2020

Bank of Ireland (UK) plc
Annual Report

Bank of Ireland UK

Our purpose is to enable customers, colleagues and communities to thrive. During COVID-19, this purpose came to life. At every stage of the pandemic we stepped up to support our customers. Our colleagues adapted at speed to the changing circumstances and we strove to support the communities where we live and work, both navigating the challenges and preparing for economic recovery.

We would like to thank our customers and colleagues, and all our community stakeholders, for their support and collaboration as we worked through this once in a lifetime event.

Inside this report

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

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Business Review

2020 key performance highlights

Financial Performance

Statutory profit before tax
£40m
(2019: £155m)

- £185 million statutory operating profit before impairment losses (2019: £184 million)
- Statutory net interest margin 1.84% *(2019: 1.94%)*
- Gross new lending £4.8 billion (2019: £5.9 billion)
- £50 million underlying profit before tax[1] *(2019: £166 million)*

Asset Quality

Impairment Charge
£151m
(2019: £40m)

- Net credit impairment charge £151 million (2019: £40 million)
- Approximately c. 70% of the impairment charge was recognised for assets that are not credit impaired[2]
- Impairment loss provision coverage ratio 1.27% (2019: 0.68%)
- 2.48% of loans credit impaired (2019: 1.31%)

Transformation

- UK strategic review completed
- Agreed plans for a reduction in the NI physical branch footprint and new investment in technology
- Progressed Post Office ATM sale
- AA partnership extended until 2028
- Completed migration of consumer credit card portfolio to Jaja Finance
- Improved employee engagement scores
- Statutory operating expenses reduced 2% year on year to £310 million (underlying 6% decrease)

Capital

CET1 ratio
13.7%
(31 December 2019: 14.5%)

- Maintained strong CET1 ratio 13.7% *(2019: 14.5%)*
- Total capital ratio 19.1% *(2019: 19.9%)*

Further information on measures referred to in our key performance highlights is found in Alternative performance measures on page 178.

[1] *Underlying profit before taxation excludes non-core items which the Group believes obscure the underlying performance trends in the business. See page 11 for further details.*
[2] *Assets not credit impaired relate to Stage 1 and Stage 2 assets. See page 44 for further details.*

Chair's review

Against the backdrop of a very challenging 2020, the Group made good progress against our plans and developed our strategy for 2021 and beyond. Given the unprecedented nature of the COVID-19 pandemic, I would like to thank our customers and our partners for their support, patience and loyalty; and to pay tribute to the hard work and commitment of our colleagues throughout what was, by any standards, an extraordinary and challenging year.

Peter Herbert *Chair*

"I am delighted to take over as Chair of Bank of Ireland UK at what is an exciting time for the business as it embarks on a multi-year programme of strategic change."

Strategy & Purpose

Our overarching purpose in the Group is to enable our customers, colleagues and communities to thrive. This clear purpose has served us well in guiding our approach to the COVID-19 crisis. Within hours of the first lockdown in mid March, significant elements of our business moved to remote working without missing a beat. Since then, we have continued to serve customers through all channels, including our branches in Northern Ireland (NI), with c.70% of colleagues presently working from home.

We have supported our customers in a number of other important ways, including providing payment breaks aimed at helping our customers through the financial impact of the pandemic. The Group's COVID-19 "Online Hub" was launched in March 2020 to inform customers of the support available, and in April, we delivered faster access to cash for vulnerable Post Office (PO) savings customers through an upgraded 'Pay Out Now' process.

Adding to market uncertainty in 2020 were the ongoing Brexit trade negotiations, in response to which the Group provided various customer support mechanisms through the transition period, with a particular focus on businesses in NI.

The Group has made good progress in recent years in executing its business strategy with our financial results for 2020 reflecting the extraordinary year all businesses faced. We continue to take actions to improve return on capital employed in the business. Our partnership with the PO remains strong, and we extended our partnership with the Automobile Association (AA) until at least 2028. We concluded the migration of our consumer credit card portfolio to a partner we believe will bring credit card skills to the long-term benefit of customers. Our mortgage business has built out its "Bespoke" proposition which provides tailored mortgages for customers with more complex needs, and we have continued to invest in and improve our personal loan and car finance businesses.

Nonetheless, the United Kingdom (UK) market remains challenging and highly competitive, with base rates expected to remain lower for longer, the layered impacts of COVID-19 and increased lockdown measures expected to extend well into 2021. There will also be adjustments required as the European Union (EU)-UK Trade and Cooperation Agreement beds down. In 2020 we therefore examined how we could best build on recent progress and seize further strategic opportunities.

Our conclusion, again informed by our statement of purpose, was that we should develop a greater focus in product areas where we are already well established and play into our strengths: for example, in Bespoke mortgages; in our partnerships with the AA and the PO that create distribution and product benefits for the Group and our partners; in car financing through Northridge; and in the provision of foreign currency through First Rate Exchange Services (FRES). This strategy also brings a commitment to continuing to modernise our technology and operational infrastructure, and our operational resilience.

We will execute this strategy over the next 2-3 years with the aim of deepening customer relationships in our areas of expertise. We also expect the strategy to yield further improvements in returns as we reshape our business to drive for value, and as we become more efficient and reduce costs further.

Board and Colleagues

During 2020 the Board continued to exercise its responsibilities with care and diligence. I would like to thank all of my Board colleagues for their commitment and support.

We review the Board's composition and diversity regularly and are committed to ensuring we have the right balance of skills and experience on the Board. Additionally, there were several changes to the composition of our Board in 2020.

Robert Sharpe stepped down as Chair at

the end of November, having held the position since 2016. I would like to pay tribute to and thank Robert for his exceptional contribution, dedication, professionalism and counsel over that period. Robert has set a high standard for those of us that follow him.

Mimi Kung, one of our Non-Executive Directors, also stepped down from the Board in November having completed her 3-year term and Neil Fuller left the business and his Executive Directorship in June 2020 having spent 5 successful years as Chief Risk Officer. I would like to thank both Mimi and Neil for their considerable support, commitment and direction to the UK business and welcome Polina Ievskaya to the executive team, on her appointment as Chief Risk Officer.

I would like to welcome Alison Burns to the Board as a Non-Executive Director. I look forward to working with her and all of the Board in 2021.

I am delighted to have the opportunity to serve as Chair of the Group and look forward to leading the Board as well as to supporting Ian McLaughlin and the executive team in the continued success of the Group and in delivering our strategy.

Finally, I would like to take this opportunity once again to thank all our colleagues for their dedication, enthusiasm, support and customer focus. They are at the heart of everything we do and it is their energy and commitment that enables us to succeed.

Peter Herbert
Chair

Chief Executive's review

2020 has been an extraordinary year. I am proud that we delivered a robust pre-impairment trading performance in spite of the challenges faced. We held our focus on improving the customer experience we provide, supported our customers through COVID-19 and Brexit and enhanced our relationships with our key brokers and partners. We also completed a full review of our UK business and have embarked on a multi-year restructuring program to implement our refreshed plan. I am excited about the future business we are building and very grateful to my colleagues for all their efforts in 2020.

Ian McLaughlin *Chief Executive Officer and Executive Director*

Strategy

As we work to deliver our strategic ambition, we continue to transform the Group experience for our customers, colleagues and communities. Against the backdrop of significantly increased impairment charges driven by the exceptional circumstances which many financial institutions encountered in 2020, I am able to report that we have made good progress against many of our priorities, including the following key highlights:

- reducing our statutory cost base by 2% year on year (underlying costs 6% decrease), while largely maintaining our operating income and improving new product returns;
- providing £4.8 billion of higher returning new lending across our product range; and
- launching various digital enhancements including a new mobile app featuring a digital wallet through GooglePay and ApplePay for customers in NI.

Priority was also given to specific COVID-19 related initiatives to serve our customers and support our colleagues. From a customer perspective, we kept all of our branches open across NI, set up the Group COVID-19 Online Hub, executed over 70,000 payment breaks in 2020 across our product lines, and by the end of December 2020 provided £295 million to businesses by participating in Government-backed Bounce Back Loan Scheme (BBLS) and the Coronavirus Business Interruption Loan Scheme (CBILS).

In 2020 we undertook a strategic review of our UK business as protracted difficult market conditions necessitated further restructuring of our UK operations, including assessing strategic options for our NI business. In order to enable us to deliver a cost effective service for all of our customers in NI in an increasingly digital environment, during 2021 we will reduce the number of our branches from 28 to 13 locations, while also investing in technology to support our business. We will also relocate our Headquarters from London to Belfast, reinforcing our commitment to NI, where Bank of Ireland has had a presence since 1825. In addition, a wider multi-year restructuring programme has now commenced to enable us to reduce our balance sheet size, lower our cost base and focus on higher margin businesses across mortgages, car finance and travel money.

Financial Performance

In the context of an extraordinary backdrop our statutory operating profit before impairments of £185 million for 2020 remained largely unchanged year on year against 2019, while our statutory profit before tax was £40 million (2019: £155 million) reflecting both an impairment charge of £151 million driven by the uncertain macro-economic environment and weakened performance in our foreign exchange joint venture, driven by the significant reduction in business and leisure travel as a result of COVID-19 restrictions.

The Group's total operating expenses reduced from £317 million to £310 million as we focused on cost efficiencies and restructuring our business, while continuing to support our customers through this challenging period. The Group delivered a statutory cost income ratio of 63% in 2020 (2019: 64%) and 56% on an underlying basis in 2020 (2019: 61%). Reducing our operating expenses will remain a key focus in 2021 and activity is underway to further restructure and improve the efficiency of our business, through streamlining our processes, our systems and our cost of delivery.

The business achieved new lending volumes of £4.8 billion, £1.1 billion lower year on year, reflecting both the impact of the pandemic on our customers, but also our focus on delivering improved returns by focusing on certain niche segments where our product propositions are already well developed and we can add most value. The Group's net loan book increased in 2020 by £0.1 billion to £21.3 billion.

Supporting our customers to buy their own homes, including new tailored mortgage products for professionals, was one of our growth segments. The mortgage business operates in a highly competitive market and we are developing customer value propositions which place less focus on the mainstream re-mortgage market. We continue to focus on providing brilliant customer service and are therefore pleased to report that we were awarded Best Large Loan Lender at the Mortgage Strategy Awards in 2020.

Given the impact of the pandemic on global travel, our joint venture foreign exchange business FRES was significantly impacted and reported a small loss for the year.

We continued to maintain strong capital and liquidity ratios with buffers significantly greater than regulatory requirements.

Our strategy, Purpose and Values

Transforming the Bank

In April 2020, we extended our partnership with the AA until 2028, allowing further opportunities to drive mutual value, while providing exclusivity for car finance products and an increased focus on marketing to the AA customer base. The combination of the AA's brand and distribution platform and the Group's expertise in service delivery means our partnership will continue to be successful in providing competitive and popular products to meet the needs of AA customers.

Following the sale of our existing consumer credit card portfolio, to Jaja Finance (Jaja), we completed the migration of customers from the Group to Jaja in October 2020. We look forward to improving our customer propositions with Jaja as the Group's issuer of credit cards for Bank of Ireland consumer credit cards in 2021.

Continuing with our strategy announced in 2019, the Group agreed the sale of the ATM fleet to the PO. The disposal of devices will commence in 2021 and is expected to be completed by early 2022.

With regards to our wider transformational agenda I am proud that we have made great strides in relation to Inclusion & Diversity. We signed up to the Prince's Business Network Race at Work Charter in June, and we were awarded the 'Best Large Employer for Equality and Diversity in NI' in September 2020 at the NI Equality & Diversity awards.

Serving our customers brilliantly

We launched our new mobile app in May for NI customers and deployed new features in response to customer feedback including Google Pay and Apple Pay for our current account products.

In 2020, we also removed 4 days from our mortgage online application and offer journey, we enabled families to inform us of a bereavement through online channels, created a smoother process for personal loan applications and servicing, and developed 'How to' Video guides for common PO deposits servicing activity.

Growing Sustainable Profits

Based on its success in 2019, we extended our Bespoke mortgages proposition in 2020. We grew our intermediary network in Great Britain (GB) from being predominantly in London and the South East to across the regions, with nearly 200 intermediaries now distributing Bespoke mortgages. Despite the challenges presented by the pandemic, the Mortgage business achieved gross new lending of over £3 billion, down year on year, but ahead of our initial expectations as we entered COVID-19 lockdown restrictions during 2020.

Northridge Finance, our motor finance business, endured a challenging 2020 with motor dealerships unable to open to the public for part of the year, with gross new lending of c.£800 million.

Our unsecured personal lending retail business across PO, AA and Bank of Ireland brands delivered gross new lending of c.£600 million, a decrease of c.25% on 2019. A new loans collections provider was appointed in 2020, which has delivered an increase in the number and quality of conversations with customers, and an uplift in collections.

Our NI retail business delivered increased lending up 115% year on year (including BBLS and CBILS). As we progress with our plans to work towards a long term, sustainable and modern banking solution in NI we are committed to supporting our customers and the NI economy. We will continue to deliver this through our retail and commercial propositions in 2021, and in helping customers manage both the impact of the UK-EU Trade and Cooperation Agreement and COVID-19.

Deposits margins and funding costs were impacted by the record-low UK interest rate environment during 2020. We continued to make progress in optimising our funding costs, reducing the quantum of higher cost retail deposits and increasing the quantum of our term funding.

Enabling our colleagues and our communities to thrive

Our employee engagement scores have continued to improve in 2020, as measured through our engagement surveys. We are seeing improving trends in colleagues' awareness, understanding, belief and demonstration of our purpose and values. The Group remains focused on developing our culture, which is critical to the success of our business. The UK property strategy was progressed in 2020 and following staff consultation, the decision was taken to repurpose the London (Bow Bells House) and Solihull premises to provide agile hubs and collaborative work spaces for colleagues.

During the pandemic, we have successfully rolled out flexible ways of working across the Group, with colleagues now working from home or in agile workspaces, facilitating a reduction in the office space occupied over the last year. This created flexible working patterns for colleagues who are carers, and for those key worker colleagues who needed to work on-site, we provided transport for those who required it, as well as free parking and lunch during the first lockdown. These measures were taken to ensure the health and safety of our colleagues while continuing to service our customers. In addition, the Group launched the Bank of Ireland Wellbeing app, providing colleagues with supports and tools to maintain their mental, physical and financial wellbeing.

I would like to say thank you to my colleagues who worked tirelessly throughout what was an extraordinarily challenging year ensuring we continued to deliver an excellent service to our customers.

I would also like to thank Robert Sharpe, our outgoing Chair, who stepped down from his role on 30 November, for his guidance during my first year at the Group and I look forward to working with Peter Herbert who has been appointed his successor.

Chief Executive's review

Outlook

The Group operates in a highly competitive and challenging market, and we expect historically low base rates, impacts of COVID-19 and Brexit continue to impact our business in the near term.

Equally, we have a clear strategy for dealing with these challenges and will execute that strategy with determination and pace. We will place emphasis on delivering improvements to our customers' experience with the Group, on generating efficiencies, on managing for value rather than volume and thereby improving returns, and on maintaining the quality of our lending.

With the UK strategic review now completed, I am very much looking forward to unlocking the future potential for the business in 2021.

There will, of course, be known and unknown challenges and uncertainties ahead both globally and in the UK, however we are committed to making further progress in the year ahead.

Ian McLaughlin
Chief Executive Officer

Strategic report

Basis of presentation

The strategic report has been presented on a consolidated basis for the years ended 31 December 2020 and 31 December 2019.

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

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

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

Further details on the Group structure are shown in note 43.

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

Group income statement

2020		Non-Core items		
Summary consolidated income statement	Underlying basis[1] £m	Strategic portfolio divestments £m	Restructuring costs £m	Statutory basis £m
Net interest income	464	-	-	464
Net other income	-	31	-	31
Total operating income	**464**	**31**	**-**	**495**
Operating expenses	(262)	(22)	(26)	(310)
Operating profit/(losses) before net impairment losses on financial instruments	**202**	**9**	**(26)**	**185**
Net impairment losses on financial instruments	(151)	-	-	(151)
Share of loss after tax of joint venture	(1)	-	-	(1)
Profit on disposal of business activities	-	7	-	7
Profit before taxation	**50**	**16**	**(26)**	**40**
Taxation charge				(13)
Profit for the period				**27**
Net interest margin	1.84%			1.84%
Average interest earning assets (£m)[2]	25,209			25,209
Cost income ratio	56%			63%

Restated[3] 2019		Non-Core items		
Summary consolidated income statement	Underlying basis[1] £m	Strategic portfolio divestments £m	Restructuring costs £m	Statutory basis £m
Net interest income	469	13	-	482
Net other income	(12)	31	-	19
Total operating income	**457**	**44**	**-**	**501**
Operating expenses	(280)	(37)	-	(317)
Operating profit before net impairment losses on financial instruments	**177**	**7**	**-**	**184**
Net impairment (losses) / gains on financial instruments	(41)	1	-	(40)
Share of profit after tax of joint venture	30	-	-	30
Loss on disposal of business activities	-	(19)	-	(19)
Profit before taxation	**166**	**(11)**	**-**	**155**
Taxation charge				(58)
Profit for the period				**97**
Net interest margin	1.93%			1.94%
Average interest earning assets (£m)[2]	24,356			24,907
Cost income ratio	61%			64%

[1] *Underlying profit before taxation excludes non-core items which the Group believes obscure the underlying performance trends in the business. Refer to page 11 for further details.*
[2] *Average interest earning assets are calculated on a twelve month average as defined on page 178.*
[3] *As outlined in the Group accounting policies on page 87, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 45 for additional information.*

Group income statement *(continued)*

For further information on performance measures referred to in the strategic report see page 178.

The Group income statement on page 10 provides a reconciliation between the statutory profit before tax of £40 million (2019: £155 million) and the underlying profit before tax of £50 million (2019: £166 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 2020:

Strategic portfolio divestments
- the income and costs of the ATM business where agreement has now been reached to transfer ownership of c.1,400 ATMs directly to the PO; and
- during 2019, the Group disposed of the credit card portfolio and entered into a servicing contract with the purchaser to service the portfolio during the migration period. The fee income earned for servicing the portfolio and the associated migration and servicing costs are included as non-core.

Restructuring costs
During 2020, the Group recognised a charge for restructuring of £26 million. Included in this charge are transformation investment costs, of which £12 million relate to the Group's voluntary redundancy scheme, and £14 million relate to the planning and scoping of the strategic review.

The Group's voluntary redundancy scheme concluded in the third quarter of 2020. The Group has taken a phased approach to colleague departures, which began in 2020 and will progress into 2021, to ensure customer operations continue smoothly during the transition.

As a result, £31 million of operating income, £48 million of operating expenses and a £7 million profit on disposal of business have been recognised as non-core for the year ended 31 December 2020.

At December 2019, the Group treated the following items as non-core:

Strategic portfolio divestments
- the income and costs of the ATM business;
- the income and costs of the consumer credit card portfolio up to June 2019, when it was sold;
- the loss on disposal of this credit card portfolio; and
- the income and costs associated with the Post Office branded current accounts, which previously were available in limited areas of the UK.

Statutory profit before tax of £40 million in 2020 was £115 million, or 74% lower than 2019.

Underlying profit before tax of £50 million in 2020 was £116 million or 70% lower than 2019.

The **statutory net interest margin** decreased by 10 basis points due to changes in the mix of the lending portfolio, impacts from a lower interest rate environment, ongoing competitive market pressures, and wider margin pressures.

Statutory net interest income decreased by £18 million or 4% compared to the previous year. This decrease was primarily due to changes in the mix of the lending portfolio, margin pressures and the impact of lower interest rates. In addition, the Group recognised a modification loss of £6 million during the year relating to payment breaks.

Statutory net other income of £31 million, increased by £12 million in 2020. Excluding the non-core income related to credit cards and ATMs, underlying net other income increased by £12 million, primarily due to lower net fee and commission expenses.

Statutory operating expenses of £310 million decreased by £7 million, primarily reflecting lower new business activity and change costs, and improved operating efficiencies; offset somewhat by increased expenditure in managing the Group's response to the COVID-19 pandemic and an £8 million write off in the Marshall Leasing Limited intangible asset. For further information on the write off refer to note 22. The majority of the Group's cost base relates to outsourced services, being the costs of distribution, product manufacture and support provided by the Parent under various contractual arrangements.

Statutory operating profit before impairment of £185 million is largely in line with 2019 (£184 million) due to lower operating expenses (£7 million), partially offset by lower operating income (£6 million).

Net impairment losses on financial instruments for the year ended 31 December 2020 were £151 million, an increase of £111 million on the previous year. The significant increase in the level of impairment losses reflects impairment model updates incorporating the change in the macroeconomic outlook due to the COVID-19 pandemic and the application of Group management adjustments.

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.

Income from the joint venture relates to the Group's foreign exchange joint venture with the PO, First Rate Exchange Services Holdings Limited (FRESH). The loss in 2020 reflects the impact of economic uncertainty and extensive travel restrictions on the UK travel and foreign exchange market. For further information refer to note 21.

Profit on disposal of business activities relates to the sale of the consumer credit card portfolio, which was classified as held for sale at 31 December 2018, with final migration activity completed in 2020. Refer to note 13 for further details.

Statutory cost income ratio of 63% has decreased 1% from 2019 (64%) reflecting a decrease in operating expenses.

The **taxation charge** for the Group was £13 million compared to £58 million for 2019. Excluding the tax charge of £18 million arising from the reassessment of the value of tax losses carried forward (refer to note 14), the effective tax rate for the year ended 31 December 2020 was a taxation credit of 20% (2019: taxation charge of 12%). For further information on the taxation charge refer to note 14.

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

Group balance sheet

Summary consolidated balance sheet	2020 £m	2019 £m	Change %
Cash and balance with central banks	2,050	2,134	(4)%
Loans and advances to banks	1,672	2,158	(23)%
Loans and advances to customers	21,300	21,200	0%
Debt securities at amortised cost	922	846	9%
Assets classified as held for sale	-	-	n/m
Total other assets	475	596	(20)%
Total assets	**26,419**	**26,934**	(2)%
Deposits from banks	4,202	3,500	20%
Customer accounts	18,256	19,075	(4)%
Subordinated liabilities	290	290	n/m
Debt securities in issue	511	607	(16)%
Total other liabilities	1,359	1,482	(8)%
Total liabilities	**24,618**	**24,954**	(1)%
Equity attributable to owners of the parent	1,801	1,980	(9)%
Total equity and liabilities	**26,419**	**26,934**	(2)%
Statutory return on tangible equity	0.9%	5.0%	
Return on assets[1]	0.10%	0.36%	
Loan to deposit ratio	117%	111%	
Liquidity coverage ratio (LCR)	142%	147%	
Net stable funding ratio	133%	133%	

Loans and advances to customers	2020 £m	2020 % of book	2019 £m	2019 % of book
Residential mortgages	16,787	78%	16,610	78%
Non-property SME and corporate	1,469	7%	1,327	6%
Commercial property and construction	369	2%	412	2%
Consumer	2,948	13%	2,997	14%
Loans and advances to customers (before impairment provisions)	**21,573**	**100%**	**21,346**	**100%**
Impairment provisions	(273)		(146)	
Loans and advances to customers (after impairment provisions)	**21,300**		**21,200**	

The Group's **cash and balances with central banks**, which is cash placed with Bank of England, decreased by £0.1 billion at 31 December 2020.

The Group's **loans and advances to banks** of £1.7 billion decreased by £0.5 billion since 31 December 2019, due to decreases in amounts due from the Parent and Bowbell No.2 plc.

Loans and advances to customers of £21.3 billion increased by £0.1 billion reflecting gross new lending of £4.8 billion offset by redemptions and increased net impairment.

Gross new lending of £4.8 billion is £1.1 billion lower when compared to 2019 due to the impact of the Group's strategy to focus on higher returning lending segments within agreed risk parameters, and the impact of both COVID-19 and Brexit uncertainty on credit demand. Given the Group's strategy to focus on higher returning lending segments the Group expects the balance sheet to shrink going forward.

New residential mortgages originated during 2020 were £3.1 billion, offset by repayments and redemptions on the existing portfolio, resulting in a net increase in the mortgage portfolio of £0.1 billion.

Northridge Finance net lending volumes decreased by £0.2 billion in the year, being directly impacted by the closure of car dealerships in the UK at certain points during 2020. New lending of £0.8 billion, was down 40% on 2019.

New personal lending through the Group's partners, the PO and the AA, was £0.6 billion, a decrease of 25% on 2019.

Gross new commercial lending was £0.4 billion in 2020, including lending under government supported schemes such as BBLs and CBILS, partially offset by repayments and the continued deleverage of the GB Business Banking portfolio, with a net increase of £0.1 billion.

As detailed in the critical accounting estimates and judgements note on page 100, the emergence of the COVID-19 pandemic (and associated social restrictions) during 2020 impacts the

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

Group balance sheet *(continued)*

macroeconomic outlook for the Group's core markets which is more negative than the outlook as at 31 December 2019.

COVID-19 also impacted the Group's IFRS 9 stage profile, whereby the application of updated Forward Looking Information (FLI), as well as individually assessed risk ratings resulted in a material migration of loans from Stage 1 to Stage 2 (i.e. identified as having experienced a significant increase in credit risk).

As a result, during 2020 the impairment provision on loans and advances to customers of £273 million increased by £127 million compared to 31 December 2019. Further details are included in note 19.

Debt securities at amortised cost of £0.9 billion comprises £0.2 billion of UK Government treasury bills, £0.4 billion of Multilateral Development Bank bonds and £0.3 billion of covered bonds at 31 December 2020.

Customer accounts decreased by £0.8 billion to £18.3 billion at 31 December 2020 reflecting the Group's strategy to optimise its funding mix. Current account balances in NI increased by £1 billion, offset by a reduction in other UK deposit balances of £1.8 billion. This net decrease in customer deposits resulted in the LCR decreasing to 142% at December 2020 (31 December 2019: 147%).

Customer accounts	**2020 £m**	**2019 £m**
Bank of Ireland deposits and current accounts	5,871	4,849
PO deposits	11,865	13,462
AA deposits	520	764
Total customer accounts	**18,256**	**19,075**

Deposits from banks of £4.2 billion at 31 December 2020 increased by £0.7 billion reflecting an increase in amounts due to the Parent and an increase in borrowings under the Bank of England Term Funding Scheme with additional incentives for SMEs (TFSME) refer to note 26.

Debt securities in issue were £511 million at 31 December 2020 down £96 million from 2019 (2019: £607 million) due to a decrease in residential mortgage backed securities.

The Group's equity of £1.8 billion is £0.2 billion lower than 2019. Retained earnings reduced by £192 million due to the completion of a share buyback (£195 million). Further details are included in note 36. Other movements in retained earnings include payment of AT1 coupons of £24 million and the 2020 profit after tax of £27 million.

	2020		**2019**	
Return on tangible equity	**Statutory basis £m**	**Underlying basis £m**	**Statutory basis £m**	**Underlying basis £m**
Profit for the period attributable to shareholders	27	27	97	97
Coupon on AT1 securities, net of tax	(18)	(18)	(18)	(18)
Amortisation of intangible assets, net of tax	4	4	5	5
Reassessment of tax losses carried forward (see note 14)	-	18	-	40
Non-core items, net of tax (see page 10)	-	9	-	9
Adjusted underlying profit after tax	**13**	**40**	**84**	**133**
Shareholders' equity, excluding AT1 capital	1,501	1,501	1,680	1,680
Intangible assets and goodwill	(36)	(36)	(48)	(48)
Shareholders' tangible equity	**1,465**	**1,465**	**1,632**	**1,632**
Average shareholders' tangible equity	**1,478**	**1,478**	**1,695**	**1,695**
Return on tangible equity	**0.9%**	**2.7%**	**5.0%**	**7.9%**

Capital

31 December 2019 Regulatory[1] %	31 December 2019 Fully loaded[2] %		31 December 2020 Regulatory[1] %	31 December 2020 Fully loaded[2] %
		Capital ratios[3]		
14.5%	14.2%	Common equity tier 1	13.7%	12.9%
17.2%	17.0%	Tier 1	16.4%	15.7%
19.9%	19.6%	Total capital	19.1%	18.3%
6.9%	6.8%	Leverage ratio	6.7%	6.3%

The Group is strongly capitalised with a total capital ratio on a regulatory basis of 19.1% (2019: 19.9%). The decrease in the total capital ratio reflects a decrease in regulatory capital resources of £99 million and a decrease in Risk Weighted Assets (RWA) of £60 million.

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).

Further details on the capital position of the Group are shown on pages 60 to 62 in the Capital Management section and in the Bank of Ireland (UK) plc Pillar 3 disclosure report for the year end 31 December 2020, available on the Group's website, www.bankofirelanduk.com.

Income statement - by business unit

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

2019 Consolidated income statement	GB consumer banking £m	NI £m	GB business banking £m	Group centre £m	Total £m
Operating income	294	137	12	14	457
Operating expenses	(123)	(78)	(2)	(77)	(280)
Operating profit / (loss) before net impairment gains / (losses) on financial instruments	**171**	**59**	**10**	**(63)**	**177**
Net impairment (losses) / gains on financial instruments	(45)	(2)	6	-	(41)
Share of profit of joint venture	30	-	-	-	30
Underlying profit / (loss) before taxation	**156**	**57**	**16**	**(63)**	**166**
Non-core items	(11)	-	-	-	(11)
Statutory profit before taxation	**145**	**57**	**16**	**(63)**	**155**

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

Income statement - by business unit *(continued)*

The business units are defined on page 16 in the business operations section.

GB Consumer Banking
The statutory profit of GB Consumer Banking decreased by £44 million compared to 2019. This is primarily due to higher impairment charges reflecting the impacts of COVID-19 and the uncertain economic outlook.

Pre-impairment profits increased year on year reflecting an improving lending mix, with growth in new business lending margins across mortgages, personal lending and Northridge , and a more cost effective operating model.

NI
The statutory profit of the NI business decreased by £47 million, largely due to an impairment charge of £36 million (2019: £2 million). In addition, ongoing commercial deleveraging, lower fee income and reduced funding income given the low base rate environment led to a reduction in profit.

GB Business Banking
The statutory profit in the GB Business Banking portfolio decreased by £15 million compared to 2019 primarily due to impairment losses reflecting the challenging economic environment.

Group Centre
The Group Centre statutory loss has increased by £9 million, up 14% compared to 2019, primarily due to costs incurred as part of the strategic transformation programme and increased regulatory costs.

Our purpose and values

Our purpose is to enable our customers, colleagues and communities to thrive.

Every word of the purpose statement is important and was selected for a reason.

- Enabling means empowerment, giving someone the ability to do something;
- Customers are incredibly important, with the Group continuing on its journey to become more customer focused;
- Colleagues keep the organisation working, and moving forward;
- Communities are the broad ecosystem in which the Group operates; and
- To thrive means to flourish, prosper and progress, to be healthy, happy and successful as we strive towards achieving our collective goals.

Enabling our customers, colleagues and communities to thrive is why we do business.

To help us with this, we have defined the four key values that act as a behavioural compass for how we do business. Our values support and guide us in delivering our purpose to our customers, colleagues and communities.

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

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

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

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

Our strategy

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

In conjunction with its Parent, in June 2018 the Group embarked on a multi-year programme to transform its culture, systems and business model. As the Group works to deliver its strategic ambition, it continues to transform the Group experience for customers, colleagues and communities.

Transform the bank
In 2020 the Group undertook a UK Strategy review as competitive market conditions necessitated further restructuring of the business in the UK, including assessing options for the NI business. A multi-year restructuring programme has now commenced for the Group to achieve its strategic ambitions including growing its higher returning niche lending propositions.

Serve customers brilliantly
The Group is committed to building a customer focused organisation, that invests in improving service and digital capabilities, while also getting the basics right. The Group listens to its customers and responds to their feedback.

Grow sustainable profits
The Group is focused on delivering sustainable returns for its shareholders. This is based on investing in the profitable parts of the business to support further growth. At the same time, the Group is reducing its operating expenses each year as it drives efficiency and streamlines its business while maintaining its investment in regulatory compliance, technology and business growth.

Our strategy *(continued)*

Our strategic priorities

Against any benchmark, 2020 was an extraordinary year, with all parts of society in the UK and globally responding to COVID-19 and the necessary restrictions that were implemented. The Group identified that the pandemic was likely to play out over different horizons with evolving health, social and economic impacts across these different vistas. The Group adapted how it approached strategic delivery, which meant it could continue to deliver critically important services safely, given the extraordinary circumstances of the pandemic.

Customers are always at the very heart of the Group, but never more than this year as customer expectations around product, service and banking preferences evolved at an accelerated pace. The Group is committed to supporting customers' needs and financial wellbeing by offering customer-centric propositions and services to enable them to thrive in all circumstances.

Since March the Group has provided over 70,000 payment breaks across mortgages, consumer lending and business banking to support customers in financial difficulty. The removal of overdraft charges between April and July provided additional support. The Group's business banking customers were able to avail of the Government backed BBLS and CBILS, with £295 million in funding drawn under these schemes in 2020. The Group also fast-tracked payments to all SME suppliers during COVID-19, reducing the standard terms from 30 days to within five days and kept all branches open across NI.

This year the Group reinforced its relationship commitment to customers with extensive and proactive customer contact at various stages of the COVID-19 outbreak. The Group launched a COVID-19 customer hub in response to the onset of the pandemic in March and issued more than 1.25 million customer emails, 1.1 million SMS and 1.4 million customer letters since the start of the outbreak.

The Group emphasised a commitment to support all its customers throughout the COVID-19 crisis with, among other initiatives, a dedicated support line and online guidance. As well as expanding the Group's capabilities to assist vulnerable customers impacted by either economic abuse fraud and continuing to make it easier to access services either online or in-branch, the Group launched the new Just a Minute (JAM) card, developed by the NOW Group, which allows customers with a learning difficulty, autism or communication barrier to tell others they need 'Just A Minute' discreetly and easily. The business also enhanced its emergency access to cash options including extending the PO Pay Out Now facility.

The Group also adapted how it operates as a business, allowing it to operate as an essential service during the pandemic, maintain service stability and support colleagues, while putting in place a range of new services that were suddenly required but which could not have been anticipated before the crisis hit.

Development of the Wellbeing Programme for staff included the launch of a Wellbeing App comprising topical and relevant financial wellbeing content. Staying Healthy Together was a 2020 programme specifically designed to support colleagues' wellbeing during the upheaval presented by the uncertainty of the pandemic.

Working from home allowances were provided to enable colleagues to equip homes or remote workspaces with the appropriate technology and furniture, and new communication methods were made available to allow for collaboration and engagement whilst being away from the office.

Communities are where we live and work, and include groups such as shareholders, regulators, governments and partners, at both a local and a global level. The Group continued to adapt to COVID-19 as the impacts of the pandemic shifted, flexing support, activity and focus as the needs of various stakeholders have changed at different stages of the crisis.

In conjunction with its Parent, the Group fast tracked an emergency fund to support communities most affected by the pandemic. The Group donated £150,000 to the Community Foundation for NI's COVID-19 emergency fund, with immediate funding allocated to Aware NI and Cruse Bereavement Care NI. In addition, the Group's Community Giving Fund also continued to provide grants to local community organisations and charities through the Community Foundations based in Belfast, Bristol and London. These grants supported the provision of financial, physical and mental wellbeing projects with a particular emphasis on the impact of COVID-19. In 2020, the total grants provided amounted to £176,000.

This year, in conjunction with its Parent, the Group rolled out its new approach to community investment, Begin Together. As part of a £2.5 million investment, Begin Together is a three year campaign across the island of Ireland to improve the financial, physical and mental wellbeing of communities, while supporting the underlying local economies as they reboot and recover from the impact of COVID-19.

There were four separate strands under Begin Together this year – Begin Together Fund, Begin Together Awards, Begin Together Arts Fund and Begin Together for Colleagues, with each strand having a specific purpose and combining to deliver significant positive impacts across NI.

Colleagues from across the UK were also able to support projects of their choice through the Begin Together for Colleagues Fund with over £37,000 donated to over 83 local community charities and organisations.

Our business operations

The Group manages the business operations under four units:

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

Strategic partnerships

The Group's financial services partnership with the PO is a longstanding partnership to drive mutual benefits, in line with the Group's strategy to improve returns in the UK business. A range of consumer products are offered including savings, mortgages and personal loans online and through the network of PO branches.

With the PO the Group also has a foreign exchange joint venture FRESH. The joint venture supplies foreign currency through

Our strategy *(continued)*

FRES, which is the UK's leading travel money provider.

In 2020, the Group's partnership with the AA was extended to 2028. The extension built on the mutual expertise of both partners by providing the Group with exclusivity for car finance under the AA brand. The AA is regarded as one of the best known and trusted brands in the UK and the largest provider of roadside assistance in the UK breakdown market. Under the AA brand the Group offers savings and personal lending products to customers.

Our strategic priorities

A multi-year restructuring programme has now commenced for the Group to execute against its agreed strategy.

The Group's three strategic priorities remain and are summarised as:

- Investing in the growth of businesses which provide attractive returns;
- Improving those businesses with potential, which need to deliver higher returns; and
- Repositioning those parts of the business where there is less certainty about achieving expectations.

While the Group has made notable progress against its strategic priorities during 2020, the macro-economic situation and customer trends have evolved rapidly due to COVID-19 and created new challenges and opportunities for banks. Brexit and its impacts are also driving economic uncertainty. COVID-19 has also heavily impacted unemployment with an uncertain path to recovery of economic growth, with individuals, companies, and economies supported by government stimulus. Notwithstanding the headwinds posed by the constantly evolving environment since the Group set out its strategic plan, the Group has clear plans in place to deliver further progress against each of its three strategic priorities.

Investing

The Group is investing in businesses that are generating profitable margins and improving returns in businesses that demonstrate potential.

The Group has grown lending in certain niche segments such as Bespoke mortgages, personal lending, and in its Northridge business, whilst maintaining commercial discipline on risk and pricing.

As the Group looks to optimise returns it has focused on value not volume, with mortgage application margins improving year on year.

Continued investment in the mortgage platforms also saw the launch of online offers in February 2020 which marked the application journey becoming fully digital and reduced the application journey by a minimum of four days.

The Northridge Finance business remains strong, but was impacted by the closure of car dealerships during the lockdown periods in 2020. The business successfully implemented the new FCA commission rules in early 2021.

It has been another year of growth and investment for the Group's personal lending business. Working with the PO and AA strategic partners, the Group has improved propositions, distribution and customer experience.

What progress will look like:

- Improving sustainable returns;
- Improving lending margins;
- Growing volumes in niche products where the Group are now well established;
- Lower cost of funding, acquisition and servicing; and
- Reviewing those portfolios and products where returns are below expectations.

Improving

In 2019, the financial services partnership with the PO was renewed and extended. FRES maintains its market leading position and continued to enhance its digital propositions with the launch of Google and Apple Pay in December 2020 for its Travel Money Card.

In spite of headwinds from base rate reductions in Q1 2020, the Group managed its cost of funds effectively during 2020, by optimising its funding mix, thorough management of and agility in deposit pricing. The Group also drew £1.3 billion from the Bank of England TFSME.

The Group continues to maintain strict control over the cost base, while investing in transformation and absorbing cost inflation. Cost income ratio reduced from 64% in 2019 to 63% in 2020, despite incremental operating expenses associated with COVID-19 incurred during 2020.

During 2020, the Group announced a voluntary redundancy programme which will reduce staff numbers during 2021 in a safe and voluntary way, with enhanced terms offered to the entire Group population. Those leaving the business will depart before the end of 2021. A full risk assessment was undertaken before applications were accepted to ensure business operations, customers and colleagues will not be adversely impacted by the departures.

What progress will look like:

- Improved customer experience;
- Simplification of products and processes;
- Excellence in digitisation and robotics;
- Transforming the Group's technology;
- A more simplified and customer centric organisation; and
- Effective and sustainable sourcing arrangements.

Repositioning

The Group is repositioning businesses where necessary to achieve future growth and required returns. The strategic review of the NI business was completed and this will result in a material restructure of the business, with a reduction in the number of branches. The Group will further simplify its product offering, leveraging its expertise in car finance and mortgages. The Group will also relocate its Head Office from London to Belfast.

The Group will continue to focus on improved lending margins, with predicted lower operating expenses and a reduction in retail deposit funding costs, while reducing its balance sheet size. Consistent with this, during 2021, the Group expects the loan book to reduce with associated reduction in deposit volumes, margins to be in line with 2020 exit margins and operating expenses also to reduce.

Our strategy *(continued)*

Capital

The Group's strategy is to optimise its capital position and capital returns and seek new lending and other business opportunities, in both the consumer and commercial business, which are aligned with its risk appetite.

The Group maintained a strong capital position during 2020, despite elevated levels of impairment charges in the period, with a regulatory CET1 ratio of 13.7% at 31 December 2020 (31 December 2019: 14.5%). For further details on capital refer to the Capital Management section on page 60.

Liquidity

At 31 December 2020, the Group continues to maintain a strong liquidity and funding position and is fully compliant with all liquidity and funding obligations. At 31 December 2020 the Group had a loan to deposit ratio of 117% (2019: 111%) and an LCR of 142% (2019: 147%).

The Group has £1.3 billion of borrowings under the Bank of England TFSME scheme which will mature between August 2024 and August 2026. The Group also has £0.4 billion of borrowings under the Bank of England Term Funding Scheme (TFS) which will mature during 2021.

The Group actively monitors its liquidity position using various measures including LCR and NSFR and considers these in the creation, execution and review of its funding plans.

For further details on liquidity and funding risk refer to page 50 and note 38.

UK economic and market environment

Key points:

- 2020 presented a uniquely challenging operating environment for the UK domestic banking sector, in the context of a global pandemic driving economic outcomes highly sensitive to the course of a public health emergency and, as a consequence, unprecedented actions on the part of government, business and households.
- The Chancellor's one year spending plan announced in November highlighted the potential economic and fiscal costs of battling the virus, with public borrowing projected to reach record levels in 2021 in the context of a record 9.9% contraction in Gross Domestic Product (GDP) in 2020[1], and the latest central projection from the Bank of England Monetary Policy Committee that unemployment will rise to a peak of c. 8% in mid-2021[2].
- A measure of recovery is anticipated from 2021 but it is likely to be a few years before the UK economy returns to pre-pandemic levels with both monetary and fiscal policy widely expected to remain accommodative, at least in the near-term. The period of ultra-low interest rates seems set to be extended for an even longer period, presenting a structural headwind to levels of profitability while the drive for more efficient business models is certain to hasten the transition to more digitised operating models.
- The Group continues to execute its strategy, aimed at achieving an improved return on capital, while remaining vigilant to ongoing macroeconomic risks, notably relating to COVID-19 and Brexit changes.

Lending Segments

Pre-COVID-19, the competitive nature of the UK mortgage market resulted in further compression of margins. However, the market response to the crisis brought some changes to competitive dynamics during 2020, while the home-mover/higher value segments remained buoyant, conditions for potential first time buyers and other small deposit borrowers tightened, developments that were broadly favourable to the Group's shift to a niche, value-led offering.

While there is little evidence to date of a material increase in mortgage stress, it may be some time before the underlying picture in the housing market is evident. The resilient performance of the market was an upside during H2 2020 with a strong rebound in mortgage activity reflecting pent-up demand, behavioural shifts as the market reopened, particularly for medium to larger properties in the home-mover segment market, and purchases brought forward to take advantage of the Stamp Duty relief.

