Company Registered Number: 25766

ULSTER BANK IRELAND DESIGNATED ACTIVITY COMPANY

ANNUAL REPORT AND ACCOUNTS

31 December 2023

Contents

Board of directors and secretary

Chair
Martin Murphy

Executive directors
Jane Howard
Chief Executive Officer
Paul Stanley
Chief Financial Officer and Deputy CEO

Independent non-executive directors
David Guest
Niamh Marshall
Mary Walsh

Non-executive directors
Peter Norton

Board appointments in 2023
Niamh Marshall appointed on 24 January 2023

Board resignations in 2023
Brendan Nelson resigned on 31 July 2023
Rosemary Quinlan resigned on 30 September 2023
Both independent non-executive directors

Company Secretary
Colin Kelly

Auditors
Ernst & Young
Chartered Accountants and Statutory Auditor
Ernst & Young Building
Harcourt Centre
Harcourt Street
Dublin
D02 YA40

Registered office and head office
Ulster Bank Head Office
Block B
Central Park
Leopardstown
Dublin
D18 N153

Ulster Bank Ireland Designated Activity Company
Registered in Ireland No. 25766

Report of the directors

Presentation of information

Ulster Bank Ireland Designated Activity Company ('UBIDAC', the 'Bank' or the 'Company') and its subsidiary undertakings (together the 'Group' or 'UBIDAC Group') are part of 'NatWest Group'. NatWest Group comprises NatWest Group plc ('NWG' or the 'ultimate holding company') and its subsidiary undertakings.

Intermediate EU parent undertaking - change in immediate parent company

NatWest Group, as a third-country group with two or more subsidiary banking institutions in the European Union ('EU'), was approved by the European Central Bank ('ECB') to establish a dual Intermediate EU Parent Undertaking ('IPU') structure on behalf of its European subsidiaries. As a result, NatWest Bank Europe GmbH ('NatWest Bank Europe'), a wholly-owned subsidiary of NatWest Holdings Limited ('NatWest Holdings'), will act as the ring-fenced IPU and became subject to ECB supervision from 1 January 2024. On 1 December 2023, UBIDAC's immediate parent company changed from NatWest Holdings to NatWest Bank Europe following supervisory approval. This change does not have a material impact on the regulatory oversight or status of the Bank. The Bank continues to be regulated by the Central Bank of Ireland ('CBI') and the ECB.

The Bank publishes its financial statements in euros ('€' or 'Euro'). The abbreviation '€bn' represents billions of euros, the abbreviation '€m' represents millions of euros and the abbreviation '€k' represents thousands of euros.

The directors of UBIDAC present their report, together with audited financial statements of the Group for the financial year ended 31 December 2023. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

Phased withdrawal strategy

The Bank is at an advanced stage of its withdrawal from the market. The strategy governing this process continues to be overseen by the Board and remains focused on the Bank being a purpose-led organisation that "*supports customers and colleagues now and helps them to prepare for the future and leave well*". Consistent with this purpose, the Group is committed to the guiding principle of "*acting in the best interests of customers, colleagues and stakeholders*" by making decisions that minimise disruption and deliver meaningful solutions for those impacted.

As a result of progress made on the delivery of its strategy in 2023, the Bank has become a significantly smaller and simpler organisation. Total assets have reduced from €14.0 billion at 31 December 2022 to €2.2 billion at the balance sheet date. During the financial year the directors also approved and paid dividends totalling €1.1 billion to NatWest Holdings. Furthermore, following the success of the 'Choose, Move & Close' initiative, only 0.1% of retail and commercial customer accounts remain active at the balance sheet date.

Principal activities

The Group continues to provide limited services to its remaining retail and commercial customers, with a focus on helping them to move to a new financial services provider as safely and seamlessly as possible, in line with the Group's phased, orderly withdrawal from the market.

The Group no longer accepts new customers and has ceased virtually all new lending, with the exception of limited new lending to remaining retail and commercial customers.

Business review

During the financial year the Bank reached a number of important milestones in delivering its strategy. These included completing two of the three loan sales transactions agreed in prior years, reaching agreement on the sale of the majority of its residual performing and non-performing loans, closing the Bank's branch network whilst continuing to help customers to transition to new banking providers, and overseeing the exit of the majority of colleagues from the Bank, ensuring they were supported throughout the process.

In July 2023 the Bank completed the final customer transfer for the majority of its performing commercial loan book to Allied Irish Banks, p.l.c. (AIB). A total of 237 colleagues working wholly or mainly to support customers whose loans formed part of this sale transferred to AIB under Transfer of Undertakings (Protection of Employment) (TUPE) regulations in 2022 and 2023.

In 2023 the Bank also completed the sale of a material part of its retail banking business to Permanent TSB Group Holdings plc (PTSB) following the agreement reached in 2022. As part of this sale the Bank transferred 25 branch locations and its performing micro-SME loan portfolio in Q1 2023. In May 2023 the Bank completed the customer transfer of performing non-tracker mortgages to PTSB. Finally, in July 2023 the Bank completed the transfer of the Lombard Asset Finance business, including the Lombard digital platform, to PTSB. A total of 335 colleagues either working in the branches or working wholly or mainly to support the respective loan portfolios transferred to PTSB under TUPE regulations as part of this agreement.

During the financial year the Bank completed the transfer of €4.0 billion of performing tracker and tracker-linked mortgages to AIB, following the agreement reached in 2022. The remaining c€1.0 billion of this portfolio is expected to transfer to AIB in 2024 as part of the agreement.

In July 2023 the Bank announced that it had reached an agreement with AB CarVal Investors L.P., through Elmscott Property Finance DAC, for the sale of a portfolio of residual retail and commercial performing and non-performing exposures. The portfolio consists primarily of non-performing mortgages, performing and non-performing unsecured personal loans and commercial facilities. Pepper Finance Corporation (Ireland) DAC ('Pepper Finance') will become the legal owner and servicer of the facilities. In November 2023, €0.4 billion of exposures transferred to Pepper Finance, with the remaining c€0.2 billion of the portfolio expected to transfer in 2024. These assets are classified on the Group and Bank balance sheets as 'Assets of disposal groups' at 31 December 2023. However, as the decision to sell these assets does not represent cessation of a separate line of business, the financial results of the associated business activities continue to be classified in the consolidated income statement as continuing operations. Further information on the presentation of 'Discontinued operations' and 'Assets of disposal groups' in the financial statements is included in Note 1(c) to the accounts.

The Bank's remaining 63 branch locations, which did not form part of the sale to PTSB, ceased processing transactions on 31 March 2023. Customers were also no longer able to access the Bank's services through An Post from this date. Branch colleagues transitioned to provide dedicated support to remaining personal and business customers to move to a new banking provider and close their accounts before the branches closed permanently on 21 April 2023. Subsequently, the Bank safely and securely returned all residual branch and ATM cash to the CBI.

Following closure of the Bank's branch network, the Distribution Customer Support team was established to support the contact centre teams, primarily telephony, in supporting the Bank's remaining customers, including customers with a vulnerability. A primary focus of this customer service initiative, which was implemented as part of the 'Choose, Move & Close' campaign, is to support remaining customers to move their transactions, such as direct debits, and account balances and close their accounts. By 31 December 2023 99.9% of personal current and deposit accounts and business accounts had either closed or were inactive, or customers had materially wound down the level of activity in their accounts (0-5 transactions within the preceding 30 days).

For customers whose accounts remained active beyond their six-month notice period, the Bank continued its approach of freezing the accounts. This served as an effective means of generating engagement with the customers and encouraging them to take action to choose a new provider, move their transactions and close their accounts. This approach was not taken for known vulnerable customer accounts or accounts in receipt of Department of Social Protection payments. The Bank continued to proactively engage with advocacy groups for customers in vulnerable positions and the Department of Social Protection to provide targeted support in helping these customers move to a new provider.

In November 2023 the Bank wrote to its offset mortgage customers advising them of changes required as part of the phased withdrawal. Customers were informed that from 23 May 2024 they would no longer be able to avail of their offset facility and their linked current or deposit accounts would become non-operational, but they would retain their tracker rate and the 'Pay and Redraw' Available Facility feature. In recognition of this change impacted customers are receiving an ex-gratia goodwill payment. Customers can continue to use their offset facility until the deadline; however, they were encouraged to begin the process of moving their linked account, and any other Ulster Bank current or savings accounts, to a new provider, in anticipation of closure at the end of this notice period.

The Bank is exploring potential third party interest in buying the mortgages related to these offset products once the connected current or deposit accounts are closed. These discussions may or may not result in an agreement.

Following consultation with employee representative bodies the Group announced the opening of further "At Risk" redundancy programmes on 8 February and 24 May 2023. In addition to the two redundancy programmes opened in 2022, these two schemes, combined with those colleagues who transferred to a new employer under TUPE legislation, provided a definitive route or certainty of timing to the vast majority of the Bank's colleagues. This is important in ensuring colleagues can make informed decisions as they prepare for the future.

The Group recognises the impact of the phased withdrawal on colleagues and the importance of continuing to engage with and support them as they work to implement the withdrawal programme and navigate through this period of significant change. The Group's continued focus on colleague wellbeing and providing resources for both personal and professional development is illustrated in the Sustainability Reporting section of this report.

The Board continues to focus on maintaining the Group's culture which it has defined as "*the way we do things – consistently living our values to act in the best interests of our customers, colleagues and stakeholders*", and will maintain an emphasis on this throughout the remainder of the phased withdrawal process.

The Group's expected behaviours and mindsets guide our decisions and actions through living our core values of being 'inclusive' in our support of colleagues, communities and customers; 'curious' in developing skills and exploring new ways to help customers through the phased withdrawal; 'robust' in our integrity and decision making to safely deliver our phased withdrawal strategy; 'sustainable' in showing empathy and continuing to support our customers and one another for our remaining time in the market, including a focus on wellbeing; and 'ambitious' in delivering our strategy in a way that is aligned to Our Purpose and supportive of all of our stakeholders.

Our Code sets out what we expect of each other, and what our customers and communities expect of us. The 'Yes Check' tool is part of Our Code and guides our decision-making and actions as we develop and implement our phased withdrawal strategy. Our Critical People Capabilities ensure we have the right knowledge, skills and behaviours to help the Bank now and equip our colleagues for potential roles in their future outside the Bank.

The Group's internal control framework and its corporate governance processes form essential building blocks in maintaining its culture.

Financial performance

The Group's financial performance is presented in the consolidated income statement on page 19.

The Group is reporting an operating loss before tax on continuing operations for the financial year of €509 million (2022 – €864 million). The reduction in losses on continuing operations is principally driven by reduced activity as a result of the delivery against the phased withdrawal strategy.

Net interest expense

Net interest income decreased by €68 million to a net interest expense of €47 million as rising interest rates resulted in an increase in the net interest payable on borrowings from National Westminster Bank Plc ('NatWest Bank'). Loan and deposit volumes also reduced as the phased withdrawal reaches an advanced stage.

Non-interest income

Non-interest income of €19 million in the financial year represents a €154 million increase from 2022 mainly from the impact of changes in the fair value of the Group's residential mortgage portfolios. There was also a favourable movement in the fair value of structural interest rate hedging derivatives, all of which matured or were exited in the financial year. These increases were partially offset by a decrease in net fees and commissions.

Operating expenses

Operating expenses decreased by €281 million to €478 million in 2023 due primarily to a decrease in underlying staff and redundancy provision costs as the majority of colleagues exited the bank in 2023. Administrative expenses decreased primarily due to a reduction in services provided by other NatWest Group companies as activity levels declined, along with reductions in property costs and other costs associated with the phased withdrawal as it reaches an advanced stage.

Impairment (loss)/gain

The impairment charge of €3 million (2022 - €9 million gain) was due to expected credit loss provisions being updated to reflect anticipated realisation values on the remaining amortised cost assets.

Loss from discontinued operations, net of tax

The discontinued operations loss for the financial year of €132 million is due primarily to a net loss on disposal of assets and a provision raised following the June 2023 High Court ruling in respect of three Financial Services and Pensions Ombudsman (FSPO) cases, partially offset by a fair value gain on the Group's mortgages held for disposal.

The discontinued operations loss for 2022 of €315 million was principally driven by a charge on the move to fair value accounting for mortgage portfolios and a loss on loan asset disposals, offset by income generated on disposal group assets.

Return on assets

At the financial year end the total assets of the Group were €2,184 million (2022 - €13,972 million). Return on total assets for 2023 was -29.3% (2022 – -8.5%).

Capital ratios

Notwithstanding the payment of €1.1 billion in dividends and the full repayment and redemption of the Bank's Tier 2 Perpetual Subordinated Loan notes, the Group's capital position remained strong during 2023, as evidenced by the CET1 ratio of 43.1% at 31 December 2023 (2022 – 38.6%). The reduction in total risk weighted assets (RWAs) from €6.4 billion at 31 December 2022 to €1.8 billion at the balance sheet date contributed to sustaining the strong capital ratio.

