market leading propositions and expertise where we chose to compete.

To achieve the Group's risk strategy, the Group operates a strong RMF and risk culture whilst pursuing an appropriate return for the risk taken.

Risk Appetite

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

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

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

The Group strives to ensure it operates within its risk appetite and therefore its risk appetite and risk profile must be aligned. Where the Group has a risk profile that is in excess of its risk appetite, it will take action to realign the risk profile through increased risk mitigation activities and risk reduction. The key risk mitigating activities are set out on pages 32 to 35 within the Strategic report.

1.4 Risk identification, measurement and reporting

Risk identification

The identification of potential and crystallised adverse risks and issues is a fundamental in managing the risks within any business or process.

Financial risks originate in the Group's business and primarily reside in the balance sheet. Financial risks are identified in the lending, funding and hedging processes for credit and market risks, and quantified in terms of potential financial impacts. Similarly for funding, liquidity and capital adequacy risks, risk assessment processes such as the ICAAP and ILAAP are used to identify, categorise, quantify, and control the risks to the Group.

Operational risks originate in the activities the Group conducts. 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 32 to 35 of the Strategic report.

Risk measurement

Certain principal risks are measured, managed and reported using risk models in line with the risk policies and management procedures.

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

Risk arises when less predictable or unanticipated events can materialise. It is important that they are considered and mitigating controls and actions are put in place to ensure that the Group can continue to operate within risk appetite in that event.

Scenario stress modelling is used to assess the resilience of the Group to withstand the impact of a severe stress event and ensure adequate controls and mitigation are in place.

The outputs of stress testing are used by the Group to inform risk appetite by assessing unlikely but plausible scenarios that may result in severe earnings volatility. This allows stress testing metrics to be used in setting risk appetite so that earnings volatility in periods of stress is maintained at an acceptable level through appropriate management actions and mitigants.

Stress testing outputs are an integral component of the ICAAP and ILAAP which is used to assess the Group's ability to continue to meet its capital and liquidity requirements under severe but plausible adverse conditions.

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

Risk reporting

Reporting of risk is how we ensure management and governance forums can monitor the maintenance of the Group's risk profile within risk appetite.

The Office of the Chief Risk Officer is responsible for reporting on the Group's Risk Profile at an aggregate level. Risk reports are designed to report against principal risks and sub risks in a structured and consistent way so that the usability of reports is consistent across risk types and Risk Committees.

Monthly Board level reporting updates on material risks, key risk issues and performance against core risk appetite metrics to the Board.

1.5 Recovery and resolution planning

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

2 Management of key risks

2.1 Credit risk

Key points:

- The Group implemented a range of controls, targeted MI and affordability enhancements to reflect prevailing macro-economic conditions and in anticipation of increased borrower financial stress.
- The Group additionally implemented the provisions of the Mortgage Charter during the second half of 2023, to further support those borrowers at increased risk of financial stress through elevated interest rates.
- 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.
- A portfolio securitisation of non-performing exposures from Business banking was sold by way of transfer of beneficial interest in 2023. The transaction comprised £37.1 million gross balances, of which all were Stage 3. The ECL utilised as a result of the transaction was £9.1 million. The transaction sees both the Business Banking Stage 3 balances and ECL reduce from December 2022.

2.1.1 Definition of credit risk *(audited)*

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

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

Default risk
The risk that individuals or companies (counterparties) will be unable to meet the required payments on their debt obligations.

Country risk
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.

Credit quality deterioration risk
The potential for loss due to a ratings downgrade (e.g. Probability of Default (PD) or IFRS9 stage migration).

Collateral risk
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
The risk of loss due to excessive 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.

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

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

2.1.2 Credit risk management *(audited)*

Credit risk statement
The Group's credit strategy is to underwrite credit risk within a clearly defined Board approved risk appetite. This is done through the extension of credit to customers and financial counterparties in a manner that results in an appropriate return for risks taken and on the capital employed within Board approved risk parameters.

Credit risk management – retail and commercial lending
The management of credit risk is focused on a detailed analysis at origination, followed by early intervention and active management of accounts where creditworthiness has deteriorated.

Credit policy
The core values and principles governing the provision of credit are contained in the Credit Risk Policy and Risk Management 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 Risk Appetite,

2 Management of key risks *(continued)*

2.1.2 Credit risk management *(audited)*

applicable sectoral credit limits, the markets in which the Group operates and the products provided.

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

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

Credit risk measurement
All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The use of internal credit rating models, tailored credit scoring tools and reference to extensive performance data from credit reference agencies, enables measurement of the relative degree of risk inherent in lending to specific counterparties and is central to the credit risk assessment and ongoing management processes in the Group. Details of these internal credit rating models are outlined in the section on credit risk methodologies on pages 43 to 45.

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

An analysis of the Group's impairment loss allowances at 31 December 2023 is set out in notes 11 and 19.

2.1.3 Credit risk mitigation *(audited)*

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

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

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

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

The Group's requirements around completion, valuation and management of collateral are set out in appropriate Group or business unit policies and procedures. Details of the valuation methodologies are set out in the credit risk methodologies section on page 43.

2.1.4 Credit risk reporting and monitoring *(audited)*

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

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

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

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;
- modified and tighter lending criteria for specific sectors; and
- portfolio sales of non-performing exposures.

Forbearance strategies

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.

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

For further detail refer to Group Accounting Policies on page 81.

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 ECL (not credit-impaired)**
- **Stage 2 – Lifetime ECL (not credit-impaired)**
- **Stage 3 – Lifetime ECL (credit-impaired)**
- **POCI:** Financial assets that were credit- impaired at initial recognition

Further information on staging definitions and the approach to identifying a 'significant increase in credit risk since initial recognition' and in identifying credit-impaired assets is outlined in Group Accounting Policies on page 81.

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'.

Non-performing exposures

(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 loans meeting NPE criteria as aligned with EBA regulatory requirements.

Quantitative information about credit risk can be found in the credit risk exposures note on page 121 in the financial statements.

2.1.7 Credit risk methodologies *(audited)*

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

Internal credit rating models

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

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

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

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

PD Calculation

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

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

2 Management of key risks *(continued)*

2.1.7 Credit risk methodologies *(audited)*

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.

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.

Approach to measurement of impairment loss allowances
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 45, noting further that Forward Looking Indicators (FLI) 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 19 of the financial statements.

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

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

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

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

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

For the year ending 31 December 2023, management assessed the modelled PD estimates, with reference to updated macroeconomic forecasts, and determined that incorporation of management judgement into PD estimates was not required.

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

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

IFRS 9 Loss Given Default
Current point-in-time LGD is the loss that would be incurred should default occur in the next 12 months. To facilitate the calculation of lifetime ECL, future point-in-time LGDs are calculated for each year from the start of year 2 to maturity of the exposure. The starting point for individual components of the calculation is historical data. Cure rate is incorporated as appropriate into the calculation and represents the expected propensity of borrowers to return to the non-defaulted book without a loss having been realised. FLI is also incorporated into LGD where UK property collateral is held. IFRS 9 LGD may differ from regulatory LGD as conservatism and downward assumptions are generally removed.

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

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

2 Management of key risks *(continued)*

2.1.7 Credit risk methodologies *(audited)*

determined by an individual discounted cash flow analysis.

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

Modelled loss rates

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

Identifying a significant increase in credit risk

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

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

- greater than or equal to 90 days past due (based on calendar days) and the past due amount is material;
- a forbearance arrangement is put in place where future reliance on realisation of collateral is expected for repayment in full when this was not originally envisaged;
- more than 3 full monthly payments past due (retail credit facilities only);
- legal action is underway by the Group to enforce repayment or realise security; and
- the exposure is classified as non-performing for supervisory reporting purposes.

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 include those set out below.

All portfolios:

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

Review of credit-impaired loans

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

Methodologies for valuation of property collateral

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

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

2.2 Funding and liquidity 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 £2.7 billion at 31 December 2023 (2022: £3.0 billion) which was in excess of regulatory liquidity requirements and within the Group's internal risk appetite. This represented a prudent liquidity position.**
- **The Group's loan to deposit ratio increased from 115% at 31 December 2022 to 120% at 31 December 2023.**
- **The Group's LCR at 31 December 2023 was 168% (2022: 178%). The Group's NSFR at 31 December 2023 was 135% (2022: 135%).**

Definition *(audited)*
Funding and 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.

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

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

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

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

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

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

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

External Ratings
The Group's external ratings are as outlined in the accompanying table.

Bank of Ireland UK ratings (unaudited)	2023	2022
Moody's	A3 positive outlook	A3 stable outlook
Fitch	A- stable outlook	BBB+ stable outlook

2 Management of key risks *(continued)*

2.2 Funding and liquidity risk *(continued)*

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 2023 and 2022, the Group had the following encumbered assets.

	2023			2022		
Encumbered and unencumbered assets	**Encumbered[1] £m**	**Unencumbered £m**	**Total £m**	**Encumbered[1] £m**	**Unencumbered £m**	**Total £m**
Cash and balances with central banks	-	2,213	2,213	-	2,239	2,239
Mandatory deposits with central banks	883	20	903	935	30	965
Loans and advances to other banks[2]	58	34	92	159	19	178
Loans and advances to banks - related party transactions	29	224	253	-	318	318
Loans and advances to customers	3,488	10,550	14,038	3,184	10,558	13,742
Debt securities at amortised cost	21	468	489	43	485	528
Other assets	-	834	834	-	901	901
Total assets	**4,479**	**14,343**	**18,822**	**4,321**	**14,550**	**18,871**
Encumbered cash and balances with central banks:						
Note cover[3]	**838**			**881**		
Cash ratio and other mandatory deposits	**45**			**54**		
	883			**935**		

[1] *Included in the encumbered assets at 31 December 2023 is £29 million (2022: £nil) 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 4/21 "Ensuring 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 Funding and liquidity risk *(continued)*

Maturity analysis of financial assets and liabilities *(audited)*
The following tables summarise the contractual maturity profile of the Group's financial assets and liabilities, at 31 December 2023 and 31 December 2022, 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.

2023 **Maturity analysis of financial assets and liabilities (discounted basis)**	**Demand £m**	**Up to 3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Financial assets						
Cash and balances with central banks	2,213	-	-	-	-	2,213
Derivative financial instruments	32	14	51	158	28	283
Loans and advances to banks	46	875	74	-	-	995
Loans and advances to banks - related party transactions	253	-	-	-	-	253
Debt securities at amortised cost	-	24	65	285	115	489
Loans and advances to customers (before impairment loss allowance)	446	582	1,486	5,910	5,875	14,299
Total assets	**2,990**	**1,495**	**1,676**	**6,353**	**6,018**	**18,532**
Financial liabilities						
Deposits from banks	26	-	920	1,230	-	2,176
Deposits from banks - related party transactions	210	1	-	850	-	1,061
Lease Liabilities	-	1	1	5	9	16
Customer accounts	9,800	641	941	433	-	11,815
Derivative financial instruments	2	5	5	260	54	326
Debt securities in issue	-	-	-	549	-	549
Subordinated liabilities	-	-	-	190	-	190
Total liabilities	**10,038**	**648**	**1,867**	**3,517**	**63**	**16,133**
Net total assets and liabilities	**(7,048)**	**847**	**(191)**	**2,836**	**5,955**	**2,399**
Cumulative net assets and liabilities	**(7,048)**	**(6,201)**	**(6,392)**	**(3,556)**	**2,399**	**2,399**

2 Management of key risks *(continued)*

2.2 Funding and liquidity risk *(continued)*

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

2.3 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 2023, 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 2023.**
- **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.

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

Market risk management

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

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

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

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

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

2 Management of key risks *(continued)*

2.3 Market risk *(audited) (continued)*

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

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

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

Market risk measurement and sensitivity

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

In addition to this, the Group runs a series of stress tests, including parallel and non-parallel yield curve stress scenarios across all tenors, in order to further monitor and manage yield curve and repricing risk in the banking book. The Group also applies market risk stress scenarios to manage and monitor the impact of stress events in relation to interest rate option risk, basis risk and net interest income sensitivity.
A dual purpose of the market risk stress testing is to meet regulatory requirements and to ensure that appropriate capital is held by the Group.

The impact on the Group's economic value from an immediate and sustained 50 basis points shift, up or down, in the sterling yield curve applied to the banking book at 2023 and 2022, 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).

	2023 £m	2022 £m
Economic impact (profit and loss) + 50 basis points	0.16	0.001
Economic impact (profit and loss) - 50 basis points	(0.16)	(0.001)

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.**
- **During 2023 the Group has invested significantly in its horizon scanning and regulatory change capabilities which will further enhance the management of the risk that the Group fails to adequately identify legal or regulatory change in a timely manner. These capabilities improve the Group's ability to provide automated reporting on regulatory change to senior management as well as action and issue management tracking.**
- **The Group's relationships with its external regulatory bodies continues to trend positively. The Group continues to engage transparently and openly with all regulatory bodies.**

Definition

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

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

Risk management and measurement

The Group manages regulatory risk under its RMF. The Framework identifies the Group's formal governance process around risk, including its framework for setting risk appetite and its approach to risk identification, assessment, measurement, management and reporting. This is implemented by accountable executives and monitored by R&ORC, ERC, BRC and Board in line with the overall risk governance structure outlined in section 1.1. The 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.

2 Management of key risks *(continued)*

2.4 Regulatory risk *(unaudited) (continued)*

Risk reporting
The current status of regulatory change programmes is reported to senior executives and Board monthly.

Financial Crime
Protecting the financial system from financial crime risks including money laundering, terrorist financing, fraud, facilitation of tax evasion and bribery and corruption is of intrinsic importance to the Group. The Group manages financial crime risk under its Financial Crime Risk framework. Dedicated systems, controls and processes are in place to mitigate these risks, including automated customer due diligence and risk assessment, customer and payments screening (including sanctions), and transaction monitoring to identify suspicious activity. All colleagues complete annual mandatory training and assessment in relation to key areas.

2.5 Operational risk *(unaudited)*

Key points:

- **The Group continues progressing programmes to reduce Technology risk which has resulted in a significant decrease (c.20%) in the number of IT Incidents this year compared to last year. For services where higher than usual incidents are noted Root Cause Analysis, lessons learnt exercises and enhanced monitoring are performed. The Group continues to invest in improving Cyber Security risk management controls to ensure it is best placed to mitigate the ever-evolving external threat environment. There is continued focus to upgrade IT services, where appropriate, to ensure the sustainability, integrity and resilience of Important Business Services (IBS) and key operations. A material IT Mainframe incident was experienced in August 2023 at Parent level, with impact on the UK. This led to approximately 12 hours of systems unavailability, preventing personal current account, business current account and some non-ISA savings customers servicing their account online, in the Mobile Banking App, through branches or via the contact centre. A root cause analysis has been completed with most of the recommendations identified from the analysis closed, with remaining actions on track for closure. These enhancements include new mainframe tooling to rapidly diagnose and recover from similar Mainframe issues in future. A formal Incident review governance forum will monitor completion of these actions. An independent report commissioned into the Mainframe incident has aligned with the Group's technical root cause position.**
- **In line with Operational Resilience regulations, a multi-year plan tracks the remediation of known vulnerabilities by regulatory deadlines (March 2025) and provides a framework for the continuous assessment of the critical resources that support the delivery of IBS's. This will ensure the Bank can identify, protect, detect, respond to and recover from disruption events with minimal harm to the customer.**

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

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

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

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

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

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

Reporting includes assessment of individual risk profiles against key operational risk categories as well as trigger reporting at business unit level.

2 Management of key risks *(continued)*

2.6 Business and strategic risk *(unaudited)*

Key points:

- **On an annual basis the Board reviews the Group's strategic objectives to confirm that the strategic shape and focus of the Group remains appropriate. Longer-term viability is monitored through its annual multi-year strategic planning and ICAAP process.**
- **Significant management attention has been given to the continued cost of living crisis, high inflation, continued base rate increases and the impact these have on the economy and our customers.**
- **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.**

Definition

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

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

Business Risk is the risk of earnings volatility (1 year horizon) arising from business decisions or external factors that adversely impact on earnings or business franchise.

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

Risk management, measurement and reporting

Business and Strategic risk is a Principal Risk type in the RMF. This risk includes planning and delivery of the business plans and management of factors such as pricing, business volumes, operating expenses and other factors that can introduce earnings volatility.

2LOD oversee that the Group does not suffer outcomes outside of Business and Strategic risk appetite.

Monthly Board level reporting is in place for this risk, including an assessment of performance against key metrics.

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 performance against budgeted levels, is a key financial management process in the mitigation of business risk.

Strategic risk is mitigated through the annual strategic multi-year plan as well as updates to the Board on industry developments, on the key macroeconomic environment and reviews of the competitive environment and strategies at both Group and business unit level.

2 Management of key risks *(continued)*

2.7 Conduct risk *(unaudited)*

Key points:

- **The Group recognises the importance of delivering good outcomes for customers, acting fairly and is committed to placing customers at the heart of its strategic and operational decision making.**
- **The Group manages conduct risk profile through the application of robust, customer focused policies, processes, systems and controls.**
- **The new FCA Consumer Duty rules require a greater focus on the delivery of good customer outcomes which the Group has achieved through ensuring that the Group's strategies, governance, leadership and people are focused on acting to deliver good outcomes for its customers. During 2023 the Group delivered all key elements of a Board approved Customer Duty implementation plan by the FCA deadline of 31 July 2023. Looking forward to 2024, the Group will continue to embed a customer-focused approach and progress actions due against the second FCA deadline of 31 July 2024.**

Definition

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

Customer Experience

The Group continues to focus on a customer first culture which ensures its business is designed around their needs.

Throughout 2023, the Group has continued to focus on improving customer experience and outcomes, to ensure its standards are in line with evolving industry and regulatory expectations in particular the FCA's Principle 12 which requires the Group to act to deliver good outcomes to its retail customers. The Group has focused on those customers who might be experiencing financial difficulties, including delivering upon industry commitments made through the UK Government's Mortgage Charter.

Business Areas throughout the Group continue to make adjustments and improve the services provided to customers who exhibit characteristics of vulnerability, ensuring they are treated fairly.

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.

The Group operates against a set of clearly defined and understood conduct risks that allow the Group to consistently define the outcomes expected to be delivered across its key processes allowing focused monitoring and reporting throughout the organisation.

The Group has a conflicts of interest policy which guides staff on what should be reported and assessed by the Group, and is underpinned by annual staff training.

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

Conduct risk management information is reported on a regular basis to relevant senior governance committees and the Board.

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 17.9% at 31 December 2023 (2022: 18.4%) under the transitional basis and 17.8% under the fully loaded basis (2022: 18.2%).
- The Group at 31 December 2023 was required to hold CET1 capital requirements of 9.9% and Total Capital Requirements of 14.1%.
- Sustained strong capital position enabled a £250 million dividend in the year.
- Leverage ratio is 9.4% at 31 December 2023 under the transitional basis and 9.3% under the fully loaded basis.
- MREL ratio of 24.6% as at 31 December 2023.

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

Capital requirements and capital resources *(audited)*
The Group complied with all its regulatory capital requirements throughout 2023.

The Group manages its capital resources to ensure that the overall amount and quality of resources exceed the Group's capital requirements. Capital requirements are determined by the CRD, the PRA Rulebook, the CRR and firm specific requirements imposed by the PRA. The minimum requirements are typically driven by credit risk, market risk and operational risk, and also require stress-absorbing buffers.

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 annual ICAAP process.

Regulatory capital and key capital and leverage ratios *(unaudited)*
The Group is strongly capitalised with a total capital ratio on a regulatory basis of 22.2% at 31 December 2023 (2022: 22.8%).

Total regulatory capital resources increased by £18 million during 2023 to £1.77 billion due to:

- £3 million increase in retained earnings including the payment of a £250 million dividend and additional tier 1 coupon of £9 million;
- increase in cash flow hedge reserve of £5 million;
- £3 million reduction in other reserves;
- £1 million decrease in deduction for intangible assets; and
- £11 million decrease in deduction for Deferred Tax.

RWAs increased by £0.2 billion to £7.9 billion reflecting a slight increase in the mortgage and consumer lending portfolios.

The Group's leverage ratio on a regulatory basis has increased from 9.2% to 9.4% at 31 December 2023 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 2022 (audited)[3]			31 December 2023 (audited)[3]	
Regulatory[1] £m	**Fully loaded[2] £m**		**Regulatory[1] £m**	**Fully loaded[2] £m**
122	122	Ordinary share capital	122	122
399	399	Capital contribution and capital redemption reserve fund	399	399
973	973	Retained earnings	976	976
(77)	(77)	Other reserves	(80)	(80)
1,417	**1,417**	**Total equity**	**1,417**	**1,417**
(9)	**(23)**	**Regulatory adjustments**	**9**	**(5)**
(62)	*(62)*	*- Deferred tax assets relying on future profitability*	*(51)*	*(51)*
(28)	*(28)*	*- Intangible assets*	*(27)*	*(27)*
77	*77*	*- Cashflow hedge reserve*	*82*	*82*
(10)	(10)	*- Retirement benefit asset*	*(9)*	*(9)*
-	-	*- Prudent valuation adjustment*	-	-
14	-	*- IFRS 9 transitional adjustment*	14	-
1,408	**1,394**	**Common equity tier 1 capital**	**1,426**	**1,412**
		Additional tier 1		
		Subordinated perpetual contingent conversion		
150	150	Additional tier 1 securities	150	150
1,558	**1,544**	**Total tier 1 capital**	**1,576**	**1,562**
		Tier 2		
190	190	Dated loan capital	190	190
190	**190**	**Total tier 2 capital**	**190**	**190**
1,748	**1,734**	**Total capital**	**1,766**	**1,752**
7,713	**7,699**	**Total risk weighted assets (unaudited)**	**7,953**	**7,939**
16,962	**16,948**	**Total leverage ratio exposures (unaudited)**	**16,692**	**16,678**

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

Governance

Directors and other information

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

Non-Executive Directors
Philip Moore (RI) (A)
Richard Sommers (RI) (A)
Ian Buchanan (RI)
Enda Johnson
Mark Spain
Alison Burns (Resigned December 2023)
Clare Salmon (RE) (A) (N)
Helen Page (N) (RE) (RI) (Appointed February 2024)

Executive Directors
Gail Goldie (Appointed January 2024)
David Sutherland (Appointed August 2023: Resigned January 2024)
Ian McLaughlin (Resigned July 2023)
Tom Wright
Polina Ievskaya (Resigned February 2024)

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

Company Secretary
Hill Wilson Secretarial Limited

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

Registered Number
07022885

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

The Board of Directors

Peter Herbert
Chair, Non-Executive Director

Term of office
Appointed in May 2020

Independent
Yes

External appointments
Non Executive Director at President's Choice Bank

Non Executive Director at ClearBank

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. His past Non-executive Director roles have included Zopa Bank, The Northview Group, CreditShop Holdings, Tandem Bank and WiZink Bank, and previous executive roles have included Chief Executive of Tandem Bank and senior roles at GE Capital and Barclays.

Gail Goldie
Chief Executive Officer

Term of office
Appointed in January 2024

Independent
No

External appointments
None

Experience
Gail was appointed in January 2024 to lead the delivery of the next phase of Bank of Ireland's UK strategy. Gail joined Bank of Ireland from Tesco Bank where she served as Chief Banking Officer, prior to which she held senior management positions in Barclays (UK) including, Managing Director, Unsecured Lending and Managing Director, Premier Banking. Gail also previously held leadership roles in Santander (UK), and American Express.

Gail is a graduate of the University of Warwick (BSc Management Science).

Tom Wright
Chief Financial Officer

Term of office
Appointed in October 2022

Independent
No

External appointments
None

Experience
Appointed Chief Financial Officer of Bank of Ireland (UK) plc in October 2022, Tom has over twenty-five years experience in finance as well as strategy development and execution, across a broad range of industries including Financial Services, Retail, FMCG and Media. Tom has over ten years' experience in the Bank of Ireland Group, having held a number of senior finance management roles. Tom is also a Director of a number of Bank of Ireland Group subsidiaries, including NIIB Group Limited.

Previous roles include senior positions within Tesco Ireland Limited, Sony Music Entertainment Limited and Communicorp Group Limited, following roles held in Tedcastles Oil Products and KPMG.

Abbreviations

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

The Board of Directors *(continued)*

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

Term of office
Appointed in May 2022

Independent
No

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

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

Mark Spain
Chief Finance Officer - Bank of Ireland Group plc

Term of office
Appointed in December 2019

Independent
No

External appointments
None

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

Helen Page
Non-Executive Director

Term of office
Appointed in February 2024

Independent
Yes

External appointments
Non Executive Director, Chair of the Remuneration Committee, Member of the Audit Committee of the Artisanal Spirits Company plc

Board Trustee - Scotland's Charity Air Ambulance

Board Trustee and Chair of the Fundraising and Brand Committee of the Scottish Society for the Prevention of Cruelty to Animals (SSPCA)

Experience
Appointed to the Board of Bank of Ireland (UK) plc in February 2024, Helen is a member of the Remuneration, Nomination and Risk Committees and designated NED for Customer and Consumer Duty.

Helen's plc executive career was predominately spent in financial services and retail, most notably as a member of the UK Executive Board of RBS Group for 7 years, holding the position of Managing Director for Marketing and Innovation and CYBG/Virgin Money for almost 10 years and becoming the Chief Brand Officer. Helen held senior executive responsibility for a number of functions, including Marketing, Brand strategy, Product Management, Innovation, Complaints and Corporate communications.

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 Risk Committee of Wesleyan Assurance Society
Non-Executive Director of Skipton Building Society
Non-Executive Director and Chair of the Audit and Risk Committee of Connells Ltd

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 a 40-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 PricewaterhouseCoopers LLP based in London and then Hong Kong. Philip's past Non-Executive director roles have included Codan A/S, F&C Asset Management, RAB Capital, Wealth Wizards and Towergate. Philip is also a Governor and Vice-Chair of Hart Learning Group and Trustee and Chair of the Client Services Committee of St Mungo's.