In the unsecured credit markets, during the first lockdown household consumption dropped, debt repayments accelerated and new borrowing slowed. Bank of England Credit Conditions Surveys have continued to suggest that both lenders and borrowers are adjusting risk appetites to the more challenging macroeconomic context.

The car finance market has attracted increased scrutiny during the downturn with a decline in new car registrations in 2020 although the used car market again demonstrated a greater resilience, underpinned by shifts in customer behaviours and preferences.

In NI, levels of medium business and SME new borrowing increased significantly, largely reflecting the material take up of government-backed COVID-19 loan schemes (BBLS, CBILS), although a portion of this was reflected in higher credit and deposit balances and the substitution with other forms of lending.

Retail Funding

Generally speaking, the deleveraging and repair of balance sheets through increased savings was reflected in additional market liquidity, exceptional growth in liabilities and a further lowering of pay rates on deposits, even as large volumes of TFS funding required refinancing. With a cut in the Bank of England base rate to a historic low of 0.1%, a material tightening of retail funding conditions is unlikely in the near term.

Credit Quality: Extensive government interventions partially cushioned the scale of the macroeconomic shock during 2020 and consistent with the UK banking sector,

[1] *'GDP monthly estimate UK: December 2020' published by the Office for National Statistics on 12 February 2021*
[2] *'Monetary Policy Report' published by the Bank of England Monetary Policy Committee in February 2021*

Our strategy *(continued)*

the Group has not observed any significant impact on the credit quality of its loan book. However, the impact of IFRS 9 provisioning does underline the uncertain future economic outlook and the outcome of payment breaks, lending and other customer supports. It is also recognised that the reintroduction of restrictions at the end of 2020 will inevitably have an adverse impact on macroeconomic growth prospects during Q1 2021 at least.

Market Outlook

Positive news regarding the UK-EU Trade and Co-operation Agreement and regulatory approval for COVID-19 vaccines at the end of 2020 provided a boost to market sentiment and a note of optimism, but it may be H2 2021 before public health challenges recede significantly and momentum in the economy accelerates.

The Group's central economic scenario projects a rebound in GDP in 2021 and 2022 with the key downside risk being that the economy does not power up as quickly as it powered down. Much will depend on the pace and effectiveness of the vaccination programme, behavioural responses including the release of pent-up consumption to the easing of restrictions and continued exceptional levels of government support. In the short-term, levels of economic confidence are expected to remain fragile and some legacy of 'scarring' can be expected after the biggest downturn in 300 years.

Ultimately, the improvement in headline performance of UK banks will be driven by the normalisation of impairments. Historically low debt-servicing costs and conservative lending criteria are expected to mitigate the downside risks for the housing market, although average prices are expected to soften from recent peaks.

A focus on cost efficiencies alongside margin management are likely to drive Group operating performance in the near-term. For consumers, the savings ratio is expected to fall back from the peaks of 2020 as spending patterns recover but household finances may become increasingly polarised.

Summary

While the economic landscape is clearly evolving and levels of uncertainty remain elevated, it seems clear that some of the changes as a result of COVID-19 may be temporary, while some may be more permanent in nature, including an acceleration in the adoption of digital technologies and changes to customer preferences and behaviours.

As the Group reviews recent market developments and considers the prospects for the year ahead, its priorities will include the monitoring of the resilience of UK economy to developments, the evaluation of the potential impacts on business strategy and operating model, continued discipline on volume and margin management and, the recalibration as appropriate, of baseline macroeconomic assumptions for planning purposes.

Responsible and Sustainable Business

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

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

Enabling current and future colleagues to thrive

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

Digitally able

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

Employability

The Group wants to enable colleagues, current and potential, to develop skills that allow them to adapt to the constantly changing world of work. The Group does this by developing people leaders and managers with the right behaviours and skills to support a digitally able learning organisation and providing up-skilling opportunities via development programmes. The Group equipped colleagues for the future of work via a range of supports such as the "You as a Manager" programme for people managers. In addition to our internal talent-development programmes, in 2020 our colleagues participated in external programmes from the Black Business Association amongst others. The Group also run a scheme with Merchant's Academy, a school in Bristol, in which the Group provide vital 'world of work' experiences to students.

Inclusive development

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

Inclusion and diversity

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

This is brought to life through a number of actions. The Group set up a Divisional Gender Balance Committee, the purpose of which is to identify and drive local tailored initiatives and, the NI business completed an Age Inclusive Business Audit 2020 through Business in the Community. The Group signed the Women in Finance Charter in March 2018 and pledged to increase gender balance in the Group's management and leadership populations. The Group signed up to the Prince's Business Network Race at Work Charter in June 2020 to ensure that ethnic minority employees are represented at all levels of the organisation. The Group has taken a number of actions including appointing an

Responsible and Sustainable Business *(continued)*

Executive Sponsor for race, developing the Ethnic Minority Talent Programme (RISE), in partnership with Involve, and capturing ethnicity data to support the understanding of representation across the Group.

The Group's commitment to inclusion and diversity has been recognised with the following awards; Best Large Employer for Inclusion and Diversity 2020 at NI Equality and Diversity Awards, 2020 NI Responsible Business Champion for Diversity and Inclusion, 2020 NI Responsible Business Champion for Age at Work and 2020 NI Responsible Business Champion for Wellbeing at the NI Responsible Business Awards.

Financial Wellbeing

This pillar focuses on empowering people to thrive financially by enabling them to make better financial decisions for themselves, for their family, their business and their community.

Financial Capability

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

The Group does this through the following initiatives; literacy programmes for Youth, Business and Seniors including the Group's partnership with Young Enterprise NI's Young Money brand. This initiative provides young people and educators with the opportunity to gain the skills, knowledge and confidence in money matters to increase financial wellbeing and help them thrive in society. In addition, the Financial Wellbeing Needs Review rollout includes tools for consumers and businesses to check their financial wellbeing and the Group's Colleague Financial Wellbeing Programme.

Financial inclusion

The Group must protect its most vulnerable customers including those experiencing difficult circumstances.

The Group has a number of initiatives to empower colleagues with the skills, knowledge and confidence to support the needs of vulnerable customers. In 2020, the Group had a network of vulnerability champions across the business. The Group also announced a new service designed to help customers self-isolating during the COVID-19 pandemic, including older customers and those in difficult situations, access cash for groceries and other day-to-day expenses. This cocooning support included priority hours and a dedicated phone line for over 65s and carers. In addition, through the Begin Together Fund the Group supported a number of initiatives including the Preparing for work and home life programme for 16 to 30 year olds in NI.

Financial confidence

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

Supporting the Green Transition

Combating climate change is one of our greatest challenges as a global society. The Group understands the important role it can play in facilitating the transition to a resilient, low-carbon economy. The Group is committed to working together with its customers, colleagues and communities to support their transition to a resilient, Net Zero economy by 2050, in line with UK governments ambitions.

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

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

i. Decarbonise the Group's Own Operations:

The Group is included within its Parent's commitment to make its own operations Net Zero by 2030. In 2020 the Group achieved its ambition to switch to 100% renewable electricity in the UK.

ii. Set Targets:

Set the Group's portfolios and lending practices on a pathway aligned with the Paris Agreement and commit to setting targets across the Group's portfolios and operations within two years. Metrics for climate-related risks developed and will be reported to the Credit Risk Portfolio Committee (CRPC) in 2021.

iii. Manage climate related risks:

Build the Group's resilience by embedding climate-related impacts in decision making. The Group conducted an assessment to identify areas that may be impacted by climate change. Activities and assets exposed to climate related risks were identified and possible financial impacts are being assessed. The Group also partnered with Landmark, an EnviroTech innovator, to perform scenario analysis against the Group's mortgage portfolio looking at physical and transitional risks of properties up until 2050. Results are being assessed to help the Group understand its exposure and inform metrics.

iv. Transparently Report Progress:

Commit to transparently report on the progress the Group is making towards its ambitions, and reporting in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The Group has established a Climate Change Working Group to work towards compliance with disclosure requirements.

The Group achieved CORE Status for Responsible Business in NI through Business in the Community.

In February 2020, Bank of Ireland Group plc became a supporter of the TCFD. The TCFD is a voluntary and consistent climate-related financial risk disclosure framework, for use by companies in providing information to investors, lenders, insurers, and other stakeholders. The recommendations of the TCFD allow firms to disclosure how they are managing the risks and opportunities of climate change in a structured and consistent way. Bank of Ireland Group plc will report, for the first time, in line with the TCFD recommendations in their 2020 Annual Report. The Group has supported the Bank of Ireland Group plc in drafting these disclosures. For further information on the TCFD refer to the Bank of Ireland Group plc Annual Report, available at www.bankofireland.com.

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

Responsible and Sustainable Business *(continued)*

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

1 *tCO2e - Carbon dioxide equivalent is the measure of greenhouse gas emissions*
2 *2020 UK greenhouse gas reporting conversion factors used (www.gov.uk)*
3 *Consumption figures obtained from utility bills and landlord consumption reports*
4 *Fluorinated Greenhouse gases (F-Gas) Figures from maintenance reports*
5 *Emissions from staff car fleet*
6 *Purchased Electricity Location based using UK 2020 national grid conversions*
7 *Purchased Electricity Market - based using UK 2020 national grid conversions for GB and NI is on 100% renewable energy*
8 *Calculated as the sum of emissions divided by the meters squared of the Group's buildings portfolio 38,419 m2*

Non-financial information statement

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

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

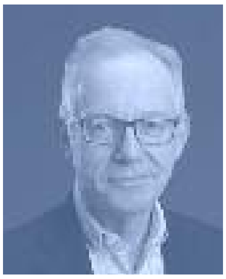
Reporting Requirement	Policies	Risk and Management (The Group)	Risk and Management (Bank of Ireland Group plc)
Environmental matters	Group Environment policy (ISO 14001)[1]	Responsible and sustainable business *(page 19)*	Environment and Energy *(page 28)*
	Group Energy policy (ISO 50001)[1]	Financial risks from climate change *(page 32)*	
Social and employee matters	Inclusion and Diversity policy	Responsible and sustainable business *(page 19)*	Vulnerable customers *(page 27)*
	Group Code of Conduct[1]	Responsible and sustainable business *(page 19)*	Inclusion and diversity *(page 25)*
	Equal Opportunities policy	Responsible and sustainable business *(page 19)*	Learning *(page 24)*
	Group Health and Safety policy	Conduct risk *(page 59)*	Wellbeing *(page 25)*
	Employee Data Privacy	Business and strategic risk *(page 57)*	Communities *(page 40)*
	Group Vulnerable Customers policy		People risk *(page 136)*
	Group Learning policy		
Respect for human rights	Modern slavery and human trafficking statement[1]	Operational Risk *(page 56)*	Information security *(page 40)*
	Group procurement policy		Operational risk *(page 46)*
	Group data protection and privacy policy		Human trafficking *(page 40)*
Bribery and corruption	Group Code of Conduct[1]	Responsible and sustainable business *(page 19)*	Code of conduct *(page 40)*
	Speak Up policy	Conduct risk *(page 59)*	Anti-bribery and corruption *(page 40)*
	Group Anti-Money Laundering policy (AML)		Anti-Money Laundering *(page 40)*
	Group Anti-bribery and Corruption policy		Conduct risk *(page 178)*
	Conflict of Interest Policy		
Diversity report	Board Diversity policy[1]	Corporate Governance arrangements *(page 67)*	Corporate Governance Statement *(page 72)*
Business model		Business operations *(page 16)*	Divisional Review *(page 58)*
Policies followed, due diligence and outcome		Risk management framework *(page 35)*	Risk management framework *(page 146)*
Description of principal risks and impact of business activity		Principal risks and uncertainties *(page 26)*	Key risk types *(page 46)* Principal risks and uncertainties *(page 135)*
Non-financial key performance indicators		Responsible and sustainable business *(page 19)*	Key highlights *(page 3)*

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

Governance structure

The Board sets the Group's strategic aims and risk appetite to support the strategy, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives. During 2020, the Board met 19 times. Further details are included in the Governance section on page 63.

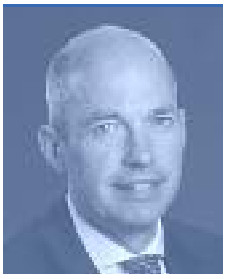
The Board provides leadership of the Group within the boundaries of risk appetite and a framework of prudent and effective controls which enable risk to be identified, assessed, measured and controlled.



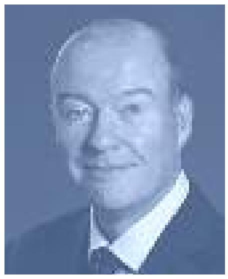
Peter Herbert
(A) (N) (RE) (RI)
Chair, Non-Executive Director

Ian McLaughlin
Chief Executive Officer, Executive Director

Thomas McAreavey
Chief Financial Officer, Executive Director



Philip Moore
(A) (N) (RE) (RI)
Non-Executive Director



John Baines
(A) (RI)
Non-Executive Director

Ian Buchanan
(RI)
Non-Executive Director

Jackie Noakes
Non-Executive Director

Mark Spain
Non-Executive Director

Alison Burns
(N) (RE)
Non-Executive Director

The Board is supported by a number of Committees:

Nomination Committee
Peter Herbert
Chair

Responsible for leading the process for Board, Board Committee and senior management appointments and renewals. The Committee regularly reviews succession plans for the Board, and the senior management team, and makes appropriate recommendations to the Board. The Committee meets at least twice a year. In 2020, the Committee met six times.

Remuneration Committee
Philip Moore
Chair

Holds delegated responsibility for setting remuneration strategy and policy for Executive Directors and senior management. The Committee meets at least twice a year. In 2020, the Committee met seven times.

Audit Committee
John Baines
Chair

Monitors the integrity of the financial statements, oversees all relevant matters pertaining to the external auditors and reviews the Group's internal controls, including financial controls, and the effectiveness of the internal audit function. The Committee meets at least four times a year. In 2020, the Committee met five times.

Board Risk Committee (BRC)
Peter Herbert
Chair

Monitors risk governance and assists the Board in discharging its responsibilities in ensuring that risks are properly identified, reported, assessed, and controlled and that strategy is cognisant of the Group's risk appetite. The Committee meets at least five times a year. In 2020, the Committee met 22 times.

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

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 the Shareholder, whilst having due regard to the matters set out in Section 172(2)(a) to (f) of the Companies Act 2006:

A) the likely consequences of any decision in the long term;
B) the interests of the company's employees;
C) the need to foster the company's business relationships with suppliers, customers and others;
D) the impact of the company's operations on the community and the environment;
E) the desirability of the company maintaining a reputation for high standards of business conduct; and
F) the need to act fairly as between members of the company.

Methods used by the Board

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

- A clear and robust Governance structure with clear lines of accountability and responsibility for the Board, Committees and Executive Team;
- Adoption of 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 34; and
- A focused schedule of technical and business Board training is agreed annually. For further information on the training provided to the Board during 2020, see the Wates Principles in Corporate Governance Arrangements (page 67).
- The Board undertakes an effectiveness review annually with externally facilitated effectiveness reviews undertaken every three years. Allen & Overy Consulting was engaged to review the Board's effectiveness in 2020; and
- Terms of Reference for Colleague and Customer designated non-executive directors were approved by the Nomination Committee, with appointments to be agreed in 2021.

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 2020, the Board reviewed and approved a number of strategic initiatives and played a key role in all material decisions including COVID-19 Customer Support measures such as Payment Breaks; Brexit Customer Support measures; the transfer of ownership of c.1,400 ATMs to the PO; UK strategic review including assessment of strategic options for the Group's NI business; and a multi-year restructuring programme to support delivery of the Group's ambition.

Stakeholder Engagement

The Group's key stakeholders are those who most materially impact its strategy or are directly impacted by it. Engagement with stakeholders informs strategic decision-making and is key to ensuring that responsible balanced decisions are made.

The Group's strategy has been informed by and its implementation continues to be informed by interaction with stakeholders including with shareholders, customers and colleagues. It is the Group's intention to act responsibly towards its stakeholders.

Stakeholder	How We Engage	Further Examples of Engagement
Shareholder	The Group is focused on delivering sustainable returns for its shareholder. The Board regularly receives updates and reports from the Parent, including attending a twice-yearly update from the Chief Executive Officer of the Parent, and has nominated Parent non-executive directors to ensure that the shareholder's views and expectations are understood and considered. The Group is undergoing a strategic transformation that is planned to deliver sustainable returns on equity for the shareholder.	
Customers	The Group seeks to behave responsibly towards its customers, treating them fairly and equally so that they too may benefit from the successful delivery of the Group's strategy. The core Group value of being customer focused supports this objective. The Group's focus has been on delivering solutions aligned with FCA guidance and supporting all customers, and in particular those most vulnerable as a direct result of COVID-19. The Board consistently reviews its customer strategy, receives updates on implementation and reviews progress at formal Board meetings and through regular interaction with and updates from management. The Board's understanding of customer perspectives is informed by deep dives on customer themes and customer complaints and underpinned by a desire for continued improvement in customer experience.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our purpose and values (page 15) - Our strategy (page 15) - Responsible and Sustainable Business (page 19);
Communities	The Group seeks to enable communities to thrive, through a tangible and visible commitment that brings its purpose to life. The Group supports the wider community through charity and community activities and by playing an active role in society. Employees are actively involved in fundraising and volunteering in charitable events across the UK for a range of charities and community projects. This year, in conjunction with the Parent, the Group rolled out its new approach to community investment, Begin Together. Begin Together is a three year campaign across the island of Ireland to improve the financial, physical and mental wellbeing of communities, while supporting the underlying local economies as they reboot and recover from the impact of COVID-19. The Group also has a UK Community Giving Fund which provides grants to local community organisations and charities through the Community Foundations based in Belfast, Bristol and London.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our purpose and values (page 15) - Our strategy (page 15) - Responsible and Sustainable Business (page 19);

Section 172(1) Statement *(continued)*

Stakeholder	How We Engage	Further Examples of Engagement
People	The Group's people are fundamental to the delivery of its strategy. The Group aims to be a responsible employer and is committed to enabling its people to thrive, ensuring they are engaged and have the skills and capabilities to serve customers brilliantly. The Board receives regular updates on the progress of the Culture programme; receives regular People Updates; reviews the outputs from the Group's Open View employee survey; and receives updates on progress in implementing actions in response to employee feedback. The Board's understanding of employee perspectives is informed by direct engagement with colleagues.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our purpose and values (page 15) - Our strategy (page 15) - Responsible and Sustainable Business (page 19);
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.	- Responsible and Sustainable Business (page 19); - Principal Risks and Uncertainties (page 26); - Credit Risk (page 40); - Conduct Risk (page 59); and - Regulatory Risk (page 56) sections.
Suppliers	The Group assesses its suppliers across a number of key risk areas, at the on-boarding stage for all suppliers and annually thereafter for suppliers providing services of high criticality and dependency to the Group. The 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 15)
Partners	The Group's strategy has been designed to enable its customers, colleagues and communities to thrive, with a strategic focus on increasing overall returns. This is achieved through the distribution of simple, flexible, financial services to UK customers both directly and through partnerships with well-known UK brands. These include an exclusive financial services relationship and foreign exchange joint venture with the PO; a long-term financial services partnership with the AA; a successful UK intermediary mortgage business; a full service retail and commercial bank in NI; a car and asset finance business throughout the UK, under the Northridge Finance brand and Marshall Leasing Limited.	- Chair's Review (page 4) - Chief Executive's Review (page 6) - Our strategy (page 15) - Responsible and Sustainable Business (page 19);
Environment	The Group recognises that combating climate change is one of the greatest challenges of global society and understands the important role it has in facilitating the transition to a resilient, low-carbon economy. The Group is committed to working together with customers, colleagues and communities to support their transition to a resilient, Net Zero economy by 2050, in line with UK government ambitions. The Board considers the risks of climate change seriously in setting the long term sustainable strategy for the Group, and has delegated responsibility to the BRC to oversee the plan for managing the financial risks from climate change in relation to its overall business strategy and risk appetite, through regular risk reporting and other related exercises.	- Responsible and Sustainable Business (page 19); - Principal Risks and Uncertainties (page 26);

Monitoring

The Nomination Committee reviews the Group's stakeholders regularly and the Board sets the Group's strategy on an annual and ongoing basis, and considers all its stakeholders during the strategy setting process and throughout its implementation.

All material and strategic decisions taken by the Board are subject to a comprehensive risk assessment process which considers the impacts to Group's stakeholders, as well as long term value creation and the implications for business resilience. Further details on the material and strategic developments during the year are set out in the Business Review section.

For further details on stakeholder relationships and engagement, please see Principle 6 of Corporate Governance Arrangements (page 68) and the Report of the Directors (page 69).

Principal risks and uncertainties

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

The Group has taken steps to mitigate the negative effects of Brexit, such as implementing measures to ensure that contracts will continue to be enforceable and that it maintains all necessary regulatory permissions. The Group has also supported its customers through the COVID-19 pandemic by ensuring the relevant payment break and forbearance schemes are in place. However, there remains ongoing uncertainty in respect of Brexit and COVID-19 and the associated economic impacts on the Group's performance.

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

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

Principal risks	Potential risk impact	Key controls and mitigating factors	Change in 2020
Credit risk *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. Credit risk includes default risk, recovery risk, counterparty risk, country risk, credit concentration risk, settlement risk and residual value risk.*	Should commercial or consumer customers or banking / foreign counterparties be unable to meet their obligations in relation to borrowings from the Group, the Group may suffer increased losses and this would have an adverse impact on the Group's financial position.	• Board approved Credit Policy and risk appetite limits, including credit category / exposure and concentration risk limits, together with a framework for cascade to business and portfolios; • Defined credit processes and controls, including credit policies, independent credit risk assessment and defined authority levels for sanctioning lending; • Reporting to the Executive Risk Committee (ERC), BRC and the Board; • Lending policies are fully aligned to risk appetite with formal governance to monitor and ensure compliance with policies and limits; • BBLS facilities granted to existing Group customers in accordance with government rules and additionally subject to procedures and controls to protect against scheme abuse; • Active credit management and dedicated work-out strategies to maximise recoveries from impaired assets while providing suitable and sustainable options that are supportive of customers in challenged circumstances; • Regular monitoring of lending portfolios by senior management and the CRPC; • Minimum annual reviews of all individual commercial cases, with a Total Group Exposure more than £500,000, to monitor case specific risk; and • External Mortgage Indemnity Guarantee for mortgages >90% Loan to Value (LTV), providing protection against future loss occurrence.	Remained a key risk area given the ongoing impact of COVID-19 on the economy and borrowers' ability to repay, definition of default changes and the UK strategy implementation.
Liquidity and funding risk *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.* *Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or has an inefficient funding structure.*	A loss of confidence in the Group's business, specifically the financial services industry, partner brands, or the Parent, or as a result of a systemic shock could result in unexpectedly high levels of customer deposit withdrawals or lead to a reduction in the Group's ability to access funding on appropriate terms. This in turn would have a materially adverse effect on the Group's results, financial condition and liquidity position.	• Board approved risk appetite limits; • A Liquidity and Funding Risk Management Framework (RMF) which is reviewed annually, is in place. The Liquidity and Funding Risk Policy which governs management and monitoring, forms part of this framework; • Daily monitoring and management of the liquidity position includes, but is not limited to, regulatory and internal liquidity stress testing, early warning signals, risk appetite metrics and a defined escalation process; • Active management of the funding position to determine the amount of ongoing new retail deposit acquisition and retention and wholesale funding required to fund the Group's asset base as well as forward analysis including stress testing; • Regular reporting to the Asset and Liability Committee (ALCO), the ERC, the BRC and the Board; • Significant contingent liquidity collateral which is capable of being pledged against borrowings from central banks or other external market participants; • Comprehensive Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken annually which sets out how the Group assesses, quantifies and manages key liquidity and funding risks including partnership distribution risks; and • Recovery Plan in place, which specifies a range of processes and potential actions that can be enacted, in the event of any unexpected shortfall in liquidity and / or funding. Work ongoing to comply with the Bank of England's Resolvability Assessment Framework.	Remained a key risk area given COVID-19 and the UK strategic review undertaken.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors	Change in 2020
Market risk *The risk of loss arising from movements in interest rates, foreign exchange rates or other market prices. Market risk arises from the structure of the balance sheet, the Group's business mix and discretionary risk taking. Additionally, market risk arises through the conduct of customer business, particularly in respect of fixed-rate lending. Structural market risk arises from the presence of non-interest bearing liabilities (equity and current accounts) on the balance sheet and changes in the floating interest rates to which the Group's assets and liabilities are linked (basis risk).*	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. Ineffective management could have an adverse impact on the Group's net interest margin and profitability.	• Board approved risk appetite limits; • A Market RMF, which is reviewed annually, is in place and aligned with the Group's overall strategy to have no risk appetite for discretionary market risk and minimise its exposure to market risks in relation to Interest Rate Risk in the Banking Book (IRRBB) and foreign exchange. The Market Risk Policy, which governs market risk management and monitoring, forms part of this framework; • Daily hedging with the Parent, using derivatives; • Regular reporting to ALCO, the ERC, the BRC and the Board; • Daily monitoring and management of the market risk position including daily market risk stress tests across all aspects of market risk (yield curve and repricing risk, basis risk, behavioural risk, etc); • Extreme stress scenarios are produced and monitored in line with regulatory guidance and are reported to ALCO; • A product approval process incorporates review of product terms and conditions from a market risk perspective, to ensure compliance with existing risk appetite, policy and process; and • The impact and considerations of LIBOR reform are detailed separately below.	There has been no material change to the Group's market risk profile (see page 31 for LIBOR reform).
Regulatory risk *The risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes.* *The Group is exposed to regulatory risk as a direct and indirect consequence of its normal business activities. These risks may materialise from failures to comply with regulatory requirements in its day-to-day business processes, a failure to implement in a timely and efficient manner items of regulatory change, as an outcome of risk events in other key risk categories and / or from changes in external market expectations or conditions.*	Non-compliance with legislative and regulatory obligations may result in customer harm and financial loss, financial penalties placed upon the Group, directions from statutory authorities, other regulatory sanction including limitations on its business and reputational risk to the Group.	• The Group has no appetite for failure to comply with its regulatory or legislative obligations. • Regular and open communication with the FCA, PRA, European Central Bank (ECB), Competition and Markets Authority and Open Banking Implementation Entity on all aspects of the Group's activities. • Ongoing engagement and contribution to Group wide programmes, including the multi-year Resolvability Work Programme. • Regular reporting to senior management, the Regulatory and Operational Risk Committee (R&ORC), the ERC, the BRC and the Board. • Regular monitoring, assessment and reporting of regulatory change (current and proposed) to ensure timely and appropriate response to regulatory change requirements at both a UK and EU level. • Risk-based regulatory and compliance monitoring performed by an independent compliance monitoring team. • Embedding of risk culture through the RMF.	Remained a key risk area with heightened focus given COVID-19, Brexit and regulatory change.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors	Change in 2020
Operational risk *Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk includes Business Continuity Risk, Data Quality & Reliability, Fraud, Information Security and Cyber Risk, Information Technology, Insurable, Legal & Contractual, Model, Payments, Sourcing, Unauthorised Trading, and Business Process.*	Risk to the continuance of Important Business Services (and Mission Critical Services) within a rapidly changing environment. Risks that materialise through day-to-day execution of business process, the functioning of its technologies and in the various activities performed by staff, contractors and third parties. This includes risk associated with major change and the failure to deliver strategic programmes. Risks arising as a result of cyber security attacks remains material as their frequency, sophistication and severity continue to develop. Litigation proceedings with adverse judgements could result in material impact on the Group's reputation.	• Board approved risk appetite limits. • Mandatory Group-wide training and education in place. • UK Board review and approval of proposed transformation and strategic initiatives to ensure alignment with agreed business strategy with second line oversight of progress against programme change. • An Operational Risk Management Framework (ORMF) consisting of process and policy standards, risk management activities and enablers for the identification, measurement, mitigation, control and reporting on the performance and status of Operational Risk within the Group. • Regular monitoring and reporting to the R&ORC, the ERC, the BRC and the Board. • Business Continuity Framework for the effective and consistent management and mitigation of Business Continuity related operational risks, enhanced through the implementation of the Operational Resilience Improvement Roadmap which will deliver alignment to emerging regulatory requirements. • Continuous review of operational risk arising from COVID-19 supported through; Incident Management Groups, daily monitoring and reporting of operational performance levels, increased fraud monitoring and account monitoring and credit deterioration dashboard for arrears, forbearance and payment breaks. • Improving operational resilience through the successful implementation of a remote working model for all but essential onsite staff (with rotas in place for on-site staff) ensuring continuity of service. • Risk and control libraries providing data consistency, reliability and easy aggregation for reporting. • Fraud Incident Management Framework and playbooks for effective and consistent management and resolution of fraud incidents including post incident reviews. • Information Security controls and key indicator monitoring including; regular penetration testing and vulnerability assessments, data leakage prevention, privileged access management, security events and legacy IT infrastructure migration. • Continued focus on and regular review of User Access Management to ensure user access privileges are appropriately aligned to role requirements. • Processes in place to ensure compliance with legal obligations, together with clear controls in respect of the management and mitigation of such disputes. • A comprehensive Model RMF to ensure existing or emerging model risks are identified and mitigated effectively and efficiently. • Outsourced arrangements with the Parent and third parties are managed through service level agreements, service descriptions and Key Performance Indicators (KPIs), with a Sourcing Risk Policy Standard and UK governance fora in place. • Path To Target for Operational Risks rated as outside of appetite with Parent oversight through the Non-Financial Risk programme and UK oversight through the UK risk governance framework.	Remained a key risk area given required risk management enhancement, COVID-19 and the UK strategic review undertaken.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors	Change in 2020
Financial Crime *Financial crime risk is the risk of the firm being used in connection with money laundering or terrorist financing and that the measures adopted by the Group to prevent and detect money laundering, terrorist financing or sanctions evasion are not effective and/or do not meet regulatory expectations.*	Non-compliance with legislative and regulatory obligations may result in financial penalties, regulatory sanctions and reputational risk to the Group. The regulatory landscape continues to evolve and the banking sector is subject to increasing scrutiny. This requires the Group to adapt to, and operate within, a dynamic and challenging environment, resulting in enhanced regulatory oversight arising from the COVID-19 pandemic, particularly in the area of financial crime.	• Board approved risk appetite limits. • Specific policies, policy standards, and risk mitigation measures for financial crime risks. • Regular monitoring and reporting to the R&ORC, the ERC, the BRC, the Board, and Parent Committees, as required. • A robust AML RMF which includes automation of customer due diligence, screening and transaction monitoring. • Processes in place to identify, assess, plan, develop and implement key compliance and regulatory requirements. • Processes in place to identify, assess, manage, monitor and report financial crime risks as well as controls to mitigate those risks. • Processes in place to support the reporting, investigation, resolution and remediation of incidents of non-compliance. • Governance committees and forums in place to oversee financial crime risk throughout the business and for third party service providers. • Group-wide education and training in place.	Remained a key risk area with heightened focus in a challenging environment.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors	Change in 2020
Business and Strategic risk *The risk of volatility to the Group's projected outcomes, including the Income Statement and Balance Sheet impact and / or damage to its franchise including that of the Group's joint ventures. It includes volatilities caused by (1) changes in the macroeconomic and competitive environment, new market entrants, arrears levels etc and (2) failure / delays in executing the Group's strategy for new product / customer offerings, cost reduction delivery, or to anticipate or mitigate a related risk.* *Failure to demonstrate that it is probable that future taxable profits will be available, or changes in government policy or tax legislation may reduce the recoverable amount of the deferred tax asset currently recognised in the financial statements.* **Brexit** *Ongoing uncertainty surrounding the impact of the UK-EU Brexit deal continues to affect the markets in which the Group operates including pricing, partner appetite, consumer confidence and credit demand, and consequently the Group's financial performance, balance sheet, capital and dividend capacity.* **COVID-19** *Consequences of nationwide restrictions and the impact on the economy led to domestic demand, supply, trade and finance being severely disrupted. Economic rebound is expected to be slower than anticipated following the extension of tiered restrictions during Q4 - 2020 and the announcement of a third national lockdown during Q1-2021.*	Adverse change in the Group's revenues and / or costs resulting in reduced profitability.	• A clearly defined strategic plan is developed within the boundaries of the Board approved risk appetite and risk identity, ensuring balanced growth in consumer lending with a stable funding profile that is appropriate for the asset mix; • Monitoring of impact, risks and opportunities of changing macroeconomic conditions on the likely achievement of the Group's strategy and objectives, challenging economic outlook following Brexit and continued COVID-19 restrictions; • Review and monitoring of the Group's competitive environment to identify market developments, using external research and economic updates as required; • In the context of its Board approved strategy, the Group assesses and develops its complementary technology strategy which is reviewed and monitored on an ongoing basis; • Clearly defined and regularly monitored KPIs are reviewed at both Executive and Board committee level through regular reporting of business and strategic risks to ERC, BRC and Board; • A balanced scorecard is monitored, which considers key elements in the delivery and successful execution of the Group's strategic plan, including enhancing product returns, customer services levels, and the achievement of cost and efficiency targets, all within risk appetite parameters; • The Group is strongly capitalised and self-funded predominantly through retail deposits with some wholesale funding from the Bank of England, Parent and market; • Clearly defined tax compliance procedures to identify, assess, manage, monitor and report tax risks and to ensure controls mitigating those risks are in place and operate effectively; • Monitoring of the expected recovery period for deferred tax assets; • Monitoring potential changes to tax legislation or government policy and considering any appropriate remedial action; • The Group has a longstanding comprehensive Brexit programme to identify, monitor and mitigate risks associated with the UK-EU Brexit deal. The Board and senior management receive regular updates on the progress of risk mitigation in this area; • In response to the COVID-19 crisis, for a period of time, new lending controls were strengthened across all products, including increased scorecard cut-offs, temporarily exiting higher LTV markets, maintenance of high affordability buffers post Bank of England base rate reductions and increased manual underwriting to assess customer income stability; • Implementation and use of the crisis management framework to support the business and colleagues as lockdown restrictions were announced, including the identification of key workers; • Additional consumer support mechanisms were implemented, including the introduction and extension of payment breaks, enhanced forbearance support beyond payment breaks, arrears management processes and the provision of Government guaranteed commercial facilities. Additional governance was implemented to ensure appropriate customer responses and process changes. Incremental management information was implemented incorporating staff / branch availability, payment break volumes and payment break credit performance; and • Regular meetings were held between Executive Committee (ExCo) members to make informed changes to support customers and colleagues as the pandemic evolved, including implementation of new ways of working.	Remained a key risk area given the low interest rate environment, COVID-19 economic and customer impacts and the UK strategic review undertaken.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors	Change in 2020
LIBOR reform *Following the financial crisis, the reform and replacement of benchmark interest rates to alternative or nearly risk-free rates has become a priority for global regulators. The Group's exposure to benchmark interest rates will be replaced or reformed as part of this market-wide initiative. Transition efforts in connection with these reforms are complex, with significant risks and challenges.*	The risk of adverse customer reaction when seeking agreement to transition existing LIBOR linked exposures to new Risk Free Rates.	• A formal Group-wide Benchmark Reform Programme has been mobilised since early 2018 to manage the orderly transition to new regulatory compliant benchmarks; • Regular updates are provided to ALCO and to the BRC ensuring close monitoring and management of specific risks and challenges associated with same; • The Group has transitioned all new lending to new risk free rates and all new interest rate swaps, intended for the purpose of hedging interest rate risk, also now reference new risk free rates. All existing LIBOR linked exposures will be restructured prior to the end of 2021; • As of 1st October 2020, Sterling LIBOR linked products that mature beyond 2021 no longer form part of the Bank's standard product offering; and • The UK regulator, the FCA, has indicated that banks should not rely on LIBOR being published after the end of 2021. The Group has plans in place to meet this deadline.	There has been no material change to the Group's ability to mitigate LIBOR reform risk.
Reputation risk *The risk to earnings or franchise value arising from adverse perception of the Group's image on the part of customers, suppliers, counterparties, shareholders, staff, partners, legislators or regulators. This risk typically manifests through a loss of business in the areas affected. Reputation risk arises as a direct or indirect consequence of the Group's operations and business activities.*	Adverse public or industry opinion, resulting from the actual or perceived manner in which the Group conducts its business activities or from actual or perceived practices in the banking industry (such as mis-selling financial products or money laundering), 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. Ultimately this may result in an adverse impact on the Group's business, financial condition and prospects.	• The embedding and management of a positive customer conduct culture to ensure the interests of consumers remain at the heart of the Group's operation; • Management cognisant of potential for reputational impact when making key strategic decisions; • Active monitoring and management of all internal and external communications including social media and media monitoring which leads to escalation and, where required, management actions; • Regular reporting to the ERC, the BRC and the Board; • Regular and open dialogue with key stakeholders, partners, regulators and industry bodies, including proactive external communications with key stakeholders on response to COVID-19; and • Strong focus on internal communications.	Remained a key risk area given COVID-19 and the UK strategic review undertaken.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors	Change in 2020
Financial Risks from Climate Change (FRCC) *Financial risks to the firm's business model, strategy and the overall risk profile arising from risks related to physical impacts of climate change (acute or chronic extreme weather events) and transition to lower carbon economy (changes in government policy, low-carbon technologies and market preferences towards greener solutions).*	Climate change related risks could manifest themselves through crystallisation of a number of principal risks such as credit, operational, or reputational risk. **Credit risk:** Increased costs associated with physical (flood, subsidence, coastal erosion) and transition risks (transition to a low carbon economy) may impact financial soundness of households and businesses reducing their ability to service debt and impairing asset values, resulting in financial loss to the firm through higher probability of default and higher losses given default. **Operational risk:** physical risks could impact continuity of the Group's operations or operations of its material suppliers resulting in sustained disruption of the supply chain and ultimately the Group's ability to service customers. **Reputational risk:** customer, community and regulatory expectations of the Group's contribution to support transition to lower-carbon economy resulting in loss of business. **Regulatory risk:** the risk of regulatory sanctions in the event of the Group failing to implement and embed regulatory requirements in relation to management of financial risks arising from climate change by the end of 2021.	• A Risk Appetite Statement (RAS) specific to FRCC adopted whereby the Group has, in the medium to longer term, committed to reducing financing of carbon-intensive assets or undue concentrations to assets susceptible to physical risks, supporting customers and businesses in their move to environmentally sustainable solutions; strengthening its operational resilience and that of material suppliers and reducing its own climate change impact. • FRCC has been incorporated into the Group's Internal Capital Adequacy Assessment Process (ICAAP) Pillar 2A scenario analysis and considered in Reverse Stress Testing. • The Board, BRC and executive committees (ERC, CRPC and R&ORC) terms of reference clearly outline their respective responsibilities in managing FRCC. • The Group's Chief Risk Officer is the appointed Senior Management Function responsible for managing FRCC. • BRC received external training on climate change during 2020. • Parent target of 50% carbon intensity reduction for 2030 (on a 2011 baseline), within the Group's operations 40% reduction has already been achieved. • FRCC Working Group was formed in 2019 to implement regulatory requirements, including the PRA SS3/19 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change'. The membership has broad representation from across the business. The Working Group are progressing actions to meet regulatory expectations by 31 December 2021. • Initial materiality assessment identified mortgages, commercial banking and motor finance as areas that may be impacted by climate change. Annual materiality assessments will be undertaken, with the first refresh scheduled in H1 2021. • In partnership with Landmark, analysis of the Group's mortgage portfolio has been completed including the impact of physical and transition risk scenarios anchored around the Paris Agreement commitments; the results of this work are being considered in the analysis of any portfolio concentrations, the setting of early warning indicators, consideration of certain sensitivities in the ICAAP stress and scenario analysis and management action. • FRCC forms part of product and strategy reviews. • Metrics for climate-related risks developed and will start reporting to CRPC in 2021. • Existing risk management frameworks and policies reviewed to incorporate processes for identification, assessment and mitigation of FRCC. • Ongoing appraisal of regulatory, governmental or industry developments in relation to new climate change risk related standards. Representation in industry working groups to help build understanding and develop the Group's approach. • In 2019, the Parent indicated support for TCFD. • Ongoing engagement with the Parent in the delivery of the Responsible and Sustainable Business strategy.	Remained a focus risk area given regulatory requirements.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors	Change in 2020
Conduct Risk *Conduct risk is the risk of failure to deliver a product or service in a manner promised or reasonably expected by customers or to treat them fairly. This includes the risk that the Group fails to act with an appropriate level of care with a consumer who due to their personal circumstances is especially susceptible to detriment.*	Conduct risk and / or poor outcomes for customers could lead to customer remediation, loss of business, adverse media coverage, financial penalties and / or other regulatory sanction.	• Board approved risk appetite limits; • A Group Conduct Risk Framework is in place which is reviewed annually and which sets out the approach to conduct risk management; • Specific conduct risk policies are in place which set out the approach to management of conduct risk across the Group, including a vulnerable customer policy; • Regular reporting, complaints oversight and root cause analysis reviewed at the R&ORC, Customer Board, BRC and Board; • The Product & Services Approvals & Governance Committee (PSAGC) reviews, assesses and approves material new products and services prior to introduction or withdrawal or material change to an existing product or service. It also reviews the performance of existing products and services to ensure these remain appropriate; • A dedicated Customer Board to oversee the customer experience; and • A proactive response to the risk of poor customer outcomes as a result of COVID-19, to ensure the delivery of appropriate outcomes to all affected customers, including measures to ensure that customers continue to be able to access cash and other critical day-to-day banking services and supporting customers in short and long-term financial difficulty, for example, through the provision of temporary payment breaks and government-backed support measures (see Conduct Risk Key Points on page 59).	Remained a key risk area given COVID-19 and the impact of this on vulnerable customers and those in financial difficulty.
Capital adequacy risk *The risk that the Group holds insufficient capital to absorb extreme and unexpected losses, which could eventually result in insolvency.*	The Group's capital ratios would deteriorate relative to regulatory requirements as a result of materially worse than expected financial performance or unexpected increase in risk weighted assets.	• Board approved risk appetite limits; • A capital management framework which is reviewed annually, is in place for the effective management of capital adequacy risk and the Group's capital position. The capital management policy, which governs capital management and monitoring, forms part of this framework; • Capital adequacy risk appetite is central to the strategic planning process. The Group's appetite is to hold sufficient capital to achieve its strategic objectives, as well as to absorb extreme losses in a stress scenario; • Comprehensive ICAAP undertaken annually, assessing the Group's capital adequacy and capital quality under plausible stress scenarios; • Regular reporting to the ALCO, the ERC, the BRC and the Board; • Detailed capital plan continuously monitored and reviewed on a monthly basis, which informs the capital position for the Group; and • Recovery plan in place which specifies a range of processes and potential actions that can be enacted in the event of any unexpected shortfall in capital resources. Work ongoing to comply with the Bank of England's Resolvability Assessment Framework.	There has been no material change to the Group's capital adequacy risk profile given stress testing performed in order to size capital requirements.