Share capital

Details of share capital can be found in Note 18.

Accounting policies

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Group's critical accounting policies and key sources of estimation uncertainty are included in Notes 5, 9, 10, 12 and 17.

Risk management

The most significant risks in the Group's normal course of business are credit; capital; liquidity and funding; operational; reputational; conduct; regulatory compliance and financial crime.

The Group has an internal control framework to manage these risks, comprising three board-approved frameworks, a risk management framework, an operational risk framework and a compliance risk framework. These are key components in supporting the orderly execution of the phased withdrawal strategy. They are regularly reviewed by the Board as the Group's business activities change in response to the phased withdrawal strategy and regulatory and other developments.

The Group's approach to managing each of these key risks and its exposures is detailed in Note 19 to the accounts.

Principal risks and uncertainties

Set out below are the principal risks and uncertainties which may adversely affect the Group.

Risks and uncertainties arising from the Group's withdrawal from the market

During the financial year the Bank made significant progress with respect to the agreed sale of a material part of its tracker and tracker-linked mortgages portfolio, as well as the sale of a portfolio of residual retail and commercial performing and non-performing exposures (the 'Sales Transactions'). Completion of the remaining elements of the Sales Transactions is subject to a number of risks and uncertainties some of which are beyond the control of the Group. These include satisfying relevant conditions precedent and executing transactions in a timely manner aligned to regulatory expectations and managed to mitigate other transaction execution risks and uncertainties. The Sales Transactions may not complete on acceptable terms in the timescales envisaged or without incurring additional costs.

The Bank also continues to explore the potential sale of the portfolio of mortgages related to its offset products once the linked current or deposit accounts are closed in June 2024. Whether any sale is agreed and ultimately completed will depend on a variety of factors, such as the willingness and ability of purchasers to complete the sale on acceptable terms, including raising any necessary financing when needed; purchasers' technology and operational capability to accept large volumes of customer onboarding (including scaling of relevant platforms) and continuing customer service; and obtaining any necessary regulatory or other approvals.

Whilst significant progress has been achieved, the remaining stages of the Group's withdrawal from the market will continue to expose its business to risks and uncertainties, albeit these have reduced in significance. Remaining risks include reputation, costs, people, operational, pricing outcomes on remaining non-contracted loan sales, timelines to remove any remaining customer deposits, regulatory compliance, management bandwidth and counterparty and supplier support as the Group completes its withdrawal from the market.

The Board will review and consider these risks and uncertainties in seeking to achieve appropriate implementation of the phased withdrawal strategy. The Group's capital and liquidity positions remain very strong to underpin this strategy.

Potential adverse impact of continued economic uncertainties on phased withdrawal implementation

Uncertainties and volatile economic conditions associated with sustained cost of living pressures, the Russian invasion of Ukraine, conflict in the Middle East, and supply chain frictions, may have an adverse impact on the cost of implementation of the remainder of the Group's phased withdrawal strategy. Additionally, the risk of continued high prices combined with labour market constraints and associated cost of living risks may adversely impact the credit quality of the Group's remaining loan portfolio and the value realised for these assets.

Risks arising from customer remediation in respect of legacy issues

In 2021, the Group materially concluded actions required as part of the CBI's Tracker Mortgage Examination. However, some of the Bank's customers have lodged tracker mortgage complaints with the FSPO. The Bank challenged three FSPO adjudications in the High Court. In June 2023 the High Court found in favour of the FSPO in all matters and a provision was recognised. The Bank was granted leave to appeal that decision and an appeal hearing has been scheduled to take place in the Court of Appeal. The outcome of that appeal on those and related complaints is uncertain. Furthermore, there is a risk that throughout implementation of the phased withdrawal process further issues may be identified that require remediation.

Other risks and uncertainties

Throughout the final stages of its withdrawal from the market the Group remains vulnerable to risks and uncertainties in the external economic environment, albeit their potential impact continues to reduce in materiality. These factors include global financial market volatility; escalation in global trade disputes; inflation risks; the impact of future epidemics or pandemics and climate change. Furthermore, unfavourable political, military or diplomatic events, including armed conflict, state and privately sponsored cyber and terrorist acts or threats, and the responses to them by governments and markets, could negatively affect the Group.

Sustainability reporting

The following information is disclosed in compliance with the EU Directive on Corporate Sustainability Reporting, the EU (Disclosure of Non-Financial and Diversity Information by Certain Large Undertakings and Groups) Regulations 2017 and Article 8 of the EU Taxonomy Regulation and the underlying Disclosures Delegated Act.

Corporate sustainability reporting directive

On 5 January 2023 the EU introduced the Corporate Sustainability Reporting Directive ('CSRD'), a reporting framework requiring impacted companies to disclose information on how they monitor a range of Environmental, Social and Governance issues. CSRD reporting requirements will be implemented on a phased basis over a number of years and will update and replace the existing sustainability reporting requirements introduced under the Non-Financial Reporting Directive ('NFRD').

Under implementation timelines, CSRD reporting requirements will come into force for certain companies for reporting periods beginning 1 January 2024, for reporting in 2025. Until such time, reporting requirements introduced under NFRD remain in place. On this basis, the following disclosures are presented in accordance with NFRD reporting requirements.

Business model

In the context of the Group's phased withdrawal from the market, its principal activity is to continue to provide limited services to remaining retail and commercial customers, with a focus on helping them to move to a new financial services provider as safely and seamlessly as possible.

The Group earns income from our remaining retail and commercial loans not included in a contractual sale, from interest earned on our surplus liquid assets and fees from customer transactions and other services. The Group pays interest to customers and investors who have placed certain deposits with us.

A material aspect of the Group's phased withdrawal programme has been its 'Choose, Move & Close' campaign, to encourage and support its customers to move their money and close their current and deposit accounts.

The Bank wrote to all customers in scope of the 'Choose, Move & Close' campaign between April 2022 and October 2022 advising them of the beginning of a formal six-month notice period and requesting that they take steps to choose a new provider, move their transactions and account balances and close their Ulster Bank accounts. By 31 December 2023 99.9% of these accounts had either been closed by the customer or had reduced to low transaction volumes (0-5 transactions within the preceding 30 days). The Bank has also now written to its offset mortgage customers advising them that from 23 May 2024 the offset facility feature will no longer be available and their linked current or deposit account, and any other Ulster Bank current or savings accounts, will become non-operational and will subsequently be closed. Customers can continue to use their offset facility during the notice period but were encouraged to begin the process of moving to a new provider in anticipation of this deadline.

Environmental matters

Climate-related risk, in addition to the threat of financial loss, includes potential adverse non-financial impacts associated with climate change and the associated political, economic and environmental responses.

Physical risks may arise from climate and weather-related events such as heatwaves, droughts, floods, storms, and a rise in sea level. They can potentially result in financial losses, impairing asset values and the creditworthiness of borrowers. Changes in policy, technology and sentiment may prompt reassessment of customers' financial risk and may lead to falls in the value of assets.

Climate risk impacts for the Group are substantially mitigated by the phased withdrawal and associated portfolio sales. Nonetheless, the Board has approved the allocation of senior management function responsibility for identifying and managing financial risks associated with climate change to the Group's Director of Risk. The Group also maintains a focus on regulatory risk management and reporting guidelines related to climate risk during the phased withdrawal and has access to the expertise of the NatWest Group Climate Centre of Excellence, which provides strategic horizon scanning, guidance and specialist climate expertise.

In 2023 the Group achieved a 56% reduction in its operational Scope 1 and 2 Greenhouse Gas emissions, measured against the Group's 2019 baseline. This contributed to the Group maintaining its Net Carbon Zero status, by offsetting as much carbon as it emitted, having first achieved this in 2020.

EU Taxonomy reporting

The EU Taxonomy is an integral part of the EU's Action Plan on Sustainable Finance under the European Green Deal and will remain so as sustainability reporting requirements transitions from NFRD to CSRD.

The EU Taxonomy is a classification system designed to translate the EU's climate and environmental objectives into common criteria to create reliable and comparable sustainability-related indicators for investment purposes. Its aim is to help direct investment capital towards more environmentally sustainable economic activities that contribute to at least one of the EU's environmental objectives.

The taxonomy provisions continue to be developed and will be fully implemented over several years. In accordance with Article 8 of the EU Taxonomy Regulation and the underlying Disclosures Delegated Act, the Group has disclosed the proportion of taxonomy-eligible and non-eligible economic activities related to the adopted environmental objectives as at 31 December 2023.

	31 Dec 23*
Taxonomy-eligible activities	88%
Taxonomy non-eligible activities	12%
Exposures to sovereigns	7%
Derivatives	-
Exposures to corporates not subject to NFRD**	5%
Trading book	-
On-demand interbank exposures	1%
Total covered assets	€1.4bn

* as a proportion of total covered assets

** Non-Financial Reporting Directive as set out in EU Directive 2014/95

Additionally, in accordance with reporting requirements for this financial year, consideration has been given to the disclosure of the Bank's Green Asset Ratio ('GAR'). The GAR illustrates the proportion of the Bank's assets financing or invested in taxonomy-aligned economic activities as a proportion of total covered assets. Taxonomy-aligned economic activities are those taxonomy eligible activities that 'substantially contribute' to one of the six environmental objectives, 'do no significant harm' to the other five objectives and meet minimum social safeguarding standards as set out in the Taxonomy.

The Bank's residual residential mortgage portfolios are the only remaining taxonomy-eligible economic activities. However, given the legacy nature of the product type of the remaining mortgage portfolios, the Bank does not have the required underlying supplementary data to assess taxonomy-alignment. On this basis, these mortgages are, by default, determined to be not taxonomy-aligned, resulting in a GAR of nil as at 31 December 2023. Given the advanced stage of the Group's withdrawal from the market and the anticipated sale of the majority of these mortgages, no exercise to gather the additional data will be undertaken.

Furthermore, as a result of the Group's phased withdrawal timeline, it is not currently anticipated that it will be subject to the fully implemented taxonomy alignment reporting requirements. Therefore, given the forward-looking nature of the qualitative disclosure requirements, and the fact that the majority of the Group's relevant assets are held for sale, no additional disclosures with respect to sustainability strategy have been made.

Social matters

Throughout the phased withdrawal the Group remains committed to acting in a socially responsible manner by honouring its commitments to its communities through continued engagement and charitable support and taking a positive environmental approach to the withdrawal from the Bank's branches and offices.

In addition to donating office equipment and furniture to charities as it vacates its premises, in April 2023 the Bank donated 78 pieces from its art collection to the National Gallery of Ireland. In partnership with the Community Foundation for Ireland (CFI), the Bank also raised €240k through the auctioning of its remaining 310 art works. These proceeds will be distributed to charities throughout Ireland by the CFI as part of the Ulster Bank Legacy Fund.

To mark the closure of the branch network in April 2023, the Bank partnered with the Tree Council of Ireland to have 190 trees planted as part of a proposed community woodland area in County Waterford. Each tree represented one of the 190 branches that have been part of the network throughout UBIDAC's history.

During the financial year colleagues were encouraged to support communities and causes important to them, either through the NatWest Group 'Do Good, Feel Good' initiative or by organising their own volunteering or fundraising activities. Each colleague is entitled to three days of volunteer leave each year. Additionally, the NatWest Group-wide Community Cashback programme provided the opportunity for colleagues to have their fundraising efforts matched up to £500 or claim £250 towards a charity or community group if they volunteered for more than 50 hours outside of work time (up to a total of £1 million across NatWest Group for 2023).

The Bank, as part of NatWest Group, launched a fundraising initiative to support the people of southern Turkey and north-west Syria following the earthquakes in February 2023. Colleagues were invited to support the Disasters Emergency Committee, who were working on the ground to support locally led relief efforts, with NatWest Group matching total colleague donations up to £100,000.

Employee matters

Since the phased withdrawal announcement, we have engaged with our colleagues and their representative bodies to provide as much certainty and clarity as possible with respect to the different stages of the withdrawal process.

In June 2021 the Bank reached a collective agreement with its employee representative bodies to cover the phased withdrawal from the market. The agreement included enhanced redundancy terms, a training grant of up to €5,000 (that can alternatively be used as a pension contribution), and a long service payment for colleagues with service of 25 years or more.

The Bank opened its first redundancy programmes as part of the phased withdrawal in November 2022, with exits beginning in Q1 2023. Subsequent redundancy programmes were opened in February and May 2023, providing the vast majority of colleagues with exit dates in 2023 or 2024.

The Bank has sought to minimise job losses where possible via TUPE transfer. TUPE is the legal protection for employees when they are transferred to a new employer on the sale of a business. TUPE is governed by the European Communities (Protection of Employees on Transfer of Undertakings) Regulations 2003. These regulations provide employment rights to employees when their employer changes because their work is transferring to another organisation. The key objective of the legislation requires the new employer to employ those employees transferring (with continuity of service) and to give them the same or similar contractual terms. A total of 572 colleagues transferred under TUPE regulations to AIB and PTSB during 2022 and 2023.