Richard Sommers
Non-Executive Director

Term of office
Appointed in August 2021

Independent
Yes

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

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

Ian Buchanan
Non-Executive Director

Term of office
Appointed in September 2018

Independent
No

External appointments
None

Experience
Appointed Non-Executive Director of Bank of Ireland (UK) plc in September 2018. Ian is also a Non-Executive Director for the Board of Bank of Ireland Group plc and the Court of The Governor and Company of Bank of Ireland. Ian possesses diverse experience in the areas of technology, digital, business transformation and customer operations gained through his work in a number of international retail, commercial and investment banks. Ian holds a Bachelor of Science degree in Physics from the University of Durham. Prior to his role in Bank of Ireland, Ian held the roles of Group Chief Information Officer for Barclays plc and Chief Operating Officer for Barclaycard. Previously, he was Chief Information Officer for Société Générale Corporate & Investment Banking. He was a member of the Public Board and Group Manufacturing Director of Alliance & Leicester plc. He is a former member of the Executive Committee of Nomura International and was Chief Operations and Technology Officer of Nomura International. Ian's early career was spent at Credit Suisse, Guinness, and BP. Ian is a Senior Advisor to Cerberus Capital Management.

The Board of Directors *(continued)*

Clare Salmon
Non-Executive Director

Term of office
Appointed in July 2021

Independent
Yes

External appointments
Independent Member, Scottish Widows Independent Governance Committee

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

Ian McLaughlin
Chief Executive Officer

Term of office
Appointed in December 2019 (resigned July 2023)

Independent
No

External appointments
None

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

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

David Sutherland
Interim Chief Executive Officer

Term of office
Appointed in August 2023 (resigned January 2024)

Independent
No

External appointments
None

Experience
Prior to assuming the role of Interim Chief Executive UK, Dave was Interim Chief Operating Officer, joining the Group in February 2022.

Dave has over 20 years' national and international experience as both Chief Operating Officer and Managing Director with a strong track record in operations, technology and process transformation across the Financial Services and Retail sectors. Prior to joining Bank of Ireland Dave was Group Chief Operating Officer and Chief Executive of the pan European Asset Management and Servicing division at Arrow Global.

He has a MSc, IT and Management from Sheffield Hallam University and an MBA from the University of Leeds.

Polina Ievskaya
Chief Risk Officer

Term of office
Appointed in November 2022 (Resigned January 2024)

Independent
No

External appointments
None

Experience
Appointed to the Board of Bank of Ireland (UK) plc in November 2022,

Polina is Chief Risk Officer of Bank of Ireland (UK) plc. Polina joined Bank of Ireland (UK) Plc in 2014 having held a number of senior roles in Barclays, Royal Bank of Scotland and the Financial Services Authority.

Polina has more than 15 years of risk management experience in the UK financial services, with her earlier international career in accounting and internal audit. Polina holds an MBA with a concentration in Finance from the University of Texas, USA.

Alison Burns
Non-Executive Director

Term of office
Appointed in January 2021 (Resigned January 2024)

Independent
Yes

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

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

Corporate Governance Arrangements 2023

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

Compliance with the Wates Principles

Principle 1: Purpose and leadership

- The Board is responsible for the leadership of the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board approves the Group's strategy, ensures that the necessary financial and human resources are in place for the Group to meet its objectives and reviews management performance.
- The Board has oversight of the Group's values and standards, the development of the Group's culture, the allocation of Prescribed Responsibilities under the UK Regulatory Regime and ensures that the Group's obligations to its shareholder, regulators, customers and other stakeholders are understood and met. The Board approves the Group's risk appetite, capital, liquidity and operating plans.
- The Group's refined purpose is "Helping you Thrive" and is underpinned by core values of 'Customer First', 'Better Together', 'Take Ownership' and 'Be Decisive'. Details are set out under "Our purpose and values" in the Strategic Report on page 8.
- The Group's refreshed strategy is built on three strategic pillars: building stronger relationships with our customers and colleagues, continuing to simplify our business for customers and colleagues, and creating a culture of constant improvement in the sustainability of the company for the future. Details are set out under Our new refreshed Group Strategy and target outcomes for 2023-2025 on page 8.
- 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 14 times in 2023.

Principle 2: Board composition

- The roles of the Chair and CEO are separate to ensure a balance of power and effective decision-making.
- There were a number of changes to the Board in 2023 as outlined below:
  - Ian McLaughlin resigned as CEO in July 2023. Dave Sutherland was appointed Interim CEO in August 2023 and held office until January 2024.
  - Gail Goldie was appointed as the CEO in January 2024.
  - Alison Burns, Customer & Consumer duty Champion resigned in January 2024.
  - Helen Page was appointed as an independent Non Executive Director and Customer and Consumer Duty Champion, in February 2024.
  - Polina Iveskaya, UK CRO, resigned in February 2024.
  - Clare Salmon was re-appointed to the role of Colleague Engagement Director in November 2023.
- The Nomination Committee regularly considers the Board's 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 2023, the Board and Board Committees received training in the following areas:
  - Consumer Duty;
  - Cyber Crime;
  - Operational Resilience;
  - IFRS9;
  - Customer Impact Assessment;
  - Accounting and Policy standards;
  - UK Housing and Lending Outlook; and
  - BEIS Restoring Trust in Audit and Corporate Governance.
- The Board and Committees review the agenda for the next meeting at the end of each scheduled meeting which allows all Directors to shape the areas of discussion for future meetings.
- The Board has established a set of matters reserved for the Board and an annual rolling agenda to ensure control over key decision making.
- In accordance with the Articles, the Board has established the following Board Committees:
  - Audit Committee;
  - Nomination Committee;
  - Risk Committee; and
  - Remuneration Committee
- Each Board Committee has specific delegated authority as set out in its terms of reference (https://www.bankofirelanduk.com/about/corporate-governance/documents/).
- The Board comprises a mix of Executive Directors; independent Non-Executive Directors; and Non-Executive Directors nominated by 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 reviewed its gender diversity target to a minimum of 40% female representation on the Board with a medium-term aspiration of achieving equal gender representation on the Board. The Board Diversity Policy, is available here: https://www.bankofirelanduk.com/about/corporate-governance/documents/
- All appointments are made on merit against objective criteria (including the skills and experience the Board as a whole requires to be effective) with due regard for the benefits of diversity on the Board. Upon appointment, each Director receives a detailed and

Corporate Governance Arrangements 2023 *(continued)*

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 14 meetings during 2023. Principal decisions made by the Board during 2023, are set out in the Section 172 Companies Act 2006 Report on pages 23 to 25.
- The Board Terms of Reference provide a clear line of accountabilities and responsibilities. Each Committee has a Terms of Reference outlining accountabilities and responsibilities.
- The Terms of Reference for the Board and Board Committees are reviewed annually by the Company Secretary with any recommended changes presented to the Board for approval.
- The Board has adopted terms of reference that set out matters reserved for the Board.
- The Board undertakes an effectiveness review annually. The Group undertakes an independent, externally facilitated Board Effectiveness review every three years with an internally facilitated review undertaken in each intervening year. An externally facilitated review was undertaken in December 2023 and the report was provided and reviewed early in 2024. It concluded that the Board and its committees are effective in their operation and in discharging their responsibilities. Recommendations implemented to enhance the Board's performance during 2023, following the 2022 Board effectiveness review, were designed to further enhance Board focus and discussion on Customer, Colleagues, ESG, Culture and risks; papers and MI; and Board Committee responsibilities.
- The Board has adopted a Conflicts of Interest Policy setting out how conflicts should be identified and managed at Board level.
- The Audit and Risk Committees hold meetings with control function heads without executive management present at least annually.
- The Risk Committee holds private meetings with the CRO at the end of each scheduled Risk Committee meeting.
- Board papers and supporting information are accurate, clear, comprehensive and up to date. Papers contain a broad range of information sources; a summary of the contents; inform the Directors as to what is being requested of them; and, wherever possible, are issued in good time ahead of Board meetings.

Principle 4: Opportunity and risk

- The Board considers major projects and has delegated authority from the Shareholder for the approval of business strategy and direction for Group, within the parameters of the Parent's strategy.
- The Risk Committee and the Board considered and agreed a refreshed strategy for 2023-2025. Further information on the Group's Strategy can be found on page 8.
- 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 32), matters considered by the Risk Committee during 2023 included:
  - Operational Risks;
  - ICAAP;
  - ILAAP;
  - Any breaches of Risk Appetite Metrics;
  - Deep dives on specific areas within the Group's Business Portfolios;
  - Consumer Duty Regulation;
  - Risk Appetite Statement;
  - Operational Resilience; and
  - Financial Risks of Climate Change.
- The Group has a robust framework for reviewing and refreshing the RAS. This includes an agreed approach to reporting, including frequency of reporting and the points at which decisions are made and escalated. For further details on the main features of the internal control and risk management systems, refer to the Risk Governance Report.

Principle 5: Remuneration

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

Principle 6: Stakeholder relationships and engagement

- Behaving in a responsible and sustainable way is fundamental to the Group's achievement of its refreshed purpose of "helping you to thrive". A Responsible and Sustainable Business framework supports the Group's behaviours and strategic priorities. Further details are set out in the Sustainability at Bank of Ireland UK section of the Strategic Report on page 10.
- Workforce policies and practices are aligned with the Group's purpose and values. Employees have access to a Speak-Up Policy and are actively encouraged to report any concerns or worries, either internally or externally via a confidential, externally facilitated advice line. The Board monitors these reports and follows up actions regularly through the Audit Committee.
- Executive and Non-Executive Senior Management Function role holders meet regularly with the Group's regulators; and the PRA presents an annual update to the Board. The Chair of the Parent attends a Board Meeting annually and the CEO of the Parent presents to the Board at least once a year.

See Section 172(1) Statement (page 23) for further details on stakeholders and engagement.

Report of the Directors

The Directors of the Group present the consolidated audited report and financial statements for the year ended 31 December 2023. The financial statements are prepared in accordance with UK adopted international accounting standards. Directors are listed in the Governance section on pages 57 to 61. The Group's structure is set out in note 41 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 2023 was £259 million (2022: £228 million). There was no profit or loss attributable to non-controlling interests for the year ended 31 December 2023 (2022: £nil). An analysis of performance is set out in the strategic report on pages 26 to 31.

Dividends

A dividend of £250 million was paid to the Parent during 2023 (2022: £250 million).

Board membership

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

- Gail Goldie, Executive Director, January 2024.
- Helen Page, Non-Executive Director, February 2024.

Ian McLaughlin (resigned in July 2023), Dave Sutherland (appointed in August 2023 and resigned in January 2024), Polina Iveskaya (resigned in February 2024) and Alison Burns, Non-Executive Director and Customer & Consumer duty Champion (resigned in December 2023) were the only directors to resign during the year 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. 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 32 to 35.

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

Employees

For the year ended 31 December 2023, the Group had an average of 1,491.8 employees (2022: 1,446.8 employees).

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

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

Give Together

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 2023 or in the year ended 31 December 2022.

Voting rights

Voting at any general meeting is by a show of hands or by poll. The Annual General Meeting of the Group is scheduled to take place on 29 July 2024, 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 35.

Auditors

An inspection of KPMG LLP's audit of the Group for the year ended 31 December 2022 was undertaken by the Financial Reporting Council's (FRC) Audit Quality Review (AQR) team following completion of the 2022 audit.

The inspection of individual audit engagements by the FRC's AQR team is intended to contribute to safeguarding and promoting improvement in the overall quality of auditing in the UK. The inspection covered selected aspects of the audit only, including:

- IFRS 9 expected credit loss on loans and advances to customers;
- Revenue recognition (recognition of effective interest income);
- The impact of IT access controls on the effectiveness of the control environment;

Report of the Directors *(continued)*

- Settlement, clearing and payment processes; and
- Cash and cash equivalents.

The Committee and KPMG LLP have discussed the AQR report and the Committee ensured that the external audit plan for the 2023 year end addressed the AQR's findings.

Disclosure of information to the external auditor

In accordance with the provisions of the Companies Act 2006, the Directors serving at the date of approval of this report confirm that, so far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that they ought to have taken as a Director to make himself or herself aware of any relevant audit information and to establish that the 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 2023, on page 81 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.

Financial Statements

Statement of Directors' Responsibilities

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

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

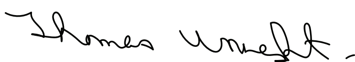
Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Bank and of their profit or loss for that period. In preparing each of the Group and Bank financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether Group financial statements have been prepared in accordance with UK adopted international accounting standards;
- state whether, for Bank financial statements, applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

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

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

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

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



Tom Wright
Director

23 July 2024

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") for the year ended 31 December 2023 which comprise the consolidated and Bank income statements, consolidated and Bank statements of comprehensive income, consolidated and Bank balance sheets, consolidated and Bank statements of changes in equity, consolidated cash flow statement, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2023 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 UK accounting standards, including FRS 101 reduced disclosure framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the directors on 27 May 2022. The period of total uninterrupted engagement is for the two financial years ended 31 December 2023. Prior to that we were first appointed on 1 May 2018. The period of uninterrupted engagement was for the three financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality Group financial statements as a whole		**£13.7 million (2022: £12.4 million)** 4.1% (2022: 5.0%) of profit before tax from continuing operations
Coverage		100% of group profit before tax
Key audit matters		**vs 2022**
Recurring risks	IFRS 9 expected credit loss on loans and advances to customers	▲
	Revenue recognition (recognition of effective interest income)	▲
	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 (unchanged from 2022), 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 *£151 million (2022: £184 million) and £129 million (2022: £169 million) for the Group and Bank respectively* *Refer to page 41 – 45 (risk management) page 84 - 85 (accounting policy) and page 105 - 106 and 114 (financial disclosures).*	**Subjective estimate** The calculation of the IFRS 9 expected credit loss (“ECL”) allowance involves a number of complex, judgemental and highly sensitive assumptions. Continued developments in the economic environment, including interest rates and inflationary pressures which remain high, have resulted in an elevated degree of subjectivity in this assessment for the current year. As such, we identified a greater level of management judgement and have placed increased audit focus on the assumptions involved. 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 estimation of ECL include but are not limited to: **PD model estimations including Significant Increase in Credit Risk (‘SICR’)** • The calculation of expected credit losses uses complex and inherently judgemental modelling techniques including the probability of default (PD) models which is a key driver of the staging of assets and the calculation of the expected credit loss. • The criteria selected to identify SICR is a key area of judgement within the Bank’s ECL calculation as these criteria determine whether a 12 month or lifetime ECL is recorded. We have therefore identified a significant risk of error in the expected credit loss as result of inaccurate PDs being generated by the PD models and incorrect selection and application of SICR criteria. **Post model adjustments ('PMAs')** There is a high degree of estimation uncertainty and management judgement involved in post-model adjustments and management overlays. To address known impairment model limitations and/or emerging trends including current macroeconomic uncertainties, management raise qualitative adjustments. In 2023, a staging adjustment continues to be recognised for affordability risks within the Group and Bank’s retail portfolios; as well as a small number of other PMAs.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: **Our credit risk modelling expertise:** Using our own credit risk modelling specialists we performed the following: • Evaluated the appropriateness of the impairment methodologies, including the staging criteria used (including SICR); • Re-performed the calculation of certain components of the ECL model calculations, including the staging criteria (including SICR); and • For all significant models, assessed the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences. **Qualitative adjustments** Using our own credit risk modelling specialists we performed the following: • Assessed and evaluated the rationale for holding PMAs and the respective methodologies and calculations; and • Challenged the overall completeness of post model adjustments by comparing the PMAs recognised by management to the various risks, model limitations and/or data limitations that we consider exist in each loan portfolio; as well as the evolving macroeconomic outlook.

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

Key audit matter	The risk	Our response
	Macroeconomic scenarios IFRS 9 requires the Group to measure ECL on an unbiased forward-looking basis reflecting a range of future economic conditions. Economic scenarios have a direct impact on the proportion of loans in stage 2 and certain loans in stage 3 and the resultant ECLs. Significant management judgement is applied in the determination of the economic scenarios and the weightings applied to them. **Stage 3 business banking expected credit losses** The ECL on stage 3 loans is determined after considering the present value of the forecasted cash flows. These comprise of cash flows from operations; certain restructuring arrangements; and/or expected realisations from collateral. The estimation and valuation of forecast cash flows involves significant estimation uncertainties and management judgement. The effect of these matters is that, as part of our risk assessment, we determined that ECL on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	**Our economics expertise** Using our own economic specialists, we performed the following: • Challenged and assessed the overall plausibility of the significant assumptions underpinning management's economic scenarios which we identified to be unemployment and property prices. Specifically, we challenged the overall reasonableness of macro economic variables with reference to independent and observable economic forecasts; • Critically assessed whether management's forward looking information ("FLI") upside/downside scenario and related probability weightings are reasonable. **Stage 3 business banking expected credit loss** • For a selection of credit-impaired loans, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment loss allowance and challenged the assumptions by corroborating estimates to external support where available; and • Where appropriate, our work involved considering third party valuations of collateral, valuation derived from benchmark data and / or externally prepared reports in accordance with the Group's internal valuation guidelines to determine whether appropriate valuation methodologies were employed. **Assessing transparency** We evaluated whether the disclosures appropriately reflect and address the uncertainty which exists in determining the Group's overall ECL, as well as assessing whether the sensitivity disclosures are adequate and clear. In addition, we challenged whether the disclosure of the key judgements and assumptions made were sufficiently clear. **Our results:** We found the resulting estimate of the ECL impairment provision recognised and the related disclosures to be acceptable (2022: acceptable).

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

Key audit matter	The risk	Our response
Revenue recognition (recognition of effective interest income) *Impact of prepayment rates on organic and acquired mortgage portfolios* *Effective interest rate adjustment to mortgage interest income £8 million (2022: £6 million)* *Unwind of acquired mortgage portfolio £34 million (2022: £38 million)* *Refer to page 82 (accounting policy) and page 102 (financial disclosures).* *This is relevant to both the Group and the Bank financial statements*	**Subjective estimate** Interest and fees incurred on loans and advances to customers are recognised using the effective interest rate ("EIR") method that spreads directly attributable expected income and costs over the expected lives of the loans. This requires management to apply judgement in estimating the expected lives of the organic and acquired mortgage portfolios. This judgement is informed by past customer behaviour of when loans are repaid, with the EIR adjustment and amount recognised in the financial statements being highly sensitive to minor changes in assumptions. Management has also reviewed and formalised its process for determining the expected lives assumptions as part of the EIR process. These assumptions impact both the organic portfolio, as well as the acquired mortgage portfolio which was acquired at a discount, given any change in the expected life requires the discount to be adjusted and spread over the remaining expected life. Continued developments in the economic environment, including interest rates and inflationary pressures which remain high, have impacted customer behaviour and resulted in an elevated degree of subjectivity in this assessment for the current year. As such, we identified a greater level of management judgement and have placed increased audit focus on the assumptions involved. The effect of these matters is that, as part of our risk assessment, we determined that the interest income calculated using the EIR method has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	We performed the tests below rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures included: • **Our industry experience:** We critically assessed the expected customer lives and methodology used to estimate this against our own knowledge of industry experience and trends. This specifically considered the impact of continued developments in the economic environment and rising interest rates on expected customer lives. • **Sensitivity analysis:** We challenged management's assumptions by performing sensitivity analysis testing on key assumptions, including expected behavioural lives, to critically assess the sensitivity of key assumptions. • **Test of detail:** We tested the accuracy of the data inputs to the models by agreeing back to source systems or underlying documents. • We engaged our data analytics specialists to calculate behavioural lives based on historical redemptions data and reperform the EIR calculation. We also reperformed the acquired mortgage portfolio adjustment calculations. • **Assessing transparency:** We evaluated whether the disclosures appropriately reflected and addressed the uncertainty which exists when determining the Group's EIR adjustments as well as assessing whether the sensitivity disclosures are adequate and clear. In addition, we challenged whether the disclosure of the critical estimates and assumptions made, was sufficiently clear. **Our results** We found the EIR adjustment to mortgage interest income and unwind of the acquired mortgage portfolio to be acceptable (2022: acceptable).

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

Key audit matter	The risk	Our response
The impact of IT access controls on the effectiveness of the controls environment	The Group is highly dependent on IT systems for the processing and recording of significant volumes of transactions. The Group has a complex IT environment and operates a large number of applications, many of which are legacy systems. Our audit approach relies extensively on automated controls and therefore on the effectiveness of general IT controls supporting these IT applications. We consider IT user access management controls to be critical in ensuring that only appropriate users have access to relevant IT applications, approved changes are implemented to applications and underlying data, and the changes are authorised and made appropriately. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error because of inappropriate and/or inadvertent changes to applications and data. The Group and Bank have an ongoing risk assessment programme in place to identify, rate, mitigate, and report on, risk arising from ineffective user access controls.	Our procedures included: **Controls testing:** • In conjunction with our IT auditors we obtained an understanding of the Group's and Bank's IT environment and the IT governance controls framework; • Tested general IT controls for IT applications we considered relevant to the financial reporting process, including access management, computer operations, and change management; and • Tested the design, implementation, and operating effectiveness of key IT application controls, including the configuration and accuracy of end user computing controls. **Extended scope** We noted IT control deficiencies around privileged user access management, our IT auditors performed additional procedures that included evaluating and assessing the impact of these deficiencies on our planned IT controls reliance. **Our results:** Our testing did not identify unauthorised user activities in the systems relevant to financial reporting that would have required us to significantly expand the extent of our planned detailed testing (2022: None identified).

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

Materiality for the Group financial statements as a whole was set at £13.7 million (2022: £12.4 million), determined with reference to a benchmark of Group profit before tax from continuing operations ("PBTCO"), normalised to exclude the effects of strategic portfolio divestments, restructuring and transformation investment costs, of which it represents 4.1% (2022: 5.0% of Group PBTCO, normalised to exclude the effects of strategic portfolio divestments, restructuring and transformation investment costs). We adjusted for these items because they do not represent the normal, continuing operations of the Group.

Materiality for the Bank's financial statements as a whole was set at £10.6 million (2022: £10.0 million), determined with reference to a benchmark of PBTCO, adjusted to exclude the effects of strategic portfolio divestments, restructuring and transformation investment costs, of which it represents 3.8% (2022: 5.0%).

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

Performance materiality was set at 65% (2022: 65%) of materiality for the financial statements as a whole, which equates to £8.9 million (2022: £8.0 million) for the Group and £6.9 million (2022: £6.5 million) for the Bank. We applied this percentage in our determination of performance materiality based on the level of identified misstatements and control deficiencies during the prior period.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.7 million (2022: £0.6 million) for the Group and £0.5 million (2022: £0.5 million) for the Bank, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 7 (2022: 7) reporting components, we subjected 2 (2022: 2) to full scope audits for group purposes, 1 (2022: 1) to specified risk-focused audit procedures and 2 (2022: 1) to audits of account balances. The components for which we performed audits of account balances and specified risk-focused procedures 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 below.

For the residual 2 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 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 £4.1 million to £10.6 million (2022: £2.7 million to £6.8 million), having regard to the mix of size and risk profile of the Group across the components. The work on 2 of the 7 components (2022: 2 of the 7 components) was performed by component auditors and the rest, including the audit of the Bank, was performed by the Group team. The Group team performed procedures on the items excluded from normalised Group profit before tax.

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

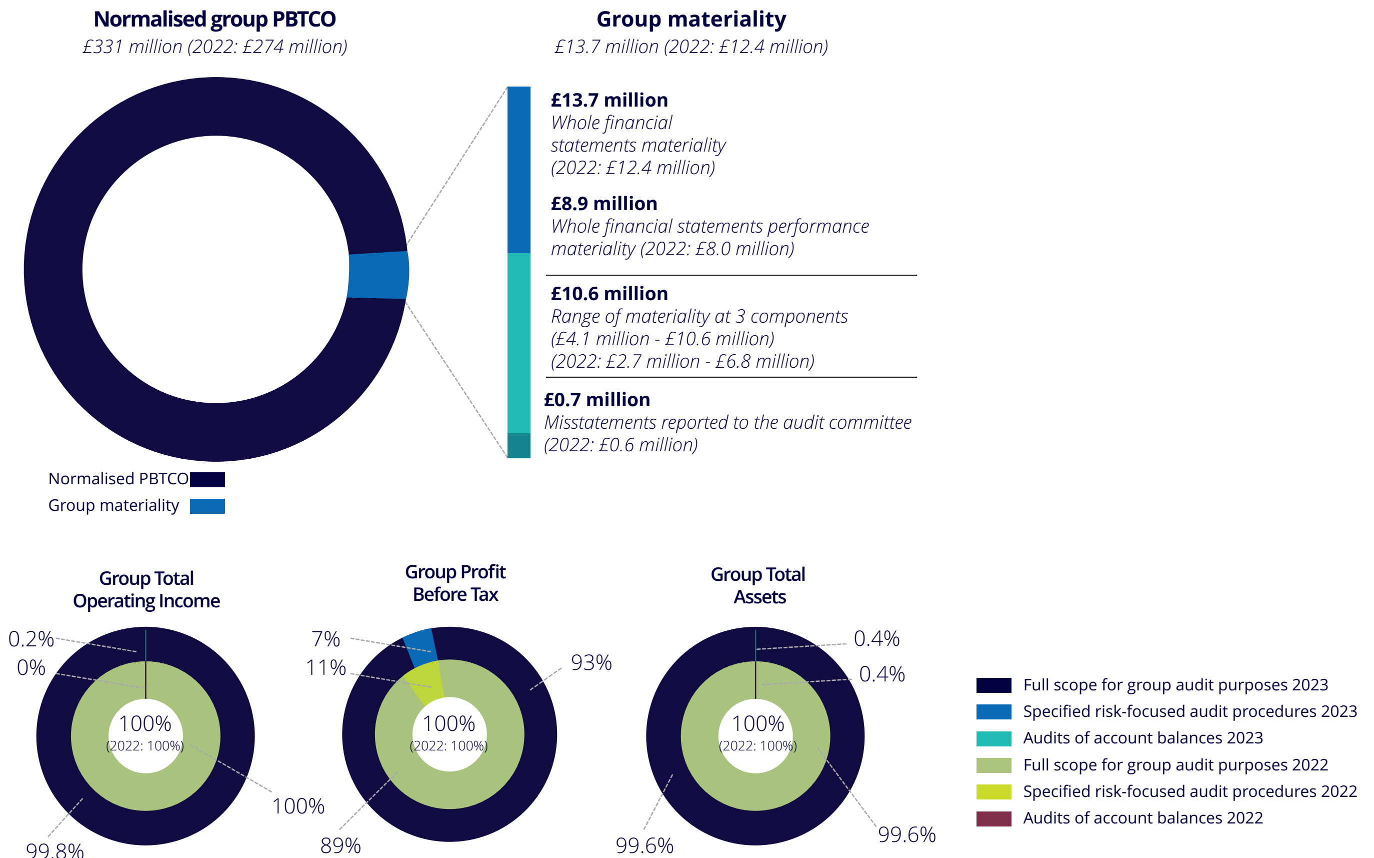
The Group team inspected the audit work of the component auditors to assess the audit risk and strategy. Video and telephone conference meetings were also held with these component auditors. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group 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, 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 and supervised and exercised oversight through regular interactions via video conference, site visits 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.