The Strategic report on pages 9 to 33 is approved by the Board of Directors and signed on its behalf by:

Thomas McAreavey

Thomas McAreavey
Director

8 March 2021

Company number: 07022885

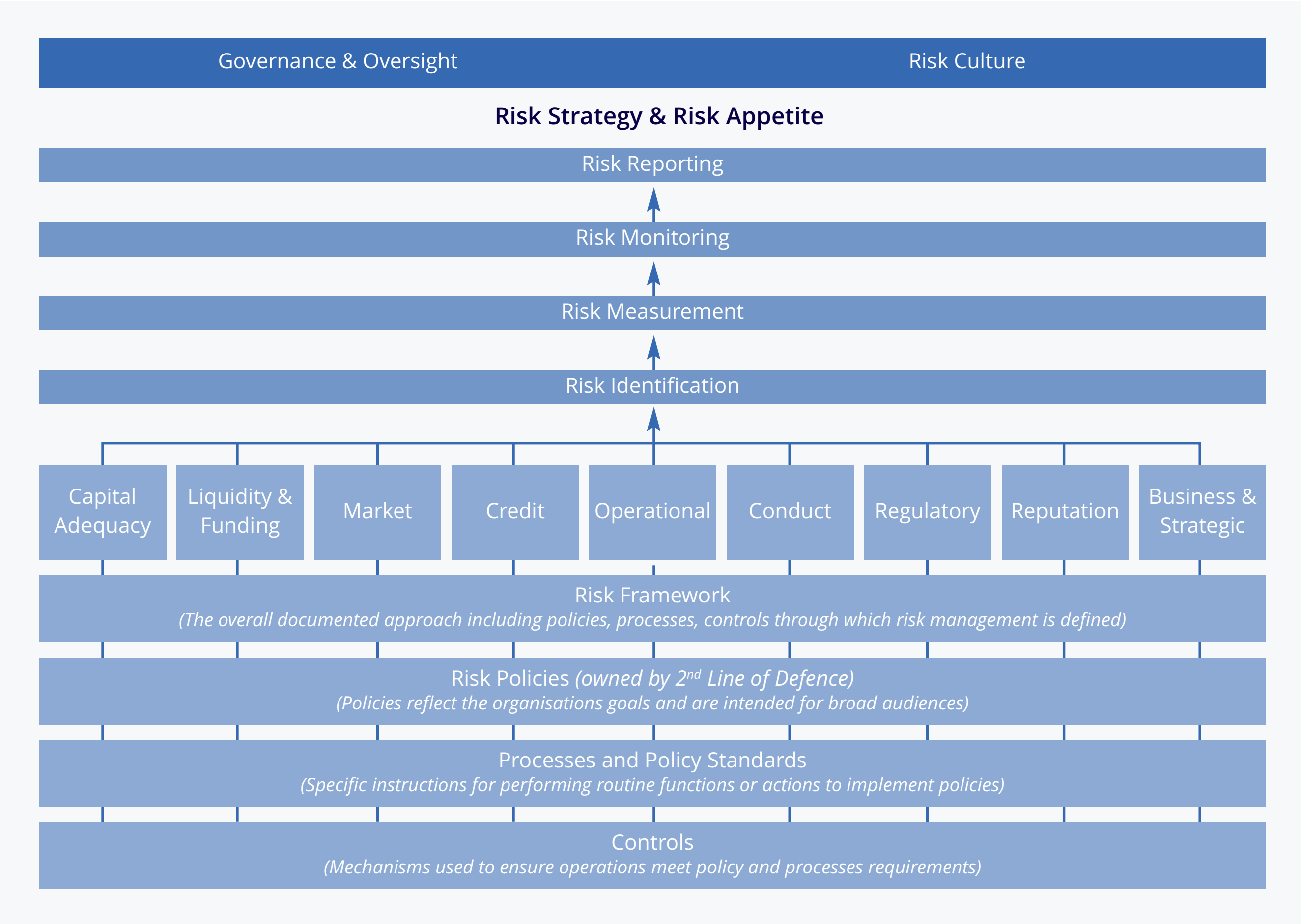
Risk Management

The information below in sections or paragraphs denoted as audited in sections 2 and 3 and all the tables (except those denoted unaudited) in the Risk Management Report form an integral part of the audited financial statements as described in the Basis of Preparation on page 87. All other information in the Risk Management Report is additional disclosure and does not form part of the audited financial statements.

1 Risk management framework *(unaudited)*

The Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into consideration and that the Group's overall business strategy and remuneration practices are aligned within its risk and capital management strategies. The Group's formal governance process to risk management is set out in the risk management framework, which has the objective of ensuring that risks are managed and reported in a consistent manner across the Group. The Framework outlines the approach for setting risk appetite, risk identification, assessment, measurement, monitoring and reporting. The review of the Framework takes into consideration any emerging factors, both internal (e.g. enhancements to capital allocation) and external (e.g. regulatory developments), as well as any lessons learnt. The Framework is reviewed, approved and cascaded annually to all relevant senior management in the Group, and is reviewed and approved by the Board every three years:

Key components of the Group's Risk Framework:



1.1 Risk governance framework

1.1.1 Risk governance

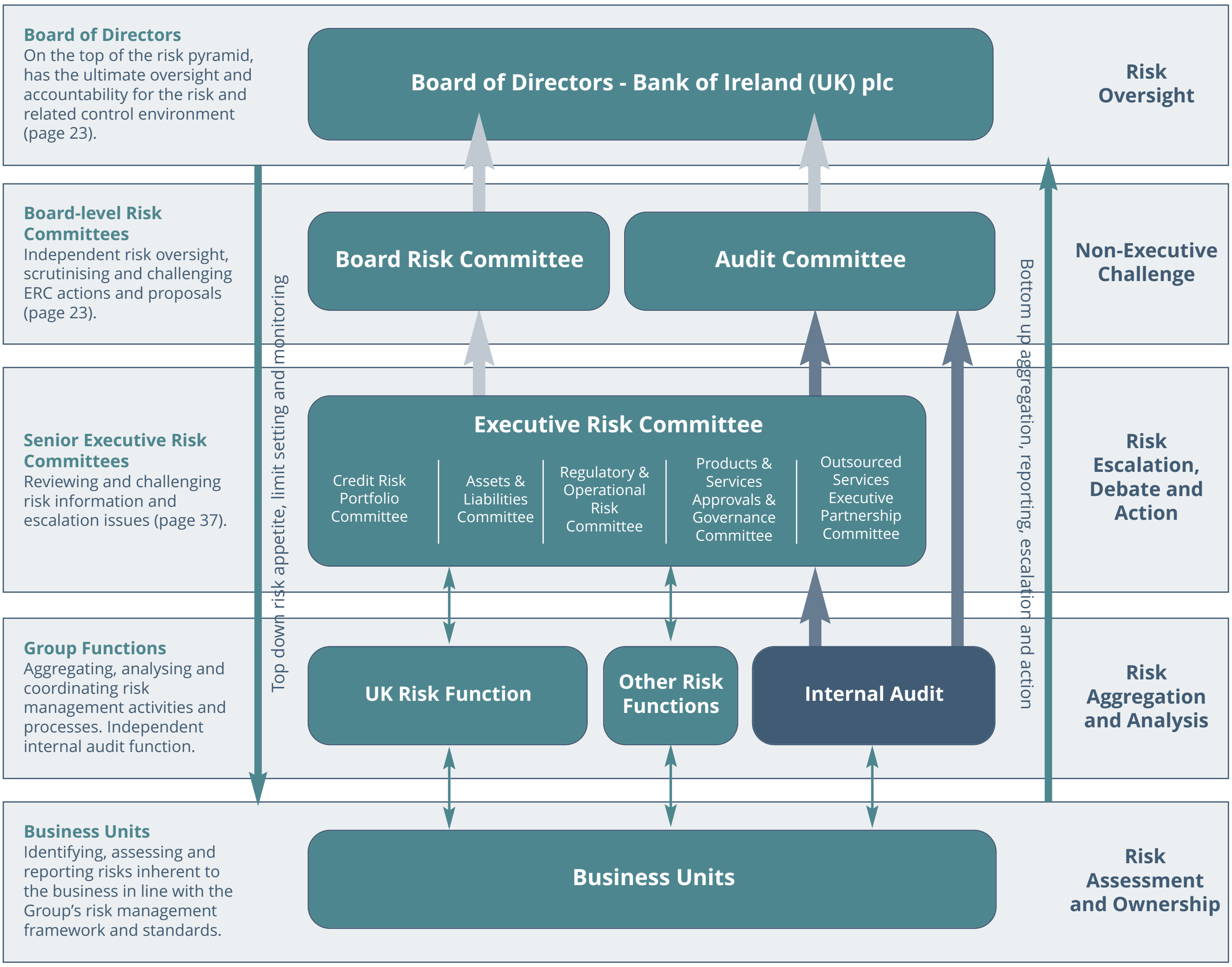
The identification, assessment and reporting of risk in the Group is controlled within the Risk Governance Framework which incorporates the Board, Risk Committees appointed by the Board (e.g. BRC and Audit Committee) and its appointed committees (e.g. ERC and R&ORC).

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

Further details outlining the key responsibilities of the Group's Board Level risk committees can be found on page 67 within the Corporate Governance Arrangements.

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

1.1.1 Risk governance *(continued)*



The ERC is the most senior executive risk committee and is established as the principal Risk Committee for the end-to-end proactive risk management and oversight of the Firm's strategy. It is chaired by the Chief Risk Officer (CRO) and its membership comprises members of the ExCo and control function executives. It met 38 times during 2020, reflective of additional governance required in response to COVID-19 and due to the UK strategic review.

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

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

1.1.1 Risk governance *(continued)*

The relevant committees are set out in the following table:

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

Three lines of defence approach

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

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

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

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

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

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

1.2 Risk culture, strategy and principles

Risk culture

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

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

A Risk Culture Review is conducted annually, with outcomes being reported to the BRC. The last review undertaken in March 2020, concluded that further progress had been made in the establishment and embedding of frameworks and day-to-day working practices to support a strong risk culture, which continues to be embedded across the business.

The annual review highlighted a number of indicators that demonstrated appropriate risk awareness and good risk management behaviours and decisions; all of which are supported by the RMF and risk governance. Whilst there were specific areas which require further action, it was recognised that embedding a strong risk culture was an ongoing and iterative process, which will always require continued positive nurturing, enhancement and reinforcement.

Risk strategy

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

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

Risk principles

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

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

1.3 Risk identity and risk appetite

Risk Identity

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

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

Risk Appetite

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

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

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 26 to 33 within the Strategic report.

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

1.4 Risk identification, measurement and reporting

Risk identification

Risks facing the Group are identified and assessed through the Group's risk identification process. Risks that are considered material are included in the Group's RMF, owners are identified, appropriate policies are put in place, and a formalised measurement and management process is defined and implemented. The Group periodically reviews the RMF and risk management policies and systems to reflect changes in markets, products and best market practice. The Group has identified risk types that it believes could have a material impact on earnings, capital adequacy, liquidity and on its ability to trade in the future and these are covered in the principal risks and uncertainties that are set out on pages 26 to 33 of the Strategic report.

Risk measurement

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

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

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

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

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

Risk reporting

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

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

2 Management of key risks

2.1 Credit risk

Key points:

- The Group proactively responded to heightened levels of risk arising from the pandemic by prudently adjusting lending controls whilst maintaining market presence for good quality customers with strong employment status.
- While the Group's credit-impaired loans reduced in previous years, a combination of a revised technical definition of default, economic conditions due to COVID-19, the granting of payment breaks and prudent revisions to FLI has resulted in a higher level of credit-impaired loans and Impairments.
- At all times during the financial year the Group maintained appropriate credit controls reflecting and responding to the changing dynamics of the UK market, in line with regulatory requirements.
- The Group concluded the year within all Group risk appetite measures.

2.1.1 Definition of credit risk *(audited)*

Definition

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

How credit risk arises

Credit risk arises from loans and advances to customers and from certain other financial transactions the Group enters into with financial institutions, sovereigns and state institutions. It comprises both drawn exposures and exposures the Group has committed to extend. While the Group could potentially suffer loss to an amount equivalent to its undrawn commitments, the Group does not expect to incur losses to that extent as most consumer related commitments can be cancelled by the Group and non-consumer related commitments are entered into subject to the customer continuing to achieve specific credit standards. The Group is also exposed to credit risk from its derivatives, debt securities and other financial assets.

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

Default risk

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

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

Country risk

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

Migration risk

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

Collateral risk

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

Credit concentration risk

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

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

Maximum exposure limits

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

Credit related commitments

The Group classifies and manages credit related commitments that are not reflected as loans and advances on the balance sheet, as follows:

Guarantees and irrevocable standby letters of credit: irrevocable commitments by the Group to make payments at a future date, in specified circumstances, on behalf of a customer. These instruments are assessed on the same basis as loans for credit approval and management.

Commitments: unused elements of authorised credit in the form of loans, guarantees or letters of credit, where the Group is potentially exposed to loss in an amount equal to the total unused commitments. The likely amount of loss is less than the total unused commitments, as most commitments are contingent upon customers maintaining specific credit and performance standards. These instruments are assessed on the same basis as loans for credit approval and management.

Letters of offer: where the Group has made an irrevocable offer to extend credit

2 Management of key risks *(continued)*

2.1.1 Definition of credit risk *(audited) (continued)*

to a customer and the customer may, or may not, have confirmed acceptance of the offer on the terms outlined and in the specified timeframe. The exposure is assessed on the same basis as loans for credit approval and management. The ultimate exposure to credit risk is considerably less than the face value of offer letters, as not all offers are accepted.

2.1.2 Credit risk management

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

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

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

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

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

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

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

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

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

Counterparty credit risk *(unaudited)*
The continued weak international financial environment means that the Group continues to be exposed to increased counterparty risk. The Group has a number of measures in place to mitigate this increased risk. These include:
- reduced individual Group exposures across a wider spread of banking institutions;
- strict credit risk management procedures; and
- application of tight credit policy criteria, where required.

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

In addition, derivatives executed with the Parent are subject to International Swaps and Derivatives Association (ISDA) and Credit Support Annex (CSA) standard documentation and therefore collateral requirements are calculated daily and posted as required. The net exposure to the Parent is measured and monitored on a daily basis and is maintained within the Group's large exposure limits.

The BRC is responsible for establishing an

2 Management of key risks *(continued)*

2.1.2 Credit risk management *(continued)*

appropriate policy framework for the prudential management of treasury credit risk, including net exposure to the Parent. Credit counterparties are subject to ongoing credit review and exposures are reported and monitored on a daily basis.

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

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

Other factors taken into consideration in estimating provisions include the economic climate, changes in portfolio risk profile and the effect of any external factors, such as legal or regulatory requirements.

Under delegated authority from the Board, the Group's impairment policy is approved annually by the BRC.

The quantum of the Group's impairment charge, impaired loan balances, and provisions are also reviewed by the ERC on a half-yearly basis, in advance of providing a recommendation to the Audit Committee.

An analysis of the Group's impairment loss allowances at 31 December 2020 is set out on page 45 and notes 19 and 20.

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 both the adoption of preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks, should these materialise, including hedging, securitisation, the taking of collateral (which acts as a secondary repayment source) and selective asset / portfolio disposals and securitisations. In the commercial portfolio, regular risk reassessments are conducted on larger cases in line with policy.

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

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

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

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

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

2 Management of key risks *(continued)*

2.1.4 Credit risk reporting and monitoring *(unaudited)*

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

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

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

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

2.1.5 Management of challenged assets *(audited)*

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

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

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

Forbearance strategies

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

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

A forbearance strategy may include, but is not necessarily limited to, one or more of the following measures:

- term extension: an arrangement where the original term of the loan is extended;
- adjustment to or non-enforcement of covenants: an arrangement whereby the Group agrees to either waive an actual or expected covenant breach for an agreed period, or adjust the covenant(s) to reflect the changed circumstances of the borrower;
- reduced payments (interest only): an arrangement where the borrower pays interest only on the principal balance, on a temporary or longer term basis, with the principal balance unchanged, rather than repaying some of the principal as required under the original facility agreement;
- facilities in breach of terms being placed on demand: an arrangement whereby the Group places a facility in breach of its contractual terms on a demand basis as permitted under the facility agreement rather than enforcing, and pending a more long term resolution;
- reduced payment (greater than interest only) incorporating some principal repayments: a temporary or medium term arrangement where the borrower pays the full interest due plus an element of principal due on the basis that principal payments will increase in the future; and
- capitalisation of arrears: an arrangement whereby arrears are added to the loan principal balance, effectively clearing the arrears, with either the repayments or the original term of the loan adjusted accordingly to accommodate the increased principal balance.

For business banking the monitoring of forbearance measures follows the normal review cycle for individual customer exposures based on amount and credit grade, as set out in the credit policy.

Mortgage accounts that are subject to forbearance are monitored and reviewed by way of monthly management information reporting. This includes tracking the aggregate level of default arrears that emerge on the forborne elements of the loan book. The impairment provisioning approach and methodologies are set out in the Group's Impairment Policy.

The forbearance strategies adopted by the Group seek to maximise recoveries and minimise losses arising from non-repayment of debt, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances. The Group has an operating infrastructure in place to assess and, where appropriate, implement such options on a case-by-case basis. Group credit policy outlines the core

2 Management of key risks *(continued)*

2.1.5 Management of challenged assets *(audited) (continued)*

principles and parameters underpinning the Group's approach to forbearance with individual business unit policies defining in greater detail the forbearance strategies appropriate to each unit.

Forbearance requests are assessed on a case-by-case basis taking due consideration of the individual circumstances and risk profile of the customer to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place (see also on page 59 which further comments on vulnerable customers).

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

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

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

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

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

Asset quality methodology

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

- **Stage 1 – 12 month Expected Credit Losses (ECL) (not credit-impaired):**
  Financial instruments which have not experienced a significant increase in credit risk since initial recognition and are not credit-impaired. An impairment loss allowance equal to 12-month ECL is recognised, which 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):**
  Financial instruments which have experienced a 'significant increase in credit risk since initial recognition' and are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised, being the ECL resulting from all possible default events over the expected life of the financial instrument. 'Credit risk' in this context refers to the change in the risk of a default occurring over the expected life of the financial instrument.

- **Stage 3 – Lifetime ECL (credit-impaired):**
  Credit-impaired financial instruments, other than Purchased or Originated Credit-Impaired (POCI) financial assets. An impairment loss allowance equal to lifetime ECL is recognised. The manner in which the Group identifies financial assets as credit-impaired results in the Group's population of credit-impaired financial assets being consistent with its population of defaulted financial assets (in accordance with regulatory guidelines including EBA Guidelines on the application of definition of default under Article 178 of the CRR). This encompasses loans where: (i) the borrower is considered unlikely to pay in full without recourse by the Group to actions such as realising security and / or (ii) the borrower is greater than 90 days past due (based on calendar days) and the arrears amount is material.

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

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

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

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

'Forborne collateral realisation' loans (FCRs)
(i) credit-impaired loans which includes loans where the borrower is considered unlikely to pay in full without recourse by the Group to actions such as realising security, and / or loans where the borrower is greater than or equal to 90 days past due and the arrears amount is material; and
(ii) other / probationary loans as aligned with regulatory requirements. Quantitative information about credit risk can be found in the credit risk exposures note on page 130 in the financial statements.

2 Management of key risks *(continued)*

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

Composition and impairment

31 December 2020 Total loans and advances to customers at amortised cost - Composition and impairment	Advances (pre-impairment loss allowance) £m	Credit impaired loans £m	Credit impaired loans as % of advances %	Impairment loss allowance[1] £m	Impairment loss allowance as % of credit impaired loans %
Residential mortgages	16,787	322	2%	18	6%
Non-property SME and corporate	1,469	91	6%	21	23%
Property and construction	369	58	16%	22	38%
Consumer	2,948	65	2%	40	62%
Total	**21,573**	**536**	**2%**	**101**	**19%**

31 December 2019 Total loans and advances to customers at amortised cost - Composition and impairment	Advances (pre-impairment loss allowance) £m	Credit impaired loans £m	Credit impaired loans as % of advances %	Impairment loss allowance[1] £m	Impairment loss allowance as % of credit impaired loans %
Residential mortgages	16,610	165	1%	14	8%
Non-property SME and corporate	1,327	40	3%	19	48%
Property and construction	412	37	9%	12	32%
Consumer	2,997	38	1%	26	68%
Total	**21,346**	**280**	**1%**	**71**	**25%**

At 31 December 2020, loans and advances to customers (pre-impairment loss allowance) of £21.6 billion were £0.3 billion higher than 31 December 2019, reflecting the combined impacts of net new lending and utilisation of impairment loss allowances. The impairment loss allowance of £273 million was £127 million higher than 2019. Impairment loss allowance coverage ratio increased to 1.27% from 0.68%. Credit-impaired loans increased to £0.5 billion or 2% of customer loans at 31 December 2020 from £0.3 billion or 1% at 31 December 2019. The increase in credit-impaired loans was partly offset by ongoing resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty.

COVID-19 has impacted the Group's IFRS staging profile, whereby the application of updated FLI, as well as individually assessed risk ratings has resulted in a material migration of loans from Stage 1 to Stage 2 (i.e. identified as having experienced a significant increase in credit risk).

The stock of impairment loss allowance on credit-impaired loans increased to £101 million at 31 December 2020 from £71 million at 31 December 2019.

Impairment loss allowance as a percentage of credit-impaired loans decreased to 19% at 31 December 2020 from 25% at 31 December 2019. The reduction reflected the impact of the revised definition of default which involved the classification of cases as credit-impaired that have assessed impairment loss allowances coverage that is lower than average.

In addition some large Investment Property cases that became credit-impaired during the year were individually assessed and require lower than average impairment loss allowances.

The table above summarises the composition, credit-impaired volumes and related impairment loss allowance of the Group's loans and advances to customers at 31 December 2020.

[1] *Impairment loss allowance on credit impaired loans.*

2 Management of key risks *(continued)*

2.1.7 Credit risk methodologies *(audited)*

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

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

Internal credit rating models

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

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

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

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

PD Calculation

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

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

Internal rating systems

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

Uses of internal estimates

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

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

Control mechanisms for credit rating and impairment models

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

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

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

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

Approach to measurement of impairment loss allowances

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

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

An analysis of the Group's impairment loss allowances and impairment gain or loss is set out in notes 20 and 11 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,

2 Management of key risks *(continued)*

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

general corporate lending, general business lending).

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

IFRS 9 Probability of Default

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

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

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

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.

Individual discounted cash flow analysis

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

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

Modelled loss rates

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

Identifying a significant increase in credit risk

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

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

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

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

The effectiveness of the staging criteria is assessed semi-annually, taking into

2 Management of key risks *(continued)*

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

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

During 2020, the Group implemented a new policy on the definition of default for the purposes of credit risk management. The policy was formulated with regard to regulatory guidelines including EBA Guidelines on the application of the definition of default under Article 178 of the CRR. The Group's Impairment Policy has been revised accordingly and the manner in which the Group identifies financial assets as credit impaired continues to result in the Group's population of credit-impaired financial assets being consistent with its population of defaulted financial assets and in scope for the impairment requirements of IFRS 9. 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.

The re-classification of assets as defaulted reflects the wider scope of default triggers under the revised policy, including: non-performing forborne loans; probation periods; the impact of contagion; and revised 'unlikeliness to pay' assessment triggers.

Where necessary, the remaining lifetime probability of default at initial recognition has been re-calibrated to take into account the revised definition of default and other model parameters have been updated within the normal review process to take into account the revised definition of default.

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

- greater than 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;
- legal action is underway by the Group to enforce repayment or realise security;
- the Group or a receiver takes security into possession;
- the exposure is classified as non-performing for supervisory reporting purposes;
- residential mortgages where more than 20% of overall balance sheet exposure to the customer in the mortgage portfolio is in default; and
- the Group has formally sought an insolvency arrangement in respect of the borrower.

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

All portfolios:

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

Residential mortgage portfolios:

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

Larger SME / corporate and property loans:

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

Review of credit-impaired loans

It is Group policy to review credit-impaired loans above agreed thresholds semi-annually or on receipt of material new information, with the review including a reassessment of the recovery strategy and the continued appropriateness of a credit-impaired classification. The minimum requirements for a credit-impaired loan to return to non credit-impaired status are that the borrower must not be greater than 90 days past due (on a calendar days basis) on a material amount, the borrower must be considered likely to pay in full without recourse by the Group to actions

2 Management of key risks *(continued)*

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

such as realising security and there must be no forbearance arrangement in place where future reliance on realisation of collateral is expected for repayment in full when this was not originally envisaged. Typically, an updated assessment of the borrower's current financial condition and prospects for repayment is required with the borrower to have satisfactorily met repayments required under the original or modified agreement regularly for a reasonable period of time.

Methodologies for valuation of property collateral

The Group's approach to the determination of property collateral values is set out in a CRPC-approved Group Property Collateral Valuation Policy, supported by the Group Property Collateral Valuation Guidelines, and is summarised below. The Group's approach to applying FLI to those values for the purposes of measuring impairment loss allowance for the year ended 31 December 2020 is set out in the BRC approved Group Impairment Policy and is described below.

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

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

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

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

COVID-19

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

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

During the year, the Group granted payment breaks to over 70,000 customers. Detailed information on the profile of accounts with payment breaks as at 31 December 2020 can be found on page 128.

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

- due weight to longer-term economic outlook versus the short-term impacts of COVID-19, has been considered in the formulation of FLI at the reporting date. FLI scenarios for the period from 2021 - 2025 assume reversion to long-run trends, with consideration given to impact of governmental supports for customers and payment moratoria;
- COVID-19 payment breaks did not automatically result in migration of cases into Stage 2 (or forbearance classification) or Stage 3;
- individual assessments for larger corporate cases and some business banking cases, which received COVID-19 concessions have been completed;
- collective assessments have been considered for cases where such individual assessments have not been completed, with outputs utilised to inform post-model Group management adjustments to the model driven loss allowance, where impairment models were unable to adequately capture effects of COVID- 9 for the year ended 31 December 2020; and
- A greater degree of management judgement (based on available, reasonable and supportable internal and external information) has been incorporated into impairment reporting processes this year. In particular judgement has been applied where the unprecedented nature of the COVID-19 FLI scenarios would have generated inappropriate predictions of default.

Further details on the selected FLI scenarios for the reporting period, Group management adjustments and management judgement incorporated into impairment model parameters are provided in the Critical Accounting Estimates and Judgements on pages 100 to 109.

Quantitative information about credit risk within financial instruments held by the Group can be found in the credit risk exposure note on page 130 to the consolidated financial statements.

FLI

FLI refers to probability-weighted future macroeconomic scenarios approved semi-annually by the ERC and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9. For the year ended 31 December 2020 the Group has used five UK FLI scenarios, being two central scenarios, an upside scenario and two downside scenarios, all extending over a five year forecast period.

In each case the central scenarios are based on internal and external information and management judgement.

The upside and downside scenarios are ordinarily generated using a simulation model that uses historical volatilities and correlations for key macroeconomic variables to generate a distribution around the central forecast.

2 Management of key risks *(continued)*

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

However, due to the unprecedented nature of the COVID-19 economic shock, the Group employed an amended approach for the selection of the upside and downside FLI scenarios for the 31 December 2020 reporting date in order to avoid counterintuitive trends in the respective scenarios.

In order to incorporate available reasonable and supportable information and apply meaningful upside and downside FLI scenarios, three narrative-driven alternative scenarios (one upside and two downside) were constructed to reflect different lengths of restrictions, depth of downturn and pace of economic recovery.

Typically, one or two macroeconomic variables are incorporated into each impairment model, being those determined through macro regression techniques to be most relevant to forecasting default of the credit risk exposures flowing through that model. The lifetime PD expectation for an exposure generated under each of the scenarios, weighted by the probability of each scenario occurring, is used to generate the lifetime PD expectations used for the assessment of 'significant increase in credit risk'. Forecasts of residential and commercial property price growth are incorporated as appropriate into the LGD component of the ECL calculation.

The overall ECL for an exposure is determined as a probability-weighted average of the ECL calculated for each scenario, weighted by the probability of each scenario occurring.

Beyond the forecast period, default rates are assumed to revert over time to an observed long run average and the value of property collateral for LGD purposes is assumed to grow at an observed long-run rate.

The existing FLI methodology was leveraged whereby the narrative-driven upside and downside scenarios were assessed relative to the central scenarios, with a lower probability weighting attached to the upside as it was assessed to be more distant from the central scenario on the distribution. The weightings were also informed by external FLI (e.g. equity market indicators).

2.2 Liquidity and funding risk

Key points:

- At all times during the financial year the Group maintained appropriate levels of unencumbered liquid resources and an appropriate liquidity position, in line with regulatory and internally set requirements and limits.
- The Group held liquid assets of £3.1 billion at 31 December 2020 (31 December 2019: £3.1 billion) which was in excess of regulatory liquidity requirements and within the Group's internal risk appetite. This represented a prudent liquidity position.
- The Group's loan to deposit ratio increased from 111% at 31 December 2019 to 117% at 31 December 2020, which reflects further diversification of the funding base through increased wholesale funding from the Parent and externally through the securitisation of residential mortgages.
- The Group's LCR at 31 December 2020 was 142% (31 December 2019: 147%). The Group's NSFR at 31 December 2020 was 133% (31 December 2019: 133%).

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

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

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

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

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

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

The Group's ILAAP sets out how the Group

2 Management of key risks *(continued)*

2.2 Liquidity and funding risk *(continued)*

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

Liquidity and funding management in the Group consists of two main activities:
- Tactical liquidity management - which focuses on monitoring current and expected future daily cash flows, to ensure that the Group's liquidity needs can be met; and
- Structural liquidity management - which focuses on assessing the optimal balance sheet structure on both a short term and long term basis taking account of the behavioural and contractual maturity profile of assets and liabilities.

A number of measures are used by the Group to monitor and manage liquidity and funding risk including ratios, deposit outflow triggers, stress scenarios and early warning signals.

The Group has remained in full compliance with the regulatory liquidity requirements throughout 2020, and as at 31 December 2020 maintained a buffer significantly in excess of regulatory liquidity requirements.

Liquidity risk is measured using stress testing and scenario analysis. The Group runs a number of internal liquidity stress scenarios based on market-wide stress events, Group specific stress events and a combination of market-wide and idiosyncratic stress events. These stress scenarios are also performed across a number of outflow time bands. The daily cashflows resulting from the stress scenarios are compared against the holding of liquid assets. Under the Group's liquidity risk appetite, the Group must have unencumbered liquidity resources available which will be in excess of 100% of the stressed cashflows, from all stress scenarios performed.

Funding risk is measured by applying and monitoring specific metrics that determine the amount and type of ongoing new retail deposit acquisitions / retentions that are required to fund the Group's asset base across various maturity categories, the wholesale funding requirement, the loan to deposit ratio alongside other funding metrics.

The UK Government response to the COVID-19 pandemic led to historically low base rates and a new quantitative easing scheme to support the financial sector.

Bank of England TFS and TFSME *(unaudited)*
The Group's funding structure also includes the utilisation of the Bank of England TFS and TFSME. The TFS and TFSME allow eligible banks and building societies to access four-year funding at rates very close to the Bank of England base rate. The schemes are designed to incentivise eligible participants to provide credit to businesses and households to bridge through a period of economic disruption. The TFSME includes additional incentives to support lending to SMEs.

As at 31 December 2020, Group's residual funding from the previous Bank of England TFS was £0.4 billion ,which is due to mature in 2021. An additional £1.3 billion was drawn in 2020 under TFSME.

Other wholesale funding *(unaudited)*
In order to further diversify the funding base and provide terming, the Group issued its first residential mortgage backed security in 2019 and borrows funds from the Parent. The longer term refinancing profile of these borrowings is being carefully managed alongside deposit refinancing.

Customer deposits *(unaudited)*
The Group's funding strategy is focused, in particular, on maintaining a stable retail deposit base providing an appropriate basis to fund customer lending.

£11.9 billion of deposits at 31 December 2020 relates to PO branded deposits which decreased by £1.6 billion during the year. The AA deposit portfolio decreased by £0.3 million.

The Group's loan to deposit ratio, as defined on page 178, increased from 111% at 31 December 2019 to 117% at 31 December 2020, as a result of planned management actions.

Liquid assets *(unaudited)*
The Group maintains an unencumbered liquid asset portfolio, comprising cash placements and securities that can be used to raise liquidity, either by sale or through secured funding transactions.

As at 31 December 2020, the portfolio comprised cash balances with the Bank of England, UK Government Gilts, Supranational and Agency bonds, UK covered bonds and interbank placements.

The composition of the portfolio is set out below. Interbank placements comprised both placements with external banks and the Parent.

Liquidity and funding risk monitoring *(unaudited)*
The Group's daily, weekly and monthly liquidity and funding reporting (including a comprehensive suite of liquidity early warning signals) is produced for use by the

Customer accounts *(unaudited)*	**2020 £m**	**2019 £m**
Bank of Ireland deposits and current accounts	5,871	4,849
PO deposits	11,865	13,462
AA deposits	520	764
Total customer accounts	**18,256**	**19,075**

Composition of the liquid asset portfolio *(unaudited)*	**Average in year**		**Year end**	
	2020 £m	**2019 £m**	**2020 £m**	**2019 £m**
Balances with central banks	2,247	2,166	2,029	2,097
Government bonds	250	345	250	261
Other listed securities	655	592	672	585
Interbank placements	96	169	120	140
Total	**3,248**	**3,272**	**3,071**	**3,083**

2 Management of key risks *(continued)*

2.2 Liquidity and funding risk *(continued)*

Group's Treasury function, to assess and manage the Group's current and future liquidity and funding risk position. Daily reports, including daily liquidity stress test results, are reported and reviewed by the Treasury, Finance and Risk functions and by the Group's senior management. These reports include a series of limits and triggers which, if triggered, are reported regularly to the ALCO. MI is also reported to the ALCO, the ERC, the BRC and the Board.

Enhanced monitoring was also put in place early 2020 to identify potential impacts of COVID-19 on customer behaviour, and the impact of UK government schemes in response. This monitoring remains in place and will continue throughout 2021. In the case of measurable liquidity impacts occurring, the Group has identified a number of liquidity and funding actions that could be taken on a timely basis if required.

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

Balance sheet encumbrance *(audited)*

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

At 31 December 2020 and 2019, the Group had the following encumbered assets.

	2020			2019		
Encumbered and unencumbered assets	**Encumbered[1] £m**	**Unencumbered £m**	**Total £m**	**Encumbered[1] £m**	**Unencumbered £m**	**Total £m**
Cash and balances with central banks	-	2,050	2,050	-	2,134	2,134
Mandatory deposits with central banks	1,145	20	1,165	1,281	25	1,306
Loans and advances to other banks[2]	66	135	201	75	225	300
Loans and advances to banks - related party transactions	70	236	306	15	537	552
Loans and advances to customers	2,579	18,721	21,300	2,556	18,644	21,200
Assets classified as held for sale	-	-	-	-	-	-
Debt securities at amortised cost	25	897	922	59	787	846
Other assets	-	475	475	-	596	596
Total assets	**3,885**	**22,534**	**26,419**	**3,986**	**22,948**	**26,934**
Encumbered cash and balances with central banks:						
Note cover[3]	1,072			1,217		
Cash ratio and other mandatory deposits	73			64		
	1,145			1,281		

[1] *Included in the encumbered assets at 31 December 2020 is £70 million (31 December 2019: £15 million) of collateral placed with the Parent in respect of derivative liabilities.*
[2] *Encumbered assets includes assets that are segregated in order to meet the Financial Resilience requirements of the PRA's Supervisory Statement 9/16 'Operational Continuity in Resolution'.*
[3] *Note cover relates to mandatory collateral with the Bank of England in respect of banknotes in circulation in NI.*

2 Management of key risks *(continued)*

2.2 Liquidity and funding risk *(continued)*

Contingent liquidity *(unaudited)*

The Group holds significant contingent liquidity collateral, comprised of raw loans pre-positioned in Bank of England facilities and retained Bowbell No.2 notes. The securitisation vehicle, Bowbell No 2 plc was established during 2019, with £0.35 billion of notes being issued to external investors and the Group retaining £1.7 billion of notes for use as contingent liquidity collateral. As at 31 December 2020, these retained Bowbell 2 notes were held at the Bank of England.

External ratings *(unaudited)*

The Group is rated by both Moody's and Fitch. Given the Group's funding strategy and in particular its focus on retaining retail deposits as its primary funding mechanism, the direct impact on liquidity risk of movements in the Group's credit rating is limited.

Bank of Ireland UK ratings (unaudited)	2020	2019
Moody's	Baa1 stable outlook	Baa1 stable outlook
Fitch	BBB+ negative outlook	BBB stable outlook

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

The following tables summarise the contractual maturity profile of the Group's financial assets and liabilities, at 31 December 2020 and 31 December 2019, 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 demand in the following table.

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

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

2 Management of key risks *(continued)*

2.2 Liquidity and funding risk *(continued)*

2019 Maturity analysis of financial assets and liabilities (discounted basis) (unaudited)	**Demand £m**	**Up to 3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Financial assets						
Cash and balances with central banks	2,134	-	-	-	-	2,134
Derivative financial instruments	1	9	5	9	17	41
Loans and advances to banks	240	1,328	38	-	-	1,606
Loans and advances to banks - related party transactions	348	5	183	16	-	552
Debt securities at amortised cost	-	40	39	767	-	846
Loans and advances to customers (before impairment loss allowance)	434	797	1,954	7,385	10,776	21,346
Total assets	**3,157**	**2,179**	**2,219**	**8,177**	**10,793**	**26,525**
Financial liabilities						
Deposits from banks	44	-	200	1,276	-	1,520
Deposits from banks - related party transactions	224	3	863	880	10	1,980
Lease Liabilities	-	1	2	12	5	20
Customer accounts	13,757	1,575	2,480	1,263	-	19,075
Derivative financial instruments	1	4	9	40	5	59
Debt securities in issue	-	-	-	307	300	607
Subordinated liabilities	-	-	-	-	290	290
Total liabilities	**14,026**	**1,583**	**3,554**	**3,778**	**610**	**23,551**
Net total assets and liabilities	**(10,869)**	**596**	**(1,335)**	**4,399**	**10,183**	**2,974**
Cumulative net assets and liabilities	**(10,869)**	**(10,273)**	**(11,608)**	**(7,209)**	**2,974**	**2,974**

2 Management of key risks *(continued)*

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 2020, 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 2020.
- The Group's structural risk continued to be managed within defined risk limits.

Definition

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

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

Market risk management

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

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

However, the Group does have customer derivative foreign exchange forward contracts, which are considered held for trading, as hedge accounting is not applied. These transactions are hedged with the Parent.

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

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

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

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

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

Market risk measurement and sensitivity

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

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

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

The impact on the Group's economic value from an immediate and sustained 50 basis points shift, up or down, in the sterling yield curve applied to the banking book at 2020 and 2019, 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).

	2020 £m	2019 £m
Economic impact (profit and loss) + 50 basis points	0.06	(0.63)
Economic impact (profit and loss) - 50 basis points	(0.06)	0.63

2 Management of key risks *(continued)*

2.4 Regulatory risk *(unaudited)*

Key points:

- The Group has zero risk appetite for failures to comply with regulatory or legislative obligations and manages regulatory risk through its RMF.
- Regulatory focus during the 2020 period has been primarily focused on the management of the COVID-19 pandemic. Inter-alia this included the Group's ability to maintain an adequate level of service allowing customers access day-to-day banking services. There has been significant regulatory focus on the provision of appropriate financial and service supports to borrowers who face financial difficulties as a consequence of COVID-19 through the provision of payment breaks and other financial forbearance measures.
- The Group has responded proactively, positively and with forbearance ensuring that that affected customers can continue to access the banking services required – through for example, the continued operation of Branch Network and contact service centre services and the application of a flexible approach to its established processes and procedures. The Group has, and continues to offer, payment break options as required by FCA guidance, this includes the appropriate support to borrowers who continue to be impacted by long-term financial difficulties.
- The Group has a very strong focus on Operational Resilience and is further developing its approach in line with recent regulatory guidance.

Definition

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

Risk management and measurement

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

Risk mitigation

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

Risk reporting

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

2.5 Operational risk *(unaudited)*

Key points:

- The business control framework has continued to mature resulting in enhanced risk identification and assessment, leading to improved risk based decisions and prioritisation of mitigating activities.
- During 2020, a number of enhancements to risk management such as risk and control libraries were developed. In addition, progress on the enhancement of control certification and testing, business process mapping and forward looking risk management processes continued.
- The Group continues its multi-year programme to make substantial investment in its IT systems and given the risk attendant to any large transformation, there is continued focus to ensure the sustainability, integrity and resilience of operations and important business services.
- Continuous review of operational risk arising from COVID-19 and the legacy of changes that may ensue to ways of working for colleagues during the ongoing provision of services to customers.
- The Operational Resilience Improvement Roadmap, launched in 2020, will continue to deliver improvements in 2021. Roadmap activities include enhancement of the broader framework; analysis of how business services are delivered and monitored; how incidents are managed and assessed for root cause learnings, whether these originate from within the Group, as a result of change activity or from outsourced services delivered by 3rd party suppliers.

2 Management of key risks *(continued)*

2.5 Operational risk *(unaudited) (continued)*

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

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

Financial Crime (incorporating the risk of facilitating money laundering, terrorist financing, sanction violation and fraud).

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

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

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

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

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

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

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

2.6 Business and strategic risk *(unaudited)*

Key points:

- On an annual basis the Board reviews the Group's strategic objectives to confirm that the strategic shape and focus of the Group remains appropriate. Longer term viability is monitored through its ICAAP and multi-year planning processes.
- The Group faces a number of risks introduced or accelerated by the COVID-19 pandemic. In addition to existing risks, new risks associated with the rapid shift to digital services and remote and flexible working norms are accelerated. Arising from COVID-19, new risks associated with the growth of unemployment, an uncertain path back to economic growth, increased government intervention and measures intended to generate economic stimulus.
- Following the pandemic and nationwide lockdown restrictions, the UK economy contracted and unemployment rose.
- The impact of COVID-19 extends across all other business and strategic risks. It has accelerated existing trends, with consumer activity switching rapidly to digital alternatives and new ways of working impacting customers, colleagues and partners, and created an uncertain economic outlook with groups of customers and sectors likely to benefit from a recovery at differing scales and speeds.
- A number of regulatory interventions were introduced to support consumers, including payment breaks across all key financial services products. The Group was an accredited lender under the Government backed BBLS and CBILS.
- As a result of the macroeconomic climate in 2020, the Group delivered a statutory profit before tax of £40 million (down £115 million on 2019) driven by higher impairments.
- In terms of Brexit, the Group continues to monitor the trading relationship between the EU and UK identifying, monitoring and mitigating risks associated with the current trade agreement.
- The competitive environment in the UK banking sector remains intense with increasing pressure on margins affecting the Group's ability to generate profitability. The Group's cost base is reviewed regularly to ensure the Group remains competitive.
- The Group is committed to the UK market where its focus is on improving sustainable returns. The Group has commenced a multi-year restructuring programme, that will, over time, reduce its balance sheet size, enabling it to lower its cost base and focus on higher margin businesses across mortgages, car finance and travel money.

2 Management of key risks *(continued)*

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

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

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

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

The risk is overseen monthly through the CRO MRR with commentary on the economy, market development and competition, margin trends, direct and indirect costs, staff turnover and transformation risk. Business and strategic risk is reported on an ongoing basis to the ExCo, ERC, the BRC and the Board.

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

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

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

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

2.7 Reputation risk *(unaudited)*

Key points:

- The Group's reputation continues to be influenced and shaped by a range of factors including: macroeconomic and political environment, media, public and customer commentary and general sector developments. More specifically, the Group's decisions and actions in pursuit of its strategic and tactical business objectives and its interaction with the external environment will also influence its reputation.
- Throughout 2020, the Group continued to actively manage, measure and report on its reputation risk and to take this into account in its strategic decision making.