Colleague engagement

The Group's purpose reflects our strategy to safely withdraw from the market while supporting customers, minimising job losses and building skills for the future, stating "*We support our colleagues and customers now and help them to prepare for the future and leave well.*"

Our focus is to be a responsible and responsive employer and to support our colleagues throughout the withdrawal process. The Bank is committed to maintaining operational stability and to safely withdraw from the market by carefully managing colleague exits, minimising job losses where possible, and providing development opportunities for a future after the Bank.

Since the withdrawal decision announcement, the Bank has undertaken six employee engagement surveys, a series of all Bank townhalls and an ongoing series of in-person and virtual team visits and colleague listening sessions with smaller groups of colleagues.

Over 50% of our colleagues completed the engagement surveys. Their feedback remains crucial to us as we navigate the phased withdrawal together. Respondents answered questions on the entire colleague experience including wellbeing, 'Our Purpose', building capability and leadership. Participants of the most recent survey, in September 2023, were those colleagues anticipated to remain with the Bank into 2024. This survey assists us in understanding their sentiment and sought views on how to support their engagement and motivation. This survey showed improvements in 11 out of 12 categories compared to April 2023, including notable increases in the 'Culture' and 'Purpose' categories. This reflects the strong collaboration and commitment that persists as we continue to deliver our strategy in a customer focused manner and demonstrates the continued focus on maintaining a culture where we can support colleagues now and help them prepare for the future.

Colleagues are encouraged to report concerns relating to wrongdoing or misconduct. They can raise these in the first instance with their line manager or alternatively they can raise any concerns via 'Speak Up', the Group's anonymous whistleblowing service. Engagement surveys continue to show that a significant majority of colleagues feel safe to speak up, as well as understanding the process of how they should do that.

Career and capability
Since the phased withdrawal announcement the Group has invested c€1.9m to support over 1,000 colleagues in completing professional qualifications. A comprehensive range of on-demand career and capability offerings, aligning with critical skills in the marketplace, are available to all remaining colleagues.

Employment of people with disabilities
The Group's policy is that people with disabilities are always considered for employment and subsequent training, career development and promotion based on merit. If colleagues develop a disability, it is the Group's policy, wherever possible, to retain them in their existing jobs or to re-deploy them in suitable alternative duties, making appropriate adjustments.

Diversity and inclusion
The Group's Diversity and Inclusion strategy, along with Our Values, promotes diversity in all areas of employment. The principal aim of our Diversity and Inclusion strategy is to provide an inclusive culture and environment in which all colleagues can bring the best of themselves to work.

Maintaining a working environment throughout the withdrawal process in which all our colleagues can develop is important to us irrespective of age, gender, race, disability, religion, sexual orientation, marital or civil partnership status, family status (i.e. having dependents) or membership of the traveller community. We work to avoid limiting colleagues' potential through bias, prejudice or discrimination. The Group recognises the beneficial contribution of a diverse mix of uniquely talented individuals for the delivery of great service to our diverse customer base.

Key principles of the Group's Diversity and Inclusion Policy include that we motivate and retain the best talent. We base the employment relationship on the principles of fairness, respect and inclusion. We comply with laws on equality and with Our Code, which sets out the Group's expected behaviours and standards of conduct, to build and develop an inclusive workforce which helps to understand and respond to our diverse customer base.

Our Code has been updated to capture our new purpose which underpins our phased withdrawal from the market and to "*support our colleagues and customers now and help them to prepare for the future and leave well*".

We also have wellbeing plans and initiatives in place that support inclusion, for example our Employee Assistance Programme and our "Moments that Matter" toolkits and guidelines.

Gender balance
As at the end of 2023 the Group's permanent headcount was 358 (48% male and 52% female). As at 31 December 2023 we had 43% female representation on our Board, 50% at Executive level and 37% at Senior Manager level.

2023 Gender profile

	Male	Female
Board Member	57%	43%
Executive & attendees	50%	50%
Senior Management	63%	37%
Manager	49%	51%
Appointed	45%	55%
Clerical	32%	68%

Safety, health and wellbeing
The Group is committed to the health and safety of colleagues and complying with all health and safety legislation. Colleagues must complete mandatory training in order to familiarise themselves with the Group's health and safety policies and guidelines.

Benchmarking, industry leading expertise, innovative events and resources are combined to ensure a comprehensive 'Wellbeing Plan' continues to be delivered. Feedback on the effectiveness of this plan is facilitated through the 'Our View' survey results, cross divisional colleague focus groups, the Financial Services Union and HR Business Partners.

The Group's 'Live Well, Being You' wellbeing campaign is about helping our colleagues bring the best of themselves to work. We believe everyone should be able to be themselves at work and achieve a healthy life balance in a place where colleagues' wellbeing is supported. The Group's four wellbeing pillars focus on Mental, Physical, Social and Financial wellbeing.

Wellbeing is central to the Group's purpose to help colleagues prepare for the future. Comprehensive wellbeing activities and supports across Mental, Physical, Social and Financial wellbeing are in place with a range of events, open for participation by all colleagues, held throughout 2023.

Human rights and modern slavery
The Group does not tolerate or condone abuse of human rights within our businesses, supply chain or within our sphere of influence. The Group's approach to respecting human rights is guided by the United Nations Guiding Principles on Business and Human Rights and aligned to our purpose-led strategy and our values of being inclusive, curious, robust, sustainable and ambitious, in the context of the phased withdrawal.

We seek to tackle modern slavery through implementation of policies covering our customers, colleagues and suppliers, and by monitoring our financing and supply chain for this activity.

NatWest Group's Statement on Modern Slavery and Human Trafficking, to which the Group subscribes, is published at natwestgroup.com.

Our customers
The Group's relationship with its customers is governed by a wide range of risk considerations, including our Anti-Money Laundering (AML) and Environmental, Social, and Ethical (ESE) risk assessments on customers, to consider whether any of their activities carry human rights infringements.

Our people
The Group is an equal opportunities employer. In addition to complying with all applicable Irish and EU employment laws, we have internal policies and tools in place such as Our Code, a revised Yes Check that supports Our Purpose and Speak Up to support a great place to work for our people.

Our suppliers
The Group's Supplier Code of Conduct continues to be a contractual requirement and we expect our suppliers to uphold the same values and commitments we have made on social and environmental impacts.

Anti-bribery and corruption (ABC)

The Group is committed to ensuring it acts responsibly and ethically, both when pursuing its own business opportunities and when awarding business. Consequently, it has embedded appropriate policies, mandatory procedures and controls to ensure its employees, and any other parties it does business with, understand these obligations and abide by them whenever they act for the Group. ABC training is mandatory for all staff on an annual basis, with targeted training appropriate for certain roles.

The Group considers ABC risk in its business processes including, but not limited to, corporate donations, charitable sponsorships, political activities and commercial sponsorships. Where appropriate, ABC contract clauses are required in written agreements.

As part of the Group's wider financial crime approach, the anti-money laundering controls applied to customer relationships (particularly with Politically Exposed Persons) and transaction monitoring mitigate the risk of the Bank's services enabling the flow of criminal funds, including in relation to bribery or corruption.

Board of directors

The Board is the main decision-making forum of the Bank. It has overall responsibility for management of the business and affairs of the Group, its strategy and the allocation and management of capital, and is accountable to its shareholder for financial and operational performance.

The Board considers strategic issues and ensures the Bank manages risk effectively through approving and monitoring the Bank's risk appetite, considering Group stress scenarios and agreed mitigants and identifying strategic threats to the Bank's business operations and withdrawal plan. The Board's Terms of Reference include key aspects of the Bank's affairs reserved for the Board's decision and are reviewed at least annually.

The roles of Chair and Chief Executive Officer are distinct and separate, with a clear division of responsibilities. The Chair leads the Board and ensures the effective engagement and contribution of all executive, non-executive and independent non-executive directors. The Chief Executive Officer has responsibility for all Group businesses and acts in accordance with authority delegated by the Board.

The non-executive directors, the majority of whom are independent, combine broad business and commercial experience with objective judgement to provide constructive challenge to the executive directors and leadership team.

Board and Executive Committees with delegation from the Board include:

The Audit Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors. The committee assists the Board in discharging its responsibilities for the disclosure of the financial affairs of the Group. It reviews the accounting policies, financial reporting and regulatory compliance practices of the Group, the Group's systems and standards of internal control and monitors the Group's processes for internal audit and external audit. The committee is also responsible for approving lending to related parties, which is regulated under the CBI Code of Practice on Related Party Lending 2022.

The Board Risk Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors. It provides oversight and advice to the Board on current and potential future risk exposures of the Group and risk strategy. It reviews the Group's performance on risk appetite and oversees the operation of the Group Policy Framework.

The Nominations Committee - comprises at least three members who are all non-executive directors, with a majority of independent non-executive directors, and is chaired by the Board Chair. The committee is responsible for recommending to the Board: (i) suitable candidates to Pre-approval Controlled Function roles and senior management positions; (ii) ensuring succession plans are in place for both Board and senior management positions; and (iii) reviewing the structure, size and composition of the Board, making recommendations with regard to any changes required.

The Performance and Remuneration Committee - comprises at least three members who are all independent non-executive directors. The committee advises the Board on remuneration matters.

The Executive Committee - comprises the Group's senior executives and supports the CEO in managing the Group's businesses. It oversees the implementation of the strategic withdrawal programme and monitors financial performance and capital allocation.

Directors and secretary

The directors and secretary who served at any time during the financial year and up to the date of signing are listed on page 3.

In accordance with the Constitution, the directors are not required to retire by rotation.

Corporate Governance Requirements for Credit Institutions

The Corporate Governance Requirements for Credit Institutions 2015 ("the Code") imposes standards on all credit institutions licensed or authorised by the CBI with additional requirements on credit institutions which are designated as significant. The Bank has been designated as a significant credit institution and is therefore subject to the additional requirements for significant designated credit institutions included within Appendices 1 and 2 of the Code.

Directors' compliance statement

In accordance with the provisions of Section 225 of the Companies Act 2014, the directors acknowledge that they are responsible for securing the Group's compliance with the relevant obligations, as defined by the Act. The directors confirm that:

- a compliance statement has been drawn up setting out the Group's policies in relation to complying with the relevant obligations;
- appropriate measures are in place that are designed to ensure material compliance with the relevant obligations; and
- a review of these measures has been carried out during the financial year.

Accounting records

The measures taken by the directors to secure compliance with the requirements of Sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records are the employment of suitably qualified accounting personnel, the maintenance of appropriate computerised accounting systems and the exercising of financial and other controls over the systems and data. The Company's accounting records are maintained at the Company's registered office at Ulster Bank Head Office, Block B, Central Park, Leopardstown, Dublin, D18 N153.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, including potential risks and uncertainties, are set out in this report on pages 4 to 6.

The financial position of the Group, its cash flows, liquidity position, capital and funding sources are set out in the financial statements.

Notes 10, 11, 19 and 30 to the accounts include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its management of market, credit and liquidity risks.

The Group's liquidity position remained strong during 2023, evidenced by the Liquidity Coverage Ratio (LCR) of 224% at 31 December 2023 (2022 - 251%). The Group's primary sources of liquidity are from shareholders' funds and bail-in debt (owed to NatWest Holdings). In addition, these sources of liquidity are supported by a €1 billion contingent liquidity facility agreement with NatWest Bank (2022 - €7 billion), which was undrawn as at 31 December 2023 (2022 – €3 billion drawn). The Group also retains a modest residual balance of customer deposits and other repayable funds that are at an advanced stage of being exited from the Bank.

The Group's assets as at 31 December 2023 contained €0.1 billion of high quality liquid assets (2022 - €3.8 billion) which is supplemented by €0.6 billion of short dated interbank placements with NatWest Bank (2022- €0.9 billion). These available funds, together with assets held for disposal, represent 78% of the Group's total assets as at 31 December 2023 (2022 – 89%). A continuing dynamic in the Bank's funding position during 2023 has been the outflow of retail and commercial deposits, offset by proceeds received on loan sales and the respective timing of these flows. During the financial year the Bank has utilised its contingent liquidity facility with NatWest Bank, as required, to manage the liquidity consequences of these flows and maintain a prudent level of head room to internal risk appetite and minimum regulatory requirements.

The Group's capital position remained strong during 2023, as evidenced by the CET1 ratio of 43.1% at 31 December 2023 (2022 – 38.6%).

The directors have considered the Group's capital and liquidity position as set out above and the results of downside scenario analysis. On those bases the directors have concluded that the Group has the ability to pay its debts as they fall due and therefore has the ability to continue as a going concern for the foreseeable future.

In the preparation of the financial statements the directors concluded that they had demonstrated their intention to cease trading based on the cessation of virtually all new lending and the closure of virtually all current and deposit accounts. Based on that intention to cease trading, in accordance with IAS 1 and consistent with the prior year, these financial statements have been prepared on an 'other than going concern' basis. The directors currently have no intention to liquidate the Company.