3 Our application of materiality and an overview of the scope of our audit *(continued)*



4 Going concern

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

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

- the availability of funding and liquidity in the event of a market wide stress scenario; and
- the impact on regulatory capital requirements in the event of an economic slowdown.

We considered whether these risks could plausibly affect the liquidity and regulatory capital 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 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 Bank's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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

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. Our risk assessment procedures included:

- Enquiring of Directors, the Audit Committee, internal audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee, and Executive Risk Committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for management and Directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

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 audit team to the component audit teams of relevant fraud risks identified at the Group level, and request for the component audit team to report to the Group audit team any instances of fraud that could give rise to a material misstatement at the Group level.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group and component 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 on loans and advances to customers and the estimation of the impact of prepayment estimates on the determination of effective interest rate on organic and acquired mortgages.

We did not identify any additional fraud risks.

Further detail in respect of these areas is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. An example of our high risk criteria is journal entries containing key words.
- Assessing whether the judgements made in making accounting estimates are indicative of a potential 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 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 is 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 audit team to the component audit teams of relevant laws and regulations identified at the Group level, and a request for the component auditors to report to the Group audit team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at the Group level.

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

Firstly, the Group is 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 and 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 is 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 license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct (including consumer duty), money laundering and financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities.

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

For the matter relating to complaints in respect of historical motor commission arrangements, discussed in note 34, we have assessed the disclosures against our own understanding of the matter based on our inspection of the regulatory and legal correspondence as well as our consideration of the Group's assessment of the commission arrangements.

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

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

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-

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

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 other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information 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 other information.

Strategic report and directors' report

Based solely on our work on the other information:
- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 66, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and 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.

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

23 July 2024

Income statement
(for the year ended 31 December 2023)

	Note	Group		Bank	
		2023 £m	2022 £m	2023 £m	2022 £m
Interest income calculated using the effective interest method	3	792	580	841	606
Other interest income	3	131	83	9	-
Total interest income		**923**	**663**	**850**	**606**
Interest expense	4	(340)	(108)	(337)	(105)
Net interest income		**583**	**555**	**513**	**501**
Net leasing income		26	22	-	-
- Other leasing income	5	*80*	*60*	-	-
- Other leasing expense	5	(54)	(38)	-	-
Fee and commission income	6	35	37	35	37
Fee and commission expense	6	(91)	(88)	(91)	(88)
Net trading income / (expense)	7	15	7	15	7
Other operating income	8	3	-	30	2
Total operating income		**571**	**533**	**502**	**459**
Operating expenses	9	(222)	(247)	(189)	(218)
Operating profit before impairment charges on financial assets		**349**	**286**	**313**	**241**
Net impairment gains / (losses) on financial instruments	11	(43)	(64)	(36)	(71)
Operating profit		**306**	**222**	**277**	**170**
Share of profit after tax of joint venture	12	25	28	-	-
Profit on sale of property, plant, equipment		-	1	-	1
Profit before taxation		**331**	**251**	**277**	**171**
Taxation charge	13	(72)	(23)	(53)	(12)
Profit for the year		**259**	**228**	**224**	**159**

Statement of other comprehensive income
(for the year ended 31 December 2023)

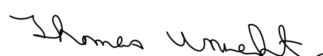
	Note	Group		Bank	
		2023 £m	2022 £m	2023 £m	2022 £m
Profit for the year		259	228	224	159
Items that may be reclassified to profit or loss in subsequent periods					
Net change in cash flow hedge reserve (net of tax)[1]		(5)	(63)	(5)	(63)
Total items that may be reclassified to profit or loss in subsequent periods		**(5)**	**(63)**	**(5)**	**(63)**
Items that will not be reclassified to profit or loss in subsequent periods					
Net actuarial gain on defined benefit schemes[2]	32	-	(3)	-	-
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		**(1)**	**(4)**	**(1)**	**(1)**
Other comprehensive (expense) / income for the year, net of tax		**(6)**	**(67)**	**(6)**	**(64)**
Total comprehensive income for the year, net of tax		**253**	**161**	**218**	**95**

[1] *Net of tax credit £2 million (2022: credit of £23 million).*
[2] *Net of tax £nil (2022: £0.2 million)*

Balance sheet
(as at 31 December 2023)

		Group		Bank	
	Note	2023 £m	2022 £m	2023 £m	2022 £m
Assets					
Cash and balances at central banks	14	2,213	2,239	2,213	2,239
Items in the course of collection from other banks		71	79	71	79
Derivative financial instruments	15	283	379	283	379
Loans and advances to banks	16	1,248	1,461	1,226	1,344
Debt securities at amortised cost	17	489	528	489	528
Fair value changes due to interest rate risk of the hedged items in portfolio hedges		(100)	(276)	(100)	(276)
Loans and advances to customers	18	14,148	14,018	14,273	14,125
Investment in subsidiaries		-	-	8	8
Interest in joint venture	20	67	71	2	2
Intangible assets and goodwill	21	26	28	-	1
Property, plant and equipment	22	215	174	34	30
Other assets	23	65	52	94	55
Deferred tax assets	24	96	108	87	98
Retirement benefit asset	32	11	10	-	-
Total assets		**18,832**	**18,871**	**18,680**	**18,612**
Equity and liabilities					
Deposits from banks	25	3,237	3,107	3,230	3,098
Customer accounts	26	11,815	12,222	12,228	12,222
Fair value changes due to interest rate risk of the hedged items in portfolio hedges		(44)	(130)	(44)	(130)
Items in the course of transmission to other banks		86	63	86	63
Derivative financial instruments	15	326	328	326	328
Debt securities in issue	27	549	379	200	300
Current tax liabilities		6	4	2	2
Other liabilities	28	1,001	1,037	985	1,022
Lease liabilities	29	16	12	15	12
Provisions	30	8	9	8	8
Loss allowance provision on loan commitments and financial guarantees	31	3	5	3	5
Subordinated liabilities	33	190	190	190	190
Total liabilities		**17,193**	**17,226**	**17,229**	**17,120**
Equity					
Share capital	35	122	122	122	122
Retained earnings		1,049	1,049	861	896
Other reserves		318	324	318	324
Other equity instruments	36	150	150	150	150
Total equity attributable to owners of the Bank		**1,639**	**1,645**	**1,451**	**1,492**
Total equity and liabilities		**18,832**	**18,871**	**18,680**	**18,612**

The financial statements on pages 76 to 165 were approved by the Board on 23 July 2024 and were signed on its behalf by:



Tom Wright
Director

23 July 2024

Company number: 07022885

Statement of changes in equity
(for the year ended 31 December 2023)

		Group		Bank	
	Note	2023 £m	2022 £m	2023 £m	2022 £m
Share capital					
Balance at 1 January		122	122	122	122
Share repurchase		-	-	-	-
Balance at 31 December		**122**	**122**	**122**	**122**
Retained earnings					
Balance at 1 January		1,049	1,083	896	996
Profit for the year attributable to equity holders of the Bank		259	228	224	159
Dividend on ordinary shares	40	(250)	(250)	(250)	(250)
Distribution on other equity instruments - Additional tier 1 coupon		(9)	(9)	(9)	(9)
Share repurchase		-	-	-	-
Remeasurement of the net defined benefit pension asset		-	(3)	-	-
Balance at 31 December		**1,049**	**1,049**	**861**	**896**
Other equity instruments					
Balance at 1 January		150	150	150	150
Repayments during the year		-	-	-	-
Issuance during the year		-	-	-	-
Balance at 31 December		**150**	**150**	**150**	**150**
Other reserves:					
Revaluation reserve - property					
Balance at 1 January		2	3	2	3
Revaluation of property		(1)	(1)	(1)	(1)
Balance at 31 December		**1**	**2**	**1**	**2**
Cash flow hedge reserve					
Balance at 1 January		(77)	(14)	(77)	(14)
Changes in fair value		112	(52)	112	(52)
Transfer to income statement (pre tax)		(119)	(34)	(119)	(34)
Deferred tax on reserve movements		2	23	2	23
Balance at 31 December		**(82)**	**(77)**	**(82)**	**(77)**
Capital contribution					
Balance at 1 January		266	266	266	266
Balance at 31 December		**266**	**266**	**266**	**266**
Capital redemption reserve fund					
Balance at 1 January		133	133	133	133
Share repurchase		-	-	-	-
Balance at 31 December		**133**	**133**	**133**	**133**
Total other reserves		**318**	**324**	**318**	**324**
Total equity		**1,639**	**1,645**	**1,451**	**1,492**
Included in the above:					
Total comprehensive income attributable to owners of the Bank		253	161	218	95
Total comprehensive income for the year		**253**	**161**	**218**	**95**

Consolidated cash flow statement

(for the year ended 31 December 2023)

	Note	2023 £m	2022 £m
Cash flows from operating activities			
Profit before taxation		331	251
Interest expense on subordinated liabilities and other capital instruments	4	34	14
Interest expense on lease liabilities	4	1	1
Depreciation and amortisation	21,22	34	27
Net impairment (gains) / losses on financial instruments	11	43	64
(Gain) / loss on sale of property, plant, equipment		-	(1)
Share of results of joint venture	12	(25)	(28)
Net change in prepayments and interest receivable	23	-	(4)
Net change in accruals and interest payable	28	94	36
Charge for provisions	30	3	2
Other non-cash items		(127)	(45)
Cash flows from operating activities before changes in operating assets and liabilities		**388**	**317**
Net change in items in the course of collection to / from banks		31	24
Net change in derivative financial instruments		97	30
Net change in loans and advances to banks		(45)	-
Net change in fair value changes due to interest rate risk of the hedged items in portfolio hedges		(146)	-
Net change in loans and advances to customers		101	2,316
Net change in deposits from banks		130	(292)
Net change in customer accounts		(537)	(3,532)
Net change in debt securities in issue		170	(69)
Net change in provisions		(4)	(7)
Net change in retirement benefit obligation		-	(1)
Net change in other assets and other liabilities		(143)	(14)
Net cash flow from operating assets and liabilities		**(346)**	**(1,545)**
Net cash flow from operating activities before taxation		**42**	**(1,228)**
Taxation paid		(56)	(21)
Net cash flow from operating activities		**(14)**	**(1,249)**
Investing activities (section (a) - see below)		27	196
Financing activities (section (b) - see below)		(297)	(277)
Net change in cash and cash equivalents		**(284)**	**(1,330)**
Opening cash and cash equivalents		3,671	5,001
Closing cash and cash equivalents	14	**3,387**	**3,671**
(a) Investing activities			
Additions to debt securities at amortised cost	17	(145)	(26)
Disposal / redemption of debt securities at amortised cost	17	196	266
Dividends received from joint venture	20	29	3
Additions to property, plant and equipment		(82)	(70)
Disposal of property, plant and equipment		29	23
Cash flows from investing activities		**27**	**196**
(b) Financing activities			
Dividend paid on ordinary shares	40	(250)	(250)
Additional tier 1 coupon paid	40	(9)	(9)
Redemption of subordinated liabilities	33	-	(90)
Proceeds from issue of subordinated liabilities	33	-	90
Interest paid on subordinated liabilities	4	(34)	(14)
Payment of lease liability	29	(4)	(4)
Cash flows from financing activities		**(297)**	**(277)**

Notes to the consolidated financial statements

Index		Page
1	Accounting policies	81
2	Critical accounting estimates and judgements	94
3	Interest income	102
4	Interest expense	102
5	Other leasing income and expense	103
6	Fee and commission income and expense	103
7	Net trading income / (expense)	104
8	Other operating income	104
9	Operating expenses	104
10	Auditors' remuneration	105
11	Net impairment losses / (gains) on financial instruments	105
12	Share of profit after tax of joint venture	106
13	Taxation charge	106
14	Cash and cash equivalents	107
15	Derivative financial instruments	108
16	Loans and advances to banks	113
17	Debt securities at amortised cost	113
18	Loans and advances to customers	114
19	Credit risk exposures	121
20	Interest in joint venture	132
21	Intangible assets and goodwill	133
22	Property, plant and equipment	135

Index		Page
23	Other assets	138
24	Deferred tax	138
25	Deposits from banks	140
26	Customer accounts	141
27	Debt securities in issue	141
28	Other liabilities	142
29	Leasing	142
30	Provisions	143
31	Loss allowance provision on loan commitments and financial guarantees	144
32	Retirement benefit obligations	145
33	Subordinated liabilities	150
34	Contingent liabilities and commitments	151
35	Share capital	152
36	Other equity instruments	152
37	Liquidity risk	153
38	Measurement basis of financial assets and financial liabilities	154
39	Fair value of assets and liabilities	155
40	Related party transactions	158
41	Interests in other entities	163
42	Transferred financial assets	165
43	Post balance sheet events	165
44	Approval of financial statements	165

1 Group accounting policies

Basis of preparation

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

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

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

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

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

- the requirements of IAS 7 Statement of Cash Flows;
- disclosure requirements of IAS 24 in respect of transactions with wholly-owned subsidiaries; and
- certain requirements of IAS 1 'Presentation of financial statements'.

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

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

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

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2023, is a minimum period of twelve months from the date of approval of these financial statements ('the period of assessment'). In making this assessment, the Directors considered the Group's business, profitability projections, liquidity, funding and capital plans, under both base and plausible stress scenarios. In doing so, it took into account the increasing uncertainty of forecasts in the period of assessment from developments in the economic environment, and competition and regulatory developments. The Directors also considered the position of the Bank's parent, the Governor and Company of the Bank of Ireland as, in addition to being the Bank's sole shareholder, it is a provider of significant services to the Bank under outsourcing arrangements.

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

Capital

The Group has developed detailed capital plans and forecasts under both base and stress scenarios which show that a surplus over total capital requirements is forecast to be maintained over the period of the assessment. As part of those forecasts, the Directors have modelled the impact of a severe but plausible downside stress scenario, the severity of which is aligned to the 2023 stress scenarios for Non-participating Firms published by the PRA in October 2022. Therefore the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment.

Funding and liquidity

The Directors have considered the Group's funding and liquidity position under the above base and stress scenarios and are satisfied that the Group has sufficient funding and liquidity throughout the period of assessment.

The Bank's Parent

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

The Directors note that the Board of the Bank's Parent has concluded that there are no material uncertainties that may cast significant doubt about the Bank of Ireland Group's ability to continue as a going concern and that it is appropriate to prepare accounts on a going concern basis. The audit report on the financial statements of the Bank's Parent signed on 23 February 2024 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.

Adoption of new and amended accounting standards

There have been no new standards or amendments to standards, adopted by the Group during the year ended 31 December 2023, which have had a material impact on the Group.

1 Group accounting policies *(continued)*

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

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

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

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

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

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

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

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

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

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

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

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

Modifications

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

Interest income and expense excludes interest on financial instruments at fair value through profit or loss which is instead included within the fair value movements recognised within net trading income.

Fee and commission income

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

1 Group accounting policies *(continued)*

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 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:

- 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.

1 Group accounting policies *(continued)*

(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
- receivables and contract assets recognised under IFRS 15 ‘Revenue from contracts with customers’.

Basis for measuring impairment

The Group allocates financial instruments into the following categories at each reporting date to determine the appropriate accounting treatment.

Stage 1: 12-month ECL (not credit-impaired)

These are financial instruments where there has not been a significant increase in credit risk since initial recognition. An impairment loss allowance equal to 12-month ECL is recognised. This is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

Stage 2: Lifetime ECL (not credit-impaired)

These are financial instruments where there has been a significant increase in credit risk since initial recognition but which are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised. Lifetime ECL are the ECL resulting from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime ECL (credit-impaired)

These are financial instruments which are credit-impaired at the reporting date but were not credit-impaired at initial recognition. An impairment loss allowance equal to lifetime ECL is recognised.

Purchased or originated credit-impaired financial assets

These are financial assets that were credit-impaired at initial recognition. They are not subject to any initial impairment loss allowance but an impairment loss allowance is subsequently recognised for the cumulative changes in lifetime ECL since initial recognition. A purchased or originated credit-impaired financial asset remains classified as such until it is derecognised, even if assessed as no longer credit-impaired at a subsequent reporting date.

With the exception of purchased or originated credit-impaired financial assets, a financial instrument may migrate between stages from one reporting date to the next.

Significant increase in credit risk

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

Credit-impaired

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Measurement of ECL and presentation of impairment loss allowances

ECL are measured in a way that reflects:

(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
(b) the time value of money; and
(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECLs are measured as follows:

- financial assets that are not credit-impaired at the reporting date: the present value of the difference between all contractual cash flows due to the Group in accordance with the contract and all the cash flows the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and

1 Group accounting policies *(continued)*

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.

Utilisation of impairment loss allowances
The Group reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. Indicators that there is no reasonable expectation of recovery include the collection process having been exhausted or it becoming clear during the collection process that recovery will fall short of the amount due to the Group. The Group considers, on a case-by-case basis, whether enforcement action in respect of an amount that has been written off from an accounting perspective is or remains appropriate. Any subsequent recoveries are included in the income statement as an impairment gain.

Forbearance
Forbearance occurs when a borrower is granted a concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. Forbearance has not occurred if the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower.

Prior to any decision to grant forbearance, the Group performs an assessment of a customer's financial circumstances and ability to repay and assesses whether the loan is credit-impaired. Where the loan is credit-impaired, it is allocated to stage 3 (unless a purchased or originated credit-impaired financial asset). If a forborne loan has a variable interest rate, the discount rate for measuring ECL is the current effective interest rate determined under the contract before the modification of terms.

Financial assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with EBA guidance on non-performing and forborne classifications. Forborne financial assets which are not credit-impaired are generally classified as stage 2. A financial asset can only be reclassified from stage 3 when certain conditions are met over a pre-defined period of time or probation period.

Where the cash flows from a forborne loan are considered to have expired due to the loan being restructured in such a way that results in a substantial modification, the original financial asset is derecognised and a new financial asset is recognised, initially measured at fair value. Any difference between the carrying value of the original financial asset and the fair value of the new financial asset on initial recognition are recognised in the income statement. The new financial asset may be initially allocated to stage 1 or, if credit-impaired, be categorised as a purchased or originated credit-impaired financial asset.

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

Financial liabilities
The Group classifies its financial liabilities as being measured at amortised cost unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities mandatorily at fair value through profit or loss, such as derivative liabilities. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For financial liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

When a financial liability that is measured at amortised cost is modified without resulting in derecognition, a gain or loss is recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified contractual cash flows discounted at the original effective interest rate.

A financial liability may be designated as at fair value through profit or loss only when:
(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the

1 Group accounting policies *(continued)*

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.

Financial guarantees

A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Where the Group is the holder of such a guarantee and it is considered integral to the contractual terms of the guaranteed debt instrument(s), the guarantee is not accounted for separately but is considered in the determination of the impairment loss allowance for expected credit losses of the guaranteed instrument(s).

The Group's liability under an issued financial guarantee contract is initially measured at fair value. The liability is subsequently measured at the higher of the amount of the impairment loss allowance for expected credit losses determined in accordance with the requirements of IFRS 9, and the initial measurement less the cumulative amount of income recognised in accordance with the principles of IFRS 15.

Any change in the liability is taken to the income statement and recognised on the balance sheet within provisions.

Where the Group issues a financial liability which contains a financial guarantee, the liability is measured at amortised cost using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. No impairment loss allowance for expected credit losses is recognised on a financial asset, or portion thereof, which has been offset.

Valuation of financial instruments

The Group recognises assets and liabilities designated at fair value through profit or loss and derivatives at fair value in the balance sheet. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date.

The fair values of financial assets and liabilities traded in active markets are based on unadjusted bid and offer prices respectively. If an active market does not exist, the Group establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Group uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses. Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

For liabilities designated at fair value through profit or loss, the fair values reflect changes in the Group's own credit spread.

Transfers between levels of the fair value hierarchy
The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. The Group provides these disclosures in note 39.

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

1 Group accounting policies *(continued)*

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) Joint Ventures

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 joint ventures are accounted for by the equity method of accounting and are initially recognised at cost.

(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.

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.

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

1 Group accounting policies *(continued)*

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.

Lease liabilities are initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate if the interest rate implicit in the lease is not readily determinable. Lease payments include fixed rental payments. Generally, the Group uses its incremental borrowing rate as the discount rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured if there is a change in future lease payments, a change in the lease term, or as appropriate, a change in the assessment of whether an extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liability is remeasured a corresponding adjustment is made to the ROU asset and/or profit or loss, as appropriate.

The Group has applied judgement in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and RoU assets recognised.

Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease.

When assets are held under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between gross receivables and the present value of the receivable is recognised as unearned finance income. Lease income is included within net interest income and is recognised over the term of the lease reflecting a constant periodic rate of return on the net investment in the lease.

Assets leased to customers under an operating lease are included within property, plant and equipment on the balance sheet and depreciation is provided on the depreciable amount of these assets on a systematic basis over their estimated useful lives. Depreciation on assets acquired for the purpose of leasing under operating leases is recognised in other leasing expense. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

However, under IFRS 16, where the Group is an intermediate lessor the subleases are classified with reference to the RoU asset arising from the head lease, not with reference to the underlying asset. Where the Group continues to retain the risks and rewards of ownership as the intermediate lessor, it retains the lease liability and the RoU asset relating to the head lease in its balance sheet. If the Group does not retain the risks and rewards of ownership as the intermediate lessor, these subleases are deemed finance leases. During the term of the sublease, the Group recognises both finance lease income on the sublease and interest expense on the head lease.

Sale and repurchase agreements

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

Securities purchased under agreements to resell ("reverse repos") are treated as collateralised loans and recorded as loans and advances to banks or customers, as appropriate.

The difference between sale and repurchase price is treated as interest and recognised in the income statement over the life of the agreement using the effective interest method.

Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included 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:

1 Group accounting policies *(continued)*

(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 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 follows the requirements of the UK endorsed version of IAS 39 'Financial Instruments: recognition and measurement', specifically relating to hedging core deposits, and the relaxation of effectiveness testing, such that a layer approach can be used in a macro fair value hedge. 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.

Property, plant and equipment
Freehold and long leasehold land and buildings are initially recognised at cost, and subsequently are revalued annually to fair value by independent external valuers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the reporting date.

Right of Use assets recognised as property, plant and equipment are measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of lease liabilities.

All other property, plant and equipment, including freehold and leasehold adaptations, are stated at historical cost less accumulated depreciation.

Increases in the carrying amount arising on the revaluation of land and buildings are recognised in other comprehensive income. Decreases that offset previous increases on the same asset are recognised in other comprehensive income: all other decreases are charged to the income statement.

The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material.

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:
- adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease;
- computer and other equipment - maximum of ten years;
- motor vehicles held for leasing - over the lease term; and
- the recognised RoU assets are depreciated on a straight-line basis over the earlier of the end of the useful life of the RoU

1 Group accounting policies *(continued)*

asset or the end of the lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use.

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining profit before tax. If the asset being disposed of had previously been revalued then any amount in other comprehensive income relating to that asset is reclassified directly to retained earnings on disposal, rather than the income statement.

Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.

Costs associated with research activities or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as asset's are amortised using the straight line method over their useful lives, which is normally between five and ten years.

(b) Other intangible assets

Other intangible assets are carried at cost less amortisation and impairment, if any, and are amortised on a straight line basis over their useful lives which range from five years to twenty years and assessed for impairment indicators annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such indicators exist, the assets recoverable amount is estimated. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount 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.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those employees affected by the restructuring by starting to implement the plan or announcing its main features.

A levy payable to a Government is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

Employee benefits

(a) Pension obligations

The Group operates one defined benefit scheme, the NIIB Group Limited (1975) Pension Scheme. In addition, certain of the Group's employees are members of other Bank of Ireland Group schemes, and these are accounted for as defined contribution schemes in the Group.

The schemes are funded and the assets of the schemes are held in separate trustee administered funds. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Plans in surplus are shown as assets and plans in deficit are shown as liabilities. A surplus is only recognised as an asset to the extent that it is recoverable through a refund from the plan or through reduced contributions in the future.

1 Group accounting policies *(continued)*

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.

The Group has determined that the global minimum top-up tax - which it is required to pay under Pillar 2 legislation - is an income tax in the scope of IAS 12. The Group has applied a temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The rates enacted, or substantively enacted, at the reporting date, are used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The tax effects of income tax losses available for carry forward are recognised as deferred tax assets to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. Deferred tax assets and liabilities are not discounted.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax on items recognised in other comprehensive income is also recognised in other comprehensive income and is subsequently reclassified to the income statement, together with the deferred gain or loss. Income tax on items recognised directly in equity is recognised directly in equity, except for the income tax consequences of dividends on a financial instrument classified as equity, which are recognised according to where the previous transactions or events that generated distributable profits were recognised.

(c) Uncertain tax treatments

The Group considers uncertain tax treatments together or separately depending on which approach better predicts how the uncertainties will be resolved. Where the Group concludes it is not probable that a tax authority will accept its assessment of an uncertain tax treatment, it reflects the effect of the uncertainty using either the 'most likely amount' method or the 'expected value' method, as appropriate for the particular uncertainty.

Where the Group concludes it is probable that a tax authority will accept its assessment of an uncertain tax treatment, the taxable profit or loss, the tax bases, unused tax losses, unused tax credits and the tax rates are determined

1 Group accounting policies *(continued)*

consistently with the tax treatment used or planned to be used in the income tax filing.

Cash and cash equivalents

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

Share capital and reserves

(a) Equity transaction costs

Incremental external costs directly attributable to equity transactions, including the issue of new equity stock or options, are shown as a deduction from equity, net of tax.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Bank's shareholders. Interim dividends are recognised when paid by the Group.