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

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

Risk management, measurement and reporting
Reputation risk indicators are monitored on an ongoing basis.

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

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

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

2 Management of key risks *(continued)*

2.8 Conduct risk *(unaudited)*

Key points:

- The Group recognises the importance of fairness and is committed to placing customers at the heart of its strategic and operational decision-making.
- In 2020, the Group focused on ensuring that its responses to COVID-19 delivered appropriate outcomes to all affected customers. Measures included: ensuring that customers continued to be able to access cash and other critical day-to-day banking services during the period of lockdown; ensuring that its bereavement services responded sympathetically; flexing processes and procedures to ensure that customers across a range of situations were able to bank appropriately; and dealing with those borrowers in short and long term financial difficulties, ensuring they were supported appropriately.

Definition

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

Customer Experience

The Group continues to focus on its strategic priority to serve customers brilliantly and to help enable customers, colleagues and communities to thrive. The Group is taking steps to improve customer service through enhancements to digital platforms including the launch of a new mobile banking application. The industry continues to make adjustments to cater for the needs of vulnerable customers including ensuring they are treated fairly. The Vulnerable Customer Board oversees the Group's approach to vulnerable customers, and sets out desired outcomes and standards expected of business units and third party outsourced service providers in the treatment of those consumers that may be vulnerable and who are therefore susceptible to detriment in the event that the Group does not act with the appropriate level of care.

Risk management

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

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

Conduct risk policy

The Group's exposure to conduct risk is governed by a policy approved by the BRC in accordance with the Board approved risk appetite and within the overall Group risk governance structure outlined on pages 35 to 37.

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

Conflicts of interest

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

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

Risk reporting

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

3 Capital management

Key points:

- At all times during the financial year the Group maintained appropriate capital resources in line with regulatory requirements.
- CET1 ratio is 13.7% at 31 December 2020 (31 December 2019: 14.5%) under the transitional basis and 12.9% (31 December 2019: 14.2%) under the fully loaded basis.
- The Group at 31 December 2020 was required to hold CET1 capital requirements of 7.9%.
- Sustained strong capital position enabled the share buyback of £195 million in March 2020.
- The leverage ratio is 6.7% at 31 December 2020 under the transitional basis and 6.3% under the fully loaded basis.
- MREL ratio of 21.8% as at 31 December 2020.

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

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

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

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

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

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

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

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

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

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

The Group's capital planning process includes a review of the Group's expected capital position which is reviewed and challenged on a monthly basis by senior management.

Given the onset of COVID-19, the Group performed a series of sensitivity analysis to ensure the conclusions of the ICAAP remained appropriate.

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

Capital requirements and capital resources *(audited)*
The Group complied with all its regulatory capital requirements throughout 2020.
The Group manages its capital resources to ensure that the overall amount and quality of resources exceeds the Group's capital requirements. Capital requirements are determined by the CRD, the CRR and firm specific requirements imposed by the PRA. The minimum

2020

Group CET1 Capital Requirement (unaudited)	Set by:	%
Pillar 1	CRR	4.5
Pillar 2A	PRA	0.9
Capital Conservation Buffer	CRD	2.5
UK Countercyclical Buffer	FPC	0.0
Total minimum CET1 Regulatory Requirement		**7.9**

3 Capital management *(continued)*

requirements are typically driven by credit risk, market risk and operational risk, and also require stress-absorbing buffers.

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

In March 2020, in response to COVID-19, the Financial Policy Committee (FPC) reduced the countercyclical buffer from 1% to 0%. The Group's regulatory requirements are summarised in the table above which shows the minimum CET1 regulatory requirements of the Group. These requirements do not include the PRA buffer, which is not disclosed in line with regulatory preference.

The FPC announced in December 2019 that the countercyclical buffer rate for UK exposures will increase from 1% to 2% in a standard risk environment. With the aim of keeping total regulatory loss-absorbing capacity broadly constant when the countercyclical buffer rate is 2%, the PRA announced a reduction in Pillar 2A. In light of COVID-19, the PRA also decided to temporarily increase the PRA buffer for all firms that receive a Pillar 2A reduction, so that the CET1 component of the Pillar 2A reduction will be retained in the PRA buffer until the countercyclical buffer rate begins to increase towards 2%.

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

CRD IV Developments *(audited)*
CRD IV continues to evolve through amendments to current regulations and the adoption of new technical standards. Amendments to the existing CRD and the CRR, as well as the related EU Bank Recovery and Resolution Directive (BRRD) and Single Resolution Mechanism (SRM) Regulation entered into force on 27 June 2019. The majority of the changes impacting capital contained in the amended CRR (e.g. binding leverage requirement and amended SME supporting factor) were to become applicable from 28 June 2021 in the EU, however to mitigate the economic impacts of COVID-19 the "CRR quick fix" package (Regulation EU 2020/873) brought forward the effective date for some components to 27 June 2020.

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

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

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

In addition to the new Basel rules, there are a number of changes to ECB/EBA regulatory requirements planned for the coming years, which will need adopted by the UK, that will impact the Bank's regulatory capital and RWA. These include new ECB and EBA non-performing loan guidelines.

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

The Group issued £300 million of non-preferred senior debt in December 2019 and no further MREL issuances were necessary in 2020 to meet MREL requirements.

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

IFRS 9 Capital Impact *(audited)*
The Group has elected to apply the transitional arrangements which, on a regulatory basis, partially mitigates the initial and future impacts of IFRS 9. This involves a capital add back of a portion of the increase in impairment loss allowance on transition to IFRS 9 and also subsequent increase in the stage 1 and 2 loss allowances to 1 January 2020. The transitional addback allowed in 2020, for stage 1 and 2 provisions raised from 1 January 2018 to 1 January 2020, was 70%, reducing to 50% in 2021 and 25% in 2022.

As part of the CRR quick fix package implemented in June 2020, the IFRS 9 transitional arrangements were re-set to bring additional relief from the potential COVID-19 impacts on provisioning. The add-back for stage 1 and 2 provisions raised from 1 January 2020, was 100% in 2020, reducing to 75% in 2022, 50% in 2023 and 25% in 2024.

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

Regulatory capital and key capital and leverage ratios *(audited)*
The Group is strongly capitalised with a total capital ratio on a regulatory basis of 19.1% at 31 December 2020 (2019: 19.9%).

Total regulatory capital resources decreased by £99 million during 2020 to £2.1 billion due to:

- profit after tax for 2020 of £41 million for the regulatory capital group[1];
- an increase in other reserves of £12 million; and
- an increase in regulatory adjustments of £71 million due to the IFRS 9 Transitional Adjustment of £67 million and other regulatory adjustments of £4 million.

offset by:

- a reduction in retained earnings of £195 million due to the completion of a share buyback (which also resulted in a reduction in share capital of £58 million which was offset by the creation of a capital redemption reserve of £58 million);
- additional tier 1 coupons of £24 million paid to the Parent; and
- a reduction of tier 2 capital of £4 million due to the amortisation of

[1] *The profit after tax of the BOI UK regulatory groups is £41 million, compared to £27 million for the statutory group.*

3 Capital management *(continued)*

capital which is no longer eligible to be included in regulatory capital.

RWAs decreased by £60 million to £10.9 billion reflecting a reduction in the Northridge portfolio partially offset by growth in the commercial lending, personal lending and mortgages portfolios.

The Group's leverage ratio on a regulatory basis has decreased from 6.9% to 6.7% at 31 December 2020 which is in excess of the Basel Committee minimum leverage requirement of 3% and the FPC minimum requirement of 3.25%. The European Commission has proposed the introduction of a binding leverage requirement of 3% as part of the CRD V package proposals which will be applicable from 8 June 2021 in the EU only. The CRR quick fix package brought forward the effective date of some amendments to the leverage framework ahead of its June 2021 effective date.

31 December 2019			31 December 2020	
Regulatory[1] £m	Fully loaded[2] £m		Regulatory[1] £m	Fully loaded[2] £m
255	255	Ordinary share capital	197	197
266	266	Capital contribution and capital redemption reserve fund	324	324
1,076	1,076	Retained earnings	898	898
11	11	Other reserves	23	23
1,608	**1,608**	**Total equity**	**1,442**	1,442
(24)	**(55)**	**Regulatory adjustments**	**47**	(51)
(30)	*(30)*	*- Deferred tax assets relying on future profitability*	*(15)*	(15)
(10)	*(10)*	*- Intangible assets*	*(7)*	(7)
(7)	*(7)*	*- Cashflow hedge reserve*	*(21)*	(21)
(8)	*(8)*	*- Retirement benefit asset*	*(8)*	(8)
-	-	*- Prudent valuation adjustment*	-	-
31	-	*- IFRS 9 transitional adjustment*	98	-
1,584	**1,553**	**Common equity tier 1 capital**	**1,489**	1,391
		Additional tier 1		
300	300	Subordinated perpetual contingent conversion additional tier 1 securities	300	300
1,884	**1,853**	**Total tier 1 capital**	**1,789**	1,691
		Tier 2		
290	290	Dated loan capital	286	286
290	**290**	**Total tier 2 capital**	**286**	286
2,174	**2,143**	**Total capital**	**2,075**	1,977
10,939	**10,907**	**Total risk weighted assets (unaudited)**	**10,879**	10,780
27,317	**27,317**	**Total leverage ratio exposures (unaudited)**	**26,806**	26,708

[1] *Regulatory capital is reported including the IFRS 9 transitional adjustment.*
[2] *Fully loaded capital is reported excluding the IFRS 9 transitional adjustment.*

Governance

Directors and other information

Chair of the Board
Mr. Peter Herbert (appointed to the Board 1 May 2020) (RI) (A) (N) (RE)

Non-Executive Directors
Mr. Philip Moore (RI) (A) (N) (RE)
Mr. John Baines (RI) (A)
Mr. Ian Buchanan (RI)
Ms. Jacqueline Noakes
Mr. Mark Spain
Ms. Alison Burns (N) (RE)

Executive Directors
Mr. Ian McLaughlin
Mr. Thomas McAreavey

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

Company Secretary
Hill Wilson Secretarial Limited

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

Registered Number
07022885

Independent Auditor
KPMG LLP
Chartered Accountants and Statutory Auditors
15 Canada Square,
London,
E14 5GL

The Board of Directors

Peter Herbert
Chair, Non-Executive Director

Term of office
Appointed in May 2020

Independent
Yes

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

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

Ian McLaughlin
Chief Executive Officer

Term of office
Appointed in December 2019

Independent
No

External appointments
None

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

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

Thomas McAreavey
Chief Financial Officer

Term of office
Appointed in March 2017

Independent
No

External appointments
None

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

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

The Board of Directors *(continued)*

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

Term of office
Appointed in October 2018

Independent
No

External appointments
One Family Limited

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

Mark Spain
Chief Strategy Officer
- Bank of Ireland Group plc

Term of office
Appointed in December 2019

Independent
No

External appointments
None

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

Alison Burns
Non-Executive Director

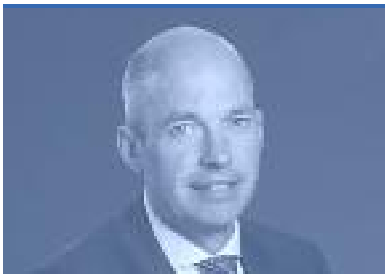
Term of office
Appointed in January 2021

Independent
Yes

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

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

The Board of Directors *(continued)*



Philip Moore
Non-Executive Director

Term of office
Appointed in April 2018

Independent
Yes

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

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

John Baines
Non-Executive Director

Term of office
Appointed in May 2018

Independent
Yes

External appointments
Non-Executive Director at State Bank of India (UK) Ltd
Chair and Non-Executive Director at DF Capital Bank Ltd
Non-Executive Director at Interactive Investor Limited

Experience
Appointed to the Board of Bank of Ireland (UK) plc in May 2018, John is Chair of the Audit Committee and a member of the Risk Committee. John qualified as a Chartered Accountant in 1987 and has subsequently spent his entire career working in financial services, initially in investment banking, before moving into wealth management and then retail and commercial banking. John has been the Finance Director of Aldermore Bank and also of the Co-operative Bank and has sat on the Boards of both businesses.

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 is a board director and senior advisor with extensive technology, digital, business transformation and customer operations experience gained through his work in a number of international retail, commercial and investment banks. He is currently a Senior Advisor to Cerberus Capital Management. He was previously the Group Chief Information Officer for Barclays plc and Chief Operating Officer for Barclaycard until 2016. Before joining Barclays in 2011, Ian was Chief Information Officer for Société Générale Corporate and Investment Banking (2009-2011), a member of the public board and Group Manufacturing Director of Alliance & Leicester plc (2005-2008), and a member of the executive committee and Chief Operations & Technology Officer of Nomura International (1994-2005). Ian's earlier career was spent at Credit Suisse, Guinness and BP. He holds a Bachelor of Science degree in Physics from the University of Durham.

Corporate Governance Arrangements 2020

The Group has adopted the Wates Principles of Corporate Governance for Large Private Companies as its preferred corporate governance code. The Parent complies fully with the UK Corporate Governance Code 2018 (in addition to a number of other codes of corporate governance) and the Wates Principles are complementary to the governance arrangements of the Parent.

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 People Services are in place for the Group to meet its objectives and reviews management performance.
- The Board has oversight of the Group's values and standards, the development of the Group's culture, the allocation of Prescribed Responsibilities under the UK Regulatory Regime and ensures that the Group's obligations to its shareholder, regulators, customers and other stakeholders are understood and met. The Board approves the Group's risk appetite, capital, liquidity and operating plans.
- The Group's purpose, "Enabling our customers, colleagues and communities to thrive", is supported by four key values: Customer focused; One Group, one team; Accountable; and Agile. Details are set out under "Our purpose and values" in the Strategic Report on page 15.
- The Group's strategy is "to transform the bank, to serve customers brilliantly and to grow sustainable profits". Details are set under "Our Strategy" on page 15.
- 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 an annual Culture update. The Nomination Committee reviews information on Management Hires and Exits. The Risk Committee also receives an annual update on the Risk Culture Framework.
- 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 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 19 times in 2020.

Principle 2: Board composition

- The roles of the Chair and CEO are separate to ensure a balance of power and effective decision-making.
- Robert Sharpe stepped down as Chair of the Board on 30 November 2020; Peter Herbert was appointed as Interim Chair of the Board on 1 December 2020 (appointed Chair 12 February 2021).
- The Nomination Committee regularly considers the Board size and structure to ensure it remains appropriate to meet the strategic needs and challenges of the Group and enables effective decision-making.
- The Group ensures that individual Directors of the Board have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships held by any individual Director.
- A schedule of technical and business Board training is developed annually and reviewed throughout the year. In 2020, the Board received training in the following areas:
  - AML/ Financial Crime;
  - Cyber Risk;
  - Operational Resilience;
  - Financial Risks of Climate Change; and;
  - Corporate Governance Developments.
- 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;
  - Remuneration Committee
- Each Board Committee has specific delegated authority as set out in its terms of reference (https://www.bankofirelanduk.com/about/corporate-governance/documents/).
- In 2020, the Board also established a Strategic Transformation sub-committee to facilitate focused review, challenge and oversight as to the progress of the Group's strategic transformation.
- The Board comprises a mix of Executive Directors; independent Non-Executive Directors; and Non-Executive Directors from the Parent.
- The Board recognises and embraces the benefits of diversity among its own members, including diversity of skills, experience, background, gender, ethnicity and other qualities and is committed to achieving the most appropriate blend and balance of diversity possible over time. The Board has retained its gender diversity target of 33% of female Directors by the end of 2022. The Board Diversity Policy, is available here: https://www.bankofirelanduk.com/about/corporate-governance/documents/
- All appointments are made on merit against objective criteria (including the skills and experience the Board as a whole requires to be effective) with due regard for the benefits of diversity on the Board. Upon appointment, each Director receives a detailed and tailored induction, including a briefing on directors' duties.
- Prior to 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 Non-Executive Directors 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 8 scheduled and 11 out of course meetings. Principal decisions made by the Board during 2020 are set out in the Section 172

Corporate Governance Arrangements 2020 *(continued)*

Companies Act 2006 Report on pages 24 to 25.

- The Board Terms of Reference provide a clear line of accountability and responsibility. Each Committee has a Terms of Reference which outlines their respective accountability and responsibility.
- The Terms of Reference for the Board and Board Committees are reviewed annually by the Company Secretary with any recommended changes presented to the Board for approval.
- The Board has adopted terms of reference that set out matters reserved for the Board.
- The Board undertakes an effectiveness review annually. Every three years, this evaluation process is externally facilitated. Allen and Overy Consulting was engaged to undertake a Board effectiveness review in 2020. The review concluded that the governance of the Board and its committees has been designed appropriately and the Board and committees are effective in their operation and in discharging their responsibilities. Recommendations for enhancement will be implemented by the Board during 2021.
- 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 controlled function heads without executive management present at least annually.
- Board papers and supporting information are accurate, clear, comprehensive and up to date. Papers contain a broad range of information sources; a summary of the contents; inform the Directors as to what is being requested of them; and, wherever possible are issued in good time ahead of Board meetings.

Principle 4: Opportunity and risk

- The Board considers major projects and has delegated authority from the Shareholder for the approval of business strategy and direction for Group, within the parameters of the Parent's strategy.
- The Risk Committee and the Board considered the proposals made as part of the strategic review undertaken by the Group in 2020 resulting in the agreed transformation strategy. Further information on the strategic review can be found on page 17.
- 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, and assessed. In addition to regular review of the Group's Principal Risks (see - Principal Risks and Uncertainties (page 26), matters considered by the Risk Committee during 2020 included:
  - Strategic Transformation Risk;
  - COVID-19 Risk;
  - Operational Resilience;
  - Brexit Impact; 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 in the Group).
- The Remuneration Committee is responsible for overseeing the operation of a gender-neutral and appropriately inclusive remuneration policy, for Executive directors, Senior management and the wider workforce
- In framing remuneration strategy, frameworks and policies, the Remuneration Committee seeks to promote executive remuneration structures aligned to the long-term sustainable success of the Group, taking into account pay and conditions elsewhere in the Group.
- The Group is currently operating under a number of remuneration restrictions, which cover all Directors, senior management, employees and certain service providers across the Group. For further information, refer to the Remuneration Report of Bank of Ireland Group plc.

Principle 6: Stakeholders relationships and engagement

- Behaving in a responsible and sustainable way is fundamental to the Group's achievement of its purpose of "enabling our customers, colleagues and communities to thrive". A Responsible and Sustainable Business framework supports the Group's behaviours and strategic priorities. Further details are set out in the Responsible and Sustainable Business section of the Strategic Report on page 19.
- 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.
- Terms of Reference for Customer and Employee Engagement Non-Executive Directors were approved by the Nomination Committee in 2020 with appointments to these roles to be made in 2021.
- 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.

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

Report of the Directors

The Directors of the Group present their consolidated audited report and financial statements for the year ended 31 December 2020. The financial statements are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Directors are listed in the Governance section on pages 63 to 66. The Group's structure is set out in note 43 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 Great Britain and Northern Ireland.

Financial performance

The Group's profit for the year ended 31 December 2020 was £27 million (2019: £97 million). There was no profit or loss attributable to non-controlling interests for the year ended 31 December 2020 (2019: £nil). An analysis of performance is set out in the strategic report on pages 10 to 15.

Dividends

There was no dividend paid to the Parent during 2020 (2019: £100 million).

Board membership

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

- Peter Herbert, Non-Executive, 1 May 2020; and
- Alison Burns, Non-Executive, 1 January 2021.

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

- Neil Fuller, Executive, 30 June 2020;
- Mimi Kung, Non-Executive, 9 November 2020; and
- Robert Sharpe, Non-Executive, 30 November 2020.

Corporate governance

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

Corporate responsibility

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

Further details on the Group's commitment to corporate social responsibility can be found in the strategic report.

Risk management

The Group's principal risks and uncertainties are discussed in the strategic report on pages 26 to 33.

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

Employees

For the year ended 31 December 2020, the Group had an average of 304 direct employees (2019: 277 direct employees) and 520 employees (2019: 384 employees) who work under long-term secondment arrangements from the Parent.

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

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

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

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

Political donations

No political donations were made during the year ended 31 December 2020 or in the year ended 31 December 2019.

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 31 March 2021, 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 36.

Going concern

The Directors have considered the appropriateness of the going concern basis in preparing the financial statements, for the year ended 31 December 2020, on page 87 which forms part of the Report of the Directors.

Report of the Directors *(continued)*

Third party indemnity provision

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

Post balance sheet events

These are described in note 46 to the financial statements.

Financial Statements

Statement of Directors' Responsibilities

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

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

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

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

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

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

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

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

Thomas McAreavey

Thomas McAreavey
Director

8 March 2021

Company number: 07022885

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

1 Our opinion is unmodified

We have audited the financial statements of the Bank of Ireland (UK) plc (the 'Bank') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise the consolidated and Bank balance sheets, consolidated and Bank income statements, consolidated and Bank statements of other comprehensive income, consolidated and Bank statements of changes in equity, consolidated cash flow statement and the related notes, including the 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 2020 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 international accounting standards in conformity with the requirements of the Companies Act 2006;
- 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 1 May 2018. The period of total uninterrupted engagement is 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		**£4.1 million (2019: £8.0 million)** 1% of total operating income (2019: 4.8% of profit before tax from continuing operations)
Coverage		100% (2019: 100%) of group total operating income 99% (2019: 99%) of total assets
Key audit matters		**vs 2019**
Recurring risks	IFRS 9 expected credit loss	▲
	Recognition of interest income - impact of prepayment of mortgages on mortgages effective interest rate and fair value unwind	◀▶
	Recoverability of deferred tax asset	◀▶
	The impact of IT access controls on the effectiveness of the control environment	◀▶

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

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

Key audit matter	The risk	Our response
IFRS 9 expected credit loss *£273 million and £245 million for Group and Bank respectively (2019: £146 million and £131 million)* *Refer to section 2.1 (pages 40 - 50) of the risk management disclosures, pages 90 - 92 (accounting policy), Note 2a (critical accounting estimates and judgements) and notes 19 and 20 (financial disclosures)* *This is relevant to both the Group and Bank financial statements*	The measurement of expected credit losses ('ECL') involves significant judgements and estimates. There is increased risk of material misstatement of ECL in the current year due to the increased judgement and estimation uncertainty as a result of COVID-19. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's and Bank's financial statements are: **Probability of default (PD) model estimations** The calculation of expected credit losses uses complex and inherently judgemental modelling techniques including the application of adjustments to the probability of default (PD) assumptions to reflect current economic conditions as a result of the impact of COVID-19 on the UK economy. The PD models are the key drivers of the staging of assets and the calculation of the expected credit loss calculation. The criteria selected to identify significant increase in credit risk is a key area of judgement within the Group's and Bank's ECL calculation as these criteria determine whether a 12 month or lifetime ECL is recorded. The resultant ECL that is calculated may be inappropriate if it does not accurately predict defaults over time or becomes out of line with wider industry experience, or fails to reflect the credit risk of loans and advances to customers'.	Our procedures included: **Controls testing** We performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. Our testing included general and application IT controls over key systems and the following key procedures: • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key inputs and assumptions into the IFRS 9 impairment models and post model adjustments; • Evaluation of the validation control over the modelling process; • Testing key controls over economic scenarios, assumptions and weights; and • Evaluation of controls over collateral management processes, management assessment and challenge of key assumptions applied in the impairment assessment over stage 3 base case impairment allowance assessment. **Our modelling expertise:** Using our own credit risk assurance specialists, we performed the following: • Evaluated the appropriateness of the impairment methodologies, including the staging criteria used; • Re-performed the calculation of certain components of the ECL model calculations, including the staging criteria; • For a sample of models which were changed or updated during the year, we evaluated whether the changes (including the updated model code) were consistent with the impairment methodologies by re-performing key model validation procedures; and • For all material models, assessing the reasonableness of the model predictions by comparing them against actual results and evaluating the resulting differences.

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

Key audit matter	The risk	Our response
	Economic scenarios IFRS 9 requires the measurement of ECLs on an unbiased forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied in determining the economic scenarios used and the probability weightings applied to them especially when considering the current uncertain economic environment, including the impacts of COVID-19. **Post model adjustments (PMAs)** There is a high degree of estimation uncertainty and management judgement involved in the estimation of post-model adjustments raised to address model limitations and responsiveness and impacts of COVID-19. Management raised PMAs which account for 15% (2019: 2%) of the impairment allowance as 31 December 2020. There is significant management judgement applied in the estimation of PMAs to address payment holidays masking and delaying expected credit losses. **Stage 3 loans expected credit loss** The estimation of the ECLs involves the application of significant judgment in the determination of the realisable cash flows from recovery strategies. These are most significant for the Business Banking loans. The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	**Our economic scenario expertise** Using our own economic specialists, we performed the following: • Assessed and evaluated the appropriateness of the methodology for determining the economic scenarios and probability weights and appropriateness of economic scenarios selected; • Assessed and evaluated the overall plausibility of the baseline and alternative scenario forecasts by comparing against our own modelled forecasts and external data; and • Assessed and evaluated management's sensitivity assessment of key assumptions. As part of this work we challenged the reasonableness of considerations of the economic uncertainty relating to COVID-19. **Post model adjustments** Using our own credit risk assurance specialists, we performed the following: • Assessed and evaluated the rationale for holding PMAs and the respective methodologies and calculations. • Benchmarked assumptions and methodologies used by the Group and Bank in determining the post model adjustments and challenged the appropriateness of the management adjustments. **Stage 3 business banking expected credit loss** • For a risk based sample of stage 3 Business Banking loans, where relevant, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment allowance and challenged the assumptions through comparing estimates to external support where available; and • Where appropriate, we used our own valuation experts to challenge the collateral valuation assumptions. **Assessing transparency** We assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the expected credit losses. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we challenged whether the disclosure of the key judgements and assumptions made, including in respect of COVID-19, was sufficiently clear. **Our results:** We found the ECL charge and impairment allowance recognised to be acceptable (2019 result: acceptable).

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

Key audit matter	The risk	Our response
Recognition of effective interest rate income *Impact of prepayment estimates on the determination of effective interest rate on mortgages and fair value unwind on the acquired mortgage portfolio* *Effective interest rate adjustment to mortgages interest income £4 million (2019: £13 million)* *Fair value unwind of acquired portfolio £30 million (2019: £26 million)* *Refer to page 88 - 89 (accounting policy), note 2d and 2e (critical accounting estimates and judgements) and note 3 (financial disclosures)* *This is relevant to both the Group and the Bank financial statements*	Interest earned and fees earned and incurred on loans and advances to customers are recognised using the effective interest rate ('EIR') method that spreads directly attributable expected income over the expected lives of the loans. This requires management to apply judgement in estimating the expected lives of the mortgage portfolios. This judgement is informed by past customer behaviour of when loans are repaid, with the EIR balance and amount recognised in the Income Statement being highly sensitive to minor changes in assumptions. These expected behavioural lives were impacted by COVID-19. As such, we continue to identify greater levels of management judgement and have placed increased levels of audit focus on these assumptions. These assumptions impact both the acquired mortgage portfolio, as this was acquired at a discount, with any change in the expected life requiring the discount to be adjusted and spread over the remaining expected life, and the portfolio which has been originated since inception of the Bank. The effect of these matters is that, as part of our risk assessment we determined the impact of prepayment estimates has a high degree of estimation uncertainty, with a potential range of reasonable outcomes that could be greater than our materiality in the estimation of the EIR balance and unwinding of the fair value on the acquired mortgage portfolio.	Our procedures included: **Controls testing:** We performed an end-to-end process walkthrough to identify the key applications and process controls. We tested design, implementation and operating effectiveness of key controls relating to completeness and accuracy of the model inputs and outputs. **Test of details:** • We critically assessed the methodology used to estimate the behavioural lives against our own knowledge of industry experience. • We challenged management's assumptions by performing sensitivity analysis for judgemental assumptions, including expected behavioural lives, to critically assess the sensitivity of key assumptions. • We engaged our data analytics specialists to recalculate the behavioural lives and reperform the EIR calculation. We also reperformed the FV adjustment calculations. • We tested the accuracy of inputs to the models by agreeing back to source systems or documents. • We considered the adequacy of the Group and Bank's disclosures about the changes in estimate that occurred during the period and the sensitivity analysis of the estimate. **Our results:** We consider the EIR and unwinding of fair value adjustments to be acceptable (2019 result: acceptable).

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

Key audit matter	The risk	Our response
Recoverability of the deferred tax asset *Risk of error relating to the recognition and measurement of deferred tax asset* *£23 million and £16 million for the Group and Bank respectively (2019: £45 million and £40 million)* *Refer to page 98 (accounting policy), note 2b (critical accounting estimates and judgements) and note 25 (financial disclosures)* *This is relevant to both the Group and Bank financial statements*	The estimate of the recoverability of the deferred tax asset ('DTA') relies on judgements relating to the probability, timing and sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions, business performance (including the impacts of changes to the Group's business model) and current legislation governing the use of historical trading losses carried forward. The amount of the Bank's annual taxable profits that can be offset by trading losses carried forward is restricted by legislation. The impact of this restriction is such that it increases the period over which the DTA is realised. Given the level of estimation uncertainty from such a period, management has restricted the recoverability of the DTA to 10 years. The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of the DTA has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.the financial statements as a whole.	Our procedures included: **Controls testing:** We evaluated and tested the design and implementation of key controls over the determination and approval of the forecast taxable profits used to support the recognition of the deferred tax asset. **Test of details:** • We assessed management's ability to estimate future taxable income, considering past performance versus past projections. • We challenged the reasonableness of management's assumptions and compared them against our knowledge of the industry outlook and our understanding of the Group's strategy and the wider economy. • We engaged our tax specialists to assess the accuracy of the deferred tax calculations. • We assessed the adequacy and transparency of the disclosures in relation to the assumptions and judgements around the estimation of forecast cash flows and determination of the deferred tax asset. **Our results:** We consider the recognition and recoverability of the deferred tax asset to be acceptable (2019 result: acceptable).
The impact of IT access controls on the effectiveness of the control environment *This is relevant to both the Group and Bank financial statements*	The Group and Bank are highly dependent on IT systems for the processing and recording of significant volumes of transactions. It has a complex IT environment and operates many applications. Our audit approach relies extensively on automated controls within these systems and therefore on the effectiveness of controls over IT systems. We consider IT user access management controls to be critical in ensuring that only approved changes to applications and underlying data are authorised and made appropriately. Effective access controls contribute to mitigating the risk of potential fraud or error as a result of changes to applications and data. In previous years, we have reported a high volume of user access exceptions across the bank's IT infrastructure. The Group and Bank have an ongoing risk management programme in place to identify, rate, mitigate and report on risk arising from ineffective user access controls. As a result of these programs and implementation of technologies that support enhanced user access management, we have noted the Group has strengthened its user access controls over IT applications relevant to financial reporting comparison to findings from previous years.	Our procedures included: **Controls testing:** • Obtained an understanding of the Group's and Bank's IT environment, integrated IT plan and the governance framework over the IT infrastructure. • Tested general IT controls for IT applications we considered relevant to the financial reporting process, including access management, program development and change management. • Due to the high number of exceptions in user access management, we tested the entire population of privileged users across all technology layers relevant to financial reporting. • We also tested the design, implementation and operating effectiveness of key IT application controls, including the configuration and accuracy of end user computing controls. **Evaluating IT deficiencies** Where we noted IT control deficiencies, we performed additional procedures which included evaluating and assessing the impact of the deficiencies on the IT environment. **Our results:** While we have identified deficiencies with user access management, the combination of compensating controls and additional procedures to assess the impact of deficiencies provides us with sufficient evidence to rely on the operation of IT systems for the purposes of our audit (2019 result: acceptable).

We performed procedures over the impact of uncertainties due to the UK exiting the European Union (Brexit) on our audit. However, following conclusion of the Brexit deal, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Application of materiality

Materiality for the Group financial statements as a whole was set at £4.1 million (2019: £8.0 million), determined with reference to a benchmark of Group total operating income (2019: reference to profit before tax from continuing operations).

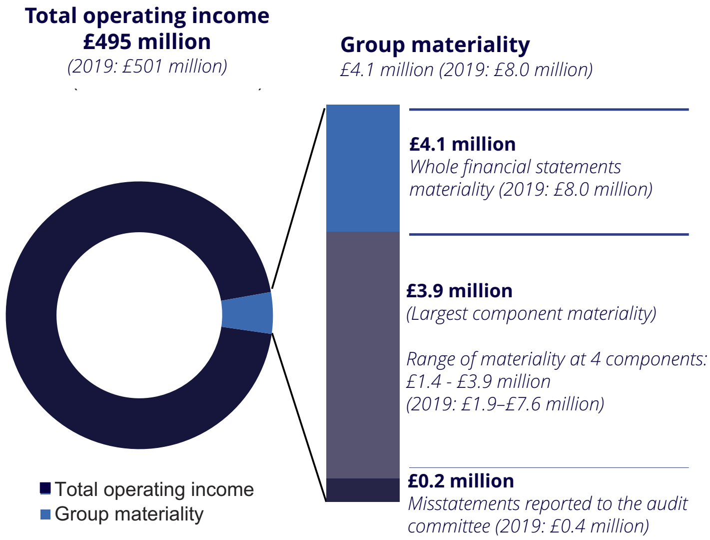
Materiality for the Bank financial statements as a whole was set at £3.9 million (2019: £7.6 million), determined with reference to a benchmark of total operating income (2019: reference to profit before tax from continuing operations).

Our materiality benchmark reference has been changed to total operating income from profit before tax from continuing operations used in the prior year. We consider total operating income to be the most appropriate benchmark as it provides a more stable measure year on year than group profit before tax from continuing operations.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2 million (2019: £0.4 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Overview of component scoping, oversight and reporting

Of the Group's eight reporting components (2019: eight reporting components), we subjected two to full scope audits for group purposes (2019: three components subjected to full scope audits) and one to specified risk focused audit procedures (2019: one component subjected to risk focused audit procedures). The latter were not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed.



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

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

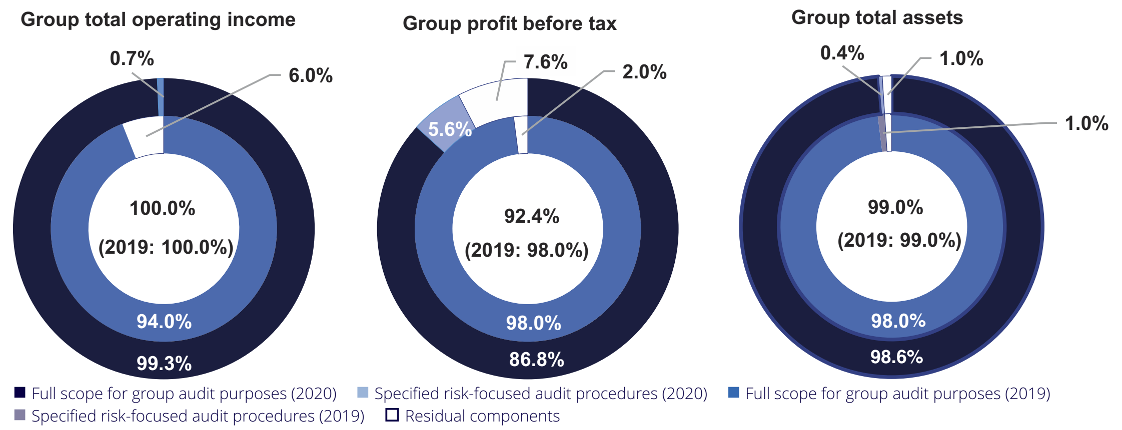
The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £1.4 million to £3.9 million (2019: £1.9 million to £7.6 million), having regard to the mix of size and risk profile of the Group across the components. The work on one component was performed by the component auditor and the rest, including the audit of the Bank, was performed by the Group team.

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

Overview of centralised processes testing, oversight and reporting

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

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



4 Going concern

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

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

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

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

Our procedures also included an assessment of whether the going concern disclosures in note 1 (page 87) to the financial statements gives a complete and accurate description of the Directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the Bank's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 (page 87) 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. In this risk assessment we considered the following:

- Enquiring of directors, the audit and risk committees, internal audit and executive management and inspection of policy documentation as to the Group's and Bank's policies and procedures to prevent and detect fraud, including the internal audit function, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and subcommittee meeting minutes.
- Considering remuneration incentive schemes and performance targets for management.
- Using analytical procedures to identify any usual or unexpected relationships.
- Risk assessment procedures performed by the auditors of the Parent where relevant to the Group and Bank.

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

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

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

Further details in respect of procedures performed to address identified fraud risks are included in section 2.

We also performed procedures including:

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

- Challenging management's goodwill impairment calculations through benchmarking key assumptions versus market rates as well as performing independent assumptions to stress impairment scenarios.
- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those entries posted by individuals who are typically not expected to post and/or approve journals, unbalanced entries, those posted and approved by the same user and those posted to unusual accounts.
- Evaluated the business purpose of significant unusual transactions.
- Assessing significant accounting estimates for bias.

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

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

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

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

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

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

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

Secondly, the Group and the Bank are subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's and the Bank's license to operate. We identified the following areas as those most likely to have such an effect:

- Specific aspects of regulatory capital and liquidity.
- Customer conduct rules.
- Money laundering and financial crime.
- Certain aspects of company legislation recognising the financial and regulated nature of the Group's activities.

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

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

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

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

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

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

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

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

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

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

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

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

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 72, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

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

8 March 2021

Income statement
(for the year ended 31 December 2020)

		Group		Bank	
	Note	2020 £m	Restated[1] 2019 £m	2020 £m	Restated[1] 2019 £m
Interest income calculated using the effective interest method	3	564	624	596	653
Other interest income	3	89	84	3	2
Total interest income		**653**	**708**	**599**	**655**
Interest expense	4	(189)	(226)	(186)	(224)
Net interest income		**464**	**482**	**413**	**431**
Net leasing income		9	8	-	-
- Other leasing income	5	*58*	*54*	-	-
- Other leasing expense	5	*(49)*	*(46)*	-	-
Fee and commission income	6	78	95	78	95
Fee and commission expense	6	(56)	(89)	(56)	(89)
Net trading income / (expense)	7	(2)	3	(2)	3
Other operating income	8	2	2	15	54
Total operating income		**495**	**501**	**448**	**494**
Operating expenses	9	(310)	(317)	(278)	(298)
Operating profit before impairment charges on financial assets		**185**	**184**	**170**	**196**
Net impairment losses on financial instruments	11	(151)	(40)	(135)	(32)
Operating profit		**34**	**144**	**35**	**164**
Share of profit after tax of joint venture	12	(1)	30	-	-
Profit / (loss) on disposal of business activities	13	7	(19)	7	(19)
Profit before taxation		**40**	**155**	**42**	**145**
Taxation charge	14	(13)	(58)	(8)	(51)
Profit for the year		**27**	**97**	**34**	**94**

Statement of other comprehensive income
(for the year ended 31 December 2020)

		Group		Bank	
	Note	2020 £m	2019 £m	2020 £m	2019 £m
Profit for the year		27	97	34	94
Items that may be reclassified to profit or loss in subsequent periods					
Net change in cash flow hedge reserve (net of tax)[2]		14	1	14	1
Total items that may be reclassified to profit or loss in subsequent periods		**14**	**1**	**14**	**1**
Items that will not be reclassified to profit or loss in subsequent periods					
Net actuarial gain on defined benefit schemes[3]	33	-	1	-	-
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)**	**2**	**(1)**	**1**
Other comprehensive expense for the year, net of tax		**13**	**3**	**13**	**2**
Total comprehensive income for the year, net of tax		**40**	**100**	**47**	**96**

[1] *As outlined in the Group accounting policies on page 88, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 45 for additional information.*
[2] *Net of tax charge £5 million (2019: charge £0.4 million).*
[3] *Net of tax £nil (2019: £nil).*

Balance sheet
(as at 31 December 2020)

		Group		Bank	
	Note	**2020 £m**	**2019 £m**	**2020 £m**	**2019 £m**
Assets					
Cash and balances at central banks	15	2,050	2,134	2,050	2,134
Items in the course of collection from other banks		111	144	111	144
Derivative financial instruments	16	53	41	53	41
Loans and advances to banks	17	1,672	2,158	1,542	1,935
Debt securities at amortised cost	18	922	846	922	846
Loans and advances to customers	19	21,300	21,200	21,397	21,321
Investment in subsidiaries		-	-	8	8
Interest in joint venture	21	49	64	2	2
Intangible assets and goodwill	22	36	48	6	9
Property, plant and equipment	23	126	138	36	41
Current tax assets		8	-	8	-
Other assets	24	59	111	53	107
Deferred tax assets	25	23	41	16	36
Retirement benefit asset	33	10	9	-	-
Total assets		**26,419**	**26,934**	**26,204**	**26,624**
Equity and liabilities					
Deposits from banks	26	4,202	3,500	4,199	3,496
Customer accounts	27	18,256	19,075	18,365	19,192
Items in the course of transmission to other banks		67	95	67	95
Derivative financial instruments	16	114	59	114	59
Debt securities in issue	28	511	607	300	300
Current tax liabilities		3	3	-	1
Other liabilities	29	1,137	1,272	1,120	1,253
Lease liabilities	30	19	20	18	20
Provisions	31	15	30	14	30
Loss allowance provision on loan commitments and financial guarantees	32	4	3	4	3
Subordinated liabilities	34	290	290	290	290
Total liabilities		**24,618**	**24,954**	**24,491**	**24,739**
Equity					
Share capital	36	197	255	197	255
Retained earnings		957	1,149	869	1,054
Other reserves		347	276	347	276
Other equity instruments	37	300	300	300	300
Total equity attributable to owners of the Bank		**1,801**	**1,980**	**1,713**	**1,885**
Total equity and liabilities		**26,419**	**26,934**	**26,204**	**26,624**

The financial statements on pages 82 to 176 were approved by the Board on 8 March 2021 and were signed on its behalf by:

Thomas McAreavey
Director

8 March 2021

Company number: 07022885

Statement of changes in equity
(for the year ended 31 December 2020)

	Note	Group 2020 £m	Group 2019 £m	Bank 2020 £m	Bank 2019 £m
Share capital					
Balance at 1 January		255	851	255	851
Reduction in share capital transferred to retained earnings	36	-	(596)	-	(596)
Share repurchase	36	(58)	-	(58)	-
Balance at 31 December		**197**	**255**	**197**	**255**
Retained earnings					
Balance at 1 January		1,149	279	1,054	188
Profit for the year attributable to equity holders of the Bank		27	97	34	94
Dividend on ordinary shares		-	(100)	-	(100)
Distribution on other equity instruments - Additional tier 1 coupon		(24)	(24)	(24)	(24)
Transferred from share capital	36	-	596	-	596
Transferred from capital redemption reserve fund	36	-	300	-	300
Share repurchase	36	(195)	-	(195)	-
Remeasurement of the net defined benefit pension asset		-	1	-	-
Balance at 31 December		**957**	**1,149**	**869**	**1,054**
Other equity instruments					
Balance at 1 January		300	300	300	300
Balance at 31 December		**300**	**300**	**300**	**300**
Other reserves:					
Revaluation reserve - property					
Balance at 1 January		3	2	3	2
Revaluation of property		(1)	1	(1)	1
Balance at 31 December		**2**	**3**	**2**	**3**
Cash flow hedge reserve					
Balance at 1 January		7	6	7	6
Changes in fair value		13	7	13	7
Transfer to income statement (pre tax)		6	(6)	6	(6)
Deferred tax on reserve movements		(5)	-	(5)	-
Balance at 31 December		**21**	**7**	**21**	**7**
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		-	300	-	300
Transferred to retained earnings	36	-	(300)	-	(300)
Share repurchase	36	58	-	58	-
Balance at 31 December		**58**	**-**	**58**	**-**
Total other reserves		**347**	**276**	**347**	**276**
Total equity		**1,801**	**1,980**	**1,713**	**1,885**
Included in the above:					
Total comprehensive income attributable to owners of the Bank		40	100	47	96
Total comprehensive income for the year		**40**	**100**	**47**	**96**

Consolidated cash flow statement
(for the year ended 31 December 2020)

	Note	2020 £m	2019 £m
Cash flows from operating activities			
Profit before taxation		40	155
Interest expense on subordinated liabilities and other capital instruments	4	18	14
Interest expense on lease liabilities	4	1	1
Depreciation and amortisation	22,23	35	38
(Gain) / loss on disposal of business activities	13	(7)	19
Net impairment (gains) / losses on financial instruments	11	151	40
Impairment of intangible assets and goodwill	22	8	-
Impairment of property, plant and equipment	23	2	-
Share of results of joint venture	12	1	(30)
Net change in prepayments and interest receivable	24	11	-
Net change in accruals and interest payable	29	(43)	38
Charge for provisions	31	6	-
Other non-cash items		30	6
Cash flows from operating activities before changes in operating assets and liabilities		**253**	**281**
Net change in items in the course of collection to / from banks		5	13
Net change in derivative financial instruments		(19)	(9)
Net change in loans and advances to banks		203	363
Net change in loans and advances to customers		(202)	(1,486)
Net change in deposits from banks		702	348
Net change in customer accounts		(820)	(699)
Net change in debt securities in issue		(96)	607
Net change in provisions		(15)	(10)
Net change in retirement benefit obligation		(1)	(1)
Net change in other assets and other liabilities		(49)	(91)
Net cash flow from operating assets and liabilities		**(292)**	**(965)**
Net cash flow from operating activities before taxation		**(39)**	**(684)**
Taxation paid		(9)	(14)
Net cash flow from operating activities		**(48)**	**(698)**
Investing activities (section (a) - see below)		(77)	582
Financing activities (section (b) - see below)		(241)	(143)
Net change in cash and cash equivalents		**(366)**	**(259)**
Opening cash and cash equivalents		4,055	4,314
Closing cash and cash equivalents	15	**3,689**	**4,055**
(a) Investing activities			
Disposal of business activities		-	516
Additions to debt securities at amortised cost	18	(143)	(242)
Disposal / redemption of debt securities at amortised cost	18	65	309
Dividends received from joint venture	21	14	28
Additions to intangible assets	22	-	(1)
Additions to property, plant and equipment	23	(37)	(46)
Disposal of property, plant and equipment		24	18
Cash flows from investing activities		**(77)**	**582**
(b) Financing activities			
Share repurchase	36	(195)	-
Dividend paid on ordinary shares	41	-	(100)
Additional tier 1 coupon paid	41	(24)	(24)
Interest paid on subordinated liabilities	4	(18)	(14)
Payment of lease liability	30	(4)	(5)
Cash flows from financing activities		**(241)**	**(143)**

Notes to the consolidated financial statements

1 Group accounting policies

Basis of preparation

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

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

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

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

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

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

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

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

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 on pages 100 to 109.