The adoption of the 'other than going concern' basis of preparation has not resulted in the departure from any of the recognition or measurement criteria of IFRS, nor have any assets or liabilities been reclassified as a result.

Interests in shares or debentures

At 1 January and 31 December 2023, the directors and secretary did not have any interests in the shares or debentures of NatWest Group plc representing more than 1% of the nominal value of its issued share capital.

Investments in Group undertakings

Details of the Bank's investments in Group undertakings are shown in Notes 14 and 26. All of the Group undertakings are included in the Group's consolidated financial statements and all have an accounting reference date of 31 December.

Country-by-country reporting

The Bank has opted to publish the information required under Section 77 of Statutory Instrument No.158 of 2014 on its website: www.ulsterbank.ie.

Political donations

During the financial year the Group did not make any political donations (2022 - nil).

Dividends

The Board approved and paid interim dividends of €1.1 billion during the financial year (2022 - nil). The directors do not recommend the payment of a final dividend in respect of the financial year (2022 - nil).

Post balance sheet events

There have been no significant events between the financial year end and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.

Auditors

The auditors, Ernst & Young, Chartered Accountants and Statutory Audit Firm, were appointed on 20 April 2016 and will continue in office in accordance with the Companies Act 2014.

Directors' disclosure to auditors

Each of the directors at the date of approval of this report confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the Bank's auditors are unaware; and

(b) the director has taken all steps he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 330(1) of the Companies Act 2014.

On behalf of the Board:

Martin Murphy Chair	Jane Howard Chief Executive Officer

14 February 2024

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts in accordance with the Companies Act 2014 and applicable regulations.

Irish company law requires the directors to prepare the financial statements for each financial year. Under company law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("relevant financial reporting 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 assets, liabilities and financial position of the Group and Bank as at the financial year end date, and of the profit or loss of the Group and Bank for the financial year, and otherwise comply with the Companies Act 2014.

In preparing these financial statements the directors are required to:

- select suitable accounting policies for the Bank and the Group financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Bank will continue in business.

The directors are responsible for ensuring that the Group and Bank keep, or cause to be kept, adequate accounting records which correctly explain and record the transactions of the Group and Bank, enable at any time the assets, liabilities, financial position and profit or loss of the Group and Bank to be determined with reasonable accuracy, enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Group and Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

By order of the Board:

Martin Murphy
Chairperson

Jane Howard
Chief Executive Officer

Paul Stanley
Chief Financial Officer and Deputy CEO

14 February 2024

Board of directors

Chairperson
Martin Murphy

Executive directors
Jane Howard
Paul Stanley

Non-executive directors
David Guest
Niamh Marshall
Peter Norton
Mary Walsh

Independent auditor’s report to the members of Ulster Bank Ireland Designated Activity Company

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Ulster Bank Ireland Designated Activity Company (‘the Company’) and its controlled entities (‘the Group’) for the financial year ended 31 December 2023 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements and notes to the financial statements, including the material accounting policy information set out in Note 1. The financial reporting framework that has been applied in their preparation is Irish Law and International Financial Reporting Standards (IFRS) as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the Group’s consolidated financial statements give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2023 and of its loss for the financial year then ended;
- the Company’s financial statements give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2023;
- the Group’s consolidated financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company’s financial statements have been properly prepared in accordance with IFRS as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2014; and
- the Group’s consolidated financial statements and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report. We are independent of the Group and Company in accordance with ethical requirements that are relevant to our audit of financial statements in Ireland, including the Ethical Standard as applied to public interest entities issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Emphasis of matter – financial statements prepared on a basis other than going concern

We draw attention to Note 1 to the financial statements which explains that the directors intend to cease trading and therefore do not consider it to be appropriate to adopt the going concern basis of accounting in preparing the financial statements. Accordingly, the financial statements have been prepared on a basis other than going concern as described in Note 1. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

In prior years Expected Credit Loss (ECL) was identified as a Key Audit Matter (KAM), however in the current financial year as the majority of the loan portfolio carried at amortised cost has been sold it is no longer a KAM.

<table>
<tr><th>Risk</th><th>Our response to the risk</th></tr>
<tr><td>

Remediation and associated cost provisions on tracker mortgage customers

At 31 December 2023, the Group recognised a €137m provision (2022: €12m) related to tracker mortgages remediation and related program costs, reported as the Tracker Mortgage Examination ('TME') remediation provision.

The most significant judgements and estimates used in the calculation of the remediation provision include:

- Reasonableness of key judgements and assumptions adopted in the estimation of the provision;
- Completeness and accuracy of provision for customer remediation and related programme costs for TME; and
- Adequacy and completeness of relevant disclosures.

Refer to the Accounting policies and Note 17 and Note 20 of the financial statements.

</td><td>

We tested the design and operating effectiveness of key controls across the estimation process, including data input, calculation, governance and reporting.

In obtaining sufficient audit evidence we:

- Reviewed and challenged management's assessment for the recognition criteria of a provision according to IAS 37;
- Challenged the appropriateness of key judgments and assumptions on remediation and project costs;
- Tested key data inputs to the provision calculation, including both remediation cost and project costs;
- Reviewed and reperformed the calculation of the average remediation per account and total project cost;
- Leveraged the work performed by our Conduct Data Specialist team on the TME in the assessment of the completeness of the dataset used to identify impacted population;
- Performed sensitivity analysis to assess the impact of key variables in the estimation of the provision;
- Attended meetings with key management and reviewed minutes of meetings of those charged with governance to conclude on the appropriateness of conclusions reached;
- Tested disclosures related to customer remediation for compliance with applicable reporting standards.

Our planned audit procedures were completed without material exception.

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<tr><td>

Fair value of mortgage portfolio

At 31 December 2023 the Group reported total loans to customers at fair value through profit or loss amounting to €1,269m, including €968m classified as assets of disposal groups and €301m included in other financial assets (2022: €6,670m; €6,085m; €585m).

Key risks identified as part of judgements and estimates used in the fair value measurement of the mortgage portfolio include:

- Appropriateness of fair value estimation methodology in accordance with IFRS 13;
- Adequacy and completeness of the data input to the calculation;
- Reasonableness of key assumptions to the valuation including timeline, pricing, discount factors and cash flows; and
- Adequacy of relevant disclosures.

Refer to the Accounting policies and Note 10 of the financial statements.

</td><td>

We tested the design and operating effectiveness of key controls across the mortgage portfolio fair value estimation process, including data input, key judgements, calculation and financial reporting.

In obtaining sufficient audit evidence we:

- Reviewed and challenged the appropriateness of selection and application of the fair value model and methodology under IFRS 13;
- Assessed the appropriateness of discount rates used in the fair value calculation;
- Tested a sample of key data inputs to the calculation and agreed these to independently extracted data tapes from source systems;
- Assessed the reasonableness of timelines and pricing assumptions for the performing offset mortgages portfolio;
- Reviewed the signed sales agreements and assessed the accuracy of the input to the fair value calculation in respect to pricing and timeline terms;
- Attended meetings with key management and reviewed minutes of meetings of those charged with governance supporting timeline and pricing assumptions for the performing offset mortgage portfolio;
- Reviewed the considerations made in the estimation of goodwill payments and completion cost resulting from changes to the lending agreements of the impacted offset mortgages;
- Tested respective disclosures for completeness and compliance with IFRS 7, IFRS 9 and IFRS 13 requirements.

Our planned audit procedures were completed without material exception.

</td></tr>
</table>

Risk	Our response to the risk

IT systems and controls impacting financial reporting
 	
The IT environment is complex and pervasive to the operations of the Group due to the large volume of transactions processed in numerous locations daily and the reliance on automated and IT dependent manual controls. Appropriate IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. This risk is also impacted by the greater dependency on third- parties, increasing use of cloud platforms, decommissioning of legacy systems, and migration to new systems. Such controls contribute to mitigating the risk of potential fraud or errors as a result of changes to applications and data.
 	
Our audit approach relies upon IT applications and the related control environment including:
 	
– User access management across applications, databases and operating systems;
– Changes to the IT environment, including transformation that changes the IT landscape including system migrations;
– IT operational controls;
– IT application or IT dependent controls; and
– Evaluation of the IT control environment at third party service providers.
	We evaluated the design and operating effectiveness of IT general controls (change management, logical access and IT operations) over the applications, operating systems and databases that are relevant to financial reporting.
	
	In obtaining sufficient audit evidence we:
	
	– Tested automated controls within business processes including IT applications controls (ITACs), IT dependent Manual Controls (ITDMs), and relevant Information Produced by the entity (IPE) as part of an automated control;
	– Carried out procedures to understand the cyber risk profile as it affected the financial statement audit;
	– Assessed regulatory developments or areas of regulatory scrutiny that could have impacted our audit procedures, including:
	    – Overseeing third-party service providers and vendors
	    – Cloud Computing;
	
	Our planned audit procedures were completed without material exception.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of audit procedures.

We determined materiality for the Group to be €19 million (2022: €28 million), which is 1% of total assets (2022: 1% of equity). We consider assets to be the appropriate basis in 2023 due to volatility of equity, impacted by losses and capital repatriation and the focus of the Bank on the successful execution of asset disposals and de-recognition. We believe that total assets provides us with the most appropriate basis for materiality having considered the expectation of the users of the financial statements.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the overall control environment, our judgment was that performance materiality should be set at 75% (2022: 75%) of our planning materiality, namely €14 million (2022: €21 million). We have set performance materiality at this percentage having considered our prior year experience of the risk of misstatements, both corrected and uncorrected.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of €1 million (2022: €1.4 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

An overview of the scope of our audit report

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

There have been no significant changes in scoping from that applied in our prior year audit as all subsidiaries are included in full scope population and all audit work performed for the purposes of these financial statements was undertaken by the Group audit team.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014

In our opinion, based solely on the work undertaken in the course of the audit, we report that:

- the information given in the directors' report for the financial year for which the financial statements are prepared, other than those parts dealing with the non-financial statement pursuant to the requirements of S.I. No. 360/2017 on which we are not required to report in the current year, is consistent with the financial statements, and
- the directors' report, other than those parts dealing with the non-financial statement pursuant to the requirements of S.I. No. 360/2017 on which we are not required to report in the current year, has been prepared in accordance with applicable legal requirements.

We have obtained all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

In our opinion the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company statement of financial position is in agreement with the accounting records.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures required by sections 305 to 312 of the Act, which relate to disclosures of directors' remuneration and transactions are not complied with by the Company. We have nothing to report in this regard.

We have nothing to report in respect of Section 13 of the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017, which require us to report to you if, in our opinion, the Company has not provided in the non-financial statement the information required by Section 5(2) to (7) of those Regulations, in respect of financial year ended 31 December 2022.

Respective responsibilities

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 12 the directors are responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework that give a true and fair view, and 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.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud that could reasonably be expected to have a material effect on the financial statements. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. In addition, the further removed any non-compliance is from the events and transactions reflected in the financial statements, the less likely it is that our procedures will identify such non-compliance. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are license conditions and supervisory requirements of Central Bank of Ireland and the Joint Supervisory team; and Companies Act 2014.
- We understood how the Group is complying with those frameworks by reviewing policy framework, holding discussions with the Group's Director of Risk, internal audit, amongst others.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by holding discussions with senior management, including the Chief Executive Officer, Chief Financial Officer, Director of Risk and the Chair of the Group Audit Committee. We also reviewed the Group's fraud-related policies and mandates of different governance forums assessing fraud.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiring of key management, reviewing the key policies and reviewing the correspondence exchanged with the Regulator.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: http://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf . This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by the board of Ulster Bank Ireland Designated Activity Company on 20 April 2016 to audit the financial statements for the financial year ending 31 December 2016 and subsequent financial periods. The current period of total uninterrupted engagement including previous renewals and reappointments of the firm is 8 years.

The non-audit services prohibited by IAASA's Ethical Standard were not provided to the Group or Company and we remain independent of the Group and Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

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

Our report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company'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 Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Eoin MacManus
for and on behalf of
Ernst & Young Chartered Accountants and Statutory Audit Firm
Office: Dublin
Date: 14 February 2024

(1) Note: The maintenance and integrity of the NatWest Group plc and Ulster Bank Ireland Designated Activity Company website is the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Consolidated income statement for the financial year ended 31 December 2023

	Note	2023 €m	2022 €m
Interest receivable		50	74
Interest payable		(97)	(53)
Net interest (expense)/income	2	(47)	21
Fees and commissions receivable		7	77
Fees and commissions payable		(13)	(56)
Other operating income		25	(156)
Non-interest income	3	19	(135)
Total income		(28)	(114)
Staff costs		(174)	(276)
Premises and equipment		(20)	(43)
Other administrative expenses		(280)	(424)
Depreciation, impairment and amortisation		(4)	(16)
Operating expenses	4	(478)	(759)
Loss before impairment (losses)/releases		(506)	(873)
Impairment (losses)/releases	12	(3)	9
Operating loss before tax		(509)	(864)
Tax charge	7	-	(6)
Loss from continuing operations		(509)	(870)
Loss from discontinued operations, net of tax	9	(132)	(315)
Loss for the financial year		(641)	(1,185)
Attributable to:			
Ordinary shareholders		(641)	(1,185)

Consolidated statement of comprehensive income for the financial year ended 31 December 2023

	Note	2023 €m	2022 €m
Loss for the financial year		(641)	(1,185)
Items that do not qualify for reclassification			
Remeasurement of retirement benefit schemes	5	(2)	(45)
Tax on remeasurement of retirement benefit schemes	7	-	6
		(2)	(39)
Items that do qualify for reclassification			
FVOCI financial assets		17	(20)
		17	(20)
Other comprehensive income/(loss) after tax		15	(59)
Total comprehensive loss for the financial year		(626)	(1,244)
Attributable to:			
Ordinary shareholders		(626)	(1,244)

The accompanying notes form an integral part of these financial statements.