(c) Cash flow hedge reserve

The cash flow hedge reserve represents the cumulative changes in fair value (net of tax) excluding any ineffectiveness of cash flow hedging derivatives. These are transferred to the income statement when the hedged transactions impact the Group's profit or loss.

(d) Capital contribution

The capital contribution is measured as the initial amount of cash or other assets received.

(e) Capital redemption reserve fund

On 1 May 2015, preference stock of £300 million was repurchased. On the same date £300 million was transferred from capital contribution to the capital redemption reserve fund in order to identify these reserves as non-distributable. On 4 June 2019, the UK High Court of Justice approved the Board's application to cancel the capital redemption reserve fund and the balance was transferred to retained earnings. In November 2021, the Group carried out a share buy back transaction whereby it repurchased 250 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £75 million reduction in share capital with a corresponding increase in the capital redemption reserve. In March 2020, the Group carried out a share buy back transaction whereby it repurchased 195 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £58.5 million reduction in share capital with a corresponding increase in the capital redemption reserve. In November 2021, the Group carried out a share buy back transaction whereby it repurchased 250 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £75 million reduction in share capital with a corresponding increase in the capital redemption reserve.

(f) Other equity instruments

Other equity instruments represents Additional tier 1 securities issued by the Group to the Parent. See note 36 for details.

(g) Revaluation reserve

The revaluation reserve represents the cumulative gains and losses on the revaluation of property. The revaluation reserve is not distributable.

Collateral

The Group enters into master netting agreements with counterparties, to ensure that if an event of default occurs, all amounts outstanding with those counterparties will be settled on a net basis. The Group obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Group a claim on these assets for both existing and future liabilities. The collateral is, in general, not recorded on the Group balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of securities is not recorded on the balance sheet. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised in deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

In certain circumstances, the Group pledges collateral in respect of liabilities or borrowings. Collateral pledged, in the form of securities or loans and advances, continues to be recorded on the balance sheet. Collateral placed in the form of cash is recorded in loans and advances to banks or customers. Any interest receivable arising is recorded as interest income.

Impact of new accounting standards

The following standards, interpretations and amendments to standards will be relevant to the Group but were not effective at 31 December 2023 and have not been applied in preparing these financial statements. There are no other standards that are not yet effective and that would have a material impact on the Group in future reporting periods. The Group's current view of the impact of these standards is outlined below.

1 Group accounting policies *(continued)*

Pronouncement
Amendments to IAS 1 'Presentation of Financial Statements' - Classification of liabilities as current or non-current

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 were endorsed by the UK Accounting Standards Endorsement Board ('UKEB') on 21 July 2023.

Effective date
The effective date is for financial periods beginning on or after 1 January 2024, with early application permitted.

Impact
The amendments are not expected to have a significant impact on the Group.

Pronouncement
Amendments to IFRS 16 'Leases - Lease liability in a Sale and Leaseback'

Nature of change
The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

The amendments were endorsed by the UKEB on 11 May 2023.

Effective date
The effective date is for financial periods beginning on or after 1 January 2024, with early application permitted.

Impact
The amendments are not expected to have a significant impact on the Group.

2 Critical accounting estimates and judgements

In preparing the financial statements, the Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Due to the inherent uncertainty involved in estimating the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Group's financial statements are set out below.

(a) Impairment loss allowance on financial assets

The measurement of impairment loss allowance requires significant judgement and estimation and is dependent on complex impairment models.

In arriving at impairment loss allowances, accounting estimates which could change and have a material influence on the quantum of impairment loss allowance and net impairment charge within the next financial year include:

- generation of forward looking macroeconomic scenarios and their probability weightings which are used in both the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances; and
- valuing property collateral (including residential property).

Accounting judgements which could change and have a material influence on the quantum of impairment loss allowance and net impairment charge within the next financial year include determining if Group management adjustments may be necessary to impairment model outputs to address impairment model limitations or late breaking events.

Other accounting estimates

Other 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 accounting judgements

Other accounting judgements which are not expected to change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include:

- the Group's criteria for assessing if there has been a significant increase in credit risk since initial recognition such that a loss allowance for lifetime rather than 12-month ECL is required;
- the selection of appropriate methodologies and model factors for internal risk rating and impairment models;
- the approximation made at transition to IFRS 9 of the residual lifetime PD expectations for most exposures originated prior to adoption of IFRS 9; and
- selection of the most relevant macroeconomic variables for particular portfolios and determining associations between those variables and model components such as Probability of Default (PD) and Loss Given Default (LGD).

The Group's approach to measurement of impairment loss allowances and associated methodologies is set out in the credit risk methodologies section on pages 43 to 45.

Changes in estimates

Forward Looking Information

Forward Looking Information (FLI) refers to probability weighted future macroeconomic scenarios governed semi-annually by ALCO and by Audit Committee and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9. The Group has used four UK FLI scenarios at 31 December 2023, 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 2023 is based on internal and external information and management judgement and follows the same process as used in prior periods.

The alternative FLI scenarios for year ending 31 December 2023, comprising one upside and two downside scenarios, are narrative driven and have been constructed incorporating all available reasonable and supportable information. This is the approach that has been taken since 2020.

In order to incorporate available reasonable and supportable information and apply meaningful upside and downside FLI scenarios, three narrative driven alternative scenarios (one upside and two downside) were constructed to reflect different levels of energy disruption arising from the conflict in Ukraine (and associated sanctions), the depth of downturn and pace of economic recovery.

The FLI methodology framework was leveraged to assign an initial set of probability weightings to the narrative driven scenarios. The FLI methodology is a simulation tool that uses recent actual observed values and historical data to produce a number of possible paths for the relevant economic variables based on their historical relationships and volatilities. The FLI model is used for generating scenarios for a defined probability weighting as well as assessing probability weights for a given scenario.

The narrative-driven scenarios were assessed relative to the simulated distribution.

The probability weightings attached to the scenarios are a function of their relative position on the distribution, with a lower probability weighting attached to the scenarios that were assessed to be more distant from the centre of the distribution.

The final set of probability weightings used in ECL estimates reflected the application of management judgement to the initial probability weightings, with increased weight assigned to the central and downside 1 scenarios, with an offsetting decrease in the upside scenario.

External forward-looking information (e.g. external forecasts and equity market indicators) informed the application of this management judgement, and reflected economic uncertainty at 31 December 2023 associated with a combination of factors including the potential impact of geopolitical risk and elevated inflation and interest rates in the Group's key economies. The estimated ECL impact of this judgement was a c.£3.1 million (2022: c.£3.3 million) increase in reported impairment loss allowance.

2 Critical accounting estimates and judgements *(continued)*

The following table shows the mean average forecast values for the key macroeconomic variables under each scenario for the forecast period 2024 to 2028, together with the scenario weightings.

2023	Central Scenario	Upside Scenario	Downside	
			Scenario 1	Scenario 2
Scenario probability weighting	45%	20%	25%	10%
GDP Growth[1]	1.3%	1.8%	0.5%	(0.3%)
GNP Growth[1]	n/a	n/a	n/a	n/a
Unemployment rate[2]	4.6%	3.8%	6.2%	7.9%
Residential property price growth[3]	0.6%	1.8%	(2.6%)	(4.6%)
Commercial property price growth[3]	(0.8%)	1.4%	(4.1%)	(6.0%)

2022	Central Scenario	Upside Scenario	Downside	
			Scenario 1	Scenario 2
Scenario probability weighting	45%	15%	25%	15%
GDP Growth[1]	1.2%	1.6%	0.4%	(0.3%)
GNP Growth[1]	n/a	n/a	n/a	n/a
Unemployment rate[2]	4.4%	3.9%	6.1%	7.8%
Residential property price growth[3]	(1.2%)	0.0%	(4.4%)	(6.6%)
Commercial property price growth[3]	(1.3%)	0.0%	(3.8%)	(6.5%)

The table below sets out the forecast values for 2024 and 2025 and the average forecast values for the period 2026 to 2028 for the key macroeconomic variables which underpin the above mean average values.

	2024	2025	2026-2028
Central scenario - 45% weighting			
GDP Growth[1]	0.5%	1.1%	1.6%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	4.7%	4.7%	4.6%
Residential property price growth[3]	(4.0%)	0.0%	2.3%
Commercial property price growth	(9.5%)	(2.0%)	2.5%
Upside - 20% weighting			
GDP Growth[1]	1.4%	1.8%	2.0%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	4.1%	3.9%	3.7%
Residential property price growth[3]	(1.0%)	2.0%	2.7%
Commercial property price growth	(2.0%)	1.0%	2.7%
Downside scenario 1 - 25% weighting			
GDP Growth[1]	(0.7%)	(0.3%)	1.2%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	5.2%	6.1%	6.5%
Residential property price growth[3]	(13.0%)	(4.0%)	1.3%
Commercial property price growth	(15.5%)	(6.5%)	0.5%
Downside scenario 2 - 10% weighting			
GDP Growth[1]	(2.2%)	(1.9%)	0.9%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	6.4%	8.0%	8.4%
Residential property price growth[3]	(17.0%)	(6.0%)	0.0%
Commercial property price growth	(19.0%)	(8.5%)	(0.8%)

[1] *Annual growth rate.*
[2] *Average yearly rate.*
[3] *Year-end figures.*

2 Critical accounting estimates and judgements *(continued)*

The central, upside and downside scenarios are described below.

Central scenario
UK GDP growth has slowed, with output up only modestly over the past year or so. Activity has been negatively impacted by elevated inflation and the tightening of monetary policy by the Bank of England. Unemployment has risen somewhat over recent quarters, and while inflation remains high it has reduced in line with an easing in energy prices. The Central Scenario envisages a gradual pickup in the rate of growth over the next few years - consumer demand should recover and while investment and exports face headwinds, they should gradually pick up. Unemployment is expected to tick up slightly, though it will remain muted. Inflation is expected to continue to fall back towards target and this will allow the Bank of England to ease monetary policy slightly. Following recent declines, residential property prices are forecast to fall further in 2024, albeit lower than previously envisaged, before stabilising and gradually picking up thereafter. The adjustment in the commercial property market that is underway is forecast to continue in 2024 and 2025, with conditions improving somewhat after that.

Upside scenario
In the Upside Scenario, geopolitical tensions ease, leading to lower global energy prices. This contributes to a more pronounced fall in inflation, boosting household incomes, confidence and spending. A similar effect is seen in the UK's main trading partners, with global growth picking up. Receding uncertainty and initially lower interest rates support business investment, while the improvement in global demand contributes to a pick-up in exports. Stronger growth momentum sees unemployment edge down in 2024 and 2025 and remain low in subsequent years, and this in turn eventually leads to a pick-up in inflation pressures and a tightening of monetary policy by the Bank of England. In this stronger growth environment both residential and commercial property prices perform better than is the case in the Central Scenario.

Downside scenario 1
In Downside Scenario 1, heightened geopolitical tensions result in rising global energy prices, increased uncertainty and a further slowdown in world growth. Higher inflation and uncertainty weighs on confidence, which together with tighter monetary and financial conditions (as the Bank of England initially keeps interest rates higher for longer than previously anticipated, and strains in financial markets emerge) depresses consumer and business spending, while weaker global demand is a headwind for exporting sectors. GDP growth in 2024-2025 turns negative. Unemployment increases and stays relatively high out to the forecast horizon. Eventually, as the inflationary shock fades, monetary policy is eased by the Bank of England and growth resumes. In this weak macroeconomic environment both residential and commercial property prices remain under significant pressure in 2024 and, to a lesser extent, in 2025 as well - with prices levelling off in 2026. As output growth picks up and monetary policy is eased prices rebound slightly later in the forecast horizon.

Downside scenario 2
In Downside Scenario 2, escalating and more severe geopolitical tensions leads to a sharp rise in global energy prices. This in turn triggers major disruption in financial markets and a sharp deterioration in global growth, though central banks initially keep interest rates elevated in response to higher inflation. Furthermore, the impact of the increase in the corporate tax rate and Brexit after-effects weigh on business investment. Amid heightened uncertainty, a collapse in consumer and business confidence, tighter monetary, financial and credit conditions, and significantly weaker global demand, the UK economy goes into recession in 2024 (exits recession in 2025), while unemployment moves up sharply and remains high over the entire forecast period. In this weak economic environment inflation eventually falls back quite sharply and monetary policy is eased significantly by the Bank of England. Both residential and commercial property prices decline sharply in 2024, with further more moderate declines in 2025 and 2026 as well. Property values stabilise in both markets thereafter on foot of a significant easing of monetary policy and gradually improving macroeconomic conditions.

Property Price Growth, all scenarios
In the central scenario, residential price growth is negative -4% in 2024. In 2025 the UK recovers from negative growth to sit at 0%. From 2026 on there is a return to modest growth. Between 2026 and 2028 the growth per annum is 2-3%.

In the upside scenario, property prices start to pick up in 2024. Negative growth improves from -5% in 2023 to -1% in 2024. In both 2025 and 2026 the UK sees growth of 2% per annum, with property prices increasing by 3% per annum thereafter.

In the downside scenario 1, prices are expected to stay in negative growth in the medium term to 2025 before eventually recovering. UK prices fall 13% in 2024. Reduced negativity occurs in 2025 with prices falling 4% before a further improvement in 2026 with growth of 0%. By 2027 positive growth has returned with prices growing 1%, and in 2028 by a further 3%.

In the downside scenario 2, negative price growth is deeper than in downside 1, and the recovery is slower. Negative growth peaks in 2024 (-17%), and while there is some recovery in 2025 this is less pronounced than in downside 1 (-6%). Negative growth persists in 2026 (-2%) before finally ending in 2027 with no growth. By 2028 positive growth returns with growth of 2%.

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 2023, excluding post-model Group management adjustments to impairment loss allowances, was increased by virtue of applying multiple scenarios rather than only a central scenario. This analysis excludes post-model Group management adjustments, as such adjustments to impairment loss allowance are applied using management judgement outside of the macro-economic conditioned ECL model framework (refer to the Management Judgement in Impairment Measurement section below). The scenarios outlined in the following tables are based on the FLI weightings outlined on the previous page.

Comparative figures as at 31 December 2022 are also outlined below (and in subsequent tables in this section). Changes in the figures as at 31 December 2023 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)*

2023 Impact of applying multiple scenarios rather than only a central scenario	Additional impairment loss allowance Stage 1 Impact £m	Stage 1 Impact %	Stage 2 Impact £m	Stage 2 Impact %	Stage 3 Impact £m	Stage 3 Impact %	Total Impact £m	Total Impact %
Residential mortgages	1.1	20%	3.2	58%	2.1	11%	6.4	21%
Non-property SME and corporate	0.2	7%	1.3	12%	0.1	1%	1.6	5%
Property and construction	0.1	9%	1.3	48%	-	-	1.4	33%
Consumer	1.4	5%	2.1	5%	-	-	3.5	5%
Total	**2.8**	**8%**	**7.9**	**14%**	**2.2**	**4%**	**12.9**	**9%**

2022 Impact of applying multiple scenarios rather than only a central scenario	Additional impairment loss allowance Stage 1 Impact £m	Stage 1 Impact %	Stage 2 Impact £m	Stage 2 Impact %	Stage 3 Impact £m	Stage 3 Impact %	Total Impact £m	Total Impact %
Residential mortgages	1.1	29%	3.4	81%	1.1	14%	5.6	35%
Non-property SME and corporate	0.3	12%	1.4	17%	0.5	2%	2.2	6%
Property and construction	0.1	6%	1.1	71%	0.8	11%	2.0	20%
Consumer	3.0	11%	2.1	9%	0.0	0%	5.1	6%
Total	**4.5**	**13%**	**8.0**	**21%**	**2.4**	**3%**	**14.9**	**10%**

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:

2023 Impact of applying single scenario rather than multiple probability weighted scenarios	Multiple scenarios Impairment loss allowance £m	Central scenario Impairment loss allowance £m	Central scenario Impact %	Upside only scenario Impairment loss allowance £m	Upside only scenario Impact %	Downside 1 only scenario Impairment loss allowance £m	Downside 1 only scenario Impact %	Downside 2 only scenario Impairment loss allowance £m	Downside 2 only scenario Impact %
Residential mortgages	37	(6)	(17%)	(10)	(26%)	50	135%	83	226%
Non-property SME and corporate	27	(2)	(5%)	(3)	(12%)	2	9%	10	36%
Property and construction	5	(1)	(25%)	(3)	(45%)	2	37%	9	156%
Consumer	80	(4)	(4%)	(13)	(16%)	7	8%	24	30%
Total	**149**	**(13)**	**(8%)**	**(29)**	**(19%)**	**61**	**39%**	**126**	**81%**

2022 Impact of applying single scenario rather than multiple probability weighted scenarios	Multiple scenarios Impairment loss allowance £m	Central scenario Impairment loss allowance £m	Central scenario Impact %	Upside only scenario Impairment loss allowance £m	Upside only scenario Impact %	Downside 1 only scenario Impairment loss allowance £m	Downside 1 only scenario Impact %	Downside 2 only scenario Impairment loss allowance £m	Downside 2 only scenario Impact %
Residential mortgages	21	(6)	(26%)	(7)	(35%)	35	164%	66	310%
Non-property SME and corporate	40	(2)	(5%)	(4)	(9%)	2	6%	10	26%
Property and construction	11	(2)	(17%)	(3)	(27%)	2	14%	9	73%
Consumer	94	(5)	(5%)	(8)	(8%)	4	5%	16	16%
Total	**166**	**(15)**	**(9%)**	**(22)**	**(13%)**	**43**	**26%**	**101**	**60%**

The following table indicates the approximate extent to which impairment loss allowances for the residential mortgage portfolios, excluding post-model Group management adjustments, would be higher or lower than the application of a central scenario if there was an immediate change in residential property prices as at the reporting date. Although such changes would not be observed in isolation, as economic indicators tend to be correlated in a coherent scenario, this gives insight into the sensitivity of the Groups impairment loss allowance for residential mortgages to a once-off change in residential property values.

2 Critical accounting estimates and judgements *(continued)*

2023 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%		Residential property price reduction of 5%		Residential property price increase of 5%		Residential property price increase of 10%	
		Impact £m	Impact %	Impact £m	Impact %	Impact £m	Impact %	Impact £m	Impact %
Residential mortgages	30	9	29%	4	14%	(3)	(9%)	(5)	(18%)
Total	**30**	**9**	**29%**	**4**	**14%**	**(3)**	**(9%)**	**(5)**	**(18%)**

The sensitivity of impairment loss allowances to stage allocation is such that a transfer of 1% of Stage 1 balances at 31 December 2023 to Stage 2 would increase the Group's impairment loss allowance by approximately £2.8 million excluding Group management adjustments.

2022 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%		Residential property price reduction of 5%		Residential property price increase of 5%		Residential property price increase of 10%	
		Impact £m	Impact %	Impact £m	Impact %	Impact £m	Impact %	Impact £m	Impact %
Residential mortgages	16	4	28%	2	13%	(2)	(10%)	(3)	(19%)
Total	**16**	**4**	**28%**	**2**	**13%**	**(2)**	**(10%)**	**(3)**	**(19%)**

Management Judgement in impairment measurement

Management judgement has been incorporated into the Group's impairment measurement process for 2023. Management judgement can be described with reference to:

- credit risk assessment for significant increase in credit risk;
- management judgement in impairment model parameters; and
- post-model Group management adjustments to impairment loss allowance and staging classification.

Credit risk assessment for significant increase in credit risk

As outlined on page 45 of the Risk Management report, the Group considers other reasonable and supportable information that would not otherwise be taken into account that would indicate that a significant increase in credit risk had occurred. In this regard, for the year ending 31 December 2023 the Group has assessed the impact of inflation and rising interest rates on asset quality. Credit risk assessments on the impact of higher inflation and rising interest rates on debt affordability were completed across the residential mortgage and consumer portfolios. Where appropriate, outputs have been utilised to identify significant increases in credit risk and the classification of assets in stage 2. The credit risk assessments, which leveraged qualitative information not already captured in impairment models, resulted in a credit management decision to classify c.£0.8 billion of assets as stage 2 at the reporting date, with an associated £16.3 million increase in impairment loss allowance.

£0.4 billion (2022: £0.4 billion) of the assets classified as stage 2, and £2.5 million (2022: £2 million) of the increase in impairment loss allowance, was related to the mortgage portfolio. The remaining £0.4 billion (2022: £0.2 billion) of assets classified as stage 2, and £13.8 million (2022: £3.3 million) increase in impairment loss allowance was related to the consumer portfolio.

Management judgement in impairment model parameters

The ECL model framework was updated in the period to reflect an enhanced approach to Loss Given Default (LGD) components of the impairment models for the residential mortgages and Business Banking portfolios.

The changes to the LGD component of the Business Banking impairment model, results in a reduction in impairment loss allowance of c.£1.9 million.

In addition an enhanced approach to estimating cure rates within the LGD component of the impairment model for residential mortgages was implemented. The changes to this aspect of the LGD component of residential mortgages impairment models results in an increase in impairment loss allowance of c.£1.9 million.

Post-model Group management adjustment

To ensure that the measurement of impairment reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions, the need for a post-model Group management adjustment to the outputs of the Group's staging and impairment measurement methodologies is considered at each reporting date in arriving at the final impairment loss allowance. Such a need may arise, for example, due to a model limitation or a late breaking event. At 31 December 2023, the Group's stock

2 Critical accounting estimates and judgements *(continued)*

of impairment loss allowance of £151 million includes a £2 million total post-model Group management adjustment (31 December 2022: £18 million). The following table provides an overview of Group management adjustments.

Group management adjustment for Investment Property
The impact of elevated inflation and interest rates on property loans have been separately considered within individual credit assessments in relationship managed commercial portfolios with the Group taking additional action by implementing PD downgrades.

A PMA to the Group's impairment loss allowance of £1.6 million has been recognised at 31 December 2023 to reflect latent risk within certain cohorts of the Investment Property portfolio, including prevailing interest rates. The PMA also reflects the estimated impact of planned model enhancements to Investment Property impairment models in 2024 / 2025.

The PMA has been quantified to reflect the potential for latent risk in the Investment Property sector, including interest and inflation rates which have yet to become apparent, and with consideration to potential future model changes to Investment Property impairment models.

All of this post model adjustment is recognised in the property and construction portfolio at 31 December 2023 and is allocated to stage 1 (£0.2 million) and stage 2 (£1.4 million) assets.

Group management adjustment for NPE sale
The Group completed the disposal of £36 million of commercial lending NPEs in the second half of 2023. Accordingly the PMA of £18 million recognised at 31 December 2022 (reduced to £9 million at 30 June 2023) associated with this transaction was utilised in full and is no longer required.

Group management adjustment for Personal Contract Plan exposures
Credit risk assessments in relation to the impact of elevated inflation and interest rates were implemented across the residential mortgage and consumer portfolios with outputs utilised to identify significant increases in credit risk and classify stage 1 assets as stage 2.

A £0.4 million additional PMA has been applied to reflect the increased risk in Consumer Personal Contract Plan (PCP) exposures (a car financing product) due to mature within the next twelve months. The requirement for this adjustment will be assessed with reference to prevailing economic conditions and assessment affordability risk in 2024.

2023 **Impact of applying Post Model Adjustments to the Impairment Loss Allowances**	**Modelled Impairment Loss Allowances £m**	**Investment property Post Model Adjustment £m**	**PCP Exposures Post Model Adjustment £m**	**Final Impairment Loss Allowances £m**
Residential mortgages	37	-	-	37
UK SME and property and construction portfolios	32	2	-	34
Consumer	80	-	-	80
Total	**149**	**2**	**-**	**151**

2022 **Impact of applying Post Model Adjustments to the Impairment Loss Allowances**	**Modelled Impairment Loss Allowances £m**	**NPE sale Post Model Adjustment £m**	**Final Impairment Loss Allowances £m**
Residential mortgages	21	-	21
UK SME and property and construction portfolios	51	18	69
Consumer	94	-	94
Total	**166[1]**	**18**	**184**

[1] *For the move in modelled impairment loss allowance, refer to page 97 noting this includes the NPE sale of residential mortgages.*

2 Critical accounting estimates and judgements *(continued)*

(b) Taxation

At 31 December 2023, the Group had a net deferred tax asset (DTA) of £96 million (2022: £108 million), of which £51 million (2022: £62 million) related to trading losses. See note 24.

A significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset (DTA) relating to trading losses. The recognition of a deferred tax asset relies on management's estimate of the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences against which the losses can be utilised.

Under current UK tax legislation there is no time restriction on the utilisation of these losses.

UK legislation restricts the proportion of a bank's annual taxable profit that can be offset by carried forward losses to 25%. This restriction significantly lengthens the period over which the Group could use its UK trading losses and has been considered in the context of the measurement and recognition of the deferred tax asset at 31 December 2023.

Accounting judgements

The Group's judgement takes into consideration the impact of both positive and negative evidence in assessing the recoverability of the deferred tax asset.

Positive factors which have been considered include:

- The Group has a sustained history of operating profits and it is considered likely that the Group's activities will be profitable into the future;
- the absence of any expiry dates for UK tax losses; and
- external forecasts for the UK which indicate continued economic growth and improved employment levels over the long term.

The Group also considered negative evidence and the inherent uncertainties in any long term financial assumptions and projections, including:

- the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- the challenge of projecting over a long period, taking account of the level of competition and the evolving interest rate environment; and
- accelerated transformation of banking business models.

The Directors believe that the Group will be profitable for the foreseeable future but acknowledge external challenges facing the UK banking industry and wider economy. In particular, the economic environment in which the Bank operates has become more uncertain with changing customer product and service expectations, accelerated transformation of the banking business and increased volatility in interest rate projections.

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.

Accounting estimates

The Group's estimate of future profitability takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation, and future reversals of existing taxable temporary differences.

The Group's assessment of deferred tax recoverability for the Bank is based on forecasts covering its five year initial planning period. The forecast for year five onwards is based on the projections within that fifth year of the initial planning period. The deferred tax recoverability is most sensitive to the forecasts in the initial planning period. These forecasts assume a sustainable UK market return on equity in the high single digits for the Group over the long term, and a profitability growth rate of 2% (including GDP of 1%). The profitability projections are based on its agreed strategic priorities of transform the bank, serve customers brilliantly and grow sustainable profits, where the focus will be on value, rather than volume enabling lower funding and operating costs, and focus on higher margin business where the Group has the necessary expertise.