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 2020 is a period of twelve months from the date of approval of these financial statements ('the period of assessment'). In making this assessment, the Directors considered the Group's business, profitability projections, liquidity, funding and capital plans, under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the UK economy and the impact of Brexit. The Directors also considered the economic impact of COVID-19 on the Group's core UK markets, which has resulted in reduced levels of activity across the Group's businesses. The Directors also considered the position of the Bank's parent, the Governor and Company of the Bank of Ireland as, in addition to being the Bank's sole shareholder, it is a provider of significant services to the Bank under outsourcing arrangements.

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

Capital

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

Funding and liquidity

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

The Bank's Parent

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

The Directors note that the Court of the Bank's Parent has concluded that there are no material uncertainties that may cast significant doubt about the Bank of Ireland Group's ability to continue as a going concern and that it is appropriate to prepare accounts on a going concern basis. The audit report on the financial statements of the Bank's Parent signed 26 February 2021 is not qualified and does not contain an emphasis of matter paragraph in respect of going concern.

Conclusion

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

Comparatives

Comparative information has been amended where necessary to ensure consistency with the current period.

1 Group accounting policies *(continued)*

Adoption of new and amended accounting standards
The following amendments to standards have been adopted by the Group during the year ended 31 December 2020:

Amendments to IFRS 3 'Business Combinations'
This amendment narrowed and clarified the definition of a business. The amended definition emphasises that a business must include inputs and a process, and clarified that the process must be substantive; and the inputs and process must together significantly contribute to creating outputs. This amendment narrowed the definitions of a business by focusing the definition of outputs on goods and services provided to customers and other income from ordinary activities, rather than on providing dividends or other economic benefits directly to investors or lowering costs; and added a test that makes it easier to conclude that a company has acquired a group of assets, rather than a business, if the value of the assets acquired is substantially all concentrated in a single asset or group of similar assets. This amendment applies to business combinations and asset acquisitions that occur on or after 1 January 2020 and does not have a significant impact on the Group at 31 December 2020.

Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
These amendments are aimed at improving the understanding of the existing requirements rather than significantly impacting current materiality judgements. They provide a new definition of material which shall be used to assess whether information, either individually or in combination with other information, is material in the context of the financial statements. These amendments do not have a significant impact on the Group at 31 December 2020.

Voluntary changes in accounting policies
The Group has voluntarily changed its accounting policy for the presentation of interest income and expense on certain financial instruments.

In prior periods, the total fair value movement on assets and liabilities held at FVTPL, including interest income or expense, was recognised in net trading income. The only exception to this was the recognition of interest income or expense on derivatives in a qualifying hedging relationship, where interest income or expense on the derivative designated as hedging instrument was recognised with the interest on the hedged item.

To enable a more relevant and enhanced understanding of business performance, the Group has adopted an amended accounting policy in 2020, such that interest income and expense on the following financial instruments is now included within the components of net interest income:

- interest income on debt instrument assets measured at FVTPL;
- interest expense on financial liabilities held at FVTPL which are used to fund assets on which interest income is recognised; and
- interest income or expense on derivatives that are held with hedging intent, but for which hedge accounting is not applied (economic hedges).

The Group believes this revised accounting policy provides reliable and more relevant information as it more closely reflects the basis upon which the underlying businesses are managed, on a net interest basis as opposed to a fair value basis.

This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative period has been restated to reflect this change. The effect of this change is explained further in note 45 on page 175.

Interest income and expense
Interest income and expense are recognised in the income statement 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.

1 Group accounting policies *(continued)*

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

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

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

Modifications

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

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 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

1 Group accounting policies *(continued)*

with corresponding impairment gains or losses recognised in the income statement.

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

Debt instruments

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

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

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

Equity instruments

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

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

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

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

Financial assets mandatorily measured at fair value through profit or loss

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

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

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

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

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

(2) Reclassification

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

(3) Derecognition

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred substantially all the risks and rewards of ownership. Where 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

1 Group accounting policies *(continued)*

instruments unless measured at fair value through profit or loss:
- financial assets that are debt instruments;
- loan commitments;
- lease receivables recognised under IFRS 16 'Leases';
- financial guarantee contracts issued and not accounted for under IFRS 4 'Insurance contracts'; and
- receivables and contract assets recognised under IFRS 15 'Revenue from contracts with customers'.

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

Stage 1: 12-month ECL (not credit-impaired)
These are financial instruments where there has not been a significant increase in credit risk since initial recognition. An impairment loss allowance equal to 12-month ECL is recognised. This is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

Stage 2: Lifetime ECL (not credit-impaired)
These are financial instruments where there has been a significant increase in credit risk since initial recognition but which are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised. Lifetime ECL are the ECL resulting from all possible default events over the expected life of the financial instrument.

Stage 3: Lifetime ECL (credit-impaired)
These are financial instruments which are credit-impaired at the reporting date but were not credit-impaired at initial recognition. An impairment loss allowance equal to lifetime ECL is recognised.

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

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

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

Credit-impaired
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:
(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

ECLs are measured as follows:
- financial assets that are not credit-impaired at the reporting date: the present value of the difference between all contractual cash flows due to the Group in accordance with the contract and all the cash flows the Group expects to receive;
- financial assets that are credit-impaired at the reporting date: the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: the present value difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover, discounted at an appropriate risk-free rate.

Expected cash flows arising from the sale on default of a loan are included in the measurement of expected credit losses under IFRS 9 where the following conditions are met:
- selling the loan is one of the recovery methods that the Group expects to pursue in a default scenario;
- the Group is neither legally nor practically prevented from realising the loan using that recovery method; and
- 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

1 Group accounting policies *(continued)*

the effective interest rate (or 'credit-adjusted effective interest rate' for a purchased or originated credit-impaired financial asset) or an approximation thereof. For undrawn loan commitments, it is the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment.

Impairment loss allowances for ECLs are presented in the financial statements as follows:

- **financial assets at amortised cost:** as a deduction from the gross carrying amount in the balance sheet;
- **loan commitments and financial guarantee contracts:** generally, as a provision in the balance sheet; and
- **debt instruments at fair value through other comprehensive income:** an amount equal to the allowance is recognised in other comprehensive income as an accumulated impairment amount.

Utilisation of impairment loss allowances

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

Forbearance

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

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

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

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

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

Financial liabilities

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

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

A financial liability may be designated as at fair value through profit or loss only when:

(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or

(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

The movement in own credit risk related to financial liabilities designated at fair value through profit or loss is recorded in other comprehensive income unless this would create or enlarge an accounting mismatch in profit or loss for the Group (in which case all gains or losses are recognised in profit or loss).

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way

1 Group accounting policies *(continued)*

similar to a stand-alone derivative.

If a hybrid contract contains a host that is not a financial asset within the scope of IFRS 9, an embedded derivative is separated from the host and accounted for as a derivative if, and only if, its economic characteristics and risks are not closely related to those of the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at fair value through profit or loss.

Financial guarantees

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

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

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

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

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

Offsetting

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

Valuation of financial instruments

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

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

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

Transfers between levels of the fair value hierarchy
The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. The Group provides these disclosures in note 40.

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

1 Group accounting policies *(continued)*

combinations other than business combinations involving entities or business under common control. Under the acquisition method of accounting, the consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Foreign exchange gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(2) Associates and Joint Ventures

Associates are all entities over which the Group has significant influence but not control, over the entity's financial and operating decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint arrangement is an arrangement of which two or more parties have joint control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

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

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Accounting policies of associates and joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(3) Common control transactions

A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: 'Business Combinations'. The exemption is applicable where the combining entities or businesses are controlled by the same party, both before and after the combination. Where such transactions occur, the Group, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement, management considers the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. Management also considers the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or interpretation. Accordingly, the Group applies the guidance set out in FRS 6: 'Acquisitions and Mergers' as issued by the Accounting Standards Board.

Where a transaction meets the definition of a group reconstruction or achieves a similar result, predecessor accounting is applied. The assets and liabilities of the business transferred are measured in the acquiring entity, upon initial recognition, at their existing book value in the consolidated financial statements of the Bank of Ireland Group, as measured under IFRS. The Group incorporates the results of the acquired businesses only from the date on which the business combination occurs.

Similarly, where the Group acquires an investment in an associate or joint venture from an entity under common control with the Group, the investment is recognised initially at its existing book value in the consolidated financial statements of the Bank of Ireland Group.

(4) Securitisations

Certain Group undertakings enter into securitisation transactions in order to finance specific loans and advances to customers.

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

- the rights to the cash flows have expired or been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group. In this case the asset is derecognised entirely if the transferee has the ability to sell the financial asset. Otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where the above conditions apply to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

1 Group accounting policies *(continued)*

Foreign currency translation

The consolidated financial statements of the Group and the financial statements of the Bank are presented in Sterling. 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 transaction at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities, classified at fair value through other comprehensive income, are recognised in other comprehensive income.

Operating profit/loss

Operating profit/loss includes the Group's earnings from ongoing activities after net impairment losses and before share of profit or loss on joint ventures (after tax) and profit/loss on disposal of business activities.

Leases

Identifying a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee

The Group recognises a Right of Use (RoU) asset and lease liability at the lease commencement date. RoU assets are initially measured at cost, and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of lease liabilities. The recognised RoU assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease term. RoU assets are subject to impairment under IAS 36 'Impairment of assets'.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

RoU assets, comprised of leases of buildings which do not meet the definition of investment properties are presented in property, plant and equipment. RoU assets which meet the definition of investment properties are presented within investment properties.

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

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

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

Lessor

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

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

Sale and repurchase agreements

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

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

1 Group accounting policies *(continued)*

of IAS 39. Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each reporting date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:
(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge relationships are concluded to be effective if the hedging instruments that are used in hedging transactions offset the changes in fair value or cashflow of the hedged items within a range of 80% to 125%.

(a) Fair value hedge (micro)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The hedged item in a micro fair value hedge is a single specified item e.g. a fixed commercial loan.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The 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.

(b) Fair value hedge (macro)

The hedged item in a macro fair value hedge is a pool of assets or liabilities with similar risk characteristics and profiles, such as a pool of fixed rate mortgages. Unlike micro fair value hedge accounting, macro fair value hedge accounting is not discontinued if an individual asset or liability within the pool of hedged items is sold, so long as the overall pool of hedged items retains its characteristics as documented at inception of the hedge. In addition, hedge effectiveness testing is performed on a portfolio basis rather than on an individual hedge relationship by hedge relationship basis.

The Group also avails of the relaxed hedge accounting provisions permitted by IAS 39 'Financial Instruments: recognition and measurement'. Under these provisions, the Group applies portfolio fair value hedge accounting of interest rate risk to its demand deposit book. The Group resets its macro fair value hedges on a monthly basis.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the straight line method for macro hedges.

(c) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement. The Group resets its macro cash flow hedges on a monthly basis.

Property, plant and equipment

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

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

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

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

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

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and

1 Group accounting policies *(continued)*

equipment to their residual values over their estimated useful lives as follows:

- adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease;
- computer and other equipment - maximum of ten years;
- motor vehicles held for leasing - over the lease term; and
- the recognised RoU assets are depreciated on a straight-line basis over the earlier of the end of the useful life of the RoU asset or the end of the lease term.

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

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

Intangible assets

(a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.
Costs associated with developing 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 assets are amortised using the straight line method over their useful lives, which is normally between five and ten years.

(b) Other intangible assets

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

(c) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment or more frequently if there is any indication that it may be impaired, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. An impairment loss arises if the carrying value of the CGU exceeds the recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use, where the value in use is the present value of the future cash flows expected to be derived from the CGU.

Assets and liabilities classified as held for sale

An asset or a disposal group is classified as held for sale if the following conditions are met:

- its carrying amount will be recovered principally through sale rather than continuing use;
- it is available for immediate sale; and
- the sale is highly probable within the next few months.

When an asset (or disposal group) is initially classified as held for sale, it is measured at the lower of its carrying amount or fair value less costs to sell at the date of classification, except for deferred tax assets, financial assets and assets arising from employee benefits, which are measured in accordance with the accounting policies applied to those assets prior to their classification as held for sale.

Impairment losses on initial classification of an asset (or disposal group) as held for sale, and on subsequent remeasurement of the asset (or disposal group), are recognised in the income statement. Increases in fair value less costs to sell of an asset (or disposal group) that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset (or disposal group).

Impairment losses are allocated to non-current assets within the measurement scope of IFRS 5 and the amount of impairment losses recognised in the financial statements is limited to the carrying value of those assets. Other assets and liabilities are measured in accordance with applicable IFRSs in both initial and subsequent measurement of the asset (or disposal group) held for sale. As a result, in accordance with IFRS 5 any impairment losses in excess of the carrying value of the non-current assets within the measurement scope of IFRS 5 are not recognised until disposal.

When an asset (or disposal group) is classified as held for sale, amounts presented in the balance sheet for the prior period are not reclassified.
Where the criteria for the classification of an asset (or disposal group) as held for sale cease to be met, the asset (or disposal group) is reclassified out of held for sale and included in the appropriate balance sheet headings.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable

1 Group accounting policies *(continued)*

that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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

Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

Employee benefits

(a) Pension obligations

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

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

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Where a plan amendment, curtailment or settlement occurs and the net defined benefit asset/liability is remeasured to determine past service cost or the gain or loss on settlement, the current service cost and net interest for the remainder of the period are remeasured using the same assumptions.

Service cost and net interest on the net defined benefit asset/liability are recognised in profit or loss, within operating expenses.

Remeasurements of the net defined benefit asset/liability, that are recognised in other comprehensive income include:

- actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions; and
- the return on plan assets, excluding amounts included in net interest on the net defined benefit asset/liability;

A settlement is a transaction that eliminates all further legal and constructive obligations for part or all of the benefits provided under a defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

(b) Short term employee benefits

Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered.

(c) Termination payments

Termination payments are recognised as an expense at the earlier of:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:

- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

Income taxes

(a) Current income tax

Income tax payable on profits is recognised as an expense in the year 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.

(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

1 Group accounting policies *(continued)*

that it is probable that future taxable profit will be available against which the temporary differences can be utilised and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. Deferred tax assets and liabilities are not discounted.

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

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

(c) Uncertain tax positions
IFRIC 23, which applies to all aspects of income tax accounting, clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes' are applied where there is uncertainty over income tax positions.

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

Cash and cash equivalents

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

Share capital and reserves

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

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Bank's shareholders or the Board of Directors, as appropriate.

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

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

(e) Capital redemption reserve fund
On 1 May 2015, preference stock of £300 million was repurchased. On the same date £300 million was transferred from capital contribution to the capital redemption reserve fund in order to identify these reserves as non-distributable. On 4 June 2019, the UK High Court of Justice approved the Board's application to cancel the capital redemption reserve fund and the balance was transferred to retained earnings. In March 2020, the Group carried out a share buy back transaction whereby it repurchased 195 million shares with a nominal value of £0.30 each for £1 from the Parent. This resulted in a £58.5 million reduction in share capital with a corresponding increase in the capital redemption reserve. See note 36.

(f) Other equity instruments
Other equity instruments represents Additional tier 1 securities issued by the Group to the Parent. See note 37 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's balance sheet.

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised in deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

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

Impact of new accounting standards

The following standards, interpretations and amendments to standards will be relevant to the Group but were not effective at 31 December 2020 and have not been applied in preparing these financial statements. The Group's current view of the impact of these accounting changes is outlined below.

1 Group accounting policies *(continued)*

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

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

Effective date
The effective date is for reporting periods beginning on or after 1 January 2021, with earlier application permitted.

Impact
The amendments will enable the Group to account for transitions to an alternative BMR as a change to a floating rate of interest, generally allow existing hedge accounting relationships to continue upon the replacement of an existing BMR with an alternative BMR and require the Group to provide additional disclosures related to the BMR Reform.

Pronouncement
Amendments to IAS 1 - 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 are still subject to endorsement by the UK Accounting Standards Endorsement Board ('UKEB').

Effective date
The effective date is for financial periods beginning on or after 1 January 2023, with early application permitted.

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

Pronouncement
IFRS 17 'Insurance Contracts'

Nature of change
IFRS 17 replaces IFRS 4 'Insurance Contracts', which was introduced as an interim standard in 2004. IFRS 17 addresses the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosures of insurance contract liabilities, ensuring an entity provides relevant information that faithfully represents those contracts.
The standard is still subject to endorsement by the UK Accounting Standards Endorsement Board ('UKEB').

Effective date
The effective date is for financial periods beginning on or after 1 January 2023 with early application permitted.

Impact
The amendment is not expected to have any impact on the Group.

2 Critical accounting estimates and judgements

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

(a) Impairment loss allowance on financial assets

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

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

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

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

Other key accounting estimates which are not expected to

2 Critical accounting estimates and judgements *(continued)*

change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include:
- determining the period over which to measure ECL for uncommitted revolving credit facilities; and
- determining timeframes to realisation and likely net sale proceeds.

Other key accounting judgements which are not expected to change and materially influence the quantum of impairment loss allowance and net impairment charge within the next financial year, include:
- the Group's criteria for assessing if there has been a significant increase in credit risk since initial recognition such that a loss allowance for lifetime rather than 12 month ECL is required;
- the selection of appropriate methodologies and model factors for internal risk rating and impairment models;
- the approximation made at transition to IFRS 9 of the residual lifetime PD expectations for most exposures originated prior to adoption of IFRS 9; and
- selection of the most relevant macroeconomic variables for particular portfolios and determining associations between those variables and model components such as Probability of Default (PD) and Loss Given Default (LGD).

The Group's approach to measurement of impairment loss allowances and associated methodologies is set out in the credit risk methodologies section on pages 46 to 50.

Forward Looking Information

Forward Looking Information (FLI) refers to probability weighted future macroeconomic scenarios governed semi-annually by ALCO and by BRC 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 five UK FLI scenarios at 31 December 2020, comprising of two central scenarios, an upside scenario, and two downside scenarios, all extending over a five year forecast period, with reversion to long run averages for years beyond the forecast period. The Group keeps under review the number of FLI scenarios.

For the period ending 31 December 2020, the Group has used five scenarios, increased from three scenarios at 31 December 2019, which reflects an enhancement to the measurement approach.

The central FLI scenarios for the period ending 31 December 2020 are based on internal and external information and management judgement and follow the same process as used in prior periods, though for December 2020 two central scenarios were developed for the UK to reflect different base case Brexit assumptions:
- Central scenario 1 based on less adverse base case consensus forecasts (i.e. those that assumed a free-trade agreement between the UK and the EU).
- Central scenario 2 based on more adverse base case consensus forecasts (i.e. those that assumed the trading relationships between the UK and EU reverts to World Trade Organisation terms).

Changes in estimates (forward looking information)

With the UK and EU reaching an agreement prior to year-end a higher weighting was applied to central scenario 1 (45%), with a small (5%) weighting retained for central scenario 2 to address initial disruption and uncertainty around the granular details of the new trading arrangement.

In prior years, the upside and downside scenarios have been generated using a simulation model that used historical volatilities and correlations for key macroeconomic variables to generate a distribution around the central forecast.

However, due to the unprecedented nature of the COVID-19 economic shock, the Group employed an amended approach described below for the selection of the upside and downside FLI scenarios for 2020 to avoid counter-intuitive trends in the respective scenarios.

In order to incorporate available reasonable and supportable information and apply meaningful upside and downside FLI scenarios, three narrative-driven alternative scenarios comprising one upside and two downside scenarios have been constructed.

The pre-existing FLI methodology was leveraged whereby the narrative-driven upside and downside scenarios were assessed relative to central scenario 1, with a lower probability weighting attached to the upside as it was assessed to be more distant from the central scenario on the simulated distribution. The weightings were also informed by external forward looking information (e.g. equity market indicators).

The table below shows the mean average forecast values for the key macroeconomic variables under each scenario for the forecast period 2021 to 2025, together with the scenario weightings.

2020	Central		Upside Scenario	Downside	
	Scenario 1	Scenario 2		Scenario 1	Scenario2
Scenario probability weighting	45%	5%	20%	25%	5%
GDP Growth[1]	3.2%	2.7%	4.0%	1.3%	0.4%
GNP Growth[1]	n/a	n/a	n/a	n/a	n/a
Unemployment rate[2]	5.5%	5.6%	4.5%	8.5%	10.6%
Residential property price growth[3]	0.4%	0.2%	1.4%	(1.6%)	(2.8%)
Commercial property price growth[3]	(0.2%)	(0.7%)	0.5%	(1.4%)	(2.2%)

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

2 Critical accounting estimates and judgements *(continued)*

The table below sets out the forecast values for 2021 and 2022 and the average forecast values for the period 2023 to 2025 for the key macroeconomic variables which underpin the above mean average values.

	2021	2022	2023-2025
Central scenario 1 - 45% weighting			
GDP Growth[1]	6.3%	4.0%	1.9%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	7.1%	6.0%	4.7%
Residential property price growth[3]	(3.0%)	(1.0%)	2.0%
Commercial property price growth	(3.5%)	0.0%	0.8%
Central scenario 2 - 5% weighting			
GDP Growth[1]	4.3%	2.8%	2.1%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	7.3%	6.2%	4.9%
Residential property price growth[3]	(4.0%)	(1.5%)	2.2%
Commercial property price growth	(5.0%)	(1.5%)	1.0%
Upside - 20% weighting			
GDP Growth[1]	9.3%	4.3%	2.1%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	5.9%	4.8%	3.9%
Residential property price growth[3]	(1.0%)	0.0%	2.7%
Commercial property price growth	(1.5%)	1.0%	1.0%
Downside scenario 1 - 25% weighting			
GDP Growth[1]	(1.0%)	2.4%	1.8%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	9.8%	9.2%	7.8%
Residential property price growth[3]	(7.0%)	(4.0%)	1.0%
Commercial property price growth	(7.0%)	(2.5%)	0.8%
Downside scenario 2 - 5% weighting			
GDP Growth[1]	(1.5%)	(1.0%)	1.5%
GNP Growth[1]	n/a	n/a	n/a
Unemployment rate[2]	10.5%	11.7%	10.2%
Residential property price growth[3]	(8.0%)	(6.0%)	0.0%
Commercial property price growth	(8.0%)	(4.0%)	0.3%

There was acceleration in the incidence of COVID-19 and related announcements on increased social restrictions in the UK in late December 2020. In light of these late-breaking events a post-model management adjustment to the Group's impairment loss allowance (£4.2 million) has been recognised as at 31 December 2020. This adjustment reflects the estimated impact on impairment loss allowances if the probability weightings applied to the Group's multiple economic scenarios utilised in its impairment models (per the table above) were adjusted so that the upside scenario weighting was reduced to 15% (from 20%) and the downside scenario 1 weighting was increased to 30% (from 25%).

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

2 Critical accounting estimates and judgements *(continued)*

The central, downside and upside scenarios are described below.

Central scenario 1
Having been significantly impacted in the spring of 2020 when stringent measures to contain the spread of COVID-19 were imposed, the UK economy saw a pick-up in activity over the summer months and into the autumn. However, rising virus cases led to a tightening of public health restrictions again in late 2020 and tensions over future UK-EU trading arrangements were high ahead of the end of the Brexit transition period on 31 December.

The scenario assumes that restrictions are in place into 2021 and that the UK and EU have reached agreement on a trade deal which takes effect on 1 January 2021. Following a sharp fall in 2020 as a whole, GDP in the UK rebounds in 2021 and increases further over the rest of the forecast horizon, while the unemployment rate peaks in 2021 before declining.

Central scenario 2
This scenario also assumes that COVID-19 restrictions are in place into 2021 but that the UK would fail to reach agreement with the EU meaning trade is conducted on World Trade Organisation (WTO) terms from 1 January 2020. The latter causes additional short-term disruption but GDP still expands in 2021 in the UK. Tariffs and a weaker pound add to inflation in the UK. Growth continues over the remainder of the forecast horizon and unemployment rates move down.

Upside scenario
With medical advances helping to keep the virus under control, the UK economy expands strongly in 2021 even as the new UK-EU trade deal takes effect. Solid GDP growth continues over the remainder of the forecast horizon and unemployment settles at a low rate.

Downside scenario 1
Attempts to contain COVID-19 prove unsuccessful with another virus wave in the first half of 2021 resulting in a full shutdown of the UK economy. Uncertainty, increasing business failures and less favourable post-Brexit trading terms also weigh on activity and GDP contracts for the year as a whole. And while growth resumes in 2022, unemployment rates remain high for some time.

Downside scenario 2
Ongoing attempts to contain COVID-19 prove unsuccessful and repeat waves of the virus see the UK economy fully shutdown in the first half of 2021 and again towards the end of 2021 and early 2022. This, together with less favourable post-Brexit trading terms, delivers a significant blow to activity. GDP contracts in 2021 and in 2022, while cautious behaviour on the part of consumers and widespread business failures keep the unemployment rate elevated through the forecast horizon.

Property Price Growth, all scenarios
In Central scenario 1, after showing resilience throughout 2020 average residential prices reduce by 3% in the UK in 2021 with further weakening in 2022. From 2023 onwards the markets recover to record marginally positive growth of 1-2% per annum. Central scenario 2 shows marginally worse falls in the average residential property prices in 2021 and 2022 before recovering to similar growth levels as Central scenario 1 in later years. Commercial Property prices are expected to record significant falls in 2020 and average price growth remains negative in 2021 with average prices expected to reduce by 3.5% in central scenario 1 and 5% in central scenario 2. Low level recovery then takes place from 2023 onwards in Central scenario 1 whilst in Central scenario 2 recovery is delayed until 2023.

In the downside scenarios, residential prices in 2021 are incrementally negatively impacted relative to the central scenarios and this persists into 2022 (and into 2023 in UK downside scenario 2) before recovery in 2024 and 2025. Downside scenario 1 produces a trough point with average prices expected to reduce by 11% whilst for downside scenario 2 this is expected to be 14%. Similarly, commercial prices see additional negativity in 2021 with this negativity persisting into 2022 in downside scenario 1 and 2023 in downside scenario 2 before marginal growth returns. Downside scenario 1 produces a trough point from 2021 with average prices expected to reduce by 9.5% and downside scenario 2 is expected to reduce by 12%.

In the Upside scenario residential prices are marginally negative in 2021 increasing gradually in subsequent years. Commercial prices remain marginally negative in 2021 before showing modest growth levels out to the end of the forecast period.

2019 scenarios
In 2019, the Group's FLI model used the central scenario, recent actual observed values and historical data to generate many scenarios distributed around the central scenario. The central scenario is at the 50th percentile of the distribution of scenarios (meaning that there is a 50% likelihood of the expected ECL outcome being better and a 50% likelihood of it being worse) and the upside and downside scenarios are at chosen lower and higher percentiles respectively. The probability weightings attached to the scenarios are a function of the chosen percentiles, with lower probability weightings attached to scenarios which are at percentiles more distant from the central scenario.

2 Critical accounting estimates and judgements *(continued)*

The quantum of impairment loss allowance is impacted by the application of five probability weighted future macroeconomic scenarios. The following table indicates the approximate extent to which the impairment loss allowance at 31 December 2020, excluding post model Group management adjustments to impairment loss allowances, was increased by virtue of applying multiple scenarios rather than one central scenario (central scenario 1).

2020 **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 £**	 **Total** **Impact %**
Residential mortgages	1.4	19%	1.6	46%	1.1	7%	4.1	15%
Non-property SME and corporate	0.4	9%	2.6	16%	-	-	3.0	7%
Property and construction	-	8%	0.5	11%	0.1	1%	0.6	2%
Consumer	10.4	18%	1.6	10%	-	-	12.0	11%
Total	**12.2**	**18%**	**6.3**	**16%**	**1.2**	**1%**	**19.7**	**9%**

The following table indicates the approximate extent to which impairment loss allowance, excluding Group management adjustments, would be higher or lower than reported were a 100% weighting applied to the upside and downside future macroeconomic scenarios respectively:

2020 **Impact of applying only downside scenarios rather than multiple probability weighted scenarios**	**Multiple scenarios** **Impairment loss allowance £m**	**Downside scenario 1** **Impairment Impact allowance £m**	 **Impact %**	**Downside scenario 2** **Impairment loss allowance £m**	 **Impact %**
Residential mortgages	31.6	31.6	100%	64.2	203%
Non-property SME and corporate	44.1	12.3	28%	23.9	54%
Property and construction	27.1	2.2	8%	3.6	13%
Consumer	125.8	35.2	28%	57.8	46%
Total	**228.6**	**81.3**	**36%**	**149.5**	**65%**

2020 **Impact of applying only central scenarios rather than multiple probability weighted scenarios**	**Multiple scenarios** **Impairment loss allowance £m**	**Central scenario 1** **Impairment Impact allowance £m**	 **Impact %**	**Central scenario 2** **Impairment loss allowance £m**	 **Impact %**
Residential mortgages	31.6	(4.1)	(13%)	(2.5)	(8%)
Non-property SME and corporate	44.1	(3.0)	(7%)	(1.6)	(4%)
Property and construction	27.1	(0.6)	(2%)	0.2	1%
Consumer	125.8	(12.0)	(10%)	(6.4)	(5%)
Total	**228.6**	**(19.7)**	**(9%)**	**(10.3)**	**(5%)**

2 Critical accounting estimates and judgements *(continued)*

2020 Impact of applying only upside scenarios rather than multiple probability weighted scenarios	Multiple scenarios Impairment loss allowance £m	Upside scenario Impairment loss allowance £m	Upside scenario Impact %
Residential mortgages	31.6	(7.7)	(24%)
Non-property SME and corporate	44.1	(5.1)	(12%)
Property and construction	27.1	(1.5)	(6%)
Consumer	125.8	(26.2)	(21%)
Total	**228.6**	**(40.5)**	**(18%)**

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

2020 Impact of an immediate change in residential property prices compared to central scenario 1 impairment loss allowances	Impairment loss allowance - Central scenario £m	Residential property price reduction of 10% Impact £m	Impact %	Residential property price reduction of 5% Impact £m	Impact %	Residential property price increase of 5% Impact £m	Impact %	Residential property price increase of 10% Impact £m	Impact %
Residential mortgages	28	13	2%	6	1%	(5)	(1%)	(9)	(2%)
Total	**28**	**13**	**2%**	**6**	**1%**	**(5)**	**(1%)**	**(9)**	**(2%)**

The sensitivity of impairment loss allowances to stage allocation is such that a transfer of 1% of Stage 1 balances at 31 December 2020 to Stage 2 would increase the Group's impairment loss allowance by approximately £7 million excluding Group management adjustments.

2019

The following table indicates the approximate extent to which the impairment loss allowance at 31 December 2019, excluding Group management adjustments, was increased by virtue of applying multiple scenarios rather than only a central scenario.

2019 Impact of applying multiple scenarios rather than only a central scenario	Additional impairment loss allowance Impact £m	Impact %	Additional impairment loss allowance on stage 1 and 2 financial instruments Impact £m	Impact %
Residential mortgages	1.0	4.5%	0.9	9.9%
Non-property SME and corporate	0.1	0.4%	0.1	1.2%
Property and construction	0.2	1.3%	0.2	10.7%
Consumer	1.1	1.4%	1.1	2.0%
Total	**2.4**	**1.6%**	**2.3**	**3.0%**

2 Critical accounting estimates and judgements *(continued)*

The following table indicates the approximate extent to which the impairment loss allowance at 31 December 2019, excluding Group management adjustments, would have been higher or lower than reported were a 100% weighting applied to the upside and downside future macroeconomic scenarios respectively:

2019 Impact of applying only an upside or downside scenario rather than applying multiple probability weighted scenarios	Impact of applying a 100% weighting to the upside scenario		Impact of applying a 100% weighting to the downside scenario	
	Impact £m	Impact %	Impact £m	Impact %
Residential mortgages	(7)	(30%)	28	125%
Non-property SME and corporate	(1)	(5%)	2	6%
Property and construction	(1)	(6%)	1	10%
Consumer	(4)	(6%)	6	8%
Total	**(13)**	**(9%)**	**37**	**25%**

The following table indicates the approximate extent to which impairment loss allowances at 31 December 2019 for the residential mortgage portfolios, excluding Group management adjustments, would have been higher or lower than the application of a central scenario if there was an immediate change in residential property prices:

2019 Impact of an immediate change in residential property prices compared to central scenario impairment loss allowances	Impairment loss allowance - Central scenario £m	Residential property price reduction of 10% Impact £m	Residential property price reduction of 10% Impact %	Residential property price reduction of 5% Impact £m	Residential property price reduction of 5% Impact %	Residential property price increase of 5% Impact £m	Residential property price increase of 5% Impact %	Residential property price increase of 10% Impact £m	Residential property price increase of 10% Impact %
Residential mortgages	21	11	53%	6	30%	(3)	(16%)	(4)	(19%)

Management Judgement in Impairment Measurement

A higher level of management judgement has been incorporated into the Group's impairment measurement process for 2020 compared to previous years. Management judgement can be described with reference to:

- management judgement in impairment model parameters; and
- post-model Group management adjustments to impairment loss allowance and staging classification.

Management judgement in impairment model parameters

The macroeconomic scenario, which reflects the impact of COVID-19, is unprecedented compared to historic experience, resulting in impairment models generating Probability of Default (PD) rates that in certain cases were not considered to be a reasonable expectation of default given the macroeconomic paths defined in the FLI.

In order for the Group's impairment loss allowance as at 31 December 2020 to reflect an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, management judgement is required to adjust certain impairment model parameters (i.e. PD estimates, residential mortgage prepayment rates and staging classification). The Group has assessed reasonable and supportable information available both internally and externally to inform its approach for management judgement applied to impairment model parameters. Where initial PD estimates from impairment models were considered to be unreasonable, a number of reference points were assessed, utilising data derived from internal and external information (including historical peak default rates; more recently observed default rates; payment break cases; and equity implied PDs). Where relevant, management judgement informed by these reference points was utilised to select more appropriate PDs for the central scenario 1, with corresponding PDs in the other upside, central and downside scenarios derived from the central scenario 1 taking into account the severity of the respective scenarios. Once the PDs incorporating management judgement were applied, the standard Expected Credit Loss (ECL) calculation was followed within the existing credit methodologies (which include the control framework).

The ECL model framework was also updated in the year to reflect the implementation of the revised definition of default (as outlined on page 44 in the asset quality section) and model factor updates to reflect recent observed information.

Post-model Group management adjustment

To ensure that the measurement of impairment reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past

2 Critical accounting estimates and judgements *(continued)*

events, current conditions and forecasts of future economic conditions, the need for a Group management adjustment to the outputs of the Group's staging and impairment measurement methodologies is considered at each reporting date in arriving at the final impairment loss allowance. Such a need may arise, for example, due to a model limitation or late breaking event.

COVID-19 Group management adjustment

At 31 December 2020, the Group considered the data and measurement limitations arising from the unprecedented impact of COVID-19, including the availability of government supports and the general availability of payment breaks during the year to all customers regardless of credit status. While the majority of payment breaks have expired prior to the reporting date the Group's view is that modelled impairment losses at 31 December 2020 may not fully capture expected credit losses relating to these customers as the days past due count was paused when payment breaks were applied in line with the industry wide approach. As a result, at 31 December 2020, the Group's impairment loss allowance of £273 million includes a Group management adjustment of approximately £40 million, with £33 million of this management adjustment allocated to Stage 1 and £7 million to Stage 2. £12 million of the adjustment is related to UK residential mortgages, a further £7 million relates to UK SME portfolios; £21 million is related to the Consumer portfolio; and less than £1 million relates to property and construction.

Individual assessments for all relationship managed business banking cases that received COVID-19 concessions were completed. In addition, sector-level COVID-19 and Brexit risk assessments for the business banking portfolios were completed informed by the prevalence of payment breaks, macro-prudential sector risk classifications, and management judgement. Certain sectors (e.g. hospitality and entertainment) were identified to be highly impacted where the risk was not considered to be adequately captured in the modelled probability of default estimates.

Payment break cohorts in the mortgage, consumer and asset finance portfolios were reviewed at a portfolio level. The above portfolio level review was completed with reference to the outputs of the IFRS 9 impairment models, combined with other available data sources including a customer vulnerability assessment and management judgement. The vulnerability assessments were informed by data on loans that availed of payment breaks during 2020 with cross reference to other credit characteristics.

Given the level at which this review was performed for mortgage, consumer, asset finance and micro-SME portfolios, the Group did not reclassify any exposures into a different stage than that initially identified by the impairment models for these portfolios.

The total payment break population at 31 December 2020 was £188 million. Further details in relation to payment breaks are set out on page 128. The Group's management adjustment of £33 million in Stage 1 is broadly equivalent to the impact from a transfer of c.4% of the Group's stage 1 assets into stage 2.

In addition, a post-model staging adjustment has been applied to relationship managed business banking portfolios whereby all customers who operate in "highly impacted" sectors, as referenced above, are classified as stage 2 with a lifetime impairment loss allowance applied. The impact of this staging adjustment is a c.£1 million increase in impairment loss allowance for UK SME.

Group management adjustment for late breaking events

A post-model management adjustment to the Group's impairment loss allowance of £4.2 million has been recognised as at 31 December 2020 to reflect an acceleration in the incidence of COVID-19 and related announcements on increased social restrictions in late December 2020.

This adjustment reflects the estimated impact on impairment loss allowances if the probability weightings applied to the Group's multiple economic scenarios utilised in its impairment models were adjusted so that the upside scenario weighting was reduced to 15% (from 20%) and the downside scenario 1 weighting was increased to 30% (from 25%).

The adjustment is allocated across portfolios to reflect the estimated impacts of the adjusted scenario weightings on impairment loss allowance, with £2 million allocated to Stage 1 and £2.2 million to Stage 2. The stage classification of assets was not changed through the application this management adjustment.

Stage 3 Group management adjustment for residential mortgages

The £2.3 million management adjustment previously applied across all stages in the UK mortgages portfolio at 31 December 2019, pending further evolution of impairment model methodology, is no longer considered to be required, noting that the COVID-19 management adjustment outlined above includes £11.6 million relating to the UK mortgages portfolio and the amount of impairment loss allowance for the portfolio is considered to be appropriate.

(b) Taxation

At 31 December 2020, the Group had a net deferred tax asset of £23 million (2019: £41 million), of which £15 million (2019: £30 million) related to trading losses. See note 25.

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

This is particularly relevant due to the material impact of COVID-19 on business performance in the current period and future projections.

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 2020.

2 Critical accounting estimates and judgements *(continued)*

Judgement
The Group's judgement takes into consideration the impact of both positive and negative evidence in assessing the recoverability of the deferred tax asset. Positive factors which have been considered include:

- The Group has a sustained history of operating profits and it is considered likely that the Group's activities will be profitable into the future;
- the absence of any expiry dates for UK tax losses; and
- external forecasts for the UK which indicate a return to growth and improved employment levels in 2022.

The Group also considered negative evidence and the inherent uncertainties in any long term financial assumptions and projections, including:
- the quantum of profits required to be earned and the extended period over which it is projected that the tax losses will be utilised;
- the challenge of projecting over a long period, taking account of the level of competition, the potential impacts from COVID-19 and a lower-for-longer interest rate environment; and
- accelerated transformation of banking business models.

The Directors believe that the Group will achieve an overall level of profitability in the foreseeable future but acknowledge the external challenges which are outlined in the Strategic Report facing the banking industry. In particular, during 2020, the economic environment in which the Bank operates has become more challenging, with COVID-19, residual Brexit uncertainty, forecast continuation of a lower-for-longer interest rate environment and accelerated transformation of banking business models. The risk and implications of many of these issues heightened significantly in 2019 and 2020.

Therefore, notwithstanding the absence of any expiry date for trading losses in the UK, but acknowledging the economic and industry-wide headwinds the Directors believe it continues to be appropriate to restrict the recognition of the DTA relating to the tax losses of the Bank to the amount of losses that are expected to be used within ten years. This ten year timescale is supported by forecast taxable profits and takes into account the Group's long-term financial and strategic plans and reflects the period over which the Group believes it can conclude that it is probable that future taxable profits will be available in the Bank.