Balance sheets as at 31 December 2023

		Group		Bank	
		2023	2022	2023	2022
	Note	€m	€m	€m	€m
Assets					
Cash and balances at central banks	10	104	3,409	104	3,409
Derivatives	11	-	97	-	97
Loans to banks - amortised cost	10	7	78	7	26
Loans to customers - amortised cost	10	2	317	2	317
Amounts due from holding companies and fellow subsidiaries	10	666	964	666	1,018
Other financial assets	13	301	1,216	301	1,216
Investments in group undertakings	14	-	-	-	1
Other assets	15	66	154	66	153
Assets of disposal groups	9	1,038	7,737	1,038	7,737
Total assets		2,184	13,972	2,184	13,974
Liabilities					
Customer deposits	10	228	6,946	228	6,946
Amounts due to holding companies and fellow subsidiaries	10	673	3,726	673	3,730
Derivatives	11	22	167	22	167
Subordinated liabilities		-	86	-	86
Other liabilities	17	357	403	357	400
Liabilities of disposal groups	9	3	17	3	17
Total liabilities		1,283	11,345	1,283	11,346
Owners' equity		901	2,627	901	2,628
Total liabilities and equity		2,184	13,972	2,184	13,974

The accompanying notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 14 February 2024 and signed on its behalf by:

Martin Murphy
Chairperson

Jane Howard
Chief Executive Officer

Paul Stanley
Chief Financial Officer
and Deputy CEO

Colin Kelly
Company Secretary

Statements of changes in equity for the financial year ended 31 December 2023

		Group		Bank	
		2023	2022	2023	2022
	Note	€m	€m	€m	€m
Called-up share capital - at 1 January		3,379	3,379	3,379	3,379
Reduction of capital	18	(3,379)	-	(3,379)	-
At 31 December	18	-	3,379	-	3,379
Share premium account - at 1 January		857	857	857	857
Reduction of capital	18	(857)	-	(857)	-
At 31 December		-	857	-	857
FVOCI reserve - at 1 January		(17)	3	(17)	3
Unrealised gains/(losses)		14	(46)	14	(46)
Realised losses		3	26	3	26
At 31 December		-	(17)	-	(17)
Retained earnings - at 1 January		(1,592)	(368)	(1,591)	(367)
Loss attributable to ordinary shareholders and other equity owners					
- from continuing operations		(509)	(870)	(510)	(870)
- from discontinued operations		(132)	(315)	(132)	(315)
Reduction of capital	18	4,236	-	4,236	-
Ordinary dividends paid		(1,100)	-	(1,100)	-
Remeasurement of the retirement benefit schemes					
- gross		(2)	(45)	(2)	(45)
- tax		-	6	-	6
At 31 December		901	(1,592)	901	(1,591)
Owners' equity at 31 December		901	2,627	901	2,628

The accompanying notes form an integral part of these financial statements.

Cash flow statements for the financial year ended 31 December 2023

		Group		Bank	
		2023	2022	2023	2022
	Note	€m	€m	€m	€m
Cash flows from operating activities					
Operating loss before tax from continuing operations		(509)	(864)	(510)	(864)
Operating loss before tax from discontinued operations		(132)	(315)	(132)	(315)
Adjustments for:					
Non-cash and other items	21	351	282	352	282
Changes in operating assets and liabilities	21	(9,106)	(9,414)	(9,053)	(9,417)
Income taxes paid		-	-	-	-
Net cash flows from operating activities (1,2)		(9,396)	(10,311)	(9,343)	(10,314)
Cash flows from investing activities					
Sale and maturity of other assets		645	1,817	645	1,817
Sale of net assets and liabilities of disposal groups		6,280	7,012	6,280	7,012
Purchase of property, plant and equipment		-	(1)	-	(1)
Net cash flows from investing activities		6,925	8,828	6,925	8,828
Cash flows from financing activities					
Dividends paid		(1,100)	-	(1,100)	-
Interest paid on debt securities in issue		(4)	(4)	(4)	(4)
Interest paid on subordinated liabilities		(5)	(6)	(5)	(6)
Redemption of subordinated liabilities		(83)	(530)	(83)	(530)
Net cash flows from financing activities		(1,192)	(540)	(1,192)	(540)
Effect of exchange rate changes on cash and cash equivalents		-	-	-	-
Net decrease in cash and cash equivalents		(3,663)	(2,023)	(3,610)	(2,026)
Cash and cash equivalents 1 January		4,434	6,457	4,381	6,407
Cash and cash equivalents 31 December	23	771	4,434	771	4,381

(1) Includes interest received of: Group €88 million (2022 - €200 million); Bank €88 million (2022 - €200 million) and interest paid of: Group €100 million (2022 - €57 million); Bank €101 million (2022 - €57 million).
(2) The total cash outflows in respect of leases for the financial year ended 31 December 2023 was €7 million (2022: €8 million).

The accompanying notes form an integral part of these financial statements.

Notes to the accounts

1. Accounting policies

a) Presentation of accounts

The directors have considered the Group's capital and liquidity position as set out in the Report of the directors and the results of downside scenario analysis. On those bases the directors have concluded that the Group has the ability to pay its debts as they fall due and therefore has the ability to continue as a going concern for the foreseeable future.

In the preparation of the financial statements the directors concluded that they had demonstrated their intention to cease trading based on the cessation of virtually all new lending and the closure of virtually all current and deposit accounts. Based on that intention to cease trading, in accordance with IAS 1 and consistent with the prior year, these financial statements have been prepared on an 'other than going concern' basis. The directors currently have no intention to liquidate the Company.

The adoption of the 'other than going concern' basis of preparation has not resulted in the departure from any of the recognition or measurement criteria of IFRS, nor have any assets or liabilities been reclassified as a result.

The audited accounts, set out on pages 19 to 73, are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and interpretations as issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and adopted by the EU (together IFRS). The material accounting policies and related judgements are set out in this note.

The Bank is incorporated as a designated activity company and registered in Ireland (Registration number - 25766). The Bank's registered and head office is Ulster Bank Head Office, Block B, Central Park, Leopardstown, Dublin, D18 N153. The Group and Bank's accounts are presented in accordance with the Companies Act 2014 and the European Communities (Credit Institutions: Financial Statements) Regulations, 2015.

The accounts are presented in the functional currency, euro.

With the exception of certain financial instruments as described in accounting policies (j) and (o) the accounts are presented on a historical cost basis.

Basis of consolidation

The consolidated accounts incorporate the financial statements of the Bank and entities that are controlled by the Bank. The Bank controls another entity (a subsidiary) when it is exposed, or has rights, to variable returns from its involvement with that entity and has the ability to affect those returns through its power over the other entity. Power generally arises from holding a majority of voting rights.

A subsidiary is included in the consolidated financial statements from the date it is controlled by the Bank until the date the Bank ceases to control it through a sale or a significant change in circumstances.

Changes in the Bank's interest in a subsidiary that do not result in the Bank ceasing to control that subsidiary are accounted for as equity transactions.

All intergroup balances, transactions, income and expenses are eliminated on consolidation. The consolidated accounts are prepared under uniform accounting policies.

b) Revenue recognition

Interest income and expense are recognised in the income statement using the effective interest rate method for all financial instruments measured at amortised cost, debt instruments classified as FVOCI, the effective part of any related accounting hedging instruments and finance lease income recognised at a constant periodic rate of return before tax on the net investment on the lease.

Negative interest on financial assets is presented in interest payable and negative interest on financial liabilities is presented in interest receivable.

Other interest relating to financial instruments measured at fair value is recognised as part of the movement in fair value and is reported in other operating income.

Fees in respect of services are recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered. The price is usually fixed and always determinable.

c) Assets held for sale (disposal groups) and discontinued operations

An asset is classified as held for sale if the Group will recover its carrying amount principally through a sale transaction rather than through continuing use. A disposal group is a collection of assets and/or liabilities that are intended to be transferred in a single transaction. The criteria for held for sale classification is regarded as met only when the sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and the sale is expected to be completed within 12 months from the date of the classification. Assets of disposal groups and liabilities of disposal groups are separately presented on the balance sheet.

Non-current assets held for sale or in disposal groups are measured at the lower of their carrying amount or fair value less costs to sell. Financial instruments within the scope of IFRS 9 that are held for sale or in disposal groups continue to be measured in accordance with that standard. Comparatives are not re-presented.

Discontinued operations represent components of the Group that either have been disposed of or, are classified as held for sale, and represent a separate major line of business which is part of a single co-ordinated plan for disposal. The post-tax results of discontinued operations are presented as a single amount in the income statement and are therefore excluded from the results of continuing operations.

d) Staff costs

Employee costs, such as salaries, paid absences, and other benefits are recognised over the period in which the employees provide the related services to the Group. Employees may receive variable compensation by cash, by debt instruments issued by the Group or by NatWest Group plc shares. The NatWest Group operates a number of share-based compensation schemes under which it awards NatWest Group plc shares and share options to its employees. Such awards are generally subject to vesting conditions.

Variable compensation that is settled in cash or debt instruments is charged to the income statement on a straight-line basis over the vesting period, taking account of forfeiture and clawback criteria.

1. Accounting policies (continued)

Contributions to defined contribution pension schemes (schemes where the Group pays fixed contributions and there is no legal or constructive obligation to pay further contributions) are recognised in the income statement as employee service costs accrue.

For defined benefit schemes (schemes that define the benefit an employee will receive on retirement, dependent on one or more factors such as age, salary, and years of service) the net of the recognisable scheme assets and obligations is reported in the balance sheet in other assets or other liabilities. The defined benefit obligation is measured on an actuarial basis. The charge to the income statement for pension costs (mainly the service cost and the net interest on the net defined benefit asset or liability) is recognised in operating expenses.

Actuarial gains and losses (i.e. gains and/or losses on re-measuring the net defined benefit asset or liability) are recognised in other comprehensive income in full in the period in which they arise.

The difference between scheme assets and scheme liabilities, the net defined benefit asset or liability, is recognised in the balance sheet subject to the asset ceiling test which requires the net defined benefit surplus to be limited to the present value of any economic benefits available to the Group in the form of refunds from the plan or reduced contributions to it.

The Group will recognise a liability where a minimum funding requirement exists for any of its defined benefit pension schemes. This reflects agreed minimum funding and the availability of a net surplus as determined by IAS 19. The Group only includes contributions that are substantively or contractually agreed and do not include discretionary features, including dividend-linked contributions.

e) Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where an item of property, plant and equipment comprises major components having different useful lives, these are accounted for separately.

Depreciation is charged to the income statement on a straight-line basis so as to write off the depreciable amount of property, plant and equipment (including assets owned and let on operating leases) over their estimated useful lives. The depreciable amount is the cost of an asset less its residual value. Freehold land is not depreciated.

The estimated useful lives of the Group's property, plant and equipment are:

Freehold buildings	50 years
Long leasehold property (leases with more than 50 years to run)	50 years
Short leaseholds	unexpired period of lease
Property adaptation costs	10 to 15 years
Computer equipment	up to 5 years
Other equipment	4 to 15 years

The residual value and useful life of property, plant and equipment are reviewed at each balance sheet date and updated for any changes to previous estimates.

f) Impairment of non-financial assets and property, plant and equipment

At each balance sheet date, the Group assesses whether there is any indication that its non-financial assets or property, plant and equipment are impaired. If any such indication exists, the Group estimates the recoverable amount of the asset and compares it to its balance sheet value to calculate if an impairment loss should be recognised in the income statement. A reversal of an impairment loss on non-financial assets or property, plant and equipment is recognised in the income statement provided the increased carrying value is not greater than it would have been had no impairment loss been recognised.

The recoverable amount of an asset that does not generate cash flows that are independent from those of other assets or groups of assets is determined as part of the cash-generating unit to which the asset belongs.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset is the higher of its fair value less cost to sell and its value in use. Value in use is the present value of future cash flows from the asset or cash-generating unit discounted at a rate that reflects market interest rates adjusted for risks specific to the asset or cash-generating unit that have not been taken into account in estimating future cash flows.

g) Leases

As lessee

On entering a lease contract, the Group recognises a right of use asset and a lease liability to pay future rentals.