The following sensitivity analysis has been carried out which has no impact on the DTA or the DTA recovery period;

- a decrease of 2% in the projected rate of growth of taxable profits after the fifth year of the initial planning period; and
- a reduction of 5% in anticipated Group profit forecasts in years 1-5, with the outer year profits held consistent with the year 5 forecast.

The Bank expects to recover the deferred tax asset by 2030.

(c) Remaining expected life unwinding adjustment on acquired mortgages

Between 2012 and 2014 the Group acquired a number of tranches of mortgages from the Parent at fair value. These assets were initially recognised on the balance sheet at fair value plus transaction costs. The differential between the initial carrying value of the assets on acquisition and the principal balances is an adjustment unwinding to the income statement, as part of the effective interest rate of these assets, over their remaining expected lives. At 31 December 2023, the impact of this adjustment was to reduce the principal balances by £45 million (2022: £79 million).

Accounting estimates

Assumptions are used in relation to customer repayment estimates. These estimates are used to determine the expected lives of the relevant loans, and therefore impacts on the amount of interest income unwound and 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

2 Critical accounting estimates and judgements *(continued)*

interest income of c.£3.3 million being recognised in 2023;
- 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 c.£3.3 million being recognised in 2023; and
- a reduction based on the rate of repayments experienced in the 12 months to 31 December 2023 of 25% would give rise to an increase in interest income of c.£8 million being recognised in 2023.

Accounting judgements
The most significant judgement relating to this adjustment is applied to the timing of the unwind. The Directors acknowledge this judgement is impacted by the economic environment in which the Bank operates. This has become more uncertain with increased volatility in interest rate projections, with changing customer product and service expectations and accelerated transformation of the banking business models.

(d) Effective interest rate

IFRS 9 requires interest to be recognised using the effective interest rate, being the rate that exactly discounts estimated future cash flows over the expected life of the financial instrument to the net carrying amount of the financial instrument.

Adjustments to the carrying value of financial instruments may be required when actual cash flows vary from the initial estimation of future cash flows, with the corresponding adjustment being made to the income statement.

For secured mortgage lending, management model future expected cash flows for each tranche of lending. In determining the future cash flows, management use judgement informed by estimates of the average life curve of each lending tranche.

The EIR asset is valued at £30.3 million at 31 December 2023 (2022: £39.3 million).

Accounting estimates
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.

Accounting judgements
The judgement applied to the impact of future cashflows is influenced by the economic environment in which the Bank operates. This has become more uncertain with increased volatility in interest rate projections, with changing customer product and service expectations and accelerated transformation of the banking business models. In concluding on the life curves to be used in the effective interest rate calculation for the year ended 31 December 2023, management have considered a number of factors which could impact observed and future customer behaviour including historic and forecasted movements in external macro-economic indicators such as UK base rates, GDP and inflation, together with the impact of competition and pricing. Management consider certain customer behaviours have been temporary in nature as a result of market dislocation during a COVID-19 impacted time series, whereby the length of time certain borrowers remained on revision rates increased. 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 £1.1 - £1.4 million of income in 2023.

Sensitivity analysis on the interest element of the EIR asset, which is £19 million at 31 December 2023, estimates that a half month change in the weighted average expected life of buy to let mortgages would give rise to an income statement impact of £1.5 million (2022: £1.6 million) and a change of a half month in the weighted average expected life of standard mortgages would give rise to an income statement impact of £4.9 million (2022: £4.8 million).

(e) Retirement benefit obligations

The Bank'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 32.

3 Interest income

Included in interest income for the year ended 31 December 2023, is £7 million in respect of income earned by the Group on loans and advances to banks, relating to amounts placed with the Parent (2022: £2 million) and interest on hedging derivatives of £108 million which are also held with the Parent (2022: £36 million).

Other interest income includes £9 million (2022: £nil) in relation to non-trading derivatives held with hedging intent, but for which hedge accounting is not applied (economic hedges), held with the Parent.

In 2023, £13 million of interest income was recognised on credit-impaired loans and advances to customers (2022: £7 million). In 2023, £13 million of interest income was received on credit-impaired loans and advances to customers (2022: £9 million).

Interest income also includes £34 million relating to the unwind of, and revisions to, fair value adjustments associated with mortgages acquired from the Parent in prior years (2022: £38 million).

For the year ended 31 December 2023, interest recognised on total forborne loans and advances to customers was £9 million (2022: £7 million).

Finance lease and hire purchase receivables interest income arises from the Northridge Finance business.

Group	2023 £m	2022 £m
Financial assets measured at amortised cost		
Loans and advances to customers	655	525
Loans and advances to banks	123	47
Debt securities at amortised cost	14	8
Interest income on financial assets measured at amortised cost	**792**	**580**
Interest income calculated using the effective interest rate method	**792**	**580**
Other interest income		
Interest income on finance leases and hire purchase receivables	122	83
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	9	-
Interest income	**923**	**663**

4 Interest expense

Included in interest expense for the year ended 31 December 2023 is £72 million in respect of interest paid to the Parent on deposits and subordinated liabilities (2022: £36 million).

Other interest expense includes £12 million (2022: £4 million) in relation to non-trading derivatives held with hedging intent, but for which hedge accounting is not applied (economic hedges), held with the Parent.

Group	2023 £m	2022 £m
Customer accounts	147	34
Deposits from banks	141	53
Subordinated liabilities	34	14
Debt securities in issue	5	2
Lease liabilities	1	1
Interest expense on financial liabilities measured at amortised cost	**328**	**104**
Interest expense calculated using the effective interest rate method	**328**	**104**
Other interest expense		
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	12	4
Interest expense	**340**	**108**

5 Other leasing income and expense

Other leasing income and expense relate to the business activities of Marshall Leasing, which is a car and commercial leasing and fleet management business based in the UK. This business was conducted through the subsidiary entity Marshall Leasing Limited until 1 April 2022, at which point the business transferred to NIIB Group Limited. Other leasing expense includes depreciation of £30 million related to vehicles leased under operating leases (2022: £20 million). See note 22.

Group	2023 £m	2022 £m
Other leasing income	80	60
Other leasing expense	(54)	(38)
Net leasing income	**26**	**22**

6 Fee and commission income and expense

Group	2023			2022		
Fee and commission income	GB Consumer Banking[1] £m	NI and GB Business Banking[2] £m	Total £m	GB Consumer Banking[1] £m	NI and GB Business Banking[2] £m	Total £m
Retail banking customer fees	-	28	28	2	28	30
- ATM fees	*-*	*-*	*-*	*2*	*-*	*2*
- Other fees	*-*	*28*	*28*	*-*	*28*	*28*
Other fees received	3	4	7	3	4	7
Total	**3**	**32**	**35**	**5**	**32**	**37**

No impairment losses were recognised in relation to the Group's receivables arising from contracts with customers in 2023 and 2022.

	2023 £m	2022 £m
Fee and commission expense - external	77	79
Fees paid to the Parent	14	9
Fee and commission expense	**91**	**88**

[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 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.

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)	2023 £m	2022 £m
Financial instruments held for trading	15	7
Net trading income / (expense)	**15**	**7**
Amounts include:		
Net trading income / (expense) from the Parent	(63)	110

8 Other operating income

Group	2023 £m	2022 £m
Other operating income	3	-
Total other operating income	**3**	**-**

9 Operating expenses

Group Operating expenses	2023 £m	2022 £m
Administrative expenses		
Staff costs[1] (a)		
- Wages and salaries	82	75
- Social security costs	6	6
- Other pension costs[2]	9	13
Total staff costs	**97**	**94**
Other administrative expenses	48	82
Other administrative expenses – related parties (b)	74	65
Amortisation and depreciation	3	6
Impairment of RoU assets	-	-
Impairment of goodwill	-	-
Total operating expenses	**222**	**247**

[1] Staff costs include amounts of £73 million (2022: £68 million) for wages and salaries, £5 million (2022: £5 million) for social security costs and £9 million (2022: £12 million) for other pension costs recorded in the Bank financial statements.

[2] Other pension costs include £nil (2022: £1 million) in relation to the NIIB scheme which is accounted for as a defined benefit scheme (see note 32) 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 £97 million (2022: £94 million) include all gross salaries, related social security costs, and pension contributions attributable to those employees directly employed by the Group and specified staff seconded to the Group from the Parent under various contractual arrangements. The monthly average number of staff (direct and seconded staff) was 1,492 (2022: 1,447), of which 702 (2022: 616) are directly employed by the Group. Refer to note 40 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 are comprised of services across a number of different activities and areas including, but not restricted to, product design, manufacture, distribution and management, customer service, and IT.

10 Auditors' remuneration

The Group's Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors. Audit related assurance services consist of fees in connection with accounting matters and regulatory compliance based work. It is the Group's policy to subject all major assignments to a competitive tender process. The audit fee is borne by the Parent on behalf of the Group.

Group	2023 £000's	2022 £000's
Fees payable for the audit of the Bank and Group financial statements	1,442	1,300
Audit of the Bank's subsidiaries pursuant to legislation	160	175
Audit related assurance services	30	58
Other assurance services	70	-
Auditors' remuneration	**1,702**	**1,533**

The fees above are payable to the Group's statutory auditor. In addition, the Parent operates centralised processes in Dublin that are centrally tested by the Parent's auditor. The external fees payable by the Parent to the Parent auditor for the centralised testing in 2023 is £1.5 million (2022: £1.3 million).

11 Net impairment losses / (gains) on financial instruments

Group	2023 £m	2022 £m
Loans and advances to customers (note 18)	45	63
- Cash recoveries	*(8)*	*(6)*
- Movement in impairment (gains) / losses	*53*	*69*
Loans and advances to banks	-	-
Loan commitments (note 31)	(2)	1
Guarantees and irrevocable letters of credit (note 31)	-	-
Net impairment (gains) / losses on financial instruments	**43**	**64**

11 Net impairment losses / (gains) on financial instruments *(continued)*

Loans and advances to customers at amortised cost

Net impairment losses / (gains)

The Group's net impairment losses / (gains) on loans and advances to customers at amortised cost is set out in this table.

Group	2023 £m	2022 £m
Residential mortgages	14	22
Non-property SME and corporate	(15)	6
Property and construction	(5)	8
Consumer	51	27
Total	**45**	**63**

During 2022, the Group completed a transaction whereby it derecognised £194 million of loans and advances to customers (after impairment loss allowance). Expected cash flows arising from the sale of a loan are included in the measurement of expected credit losses under IFRS 9, where certain conditions are met. As the transactions satisfied these conditions, the cash flows have been included in the impairment calculation.

As a result, net impairment gains / (losses) on financial instruments in 2022 includes a net impairment loss of £7.7 million arising on the transactions.

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 20 for further information.

Group	2023 £m	2022 £m
First Rate Exchange Services Holdings Limited	25	28
Share of profit after tax of joint venture	**25**	**28**

13 Taxation charge

The effective tax rate for the year is 24% (2022: 9% due to the impact of the re-assessment of the value of tax losses carried forward).

Group	2023 £m	2022 £m
Current tax		
Current year charge / (credit)	52	32
Adjustment in respect of prior year	6	(1)
Total current taxation charge	**58**	**31**
Deferred tax		
Current year charge	13	6
Adjustment in respect of prior year	1	4
Impact of corporation tax rate change (see note 24)	-	1
Re-assessment of the value of tax losses carried forward	-	(19)
Total deferred taxation charge / (credit)	**14**	**(8)**
Taxation charge	**72**	**23**

13 Taxation charge *(continued)*

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 2023 and 31 December 2022.

Group	2023 £m	2022 £m
Profit before taxation	**331**	**251**
Multiplied by the standard rate of Corporation tax in UK of 23.5% (2022: 19%)	78	48
Effects of:		
Re-assessment of the value of tax losses carried forward (see note 24)	-	(19)
Impact of UK banking surcharge	5	7
Non-taxable income on the unwind of fair value adjustments on acquired mortgages (see page 100)	(8)	(7)
Impact of corporation tax rate change	-	1
Adjustment in respect of prior year	7	3
Tax credit on AT1 coupon	(2)	(2)
Share of results of joint venture after tax in the income statement	(5)	(5)
Other	(3)	(3)
Taxation charge	**72**	**23**

14 Cash and cash equivalents

	Group		Bank	
Cash and cash equivalents	**2023 £m**	**2022 £m**	**2023 £m**	**2022 £m**
Cash	33	38	33	38
Balances at central banks	2,180	2,201	2,180	2,201
Less impairment loss allowance on cash and balances at central banks	-	-	-	-
Total cash balances included in cash and cash equivalents	**2,213**	**2,239**	**2,213**	**2,239**
Loans and advances to banks	1,248	1,461	1,226	1,344
Less: amounts with a maturity of three months or more[1]	(74)	(29)	(74)	(29)
Total loans and advances to banks included in cash and cash equivalents	**1,174**	**1,432**	**1,152**	**1,315**
Total cash and cash equivalents	**3,387**	**3,671**	**3,365**	**3,554**
Due from the Parent	253	318	247	309

The impairment loss allowance for Group and Bank of £0.3 million (2022: £0.3 million) is related to 12 month ECL not credit-impaired.

[1] *During the year, the Group has amended the presentation of the cash ratio deposit of £45 million (2022: £54 million) held with the Bank of England, based on a reassessment of the terms and conditions in the year of the CRD scheme, so that it is excluded from the cash and cash equivalents position in the cash flow statement. The comparative figure in the cash flow statement has not been amended as the effect of applying the change in presentation is not material to the financial statements.*

15 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 55. The notional amounts of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The Group holds certain derivatives with the Parent principally for interest rate risk management. The Group has applied hedge accounting to the majority of these derivatives, which are classified as held for hedging in the following table.

The Group also holds certain derivatives entered into with economic hedging intent to which hedge accounting is not applied and these are considered to be held for trading in the table below. These primarily include foreign exchange forward contracts with customers, with a corresponding foreign exchange contract to hedge foreign exchange risk with the Parent.

As set out in the risk management policy on page 41, the Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of £283 million at 31 December 2023 (2022: £379 million):

- £278 million (2022: £372 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 2023, cash collateral of £29 million was placed against these liabilities (2022: £51 million received) and is reported in loans and advances to banks (note 16); and
- £5 million (2022: £7 million) are not covered under CSA and ISDA standard documentation.

Group and Bank	**2023**			**2022**		
	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	518	3	3	215	3	2
Currency forwards – with the Parent	222	1	2	215	2	3
Currency swaps	459	2	3	276	4	3
Currency swaps - with the Parent	196	1	1	276	3	4
Total foreign exchange derivatives held for trading	**1,395**	**7**	**9**	**982**	**12**	**12**
Interest rate derivatives						
Interest rate swaps - with the Parent	1,727	9	41	696	6	14
Cross currency interest rate swaps - with the Parent	101	-	-	176	1	-
Total interest rate derivatives held for trading	**1,828**	**9**	**41**	**872**	**7**	**14**
Total derivatives held for trading	**3,223**	**16**	**50**	**1,854**	**19**	**26**
Derivatives held as fair value hedges						
Interest rate swaps - with the Parent	8,404	251	173	6,290	334	148
Derivatives held as cash flow hedges						
Interest rate swaps - with the Parent	2,187	16	103	1,726	26	154
Total derivative assets / liabilities held for hedging	**10,591**	**267**	**276**	**8,016**	**360**	**302**
Total derivative assets / liabilities	**13,814**	**283**	**326**	**9,870**	**379**	**328**

15 Derivative financial instruments *(continued)*

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			2023				2022			
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	37	20	10	130	121	37	20	140
		Average fixed interest rate	1.05%	0.05%	2.00%	0.68%	0.73%	1.05%	0.06%	0.78%
Cash Flow Hedge	Interest Rate Risk	Interest rate swap	-	135	1,493	559	65	-	432	1,229
		Average fixed interest rate	-	4.96%	3.06%	3.02%	0.04%	-	2.00%	1.87%

15 Derivative financial instruments *(continued)*

Fair value hedges

Certain interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate exposure on the Group's fixed rate financial assets and liabilities.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year are shown in the table below:

Group and Bank

Risk Category	Hedging Instrument[1]	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument Assets £m	Carrying amount of the hedging instrument Liabilities £m	Changes in value used to calculate hedge ineffectiveness[2] £m	Ineffectiveness recognised in profit or loss[2] £m
2023						
Interest rate risk	Interest rate swaps	8,404	251	(173)	85	6
2022						
Interest rate risk	Interest rate swaps	6,290	334	(148)	(110)	-

The main cause of ineffectiveness in the Group's fair value hedge relationships are differences in maturities and fixed interest rates between certain interest rate swaps and their related hedged items.

In the table above, 'changes in value used to calculate hedge ineffectiveness' include changes in the fair value of the hedging instruments in portfolio fair value hedges of interest rate risk, and in the table below, they include changes in value for loans and advances to customers and customer accounts that are hedged items in portfolio fair value hedges of interest rate risk.

[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.*

15 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		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item		Changes in value used for calculating hedge ineffectiveness £m	Remaining adjustments for discontinued hedges £m
		Assets £m	Liabilities £m	Assets £m	Liabilities £m		
2023							
Interest rate risk	Debt securities at amortised cost	179	-	(20)	-	12	(1)
	Loans and advances to customers	6,310	-	-	-	153	(11)
	Customer accounts	-	2,142	-	-	(86)	1
Total		**6,489**	**2,142**	**(20)**	**-**	**79**	**(11)**
2022							
Interest rate risk	Debt securities at amortised cost	288	-	(32)	-	(29)	(1)
	Loans and advances to customers	5,181	-	-	-	(211)	(24)
	Customer accounts	-	1,237	-	-	130	-
Total		**5,469**	**1,237**	**(32)**	**-**	**(110)**	**(25)**

Cash flow hedges

The Group designates certain interest rate derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year are as follows.

Risk Category	Hedging Instruments	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument		Changes in value used for calculating hedge in-effectiveness £m	Changes in the value of the hedging instrument recognised in other comprehensive income £m	In-effectiveness recognised in profit or loss £m	Amount reclassified from the cash flow hedge reserve to profit or loss £m
			Assets £m	Liabilities £m				
2023								
Interest rate risk	Interest rate swaps	2,187	16	103	(47)	47	-	(120)
2022								
Interest rate risk	Interest rate swaps	1,726	26	154	94	(94)	-	(34)

15 Derivative financial instruments *(continued)*

The amounts relating to items designated as hedged items for the period are as follows:

Group and Bank	2023 Changes in the hedged risk used for calculating hedge ineffectiveness £m	2023 Cash flow hedge reserve £m	2023 Remaining adjustments for discontinued hedges £m	2022 Changes in the hedged risk used for calculating hedge ineffectiveness £m	2022 Cash flow hedge reserve £m	2022 Remaining adjustments for discontinued hedges £m
Interest rate risk	47	69	45	(94)	116	(10)
Foreign exchange risk	-	-	-	-	-	-
Total	**47**	**69**	**45**	**(94)**	**116**	**(10)**

This table below shows a reconciliation of the movements in the cash flow hedge reserve for 2023 and 2022.

Group and Bank Cash flow hedge reserve	2023 £m	2022 £m
Changes in fair value		
Interest rate risk	112	(52)
Transfer to income statement		
Interest income		
- Interest rate risk	(114)	(31)
Net trading income / (expense)		
- Interest rate risk	(5)	(3)
Deferred tax on reserve movements	2	23
Net change in cash flow hedge reserve	**(5)**	**(63)**

In 2023 and 2022, 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 78).

16 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	
	2023 £m	**2022 £m**	**2023 £m**	**2022 £m**
Placements with other banks	345	496	323	379
Mandatory deposits with central banks	903	965	903	965
	1,248	**1,461**	**1,226**	**1,344**
Less impairment loss allowance on loans and advances to banks	-	-	-	-
Loans and advances to banks at amortised cost	**1,248**	**1,461**	**1,226**	**1,344**
Loans and advances to banks at fair value through profit or loss	-	-	-	-
Total loans and advances to banks	**1,248**	**1,461**	**1,226**	**1,344**
Amounts include:				
Due from the Parent	253	318	247	309

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 25. 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 £858 million relating to collateral with the Bank of England in respect of notes in circulation (2022: £911 million). £489 million of this relates to non-interest bearing collateral (2022: £510 million); and
- an amount of £45 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 (2022: £54 million).

All loans and advances to banks for Group and Bank are stage 1.

17 Debt securities at amortised cost

The following table details the significant categories of debt securities at amortised cost.

	Group		Bank	
	2023 £m	**2022 £m**	**2023 £m**	**2022 £m**
Government bonds	115	108	115	108
Other debt securities at amortised cost	374	420	374	420
Less impairment loss allowance	-	-	-	-
Debt securities at amortised cost	**489**	**528**	**489**	**528**

17 Debt securities at amortised cost *(continued)*

The following table shows the movement in debt securities at amortised cost for the year ended 31 December 2023. All debt securities at amortised cost were stage 1 (12 month ECL not credit-impaired) throughout the year ended 31 December 2023.

Group and Bank **2023** **Gross carrying amount** **(before impairment loss allowance)**	**Total** **£m**
Closing balance 31 December 2022	528
Additions	145
Redemptions, repayments and disposals	(196)
Measurement reclassification and other movements	12
Gross carrying amount at 31 December 2023	**489**

18 Loans and advances to customers

	Group		**Bank**	
	2023 **£m**	**2022** **£m**	**2023** **£m**	**2022** **£m**
Loans and advances to customers at amortised cost	11,936	12,214	14,402	14,294
Finance leases and hire purchase receivables (see below)	2,363	1,988	-	-
Less impairment loss allowance on loans and advances to customers	(151)	(184)	(129)	(169)
Total loans and advances to customers[1]	**14,148**	**14,018**	**14,273**	**14,125**
Amounts include:				
Due from subsidiaries	-	-	2,498	2,128
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	676	657	-	-
Later than 1 year and not later than 5 years	1,990	1,520	-	-
Later than 5 years	11	8	-	-
	2,677	**2,185**	**-**	**-**
Unearned future finance income on finance leases	(314)	(197)	-	-
Net investment in finance leases	**2,363**	**1,988**	**-**	**-**
Not later than 1 year	597	598	-	
Later than 1 year and not later than 5 years	1,757	1,383	-	-
Later than 5 years	9	7	-	-
	2,363	**1,988**	**-**	**-**

Included within loans and advances to customers is £166 million (2022: £228 million) of lending in relation to the UK government-backed BBLS and CBILS schemes. An ECL of c.£1 million was recognised in the impairment loss allowance in relation to these loans 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 2023, loans and advances to customers included £380 million (2022: £575 million) of residential mortgage balances that had been securitised but not derecognised. Refer to note 41.*

18 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 45 and the Group accounting policies note on page 84 with updates for 2023 outlined in the Credit Risk section of the Risk Management Report on pages 41 to 45.