This restriction, together with the significant impacts of COVID-19 on profitability in the current period and more challenging economic headwinds on future profits, will result in a lower utilisation of the Bank's tax losses than projected at December 2019 and results in a further reassessment and reduction of the DTA relating to trading losses of £18 million at 31 December 2020 (31 December 2019: reduction of £40 million).

There is a risk that the final taxation outcome could be different to the amounts currently recorded. If future profits or subsequent forecasts differ from current forecasts, a further adjustment may be required to the deferred tax asset.

Sources of estimation uncertainty
To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required to support the conclusion that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

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

The Group's assessment of deferred tax recoverability for the Bank is based on forecasts covering its five year initial 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 over the long term for future profitability levels and a growth rate of 2% (including GDP of 1%). The Group's profitability projections are based on its agreed strategic priorities of 'Invest, Improve and Reposition', where the focus will be to increase overall returns, improve cost efficiencies and grow sustainable profits.

The Bank expects to recover approximately 50% of the deferred tax asset within six years of the balance sheet date.

(c) Impairment review of goodwill and intangible assets
Goodwill of £30 million and other intangible assets of £10 million arose on the acquisition of Marshall Leasing Limited (MLL) on 24 November 2017, as set out in note 22. Goodwill is not amortised as it is deemed to have an indefinite useful life.

The Group's carrying value of MLL (including goodwill and other intangible assets) has been reviewed for impairment. The Group's impairment reviews normally estimate the recoverable amount of the relevant cash generating unit using projections based on the Group's most recent forecasts covering an initial five year period with a terminal growth rate of 0% thereafter. However, for the MLL subsidiary, given market uncertainty around the motor finance market, the impairment review for December 2020 and December 2019 has been prepared using an initial three year period for the MLL cash generating unit (which is linked to the average term of the leases) with a terminal growth rate of 0% thereafter. These cash flows are then discounted at a pre tax discount rate of 11.6% (2019:12.7%) to estimate the recoverable amount of the cash generating unit (based on its value in use).

The Group's strategic plan comprises forecasts of revenue, staff costs and overheads based on current and anticipated market conditions. Whilst the Group operates a robust forecasting process, it is acknowledged that the revenue projections contain an element of uncertainty.

The impairment review is most sensitive to: (a) changes in the discount rate; and
(b) the terminal growth rate used to project the cashflows after year 3.

As a result of the uncertainty regarding the longer term

2 Critical accounting estimates and judgements *(continued)*

shape of the motor vehicle financing sector, including concerns regarding combustion engines, alternative fuels and changing customer behaviours, it is also currently unknown to what extent COVID-19 may lead to, for example, a longer term shift to remote working on a larger scale, and what impact this may have on the car market. Management have factored this additional uncertainty into the cash flow projections used for the impairment review during 2020.

As a result of the impairment review carried out during 2020, the goodwill was determined to be impaired by £8 million, which has been charged to the income statement and included within operating expenses.

The table below includes reasonably possible changes in assumptions upon which the recoverable amount is estimated, which would lead to the following changes in the net present value of MLL:

Change in assumption	Decrease in recoverable amount £m
Increase in discount rate by 1%	3
Reduction in terminal growth rate of 1%	2

Management have also calculated a breakeven scenario which assumes an increase in the pre tax discount rate of 2.4%.

(d) Unwind of fair value adjustments on acquired mortgages

Between 2012 and 2014 the Group acquired a number of tranches of mortgages from the Parent at fair value. These assets were initially recognised on the balance sheet at fair value plus transaction costs. The differential between the initial carrying value of the assets and the principal balances is considered to be a 'fair value adjustment'. This fair value adjustment is amortised to the income statement, as part of the effective interest rate of the assets, over their remaining expected lives. At 31 December 2020, the impact of the fair value adjustment was to reduce the carrying amount of loans and advances to customers by £159 million (2019: £184 million). In 2020, there was a benefit of £30 million (2019: £26 million) to the income statement from the unwind of, and revisions to, the fair value adjustment.

The most significant judgement relating to the fair value adjustment relates to the timing of the unwind. This requires significant management judgement in relation to customer repayment assumptions which determines the expected lives of the relevant loans, and therefore impacts on the amount of interest income recognised in each financial year. In arriving at the expected lives and hence the amount of the unwind, a sensitivity analysis is carried out which considers the impact of various scenarios, as follows:

- a reduction in the rate of repayments, resulting in the expected life of the buy to let mortgage portfolio increasing by 3 months, would give rise to a reduction in interest income of £8 million being recognised in 2020; and
- an increase in the rate of repayments, resulting in the expected life of the buy to let mortgage portfolio shortening by 3 months, would give rise to an increase in interest income of £8 million being recognised in 2020.

(e) Effective interest rate

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

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

For secured mortgage lending, management model future expected cash flows for each tranche of lending. In determining the future cash flows, management use judgement to estimate the average life curve of each lending tranche. Management estimate expected future payments of interest and capital based on expected interest rates and redemption profiles of customers based on previous customer behaviour, incorporating estimates of the proportion of borrowers expected to incur early redemption charges. In particular, a key assumption in the effective interest rate models relates to the length of time which borrowers remain on a reversionary rate after the end of the fixed rate period.

Management considers the estimated life curve to be the most significant estimate, the accuracy of which could be impacted by customer repayment behaviour being different to expectations. Sensitivity analysis shows that a one month reduction in the weighted average expected life of buy to let mortgages would give rise to an additional income statement charge of £6 million and a reduction of 0.5 months in the weighted average expected life of standard mortgages would give rise to an additional income statement charge of £12 million.

During the year, following the reassessment of the expected lives of loans and advances to customers, a charge of £4 million was recognised through interest income.

(f) Retirement benefit obligations

The Group's subsidiary, NIIB Group Limited, operates a defined benefit pension scheme. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future development and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, member mortality and other demographic assumptions.

Sources of estimation uncertainty

There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. A quantitative analysis of the sensitivity of the defined benefit pension liability to changes in the key assumptions is set out in note 33.

3 Interest income

Included in interest income for the year ended 31 December 2020 is £2 million in respect of income earned by the Group on loans and advances to banks, relating to amounts placed with the Parent (2019: £9 million) offset by interest on hedging derivatives of £25 million which are also held with the Parent (2019: £11 million).

Group share of joint operation interest income for the year ended 31 December 2020 is £46 million (2019: £38 million). Refer to note 21.

Other interest income includes £3 million (2019: £2 million) in relation to non-trading derivatives held with hedging intent, but for which hedge accounting is not applied (economic hedges), held with the Parent.

In 2020, £14 million of interest income was recognised on credit-impaired loans and advances to customers (2019: £8 million). In 2020, £15 million of interest income was received on credit-impaired loans and advances to customers (2019: £10 million).

Interest income also includes £30 million relating to the unwind of, and revisions to, fair value adjustments associated with mortgages acquired from the Parent in prior years (2019: £26 million).

For the year ended 31 December 2020 interest recognised on total forborne loans and advances to customers was £7 million (2019: £7 million).

Finance lease and hire purchase receivables interest income arises from the Northridge Finance business.

Group	2020 £m	Restated[1] 2019 £m
Financial assets measured at amortised cost		
Loans and advances to customers	568	590
Loans and advances to banks	2	9
Debt securities at amortised cost	12	15
Interest on hedging derivatives	(25)	(11)
Cash and balances with central banks	7	21
Interest income on financial assets measured at amortised cost	**564**	**624**
Interest income calculated using the effective interest rate method	**564**	**624**
Other interest income		
Interest income on finance leases and hire purchase receivables	86	82
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	3	2
Interest income	**653**	**708**

4 Interest expense

Included in interest expense for the year ended 31 December 2020 is £38 million in respect of interest paid to the Parent on deposits and subordinated liabilities (2019: £32 million).

Other interest expense includes £7 million (2019: £1 million) in relation to non-trading derivatives held with hedging intent, but for which hedge accounting is not applied (economic hedges), held with the Parent.

Group share of joint operation interest expense for the year ended 31 December 2020 is £7 million (2019: £9 million). Refer to note 21.

Group	2020 £m	Restated[1] 2019 £m
Customer accounts	134	174
Deposits from banks	26	33
Subordinated liabilities	18	14
Debt securities in issue	3	3
Lease liabilities	1	1
Interest expense on financial liabilities measured at amortised cost	**182**	**225**
Interest expense calculated using the effective interest rate method	**182**	**225**
Other interest expense		
Non-trading derivatives (not in hedge accounting relationships - economic hedges)	7	1
Interest expense	**189**	**226**

[1] *As outlined in the Group accounting policies on page 88, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 45 for additional information.*

5 Other leasing income and expense

Other leasing income and expense relate to the business activities of Marshall Leasing Limited (MLL). MLL is a car and commercial leasing and fleet management company based in the UK. Other leasing expense includes depreciation of £24 million related to vehicles leased under operating leases (2019: £25 million). See note 23.

Group	2020 £m	2019 £m
Other leasing income	58	54
Other leasing expense	(49)	(46)
Net leasing income	**9**	**8**

6 Fee and commission income and expense

Group 2020 Fee and commission income	2020 GB Consumer Banking[1] £m	2020 NI and GB Business Banking[2] £m	2020 Total £m	2019 GB Consumer Banking[1] £m	2019 NI and GB Business Banking[2] £m	2019 Total £m
Retail banking customer fees	33	23	56	48	29	77
- ATM fees	*33*	-	*33*	*46*	-	*46*
- Other fees	-	*23*	*23*	*2*	*29*	*31*
Other fees received	19	3	22	13	5	18
Total	**52**	**26**	**78**	**61**	**34**	**95**

	2020 £m	2019 £m
Amounts include:		
Group share of joint operation (note 21)	1	1

No impairment losses were recognised in relation to the Group's receivables arising from contracts with customers in 2020 and 2019.

	2020 £m	2019 £m
Fee and commission expense - external	48	81
Fees paid to the Parent	8	8
Fee and commission expense	**56**	**89**
Amounts include:		
Group share of joint operation (note 21)	2	3

[1] *Great Britain (GB) Consumer Banking: offers consumer banking products through strategic partnerships with the Post Office, the AA and intermediaries.*

[2] *Northern Ireland (NI): the business includes the results of the Northern Ireland Bank of Ireland UK branch network and business centres, personal lending, together with the credit card and mortgage portfolio and the note issuing activity in Northern Ireland. Great Britain (GB) Business Banking: includes commercial lending and retail deposits. The commercial lending business is undergoing a continued programme of deleveraging.*

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)**	**2020** **£m**	**Restated[1]** **2019** **£m**
Financial instruments held for trading	(2)	3
Net trading income / (expense)	**(2)**	**3**
Amounts include:		
Net trading income / (expense) from the Parent	(61)	**(21)**

8 Other operating income

Group	**2020** **£m**	**2019** **£m**
Other operating income	2	1
Net gains on derecognition of financial assets measured at amortised cost	-	1
Total other operating income	**2**	**2**

9 Operating expenses

Group **Operating expenses**	**2020** **£m**	**2019** **£m**
Administrative expenses		
Staff costs[2] (a)		
- Wages and salaries	58	39
- Social security costs	6	5
- Other pension costs[3]	8	7
Total staff costs	**72**	**51**
Other administrative expenses	72	83
Other administrative expenses – related parties (b)	148	173
Amortisation and depreciation	8	10
Impairment of RoU assets	2	-
Impairment of goodwill	8	-
Total operating expenses	**310**	**317**
Amounts include:		
Group share of joint operation (note 21)	12	10

[1] As outlined in the Group accounting policies on page 88, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 45 for additional information.

[2] Staff costs include amounts of £50 million (2019: £32 million) for wages and salaries, £5 million (2019: £4 million) for social security costs and £7 million (2019: £5 million) for other pension costs recorded in the Bank financial statements.

[3] Other pension costs include £1 million (2019: £1 million) in relation to the NIIB scheme which is accounted for as a defined benefit scheme (see note 33) 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 £72 million (2019: £51 million) include all gross salaries, related social security costs, and pension contributions attributable to those employees directly employed by the Group. Staff costs include £12 million (2019: £nil) related to voluntary redundancy costs for employees that had exited the Group by 31 December 2020 and employees for which the Group has exit plans in place and has made appropriate communications as at 31 December 2020. Gross salaries also include those costs associated with staff seconded to the Group from the Parent under a secondment agreement. The monthly average number of staff (direct and seconded full time equivalents) was 823 (2019: 661), of which 652 related to the Bank (2019: 500). Refer to note 41 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 agreements. These comprise of services across a number of different activities and areas including, but not restricted to, product design, manufacture, distribution and management, customer service, and IT. Included in this management charge is the cost of a number of employees who carry out services for the Group on behalf of the Parent. These employees' employment contracts are with the Parent and their remuneration is included in the Parent's financial statements. Due to the nature of the services provided it is neither possible to ascertain separately the element of the management charge that reflects the employee staff charge, nor disclose separately employee numbers relevant to the Group's activities.

10 Auditors' remuneration

The Group's Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors. Audit related assurance services consist of fees in connection with accounting matters and regulatory compliance based work. It is the Group's policy to subject all major assignments to a competitive tender process.

Group	2020 £000's	2019 £000's
Fees payable for the audit of the Bank and Group financial statements	564	498
Audit of the Bank's subsidiaries pursuant to legislation	142	144
Audit related assurance services	51	80
Other assurance services	357	39
Auditors' remuneration	**1,114**	**761**

11 Net impairment losses / (gains) on financial instruments

Group	2020 £m	2019 £m
Loans and advances to customers (note 19)	149	41
- Cash recoveries	*(7)*	*(13)*
- Movement in impairment (gains) / losses	*156*	*54*
Loans and advances to banks	-	(1)
Loan commitments (note 32)	2	-
Guarantees and irrevocable letters of credit (note 32)	-	-
Net impairment losses / (gains) on financial instruments	**151**	**40**

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	2020 £m	2019 £m
Residential mortgages	23	(3)
Non-property SME and corporate	29	(2)
Property and construction	14	(2)
Consumer	83	48
Total	**149**	**41**

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 21 for further information.

Group	2020 £m	2019 £m
First Rate Exchange Services Holdings Limited	(1)	30
Share of profit after tax of joint venture	**(1)**	**30**

13 Loss on disposal of business activities

In 2019 the Group incurred a loss of £19 million on disposal of its consumer credit card portfolio.

The loss on disposal calculation reflected total consideration of £521 million for assets with a net book value of £505 million (gross carrying value of £528 million (gross of ECL allowance)) together with a provision of £34 million related to the costs of migration and other costs associated with the disposal. This provision was based upon management's best estimates at that time of the length of the migration period and the related costs.

In October 2020 the migration concluded and consequently management have adjusted their provision during 2020 to reflect the actual costs and timing of the migration. This has resulted in a release of £7 million during 2020 which is reflected as an adjustment to the loss on disposal during the period.

14 Taxation charge

The effective tax rate for the year is a charge of 32% (2019: charge of 37%). This rate is higher than the standard rate of 19% largely due to the impact of the re-assessment of the value of tax losses carried forward (see note 25), partly offset by the impacts of the treatment of the acquired mortgage portfolio and the corporation tax rate change.

Group	2020 £m	2019 £m
Current tax		
Current year (credit) / charge	(1)	13
Adjustment in respect of prior year	2	1
Total current taxation charge	**1**	**14**
Deferred tax		
Current year charge	-	3
Adjustment in respect of prior year	(1)	1
Impact of corporation tax rate change[1]	(5)	-
Re-assessment of the value of tax losses carried forward	18	40
Total deferred taxation charge	**12**	**44**
Taxation charge	**13**	**58**

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 2020 and 31 December 2019.

Group	2020 £m	2019 £m
Profit before taxation	**40**	**155**
Multiplied by the standard rate of Corporation tax in UK of 19% (2019: 19%)	8	29
Effects of:		
Re-assessment of the value of tax losses carried forward (see note 25)	18	40
Share of results of joint venture after tax in the income statement	-	(6)
Impact of UK banking surcharge	-	1
Non-taxable income on the unwind of fair value adjustments on acquired mortgages (see page 109)	(6)	(5)
Impact of corporation tax rate change	(5)	-
Adjustment in respect of prior year	1	2
Tax credit on AT1 coupon	(5)	(5)
Other	2	2
Taxation charge	**13**	**58**

[1] *The tax credit of £5 million (2019: £nil) in respect of corporation tax rate changes is due to the main UK corporation tax rate remaining at 19% for the financial year rather than reducing to the previously enacted rate of 17%, which was expected to apply from 1 April 2020. This change was substantively enacted on 17 March 2020.*

15 Cash and cash equivalents

Cash and cash equivalents	Group 2020 £m	Group 2019 £m	Bank 2020 £m	Bank 2019 £m
Cash	21	37	21	37
Balances at central banks	2,029	2,097	2,029	2,097
Less impairment loss allowance on cash and balances at central banks	-	-	-	-
Total cash balances included in cash and cash equivalents	**2,050**	**2,134**	**2,050**	**2,134**
Loans and advances to banks	1,672	2,158	1,542	1,935
Less: amounts with a maturity of three months or more	(33)	(237)	(33)	(237)
Total loans and advances to banks included in cash and cash equivalents	**1,639**	**1,921**	**1,509**	**1,698**
Total cash and cash equivalents	**3,689**	**4,055**	**3,559**	**3,832**
Due from the Parent	305	353	298	345

The impairment loss allowance for Group and Bank of £0.3 million (2019: £0.3 million) is related to 12 month ECL not credit-impaired.

16 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 34 to 62. The notional amounts of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The Group holds certain derivatives with the Parent principally for interest rate risk management. The Group has applied hedge accounting to the majority of these derivatives, which are classified as held for hedging in the table below.

The Group also holds certain derivatives entered into with economic hedging intent to which hedge accounting is not applied and these are considered to be held for trading in the table below. These primarily include foreign exchange forward contracts with customers, with a corresponding foreign exchange contract to hedge foreign exchange risk with the Parent.

As set out in the risk management policy on page 41, the Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of £53 million at 31 December 2020 (2019: £41 million):

- £43 million (2019: £37 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 2020 cash collateral of £70 million (2019: £15 million) was placed against these liabilities and is reported in Loans and advances to banks (note 17); and
- £10 million (2019: £4 million) are not covered under CSA and ISDA standard documentation.

16 Derivative financial instruments *(continued)*

Group and Band	2020			2019		
	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	359	9	3	103	1	2
Currency forwards – with the Parent	359	3	9	103	2	1
Currency swaps	76	1	-	168	3	3
Currency swaps - with the Parent	76	-	1	168	3	3
Total foreign exchange derivatives held for trading	**870**	**13**	**13**	**542**	**9**	**9**
Interest rate derivatives						
Interest rate swaps - with the Parent	3,782	5	5	3,669	11	5
Cross currency interest rate swaps - with the Parent	203	-	-	194	-	-
Total interest rate derivatives held for trading	**3,985**	**5**	**5**	**3,863**	**11**	**5**
Total derivatives held for trading	**4,855**	**18**	**18**	**4,405**	**20**	**14**
Derivatives held as fair value hedges						
Interest rate swaps - with the Parent	5,938	2	87	4,000	5	35
Derivatives held as cash flow hedges						
Interest rate swaps - with the Parent	3,402	33	9	4,242	16	10
Total derivative assets / liabilities held for hedging	**9,340**	**35**	**96**	**8,242**	**21**	**45**
Total derivative assets / liabilities	**14,195**	**53**	**114**	**12,647**	**41**	**59**

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			2020				2019			
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	256	133	178	-	83	272	225	-
		Average fixed interest rate	2.13	1.54	0.72	0.60	1.10	1.95	1.38	0.60
Cash Flow Hedge	Interest Rate Risk	Interest rate swap	675	1,098	226	1,403	633	1,760	893	956
		Average fixed interest rate	0.57	0.37	0.10	0.40	1.01	0.77	0.61	1.02

16 Derivative financial instruments *(continued)*

Interest rate benchmark reform

At 31 December 2020, GBP LIBOR represented the most significant interbank offered rate benchmark subject to reform to which the Group's fair value and cash flow hedge relationships of interest rate risk are exposed. In line with regulatory guidance and now established market practice it is expected that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR.

The Group also has a small exposure to EURIBOR. As EURIBOR has been reformed and complies with the EU Benchmarks Regulation (BMR) under a new hybrid methodology, the Group expects EURIBOR to continue as a benchmark interest rate for the foreseeable future and, therefore, does not consider interest rate hedge relationships of EURIBOR to be directly affected by IBOR reform as at 31 December 2020.

A formal Group-wide Benchmark Reform Programme is progressing to plan so as to manage the orderly transition to new regulatory compliant benchmarks. The process being used by the Group to manage the transition to alternative benchmark rates is included on page 31.

The Group has applied judgement in relation to market expectations when determining the fair value of the hedging instrument and the present value of the estimated cash flows of the hedged item. The key judgement is that the cash flows for contracts indexing rates subject to the BMR reform are currently expected to be broadly equivalent to the cash flows when those contracts transition to alternative BMR's. However, this might no longer be the case. Hedge accounting relationships impacted by BMR reform may experience increased ineffectiveness due to the following reasons:

- market participants' expectations for when the transition from the existing benchmark rate to an alternative benchmark interest rate may occur. This could give rise to hedge ineffectiveness in the prospective assessment, in particular where the replacement of the benchmark rate in the hedged item and hedging instrument is expected to occur at different times or to be subject to different market conventions; and
- modification to the terms of the existing BMR contracts that results in the derecognition of a hedged item or the hedging instrument. If upon transition to an alternative benchmark rate, the new basis for determining contractual cash flows is not economically equivalent to the previous basis and the modification is deemed to be substantial, the hedging instrument and/or hedged item will be required to be derecognised, which would imply discontinuation of the corresponding hedge accounting relationship. Any subsequent re-designation of such hedge relationships may increase hedge ineffectiveness.

Fair value hedges

Certain interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate exposure on the Group's fixed rate financial assets and liabilities.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year are shown in the table below:

Group and Bank

Risk Category	Hedging Instrument[1]	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument Assets £m	Carrying amount of the hedging instrument Liabilities £m	Changes in value used for calculating hedge ineffectiveness[2,3] £m	Ineffectiveness recognised in profit or loss[2,3] £m	Nominal amount of the hedging instruments affected by BMR reform £m
2020							
Interest rate risk	Interest rate swaps	5,938	2	(87)	50	1	2,500
2019							
Interest rate risk	Interest rate swaps	4,000	5	(35)	(19)	-	3,257

[1] All hedging instruments are included within derivative financial instruments on the balance sheet.
[2] Ineffectiveness is included within net trading income / (expense) on the income statement.
[3] There are no material causes of ineffectiveness in the Group's fair value hedges.

16 Derivative financial instruments *(continued)*

Group and Bank		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			
Risk Category	Line item on the balance sheet in which the hedged item is included	Assets £m	Liabilities £m	Assets £m	Liabilities £m	Changes in value used for calculating hedge ineffectiveness £m	Remaining adjustments for discontinued hedges £m
2020							
Interest rate risk	Debt securities at amortised cost	554	-	11	-	1	-
	Loans and advances to customers	5,465	-	53	-	51	5
	Customer accounts	-	71	-	(2)	(2)	(5)
Total		**6,019**	**71**	**64**	**(2)**	**50**	**-**
2019							
Interest rate risk	Debt securities at amortised cost	555	-	10	-	(1)	-
	Loans and advances to customers	3,443	-	10	-	(17)	-
	Customer accounts	-	70	-	(1)	(1)	(6)
Total		**3,998**	**70**	**20**	**(1)**	**(19)**	**(6)**

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.

			Carrying amount of the hedging instrument						
Risk Category	Hedging Instruments[1]	Nominal amount of the hedging instrument £m	Assets £m	Liabilities £m	Changes in value used for calculating hedge in-effectiveness £m	Changes in the value of the hedging instrument recognised in other comprehensive income £m	In-effectiveness recognised in profit or loss[2,3] £m	Amount reclassified from the cash flow hedge reserve to profit or loss[3,4] £m	Nominal amount of the hedging instruments affected by BMR reform £m
2020									
Interest rate risk	Interest rate swaps	3,402	33	9	(17)	16	(1)	6	479
2019									
Interest rate risk	Interest rate swaps	4,242	16	10	(12)	11	(1)	(5)	900

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within trading income / (expense) on the income statement.*
[3] *There are no material causes of ineffectiveness in the Group's cash flow hedges.*
[4] *£nil relates to amounts transferred to profit or loss for which hedge accounting was previously applied but for which hedged future cash flows are not expected to occur.*

16 Derivative financial instruments *(continued)*

The amounts relating to items designated as hedged items for the period are as follows.

Group and Bank	2020 Changes in the hedged risk used for calculating hedge ineffectiveness £m	2020 Cash flow hedge reserve £m	2020 Remaining adjustments for discontinued hedges £m	2019 Changes in the hedged risk used for calculating hedge ineffectiveness £m	2019 Cash flow hedge reserve £m	2019 Remaining adjustments for discontinued hedges £m
Interest rate risk	16	(23)	(5)	11	(7)	(3)
Foreign exchange risk	-	-	-	-	-	-
Total	**16**	**(23)**	**(5)**	**11**	**(7)**	**(3)**

This table below shows a reconciliation of the movements in the cash flow hedge reserve for 2020 and 2019.

Group and Bank Cash flow hedge reserve	2020 £m	2019 £m
Changes in fair value		
Interest rate risk	12	7
Transfer to income statement		
Interest income		
- Interest rate risk	2	-
Net trading income / (expense)		
- Interest rate risk	4	(6)
Deferred tax on reserve movements	(5)	-
Net change in cash flow hedge reserve	**13**	**1**

In 2020 and 2019, 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 84).

17 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	
	2020 £m	**2019 £m**	**2020 £m**	**2019 £m**
Placements with other banks	507	853	377	630
Mandatory deposits with central banks	1,165	1,306	1,165	1,306
	1,672	**2,159**	**1,542**	**1,936**
Less impairment loss allowance on loans and advances to banks	-	(1)	-	(1)
Loans and advances to banks at amortised cost	**1,672**	**2,158**	**1,542**	**1,935**
Loans and advances to banks at fair value through profit or loss	-	-	-	-
Total loans and advances to banks	**1,672**	**2,158**	**1,542**	**1,935**
Amounts include:				
Due from the Parent	306	552	298	544

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 26. From a counterparty credit risk perspective, while these two amounts are disclosed on a gross basis, the Group has in place a contractual Master Netting Agreement with the Parent, whereby, in the event of default of either party, all amounts due or payable will be settled immediately on a net basis.

Represented in mandatory deposits with central banks is:
- an amount of £1,092 million relating to collateral with the Bank of England in respect of notes in circulation (2019: £1,242 million). £627 million of this relates to non-interest bearing collateral (2019: £689 million); and
- an amount of £73 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 (2019: £64 million).

All loans and advances to banks for Group and Bank are stage 1.

18 Debt securities at amortised cost

The following table details the significant categories of debt securities at amortised cost.

	Group		Bank	
	2020 £m	**2019 £m**	**2020 £m**	**2019 £m**
Government bonds	256	261	256	261
Other debt securities at amortised cost	666	585	666	585
Less impairment loss allowance	-	-	-	-
Debt securities at amortised cost	**922**	**846**	**922**	**846**

18 Debt securities at amortised cost *(continued)*

The following table shows the movement in debt securities at amortised cost for the year ended 31 December 2020. All debt securities at amortised cost were stage 1 (12 month ECL not credit-impaired) throughout the year ended 31 December 2020.

Group and Bank **2020** **Gross carrying amount** **(before impairment loss allowance)**	**Total** **£m**
Closing balance 31 December 2019	846
Additions	143
Redemptions, repayments and disposals	(65)
Measurement reclassification and other movements	(2)
Gross carrying amount at 31 December 2020	**922**

19 Loans and advances to customers

	Group		**Bank**	
	2020 **£m**	**2019** **£m**	**2020** **£m**	**2019** **£m**
Loans and advances to customers at amortised cost	19,497	19,101	21,642	21,452
Finance leases and hire purchase receivables (see below)	2,076	2,245	-	-
Less impairment loss allowance on loans and advances to customers	(273)	(146)	(245)	(131)
Total loans and advances to customers[1]	**21,300**	**21,200**	**21,397**	**21,321**
Amounts include:				
Share of joint operation (note 21)	646	632	646	632
Due from subsidiaries	-	-	2,214	2,443
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	704	695	-	-
Later than 1 year and not later than 5 years	1,524	1,733	-	-
Later than 5 years	8	7	-	-
	2,236	**2,435**	**-**	**-**
Unearned future finance income on finance leases	(160)	(190)	-	-
Net investment in finance leases	**2,076**	**2,245**	**-**	**-**
Not later than 1 year	654	641	-	-
Later than 1 year and not later than 5 years	1,415	1,598	-	-
Later than 5 years	7	6	-	-
	2,076	**2,245**	**-**	**-**

Included within loans and advances to customers is £295 million of lending in relation to the UK government-backed BBLS and CBILS schemes. An ECL of £2.8 million was recognised in the impairment loss allowance in relation to loans drawn under the BBLS which reflects the risk that there may be some exposures where the bank might not be able to call on the government guarantee. The bank has sought to mitigate this risk through extending the scheme to existing customers only.

[1] *At 31 December 2020, loans and advances to customers included £1,363 million (2019: £1,857 million) of residential mortgage balances that had been securitised but not derecognised. Refer to note 43.*

19 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 47 and the Group accounting policies note on page 91 with updates for 2020 (including the impact of the implementation of a revised definition of default) outlined in the Credit Risk section of the Risk Management Report on pages 40 to 50.

Group 2020 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	16,001	890	72	2,781	19,744
Stage 2 - Lifetime ECL (not credit impaired)	464	488	239	102	1,293
Stage 3 - Lifetime ECL (credit impaired)	322	91	58	65	536
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2020	**16,787**	**1,469**	**369**	**2,948**	**21,573**

Group 2019 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	16,178	1,157	287	2,875	20,497
Stage 2 - Lifetime ECL (not credit impaired)	267	130	88	84	569
Stage 3 - Lifetime ECL (credit impaired)	165	39	37	38	279
Purchased / originated credit-impaired	-	1	-	-	1
Gross carrying amount at 31 December 2019	**16,610**	**1,327**	**412**	**2,997**	**21,346**

Group 2020 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total gross carrying amount £m**
Opening balance 1 January 2020	20,497	569	279	1	21,346
Total net transfers	(1,320)	944	376	-	-
- to 12-month ECL not credit-impaired	*701*	*(684)*	*(17)*	-	-
- to lifetime ECL not credit-impaired	*(1,846)*	*1,963*	*(117)*	-	-
- to lifetime ECL credit-impaired	*(175)*	*(335)*	*510*	-	-
Net changes in exposure	491	(221)	(87)	(1)	182
Impairment loss allowances utilised[1]	-	-	(33)	-	(33)
Measurement reclassification and other movements[2]	76	1	1	-	78
Gross carrying amount at 31 December 2020	**19,744**	**1,293**	**536**	**-**	**21,573**

On initial implementation of the Group's revised definition of default, £182 million of assets were reclassified as credit-impaired (Stage 3), comprising £107 million in residential mortgages, £36 million in non-property SME and corporate, £17 million in commercial property and construction, and £22 million in consumer. This resulted in a £11.3 million increase in impairment loss allowances as at 31 December 2020, comprising £3.9 million in residential mortgages, £3.0 million in non-property SME and corporate, £2.7 million in commercial property and construction, and £1.7 million in consumer, which has been recognised within the impairment charge for the year.

[1] *Impairment loss allowance utilised on loans and advances to customers at amortised cost includes £25 million (2019: £18 million) of contractual amounts outstanding that are still subject to enforcement activity.*

[2] *Measurement reclassification and other movements primarily comprise hedge accounting adjustments and the unwind of fair value adjustments on acquired mortgages.*

19 Loans and advances to customers *(continued)*

Group 2019

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 2019[1]	19,357	694	348	-	20,399
Total net transfers	(121)	(17)	138	-	-
- to 12-month ECL not credit-impaired	*798*	*(792)*	*(6)*	-	-
- to lifetime ECL not credit-impaired	*(849)*	*984*	*(135)*	-	-
- to lifetime ECL credit-impaired	*(70)*	*(209)*	*279*	-	-
Net changes in exposure	1,693	(59)	(150)	1	1,485
Impairment loss allowances utilised[2]	-	-	(42)	-	(42)
Measurement reclassification and other movements[3]	(432)	(49)	(15)	-	(496)
Gross carrying amount at 31 December 2019	20,497	569	279	1	21,346

Group 2020

Impairment loss allowance	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	20	7	-	90	117
Stage 2 - Lifetime ECL not credit impaired	8	22	6	19	55
Stage 3 - Lifetime ECL credit impaired	18	21	22	40	101
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2020	**46**	**50**	**28**	**149**	**273**

Group 2019

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)					
Stage 1 - 12 month ECL (not credit impaired)	5	3	-	40	48
Stage 2 - Lifetime ECL not credit impaired	5	3	2	17	27
Stage 3 - Lifetime ECL credit impaired	14	19	12	26	71
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2019	**24**	**25**	**14**	**83**	**146**

Group 2020

Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total impairment loss allowance £m
Opening balance 1 January 2020	48	27	71	-	146
Total net transfers	-	(8)	8	-	-
- to 12-month ECL not credit-impaired	*19*	*(16)*	*(3)*	-	-
- to lifetime ECL not credit-impaired	*(11)*	*27*	*(16)*	-	-
- to lifetime ECL credit-impaired	(8)	(19)	27	-	-
Net impairment (losses) / gains in income statement	70	35	51	-	156
- Re-measurement	*10*	*30*	*73*	-	*113*
- Net changes in exposure	*31*	*(14)*	*(14)*	-	*3*
- ECL model parameter and / or methodology changes	29	19	(8)	-	40
Impairment loss allowances utilised	-	-	(33)	-	(33)
Measurement reclassification and other movements	(1)	1	4	-	4
Impairment loss allowance at 31 December 2020	**117**	**55**	**101**	**-**	**273**

[1] *Includes assets held for sale £564 million in relation to the consumer credit cards portfolio.*
[2] *Impairment loss allowance utilised on loans and advances to customers at amortised cost includes £25 million (2019: £18 million) of contractual amounts outstanding that are still subject to enforcement activity.*
[3] *Includes £528 million in relation to the sale of the consumer credit cards portfolio in July 2019.*

19 Loans and advances to customers *(continued)*

Group **2019** **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 2019[1]	42	31	86	-	159
Total net transfers	8	(14)	6	-	-
- to 12-month ECL not credit-impaired	*19*	*(17)*	*(2)*	-	-
- to lifetime ECL not credit-impaired	*(4)*	*15*	*(11)*	-	-
- to lifetime ECL credit-impaired	*(7)*	*(12)*	*19*	-	-
Net impairment (losses) / gains in income statement	2	18	34	-	54
- Re-measurement	*(7)*	*14*	*74*	-	*81*
- Net changes in exposure	*11*	*3*	*(44)*	-	*(30)*
- ECL model parameter and / or methodology changes	*(2)*	*1*	*4*	-	*3*
Impairment loss allowances utilised	-	-	(42)	-	(42)
Measurement reclassification and other movements[2]	(4)	(8)	(13)	-	(25)
Impairment loss allowance at 31 December 2019	**48**	**27**	**71**	**-**	**146**

Bank **2020** **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	16,001	2,774	72	1,164	20,011
Stage 2 - Lifetime ECL (not credit impaired)	464	386	239	38	1,127
Stage 3 - Lifetime ECL (credit impaired)	322	86	58	38	504
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2020	**16,787**	**3,246**	**369**	**1,240**	**21,642**

[1] *Includes impairment loss allowance on assets held for sale £27 million in relation to the consumer credit cards portfolio.*
[2] *Includes £23 million in relation to the sale of the consumer credit cards portfolio in July 2019.*

19 Loans and advances to customers *(continued)*

Bank 2019 Gross carrying amount at amortised cost (before impairment loss allowance)	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	16,178	3,164	287	1,048	20,677
Stage 2 - Lifetime ECL (not credit impaired)	267	125	88	34	514
Stage 3 - Lifetime ECL (credit impaired)	165	37	37	21	260
Purchased / originated credit-impaired	-	1	-	-	1
Gross carrying amount at 31 December 2019	**16,610**	**3,327**	**412**	**1,103**	**21,452**

Bank 2020 Gross carrying amount at amortised cost (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total gross carrying amount £m
Opening balance 1 January 2020	**20,677**	**514**	**260**	**1**	**21,452**
Total net transfers	(1,125)	767	358	-	-
- to 12-month ECL not credit-impaired	*683*	*(671)*	*(12)*	-	-
- to lifetime ECL not credit-impaired	*(1,654)*	*1,763*	*(109)*	-	-
- to lifetime ECL credit-impaired	*(154)*	*(325)*	*479*	-	-
Net changes in exposure	380	(155)	(87)	(1)	137
Impairment loss allowances utilised[1]	-	-	(28)	-	(28)
Measurement reclassification and other movements[2]	79	1	1	-	81
Gross carrying amount at 31 December 2020	**20,011**	**1,127**	**504**	**-**	**21,642**

On initial implementation of the Group's revised definition of default, £170 million of assets were reclassified as credit-impaired (Stage 3), comprising £107 million in residential mortgages, £36 million in non-property SME and corporate, £17 million in commercial property and construction, and £10 million in consumer. This resulted in a £9.6 million increase in impairment loss allowances as at 31 December 2020, comprising £3.9 million in residential mortgages, £3.0 million in non-property SME and corporate, £2.7 million in commercial property and construction, and £nil in consumer, which has been recognised within the impairment charge for the year.

Bank 2019 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 2019[3]	**19,562**	**650**	**334**	**-**	**20,546**
Total net transfers	(102)	(28)	130	-	-
- to 12-month ECL not credit-impaired	*778*	*(778)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(821)*	*955*	*(134)*	-	-
- to lifetime ECL credit-impaired	*(59)*	*(205)*	*264*	-	-
Net changes in exposure	1,646	(59)	(150)	1	1,438
Impairment loss allowances utilised[2]	-	-	(39)	-	(39)
Measurement reclassification and other movements[4]	(429)	(49)	(15)	-	(493)
Gross carrying amount at 31 December 2019	**20,677**	**514**	**260**	**1**	**21,452**

[1] *Impairment loss allowances utilised on loans and advances to customers at amortised cost includes £21 million (2019: £15 million) of contractual amounts outstanding that are still subject to enforcement activity.*
[2] *Measurement reclassification and other movements primarily comprise hedge accounting adjustments and the unwind of fair value adjustments on acquired mortgages.*
[3] *Includes assets held for sale £564 million in relation to the consumer credit cards portfolio.*
[4] *Includes £528 million in relation to the sale of the consumer credit cards portfolio in July 2019.*

19 Loans and advances to customers *(continued)*

Bank 2020 **Impairment loss allowance**	**Residential mortgages £m**	**Non -property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	20	6	-	81	107
Stage 2 - Lifetime ECL (not credit impaired)	8	21	6	15	50
Stage 3 - Lifetime ECL (credit impaired)	18	19	22	29	88
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2020	**46**	**46**	**28**	**125**	**245**

Bank 2019 **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	5	-	35	45
Stage 2 - Lifetime ECL not credit impaired	5	3	2	14	24
Stage 3 - Lifetime ECL credit impaired	14	18	12	18	62
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2019	**24**	**26**	**14**	**67**	**131**

Bank 2020 **Impairment loss allowance**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total impairment loss allowance £m**
Opening balance 1 January 2020	45	24	62	-	131
Total net transfers	8	(11)	3	-	-
- to 12-month ECL not credit-impaired	*16*	*(15)*	*(1)*	-	-
- to lifetime ECL not credit-impaired	*(7)*	*23*	*(16)*	-	-
- to lifetime ECL credit-impaired	*(1)*	*(19)*	*20*	-	-
Net impairment (losses) / gains in income statement	55	36	48	-	139
- Re-measurement	*12*	*32*	*70*	-	*114*
- Net changes in exposure	*17*	*(12)*	*(14)*	-	*(9)*
- ECL model parameter and / or methodology changes	*26*	*16*	*(8)*	-	*34*
Impairment loss allowances utilised	-	-	(28)	-	(28)
Measurement reclassification and other movements	(1)	1	3	-	3
Impairment loss allowance at 31 December 2020	**107**	**50**	**88**	**-**	**245**

19 Loans and advances to customers *(continued)*

Bank 2019 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 2019[1]	41	29	79	-	149
Total net transfers	6	(14)	8	-	-
- to 12-month ECL not credit-impaired	*16*	*(16)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(4)*	*15*	*(11)*	-	-
- to lifetime ECL credit-impaired	*(6)*	*(13)*	*19*	-	-
Net impairment (losses) / gains in income statement	3	16	27	-	46
- Re-measurement	*(2)*	*12*	*67*	-	*77*
- Net changes in exposure	*7*	*3*	*(44)*	-	*(34)*
- ECL model parameter and / or methodology changes	*(2)*	*1*	*4*	-	*3*
Impairment loss allowances utilised	-	-	(38)	-	(38)
Measurement reclassification and other movements[2]	(5)	(7)	(14)	-	(26)
Impairment loss allowance at 31 December 2019	**45**	**24**	**62**	**-**	**131**

Composition of COVID-19 payment breaks

The following tables analyse the number and value of customer accounts where a payment break was availed of, as a result of COVID-19. Information is presented on an aggregate basis at the date a payment break was granted, in addition to an analysis of accounts still subject to a payment break as at 31 December 2020.

Analysis of all COVID-19 payment breaks granted	Residential mortgages	Non-property SME and corporate	Property and construction	Consumer	Total
Total number of accounts granted a payment break	17,414	5,551	-	31,261	54,226
Total gross carrying amount of loans granted a payment break[3] - £'m	2,325	120	-	351	2,796
Total impairment loss allowance on loans granted a payment break[3] - £'m	12	2	-	20	34

31 December 2020 Analysis of loans and advances to customers subject to a COVID-19 payment break	Residential mortgages	Non-property SME and corporate	Property and construction	Consumer	Total
Total number of accounts subject to a payment break	1,028	34	-	3,245	4,307
Percentage of customer loan accounts[4]	0.8%	0.1%	-	1%	1%
Total gross carrying amount of loans subject to a payment break[5] - £'m	154	1	-	33	188
Total impairment loss allowance on loans subject to a payment break[5] - £'m	1	-	-	2	3

31 December 2020 Risk profile of loans and advances to customers subject to a COVID-19 payment break	Residential mortgages £m	Non-property SME and corporate £m	Property and construction £m	Consumer £m	Total £m
Stage 1 - Not credit impaired	122	1	-	30	153
Stage 2 - Not credit impaired	10	-	-	3	13
Stage 3 - Credit impaired	22	-	-	-	22
Purchased / originated credit-impaired	-	-	-	-	-
Total	**154**	**1**	**-**	**33**	**188**

[1] Includes impairment loss allowance on assets held for sale £27 million in relation to the consumer credit cards portfolio.
[2] Includes £23 million in relation to the sale of the consumer credit cards portfolio in July 2019.
[3] The gross carrying amount and impairment loss allowance on loans granted a payment break relate to balances as at the date the payment break was granted.
[4] The number of accounts does not equate to the number of customers.
[5] The gross carrying amount and impairment loss allowance on loans subject to a payment break, relate to balances as at 31 December 2020.