The liability is measured at the present value of future lease payments discounted at the applicable incremental borrowing rate. The right of use asset is depreciated over the shorter of the term of the lease and the useful economic life, subject to review for impairment.

Short term and low value leased assets are expensed on a systematic basis.

h) Provisions and contingent liabilities

The Group recognises a provision for a present obligation resulting from a past event when it is more likely than not that it will be required to pay to settle the obligation and the amount of the obligation can be estimated reliably.

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

The Group recognises any onerous cost of the present obligation under a contract as a provision. An onerous cost is the unavoidable cost of meeting its contractual obligations that exceed the expected economic benefits.

When the Group intends to vacate a leasehold property, or right of use asset, the asset is tested for impairment and a provision may be recognised for the ancillary contractual occupancy costs.

Contingent liabilities are possible obligations arising from past events whose existence will be confirmed only by uncertain future events, or present obligations arising from past events that are not recognised because either an outflow of economic benefits is not probable or the amount of the obligation cannot be reliably measured. Contingent liabilities are not recognised but information about them is disclosed unless the possibility of any outflow of economic benefits in settlement is remote.

1. Accounting policies (continued)

i) Tax

Tax comprising current tax and deferred tax, is shown in the income statement except tax on items recognised outside of the income statement which is recognised in other comprehensive income. Any tax related to equity instruments is shown in the income statement.

Current tax is tax payable or recoverable in respect of the taxable profit or loss for the financial year arising in the income statement, other comprehensive income or equity. Provision is made for current tax at rates enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable in respect of temporary differences between the carrying amount of an asset or liability for accounting purposes and the carrying amount for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent their recovery is probable.

Deferred tax is not recognised on temporary differences that arise from initial recognition of an asset or a liability in a transaction (other than a business combination) that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated using tax rates expected to apply in the periods when the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, at the balance sheet date.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to offset and where they relate to income taxes levied by the same taxation authority either on an individual Group company or on Group companies in the same tax group that intend, in future periods, to settle current tax liabilities and assets on a net basis or on a gross basis simultaneously.

Accounting for taxes is judgemental and carries a degree of uncertainty because the tax law is subject to interpretation, which might be questioned by the relevant tax authority. The Group recognises the most likely current and deferred tax liability or asset assessed for uncertainty using consistent judgements and estimates.

Current and deferred tax assets are only recognised where their recovery is deemed probable, and current and deferred tax liabilities are recognised at the amount that represents the best estimate of the probable outcome having regard to their acceptance by the tax authorities.

j) Financial instruments

Financial instruments are measured at fair value on initial recognition on the balance sheet.

Monetary financial assets are classified into the following subsequent measurement categories (subject to business model assessment and review of contractual cash flow for the purposes of solely payments of principal and interest where applicable):
- amortised cost;
- fair value through other comprehensive income (FVOCI);
- mandatory fair value through profit or loss (MFVTPL); and
- designated at fair value through profit or loss (DFV).

Financial liabilities are classified into the following measurement categories:
- amortised cost;
- held for trading; and
- designated at fair value through profit or loss.

Classification by business model reflects how the Group manages its financial assets to generate cash flows.

A business model assessment determines if cash flows result from holding financial assets to collect the contractual cash flows, from selling those financial assets, or both.

Business model assessment of assets is made at portfolio level, being the level at which they are managed to achieve a predefined business objective. This is expected to result in the most consistent classification of assets because it aligns with the stated objectives of the portfolio, its risk management, manager's remuneration and the ability to monitor sales of assets from a portfolio. When there is a significant change to the Group's operations which has been communicated to external parties, the Group reassesses its business model for managing affected assets. If a material change in strategy is confirmed this results in a reclassification of financial assets. A reclassification is applied prospectively from the reclassification date.

The contractual terms of a financial asset; any leverage features; prepayment and extension terms; and triggers that might reset the effective rate of interest are considered in determining whether cash flows comprise solely payments of principal and interest.

Financial assets that are managed under a 'hold to collect' business model, and have contractual cash flows that comprise solely payments of principal and interest are measured at amortised cost.

Certain financial assets may be DFV upon initial recognition if such designation eliminates, or significantly reduces, accounting mismatch. In all other instances, MFVTPL is the default classification and measurement category for financial assets.

Equity shares default to fair value through profit or loss unless specifically elected as at FVOCI.

Upon disposal, the cumulative gains or losses in the fair value through other comprehensive income reserve are recycled to the income statement for monetary assets and transferred directly to retained earnings for non-monetary assets.

Regular way purchases of financial assets classified as amortised cost are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date.

k) Impairment: expected credit losses (ECL)

At each balance sheet date each financial asset or portfolio of financial assets measured at amortised cost or at fair value through other comprehensive income, issued financial guarantees and loan commitments (other than those classified as held for trading) are assessed for impairment.

Any change in impairment is reported in the income statement. Loss allowances are forward looking, based on 12 month ECL where there has not been a significant increase in credit risk, otherwise allowances are based on lifetime expected losses.

ECL are a probability-weighted estimate of credit losses. The probability is determined by the risk of default which is applied to the cash flow estimates. In the absence of a change in credit rating, allowances are recognised when there is a reduction in the net present value of expected cash flows. On a significant increase in credit risk, allowances are recognised without a change in the expected cash flows, although typically expected cash flows do also change and the ECL provision is adjusted from 12 month to lifetime expectations.

1. Accounting policies (continued)

Judgement is exercised as follows:

- Significant increase in credit risk – IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime probability of default (PD) (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition.
- Post-model adjustments (PMAs) – these may be applied where management consider they are required to ensure an adequate level of overall ECL provision. All PMAs are subject to formal approval through provisioning governance.
- Models – in certain low default portfolios Basel parameter estimates are also applied for IFRS 9.
- Non-modelled portfolios – these use a standardised capital requirement under Basel II. Under IFRS 9, they have bespoke treatments for the identification of significant increase in credit risk. Benchmarks for probability of default (PD), exposure at default (EAD) and loss given default (LGD) are reviewed annually for appropriateness. ECL is typically calculated at a portfolio level.

On restructuring where a financial asset is not derecognised, the revised cash flows are used in re-estimating the credit loss. Where restructuring causes derecognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

Impaired financial assets are written off when the Group concludes that there is no longer any realistic prospect of recovery of part, or all, of the loan.

The Group recognises a provision in other liabilities for any expected credit losses on loan commitments.

l) Financial guarantee contracts

Under a financial guarantee contract, the Group, in return for a fee, undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. A financial guarantee is recognised as a liability; initially at fair value and, if not designated as at fair value through profit or loss, subsequently at the higher of its initial value less cumulative amortisation and any provision under the contract, measured in accordance with accounting policy (k).

Amortisation is calculated to recognise fees receivable in profit or loss over the period of the guarantee.

m) De-recognition

A financial asset is derecognised (removed from the balance sheet) when the contractual right to receive cash flows from the asset has ended or when it has been transferred and the transfer qualifies for derecognition. Conversely, an asset is not derecognised by a contract under which the Group retains substantially all the risks and rewards of ownership.

A financial liability is removed from the balance sheet when the obligation is paid, cancelled or expires.

n) Netting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group has a legally enforceable right to set off the recognised amounts; and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Group is party to a number of arrangements, including master netting agreements that give it the right to offset financial assets and financial liabilities, but where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented gross.

o) Derivatives and hedging

Derivatives are reported on the balance sheet at fair value.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge and derivatives that are managed together with financial instruments designated at fair value are included in Other operating income.

Hedge accounting

Hedge accounting relationships are designated and documented at inception in line with the requirements of IAS 39 Financial instruments – Recognition and measurement. The documentation identifies the hedged item; the hedging instrument; details of the risk that is being hedged; and the way in which effectiveness will be assessed at inception for the duration of the hedge. If the hedge is not highly effective in offsetting changes in fair values or cash flows attributable to the hedged risk, consistent with the documented risk management strategy, hedge accounting is discontinued. Hedge accounting is also discontinued if the Group revokes the designation of a hedge relationship.

The Group enters into fair value hedge relationships to mitigate interest rate risk. The gain or loss on the hedging instrument and the hedged item attributable to the hedged risk is recognised in the income statement. Where the hedged item is measured at amortised cost, the balance sheet amount of the hedged item is also adjusted.

Hedge accounting is discontinued if the hedge no longer meets the criteria for hedge accounting; if the hedging instrument expires or is sold, terminated or exercised; or if hedge designation is revoked. Any cumulative adjustment is amortised to the income statement over the life of the hedged item. Where the hedged item is no longer on the balance sheet the adjustment to the hedged item is reported in the income statement.

p) Investments in Group undertakings

The Bank's investments in its subsidiaries are stated at cost less any impairment losses.

q) Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Irish company law and IFRS require the directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent.

In the absence of an applicable standard or interpretation, IFRS requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's 'Conceptual Framework for Financial Reporting'.

1. Accounting policies (continued)

The impacts of the phased withdrawal had a material influence on estimation uncertainty during 2023 and as at 31 December 2023, in particular fair value measurement of the mortgage portfolios, the provision for redundancy costs and the reclassification of loans to customers as assets of disposal groups. Key financial judgements and estimates are based on management's latest plans and forecasts. Measurement of expected credit losses are highly sensitive to reasonably possible changes in anticipated conditions.

Changes in judgements and assumptions could result in a material adjustment to those estimates in subsequent reporting periods.

The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are noted below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

Consideration of these sources of estimation uncertainty has been set out in the notes referenced in the table below (as applicable).

Critical accounting policy	Note
Pensions	5
Assets held for sale (disposal groups) and discontinued operations	9
Fair value: Financial instruments	10
Loan impairment provisions	12
Provisions for liabilities and charges	17

Future accounting developments

International Financial Reporting Standards

Effective 1 January 2024

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- Non-current Liabilities with Covenants (Amendments to IAS 1)
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

Other new standards and amendments that are effective for annual periods beginning after 1 January 2024, with earlier application permitted, are set out below.

Effective 1 January 2025

- Lack of exchangeability (Amendments to IAS 21)

The Group is assessing the effect of adopting these amendments on its financial statements but does not expect the effect to be material.

2. Net interest (expense)/income

	Group	
	2023	2022
Continuing operations	€m	€m
Interest receivable on assets:		
Cash and balances at central banks	8	14
Loans to customers - amortised cost	12	33
Amounts due from holding company and fellow subsidiaries	29	5
Interest receivable on liabilities:		
Bank deposits	-	1
Customer deposits	1	20
Amounts due to holding company and fellow subsidiaries	-	1
Total interest receivable	50	74
Interest payable on liabilities:		
Customer deposits	(2)	(10)
Other liabilities	(2)	(2)
Subordinated liabilities	(4)	(5)
Amounts due to holding company and fellow subsidiaries	(89)	(17)
Interest payable on assets:		
Cash and balances at central banks	-	(12)
Other financial assets	-	(6)
Amounts due from holding company and fellow subsidiaries	-	(1)
Total interest payable	(97)	(53)
Net interest (expense)/income	(47)	21

Interest income on financial instruments measured at amortised cost and debt instruments classified as FVOCI is measured using the effective interest rate which allocates the interest income or interest expense over the expected life of the asset or liability at the rate that exactly discounts all estimated future cash flows to equal the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

3. Non-interest income

	Group	
	2023	2022
Continuing operations	€m	€m
Fees and commissions receivable		
- Payment services	3	51
- Credit and debit card fees	2	21
- Lending (credit facilities)	1	3
- Fees receivable from other NatWest Group companies	1	2
Total	7	77
Fees and commissions payable (1)	(13)	(56)
Net fees and commissions	(6)	21
Other operating income:		
Economic hedged and designated hedged ineffectiveness		
- Foreign exchange	(1)	1
- Interest rate	(7)	(92)
Changes in fair value of other financial assets at fair value through profit or loss	44	(46)
Loss on disposal of fair value through other comprehensive income assets	(3)	(26)
Other income (2)	(8)	7
	25	(156)
Non-interest income	19	(135)

(1) Includes €11 million of fees payable to other NatWest Group companies (2022 - €44 million).
(2) Includes €3 million of income in respect of services provided to other NatWest Group companies (2022 - €5 million).

4. Operating expenses

	Group	
	2023	2022
Continuing operations	€m	€m
Wages, salaries and other staff costs	80	100
Temporary and contractor costs	8	11
Social security costs	9	12
Pension costs		
- defined benefit schemes (Note 5)	35	45
- defined contribution schemes	2	3
Restructure costs	40	105
Staff costs	174	276
Premises and equipment (1)	20	43
Depreciation, impairment and amortisation (Note 16)	4	16
Other administrative expenses (2)	280	424
Administrative expenses	304	483
Operating expenses	478	759

(1) 2022 includes €10 million of property, plant and equipment write-offs associated with the phased withdrawal.
(2) Includes €158 million of costs from services provided by other NatWest Group companies (2022 - €214 million).

In accordance with Section 317(2) of the Companies Act 2014, the table below details staff costs on an incurred basis, incorporating costs of both continuing and discontinued operations.