Group 2023 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	9,045	1,009	88	2,359	12,501
Stage 2 - Lifetime ECL (not credit impaired)	591	228	123	560	1,502
Stage 3 - Lifetime ECL (credit impaired)	175	69	5	47	296
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2023	**9,811**	**1,306**	**216**	**2,966**	**14,299**

Group 2022 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	9,010	1,053	96	2,456	12,615
Stage 2 - Lifetime ECL (not credit impaired)	635	205	137	311	1,288
Stage 3 - Lifetime ECL (credit impaired)	97	97	41	64	299
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2022	**9,742**	**1,355**	**274**	**2,831**	**14,202**

Group 2023 **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 2023	12,615	1,288	299	-	14,202
Total net transfers	(714)	519	195	-	-
- to 12-month ECL not credit-impaired	*758*	*(758)*	-	-	-
- to lifetime ECL not credit-impaired	*(1,363)*	*1,443*	*(80)*	-	-
- to lifetime ECL credit-impaired	*(109)*	*(166)*	*275*	-	-
Net changes in exposure[1]	577	(306)	(105)	-	166
Impairment loss allowances utilised[2, 3]	-	-	*(94)*	-	*(94)*
Sale of financial assets	-	-	-		
Measurement reclassification and other movements	23	1	1	-	25
Gross carrying amount at 31 December 2023	**12,501**	**1,502**	**296**	**-**	**14,299**

[1] *The increase in gross carrying amount is driven by new lending in excess of repayments in the year across a number of business lines.*

[2] *Impairment loss allowance utilised on loans and advances to customers at amortised cost includes £73 million (2022: £28 million) of contractual amounts outstanding that are still subject to enforcement activity.*

[3] *For certain Consumer portfolios of NPE's, where there is no reasonable expectation of recovery, impairment loss allowances of £40 million in 2023 (2022: £nil) have been utilised, thus reducing the gross carrying amount of a population of Stage 3 loans.*

18 Loans and advances to customers *(continued)*

Group 2022 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 2022	14,840	1,208	526	-	16,574
Total net transfers	(483)	359	124	-	-
- to 12-month ECL not credit-impaired	*983*	*(983)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(1,369)*	*1,505*	*(136)*	-	-
- to lifetime ECL credit-impaired	*(97)*	*(163)*	*260*	-	-
Net changes in exposure	(1,773)	(280)	(292)	-	(2,345)
Impairment loss allowances utilised[1]	-	-	(60)	-	(60)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	31	1	1	-	33
Gross carrying amount at 31 December 2022	**12,615**	**1,288**	**299**	**-**	**14,202**

Group 2023 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)	7	4	1	28	40
Stage 2 - Lifetime ECL not credit impaired	9	11	5	41	66
Stage 3 - Lifetime ECL credit impaired	21	12	1	11	45
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2023	**37**	**27**	**7**	**80**	**151**

Group 2022 Impairment loss allowance	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	5	4	1	30	40
Stage 2 - Lifetime ECL not credit impaired	7	8	3	26	44
Stage 3 - Lifetime ECL credit impaired	9	36	17	38	100
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2022	**21**	**48**	**21**	**94**	**184**

[1] *Impairment loss allowance utilised on loans and advances to customers at amortised cost includes £73 million (2022: £28 million) of contractual amounts outstanding that are still subject to enforcement activity.*

18 Loans and advances to customers *(continued)*

Group 2023 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 2023	40	44	100	-	184
Total net transfers	2	3	(5)	-	-
- to 12-month ECL not credit-impaired	*11*	*(11)*	*-*	*-*	*-*
- to lifetime ECL not credit-impaired	*(8)*	*27*	*(19)*	*-*	*-*
- to lifetime ECL credit-impaired	(1)	(13)	14	-	-
Net impairment (gains) / losses in income statement	(2)	19	36	-	53
- Re-measurement	*(49)*	*28*	*55*	*-*	*34*
- Net changes in exposure	*43*	*(25)*	*(16)*	*-*	*2*
- ECL model parameter and / or methodology changes	4	16	(3)	-	17
Impairment loss allowances utilised[1]	-	-	(94)	-	(94)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	-	-	8	-	8
Impairment loss allowance at 31 December 2023	**40**	**66**	**45**	**-**	**151**

Group 2022 Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total gross carrying amount £m
Opening balance 1 January 2022	47	46	85	-	178
Total net transfers	4	2	(6)	-	-
- to 12-month ECL not credit-impaired	*14*	*(14)*	*-*	*-*	*-*
- to lifetime ECL not credit-impaired	*(9)*	*26*	*(17)*	*-*	*-*
- to lifetime ECL credit-impaired	*(1)*	*(10)*	*11*	*-*	*-*
Net impairment (gains) / losses in income statement	(11)	(4)	84	-	69
- Re-measurement	*(23)*	*4*	*79*	*-*	*60*
- Net changes in exposure	*4*	*(16)*	*(8)*	*-*	*(20)*
- ECL model parameter and / or methodology changes	*8*	*8*	*13*	*-*	*29*
Impairment loss allowances utilised	-	-	(60)	-	(60)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	-	-	(3)	-	(3)
Impairment loss allowance at 31 December 2022	**40**	**44**	**100**	**-**	**184**

Bank 2023 Gross carrying amount at amortised cost (before impairment loss allowance)	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	9,045	3,045	88	840	13,018
Stage 2 - Lifetime ECL (not credit impaired)	591	208	123	204	1,126
Stage 3 - Lifetime ECL (credit impaired)	175	65	5	13	258
Purchased / originated credit-impaired	-		-	-	
Gross carrying amount at 31 December 2023	**9,811**	**3,318**	**216**	**1,057**	**14,402**

[1] *For certain Consumer portfolios of NPE's, where there is no reasonable expectation of recovery, impairment loss allowances of £40 million in 2023 (2022: £nil) have been utilised, thus reducing the gross carrying amount of a population of Stage 3 loans.*

18 Loans and advances to customers *(continued)*

Bank 2022 Gross carrying amount at amortised cost (before impairment loss allowance)	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	9,010	2,782	96	1,079	12,967
Stage 2 - Lifetime ECL (not credit impaired)	635	171	137	112	1,055
Stage 3 - Lifetime ECL (credit impaired)	97	94	41	40	272
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2022	**9,742**	**3,047**	**274**	**1,231**	**14,294**

Bank 2023 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 2023	**12,967**	**1,055**	**272**	**-**	**14,294**
Total net transfers	(563)	389	174	-	-
- to 12-month ECL not credit-impaired	*741*	*(741)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(1,210)*	*1,288*	*(78)*	-	-
- to lifetime ECL credit-impaired	*(94)*	*(158)*	*252*	-	-
Net changes in exposure[1]	591	(319)	(96)	-	176
Impairment loss allowances utilised[2, 3]	-	-	(93)	-	(93)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	23	1	1	-	25
Gross carrying amount at 31 December 2023	**13,018**	**1,126**	**258**	**-**	**14,402**

Bank 2022 Gross carrying amount at amortised cost (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total gross carrying amount £m
Opening balance 1 January 2022	**15,017**	**1,133**	**502**	**-**	**16,652**
Total net transfers	(304)	194	110	-	-
- to 12-month ECL not credit-impaired	*975*	*(975)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(1,192)*	*1,327*	*(135)*	-	-
- to lifetime ECL credit-impaired	*(87)*	*(158)*	*245*	-	-
Net changes in exposure	(1,777)	(273)	(283)	-	(2,333)
Impairment loss allowances utilised[2]	-	-	(58)	-	(58)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	31	1	1	-	33
Gross carrying amount at 31 December 2022	**12,967**	**1,055**	**272**	**-**	**14,294**

[1] *The increase in gross carrying amount is driven by new lending in excess of repayments in the year across a number of business lines.*

[2] *Impairment loss allowances utilised on loans and advances to customers at amortised cost includes £73 million (2022: £28 million) of contractual amounts outstanding that are still subject to enforcement activity.*

[3] *For certain Consumer portfolios of NPE's, where there is no reasonable expectation of recovery, impairment loss allowances of £40 million in 2023 (2022: £nil) have been utilised, thus reducing the gross carrying amount of a population of Stage 3 loans.*

18 Loans and advances to customers *(continued)*

Bank 2023 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)	7	4	1	25	37
Stage 2 - Lifetime ECL (not credit impaired)	9	11	5	35	60
Stage 3 - Lifetime ECL (credit impaired)	21	10	1	-	32
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2023	**37**	**25**	**7**	**60**	**129**

Bank 2022 Impairment loss allowance	Residential mortgages £m	Non -property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	5	4	1	28	38
Stage 2 - Lifetime ECL (not credit impaired)	7	8	3	22	40
Stage 3 - Lifetime ECL (credit impaired)	9	35	17	30	91
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2022	**21**	**47**	**21**	**80**	**169**

Bank 2023 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 2023	38	40	91	-	169
Total net transfers	2	3	(5)	-	-
- to 12-month ECL not credit-impaired	*11*	*(11)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(8)*	*27*	*(19)*	-	-
- to lifetime ECL credit-impaired	*(1)*	*(13)*	*14*	-	-
Net impairment (gains) / losses in income statement	(3)	17	32	-	46
- Re-measurement	*(49)*	*26*	*48*	-	*25*
- Net changes in exposure	*43*	*(24)*	*(13)*	-	*6*
- ECL model parameter and / or methodology changes	*3*	*15*	*(3)*	-	*15*
Impairment loss allowances utilised[1]	-	-	(93)	-	(93)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	-	-	7	-	7
Impairment loss allowance at 31 December 2023	**37**	**60**	**32**	**-**	**129**

[1] *For certain Consumer portfolios of NPE's, where there is no reasonable expectation of recovery, impairment loss allowances of £40 million in 2023 (2022: £nil) have been utilised, thus reducing the gross carrying amount of a population of Stage 3 loans.*

18 Loans and advances to customers *(continued)*

Bank 2022 Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total impairment loss allowance £m
Opening balance 1 January 2022	41	40	74	-	155
Total net transfers	4	2	(6)	-	-
- to 12-month ECL not credit-impaired	*13*	*(13)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(8)*	*25*	*(17)*	-	-
- to lifetime ECL credit-impaired	*(1)*	*(10)*	*11*	-	-
Net impairment (gains) / losses in income statement	(7)	(2)	84	-	75
- Re-measurement	*(24)*	*3*	*74*	-	*53*
- Net changes in exposure	*5*	*(13)*	*(4)*	-	*(12)*
- ECL model parameter and / or methodology changes	*12*	*8*	*14*	-	*34*
Impairment loss allowances utilised	-	-	(58)	-	(58)
Sale of financial assets	-	-	-	-	-
Measurement reclassification and other movements	-	-	(3)	-	(3)
Impairment loss allowance at 31 December 2022	**38**	**40**	**91**	**-**	**169**

Modified financial assets

The following table provides analysis of financial assets in stage 2 and stage 3, for which the contractual cash flows have been modified, and where the modification did not result in derecognition.

The Group recognised a modification loss of £nil during the year ended 31 December 2023 (2022: £nil).

	2023 £m	2022 £m
Financial assets modified during the period		
Amortised cost before modification	48	48
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	15	19

19 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 43 to 45.

In addition to credit risk, the primary risks affecting the Group through its use of financial instruments are: liquidity and funding risk and market risk. The Group's approach to the management of these risks, together with its approach to capital management, are set out in the Risk Management Report included on pages 36 to 55.

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 2023 Financial asset exposure by stage (before impairment loss allowance)	Stage 1 - (not credit- impaired) £m	Stage 2 - (not credit- impaired) £m	Stage 3 - (credit- impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	12,501	1,502	296	-	14,299
Loans and advances to banks	1,248	-	-	-	1,248
Debt securities	489	-	-	-	489
Other financial assets[1]	2,284	-	-	-	2,284
Total financial assets measured at amortised cost	**16,522**	**1,502**	**296**	**-**	**18,320**

Group 2022 Financial asset exposure by stage (before impairment loss allowance)	Stage 1 - (not credit- impaired) £m	Stage 2 - (not credit- impaired) £m	Stage 3 - (credit- impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	12,615	1,288	299	-	14,202
Loans and advances to banks	1,461	-	-	-	1,461
Debt securities	528	-	-	-	528
Other financial assets[1]	2,318	-	-	-	2,318
Total financial assets measured at amortised cost	**16,922**	**1,288**	**299**	**-**	**18,509**

[1] *Other financial assets includes cash and balances at central banks and items in the course of collection from other banks.*

19 Credit risk exposures *(continued)*

Bank 2023 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	13,018	1,126	258	-	14,402
Loans and advances to banks	1,226	-	-	-	1,226
Debt securities	489	-	-	-	489
Other financial assets[1]	2,284	-	-	-	2,284
Total financial assets measured at amortised cost	**17,017**	**1,126**	**258**	**-**	**18,401**

Bank 2022 Financial asset exposure by stage (before impairment loss allowance)	Stage 1 - (not credit- impaired) £m	Stage 2 - (not credit- impaired) £m	Stage 3 - (credit- impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	12,967	1,055	272	-	14,294
Loans and advances to banks	1,344	-	-	-	1,344
Debt securities	528	-	-	-	528
Other financial assets[1]	2,318	-	-	-	2,318
Total financial assets measured at amortised cost	**17,157**	**1,055**	**272**	**-**	**18,484**

Impairment loss allowance

The impairment loss allowance on financial assets is set out in the tables below.

Group 2023 Impairment loss allowance on financial assets	Stage 1 - (not credit- impaired) £m	Stage 2 - (not credit- impaired) £m	Stage 3 - (credit- impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	40	66	45	-	151
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total net impairment loss allowance on financial assets	**40**	**66**	**45**	**-**	**151**

Group 2022 Impairment loss allowance on financial assets	Stage 1 - (not credit- impaired) £m	Stage 2 - (not credit- impaired) £m	Stage 3 - (credit- impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	40	44	100	-	184
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total net impairment loss allowance on financial assets	**40**	**44**	**100**	**-**	**184**

[1] *Other financial assets includes cash and balances at central banks and items in the course of collection from other banks.*

19 Credit risk exposures *(continued)*

Bank 2023 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	37	60	32	-	129
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total net impairment loss allowance on financial assets	**37**	**60**	**32**	**-**	**129**

Bank 2022 Impairment loss allowance on financial assets	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	38	40	91	-	169
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total net impairment loss allowance on financial assets	**38**	**40**	**91**	**-**	**169**

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	2023				2022			
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	9,636	175	9,811	69%	9,645	97	9,742	69%
Non-property SME and corporate	1,237	69	1,306	9%	1,258	97	1,355	9%
Commercial property and construction	211	5	216	1%	233	41	274	2%
Consumer	2,919	47	2,966	21%	2,767	64	2,831	20%
Total	**14,003**	**296**	**14,299**	**100%**	**13,903**	**299**	**14,202**	**100%**
Impairment loss allowance on loans and advances to customers	**106**	**45**	**151**	**100%**	**84**	**100**	**184**	**100%**

19 Credit risk exposures *(continued)*

Bank Loans and advances to customers Composition and risk profile (before impairment loss allowance)	2023 Not credit-impaired £m	2023 Credit-impaired £m	2023 Total £m	2023 Total %	2022 Not credit-impaired £m	2022 Credit-impaired £m	2022 Total £m	2022 Total %
Residential mortgages	9,636	175	9,811	68%	9,645	97	9,742	68%
Non-property SME and corporate	3,253	65	3,318	23%	2,953	94	3,047	21%
Commercial property and construction	211	5	216	1%	233	41	274	2%
Consumer	1,044	13	1,057	8%	1,191	40	1,231	9%
Total	**14,144**	**258**	**14,402**	**100%**	**14,022**	**272**	**14,294**	**100%**
Impairment loss allowance on loans and advances to customers	**97**	**32**	**129**	**100%**	**78**	**91**	**169**	**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 2023 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Stage 1 Loans £m	Stage 1 Loans as % of total advances %	Stage 1 Impairment loss allowance £m	Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans £m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance £m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	9,045	63%	7	0.08%	591	4%	9	1.52%
Non-property SME and corporate	1,009	7%	4	0.40%	228	2%	11	4.82%
Commercial property and construction	88	1%	1	1.14%	123	1%	5	4.07%
Consumer	2,359	16%	28	1.19%	560	4%	41	7.32%
Total	**12,501**	**87%**	**40**	**0.32%**	**1,502**	**11%**	**66**	**4.39%**

Group 2022 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Stage 1 Loans £m	Stage 1 Loans as % of total advances %	Stage 1 Impairment loss allowance £m	Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans £m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance £m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	9,010	63%	5	0.06%	635	4%	7	1.10%
Non-property SME and corporate	1,053	8%	4	0.38%	205	2%	8	3.90%
Commercial property and construction	96	1%	1	1.04%	137	1%	3	2.19%
Consumer	2,456	17%	30	1.22%	311	2%	26	8.36%
Total	**12,615**	**89%**	**40**	**0.32%**	**1,288**	**9%**	**44**	**3.42%**

19 Credit risk exposures *(continued)*

Bank 2023	Stage 1				Stage 2			
Not credit-impaired loans and advances to customers Composition and impairment loss allowance	**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	9,045	63%	7	0.08%	591	4%	9	1.52%
Non-property SME and corporate	3,045	21%	4	0.13%	208	2%	11	5.29%
Commercial property and construction	88	1%	1	1.14%	123	1%	5	4.07%
Consumer	840	6%	25	2.98%	204	1%	35	17.16%
Total	**13,018**	**91%**	**37**	**0.28%**	**1,126**	**8%**	**60**	**5.33%**

Bank 2022	Stage 1				Stage 2			
Not credit-impaired loans and advances to customers Composition and impairment loss allowance	**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	9,010	63%	5	0.06%	635	4%	7	1.10%
Non-property SME and corporate	2,782	19%	4	0.14%	171	1%	8	4.68%
Commercial property and construction	96	1%	1	1.04%	137	1%	3	2.19%
Consumer	1,079	8%	28	2.59%	112	1%	22	19.64%
Total	**12,967**	**91%**	**38**	**0.29%**	**1,055**	**7%**	**40**	**3.79%**

19 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 121.

Group 2023 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	2,603	27%	80	7%	-	-	-	-	2,683	19%
5-7	5,379	56%	371	30%	3	1%	1,458	50%	7,211	52%
8-9	980	10%	546	44%	67	32%	61	2%	1,654	12%
10-11	83	1%	12	1%	18	9%	840	29%	953	6%
Total Stage 1	**9,045**	**94%**	**1,009**	**82%**	**88**	**42%**	**2,359**	**81%**	**12,501**	**89%**
Stage 2										
1-4	12	-	7	-	-	-	-	-	19	-
5-7	273	3%	46	4%	-	-	288	10%	607	4%
8-9	125	1%	80	7%	47	22%	3	-	255	2%
10-11	181	2%	95	7%	76	36%	269	9%	621	5%
Total Stage 2	**591**	**6%**	**228**	**18%**	**123**	**58%**	**560**	**19%**	**1,502**	**11%**
Not credit-impaired										
1-4	2,615	27%	87	7%	-	-	-	-	2,702	19%
5-7	5,652	59%	417	34%	3	1%	1,746	60%	7,818	56%
8-9	1,105	11%	626	51%	114	54%	64	2%	1,909	14%
10-11	264	3%	107	8%	94	45%	1,109	38%	1,574	11%
Total not credit-impaired	**9,636**	**100%**	**1,237**	**100%**	**211**	**100%**	**2,919**	**100%**	**14,003**	**100%**

Group 2022 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages		Non-property SME and corporate		Commercial property and construction		Consumer		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1										
1-4	1,221	12%	126	10%	-	-	-	-	1,347	10%
5-7	7,046	73%	762	61%	50	22%	1,370	49%	9,228	66%
8-9	663	7%	131	10%	29	12%	7	-	830	6%
10-11	80	1%	34	3%	17	7%	1,079	39%	1,210	9%
Total Stage 1	**9,010**	**93%**	**1,053**	**84%**	**96**	**41%**	**2,456**	**88%**	**12,615**	**91%**
Stage 2										
1-4	39	-	1	-	-	-	-	-	40	-
5-7	351	4%	65	5%	50	22%	155	6%	621	5%
8-9	70	1%	42	3%	45	19%	1	-	158	1%
10-11	175	2%	97	8%	42	18%	155	6%	469	3%
Total Stage 2	**635**	**7%**	**205**	**16%**	**137**	**59%**	**311**	**12%**	**1,288**	**9%**
Not credit-impaired										
1-4	1,260	12%	127	10%	-	-	-	-	1,387	10%
5-7	7,397	77%	827	66%	100	44%	1,525	55%	9,849	71%
8-9	733	8%	173	13%	74	31%	8	-	988	7%
10-11	255	3%	131	11%	59	25%	1,234	45%	1,679	12%
Total not credit-impaired	**9,645**	**100%**	**1,258**	**100%**	**233**	**100%**	**2,767**	**100%**	**13,903**	**100%**

19 Credit risk exposures *(continued)*

Bank 2023 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	2,603	27%	60	2%	-	-	-	-	2,663	19%
5-7	5,379	56%	2,870	88%	3	1%	-	-	8,252	58%
8-9	980	10%	103	3%	67	32%	-	-	1,150	8%
10-11	83	1%	12	-	18	9%	840	80%	953	7%
Total Stage 1	**9,045**	**94%**	**3,045**	**93%**	**88**	**42%**	**840**	**80%**	**13,018**	**92%**
Stage 2										
1-4	12	-	7	-	-	-	-	-	19	-
5-7	273	3%	46	2%	-	-	-	-	319	2%
8-9	125	1%	67	2%	47	22%	-	-	239	2%
10-11	181	2%	88	3%	76	36%	204	20%	549	4%
Total Stage 2	**591**	**6%**	**208**	**7%**	**123**	**58%**	**204**	**20%**	**1,126**	**8%**
Not credit-impaired										
1-4	2,615	27%	67	2%	-	-	-	-	2,682	19%
5-7	5,652	59%	2,916	90%	3	1%	-	-	8,571	60%
8-9	1,105	11%	170	5%	114	54%	-	-	1,389	10%
10-11	264	3%	100	3%	94	45%	1,044	100%	1,502	11%
Total not credit-impaired	**9,636**	**100%**	**3,253**	**100%**	**211**	**100%**	**1,044**	**100%**	**14,144**	**100%**

Bank 2022 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages		Non-property SME and corporate		Commercial property and construction		Consumer		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1										
1-4	1,221	12%	100	3%	-	-	-	-	1,321	9%
5-7	7,046	73%	2,518	86%	50	22%	-	-	9,614	69%
8-9	663	7%	131	5%	29	12%	-	-	823	6%
10-11	80	1%	33	1%	17	7%	1,079	91%	1,209	9%
Total Stage 1	**9,010**	**93%**	**2,782**	**95%**	**96**	**41%**	**1,079**	**91%**	**12,967**	**93%**
Stage 2										
1-4	39	-	1	-	-	-	-	-	40	-
5-7	351	4%	37	1%	50	22%	-	-	438	3%
8-9	70	1%	42	1%	45	19%	-	-	157	1%
10-11	175	2%	91	3%	42	18%	112	9%	420	3%
Total Stage 2	**635**	**7%**	**171**	**5%**	**137**	**59%**	**112**	**9%**	**1,055**	**7%**
Not credit-impaired										
1-4	1,260	12%	101	3%	-	-	-	-	1,361	9%
5-7	7,397	77%	2,555	87%	100	44%	-	-	10,052	72%
8-9	733	8%	173	6%	74	31%	-	-	980	7%
10-11	255	3%	124	4%	59	25%	1,191	100%	1,629	12%
Total not credit-impaired	**9,645**	**100%**	**2,953**	**100%**	**233**	**100%**	**1,191**	**100%**	**14,022**	**100%**

19 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	**2023**				**2022**			
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	175	1%	21	12%	97	1%	9	9%
Non-property SME and corporate	69	1%	12	17%	97	1%	36	37%
Commercial property and construction	5	-	1	20%	41	-	17	41%
Consumer	47	-	11	23%	64	-	38	59%
Total credit-impaired	**296**	**2%**	**45**	**15%**	**299**	**2%**	**100**	**33%**

Bank	**2023**				**2022**			
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	175	1%	21	12%	97	1%	9	9%
Non-property SME and corporate	65	1%	10	15%	94	1%	35	37%
Commercial property and construction	5	-	1	20%	41	-	17	41%
Consumer	13	-	-	-	40	-	30	75%
Total credit-impaired	**258**	**2%**	**32**	**12%**	**272**	**2%**	**91**	**33%**

19 Credit risk exposures *(continued)*

Risk profile of forborne and non-forborne loans and advances to customers

Group 2023 Loans and advances to customers at amortised cost - Composition	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total £m
Non-forborne loans and advances to customers					
Residential mortgages	9,045	557	137	-	9,739
Non-property SME and corporate	1,009	188	44	-	1,241
Commercial property and construction	88	112	3	-	203
- Investment	*75*	*105*	*3*	-	*183*
- Land and development	*13*	*7*	-	-	*20*
Consumer	2,359	560	47	-	2,966
Total non-forborne loans and advances to customers	**12,501**	**1,417**	**231**	**-**	**14,149**
Forborne loans and advances to customers					
Residential mortgages	-	34	38	-	72
Non-property SME and corporate	-	40	25	-	65
Commercial property and construction	-	11	2	-	13
- Investment	-	*10*	*1*	-	*11*
- Land and development	-	*1*	*1*	-	*2*
Consumer	-	-	-	-	-
Total forborne loans and advances to customers	**-**	**85**	**65**	**-**	**150**
Total loans and advances to customers	**12,501**	**1,502**	**296**	**-**	**14,299**

Group 2022 Loans and advances to customers at amortised cost - Composition	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total £m
Non-forborne loans and advances to customers					
Residential mortgages	9,010	600	79	-	9,689
Non-property SME and corporate	1,053	166	53	-	1,272
Commercial property and construction	96	114	8	-	218
- Investment	*80*	*106*	*8*	-	*194*
- Land and development	*16*	*8*	-	-	*24*
Consumer	2,456	311	64	-	2,831
Total non-forborne loans and advances to customers	**12,615**	**1,191**	**204**	**-**	**14,010**
Forborne loans and advances to customers					
Residential mortgages	-	35	18	-	53
Non-property SME and corporate	-	39	44	-	83
Commercial property and construction	-	23	33	-	56
- Investment	-	*21*	*30*	-	*51*
- Land and development	-	*2*	*3*	-	*5*
Consumer	-	-	-	-	-
Total forborne loans and advances to customers	**-**	**97**	**95**	**-**	**192**
Total loans and advances to customers	**12,615**	**1,288**	**299**	**-**	**14,202**

19 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		
2023 Loans and advances to customers at amortised cost - Composition	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Total £m
Less than 50%	1,684	25	1,292	38	121	9	3,097	72	3,169
51% to 70%	2,393	30	1,083	42	43	6	3,519	78	3,597
71% to 80%	1,315	10	236	5	5	1	1,556	16	1,572
81% to 90%	1,047	5	6	1	-	1	1,053	7	1,060
91% to 100%	401	1	1	1	1	-	403	2	405
Subtotal	**6,840**	**71**	**2,618**	**87**	**170**	**17**	**9,628**	**175**	**9,803**
101% to 120%	7	-	-	-	1	-	8	-	8
121% to 150%	-	-	-	-	-	-	-	-	-
Adjusted Greater than 150%	-	-	-	-	-	-	-	-	-
Subtotal	**7**	**-**	**-**	**-**	**1**	**-**	**8**	**-**	**8**
Total	**6,847**	**71**	**2,618**	**87**	**171**	**17**	**9,636**	**175**	**9,811**
Weighted average LTV[1]:									
Stock of mortgages at period end	63%	56%	50%	54%	39%	53%	59%	54%	59%
New mortgages during year	75%	68%	60%	57%	52%	-	73%	64%	73%

Group	Standard		Buy to let		Self certified		Total		
2022 Loans and advances to customers at amortised cost - Composition	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Not credit-impaired £m	Credit-impaired £m	Total £m
Less than 50%	1,875	21	1,629	18	148	5	3,652	44	3,696
51% to 70%	2,576	24	1,159	13	44	7	3,779	44	3,823
71% to 80%	1,314	5	104	1	4	1	1,422	7	1,429
81% to 90%	584	2	2	-	1	-	587	2	589
91% to 100%	201	-	1	-	1	-	203	-	203
Subtotal	**6,550**	**52**	**2,895**	**32**	**198**	**13**	**9,643**	**97**	**9,740**
101% to 120%	1	-	-	-	1	-	2	-	2
121% to 150%	-	-	-	-	-	-	-	-	-
Adjusted Greater than 150%	-	-	-	-	-	-	-	-	-
Subtotal	**1**	**-**	**-**	**-**	**1**	**-**	**2**	**-**	**2**
Total	**6,551**	**52**	**2,895**	**32**	**199**	**13**	**9,645**	**97**	**9,742**
Weighted average LTV[1]:									
Stock of mortgages at period end	59%	54%	48%	50%	38%	50%	55%	52%	55%
New mortgages during year	77%	77%	65%	40%	42%	-	75%	75%	75%

[1] *Weighted average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

19 Credit risk exposures *(continued)*

Repossessed collateral on residential mortgages
At 31 December 2023 and 31 December 2022 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	2023		2022	
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	2	-	3	-
Buy to let	3	1	1	-
Self certified	-	-	-	-
Total	**5**	**1**	**4**	**-**

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	2023 £m	2022 £m
Residential mortgages	9,811	9,742
Finance leases and hire purchase	2,363	1,988
Personal loans	1,056	1,230
Commercial property and construction	216	274
Business and other services	629	664
Manufacturing and distribution	224	304
Other	-	-
Total	**14,299**	**14,202**

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 2023 and 31 December 2022. The impairment loss allowance at 31 December 2023 was £0.1 million (2022: £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 2023 with £1 billion being PD grade 1-4 (2022: £1.2 billion) and £0.3 billion being PD grade 5-8 (2022: £0.3 billion). The impairment loss allowance at 31 December 2023 was £0.4 million (2022: £0.4 million).