19 Loans and advances to customers *(continued)*

Modified financial assets

The following table provides analysis of financial assets for which the contractual cash flows have been modified while they had an impairment loss allowance measured at an amount equal to lifetime expected credit loss, and where the modification did not result in derecognition.

The Group recognised a modification loss of £6 million during the year ended 31 December 2020. No modification gains or losses were recognised during the year ended 31 December 2019.

	2020 £m	2019 £m
Financial assets modified during the period		
Amortised cost before modification	76	27
Financial assets modified since initial recognition		
Gross carrying amount of financial assets for which ILA has changed from lifetime to 12 month ECL during the year as at 31 December	8	40

20 Credit risk exposures

The following disclosures provide quantitative information about credit risk within financial instruments held by the Group. Details of the credit risk methodologies are set out on pages 46 to 50.

In addition to credit risk, the primary risks affecting the Group through its use of financial instruments are: liquidity and funding risk and market risk. The Group's approach to the management of these risks, together with its approach to capital management, are set out in the Risk Management Report included on pages 34 to 62.

The table below illustrates the relationship between the Group's internal credit risk rating grades as used for credit risk management purposes and Probability of Default (PD) percentages, and further illustrates the indicative relationship with credit risk ratings used by external rating agencies.

Internal credit risk ratings		
PD Grade	**PD %**	**Indicative S&P type external ratings**
1-4	PD < 0.26%	AAA, AA+, AA, AA-, A+, A, A-, BBB+, BBB
5-7	0.26% ≤ PD < 1.45%	BBB-, BB+, BB, BB-
8-9	1.45% ≤ PD < 3.60%	B+
10-11	3.60% ≤ PD < 100%	B, Below B
12 (credit-impaired)	100%	n/a

Financial assets

Composition and risk profile

The table below summarises the composition and risk profile of the Group's financial assets subject to impairment.

Group 2020 Financial asset exposure by stage (before impairment loss allowance)	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	19,744	1,293	536	-	21,573
Loans and advances to banks	1,672	-	-	-	1,672
Debt securities	922	-	-	-	922
Other financial assets[1]	2,161	-	-	-	2,161
Total financial assets measured at amortised cost	24,499	1,293	536	-	26,328
Total	**24,499**	**1,293**	**536**	**-**	**26,328**

Group 2019 Financial asset exposure by stage (before impairment loss allowance)	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	20,497	569	279	1	21,346
Loans and advances to banks	2,159	-	-	-	2,159
Debt securities	846	-	-	-	846
Other financial assets[1]	2,278	-	-	-	2,278
Total financial assets measured at amortised cost	25,780	569	279	1	26,629
Total	**25,780**	**569**	**279**	**1**	**26,629**

[1] *Other financial assets includes cash and balances at central banks and items in the course of collection from other banks.*

20 Credit risk exposures *(continued)*

Bank 2020 Financial asset exposure by stage (before impairment loss allowance)	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	20,011	1,127	504	-	21,642
Loans and advances to banks	1,542	-	-	-	1,542
Debt securities	922	-	-	-	922
Other financial assets[1]	2,161	-	-	-	2,161
Total financial assets measured at amortised cost	24,636	1,127	504	-	26,267
Total	**24,636**	**1,127**	**504**	**-**	**26,267**

Bank 2019 Financial asset exposure by stage (before impairment loss allowance)	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	20,677	514	260	1	21,452
Loans and advances to banks	1,936	-	-	-	1,936
Debt securities	846	-	-	-	846
Other financial assets[1]	2,278	-	-	-	2,278
Total financial assets measured at amortised cost	**25,737**	**514**	**260**	**1**	**26,512**
Total	**25,737**	**514**	**260**	**1**	**26,512**

Impairment loss allowance

The impairment loss allowance on financial assets is set out in the tables below.

Group 2020 Impairment loss allowance on financial assets	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	117	55	101	-	273
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total financial assets measured at amortised cost	117	55	101	-	273
Total net impairment loss allowance on financial assets	**117**	**55**	**101**	**-**	**273**

Group 2019 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	48	27	71	-	146
Loans and advances to banks	1	-	-	-	1
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total financial assets measured at amortised cost	49	27	71	-	147
Total net impairment loss allowance on financial assets	**49**	**27**	**71**	**-**	**147**

[1] *Other financial assets includes cash and balances at central banks and items in the course of collection from other banks.*

20 Credit risk exposures *(continued)*

Bank 2020 Impairment loss allowance on financial assets	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	107	50	88	-	245
Loans and advances to banks	-	-	-	-	-
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total financial assets measured at amortised cost	107	50	88	-	245
Total net impairment loss allowance on financial assets	**107**	**50**	**88**	**-**	**245**

Bank 2019 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	45	24	62	-	131
Loans and advances to banks	1	-	-	-	1
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total financial assets measured at amortised cost	46	24	62	-	132
Total net impairment loss allowance on financial assets	**46**	**24**	**62**	**-**	**132**

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	**2020**				**2019**			
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	16,465	322	16,787	78%	16,445	165	16,610	78%
Non-property SME and corporate	1,378	91	1,469	7%	1,287	40	1,327	6%
Commercial property and construction	311	58	369	2%	375	37	412	2%
Consumer	2,883	65	2,948	13%	2,959	38	2,997	14%
Total	**21,037**	**536**	**21,573**	**100%**	**21,066**	**280**	**21,346**	**100%**
Impairment loss allowance on loans and advances to customers	**172**	**101**	**273**	**100%**	**75**	**71**	**146**	**100%**

20 Credit risk exposures *(continued)*

Bank **Loans and advances to customers Composition and risk profile (before impairment loss allowance)**	**2020** **Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**	**%**	**2019** **Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**	**%**
Residential mortgages	16,465	322	16,787	77%	16,445	165	16,610	77%
Non-property SME and corporate	3,160	86	3,246	15%	3,289	38	3,327	16%
Commercial property and construction	311	58	369	2%	375	37	412	2%
Consumer	1,202	38	1,240	6%	1,082	21	1,103	5%
Total	**21,138**	**504**	**21,642**	**100%**	**21,191**	**261**	**21,452**	**100%**
Impairment loss allowance on loans and advances to customers	**157**	**88**	**245**	**100%**	**69**	**62**	**131**	**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 2020 **Not credit-impaired loans and advances to customers Composition and impairment loss allowance**	**Stage 1** **Loans £m**	**Loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of loans %**	**Stage 2** **Loans £m**	**Loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of loans %**
Residential mortgages	16,001	74%	20	0.12%	464	2%	8	1.72%
Non-property SME and corporate	890	4%	7	0.79%	488	2%	22	4.51%
Commercial property and construction	72	-	-	-	239	1%	6	2.51%
Consumer	2,781	13%	90	3.24%	102	1%	19	18.63%
Total	**19,744**	**91%**	**117**	**0.59%**	**1,293**	**6%**	**55**	**4.25%**

Group 2019 **Not credit-impaired loans and advances to customers Composition and impairment loss allowance**	**Stage 1** **Loans £m**	**Loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of loans %**	**Stage 2** **Loans £m**	**Loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of loans %**
Residential mortgages	16,178	76%	5	0.03%	267	1%	5	1.87%
Non-property SME and corporate	1,157	5%	3	0.26%	130	1%	3	2.31%
Commercial property and construction	287	1%	-	-	88	-	2	2.27%
Consumer	2,875	14%	40	1.39%	84	-	17	20.24%
Total	**20,497**	**96%**	**48**	**0.23%**	**569**	**2%**	**27**	**4.75%**

20 Credit risk exposures *(continued)*

Bank 2020 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Stage 1 Loans £m	Stage 1 Loans as % of total advances %	Stage 1 Impairment loss allowance £m	Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans £m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance £m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	16,001	74%	20	0.12%	464	2%	8	1.72%
Non-property SME and corporate	2,774	13%	6	0.22%	386	2%	21	5.44%
Commercial property and construction	72	-	-	-	239	1%	6	2.51%
Consumer	1,164	5%	81	6.96%	38	-	15	39.47%
Total	**20,011**	**92%**	**107**	**0.53%**	**1,127**	**5%**	**50**	**4.44%**

Bank 2019 Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Stage 1 Loans £m	Stage 1 Loans as % of total advances %	Stage 1 Impairment loss allowance £m	Stage 1 Impairment loss allowance as % of loans %	Stage 2 Loans £m	Stage 2 Loans as % of total advances %	Stage 2 Impairment loss allowance £m	Stage 2 Impairment loss allowance as % of loans %
Residential mortgages	16,178	75%	5	0.03%	267	1%	5	1.87%
Non-property SME and corporate	3,164	15%	5	0.16%	125	1%	3	2.40%
Commercial property and construction	287	1%	-	-	88	-	2	2.27%
Consumer	1,048	5%	35	3.34%	34	-	14	41.18%
Total	**20,677**	**96%**	**45**	**0.22%**	**514**	**2%**	**24**	**4.67%**

20 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 130.

Group 2020 Not credit-impaired loans and advances to customers	Residential mortgages		Non-property SME and corporate		Commercial property and construction		Consumer		Total	
Asset quality - PD grade	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Stage 1										
1-4	1,450	9%	100	7%	-	-	-	-	1,550	7%
5-7	11,750	71%	365	27%	30	10%	-	-	12,145	58%
8-9	2,304	14%	344	25%	34	11%	1,616	56%	4,298	20%
10-11	497	3%	81	6%	8	2%	1,165	40%	1,751	9%
Total Stage 1	**16,001**	**97%**	**890**	**65%**	**72**	**23%**	**2,781**	**96%**	**19,744**	**94%**
Stage 2										
1-4	1	-	-	-	-	-	-	-	1	-
5-7	139	1%	45	3%	80	26%	-	-	264	1%
8-9	99	1%	157	11%	67	21%	19	1%	342	2%
10-11	225	1%	286	21%	92	30%	83	3%	686	3%
Total Stage 2	**464**	**3%**	**488**	**35%**	**239**	**77%**	**102**	**4%**	**1,293**	**6%**
Not credit-impaired										
1-4	1,451	9%	100	7%	-	-	-	-	1,551	7%
5-7	11,889	72%	410	30%	110	36%	-	-	12,409	59%
8-9	2,403	15%	501	36%	101	32%	1,635	57%	4,640	22%
10-11	722	4%	367	27%	100	32%	1,248	43%	2,437	12%
Total not credit-impaired	**16,465**	**100%**	**1,378**	**100%**	**311**	**100%**	**2,883**	**100%**	**21,037**	**100%**

Group 2019 Not credit-impaired loans and advances to customers	Residential mortgages		Non-property SME and corporate		Commercial property and construction		Consumer		Total	
Asset quality - PD grade	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Stage 1										
1-4	7,081	43%	278	22%	115	31%	8	-	7,482	35%
5-7	8,365	51%	383	30%	158	42%	-	-	8,906	42%
8-9	519	3%	484	37%	14	4%	1,818	61%	2,835	14%
10-11	213	1%	12	1%	-	-	1,049	36%	1,274	6%
Total Stage 1	**16,178**	**98%**	**1,157**	**90%**	**287**	**77%**	**2,875**	**97%**	**20,497**	**97%**
Stage 2										
1-4	14	-	4	-	4	1%	-	-	22	-
5-7	40	-	60	5%	36	10%	-	-	136	1%
8-9	18	-	27	2%	19	5%	-	-	64	-
10-11	195	2%	39	3%	29	7%	84	3%	347	2%
Total Stage 2	**267**	**2%**	**130**	**10%**	**88**	**23%**	**84**	**3%**	**569**	**3%**
Not credit-impaired										
1-4	7,095	43%	282	22%	119	32%	8	-	7,504	35%
5-7	8,405	51%	443	35%	194	52%	-	-	9,042	43%
8-9	537	3%	511	39%	33	9%	1,818	61%	2,899	14%
10-11	408	3%	51	4%	29	7%	1,133	39%	1,621	8%
Total not credit-impaired	**16,445**	**100%**	**1,287**	**100%**	**375**	**100%**	**2,959**	**100%**	**21,066**	**100%**

20 Credit risk exposures *(continued)*

Bank 2020 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages		Non-property SME and corporate		Commercial property and construction		Consumer		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1										
1-4	1,450	9%	63	2%	-	-	-	-	1,513	7%
5-7	11,750	71%	2,580	82%	30	10%	-	-	14,360	68%
8-9	2,304	14%	50	2%	34	11%	-	-	2,388	12%
10-11	497	3%	81	2%	8	2%	1,164	97%	1,750	8%
Total Stage 1	**16,001**	**97%**	**2,774**	**88%**	**72**	**23%**	**1,164**	**97%**	**20,011**	**95%**
Stage 2										
1-4	1	-	-	-	-	-	-	-	1	-
5-7	139	1%	45	1%	80	26%	-	-	264	1%
8-9	99	1%	62	2%	67	21%	-	-	228	1%
10-11	225	1%	279	9%	92	30%	38	3%	634	3%
Total Stage 2	**464**	**3%**	**386**	**12%**	**239**	**77%**	**38**	**3%**	**1,127**	**5%**
Not credit-impaired										
1-4	1,451	9%	63	2%	-	-	-	-	1,514	7%
5-7	11,889	72%	2,625	83%	110	36%	-	-	14,624	69%
8-9	2,403	15%	112	4%	101	32%	-	-	2,616	13%
10-11	722	4%	360	11%	100	32%	1,202	100%	2,384	11%
Total not credit-impaired	**16,465**	**100%**	**3,160**	**100%**	**311**	**100%**	**1,202**	**100%**	**21,138**	**100%**

Bank 2019 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	7,081	43%	240	7%	115	31%	-	-	7,436	35%
5-7	8,365	51%	2,832	86%	158	42%	-	-	11,355	54%
8-9	519	3%	80	3%	14	4%	-	-	613	3%
10-11	213	1%	12	-	-	-	1,048	97%	1,273	6%
Total Stage 1	**16,178**	**98%**	**3,164**	**96%**	**287**	**77%**	**1,048**	**97%**	**20,677**	**98%**
Stage 2										
1-4	14	-	4	-	4	1%	-	-	22	-
5-7	40	-	60	2%	36	10%	-	-	136	1%
8-9	18	-	27	1%	19	5%	-	-	64	-
10-11	195	2%	34	1%	29	7%	34	3%	292	1%
Total Stage 2	**267**	**2%**	**125**	**4%**	**88**	**23%**	**34**	**3%**	**514**	**2%**
Not credit-impaired										
1-4	7,095	43%	244	7%	119	32%	-	-	7,458	35%
5-7	8,405	51%	2,892	88%	194	52%	-	-	11,491	55%
8-9	537	3%	107	4%	33	9%	-	-	677	3%
10-11	408	3%	46	1%	29	7%	1,082	100%	1,565	7%
Total not credit-impaired	**16,445**	**100%**	**3,289**	**100%**	**375**	**100%**	**1,082**	**100%**	**21,191**	**100%**

20 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	**2020**				**2019**			
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	322	2%	18	6%	165	1%	14	8%
Non-property SME and corporate	91	-	21	23%	40	-	19	48%
Commercial property and construction	58	-	22	38%	37	-	12	32%
Consumer	65	-	40	62%	38	-	26	68%
Total credit-impaired	**536**	**2%**	**101**	**19%**	**280**	**1%**	**71**	**25%**

Bank	**2020**				**2019**			
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	322	2%	18	6%	165	1%	14	8%
Non-property SME and corporate	86	-	19	22%	38	-	18	47%
Commercial property and construction	58	-	22	38%	37	-	12	32%
Consumer	38	-	29	76%	21	-	18	86%
Total credit-impaired	**504**	**2%**	**88**	**17%**	**261**	**1%**	**62**	**24%**

20 Credit risk exposures *(continued)*

Risk profile of forborne and non-forborne loans and advances to customers

Group 2020 Loans and advances to customers at amortised cost - Composition	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total £m
Non-forborne loans and advances to customers					
Residential mortgages	16,001	417	265	-	16,683
Non-property SME and corporate	890	457	48	-	1,395
Commercial property and construction	72	224	16	-	312
- Investment	*62*	*200*	*14*	-	*276*
- Land and development	*10*	*24*	*2*	-	*36*
Consumer	2,781	102	65	-	2,948
Total non-forborne loans and advances to customers	**19,744**	**1,200**	**394**	**-**	**21,338**
Forborne loans and advances to customers					
Residential mortgages	-	47	57	-	104
Non-property SME and corporate	-	31	43	-	74
Commercial property and construction	-	15	42	-	57
- Investment	-	*9*	*34*	-	*43*
- Land and development	-	*6*	*8*	-	*14*
Consumer	-	-	-	-	-
Total forborne loans and advances to customers	**-**	**93**	**142**	**-**	**235**
Total loans and advances to customers	**19,744**	**1,293**	**536**	**-**	**21,573**

Group 2019 Loans and advances to customers at amortised cost - Composition	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total £m
Non-forborne loans and advances to customers					
Residential mortgages	16,177	204	129	-	16,510
Non-property SME and corporate	1,157	104	6	1	1,268
Commercial property and construction	287	60	1	-	348
- Investment	*255*	*52*	*1*	-	*308*
- Land and development	*32*	*8*	-	-	*40*
Consumer	2,875	84	38	-	2,997
Total non-forborne loans and advances to customers	**20,496**	**452**	**174**	**1**	**21,123**
Forborne loans and advances to customers					
Residential mortgages	1	63	36	-	100
Non-property SME and corporate	-	26	33	-	59
Commercial property and construction	-	28	36	-	64
- Investment	-	*24*	*27*	-	*51*
- Land and development	-	*4*	*9*	-	*13*
Consumer	-	-	-	-	-
Total forborne loans and advances to customers	**1**	**117**	**105**	**-**	**223**

20 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**		
2020 **Loans and advances to customers at amortised cost - Composition**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**
Less than 50%	2,211	46	2,110	31	282	22	4,603	99	4,702
51% to 70%	3,089	60	2,900	40	215	36	6,204	136	6,340
71% to 80%	2,476	20	495	14	42	10	3,013	44	3,057
81% to 90%	2,476	17	69	4	20	8	2,565	29	2,594
91% to 100%	61	5	2	2	3	2	66	9	75
Subtotal	**10,313**	**148**	**5,576**	**91**	**562**	**78**	**16,451**	**317**	**16,768**
101% to 120%	6	1	1	1	2	2	9	4	13
121% to 150%	3	1	1	-	1	-	5	1	6
Adjusted Greater than 150%	-	-	-	-	-	-	-	-	-
Subtotal	**9**	**2**	**2**	**1**	**3**	**2**	**14**	**5**	**19**
Total	**10,322**	**150**	**5,578**	**92**	**565**	**80**	**16,465**	**322**	**16,787**
Weighted average LTV[1]:									
Stock of mortgages at period end	65%	59%	53%	58%	50%	60%	60%	59%	60%
New mortgages during year	75%	71%	58%	54%	51%	-	72%	66%	72%

Group	**Standard**		**Buy to let**		**Self certified**		**Total**		
2019 **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%	1,985	18	1,743	11	279	12	4,007	41	4,048
51% to 70%	2,901	25	2,854	19	253	17	6,008	61	6,069
71% to 80%	1,976	11	912	10	73	8	2,961	29	2,990
81% to 90%	2,492	8	153	5	42	7	2,687	20	2,707
91% to 100%	739	6	12	2	7	2	758	10	768
Subtotal	**10,093**	**68**	**5,674**	**47**	**654**	**46**	**16,421**	**161**	**16,582**
101% to 120%	10	1	3	1	3	-	16	2	18
121% to 150%	5	1	1	-	2	-	8	1	9
Adjusted Greater than 150%	1	-	-	-	-	-	1	-	1
Subtotal	**16**	**2**	**4**	**1**	**5**	**-**	**25**	**3**	**28**
Total	**10,109**	**70**	**5,678**	**48**	**659**	**46**	**16,446**	**164**	**16,610**
Weighted average LTV[1]:									
Stock of mortgages at period end	67%	64%	57%	63%	53%	63%	63%	64%	63%
New mortgages during year	76%	87%	61%	53%	58%	65%	73%	68%	73%

[1] *Weighted average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

20 Credit risk exposures *(continued)*

Repossessed collateral on residential mortgages
At 31 December 2020 and 31 December 2019 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	2020		2019	
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	4	1	20	2
Buy to let	4	-	18	2
Self certified	-	-	6	1
Total	**8**	**1**	**44**	**5**

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	2020 £m	2019 £m
Residential mortgages	16,787	16,610
Finance leases and hire purchase	2,076	2,245
Credit cards	-	-
Personal loans	1,240	1,103
Commercial property and construction	369	412
Business and other services	812	632
Manufacturing and distribution	289	344
Other	-	-
Total	**21,573**	**21,346**

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 2020 and 31 December 2019. The impairment loss allowance at 31 December 2020 was £0.1 million (2019: £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 2020 with £1.4 billion being PD grade 1-4 (2019: £2.2 billion) and £0.3 billion being PD grade 5-8 (2019: £nil). The impairment loss allowance at 31 December 2020 was £0.3 million (2019: £1 million).

For Bank, all loans and advances to banks were stage 1 at 31 December 2020 with £1.2 billion being PD grade 1-4 (2019: £1.9 billion) and £0.3 billion being PD grade 5-8 (2019: £nil). The impairment loss allowance at 31 December 2020 was £0.3 million (2019: £1 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.

20 Credit risk exposures *(continued)*

Other financial instruments with ratings equivalent to:	Group 2020 £m	Group 2019 £m	Bank 2020 £m	Bank 2019 £m
Aaa to Aa3	10	-	10	-
A1 to A3	-	41	-	41
Baa1 to Baa3	43	-	43	-
Total	**53**	**41**	**53**	**41**

Exposures by country

The following tables provide an analysis of the Group's exposure to sovereign debt and other country exposures (primarily financial institution exposure), by selected balance sheet line item, as at 31 December 2020 and 31 December 2019. In addition, for these line items, further information is included on the Group's exposures to selected countries and their associated credit ratings from Moody's.

Group 2020 Asset quality: exposures by country	Credit rating[1]	Cash and balances[2] £m	Loans and advances to banks[3] £m	Debt securities at amortised cost[4] £m	Derivative financial instruments £m	Total £m
Ireland	A2	-	424	-	43	467
United Kingdom	Aa3	2,050	1,233	496	10	3,789
Other	-	-	15	426	-	441
Total	**-**	**2,050**	**1,672**	**922**	**53**	**4,697**

Group 2019 Asset quality: exposures by country	Credit rating[1]	Cash and balances[2] £m	Loans and advances to banks[3] £m	Debt securities at amortised cost[4] £m	Derivative financial instruments £m	Total £m
Ireland	A2	-	759	-	36	795
United Kingdom	Aa2	2,134	1,389	484	5	4,012
Other	-	-	10	362	-	372
Total	**-**	**2,134**	**2,158**	**846**	**41**	**5,179**

[1] *Based on credit ratings from Moody's.*
[2] *Cash and balances in the United Kingdom primarily consist of amounts placed with the Bank of England.*
[3] *Loans and advances to banks in Ireland consist primarily of balances with the Parent and balances in the United Kingdom consist primarily of the Bank of England required collateral for notes in circulation.*
[4] *Debt securities at amortised cost consist of UK Government gilts, Supranational bonds and UK covered bonds.*

21 Interest in joint venture and joint operations

Joint arrangement	Holding	Classification	Country of operation	Nature of activities
First Rate Exchange Services Holdings Limited (FRESH)	50%	Joint venture	UK	Sale of foreign exchange products through the UK Post Office network
AA Financial Services	n/a	Joint operation	UK	Sale of AA branded personal loans, savings, mortgages and credit cards[1]

Joint venture

The Group owns 50% of the shares in FRESH, a company incorporated in the United Kingdom which provides foreign exchange services.

The following table shows the movement in the Group's interest in FRESH during the years ended 31 December 2020 and 31 December 2019.

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 2020 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.

	2020 £m	2019 £m
At 1 January	64	62
Share of profit after taxation (note 12)	(1)	30
Dividends received	(14)	(28)
Other	-	-
At 31 December	**49**	**64**

[1] *AA branded credit cards were sold as part of the UK consumer credit cards portfolio on 11 July 2019. See note 13 for further details.*

21 Interest in joint venture and joint operations *(continued)*

The following amounts represent the Group's 50% share of the revenue, expenses, assets and liabilities of FRESH for the year ended 31 December 2020 and the year ended 31 December 2019.

Joint operation – AA Financial Services
In July 2015, the Group entered into a strategic partnership with AA Financial Services for the sale of AA branded personal loans, savings, mortgages and credit cards[1].

The above joint arrangement has been accounted for as a joint operation, on the basis that it is not a separate legal entity.

The Group combines its share of the joint operation in individual income and expenses, assets and liabilities and cash flows on a line-by-line basis.

	2020 £m	2019 £m
Revenue	17	66
Expenses	(18)	(29)
Profit before taxation	**(1)**	**37**
Taxation charge	-	(7)
Profit after taxation	**(1)**	**30**
Non-current assets	8	8
Current assets	185	232
Total assets	**193**	**240**
Current liabilities	(144)	(176)
Total liabilities	**(144)**	**(176)**
Net assets	**49**	**64**

22 Intangible assets and goodwill

	2020				2019			
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	35	87	152
Additions	-	-	-	-	-	1	-	1
At 31 December	**30**	**36**	**87**	**153**	**30**	**36**	**87**	**153**
Accumulated amortisation								
At 1 January	-	(34)	(71)	(105)	-	(34)	(64)	(98)
Impairment	(8)	-	-	(8)	-	-	-	-
Amortisation charge for the year (note 9)	-	-	(4)	(4)	-	-	(7)	(7)
At 31 December	**(8)**	**(34)**	**(75)**	**(117)**	**-**	**(34)**	**(71)**	**(105)**
Net book value at 31 December	**22**	**2**	**12**	**36**	**30**	**2**	**16**	**48**

[1] *AA branded credit cards were sold as part of the UK consumer credit cards portfolio on 11 July 2019. See note 13 for further details.*

22 Intangible assets and goodwill *(continued)*

Bank	2020 Goodwill £m	2020 Computer software internally generated £m	2020 Other externally purchased intangible assets £m	2020 Total £m	2019 Goodwill £m	2019 Computer software internally generated £m	2019 Other externally purchased intangible assets £m	2019 Total £m
Cost								
At 1 January	-	35	76	111	-	34	76	110
Acquisitions	-	-	-	-	-	-	-	-
Additions	-	-	-	-	-	1	-	1
At 31 December	**-**	**35**	**76**	**111**	**-**	**35**	**76**	**111**
Accumulated amortisation								
At 1 January	-	(34)	(68)	(102)	-	(34)	(62)	(96)
Amortisation charge for the year	-	-	(3)	(3)	-	-	(6)	(6)
At 31 December	**-**	**(34)**	**(71)**	**(105)**	**-**	**(34)**	**(68)**	**(102)**
Net book value at 31 December	**-**	**1**	**5**	**6**	**-**	**1**	**8**	**9**

Goodwill of £22 million (2019: £30 million) relates to Marshall Leasing Limited. The Group also has intangible assets of £7 million (2019: £8 million) relating to Marshall Leasing Limited.

Goodwill is not amortised as it is deemed to have an indefinite useful life. The Group's investment in Marshall Leasing Limited has been reviewed for impairment by comparing the carrying value of the cash generating unit to its recoverable amount under the value in use method. As a result an impairment charge of £8 million has been booked in 2020.

Other intangible assets have also been reviewed for any indication that impairment may have occurred. No impairment of other intangible assets was identified in the year ended 31 December 2019 or 31 December 2018.

Further detail on the impairment review, including assumptions and sensitivities, is set out in the critical accounting estimates and judgements on page 108.

23 Property, plant and equipment

Group 2020	Computer and other equipment[1] £m	Freehold land and buildings and long leaseholds (held at fair value) £m	Vehicles leased under operating leases £m	Right of use asset - Buildings £m	Total £m
Cost or valuation					
At 1 January 2020	**1**	**25**	**124**	**19**	**169**
Acquisitions	-	-	-	-	-
Additions	1	-	35	1	37
Disposals / write offs	-	-	(42)	-	(42)
Revaluation recognised in OCI	-	(1)	-	-	(1)
Other movements	-	-	-	-	-
As at 31 December 2020	**2**	**24**	**117**	**20**	**163**
Accumulated depreciation					
At 1 January 2020	**-**	**-**	**(28)**	**(3)**	**(31)**
Impairment	-	-	-	(2)	(2)
Disposals / write offs	-	-	24	-	24
Charge for the year[3]	(1)	-	(24)	(3)	(28)
As at 31 December 2020	**(1)**	**-**	**(28)**	**(8)**	**(37)**
Net book value at 31 December 2020	**1**	**24[2]**	**89**	**12**	**126**

Group 2019	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
Opening balance at 1 January 2019	**1**	**24**	**113**	**22**	**160**
Acquisitions	-	-	-	-	-
Additions	1	-	45	-	46
Disposals / write offs	(1)	-	(34)	-	(35)
Revaluation recognised in OCI	-	1	-	-	1
Other movements	-	-	-	(3)	(3)
As at 31 December 2019	**1**	**25**	**124**	**19**	**169**
Accumulated depreciation at 1 January 2019	**-**	**-**	**(21)**	**-**	**(21)**
Disposals / write offs	-	-	18	-	18
Charge for the year[3]	-	-	(25)	(3)	(28)
As at 31 December 2019	**-**	**-**	**(28)**	**(3)**	**(31)**
Net book value at 31 December 2019	**1**	**25[2]**	**96**	**16**	**138**

1 *All of which is related to own-use.*
2 *Includes £6 million (2019: £4 million) of which is subject to operating leases.*
3 *Depreciation on vehicles leased under operating leases is included in other leasing expense (note 5).*

23 Property, plant and equipment *(continued)*

Bank **2020**	**Freehold land and buildings and long leaseholds (held at fair value) £m**	**Right of use asset - Buildings £m**	**Total £m**
Opening balance at 1 January 2020	25	19	44
Revaluation recognised in OCI	(1)	-	(1)
Other movements	-	1	1
As at 31 December 2020	**24**	**20**	**44**
Accumulated depreciation at 1 January 2020	**-**	**(3)**	**(3)**
Impairment	-	(2)	(2)
Charge for the year	-	(3)	(3)
As at 31 December 2020	**-**	**(8)**	**(8)**
Net book value at 31 December 2020	**24[1]**	**12**	**36**

Bank **2019**	**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 2019	**24**	**22**	**46**
Revaluation recognised in OCI	1	-	1
Other movements	-	(3)	(3)
As at 31 December 2019	**25**	**19**	**44**
Accumulated depreciation at 1 January 2019	**-**	**-**	**-**
Charge for the year	-	(3)	(3)
As at 31 December 2019	-	(3)	(3)
Net book value at 31 December 2019	**25[1]**	**16**	**41**

[1] *Includes £6 million (2019: £4 million) of which is subject to operating leases.*

23 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	2020 £m	2019 £m
Within 1 year	20	26
1 – 2 years	15	14
Greater than 2 years	17	17
Total	**52**	**57**

At 31 December 2020 and 31 December 2019 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	2020 £m	2019 £m	2020 £m	2019 £m
Not later than 1 year	20	23	1	1
Later than 1 year and not later than 5 years	21	26	2	2
Later than 5 years	1	-	1	-
Total	**42**	**49**	**4**	**3**

24 Other assets

Other assets	Group 2020 £m	Group 2019 £m	Bank 2020 £m	Bank 2019 £m
Sundry and other receivables	26	66	20	62
Accounts receivable and prepayments	18	28	17	27
Interest receivable	13	14	14	15
Trade receivables	2	3	2	3
Other assets	**59**	**111**	**53**	**107**
Amounts include				
Due from the Parent	-	-	-	-
Maturity profile of other assets				
Amounts receivable within 1 year	57	102	53	98
Amounts receivable after 1 year	2	9	-	9
Total	**59**	**111**	**53**	**107**

25 Deferred tax

Group 2020	Net balance at 1 January £m	Recognised in profit or loss £m	Recognised in OCI £m	Other movements £m	Net £m	Deferred tax assets £m	Deferred tax liabilities £m
Unutilised tax losses	30	(15)	-	-	15	15	-
Fixed / leased assets	6	3	-	-	9	9	-
Impact of adopting IFRS 9	9	(1)	-	-	8	8	-
Cash flow hedge reserve	(2)	-	(5)	-	(7)	-	(7)
Property revaluation surplus	(1)	-	-	-	(1)	-	(1)
Other temporary differences – liabilities	(1)	1	-	(1)	(1)	-	(1)
Tax assets/(liabilities) before set-off	**41**	**(12)**	**(5)**	**(1)**	**23**	**32**	**(9)**
Set-off tax						**(9)**	**9**
Net tax assets/(liabilities)						**23**	**-**

Group 2019	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	72	(42)	-	30	30	-
Fixed / leased assets	7	(1)	-	6	6	-
Impact of adopting IFRS 9	11	(2)	-	9	9	-
Cash flow hedge reserve	(2)	-	-	(2)	-	(2)
Property revaluation surplus	(1)	-	-	(1)	-	(1)
Other temporary differences – liabilities	(2)	1	-	(1)	-	(1)
Tax assets/(liabilities) before set-off	**85**	**(44)**	**-**	**41**	**45**	**(4)**
Set-off tax					**(4)**	**4**
Net tax assets/(liabilities)				**41**	**41**	**-**

25 Deferred tax *(continued)*

Bank 2020	Net balance at 1 January £m	Recognised in profit or loss £m	Recognised in OCI £m	Net £m	Deferred tax assets £m	Deferred tax liabilities £m
Unutilised tax losses	30	(15)	-	15	15	-
Fixed / leased assets	-	-	-	-	-	-
Impact of adopting IFRS 9	9	(1)	-	8	8	-
Cash flow hedge reserve	(2)	-	(5)	(7)	-	(7)
Property revaluation surplus	(1)	-	-	(1)	-	(1)
Other temporary differences – liabilities	-	1	-	1	1	-
Tax assets/(liabilities) before set-off	**36**	**(15)**	**(5)**	**16**	**24**	**(8)**
Set-off tax					**(8)**	**8**
Net tax assets/(liabilities)					**16**	**-**

Bank 2019	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	72	(42)	-	30	30	-
Fixed / leased assets	1	(1)	-	-	-	-
Impact of adopting IFRS 9	10	(1)	-	9	9	-
Cash flow hedge reserve	(2)	-	-	(2)	-	(2)
Property revaluation surplus	(1)	-	-	(1)	-	(1)
Other temporary differences – liabilities	-	1	(1)	-	-	-
Tax assets/(liabilities) before set-off	**80**	**(43)**	**(1)**	**36**	**39**	**(3)**
Set-off tax	**-**	**-**	**-**	**-**	**(3)**	**3**
Net tax assets/(liabilities)	**-**	**-**	**-**	**36**	**36**	**-**

The deferred tax asset includes an amount of £15 million (2019: £30 million) in respect of operating losses which are available to be offset against future taxable profits.

The recognition of a deferred tax asset in respect of tax losses carried forward requires the Directors to be satisfied that it is probable that the Group will have sufficient future taxable profits against which the losses can be utilised. In considering the available evidence to support recognition of the deferred tax asset, the Group takes into consideration the impact of both positive and negative evidence including historical financial performance, projections of future taxable income and the impact of tax legislation.

The key judgements and estimates applied in the recognition of deferred tax assets on unused tax losses are set out in note 2 'Critical Accounting Estimates and Judgements'.

The Group has not recognised a DTA of £66 million (2019: £39 million) in respect of unused tax losses which have no expiry date but are currently not projected to be recovered within 10 years.

The UK Budget, which was presented on 3 March 2021, announced that the main rate of corporation tax would increase from 19% to 25% in April 2023. It was further announced that a review of, and possible changes to, the bank surcharge would take place later in 2021. As these changes have not been substantively enacted at the Balance Sheet date, their potential impact has not been recognised and that impact cannot also be quantified until the review of the banking surcharge is completed.

26 Deposits from banks

	Group		Bank	
	2020 £m	2019 £m	2020 £m	2019 £m
Deposits from banks	**4,202**	**3,500**	**4,199**	**3,496**
Amounts include:				
Due to the Parent	2,372	1,980	2,369	1,977

Deposits from banks includes:
- £427 million (2019: £1,278 million) of borrowings under the Bank of England Term Funding Scheme ('TFS') and £1,301 million (2019: £nil) of borrowings under the Bank of England Term Funding Scheme for Small and Medium Sized Entities ('TFSME'), which are both secured primarily with mortgage loans and partly with notes issued by Bowbell 2 plc; and
- £nil (2019: £200 million) borrowed under the Bank of England Indexed Long - Term Repo scheme, which is collateralised with notes issued by Bowbell 2 plc.

Drawings under the TFS and TFSME will be repaid within four years from the date of drawdown although there is an option under the TFSME to further extend the drawdown window for periods up to 10 years in respect of amounts up to the volume of lending under the BBLS scheme. The interest charged is based on the quantum of eligible net lending by the Bank and by the Parent's UK branch during the relevant Scheme reference period.

Amounts due to the Parent relates to borrowings in place to fund and manage interest rate risk on the Group's assets. Refer to note 17 for details of amounts due from the Parent, and note 41 in respect of changes in these balances during 2020.

27 Customer accounts

	Group		Bank	
	2020 £m	2019 £m	2020 £m	2019 £m
Term deposits	6,627	7,018	6,627	7,029
Demand deposits	7,742	9,101	7,742	9,207
Non-interest bearing current accounts	3,676	2,788	3,785	2,788
Interest bearing current accounts	211	168	211	168
Customer accounts	**18,256**	**19,075**	**18,365**	**19,192**
Amounts include:				
Share of joint operation (note 21)	520	764	520	764
Due to entities controlled by the Parent	9	9	9	9
Due to subsidiaries	-	-	109	115

28 Debt securities in issue

	Group		Bank	
	2020 £m	2019 £m	2020 £m	2019 £m
Residential mortgage backed securities	211	307	-	-
Floating rate senior non preferred notes	300	300	300	300
Total debt securities in issue	**511**	**607**	**300**	**300**

The residential mortgage backed securities were issued in June 2019 by the Group's securitisation entity, Bowbell 2 plc. For further information refer to note 43.

The floating rate senior non preferred notes were issued to the Parent on 11 December 2019, in order to meet the Group's indicative internal requirements for Minimum Requirement for Eligible Liabilities (MREL).

29 Other liabilities

	Group		Bank	
	2020 £m	2019 £m	2020 £m	2019 £m
Notes in circulation	980	1,073	980	1,073
Accrued interest payable	61	82	61	81
Sundry payables	86	85	69	67
Accruals and deferred income	10	32	10	32
Other liabilities	**1,137**	**1,272**	**1,120**	**1,253**
Amounts include:				
Due to the Parent	5	4	5	4
Share of joint operation (note 21)	12	9	12	9
Maturity profile of other liabilities				
Amounts payable within 1 year	1,137	1,272	1,120	1,253
Amounts payable after 1 year	-	-	-	-

The Bank is authorised to issue banknotes in Northern Ireland under the Bank of Ireland (UK) plc Act 2012.

30 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 163.

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 19) along with a gross to net reconciliation of the investment in finance leases. Associated income on finance leases is included in Interest income (note 3). Operating leases where the Group is a lessor primarily relate to the business activities of MLL.

A maturity analysis of undiscounted operating lease receivables set out on an annual basis is included in note 23. 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 2020 are set out in note 23.

The carrying amount of the lease liabilities and the movements during 2020 is set out below:

30 Leasing *(continued)*

Balance sheet liabilities	Group 2020 £m	Group 2019 £m	Bank 2020 £m	Bank 2019 £m
As at 1 January	**20**	**26**	**20**	**26**
Payments	(4)	(5)	(4)	(5)
Interest expense (note 4)	1	1	1	1
Other movements	2	(2)	1	(2)
As at 31 December	**19**	**20**	**18**	**20**

Group **Summary of amounts recognised in the income statement under IFRS 16 leases**	2020 £m	2019 £m
Amounts recognised in interest expense (note 4)		
Payments	1	1
Amounts recognised in interest income (note 3)		
Finance lease interest	86	82
Other leasing income and expense (note 5)		
Finance lease interest	58	54
Other leasing expense	(49)	(46)
	9	8
Amounts recognised in other operating expense (note 9)		
Depreciation of RoU assets in property, plant and equipment	3	3
Impairment of RoU assets	2	-
	5	-

31 Provisions

At 31 December 2020 the Group had a provision of £9 million for amounts payable under the Parent's voluntary parting programme.

In July 2019, the Group disposed of its UK credit card portfolio and recognised a net loss on disposal of £19 million. The net loss on disposal included a charge for a provision of £29 million related to the costs of migration and other costs associated with the disposal (see note 13).

In October 2020, the migration of the portfolio concluded and consequently the provision was adjusted to reflect the actual costs and timing of migration. This has resulted in a release of £7 million from the provision which is reflected as an adjustment to the loss on disposal during the year. As at 31 December 2020, the provision is £5 million (2019: £29 million) which is based upon management's current estimates of the residual activities associated with migration.

In addition the Group has provisions of £1 million (2019: £1 million) relating to potential payments to customers in relation to various compliance matters.

2020	Group £m	Bank £m
Closing balance 31 December 2019	30	30
Net charge to the income statement	6	5
Utilised during the year	(21)	(21)
At 31 December 2020	**15**	**14**
Expected utilisation period		
Used within 1 year	14	13
Used after 1 year	1	1

32 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 2020, the Group held an impairment loss allowance of £4 million (2019: £3 million) on loan commitments and financial guarantees, of which £1 million are classified as stage 1 (2019: £1 million), £3 million as stage 2 (2019: £nil) and £nil as stage 3 (2019: £2 million).

Group	2020 Amount £m	2020 Loss allowance £m	2019 Amount £m	2019 Loss allowance £m
Loan commitments (note 35)	1,433	4	1,537	3
Guarantees and irrevocable letters of credit (note 35)	18	-	20	-
Total	**1,451**	**4**	**1,557**	**3**

Bank	2020 Amount £m	2020 Loss allowance £m	2019 Amount £m	2019 Loss allowance £m
Loan commitments (note 35)	1,411	4	1,497	3
Guarantees and irrevocable letters of credit (note 35)	18	-	20	-
Total	**1,429**	**4**	**1,517**	**3**

Group 2020 Loan commitments and financial guarantees - Contract amount	Loan commitments						Guarantees and irrevocable letters of credit					
	Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
	£m	%	£m	%	£m	%	£m	%	£m	%	£m	%
PD Grade												
1-4	254	20%	1	1%	255	18%	-	-	-	-	-	-
5-7	824	65%	50	35%	874	62%	5	83%	5	45%	10	59%
8-9	175	14%	38	27%	213	15%	-	-	6	55%	6	35%
10-11	21	1%	52	37%	73	5%	1	17%	-	-	1	6%
Total	**1,274**	**100%**	**141**	**100%**	**1,415**	**100%**	**6**	**100%**	**11**	**100%**	**17**	**100%**

Group 2019 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	160	11%	1	3%	161	11%	18	90%	-	-	18	90%
5-7	1,110	74%	24	75%	1,134	74%	2	10%	-	-	2	10%
8-9	216	14%	3	9%	219	14%	-	-	-	-	-	-
10-11	7	1%	4	13%	11	1%	-	-	-	-	-	-
Total	**1,493**	**100%**	**32**	**100%**	**1,525**	**100%**	**20**	**100%**	**-**	**-**	**20**	**100%**

32 Loss allowance provision on loan commitments and financial guarantees *(continued)*

Bank 2020 Loan commitments and financial guarantees - Contract amount	**Loan commitments**						**Guarantees and irrevocable letters of credit**					
	Stage 1		**Stage 2**		**Total**		**Stage 1**		**Stage 2**		**Total**	
	£m	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
PD Grade												
1-4	232	18%	1	1%	233	17%	-	-	-	-	-	-
5-7	824	66%	50	35%	874	63%	5	83%	5	45%	10	59%
8-9	175	14%	38	27%	213	15%	-	-	6	55%	6	35%
10-11	21	2%	52	37%	73	5%	1	17%	-	-	1	6%
Total	**1,252**	**100%**	**141**	**100%**	**1,393**	**100%**	**6**	**100%**	**11**	**100%**	**17**	**100%**

Bank 2019 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	120	8%	1	3%	121	8%	18	90%	-	-	18	90%
5-7	1,110	76%	24	75%	1,134	76%	2	10%	-	-	2	10%
8-9	216	15%	3	9%	219	15%	-	-	-	-	-	-
10-11	7	1%	4	13%	11	1%	-	-	-	-	-	-
Total	**1,453**	**100%**	**32**	**100%**	**1,485**	**100%**	**20**	**100%**	**-**	**-**	**20**	**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 £18 million (2019: £12 million) on loan commitments and £0.6 million (2019: £0.2 million) on guarantees and irrevocable letters of credit are stage 3.