	Group and Bank	
	2023	2022
	€m	€m
Wages, salaries and other staff costs	94	143
Temporary and contractor costs	10	13
Social security costs	10	16
Pension costs		
- defined benefit schemes (Note 5)	35	45
- defined contribution schemes	3	5
Restructure costs	40	105
	192	327

The average number of persons employed by the Group and Bank during the financial year in continuing operations, excluding temporary staff, was 784 (2022 – 1,267). The average number of persons employed by the Group and Bank during the financial year in discontinued operations, excluding temporary staff, was 130 (2022 - 531). The average number of temporary employees during 2023 was 107 (2022 - 132).

4. Operating expenses (continued)

The number of persons employed at 31 December, excluding temporary staff, was as follows:

	Group and Bank	
	2023 Number	2022 Number
Continuing operations	358	1,354
Discontinued operations	-	396
	358	1,750

Amounts paid to the auditors for the statutory audit and other services are set out below:

	Group	
	2023 €k	2022 €k
Fees payable for:		
- the audit of the Bank's individual and Group accounts	1,046	1,815
- the audit of the Bank's subsidiaries	42	56
- audit-related assurance services	36	50
Total audit and audit related assurance service fees	1,124	1,921

Other than the amounts disclosed above, no remuneration was payable in respect of tax advisory services and other non-audit services. The figures in the auditor's remuneration table relate to fees payable to the statutory auditor, exclusive of VAT.

5. Pensions

Defined contribution scheme

The Group makes contributions to a defined contribution pension arrangement which new employees are offered the opportunity to join.

Defined benefit schemes

The Group operates the following defined benefit pension schemes, the assets of which are independent of the Group's finances:

- Ulster Bank Pension Scheme (Republic of Ireland) ("main scheme")
- First Active Pension Scheme ("FA scheme")
- Lombard Ireland Limited Non-Contributory Pension and Death Benefit Plan ("Lombard scheme")

The Group's main scheme operates under Irish trust law and is managed and administered on behalf of its members in accordance with the terms of the trust deed, scheme rules and Irish legislation (principally the Pensions Act 1990).

Pension fund trustees are appointed to operate each fund and ensure benefits are paid in accordance with the scheme rules and national law. The trustees are the legal owner of a scheme's assets and have a duty to act in the best interests of all scheme members.

The schemes generally provide a pension of one-sixtieth of final pensionable salary for each year of service prior to retirement up to a maximum of 40 years and are contributory for current members.

These have been closed to new entrants since 2010, although active members continue to build up additional pension benefits, generally subject to 2% maximum annual inflation, while they remain employed by the Group.

The corporate trustee of the main scheme is Ulster Bank Pension Trustees (R.I.) Limited ("UBPTRIL"), a wholly owned subsidiary of the Bank.

The board of UBPTRIL comprises a mix of employer nominated and union nominated trustee directors. Under Irish legislation a defined benefit pension scheme is required to build up and maintain enough funds to pay members their pension entitlements should the scheme be wound up.

Investment strategy

The assets of the schemes are invested in a diversified portfolio as shown below.

The schemes employ physical, derivative and non-derivative instruments to achieve a desired asset class exposure and to reduce the schemes' interest rate, inflation and currency risks. This means that the net funding positions are considerably less sensitive to changes in market conditions than the values of the assets or liabilities in isolation.

	2023			2022		
Major classes of plan assets as a percentage of total plan assets of the schemes	Quoted %	Unquoted %	Total %	Quoted %	Unquoted %	Total %
Equities	3	1	4	3	1	4
Index linked bonds	1	-	1	1	-	1
Government bonds	2	-	2	1	-	1
Corporate and other bonds	24	3	27	29	2	31
Hedge funds	-	2	2	-	2	2
Real estate	-	7	7	-	8	8
Derivatives (LDI)	-	52	52	-	45	45
Cash and other assets	-	5	5	-	8	8
	30	70	100	34	66	100

5. Pensions (continued)

	Group and Bank			
Changes in value of pension asset	Fair value of plan assets €m	Present value of defined benefit obligations €m	Asset ceiling / minimum funding (1) €m	Net pension surplus €m
At 1 January 2022	2,037	(1,760)	(167)	110
Income statement	(86)	46	(5)	(45)
Statement of comprehensive income	(594)	624	(75)	(45)
Contributions by employer	32	-	-	32
Contributions by plan participants	1	(1)	-	-
Benefits paid	(50)	50	-	-
At 1 January 2023	1,340	(1,041)	(247)	52
Income statement				
Net interest cost	55	(43)	(10)	2
Current service cost	-	(8)	-	(8)
Expenses	-	(3)	-	(3)
Past service cost (2)	-	(19)	-	(19)
Settlements (2)	(57)	50	-	(7)
	(2)	(23)	(10)	(35)
Statement of comprehensive income				
Return on plan assets above recognised interest income	33	-	-	33
Experience gains and losses	-	(3)	-	(3)
Effect of changes in actuarial financial assumptions	-	(171)	-	(171)
Effect of changes in actuarial demographic assumptions	-	33	-	33
Asset ceiling/minimum funding adjustments	-	-	106	106
	33	(141)	106	(2)
Contributions by employer (3)	31	-	-	31
Contributions by plan participants	1	(1)	-	-
Benefits paid	(44)	44	-	-
At 31 December 2023	1,359	(1,162)	(151)	46

(1) In recognising the net surplus or deficit of a pension scheme, the funded status of the scheme is adjusted to reflect any schemes with a surplus that the Group may not be able to access. This is relevant for the main scheme, where the recognition of the surplus has been restricted due to the anticipated impact of the phased withdrawal.
(2) Past service costs and Settlements mainly relate to the impact of the phased withdrawal.
(3) The Group expects to contribute €8 million to its defined benefit pension schemes in 2024.

	All schemes	
	2023	2022
Amounts recognised on the balance sheet	€m	€m
Fund assets at fair value	1,359	1,340
Present value of fund liabilities	(1,162)	(1,041)
Funded status	197	299
Asset ceiling/minimum funding	(151)	(247)
Retirement benefit asset (other assets)	46	52

	Group and Bank	
	2023	2022
Amounts recognised in the income statement	€m	€m
Operating expenses	35	45

Funding and contributions by the Group

In Ireland, the trustees of defined benefit pension schemes are required to perform funding valuations every three years. The trustees and the Bank, with the support of the Scheme Actuary, agree the assumptions used to value the liabilities to determine future contribution requirements. The funding assumptions incorporate a margin for prudence over and above the expected cost of providing the benefits promised to members, taking into account the sponsor's covenant and the investment strategy of the scheme.

The latest funding valuation of the main scheme was as at 31 December 2021, and was agreed in September 2022. This determined the funding level to be 99.4%, pension liabilities to be €1,541 million and the deficit to be €10 million. A contribution of €10 million was made in October 2022 to settle the deficit.

The key assumptions used to determine the funding liabilities were the discount rate, which is determined based on fixed interest euro swap yields plus 0.7% per annum, and mortality assumptions, which result in life expectancies of 23.9/26.6 years for males/females who were age 65 and 25.5/28.2 years from age 65 for males/females who were aged 45 at the valuation date.

The latest funding valuations for the FA and Lombard schemes were as at 31 December 2021 and 1 April 2022 respectively. Both valuations were agreed during 2022 and both showed that the schemes were in surplus on the agreed funding bases. As such no further deficit contributions are due.

5. Pensions (continued)

During 2022, the Group reached agreement with the trustees of the schemes regarding the long term scheme sponsorship arrangements. These agreements ensure continuation of the sponsor's commitment to supporting the delivery of members' accrued benefits after the completion of the phased withdrawal. The employer contributions disclosed on the previous page include amounts payable under this agreement.

Critical accounting policy: Pensions

The assets of defined benefit schemes are measured at their fair value at the balance sheet date. Scheme liabilities are measured using the projected unit method, which takes account of projected earnings increases, using actuarial assumptions that give the best estimate of the future cash flows that will arise under the scheme liabilities. These cash flows are discounted at an interest rate based on the yields of high-quality corporate bonds of appropriate duration, with high-quality almost universally understood to mean AA-rated.

The choice of discount rate is a source of estimation uncertainty, due to a lack of appropriate euro-denominated AA-rated bonds of equivalent duration to the pension schemes' liabilities.

The approach used is to fit a yield curve to an appropriate dataset of AA bonds, and derive the discount rate from that curve.

Accounting assumptions

Placing a value on the Group's defined benefit pension schemes' liabilities requires the Group's management to make a number of assumptions, with the support of independent actuaries. The ultimate cost of the defined benefit obligations will depend upon actual future events and the assumptions made are unlikely to be exactly borne out in practice, meaning the final cost may be higher or lower than expected.

A year-end valuation of the Group's pension schemes was prepared as at 31 December 2023 by independent actuaries, using the following assumptions:

	Principal IAS 19 actuarial assumptions[1]	
	2023 %	2022 %
Discount rate	3.60	4.25
Inflation assumption (CPI)	2.25	2.50
Rate of increase in salaries	1.70	1.80
Rate of increase in deferred pensions	2.20	2.40
Rate of increase in pensions in payment	0.00-2.60	0.00-2.50
Proportion of pension converted to a cash lump sum at retirement	5.00-12.00	5.00-12.00
Longevity:	years	years
Current pensioners, aged 70 years		
Males	18.5	18.9
Females	21.0	21.3
Future pensioners, currently aged 63 years		
Males	25.0	25.5
Females	27.8	28.2

(1) The above financial assumptions are long term assumptions set with reference to the period over which the obligations are expected to be settled

Discount rate

The IAS 19 valuation uses a single discount rate by reference to the yield on a basket of 'high quality' euro-denominated corporate bonds.

Significant judgement is required when setting the criteria for bonds to be included in the basket of bonds that is used to determine the discount rate used in the IAS 19 valuations.

The criteria include issue size, quality of pricing and the exclusion of outliers. Judgement is also required in determining the shape of the yield curve at long durations: a constant credit spread relative to gilts is assumed.

The table below sets out the sensitivities of the pension cost for the financial year and the present value of defined benefit obligations at the balance sheet dates if the key assumptions used were changed independently. In practice, the variables are somewhat correlated and do not move completely in isolation.

	Group and Bank			
	(Decrease)/increase in pension cost for the financial year		(Decrease)/increase in obligation at 31 December	
	2023 €m	2022 €m	2023 €m	2022 €m
0.5% increase in the discount rate	(7)	(8)	(94)	(84)
0.25% increase in inflation	1	1	24	20
Longevity increase of one year	-	2	30	22
0.25% additional rate of increase in pensions in payment	-	-	13	8
0.25% additional rate of increase in deferred pensions	1	1	19	18
0.25% additional rate of increase in salaries	-	-	-	1

5. Pensions (continued)

The defined benefit obligations are attributable to the different classes of scheme members in the following proportions based on their status at the latest formal valuation:

Membership category	2023 %	2022 %
Active	23.8	25.3
Deferred	26.2	27.9
Pensioners and dependants	50.0	46.8
	100.0	100.0

The weighted average duration of the Group's defined benefit obligations at 31 December 2023 is 18 years (2022 - 18 years).

The experience history of the schemes is shown below:

	Group and Bank				
History of defined benefit schemes	2023 €m	2022 €m	2021 €m	2020 €m	2019 €m
Fair value of plan assets	1,359	1,340	2,037	2,051	1,865
Present value of defined benefit obligations	(1,162)	(1,041)	(1,760)	(1,743)	(1,640)
Net surplus	197	299	277	308	225
Experience (losses)/gains on plan liabilities	(3)	(10)	(5)	12	8
Experience (losses)/gains on plan assets	33	(594)	(29)	201	240
Actual return on plan assets	88	(553)	(3)	231	276
Actual return on plan assets	6.6%	(27.1%)	(0.1%)	12.4%	16.3%

6. Emoluments of directors

	2023 €	2022 €
Emoluments for the provision of directors' services	2,340,804	2,306,168
Contributions in respect of pension schemes	107,567	107,567
Emoluments relating to long-term incentive schemes	503,899	340,458
Total emoluments received	2,952,270	2,754,193

Retirement benefits were accruing to one director under defined contribution schemes as at 31 December 2023 (2022 - one). No retirement benefits were accruing to directors under defined benefit schemes as at 31 December 2023 or 31 December 2022.

No share options were exercised during the financial year that resulted in gains to directors (2022 - none).

Performance related bonuses are awarded to executive directors on the basis of measuring annual performance against certain specified financial targets, which include both corporate performance objectives and key strategic objectives.

During the financial year there were no emoluments in respect of compensation for loss of office (2022 - nil).

There were no amounts paid or payable to third parties during the financial year or the preceding financial year in respect of making available the services of any person as a director of the Bank or any of its subsidiaries or otherwise in connection with the management of the Group's affairs.