For Bank, all loans and advances to banks were stage 1 at 31 December 2023 with £1 billion being PD grade 1-4 (2022: £1 billion) and £0.2 billion being PD grade 5-8 (2022: £0.3 billion). The impairment loss allowance at 31 December 2023 was £0.3 million (2022: £0.4 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.

19 Credit risk exposures *(continued)*

Other financial instruments with ratings equivalent to:	Group 2023 £m	Group 2022 £m	Bank 2023 £m	Bank 2022 £m
Aaa to Aa3	-	-	-	-
A1 to A3	-	-	-	-
Baa1 to Baa3	278	371	278	371
Lower than Baa3	5	8	5	8
Total	**283**	**379**	**283**	**379**

20 Interest in joint venture

Joint arrangement	Holding	Classification	Country of operation	Nature of activities
First Rate Exchange Services Holdings Limited (FRESH)	50%	Joint venture	UK	Sale of foreign exchange products through the UK Post Office network

Joint venture
The Group owns 50% of the shares in FRESH, a company incorporated in the United Kingdom which provides foreign exchange services.

The following table shows the movement in the Group's interest in FRESH during the years ended 31 December 2023 and 31 December 2022.

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 2023 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.

	2023 £m	2022 £m
At 1 January	71	47
Share of profit after taxation (note 12)	25	28
Dividends received	(29)	(3)
Other	-	(1)
At 31 December	**67**	**71**

20 Interest in joint venture *(continued)*

The following amounts represent the Group's 50% share of the revenue, expenses, assets and liabilities of FRESH for the year ended 31 December 2023 and the year ended 31 December 2022.

	2023 £m	2022 £m
Revenue	64	61
Expenses	(31)	(27)
Profit before taxation	**33**	**34**
Taxation charge	(8)	(6)
Profit after taxation	**25**	**28**
Non-current assets	3	4
Current assets	190	197
Total assets	**193**	**201**
Current liabilities	(126)	(130)
Total liabilities	**(126)**	**(130)**
Net assets	**67**	**71**

21 Intangible assets and goodwill

	2023				2022			
Group	**Goodwill £m**	**Computer software internally generated £m**	**Other externally purchased intangible assets £m**	**Total £m**	**Goodwill £m**	**Computer software internally generated £m**	**Other externally purchased intangible assets £m**	**Total £m**
Cost								
At 1 January	30	36	87	153	30	36	87	153
Additions	-	-	-	-	-	-	-	-
At 31 December	**30**	**36**	**87**	**153**	**30**	**36**	**87**	**153**
Accumulated amortisation								
At 1 January	(8)	(35)	(82)	(125)	(8)	(35)	(78)	(121)
Impairment	-	-	-	-	-	-	-	-
Amortisation charge for the year (note 9)	-	(1)	(1)	(2)	-	-	(4)	(4)
At 31 December	**(8)**	**(36)**	**(83)**	**(127)**	**(8)**	**(35)**	**(82)**	**(125)**
Net book value at 31 December	**22**	**-**	**4**	**26**	**22**	**1**	**5**	**28**

21 Intangible assets and goodwill *(continued)*

Bank	2023				2022			
	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)	(76)	(110)	-	(34)	(73)	(107)
Amortisation charge for the year	-	(1)	-	(1)	-	-	(3)	(3)
At 31 December	**-**	**(35)**	**(76)**	**(111)**	**-**	**(34)**	**(76)**	**(110)**
Net book value at 31 December	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**1**

Goodwill of £22 million (2022: £22 million) relates to Marshall Leasing. On 1 April 2022, the business of Marshall Leasing and the related goodwill was transferred to NIIB Group Limited, a wholly-owned subsidiary of the Group. The Group also has intangible assets of £4 million (2022: £5 million) relating to Marshall Leasing.

Goodwill is not amortised as it is deemed to have an indefinite useful life. The Group's investment in the Marshall Leasing business has been reviewed for impairment at 31 December 2023 and 31 December 2022 by comparing the carrying value of the cash generating unit (CGU) to its recoverable amount under the value in use method. No impairment was required in 2023 or 2022.

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 2023 or 31 December 2022.

22 Property, plant and equipment

Group 2023	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 2023	**2**	**21**	**178**	**19**	**220**
Acquisitions	-	-	-	-	-
Additions	-	-	83	6	89
Disposals / write offs	-	-	(45)	(1)	(46)
Revaluation recognised in OCI	-	(1)	-	-	(1)
Other movements	-	-	-	-	-
As at 31 December 2023	**2**	**20**	**216**	**24**	**262**
Accumulated depreciation					
At 1 January 2023	**(1)**	**-**	**(35)**	**(10)**	**(46)**
Impairment	-	-	-	-	-
Disposals / write offs	-	-	29	1	30
Charge for the year[3]	-	-	(30)	(1)	(31)
As at 31 December 2023	**(1)**	**-**	**(36)**	**(10)**	**(47)**
Net book value at 31 December 2023	**1**	**20[2]**	**180**	**14**	**215**

Group 2022	Computer and other equipment[1] £m	Freehold land and buildings and long leaseholds (held at fair value) £m	Vehicles leased under operating leases £m	Right of use asset - Buildings £m	Total £m
Cost or valuation					
At 1 January 2022	**2**	**23**	**140**	**20**	**185**
Acquisitions	-	-	-	-	-
Additions	-	-	69	-	69
Disposals / write offs	-	-	(31)	(1)	(32)
Revaluation recognised in OCI	-	(1)	-	-	(1)
Other movements	-	(1)	-	-	(1)
As at 31 December 2022	**2**	**21**	**178**	**19**	**220**
Accumulated depreciation					
At 1 January 2022	**(1)**	**-**	**(31)**	**(10)**	**(42)**
Impairment	-	-	-	-	-
Disposals / write offs	-	-	16	2	18
Charge for the year[3]	-	-	(20)	(2)	(22)
As at 31 December 2022	**(1)**	**-**	**(35)**	**(10)**	**(46)**
Net book value at 31 December 2022	**1**	**21[2]**	**143**	**9**	**174**

[1] *All of which is related to own-use.*
[2] *Includes £5 million (2022: £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).*

22 Property, plant and equipment *(continued)*

Bank **2023**	**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 2023	**21**	**19**	**40**
Revaluation recognised in OCI	(1)	-	(1)
Additions	-	6	6
Disposals / write offs	-	(1)	(1)
Other movements	-	-	-
As at 31 December 2023	**20**	**24**	**44**
Accumulated depreciation at 1 January 2023	**-**	**(10)**	**(10)**
Impairment	-	-	-
Disposals / write offs	-	1	1
Charge for the year	-	(1)	(1)
As at 31 December 2023	**-**	**(10)**	**(10)**
Net book value at 31 December 2023	**20[1]**	**14**	**34**

Bank **2022**	**Freehold land and buildings and long leaseholds (held at fair value) £m**	**Right of use asset - Buildings £m**	**Total £m**
Opening balance at 1 January 2022	**23**	**20**	**43**
Revaluation recognised in OCI	(1)	-	(1)
Disposals / write offs	-	(1)	(1)
Other movements	(1)	-	(1)
As at 31 December 2022	**21**	**19**	**40**
Accumulated depreciation at 1 January 2022	**-**	**(10)**	**(10)**
Impairment	-	-	-
Disposals / write offs	-	2	2
Charge for the year	-	(2)	(2)
As at 31 December 2022	**-**	**(10)**	**(10)**
Net book value at 31 December 2022	**21[1]**	**9**	**30**

[1] *Includes £5 million (2022: £6 million) of which is subject to operating leases.*

22 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	2023 £m	2022 £m
Within 1 year	29	22
1 – 2 years	31	22
Greater than 2 years	40	34
Total	**100**	**78**

At 31 December 2023 and 31 December 2022 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	2023 £m	2022 £m	2023 £m	2022 £m
Not later than 1 year	37	29	-	1
Later than 1 year and not later than 5 years	45	33	1	-
Later than 5 years	-	-	-	-
Total	**82**	**62**	**1**	**1**

23 Other assets

Other assets	Group 2023 £m	Group 2022 £m	Bank 2023 £m	Bank 2022 £m
Sundry and other receivables	40	27	38	23
Accounts receivable and prepayments	7	9	5	7
Interest receivable	18	16	51	25
Other assets	**65**	**52**	**94**	**55**
Amounts include				
Due from the Parent	-	-	-	-
Maturity profile of other assets				
Amounts receivable within 1 year	65	52	94	55
Amounts receivable after 1 year	-	-	-	-
Total	**65**	**52**	**94**	**55**

24 Deferred tax

The deferred tax asset includes an amount of £51 million (2022: £62 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 is within the scope of the Organisation for Economic Co-operation and Development ("OECD") 15% minimum effective tax rate Model Rules (Pillar 2) which have been enacted into UK legislation as part of Finance (No.2) Act 2023 in July 2023. The Pillar 2 rules are effective for financial periods beginning on or after 31 December 2023, in the Group's case the financial period ending 31 December 2024. Since the Pillar 2 legislation was not effective in respect of the Group at the reporting date, the Group has no related current tax exposure for the current period.

Under the legislation, the Group could be liable to pay a top-up tax for the difference between its UK effective tax rate, as computed under the new Rules, and the 15% minimum rate, subject to certain exemptions and conditions. As the UK rate of corporation tax is currently in excess of the minimum rate, the proposed changes may have limited impact in the UK.

The Group applies the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar 2 income taxes, as provided in the amendments to IAS 12 issued in May 2023.

Group 2023	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	62	(11)	-	-	51	51	-
Cash flow hedge reserve	30	-	2	-	32	32	-
Fixed / leased assets	11	-	-	-	11	11	-
Impact of adopting IFRS 9	7	(2)	-	-	5	5	-
Property revaluation surplus	(1)	-	-	-	(1)	-	(1)
Other temporary differences – liabilities	(1)	(1)	-	-	(2)	-	(2)
Tax assets/(liabilities) before set-off	**108**	**(14)**	**2**	**-**	**96**	**99**	**(3)**
Set-off tax						**(3)**	**3**
Net tax assets/(liabilities)						**96**	**-**

24 Deferred tax *(continued)*

Group 2022

	Net balance at 1 January £m	Recognised in profit or loss £m	Recognised in OCI £m	Other movements £m	Net £m	Deferred tax assets £m	Deferred tax liabilities £m
Unutilised tax losses	50	12	-	-	62	62	-
Cash flow hedge reserve	7	-	23	-	30	30	-
Fixed / leased assets	14	(3)	-	-	11	11	-
Impact of adopting IFRS 9	9	(2)	-	-	7	7	-
Property revaluation surplus	(1)	-	-	-	(1)	-	(1)
Other temporary differences – liabilities	(2)	1	-	-	(1)	-	(1)
Tax assets/(liabilities) before set-off	**77**	**8**	**23**	**-**	**108**	**110**	**(2)**
Set-off tax						**(2)**	**2**
Net tax assets/(liabilities)						**108**	**-**

Bank 2023

	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	62	(11)	-	51	51	-
Cash flow hedge reserve	30	-	2	32	32	-
Impact of adopting IFRS 9	7	(2)	-	5	5	-
Property revaluation surplus	(1)	-	-	(1)	-	(1)
Tax assets/(liabilities) before set-off	**98**	**(13)**	**2**	**87**	**88**	**(1)**
Set-off tax					**(1)**	**1**
Net tax assets/(liabilities)					**87**	**-**

Bank 2022

	Net balance at 1 January £m	Recognised in profit or loss £m	Recognised in OCI £m	Net £m	Deferred tax assets £m	Deferred tax liabilities £m
Unutilised tax losses	50	12	-	62	62	-
Cash flow hedge reserve	7	-	23	30	30	-
Impact of adopting IFRS 9	9	(2)	-	7	7	-
Property revaluation surplus	(1)	-	-	(1)	-	(1)
Other temporary differences – liabilities	1	(1)	-	-	-	-
Tax assets/(liabilities) before set-off	**66**	**9**	**23**	**98**	**99**	**(1)**
Set-off tax					**(1)**	**1**
Net tax assets/(liabilities)					**98**	**-**

25 Deposits from banks

	Group		Bank	
	2023 £m	2022 £m	2023 £m	2022 £m
Deposits from banks	**3,237**	**3,107**	**3,230**	**3,098**
Amounts include:				
Due to the Parent	1,061	745	1,055	735

Deposits from banks includes:
- £2,150 million (2022: £2,300 million) of borrowings under the Bank of England Term Funding Scheme for Small and Medium Sized Entities ('TFSME').

Drawings under the TFSME from the Bank of England will be largely repaid in 2024 and 2025 with the final residual amount repaid in October 2026.

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 16 for details of amounts due from the Parent, and note 40 in respect of changes in these balances during 2023.

26 Customer accounts

	Group		Bank	
	2023 £m	**2022 £m**	**2023 £m**	**2022 £m**
Term deposits	2,404	2,837	2,404	2,837
Demand deposits	5,533	5,116	5,533	5,116
Non-interest bearing current accounts	3,690	3,929	4,103	3,929
Interest bearing current accounts	188	340	188	340
Customer accounts at amortised cost	**11,815**	**12,222**	**12,228**	**12,222**
Amounts include:				
Due to entities controlled by the Parent	1	4	1	4
Due to subsidiaries	-	-	413	4

27 Debt securities in issue

	Group		Bank	
	2023 £m	**2022 £m**	**2023 £m**	**2022 £m**
Residential mortgage backed securities	349	79	-	-
Floating rate senior non preferred notes	200	300	200	300
Total debt securities in issue	**549**	**379**	**200**	**300**

The residential mortgage backed securities were issued in November 2023 by the Group's securitisation entity, Bowbell No. 3 plc. For further information refer to note 41.

The Group redeemed its existing Minimum Requirement for Eligible Liabilities (MREL) senior non preferred notes of £300 million at its call date on 11th December 2023 and issued a new £200 million instrument to the Parent on the same date.

28 Other liabilities

	Group		Bank	
	2023 £m	2022 £m	2023 £m	2022 £m
Notes in circulation	775	798	775	798
Accrued interest payable	145	46	143	46
Sundry payables	53	160	39	145
Accruals and deferred income	28	33	28	33
Other liabilities	**1,001**	**1,037**	**985**	**1,022**
Amounts include:				
Due to the Parent	21	7	21	7
Maturity profile of other liabilities				
Amounts payable within 1 year	993	1,037	977	1,022
Amounts payable after 1 year	8	-	8	-

The Bank is authorised to issue banknotes in NI under the Bank of Ireland (UK) plc Act 2012.

29 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 153.

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 18) along with a gross to net reconciliation of the investment in finance leases. Associated income on finance leases is included in Interest income (note 3).

Operating leases where the Group is a lessor primarily relate to the Marshall Leasing business, which has been conducted through the subsidiary NIIB Group Limited since 1 April 2022.

A maturity analysis of undiscounted operating lease receivables set out on an annual basis is included in note 22. 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 2023 are set out in note 22.

The carrying amount of the lease liabilities and the movements during 2023 is set out below:

29 Leasing *(continued)*

Balance sheet liabilities	Group 2023 £m	Group 2022 £m	Bank 2023 £m	Bank 2022 £m
As at 1 January	**12**	**15**	**12**	**15**
Acquisitions	7	-	6	-
Payments	(4)	(4)	(4)	(4)
Interest expense (note 4)	1	1	1	1
Other movements	-	-	-	-
As at 31 December	**16**	**12**	**15**	**12**

Group Summary of amounts recognised in the income statement under IFRS 16 leases	2023 £m	2022 £m
Amounts recognised in interest expense (note 4)		
Payments	1	1
Amounts recognised in interest income (note 3)		
Finance lease interest	**122**	**83**
Other leasing income and expense (note 5)		
Operating lease rentals	80	60
Other leasing expense	(54)	(38)
	26	22
Amounts recognised in other operating expense (note 9)		
Depreciation of RoU assets in property, plant and equipment	1	2

30 Provisions

At 31 December 2023, the Group had provisions for the following items:
Customer provisions, £5.5 million (2022: £9 million), comprise the estimated cost of making repayments to customers associated with the design and execution of processes as part of the Group's business activities.

Provisions associated with restructuring and transformation costs: £2.8 million (2022: £nil).

2023	Group £m	Bank £m
Closing balance 31 December 2022	9	8
Net charge to the income statement	3	3
Utilised during the year	(4)	(3)
At 31 December 2023	**8**	**8**
Expected utilisation period		
Used within 1 year	5	5
Used after 1 year	3	3

31 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 2023, the Group held an impairment loss allowance of £3 million (2022: £5 million) on loan commitments and financial guarantees, of which £2 million are classified as stage 1 (2022: £3 million), £1 million as stage 2 (2022: £1 million) and £nil as stage 3 (2022: £1 million).

Group	2023 Amount £m	2023 Loss allowance £m	2022 Amount £m	2022 Loss allowance £m
Loan commitments (note 34)	1,292	3	1,068	5
Guarantees and irrevocable letters of credit (note 34)	12	-	16	-
Total	**1,304**	**3**	**1,084**	**5**

Bank	2023 Amount £m	2023 Loss allowance £m	2022 Amount £m	2022 Loss allowance £m
Loan commitments (note 34)	1,255	3	1,024	5
Guarantees and irrevocable letters of credit (note 34)	12	-	16	-
Total	**1,267**	**3**	**1,040**	**5**

Group 2023 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	222	18%	10	14%	232	18%	1	17%	-	-	1	8%
5-7	928	76%	44	63%	972	75%	5	83%	-	-	5	42%
8-9	66	6%	7	10%	73	6%	-	-	3	50%	3	25%
10-11	1	-	9	13%	10	1%	-	-	3	50%	3	25%
Total	**1,217**	**100%**	**70**	**100%**	**1,287**	**100%**	**6**	**100%**	**6**	**100%**	**12**	**100%**

Group 2022 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	249	25%	2	4%	251	24%	-	-	-	-	-	-
5-7	688	68%	33	66%	721	68%	15	94%	-	-	15	94%
8-9	59	6%	7	14%	66	6%	1	6%	-	-	1	6%
10-11	10	1%	8	16%	18	2%	-	-	-	-	-	-
Total	**1,006**	**100%**	**50**	**100%**	**1,056**	**100%**	**16**	**100%**	**-**	**-**	**16**	**100%**

31 Loss allowance provision on loan commitments and financial guarantees *(continued)*

Bank 2023 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	185	16%	10	14%	195	15%	1	17%	-	-	1	8%
5-7	928	79%	44	63%	972	78%	5	83%	-	-	5	42%
8-9	66	5%	7	10%	73	6%	-	-	3	50%	3	25%
10-11	1	-	9	13%	10	1%	-	-	3	50%	3	25%
Total	**1,180**	**100%**	**70**	**100%**	**1,250**	**100%**	**6**	**100%**	**6**	**100%**	**12**	**100%**

Bank 2022 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	205	21%	2	4%	207	20%	-	-	-	-	-	-
5-7	688	72%	33	66%	721	71%	15	94%	-	-	15	94%
8-9	59	6%	7	14%	66	7%	1	6%	-	-	1	6%
10-11	10	1%	8	16%	18	2%	-	-	-	-	-	-
Total	**962**	**100%**	**50**	**100%**	**1,012**	**100%**	**16**	**100%**	**-**	**-**	**16**	**100%**

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 £5 million (2022: £12 million) on loan commitments and £nil (2022: £nil) on guarantees and irrevocable letters of credit are stage 3.

32 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 as BOI Group defined benefit schemes in the financial statements of BOI Group in line with IAS 19.

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 Willis Towers Watson (WTW) who act as independent actuaries to the Group.

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.

32 Retirement benefit obligations *(continued)*

The trustees' other duties include managing the investment of the plan assets, administration of the plan benefits, ensuring 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 2022. 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 2023 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 scheme will be carried out at 1 May 2025 and will be due to be completed by 31 July 2026.

Plan details

The below table sets out details of the membership of the NIIB scheme as at 1 May 2022.

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, including nominal and index-linked bond prices, which reflects the characteristics of the Bank's liabilities with an appropriate adjustment to reflect distortions due to supply and demand. A single assumed inflation rate is then derived which gives the same liabilities as those arising from the application of the inflation curve.

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. As a significant majority of the Group's CPI exposure relates to the pre-retirement period for deferred members, it was agreed that for 31 December 2023, the Group would adopt a CPI assumption of 0.60% p.a. lower than RPI.

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 2023.

Plan details at last valuation date (1 May 2022)	By number	By % of scheme liability
Scheme members		
Active	47	33%
Deferred	107	27%
Pensioners / dependants	94	40%

Valuation statement at 1 May 2022	£m
Technical provisions	48.48
Market value of assets	54.06
Past service (deficit) / surplus	5.58
Funding level	111.5%

32 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	2023 % p.a.	2022 % p.a.
Consumer price inflation	2.55	2.70
Retail price inflation	3.15	3.30
Discount rate	4.75	5.00
Rate of general increase in salaries	3.65	3.80
Rate of increase in pensions in payment	3.00	3.00
Rate of increase in deferred pensions	2.55	2.70

Mortality assumptions

The mortality assumptions adopted are outlined in the table below. The mortality assumptions are not typically updated annually, and are reviewed after each triennial valuation. The assumptions below reflect those selected for the 1 May 2022 formal valuation results. There has been no change to these assumptions to reflect the impact of COVID-19 given the uncertainty regarding its long-term impacts. This is in line with the approach taken for the majority of UK pension schemes.

Post retirement mortality assumptions	2023 Years	2022 Years
Longevity at age 70 for current pensioners		
Men	19.2	19.1
Women	20.6	20.5
Longevity at age 60 for active members currently aged 60 years		
Men	28.6	28.5
Women	30.4	30.3
Longevity at age 60 for active members currently aged 40 years		
Men	30.1	30.0
Women	31.8	31.7

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements.

	2023 £m	2022 £m
Total charge in operating expenses	**-**	**(1)**
Total gain in remeasurements[1]	**-**	**(2)**
Total asset in the balance sheet	**11**	**10**

A surplus of £11 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.*

32 Retirement benefit obligations *(continued)*

The movement in the net defined benefit asset / obligation is as follows:

	2023			2022		
	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	**(30)**	**40**	**10**	**(50)**	**63**	**13**
Current service cost	-	-	**-**	(1)	-	**(1)**
Interest (expense) / income	(1)	2	**1**	(1)	1	**-**
Total amount in recognised Income statement	**(1)**	**2**	**1**	**(2)**	**1**	**(1)**
Return on plan assets not included in income statement	-	2	**2**	-	(23)	**(23)**
Change in demographic assumptions	-	-	**-**	(2)	-	**(2)**
Change in financial assumptions	(1)	-	**(1)**	22	-	**22**
Experience losses	-	-	**-**	-	-	**-**
Total remeasurements in other comprehensive income	**(1)**	**2**	**1**	**20**	**(23)**	**(3)**
Benefit payments	1	(1)	**-**	2	(2)	**-**
Employer contributions	-	1	**1**	-	1	**1**
Other	(1)	(1)	**(2)**	-	-	**-**
Other movements	**-**	**(1)**	**(1)**	**2**	**(1)**	**1**
At 31 December	**(32)**	**43**	**11**	**(30)**	**40**	**10**

Asset breakdown	**2023 £m**	**2022 £m**
Equities[1] (quoted)	7	9
Corporate bonds	10	6
Liability Driven Investment (LDI)	14	14
Other quoted securities[1]	12	11
Cash	-	-
Total fair value of assets	**43**	**40**

The above assets, excluding cash, are all held in open ended pooled investment vehicles without redemption restrictions. Fair value has been taken as the net asset value determined by the fund manager for each fund, which is considered to be a binding exit price.

[1] *These are held indirectly in unquoted managed funds.*

32 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 2023.

Some of the changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the plan holds a proportion of its assets in Liability Driven Investments (LDI). A fall in the rate of inflation would be expected to lead to a reduction in the value of these assets, thus partly offsetting the reduction in the defined benefit obligation. The extent to which these sensitivities are managed is discussed further below.

Impact on defined benefit obligation	Change in assumptions (%)	Change in obligations due to increase in assumption £m	Change in obligations due to decrease in assumption £m
Discount rate	0.25	(1)	1
Inflation[1]	0.25	1	(1)
Salary growth	0.25	-	-
Life expectancy	1 year	1	(1)

Future cash flows

The plan's liabilities represent a long-term obligation and most of the payments due under the plan will occur several decades into the future. The duration, or average term to payment for the benefits due, weighted by liability, is 17 years.

Expected employer contributions for the year ended 31 December 2024 are £0.9 million. Expected employee contributions for the year ended 31 December 2024 are £54,000.

Years	Benefit payments from plan assets £m
2024 - 2033	(16)
2034 - 2043	(20)
2044 - 2053	(21)
2054 - 2063	(16)
2064 - 2073	(9)
2074 - 2083	(3)
2084 - 2093	-
2094 - 2103	-
Total	**(85)**

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).*

32 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. Insight, the LDI manager, currently targets a liability hedge ratio of 75% of the Scheme's assets. 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. As noted above, the scheme uses LDI to manage the majority of its exposure to movements in inflation expectations.
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.

33 Subordinated liabilities

	Group		Bank	
	2023 £m	**2022 £m**	**2023 £m**	**2022 £m**
£100 million subordinated floating rate notes 2031[1]	100	100	100	100
£90 million subordinated floating rate notes 2032[2]	90	90	90	90
Subordinated liabilities	**190**	**190**	**190**	**190**

	Group		Bank	
Movement on subordinated liabilities	**2023 £m**	**2022 £m**	**2023 £m**	**2022 £m**
At 1 January	190	190	190	190
Issued during the year	-	90	-	90
Repurchased	-	(90)	-	(90)
At 31 December	**190**	**190**	**190**	**190**

[1] *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.*

[2] *Callable on 19 December 2027 or on any date thereafter until their final maturity date of 19 December 2032. They bear interest at a floating rate of 4.18% per annum above compounded daily SONIA.*

33 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.

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.