33 Retirement benefit obligations

The Group's employees' membership of a particular pension scheme is dependent on their specific employment contract. Where an employee is seconded directly to the Group, the Group only incurs the cost of the future service contribution to those particular schemes. The Group does not have any liability for payment in respect of increases to pension contributions arising from any historic or future shortfall in the pension assets relative to the pension liabilities of the BOI Group operated schemes. Consequently, the schemes have been accounted for as defined contribution schemes in these financial statements and where applicable will be included in the disclosures for defined benefit schemes in the financial statements of BOI Group.

NIIB Group Limited (1975) Pension Scheme (the 'NIIB scheme')

The NIIB defined benefit scheme is based on final pensionable salary and operates for eligible employees of NIIB Group Limited and its subsidiaries. Contributions by the company and the employees are invested in a trustee-administered fund. As the scheme's underlying assets and liabilities are identifiable as those of the Group the scheme has been accounted for as a defined benefit scheme (as set out in the accounting policy for pension obligations) and the disclosures set out in the remainder of this note relate to this scheme.

In determining the level of contributions required to be made to the scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, Willis Towers Watson.

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.

33 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 2019. The funding method used measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date. Discussions in relation to the valuation were completed in 2020 and a schedule of contributions was agreed between the trustees and the Group and submitted to the Pensions Regulator.

Under the schedule of contributions the Group agreed to make contributions of 45.8% of Basic Salary less member contributions in respect of the cost of future benefit accrual. The contribution rate is inclusive of expenses of running of the scheme (previously these were met directly by the company). The next formal valuation of the NIIB scheme is due to be carried out as at 1 May 2022.

Plan details

The following table sets out details of the membership of the NIIB scheme as at 1 May 2019.

Financial and demographic assumptions

The assumptions used in calculating the costs and obligations of the NIIB scheme, as detailed below, were set after consultation with Willis Towers Watson.

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.

During 2020, the Group's actuary, Willis Towers Watson (WTW), refined its methodology used in selecting bonds in its Global RATE:Link models. These models are available to all WTW clients and consistent with prior periods, are used by the Group in the determination of the discount rate used to value sterling denominated liabilities under IAS 19. This reflects a change in the way Bloomberg (WTW's source of data on the bond universes) classifies information about fixed interest bonds. The UK discount rate determined using this approach was 1.55%. The discount rate under the previous approach would have been 1.40%, which, if used, would have reduced the net pension surplus by c.£2m at 31 December 2020.

The methodology used to determine the assumption for retail price inflation uses an inflation curve derived by Willis Towers Watson using market data which reflects the characteristics of the Bank's liabilities with an appropriate adjustment to reflect distortions due to supply and demand.

The assumption for consumer price inflation is set by reference to retail price inflation, with an adjustment applied, as no consumer price inflation linked bonds exist.

The salary assumption takes into account inflation, seniority, promotion and current employment market relevant to the Group.

On 26 October 2018 a court ruling confirmed that UK pension schemes with Guaranteed Minimum Pensions (GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. An allowance of 0.3% is included in the liabilities to allow for the expected impact of this element of GMP equalisation. Following on from the original ruling in 2018, a further High Court ruling on 20 November 2020 provided clarification on the obligations of pension plan trustees to equalise past transfer values allowing for GMP equalisation. The original allowance only considered current members who had GMP liabilities within the scheme (not members who have died without a spouse or members who have transferred out for example). The approximate impact of equalising past transfers from the Scheme has been estimated as being very unlikely to be material and as such no allowance has been made for this in the year end valuation.

Plan details at last valuation date (1 May 2019)	By number	By % of scheme liability
Scheme members		
Active	66	37%
Deferred	116	26%
Pensioners / dependants	71	37%

33 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	2020 % p.a.	2019 % p.a.
Consumer price inflation	2.30	1.95
Retail price inflation	2.90	2.95
Discount rate	1.55	2.10
Rate of general increase in salaries	3.40	3.45
Rate of increase in pensions in payment	3.00	3.00
Rate of increase in deferred pensions	2.30	1.95

Mortality assumptions

The mortality assumptions adopted are outlined in the table below.

Post retirement mortality assumptions	2020 Years	2019 Years
Longevity at age 70 for current pensioners		
Men	18.1	18.0
Women	19.5	19.4
Longevity at age 60 for active members currently aged 60 years		
Men	27.2	27.1
Women	28.9	28.8
Longevity at age 60 for active members currently aged 40 years		
Men	28.7	28.6
Women	30.4	30.4

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements.

	2020 £m	2019 £m
Total charge in operating expenses	**(1)**	**(1)**
Total gain in remeasurements[1]	**-**	**1**
Total asset in the balance sheet	**10**	**9**

Where a scheme asset exceeds its obligation, an asset is recognised to the extent that it does not exceed the present value of the future contribution holidays or refunds of contribution (the asset ceiling).The group has the right to a refund of any pension surplus at the end of the scheme and as such has not recognised an additional liability in accordance with IFRIC 14. In the case of NIIB scheme a surplus of £10 million has been recognised at year-end in line with the Trust deed rules which state employer's right to recognise any such surplus as no unilateral rights were given to trustees to wind up the scheme without cause. The Employer is able to run off the plan until there are no members and can trigger a wind-up of the scheme.

[1] *Shown before deferred tax.*

33 Retirement benefit obligations *(continued)*

The movement in the net defined benefit asset / obligation is as follows:

	2020			2019		
	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	**(44)**	**53**	**9**	**(37)**	**45**	**8**
Current service cost	(1)	-	(1)	(1)	-	(1)
Interest (expense) / income	(1)	1	-	(1)	1	-
Total amount in recognised income statement	**(2)**	**1**	**(1)**	**(2)**	**1**	**(1)**
Return on plan assets not included in income statement	-	6	6	-	7	7
Change in demographic assumptions	-	-	-	1	-	1
Change in financial assumptions	(6)	-	(6)	(6)	-	(6)
Experience losses	-	-	-	(1)	-	(1)
Total remeasurements in other comprehensive income	**(6)**	**6**	**-**	**(6)**	**7**	**1**
Benefit payments	1	(1)	-	1	(1)	-
Employer contributions	-	1	1	-	1	1
Other	-	1	1	-	-	-
Other movements	**1**	**1**	**2**	**1**	**0**	**1**
At 31 December	**(51)**	**61**	**10**	**(44)**	**53**	**9**

Asset breakdown	**2020 £m**	**2019 £m**
Equities[1] (quoted)	25	17
Corporate bonds	6	11
Liability Driven Investment (LDI)	29	8
Indexed linked government bonds[1] (quoted)	-	-
Cash	1	17
Total fair value of assets	**61**	**53**

[1] *These are held indirectly against managed funds.*
[2] *Including other inflation-linked assumptions (consumer price inflation, pension increases, salary growth).*

33 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 2020.

Some of the changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the plan holds a proportion of its assets in Liability Driven Investments (LDI). A fall in the rate of inflation would be expected to lead to a reduction in the value of these assets, thus partly offsetting the reduction in the defined benefit obligation. The extent to which these sensitivities are managed is discussed further below.

Impact on defined benefit obligation	Change in assumptions (%)	Increase in assumptions £m	Decrease in assumptions £m
Discount rate	0.25	(3)	3
Inflation[1]	0.10	1	(1)
Salary growth	0.10	-	-
Life expectancy	1 year	2	(2)

Future cash flows

The plan's liabilities represent a long-term obligation and most of the payments due under the plan will occur several decades into the future. The duration, or average term to payment for the benefits due, weighted by liability, is 23 years.

Expected employer contributions for the year ended 31 December 2021 are £0.9 million. Expected employee contributions for the year ended 31 December 2021 are £56,000.

Years	Benefit payments from plan assets £m
2021 - 2030	(12)
2031 - 2040	(18)
2041 - 2050	(20)
2051 - 2060	(17)
2061 - 2070	(10)
2071 - 2080	(4)
2081 - 2090	(1)
2091 - 2100	-
Total	**(82)**

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).*

33 Retirement benefit obligations *(continued)*

Risk	Delegated responsibility
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation in the Group's financial statements is calculated using a discount rate set with reference to high quality corporate bond yields. The plan holds a proportion of its assets in equities. The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net defined benefit liability recorded on the balance sheet.
Changes in bond yields	Interest rate and inflation risks, along with equity risk, are the scheme's largest risks. From an accounting liability perspective, the scheme is also exposed to movements in corporate bond spreads. The scheme uses investment Liability Driven Investments (LDI) to assist in managing its interest rate and inflation risk. This portfolio is used to broadly hedge against movements in long-term interest rates and inflation expectations. The portfolio does not completely eliminate risk and addresses only a portion of the scheme's interest rate and inflation risks. Furthermore, it does not hedge against changes in the credit spread available on corporate bonds used to derive the accounting liabilities. The investment in LDI offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	A significant proportion of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plan against inflation.
Life expectancy	The majority of the plan's obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plan's liabilities.

34 Subordinated liabilities

	Group		Bank	
	2020 £m	**2019 £m**	**2020 £m**	**2019 £m**
£200 million subordinated floating rate notes 2025[1]	200	200	200	200
£90 million subordinated floating rate notes 2027[2]	90	90	90	90
Subordinated liabilities	**290**	**290**	**290**	**290**

	Group		Bank	
Movement on subordinated liabilities	**2020 £m**	**2019 £m**	**2020 £m**	**2019 £m**
At 1 January	290	290	290	290
Issued during the year	-	-	-	-
Repurchased	-	-	-	-
At 31 December	**290**	**290**	**290**	**290**

[1] *Callable on any interest payment date from 26 November 2020 until their final maturity date of 26 November 2025. They bear interest at a floating rate of 4.225% per annum above the sterling LIBOR three month rate.*

[2] *Callable on 19 December 2022 or on any date thereafter until their final maturity date of 19 December 2027. They bear interest at a floating rate of 2.72% per annum above the sterling LIBOR three month rate.*

34 Subordinated liabilities *(continued)*

These liabilities constitute unsecured obligations of the Group to its Parent, subordinated in right of payments to the claim of depositors, and other unsubordinated creditors of the Group. The subordinated liabilities meet the definition of a financial liability as the Group does not have an unconditional right to avoid the repayment of the principal or interest. Therefore, the liabilities are recognised on the balance sheet at amortised cost, using the effective interest method.

All of the current notes are redeemable in whole but not in part, subject to the prior approval of the PRA, on the fifth anniversary of their drawdown date. In the event of a wind up of the Group, the loans will become immediately due and payable without demand, together with all interest accrued thereon.

35 Contingent liabilities and commitments

	Group		Bank	
	2020 £m	**2019 £m**	**2020 £m**	**2019 £m**
Contingent liabilities				
Guarantees and irrevocable letters of credit	19	20	19	20
Other contingent liabilities	6	9	6	9
Total contingent liabilities	**25**	**29**	**25**	**29**
Loan commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend				
- revocable or irrevocable with original maturity of 1 year or less	1,393	1,477	1,371	1,437
- irrevocable with original maturity of over 1 year	40	60	40	60
Total commitments	**1,433**	**1,537**	**1,411**	**1,497**

The table sets out the contractual amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral, or security prove worthless. Loss allowance provisions of £4 million (2019: £3 million) recognised on loan commitments and guarantees and irrevocable letters of credit are shown in note 32. Provisions on all other contingent liabilities and commitments are shown in note 31 (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.

In February 2019, the Group received a letter before claim from investors in Eclipse film finance schemes asserting various claims in connection with the design, promotion and operation of such schemes. The Group's involvement in these schemes was limited to the provision of commercial finance. The Group was not the designer, promoter or operator in respect of any of the schemes.

The Group served a robust response to the letter before claim in June 2019 but has received no response to date. Whilst the length of time that has elapsed suggests a diminishing risk, it is still not possible at this stage to state whether the claims continue to be asserted and if so, until properly particularised, whether such claims have any merit.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

36 Share capital

Ordinary shares	Group 2020 £m	Group 2019 £m	Bank 2020 £m	Bank 2019 £m
At 1 January	255	851	255	851
Capital reduction during the year	(58)	(596)	(58)	(596)
At 31 December	**197**	**255**	**197**	**255**

At 31 December 2020 the Bank had 656 million (2019: 851 million) shares in issue, all of which were held by the Parent and were fully paid. The Bank's authorised share captial at 31 December 2020 and 31 December 2019 was £2.5 billion.

In March 2020, the Group carried out a share buy back transaction whereby it repurchased 195 million shares with a nominal value of £0.30 each for £1 each from the Parent. This resulted in a £58.5 million reduction in share capital with a corresponding increase in the capital redemption reserve.

On 4 June 2019 the UK High Court of Justice approved the Bank's application to reduce its share capital by £596 million from £851 million to £255 million, by means of a reduction in the nominal value of each share from £1 to £0.30, thereby increasing distributable reserves, and to cancel the capital redemption reserve of £300 million. These reductions gave rise to an increase in retained earnings totalling £896 million.

37 Other equity instruments

	Group 2020 £m	Group 2019 £m	Bank 2020 £m	Bank 2019 £m
At 1 January and 31 December	300	300	300	300

Other equity instruments consist of Additional tier 1 securities held by the Parent:
- £200 million issued on 1 May 2015; and
- £100 million issued on 26 November 2015.

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 bore a fixed rate of interest (7.9% for the May 2015 issuance; 8.4% for the November 2015 issuance) until the first call date (1 May 2020 and 26 November 2020 respectively). 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. These rates were reset on the initial call dates and now equate to 6.8% for the May 2015 issuance and 7.3% for the November 2015 issuance;
- 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%.

38 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities, at 31 December 2020 and 31 December 2019, 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 2020 Maturity profile of financial liabilities	**Demand £m**	**0-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	295	203	663	3,025	-	4,186
Lease liabilities	-	1	3	11	14	29
Customer accounts	13,839	1,482	2,083	949	-	18,353
Debt securities in issue	-	16	3	10	550	579
Subordinated liabilities	-	3	8	32	306	349
Contingent liabilities	25	-	-	-	-	25
Commitments	511	22	860	40	-	1,433
Total	**14,670**	**1,727**	**3,620**	**4,067**	**870**	**24,954**

Group 2019 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	267	10	1,837	1,427	11	3,552
Lease liabilities	-	1	2	14	5	22
Customer accounts	13,608	1,719	2,573	1,323	-	19,223
Debt securities in issue	-	29	4	24	717	774
Subordinated liabilities	-	3	10	52	310	375
Contingent liabilities	29	-	-	-	-	29
Commitments	485	40	952	60	-	1,537
Total	**14,389**	**1,802**	**5,378**	**2,900**	**1,043**	**25,512**

Bank 2020 Maturity profile of financial liabilities	**Demand £m**	**0-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	292	203	663	3,025	-	4,183
Lease liabilities	-	1	3	11	14	29
Customer accounts	13,936	1,484	2,089	953	-	18,462
Debt securities in issue	-	-	2	3	300	305
Subordinated liabilities	-	3	8	32	306	349
Contingent liabilities	25	-	-	-	-	25
Commitments	511	-	860	40	-	1,411
Total	**14,764**	**1,691**	**3,625**	**4,064**	**620**	**24,764**

38 Liquidity risk *(continued)*

Bank **2019** **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	264	10	1,837	1,427	11	3,549
Lease liabilities	-	1	2	14	5	22
Customer accounts	13,714	1,722	2,577	1,328	-	19,341
Debt securities in issue	-	-	2	6	300	308
Subordinated liabilities	-	3	10	52	310	375
Contingent liabilities	29	-	-	-	-	29
Commitments	485	-	952	60	-	1,497
Total	**14,492**	**1,736**	**5,380**	**2,887**	**626**	**25,121**

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 are classified according to their contractual maturity.

Group and Bank **2020** **Maturity profile of derivative liabilities**	**Demand** **£m**	**0-3 months** **£m**	**3-12 months** **£m**	**1-5 years** **£m**	**Over 5 years** **£m**	**Total** **£m**
Gross settled derivative liabilities - outflows	(4)	(164)	(181)	(21)	-	(370)
Gross settled derivative liabilities - inflows	2	167	136	6	-	311
Gross settled derivative liabilities - net flows	(2)	3	(45)	(15)	-	(59)
Net settled derivative liabilities	-	(12)	(31)	(54)	(1)	(98)
Total derivatives cash flows	**(2)**	**(9)**	**(76)**	**(69)**	**(1)**	**(157)**

Group and Bank **2019** **Maturity profile of derivative liabilities**	**Demand** **£m**	**0-3 months** **£m**	**3-12 months** **£m**	**1-5 years** **£m**	**Over 5 years** **£m**	**Total** **£m**
Gross settled derivative liabilities - outflows	(4)	(78)	(96)	(8)	-	(186)
Gross settled derivative liabilities - inflows	3	75	92	7	-	177
Gross settled derivative liabilities - net flows	(1)	(3)	(4)	(1)	-	(9)
Net settled derivative liabilities	-	(7)	(12)	(28)	(2)	(49)
Total derivatives cash flows	**(1)**	**(10)**	**(16)**	**(29)**	**(2)**	**(58)**

39 Measurement basis of financial assets and financial liabilities

For Group and Bank all derivatives (see note 16) are measured at fair value. All other financial assets and liabilities were held at amortised cost at 31 December 2020 and 31 December 2019.

40 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 39 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 2020. 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.

40 Fair value of assets and liabilities *(continued)*

Group	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2019 Total £m
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	1,672	-	1,672	-	2,161	-	2,161
Debt securities at amortised cost	924	-	-	924	847	-	-	847
Loans and advances to customers	-	-	21,380	21,380	-	-	20,986	20,986
Total	**924**	**1,672**	**21,380**	**23,976**	**847**	**2,161**	**20,986**	**23,994**
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	4,202	-	4,202	-	3,513	-	3,513
Customer accounts	-	18,296	-	18,296	-	19,097	-	19,097
Debt securities in issue	-	515	-	515	-	609	-	609
Subordinated liabilities	-	295	-	295	-	296	-	296
Total	**-**	**23,308**	**-**	**23,308**	**-**	**23,515**	**-**	**23,515**

Bank	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2019 Total £m
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	1,542	-	1,542	-	1,939	-	1,939
Debt securities at amortised cost	924	-	-	924	847	-	-	847
Loans and advances to customers	-	-	21,485	21,485	-	-	21,130	21,130
Total	**924**	**1,542**	**21,485**	**23,951**	**847**	**1,939**	**21,130**	**23,916**
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	4,199	-	4,199	-	3,509	-	3,509
Customer accounts	-	18,405	-	18,405	-	19,214	-	19,214
Debt securities in issue	-	303	-	303	-	300	-	300
Subordinated liabilities	-	295	-	295	-	296	-	296
Total	**-**	**23,202**	**-**	**23,202**	**-**	**23,319**	**-**	**23,319**

40 Fair value of assets and liabilities *(continued)*

Group and Bank	2020 Level 1 £m	2020 Level 2 £m	2020 Level 3 £m	2020 Total £m	2019 Level 1 £m	2019 Level 2 £m	2019 Level 3 £m	2019 Total £m
Financial assets held at fair value								
Derivative financial instruments	-	53	-	53	-	41	-	41
Non-financial assets held at fair value								
Property held at fair value	-	-	24	24	-	-	25	25
Total assets held at fair value	**-**	**53**	**24**	**77**	**-**	**41**	**25**	**66**
As a % of fair value assets	**-**	**69%**	**31%**	**100%**	**-**	**62%**	**38%**	**100%**
Financial liabilities held at fair value								
Derivative financial instruments	-	114	-	114	-	59	-	59
Total financial liabilities held at fair value	**-**	**114**	**-**	**114**	**-**	**59**	**-**	**59**
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 2020 or 31 December 2019.

Movements in level 3 assets

Property held at fair value	Group 2020 £m	Group 2019 £m	Bank 2020 £m	Bank 2019 £m
At 1 January	25	24	25	24
Additions	-	-	-	-
Revaluation of property	(1)	1	(1)	1
At 31 December	**24**	**25**	**24**	**25**

Quantitative information about fair value measurements using significant unobservable inputs (level 3)

Group and Bank Level 3 assets	Valuation technique	Unobservable input	Fair Value 2020 £m	Fair Value 2019 £m	Range 2020 %	Range 2019 %
Property held at fair value	Market comparable property transactions	Yields	24	25	6.50% - 11.45%	6.50% - 10.50%

40 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			
	2020		2019		2020		2019	
	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	1,672	1,672	2,158	2,161	1,542	1,542	1,935	1,939
Debt securities at amortised cost	922	924	846	847	922	924	846	847
Loans and advances to customers	21,300	21,380	21,200	20,986	21,397	21,485	21,321	21,130
Financial Liabilities								
Deposits from banks	4,202	4,202	3,500	3,513	4,199	4,199	3,496	3,509
Customer accounts	18,256	18,296	19,075	19,097	18,365	18,405	19,192	19,214
Debt securities in issue	511	515	607	609	300	303	300	300
Subordinated liabilities	290	295	290	296	290	295	290	296

41 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or one other party controls both. The definition includes subsidiaries, joint ventures and the Parent, as well as key management personnel.

(a) Parent

The immediate parent and owner of the entire share capital of the Group is The Governor and Company of the Bank of Ireland, a corporation established in Ireland in 1783 under Royal Charter.

Bank of Ireland Group plc is listed as the holding company and ultimate parent of the Bank of Ireland Group and Bank of Ireland (UK) plc. The results of the Group are consolidated in the Bank of Ireland Group plc financial statements, which are available at Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4, Ireland being the registered office of the immediate and ultimate Parent (website: www.bankofireland.com).

The Governor and Company of the Bank of Ireland acts as guarantor for the Bank in its transactions with the Bank of England (including its subsidiary, the Bank of England Asset Purchase Facility Fund Limited). If in any circumstances the Bank fails to make payment of guaranteed amounts to the Bank of England or does not perform any of its other obligations under the relevant agreement, the Governor and Company of the Bank of Ireland may be required to pay the amounts or perform its obligations upon written demand from the Bank of England.

The Group receives a range of services from its Parent and related parties, including loans and deposits, forward exchange, interest rate cover including derivatives and various administrative services. In the course of operating its business, the Group utilises a number of key services from its Parent, which are subject to a number of Service Level Agreements and costs, and these are disclosed in note 9 of the financial statements.

Other transactions with the Parent in 2020 and 2019

(i) 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.

(ii) On 1 May 2020 a coupon payment of £16 million was paid to the Parent in relation to the £200 million Additional tier 1 instrument (2019: £16 million) (refer to note 37). On 26 November 2020 a coupon payment of £8 million was paid to the Parent in relation to the £100 million Additional tier 1 instrument (2019: £8 million) (refer to note 37).

(iii) On 4 June 2019 the UK High Court of Justice approved the Bank's application to reduce its share capital, which is all held by the Parent, by £596 million from £851 million to £255 million, by means of a reduction in the nominal value of each share from £1 to £0.30, thereby increasing distributable reserves, and to cancel the capital redemption reserve of £300 million. These reductions gave rise to an increase in retained earnings totalling £896 million.

(iv) On 24 October 2019 a dividend payment of £100 million was paid to the Parent.

41 Related party transactions *(continued)*

(v) On 11 December 2019, £300 million floating rate senior non preferred notes were issued to the Parent, in order to meet the Group's indicative internal requirements for Minimum Requirement for Eligible Liabilities (MREL). These are disclosed as debt securities in issue.

(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.

Group **Summary - Parent[2]**	**2020** **£m**	**Restated[1]** **2019** **£m**
Income statement		
Interest income (note 3)	(23)	(2)
Interest expense (note 4)	(38)	(32)
Fees and commissions expense (note 6)	(8)	(8)
Net trading (expense) / income (note 7)	(61)	(21)
Operating expenses paid for services provided (note 9)	(148)	(173)
Total	**(278)**	**(236)**
Assets		
Loans and advances to banks (note 17)	306	552
Loans and advances to customers (note 19)	6	6
Other assets (note 24)	-	-
Derivatives (note 16)	43	37
Total assets	**355**	**595**
Liabilities		
Deposits from banks (note 26)	2,372	1,980
Customer accounts (note 27)	9	9
Debt securities in issue (note 28)	300	300
Other liabilities (note 29)	5	4
Derivatives (note 16)	111	54
Subordinated liabilities (note 34)	290	290
Total liabilities	**3,087**	**2,637**
Net exposure	**(2,732)**	**(2,042)**

At 31 December 2020 and 31 December 2019 the Parent also held the AT1 securities of £300 million issued by the Bank which are classified as other equity instruments (see note 37).

[1] *As outlined in the Group accounting policies on page 88, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instrument. See note 45 for additional information.*

[2] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*

41 Related party transactions *(continued)*

Bank	2020 Parent[2] £m	2020 Joint venture £m	2020 Total £m	Restated[1] 2019 Parent[2] £m	Restated[1] 2019 Joint venture £m	Restated[1] 2019 Total £m
Income statement						
Interest income	(23)	-	(23)	(2)	-	(2)
Interest expense	(38)	-	(38)	(32)	-	(32)
Fees and commission expense	(8)	-	(8)	(8)	-	(8)
Net trading expense	(61)	-	(61)	(21)	-	(21)
Other operating income	-	(1)	(1)	-	30	30
Operating expenses paid for services provided	(142)	-	(142)	(169)	-	(169)
Total income / (expense)	**(272)**	**(1)**	**(273)**	**(232)**	**30**	**(202)**
Assets						
Loans and advances to banks	298	-	298	544	-	544
Loans and advances to customers	6	-	6	6	-	6
Other assets	-	-	-	-	-	-
Derivatives	43	-	43	37	-	37
Total assets	**347**	**-**	**347**	**587**	**-**	**587**
Liabilities						
Deposits from banks	2,369	-	2,369	1,977	-	1,977
Customer accounts	9	-	9	9	-	9
Debt securities in issue	300	-	300	300	-	300
Other liabilities	5	-	5	4	-	4
Derivatives	111	-	111	54	-	54
Subordinated liabilities	290	-	290	290	-	290
Total liabilities	**3,084**	**-**	**3,084**	**2,634**	**-**	**2,634**
Net exposure	**(2,737)**	**-**	**(2,737)**	**(2,047)**	**-**	**(2,047)**

(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	2020 Balance as at 1 January 2020[3] £'000	2020 Balance as at 31 December 2020[4] £'000	2020 Aggregate maximum amount outstanding during the year ended 31 December 2020[5] £'000	2019 Balance as at 1 January 2019[3] £'000	2019 Balance as at 31 December 2019[4] £'000	2019 Aggregate maximum amount outstanding during the year ended 31 December 2019[5] £'000
Loans to Directors	13	-	16	4	13	21

[1] *As outlined in the Group accounting policies on page 88, comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for the presentation of interest income and expense on certain financial instruments. See note 45 for additional information.*
[2] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*
[3] *The opening balance includes balances and transactions with Directors who have retired during 2019 and are not related parties during the current year. Therefore, these Directors are not included in the maximum amounts outstanding.*
[4] *Balance includes principal and interest.*
[5] *These figures include credit card exposures at the maximum statement balance. In all cases, Directors have not exceeded their approved limits. The maximum approved credit limit on any credit card held by any Director during the year was £14,000.*

41 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, UK Mortgages Director, HR Director, Director of Product and Proposition, Chief Operating Officer, UK General Counsel, UK Company Secretary, Head of UK Change, Transformation Director, Operations Director, the Managing Director Northern Ireland 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) 2020 Key management personnel	Balance as at 1 January 2020[4] £'000	Balance as at 31 December 2020[1] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2020[2,3] £'000	Total number of KMP as at 1 January 2020	Total number of KMP as at 31 December 2020
Loans	1,043	549	583	9	3
Deposits	816	991	1,245	8	11

Group 2019 Key management personnel	Balance as at 1 January 2019[4] £'000	Balance as at 31 December 2019[1] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2019[2,3] £'000	Total number of KMP as at 1 January 2019	Total number of KMP as at 31 December 2019
Loans	59	1,043	1,115	7	9
Deposits	513	816	1,159	13	8

[1] *Balance includes principal and interest.*

[2] *These figures include credit card exposures at the maximum statement balance. In all cases, KMP have not exceeded their approved limits. The maximum approved credit limit on any credit card held by KMP during the year was £14,000.*

[3] *The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability, during the year ended 31 December 2020 for any member of KMP and their close family did not exceed £517,000 (31 December 2019: £1,008,000). 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.*

41 Related party transactions *(continued)*

CRD IV Pillar 3 disclosures for the Group also include information on remuneration. This can be found on the website of the Bank of Ireland (UK) plc at www.bankofirelanduk.com.

- Total compensation paid to KMP was £5.2 million for the year ended 31 December 2020 and of this amount £2.1 million was paid to Directors. This compared to £4.1 million and £1.9 million respectively for the year ended 31 December 2019.
- During the year ended 31 December 2020 or the year ended 31 December 2019, there was no remuneration paid to the Executive Directors of the Parent in respect of their services as Non-executive Directors of the Group, or for managing the Group or its subsidiaries;
- The highest total amount paid to any Director for the year ended 31 December 2020 was £1,020,646 comprising salary and other benefits (2019: £531,696). The total accrued pension and accrued lump sum of this Director at the year ended 31 December 2020 was £nil;
- One Executive Director accrued retirement benefits under a defined benefit and defined contribution Bank of Ireland Group Pension Scheme for year ended 31 December 2020.
- Pension costs were paid by the Parent and the costs incurred recharged on an agreed basis through the service level agreements.
- 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 2020 or the year ended 31 December 2019.

Group **(d) Compensation of key management personnel**	**2020** **£000's**	**2019** **£000's**
Remuneration		
Salaries and other benefits[1]	4,921	3,875
Pension benefits	309	245
Total	**5,230**	**4,120**

42 Offsetting financial assets and liabilities

The following items have been offset in the balance sheet, in accordance with paragraph 42 of IAS 32.

In addition, as set out in section 2.1.2 of the Risk management report, the Group's net exposure to the Parent is managed through a contractual master netting agreement with the Parent. These amounts do not meet the criteria for offset under paragraph 42 of IAS 32 and are presented gross within loans and advances to banks, derivatives and deposits by banks respectively. Further detail on these amounts is set out in notes 17, 16 and 26 to the financial statements.

Group	**2020**			**2019**		
Assets	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities[2] set off in the balance sheet £m**	**Net amounts of financial assets presented in the balance sheet £m**	**Gross amounts of recognised financial assets £m**	**Gross amounts of recognised financial liabilities[1] set off in the balance sheet £m**	**Net amounts of financial assets presented in the balance sheet £m**
Loans and advances to customers	82	(82)	-	165	(165)	-

[1] Salaries and other benefits includes termination payments of £536,052 (2019: £361,804).
[2] Loans and advances to customers represent loan agreements entered into by the Group that are fully collateralised by the Parent. Ultimate recourse is to the Parent. These loans are netted on the balance sheet against deposits received from the Parent.

43 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.
Bank of Ireland Personal Finance Limited[1]	Personal finance	Northern Ireland	31 December	100	100	1 Temple Back East, Temple Quay, Bristol, BS1 6DX.
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[2]	Foreign exchange	England and Wales	31 March	50	50	Great West House, Great West Road, Brentford, London, TW8 9DF.
First Rate Exchange Services Limited	Foreign exchange	England and Wales	31 December	50	50	Great West House, Great West Road, Brentford, London, TW8 9DF.
Marshall Leasing Limited	Vehicle leasing	England and Wales	31 December	100	100	Bow Bells House, 1 Bread Street, London, EC4M 9BE.
Bowbell No.1 plc[3]	Non-trading	England and Wales	31 December	n/a	n/a	C/O Mazars Llp 45 Church Street, Birmingham, B3 2RT.
Bowbell No.2 plc	Securitisation	England and Wales	31 December	n/a	n/a	Level 37, 25 Canada Square, London, E14 5LQ.

Copies of the financial statements of these undertakings can be obtained from the relevant addresses listed above.

Management has assessed its involvement in all entities in accordance with the definitions and guidance in:

- IFRS 10: Consolidated Financial Statements;
- IFRS 11: Joint Arrangements;
- IAS 28: Investments in Associates and Joint Ventures; and
- IFRS 12: Disclosure of interests in other entities.

The Group controls an entity when it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Generally, control or significant influence is identified by the level of ownership of ordinary shares and the level of management involvement in the relevant activities of the entity. However, in the case of 'structured entities', management's judgement is required in determining how the investee should be accounted for.

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group.

[1] *Bank of Ireland Personal Finance Limited went into members voluntary liquidation on 28 September 2020.*
[2] *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.*
[3] *This entity was liquidated during 2020.*

43 Interests in other entities *(continued)*

Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

In assessing whether it has control over such an entity, the Group assesses whether it has power over the relevant activities by considering factors such as who manages the assets of these entities, if the Group has lending to them or has a residual interest in them.

In the case of structured entities, the Group considers it has control over the investee where it is a securitisation vehicle whose purpose is to finance specific loans and advances to customers. In such cases the Group considers that it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In June 2019 the Group transferred mortgage loans into a structured securitisation entity, Bowbell No. 2 plc ('Bowbell 2') and issued £2.3 billion of mortgage backed securities, of which £350 million were issued externally to the Group, with the balance held by the Bank.

Bowbell 2 is incorporated in Great Britain, with 100% of its ordinary share capital and voting rights being held by its ultimate holding company (which is not a subsidiary of the Group), Bowbell No. 2 Holdings Limited. The creditors of Bowbell 2 have no recourse to the Group. During 2020 and 2019 there were no contractual arrangements that required the Group to provide financial support to Bowbell 2.

The table below shows the balances of securitised mortgages and debt securities in issue relating to Bowbell 2.

It should be noted that at 31 December 2020 there was also cash of £118 million (2019: £207 million) in the securitisation bank account, hence the total assets of the securitisation entity was greater than the value of the notes.

Group		2020		2019	
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	1,363	1,449	1,857	2,020

44 Transferred financial assets

At 31 December 2020 and 31 December 2019, the following assets were transferred but not derecognised from the balance sheet:

Group	2020				2019			
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]	230	211	236	213	314	307	322	309

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by Bowbell No. 2, held by the Bank.*

44 Transferred financial assets *(continued)*

Bank	2020				2019			
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]	1,363	1,449	1,396	1,453	1,857	2,020	1,903	2,024

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.

45 Impact of voluntary change in interest income and expense accounting policy

As outlined in the Group accounting policies note 1, 'Voluntary change in accounting policy' on page 88, the Group has voluntarily changed its accounting policy for the presentation of interest income and interest expense on certain financial instruments. The change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative period has been restated to reflect this change. The effect of this change on the current period and the prior period is explained in this note.

The impact of the restatement on the relevant financial statement line items is shown below:

Group	2020			2019		
Income statement[2]	Before change in accounting policy £m	Impact of change accounting policy £m	Total £m	Published £m	Impact of change in accounting policy £m	Total £m
Other interest income	**86**	**3**	**89**	82	2	84
Interest income	650	3	653	706	2	708
Interest expense	(182)	(7)	(189)	(225)	(1)	(226)
Net interest income	**468**	**(4)**	**464**	481	1	482
Net trading income	(6)	4	(2)	4	(1)	3
Total operating income	495	-	495	501	-	501
Profit before tax	40	-	40	155	-	155
Profit for the year	27	-	27	97	-	97

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by Bowbell No. 2, held by the Bank.*
[2] *The note only includes selected lines which have been impacted by the change in accounting policy.*

45 Impact of voluntary change in interest income andexpense accounting policy *(continued)*

Bank	2020			2019		
Income statement[1]	Before change in accounting policy £m	Impact of change accounting policy £m	Total £m	Published £m	Impact of change in accounting policy £m	Total £m
Other interest income	**-**	**3**	**3**	-	2	2
Interest income	596	3	599	653	2	655
Interest expense	(179)	(7)	(186)	(223)	(1)	(224)
Net interest income	**417**	**(4)**	**413**	430	1	431
Net trading income	(6)	4	(2)	4	(1)	3
Total operating income	448	-	448	494	-	494
Profit before tax	42	-	42	145	-	145
Profit for the year	34	-	34	94	-	94

46 Post balance sheet events

On 24 February 2021 the Board approved the closure of 15 branches in Northern Ireland. 12 branches are freehold properties owned by the Group and are held at fair value of c.£2.7 million at 31 December 2020. 3 branches are leasehold properties with a carrying value of c.£0.7 million at 31 December 2020.

47 Approval of financial statements

The Board of Directors approved the financial statements on 8 March 2021.

[1] *The note only includes selected lines which have been impacted by the change in accounting policy.*

Other Information

Principal business units and addresses[1]

Bank of Ireland (UK) plc
Bow Bells House,
1 Bread Street, London
EC4M 9BE
Tel: +44 207 236 2000
Website: www.bankofirelanduk.com

Bank of Ireland Great Britain Consumer Banking
Mortgages, Personal Loans
PO Box 27, One Temple Quay, Bristol
BS1 9HY
Tel: + 44 117 979 2222 and + 44 117 909 0900

Bank of Ireland Northern Ireland Business Banking
1 Donegall Square South, Belfast, BT1 5LR
Tel: +44 28 9043 3000

First Rate Exchange Services Limited
Great West House,
Great West Road, Brentford, London,
TW8 9DF
Tel: + 44 208 577 9393, Fax: + 44 208 814 6685
Website: www.firstrate.co.uk

NIIB Group Limited (trading as Northridge Finance)
1 Donegall Square South,
Belfast BT1 5LR
Tel: + 44 844 892 1848
website: www.northridgefinance.com

Marshall Leasing Limited
Bridge House, Orchard Lane,
Huntingdon, Cambridgeshire,
PE29 3QT
Tel: + 44 148 041 4541

Pillar 3 disclosures

The Group's Pillar 3 document for the year ended 31 December 2020 can be accessed on the Group's website: www.bankofirelanduk.com. The Group's obligations under Article 89 of the CRD IV have been met by consolidation of Group data in the Parent's country by country reporting which is published on the Bank of Ireland Group website www.bankofireland.com.

[1] Registered addresses for subsidiary companies are included in note 43.

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 11.

Alternative performance measures

Average interest earning assets is defined as the twelve month average of total loans and advances to customers (less ECL stage 3 balances), cash placements, securities balances and net balances owed by the Parent (the Governor and Company of the Bank of Ireland).

Cost income ratio is calculated on a statutory basis being operating expenses divided by operating income.

Gross new lending volumes represents loans and advances to customers drawn in the year.

Net interest margin is defined as net interest income for the year divided by average interest earning assets.

Return on assets is calculated as statutory profit after tax divided by total assets, in line with the requirement in the European Union (Capital Requirements) Regulations (CRR) 2014.

Statutory return on tangible equity is calculated as being profit attributable to shareholders (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Underlying return on tangible equity is calculated as being profit attributable to shareholders less non-core items (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Regulatory performance measures

Leverage ratio is calculated as the tier 1 capital divided by total balance sheet assets and off balance sheet exposures.

Liquidity coverage ratio (LCR) is calculated as the high quality liquid assets, divided by net cash outflows over the next 30 days, expressed as a percentage.

Loan to deposit ratio is calculated as net loans and advances to customers including those classified as held for sale expressed as a percentage of customer deposits.

Net stable funding ratio (NSFR) is defined as the total amount of available stable funding divided by the total amount of required stable funding, expressed as a percentage.

Risk weighted assets (RWAs) on and off balance sheet assets are risk weighted based on the amount of capital required to support the assets. The Group adopts a standardised approach for calculating RWAs.

Abbreviations

AA	Automobile Association
ALCO	Asset and Liability Committee
AML	Anti Money Laundering
ATM	Automatic Teller Machine
BBLS	Bounce Back Loan Scheme
BMR	Benchmark Rate
BOI	Bank of Ireland
BRC	Board Risk Committee
BRRD	Bank Recovery and Resolution Directive
CBILS	Coronavirus Business Interruption Loan Scheme
CCO	Chief Credit Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CMA	Competition and Markets Authority
CRD	Capital Requirement Directive (EU)
CRO	Chief Risk Officer
CRPC	Credit Risk Portfolio Committee
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
DCF	Discounted Cash Flow
EAD	Exposure at default
EBA	European Banking Authority
ECB	European Central Bank
ECL	Expected Credit Loss
EIR	Effective Interest Rate
ERC	Executive Risk Committee
EU	European Union
EURIBOR	Euro interbank offered rate
ExCo	Executive Committee
FCA	Financial Conduct Authority
FCRs	Forborne Collateral Realisation Loans
FLI	Forward Looking Information
FPC	Financial Policy Committee
FRCC	Financial Risks from Climate Change
FRES	First Rate Exchange Services Limited
FRESH	First Rate Exchange Services Holdings Limited
GB	Great Britain
GBP	ISO 4217 currency code for Pound Sterling
GCR	Group Credit Review (Parent)
GDP	Gross Domestic Product
GIA	Group Internal Audit (Parent)
GRPC	Group Risk Policy Committee (Parent)
IAS	International Accounting Standards
IBOR	Interbank offered rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Individual Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
IT	Information Technology
JAM	Just A Minute
KMP	Key Management Personnel
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LLP	Limited Liability Partnership
LTD	Limited
LTV	Loan to Value
MLL	Marshall Leasing Limited
MREL	Minimum Requirements for Own Funds and Eligible Liabilities
MRR	Monthly Risk Report
NI	Northern Ireland
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
ORMF	Operational Risk Management Framework
PD	Probability of Default
PO	Post Office
POCI	Purchased or originated credit-impaired financial assets
PRA	Prudential Regulation Authority
PSAGC	Product & Services Approvals & Governance Committee
RAROC	Risk Adjusted Return on Capital
RAS	Risk Appetite Statement
RMF	Risk Management Framework
ROTE	Return on Tangible Equity
ROU	Right of use
R&ORC	Regulatory and Operational Risk Committee
RWA	Risk Weighted Assets
SECR	Streamlined Energy and Carbon Reporting
SME	Small / Medium Enterprises
SRM	Single Resolution Mechanism
TCFD	Task Force on Climate-related Financial Disclosures
TFS	Term Funding Scheme
TFSME	Term Funding Scheme for Small and Medium Sized Entities
UK	United Kingdom
£m	Million
'000	Thousands