34 Contingent liabilities and commitments

	Group		Bank	
	2023 £m	2022 £m	2023 £m	2022 £m
Contingent liabilities				
Guarantees and irrevocable letters of credit	12	16	12	16
Other contingent liabilities	7	5	7	5
Total contingent liabilities	**19**	**21**	**19**	**21**
Loan commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend				
- revocable or irrevocable with original maturity of 1 year or less	1,246	1,005	1,209	961
- irrevocable with original maturity of over 1 year	46	63	46	63
Total commitments	**1,292**	**1,068**	**1,255**	**1,024**

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 £3 million (2022: £5 million) recognised on loan commitments and guarantees and irrevocable letters of credit are shown in note 31. Provisions on all other contingent liabilities and commitments are shown in note 30 (where applicable).

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will be required to meet these obligations only in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customer's credit worthiness. Other contingent liabilities also include documentary credits which commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

Other legal actions and regulatory matters

The Group's motor finance business, similar to industry peers, continues to receive, and is reviewing, a number of complaints and court claims in relation to its historical commission arrangements, some of which are with the Financial Ombudsman Service (FOS). There is significant uncertainty around the scope and / or nature of these issues, related complaints and of any remediation, if required, given the challenges to the interpretation and / or validity of complaints and the associated regulatory requirements.

The FOS has found in favour of complainants in two decisions in January 2024 relating to other lenders. The Financial Conduct Authority (FCA) notes that this is likely to prompt a significant increase in complaints from consumers to firms and the FOS. Hence, the FCA is using its powers under s166 of the Financial Services and Markets Act 2000 to review historical motor finance commission arrangements and sales across several firms. The FCA has stated that if it finds there has been widespread misconduct and that consumers have lost out, it will identify how best to make sure people who are owed compensation receive an appropriate settlement in an orderly, consistent and efficient way and, if necessary, resolve any contested legal issues of general importance.

While it is possible that certain charges may be incurred in relation to existing or future complaints and court claims, it is not considered that a legal or constructive obligation has been incurred in relation to these matters that would require a provision to be recognised at this stage. Given the inherent uncertainties relating to the scope and timing of any possible outflow, it is not currently practicable to estimate the extent of any potential financial impact.

35 Share capital

	Group		Bank	
Ordinary shares	**2023 £m**	**2022 £m**	**2023 £m**	**2022 £m**
At 1 January	122	122	122	122
Capital reduction during the year	-	-	-	-
At 31 December	**122**	**122**	**122**	**122**

At 31 December 2023 the Bank had 406 million (2022: 406 million) shares in issue, all of which were held by the Parent and were fully paid. The Bank's authorised share capital at 31 December 2023 and 31 December 2022 was £2.5 billion.

36 Other equity instruments

Other equity instruments consist of Additional tier 1 securities held by the Parent.

	Group		Bank	
	2023 £m	**2022 £m**	**2023 £m**	**2022 £m**
At 1 January	150	150	150	150
Repayments during the year	-	-	-	-
Issuance during the year	-	-	-	-
At 31 December	**150**	**150**	**150**	**150**

The balance at 31 December 2023 comprises £150 million issued on 26 November 2021.

The principal terms of the Additional tier 1 securities are as follows:

- the securities constitute direct, unsecured and subordinated obligations of the Group, rank behind tier 2 instruments and in priority to ordinary shareholders;
- the securities bear a fixed rate of interest until the first call date. After the initial call date, the Additional tier 1 securities bear interest at rates fixed periodically in advance for five-year periods based on market rates at that time;
- the Group may elect at its sole and full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any interest payment date;
- the securities have no fixed redemption date, and the security holders will have no right to require the Group to redeem or purchase the securities at any time;
- the Group may, in its sole and full discretion, but subject to the satisfaction of certain conditions, elect to redeem all (but not some only) of the securities on the initial call date or on any interest payment date thereafter. In addition, the Additional tier 1 securities are repayable, at the option of the Group, due to certain regulatory or tax reasons. Any repayments require the prior consent of the regulatory authorities; and
- the securities will convert into ordinary shares if the Group's CET 1 ratio (on a CRD IV full implementation basis) falls below 7%.

36 Other equity instruments *(continued)*

	£150 million issued 26 November 2021
First call date (5 years from date of issue)	26 November 2026
Fixed rate of interest applicable until first call date	6.15%
Interest rate as reset after initial call date	n/a

37 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities, at 31 December 2023 and 31 December 2022, 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 2023 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	236	75	1,021	2,168	-	3,500
Lease liabilities	-	1	2	8	16	27
Customer accounts	9,864	654	978	476	-	11,972
Debt securities in issue	-	12	32	288	812	1,144
Subordinated liabilities	-	4	12	223	-	239
Contingent liabilities	19	-	-	-	-	19
Commitments	444	37	765	46	-	1,292
Total	**10,563**	**783**	**2,810**	**3,209**	**828**	**18,193**

Group 2022 Maturity profile of financial liabilities	**Demand £m**	**0-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	354	142	427	2,393	-	3,316
Lease liabilities	-	1	3	5	12	21
Customer accounts	10,131	746	1,075	309	-	12,261
Debt securities in issue	-	11	19	310	140	480
Subordinated liabilities	-	3	101	145	-	249
Contingent liabilities	21	-	-	-	-	21
Commitments	493	44	469	62	-	1,068
Total	**10,999**	**947**	**2,094**	**3,224**	**152**	**17,416**

37 Liquidity risk *(continued)*

Bank 2023 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	230	75	1,021	2,168	-	3,494
Lease liabilities	-	1	2	7	16	26
Customer accounts	10,258	667	979	482	-	12,386
Debt securities in issue	-	-	14	235	-	249
Subordinated liabilities	-	4	12	223	-	239
Contingent liabilities	19	-	-	-	-	19
Commitments	444	-	765	46	-	1,255
Total	**10,951**	**747**	**2,793**	**3,161**	**16**	**17,668**

Bank 2022 Maturity profile of financial liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	344	142	427	2,393	-	3,306
Lease liabilities	-	1	3	5	12	21
Customer accounts	10,130	746	1,076	309	-	12,261
Debt securities in issue	-	-	18	300	-	318
Subordinated liabilities	-	3	101	145	-	249
Contingent liabilities	21	-	-	-	-	21
Commitments	493	-	469	62	-	1,024
Total	**10,988**	**892**	**2,094**	**3,214**	**12**	**17,200**

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 2023 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	-	(56)	(42)	-	-	(98)
Gross settled derivative liabilities - inflows	-	76	78	6	-	160
Gross settled derivative liabilities - net flows	-	20	36	6	-	62
Net settled derivative liabilities	1	(19)	(59)	(259)	(8)	(344)
Total derivatives cash flows	**1**	**1**	**(23)**	**(253)**	**(8)**	**(282)**

Group and Bank 2022 Maturity profile of derivative liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Gross settled derivative liabilities - outflows	(23)	(208)	(126)	(14)	-	(371)
Gross settled derivative liabilities - inflows	24	246	124	12	-	406
Gross settled derivative liabilities - net flows	1	38	(2)	(2)	-	35
Net settled derivative liabilities	-	(3)	(37)	(205)	(25)	(270)
Total derivatives cash flows	**1**	**35**	**(39)**	**(207)**	**(25)**	**(235)**

38 Measurement basis of financial assets and financial liabilities

For Group and Bank all derivatives (see note 15) are measured at fair value. All other financial assets and liabilities were held at amortised cost at 31 December 2023 and 31 December 2022.

39 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 38 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 2023. 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.

39 Fair value of assets and liabilities *(continued)*

Group	2023 Level 1 £m	2023 Level 2 £m	2023 Level 3 £m	2023 Total £m	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total £m
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	1,248	-	1,248	-	1,461	-	1,461
Debt securities at amortised cost	489	-	-	489	524	-	-	524
Loans and advances to customers	-	-	13,745	13,745	-	-	14,145	14,145
Total	**489**	**1,248**	**13,745**	**15,482**	**524**	**1,461**	**14,145**	**16,130**
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	3,237	-	3,237	-	3,107	-	3,107
Customer accounts	-	11,803	-	11,803	-	12,191	-	12,191
Debt securities in issue	-	549	-	549	-	379	-	379
Subordinated liabilities	-	192	-	192	-	185	-	185
Total	**-**	**15,781**	**-**	**15,781**	**-**	**15,862**	**-**	**15,862**

Bank	2023 Level 1 £m	2023 Level 2 £m	2023 Level 3 £m	2023 Total £m	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total £m
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	1,226	-	1,226	-	1,344	-	1,344
Debt securities at amortised cost	489	-	-	489	524	-	-	524
Loans and advances to customers	-	-	13,907	13,907	-	-	14,331	14,331
Total	**489**	**1,226**	**13,907**	**15,622**	**524**	**1,344**	**14,331**	**16,199**
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	3,230	-	3,230	-	3,098	-	3,098
Customer accounts	-	12,217	-	12,217	-	12,191	-	12,191
Debt securities in issue	-	200	-	200	-	300	-	300
Subordinated liabilities	-	192	-	192	-	185	-	185
Total	**-**	**15,839**	**-**	**15,839**	**-**	**15,774**	**-**	**15,774**

39 Fair value of assets and liabilities *(continued)*

Group and Bank	2023 Level 1 £m	2023 Level 2 £m	2023 Level 3 £m	2023 Total £m	2022 Level 1 £m	2022 Level 2 £m	2022 Level 3 £m	2022 Total £m
Financial assets held at fair value								
Derivative financial instruments	-	283	-	283	-	379	-	379
Non-financial assets held at fair value								
Property held at fair value	-	-	20	20	-	-	21	21
Total assets held at fair value	**-**	**283**	**20**	**303**	**-**	**379**	**21**	**400**
As a % of fair value assets	**-**	**93%**	**7%**	**100%**	**-**	**95%**	**5%**	**100%**
Financial liabilities held at fair value								
Derivative financial instruments	-	326	-	326	-	328	-	328
Total financial liabilities held at fair value	**-**	**326**	**-**	**326**	**-**	**328**	**-**	**328**
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 2023 or 31 December 2022.

Movements in level 3 assets

Property held at fair value	Group 2023 £m	Group 2022 £m	Bank 2023 £m	Bank 2022 £m
At 1 January	21	23	21	23
Additions	-	-	-	-
Revaluation of property	(1)	(1)	(1)	(1)
Other movements	-	(1)	-	(1)
At 31 December	**20**	**21**	**20**	**21**

Quantitative information about fair value measurements using significant unobservable inputs (level 3)

Group and Bank Level 3 assets	Valuation technique	Unobservable input	Fair Value 2023 £m	Fair Value 2022 £m	Range 2023 %	Range 2022 %
Property held at fair value	Market comparable property transactions	Yields	20	21	7.8% - 12.4%	7.5% - 11.8%

39 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			
	2023		2022		2023		2022	
	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	1,248	1,248	1,461	1,461	1,226	1,226	1,344	1,344
Debt securities at amortised cost	489	489	528	524	489	489	528	524
Loans and advances to customers	14,148	13,745	14,018	14,145	14,273	13,907	14,125	14,331
Financial Liabilities								
Deposits from banks	3,237	3,237	3,107	3,107	3,230	3,230	3,098	3,098
Customer accounts	11,815	11,803	12,222	12,191	12,228	12,217	12,222	12,191
Debt securities in issue	549	549	379	379	200	200	300	300
Subordinated liabilities	190	192	190	185	190	192	190	185

40 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, 2 College Green, Dublin 2, 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 2023 and 2022

(i) On 5 December 2023 a dividend payment of £250 million was paid to the Parent (2022: £250 million).

(ii) On 27 November 2023 a coupon payment of £9 million was paid to the Parent in relation to the £150 million Additional Tier 1 instrument (2022: £9 million).

(iii) The Group redeemed its existing Minimum Requirement for Eligible Liabilities (MREL) senior non preferred notes of £300 million at its call date on 11 December 2023 and issued a new £200 million instrument to the Parent on the same date.

40 Related party transactions *(continued)*

Group Summary - Parent[1]	2023 £m	2022 £m
Income statement		
Interest income (note 3)	108	36
Interest expense (note 4)	(72)	(36)
Fees and commissions expense (note 6)	(14)	(9)
Net trading (expense) / income (note 7)	(63)	110
Operating expenses paid for services provided (note 9)	(74)	(65)
Total	**(115)**	**36**
Assets		
Loans and advances to banks (note 16)	253	318
Loans and advances to customers (note 18)	6	6
Other assets (note 23)	-	-
Derivatives (note 15)	278	372
Total assets	**537**	**696**
Liabilities		
Deposits from banks (note 25)	1,061	745
Customer accounts (note 26)	1	4
Debt securities in issue (note 27)	200	300
Other liabilities (note 28)	21	7
Derivatives (note 15)	320	323
Subordinated liabilities (note 33)	190	190
Total liabilities	**1,793**	**1,569**
Net exposure	**(1,256)**	**(873)**

At 31 December 2023, the Parent also held the AT1 securities of £150 million (2022: £150 million) issued by the Bank which are classified as other equity instruments (see note 36).

[1] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*

40 Related party transactions *(continued)*

Bank	2023 Parent[1] £m	2023 Joint venture £m	2023 Total £m	2022 Parent[1] £m	2022 Joint venture £m	2022 Total £m
Income statement						
Interest income	108	-	108	36	-	36
Interest expense	(72)	-	(72)	(36)	-	(36)
Fees and commission expense	(14)	-	(14)	(9)	-	(9)
Net trading expense	(63)	-	(63)	110	-	110
Other operating income	-	25	25	-	28	28
Operating expenses paid for services provided	(60)	-	(60)	(54)	-	(54)
Total income / (expense)	**(101)**	**25**	**(76)**	**47**	**28**	**75**
Assets						
Loans and advances to banks	247	-	247	309	-	309
Loans and advances to customers	6	-	6	6	-	6
Other assets	-	-	-	-	-	-
Derivatives	278	-	278	372	-	372
Total assets	**531**	**-**	**531**	**687**	**-**	**687**
Liabilities						
Deposits from banks	1,055	-	1,055	735	-	735
Customer accounts	1	-	1	4	-	4
Debt securities in issue	200	-	200	300	-	300
Other liabilities	21	-	21	7	-	7
Derivatives	320	-	320	323	-	323
Subordinated liabilities	190	-	190	190	-	190
Total liabilities	**1,787**	**-**	**1,787**	**1,559**	-	1,559
Net exposure	**(1,256)**	**-**	**(1,256)**	**(872)**	**-**	**(872)**

(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	2023 Balance as at 1 January 2023 £'000	2023 Balance as at 31 December 2023 £'000	2023 Aggregate maximum amount outstanding during the year ended 31 December 2023 £'000	2022 Balance as at 1 January 2022 £'000	2022 Balance as at 31 December 2022 £'000	2022 Aggregate maximum amount outstanding during the year ended 31 December 2022 £'000
Loans to Directors	-	-	-	-	-	-

[1] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*

40 Related party transactions *(continued)*

ii. ***Key management personnel - loans and deposits***

For the purposes of IAS 24 Related Party Disclosures, 'key management personnel' comprise the Directors of the Board, the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Chief Data & Digital Officer, Director of Savings & Lending, Chief People Officer, Chief Operating Officer, UK General Counsel, UK Company Secretary, Chief Transformation Officer, Director of NI, Partnerships & Mortgages and any past KMP, who were a KMP during the relevant year.

KMP, including Directors, hold products with the Group in the ordinary course of business. All loans to Non-executive Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to KMP, other than Non-executive Directors, are made on terms similar to those available to staff generally, and / or in the ordinary course of business on normal commercial terms.

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions, between the Group, its KMP (as defined above) and KMP of the Parent, including members of their close families and entities influenced by them are shown in the table.

Group (ii) 2023 Key management personnel	Balance as at 1 January 2023[4] £'000	Balance as at 31 December 2023[1] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2023[2,3] £'000	Total number of KMP as at 1 January 2023	Total number of KMP as at 31 December 2023
Loans	12	6	12	1	1
Deposits	647	615	720	6	6

Group 2022 Key management personnel	Balance as at 1 January 2022[4] £'000	Balance as at 31 December 2022[1] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2022[2,3] £'000	Total number of KMP as at 1 January 2022	Total number of KMP as at 31 December 2022
Loans	29	12	12	3	1
Deposits	1,065	647	970	8	6

[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 £10,000.*

[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 2023 for any member of KMP and their close family did not exceed £11,000 (31 December 2022: £18,000). 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.*

40 Related party transactions *(continued)*

- Total compensation paid to KMP was £5.6 million for the year ended 31 December 2023 and of this amount £2.7 million was paid to Directors. This compared to £5.9 million and £2.9 million respectively for the year ended 31 December 2022;
- The highest total amount paid to any Director for the year ended 31 December 2023 was £633,662 comprising salary and other benefits (2022: £972,858). The total accrued pension and accrued lump sum of this Director at the year ended 31 December 2023 was £nil (2022: £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 2023;
- 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 2023 or the year ended 31 December 2022.
- Two executive Directors of the Parent are also directors of the Group. The salaries of both these executive Directors are borne entirely by the Parent and are not included in the table below for the year ended 31 December 2023. For their services to the Group, the cost borne by the Parent for the Group for the year ended 31 December 2023 was £99,209 (2022: £110,048).

Group **Compensation of key management personnel**	**2023** **£000's**	**2022** **£000's**
Remuneration		
Salaries and other benefits	5,434	5,752
Pension benefits	176	129
Total	**5,610**	**5,881**

41 Interests in other entities

Group Names	Principal activity	Country of incorporation	Statutory year end	Percentage of ordinary share capital held %	Percentage of voting rights held %	Registered address
NIIB Group Limited	Personal finance and leasing	Northern Ireland	31 December	100	100	1 Donegall Square South, Belfast, BT1 5LR.
Midasgrange Limited	Dormant	England and Wales	30 September	100	100	Bow Bells House, 1 Bread Street, London, EC4M 9BE.
First Rate Exchange Services Holdings Limited[1]	Foreign exchange	England and Wales	31 March	50	50	Great West House, Great West Road, Brentford, London, TW8 9DF.
First Rate Exchange Services Limited	Foreign exchange	England and Wales	31 December	50	50	Great West House, Great West Road, Brentford, London, TW8 9DF.
Marshall Leasing Limited[2]	Vehicle leasing	England and Wales	31 December	100	100	C/O Mazars LLP, 1st Floor, Two Chamberlain Square, Birmingham, B3 3AX.
Bowbell No.2 plc[3]	Securitisation	England and Wales	31 December	n/a	n/a	10th Floor, 5 Churchill Place, London, E14 5HU.
Bowbell No.3 plc[4]	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 Bank controls an entity when it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Generally, control or significant influence is identified by the level of ownership of ordinary shares and the level of management involvement in the relevant activities of the entity. However, in the case of 'structured entities', management's judgement is required in determining how the investee should be accounted for.

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group.

[1] This entity is a joint venture with the UK Post Office in which the Group holds 50% of the equity of the company. FRESH holds 100% of the equity in FRES.
[2] On 1 April 2022, the business of Marshall Leasing was transferred to NIIB Group Limited, a wholly-owned subsidiary of the Group. Marshall Leasing Limited went into voluntary liquidation on 15 December 2022.
[3] Bowbell No. 2 plc was redeemed in October 2023.
[4] Bowbell No. 3 plc was issued in November 2023.

41 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 Bank assesses whether it has power over the relevant activities by considering factors such as who manages the assets of these entities, if the Bank has lending to them or has a residual interest in them.

In the case of structured entities, the Bank 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 Bank 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 October 2023, the Group unwound Bowbell No. 2 plc ('Bowbell 2'). All mortgage loans held by the entity were transferred back to the Bank, and the mortgage backed securities previously issued by Bowbell 2 were fully repaid.

In November 2023 the Group transferred mortgage loans into a new structured securitisation entity, Bowbell No. 3 plc ('Bowbell 3') and issued £382 million of mortgage backed securities, of which £350 million were issued externally to the Group, with the balance held by the Bank. These mortgages do not meet the balance sheet derecognition criteria in line with the Group accounting policy.

Both Bowbell 2 and Bowbell 3 are incorporated in Great Britain, with 100% of their ordinary share capital and voting rights being held by their ultimate holding companies (which are not subsidiaries of the Group), Bowbell No. 2 Holdings Limited and Bowbell No. 3 Holdings Limited respectively. The creditors of Bowbell 2 and Bowbell 3 have no recourse to the Group.

During 2023 there were no contractual arrangements that required the Group to provide financial support to either of its structured entities. The assets and liabilities of Bowbell 3 are shown in the table below.

It should be noted that at 31 December 2023, there was also cash of £11 million (2022: £101 million) in the securitisation bank account, hence the total assets of the securitisation entity was greater than the value of the notes.

Group		2023		2022	
Activity	Company	Loans and advances to customers £m	Notes in issue £m	Loans and advances to customers £m	Notes in issue £m
Acquiring mortgage loans and issuing mortgage backed securities	Bowbell No. 2 plc	-	-	575	662
Acquiring mortgage loans and issuing mortgage backed securities	Bowbell No. 3 plc	380	382	-	-

Unconsolidated structured entities

In November 2022, the Group entered into a securitisation arrangement for a portfolio of UK residential mortgage NPEs, through an unconsolidated special purpose vehicle, Temple Quay No. 1 Plc. The portfolio transferred had a gross carrying value of £220 million (before ECL allowance) and a net carrying value of £194 million (after ECL allowance). The Group transferred the beneficial interest in the loans to Temple Quay No. 1 Plc which in turn issued notes backed by these loans. The Group considers that it sponsors this company as it continues to be involved with it as Servicer of the transferred assets and as it is in receipt of income from the provision of these services. At 31 December 2023, the current volume of the loans under management is £178 million (2022: £215 million).

Temple Quay No 1 Plc is not consolidated but the associated income in relation to the services provided to the company is recognised in the Group's financial statements. Commission income of £0.7 million was received during the year ended 31 December 2023 (2022: £nil).

42 Transferred financial assets

At 31 December 2023 and 31 December 2022, the following assets were transferred but not derecognised from the balance sheet:

Group	2023				2022			
Securitisation	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m
Residential mortgage book (Bowbell No. 2 plc)[1]	-	-	-	-	97	79	135	79
Residential mortgage book (Bowbell No. 3 plc)[2]	380	349	356	350	-	-	-	-

Bank	2023				2022			
Securitisation	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m	Carrying amount of assets £m	Carrying amount of associated liabilities £m	Fair value of transferred assets £m	Fair value of associated liabilities (Fair value of notes in issue) £m
Residential mortgage book (Bowbell No. 2 plc)[1]	-	-	-	-	575	662	797	661
Residential mortgage book (Bowbell No. 3 plc)[2]	380	382	356	350	-	-	-	-

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.

43 Post balance sheet events

There are no post balance sheet events that require disclosure in the financial statements.

44 Approval of financial statements

The Board of Directors approved the financial statements on 23 July 2024.

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by Bowbell No. 2, held by the Bank.*
[2] *Associated liabilities include liabilities issued by Bowbell No. 3, held by the Bank.*

Other Information

Principal business units and addresses[1]

Bank of Ireland (UK) plc
Bow Bells House,
1 Bread Street, London
EC4M 9BE
Tel: +44 207 236 2000
Website: www.bankofirelanduk.com

Bank of Ireland Great Britain Consumer Banking
Mortgages, Personal Loans
PO Box 27, One Temple Quay, Bristol
BS1 9HY
Tel: + 44 117 979 2222 and + 44 117 909 0900

Bank of Ireland Northern Ireland Business Banking
1 Donegall Square South, Belfast, BT1 5LR
Tel: +44 28 9043 3000

First Rate Exchange Services Limited
Great West House,
Great West Road, Brentford, London,
TW8 9DF
Tel: + 44 208 577 9393, Fax: + 44 208 814 6685
Website: www.firstrate.co.uk

NIIB Group Limited (trading as Northridge Finance)
1 Donegall Square South,
Belfast BT1 5LR
Tel: +44 800 917 0923
Website: www.northridgefinance.com

Marshall Leasing Limited
Bow Bells House,
1 Bread Street, London,
EC4M 9BE

[1] *Registered addresses for subsidiary companies are included in note 41.*

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 26.

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.

NPE ratio is calculated as NPEs on loans and advances to customers at amortised cost (excluding loans and advances to customers measured at FVTPL) as a percentage of the gross carrying value of loans and advances to customers at amortised cost.

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, AT1 coupon and amortisation of intangible assets (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, AT1 coupon and amortisation of intangible assets - net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Regulatory performance measures

CET1 ratio is Common Equity Tier 1 capital as a percentage of risk-weighted assets.

Tier 1 capital is a measure of the Group's financial strength defined by CRD IV. It captures Common Equity Tier 1 capital plus other Tier 1 securities in issue, subject to deductions.

Total capital ratio is the total capital (own funds) held by the Group as a percentage of total risk weighted assets.

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
BOI	Bank of Ireland
BRC	Board Risk Committee
CBILS	Coronavirus Business Interruption Loan Scheme
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CRD	Capital Requirement Directive (EU)
CRO	Chief Risk Officer
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
ExCo	Executive Committee
FCA	Financial Conduct Authority
FLI	Forward Looking Information
FRCC	Financial Risks from Climate Change
FRES	First Rate Exchange Services Limited
FRESH	First Rate Exchange Services Holdings Limited
GB	Great Britain
GDP	Gross Domestic Product
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Individual Liquidity Adequacy Assessment Process
ISDA	International Swaps and Derivatives Association
IT	Information Technology
KMP	Key Management Personnel
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LLP	Limited Liability Partnership
LTD	Limited
LTV	Loan to Value
MREL	Minimum Requirements for Own Funds and Eligible Liabilities
NI	Northern Ireland
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
PD	Probability of Default
PO	Post Office
POCI	Purchased Or Originated Credit-Impaired Financial Assets
PRA	Prudential Regulation Authority
RAS	Risk Appetite Statement
RMF	Risk Management Framework
ROTE	Return on Tangible Equity
ROU	Right of use
RWA	Risk Weighted Assets
SECR	Streamlined Energy and Carbon Reporting
SME	Small / Medium Enterprises
SRB	Single Resolution Board
TFSME	Term Funding Scheme for Small and Medium Sized Entities
UK	United Kingdom
£m	Million
'000	Thousands