7. Tax

	Group	
Continuing operations	2023 €m	2022 €m
Corporation tax at 12.5% (2022 - 12.5%)		
Charge for the financial year	-	-
	-	-
Deferred tax		
Credit for the financial year	1	2
Under provision for prior financial years	-	(1)
Decrease in deferred tax asset in respect of previously recognised losses	(1)	(7)
Tax charge for the financial year	-	(6)

7. Tax (continued)

The actual tax charge differs from the expected tax credit computed by applying the standard rate of Irish Corporation Tax of 12.5% (2022 - 12.5%) as follows:

	Group	
	2023	2022
Continuing operations	€m	€m
Expected tax credit	64	108
Temporary differences	-	3
Non-deductible items	-	(1)
Other tax adjustments	1	-
Non-taxable income	1	-
Deferred tax not recognised on current year losses	(65)	(108)
Adjustments to tax charge in respect of prior financial years	-	(1)
Decrease in deferred tax asset in respect of previously recognised losses	(1)	(7)
Actual tax charge for the financial year	-	(6)

Deferred tax

Net deferred tax asset comprised:

	Group and Bank			
	Pension	Accelerated capital allowances	Tax losses	Total
	€m	€m	€m	€m
At 1 January 2022	(14)	-	14	-
Credit/(charge) to income statement				
- from continuing operations	2	(1)	(7)	(6)
Credit to other comprehensive income	6	-	-	6
At 1 January 2023	(6)	(1)	7	-
Credit/(charge) to income statement				
- from continuing operations	-	1	(1)	-
At 31 December 2023	(6)	-	6	-

Unrecognised deferred tax

Deferred tax assets of €1,450 million (2022 - €1,395 million) have not been recognised in respect of tax losses carried forward of €11,601 million (2022 - €11,156 million). Under Irish tax rules, tax losses can be carried forward indefinitely.

Pillar 2

In 2021, the Organisation for Economic Co-operation and Development published the Global Anti-Base Erosion Model Rules (Pillar 2). These rules will impose a top-up tax on the profits of subsidiaries of multinational enterprise groups that meet the relevant legislative criteria, that are taxed at an effective tax rate of less than 15 per cent. On 18 December 2023, Ireland enacted the Pillar 2 income taxes legislation effective from 1 January 2024. No material impact to the tax charge is expected.

The Group has applied the exception issued by the IASB in May 2023 from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Bank has not recognised or disclosed information about deferred tax assets and liabilities related to Pillar 2 income taxes.

8. Profit/loss dealt with in the financial statements of the Bank

In accordance with the exemption contained within Section 304 of the Companies Act 2014 the primary financial statements of the Bank do not include an income statement or statement of comprehensive income. The Bank's loss after tax for the financial year ended 31 December 2023 was €642 million (2022 – €1,185 million).

9. Discontinued operations and assets and liabilities of disposal groups

In July 2023 the Bank completed the final customer transfer for the majority of its performing commercial loan book to Allied Irish Banks, p.l.c. (AIB). A total of 237 colleagues working wholly or mainly to support customers whose loans formed part of this sale transferred to AIB under Transfer of Undertakings (Protection of Employment) (TUPE) regulations in 2022 and 2023.

In 2023 the Bank also completed the sale of a material part of its retail banking business to Permanent TSB Group Holdings plc (PTSB) following the agreement reached in 2022. As part of this sale the Bank transferred 25 branch locations and its performing micro-SME loan portfolio in Q1 2023. In May 2023 the Bank completed the customer transfer of performing non-tracker mortgages to PTSB. Finally, in July 2023 the Bank completed the transfer of the Lombard Asset Finance business, including the Lombard digital platform, to PTSB. A total of 335 colleagues either working in the branches or working wholly or mainly to support the respective loan portfolios transferred to PTSB under TUPE regulations as part of this agreement.

9. Discontinued operations and assets and liabilities of disposal groups (continued)

During the financial year the Bank completed the transfer of €4.0 billion of performing tracker and tracker-linked mortgages to AIB, following the agreement reached in 2022. The remaining c€1.0 billion of this portfolio is expected to transfer to AIB in 2024 as part of this agreement.

The financial results of the associated business activities meet the requirements of IFRS 5 and are classified in the consolidated income statement as discontinued operations. The remaining assets expected to be sold to AIB in 2024 that meet the requirements of IFRS 5 are classified on the Group and Bank balance sheets as 'Assets of disposal groups' at 31 December 2023.

In July 2023 the Bank announced that it had reached an agreement with AB CarVal Investors L.P., through Elmscott Property Finance DAC, for the sale of a portfolio of residual retail and commercial performing and non-performing exposures. The portfolio consists primarily of non-performing mortgages, performing and non-performing unsecured personal loans and commercial facilities. Pepper Finance Corporation (Ireland) DAC ('Pepper Finance') will become the legal owner and servicer of the facilities. In November 2023, €0.4 billion of exposures transferred to Pepper Finance, with the remaining c€0.2 billion of the portfolio expected to transfer in 2024. These assets are classified on the Group and Bank balance sheets as 'Assets of disposal groups' at 31 December 2023. Comparatives are not re-presented, in accordance with the standard. However, as the decision to sell these assets does not represent cessation of a separate line of business, the financial results of the associated business activities continue to be classified in the consolidated income statement as continuing operations.

Critical accounting policy: assets held for sale (disposal groups) and discontinued operations

The Group has determined that €1 billion of its assets and liabilities meet the criteria for classification as assets or liabilities of disposal groups. These represent the sale of the Bank's remaining tracker and tracker-linked portfolio expected to complete in 2024, as well as the assets agreed to be transferred to Pepper Finance and a number of properties. This classification reflects our judgement that the transfer of these assets and liabilities is highly probable within 12 months. Successful completion of the transactions outlined above remains subject to a number of risks and uncertainties, some of which are beyond the control of the Group. These introduce estimation uncertainty and are described in the Report of the directors.

(a) Loss from discontinued operations, net of tax

	Group	
	2023 €m	2022 €m
Interest receivable	25	209
Non-interest income (1)	(19)	(553)
Total income	6	(344)
Operating expenses	(145)	(55)
Loss before impairment releases	(139)	(399)
Impairment releases	7	84
Operating loss before tax	(132)	(315)
Tax charge	-	-
Loss from discontinued operations, net of tax	(132)	(315)

(1) Non-interest income includes a €118 million loss on loan asset disposals (2022 – €172 million) and a €98 million gain on loans to customers at fair value through profit or loss (2022 - €384 million loss).

(b) Assets and liabilities of disposal groups

	Group and Bank	
	2023 €m	2022 €m
Assets of disposal groups		
Loans to customers - amortised cost	37	1,644
Other financial assets - loans to customers at fair value through profit or loss	968	6,085
Other assets	33	8
	1,038	7,737
Liabilities of disposal groups		
Other liabilities	3	17
	3	17

(c) Cash flows attributable to discontinued operations

	Group and Bank	
	2023 €m	2022 €m
Net cash flows from operating activities	273	2,049
Net cash flows from investing activities	6,280	7,012
Net increase in cash and cash equivalents	6,553	9,061

10. Financial instruments – classification

The following tables analyse the financial assets and financial liabilities in accordance with the categories of financial instruments on an IFRS 9 basis. Assets and liabilities outside the scope of IFRS 9 are shown within other assets and other liabilities.

2023	Group MFVTPL €m	Amortised cost €m	Other assets €m	Total €m
Assets				
Cash and balances at central banks	-	104	-	104
Loans to banks - amortised cost (1)	-	7	-	7
Loans to customers - amortised cost	-	2	-	2
Amounts due from holding companies and fellow subsidiaries	-	660	6	666
Other financial assets	301	-	-	301
Other assets	-	-	66	66
Assets of disposal groups	-	-	1,038	1,038
	301	773	1,110	2,184

	Held-for-trading €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities				
Customer deposits	-	228	-	228
Amounts due to holding companies and fellow subsidiaries	-	634	39	673
Derivatives	22	-	-	22
Other liabilities (2)	-	26	331	357
Liabilities of disposal groups	-	-	3	3
	22	888	373	1,283

2022	Group MFVTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks	-	-	3,409	-	3,409
Derivatives	97	-	-	-	97
Loans to banks - amortised cost (1)	-	-	78	-	78
Loans to customers - amortised cost	-	-	317	-	317
Amounts due from holding companies and fellow subsidiaries	-	-	947	17	964
Other financial assets	585	631	-	-	1,216
Other assets	-	-	-	154	154
Assets of disposal groups	-	-	-	7,737	7,737
	682	631	4,751	7,908	13,972

	Held-for-trading €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities				
Customer deposits	-	6,946	-	6,946
Amounts due to holding companies and fellow subsidiaries	-	3,645	81	3,726
Derivatives	167	-	-	167
Subordinated liabilities	-	86	-	86
Other liabilities (2)	-	34	369	403
Liabilities of disposal groups	-	-	17	17
	167	10,711	467	11,345

(1) There were no items in the course of collection from other banks as at 31 December 2023 (2022 - €13 million).
(2) Includes lease liabilities held at amortised cost of €26 million (2022 - €32 million).
(3) There are no financial instruments that are subject to IAS 32 (on balance sheet) netting arrangements or subject to enforceable master netting instruments or similar agreements that are not set off in accordance with IAS 32.

10. Financial instruments – classification (continued)

2023	Bank MFVTPL €m	Amortised cost €m	Other assets €m	Total €m
Assets				
Cash and balances at central banks	-	104	-	104
Loans to banks - amortised cost (1)	-	7	-	7
Loans to customers - amortised cost	-	2	-	2
Amounts due from holding companies and fellow subsidiaries	-	660	6	666
Other financial assets	301	-	-	301
Other assets	-	-	66	66
Assets of disposal groups	-	-	1,038	1,038
	301	773	1,110	2,184

	Held-for-trading €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities				
Customer deposits	-	228	-	228
Amounts due to holding companies and fellow subsidiaries	-	634	39	673
Derivatives	22	-	-	22
Other liabilities (2)	-	26	331	357
Liabilities of disposal groups	-	-	3	3
	22	888	373	1,283

2022	Bank MFVTPL €m	FVOCI €m	Amortised cost €m	Other assets €m	Total €m
Assets					
Cash and balances at central banks	-	-	3,409	-	3,409
Derivatives	97	-	-	-	97
Loans to banks - amortised cost (1)	-	-	26	-	26
Loans to customers - amortised cost	-	-	317	-	317
Amounts due from holding companies and fellow subsidiaries	55	-	946	17	1,018
Other financial assets	585	631	-	-	1,216
Investments in Group undertakings	-	-	-	1	1
Other assets	-	-	-	153	153
Assets of disposal groups	-	-	-	7,737	7,737
	737	631	4,698	7,908	13,974

	Held-for-trading €m	Amortised cost €m	Other liabilities €m	Total €m
Liabilities				
Customer deposits	-	6,946	-	6,946
Amounts due to holding companies and fellow subsidiaries	-	3,649	81	3,730
Derivatives	167	-	-	167
Subordinated liabilities	-	86	-	86
Other liabilities (2)	-	34	366	400
Liabilities of disposal groups	-	-	17	17
	167	10,715	464	11,346

(1) There were no items in the course of collection from other banks as at 31 December 2023 (2022 - €13 million).
(2) Includes lease liabilities held at amortised cost of €26 million (2022 - €32 million).
(3) There are no financial instruments that are subject to IAS 32 (on balance sheet) netting arrangements or subject to enforceable master netting instruments or similar agreements that are not set off in accordance with IAS 32.

10. Financial instruments – classification (continued)

Amounts due from/to holding companies and fellow subsidiaries comprise:

	Group		Bank	
	2023 €m	2022 €m	2023 €m	2022 €m
Amounts due from holding companies and fellow subsidiaries				
Loans to banks - amortised cost	660	947	660	946
Loans to customers - MFVTPL	-	-	-	55
Other assets	6	17	6	17
	666	964	666	1,018
Amounts due to holding companies and fellow subsidiaries				
Bank deposits	54	3,067	54	3,067
Customer deposits	-	19	-	23
Debt securities in issue	580	559	580	559
Other liabilities	39	81	39	81
	673	3,726	673	3,730

Amounts due from holding companies and fellow subsidiaries classified as MFVTPL are considered to be level 3 instruments (as defined below). Movements in these instruments during the financial year are shown in the table below:

	Bank	
	2023 €m	2022 €m
At 1 January	55	51
Net originations and settlements	(55)	4
At 31 December	-	55

Critical accounting policy: Fair value - financial instruments

In accordance with accounting policies (j) and (o) financial instruments classified at MFVTPL and held for trading and financial assets classified as FVOCI are recognised in the financial statements at fair value. All derivatives are measured at fair value.

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. A fair value measurement considers the characteristics of the asset or liability and the assumptions that a market participant would use when pricing the asset or liability. The Group manages some portfolios of financial assets and financial liabilities based on its net exposure to either market or credit risk. In these cases, the fair value is derived from the net risk exposure of that portfolio with portfolio level adjustments applied to incorporate bid-offer spreads, counterparty credit risk, and funding costs.

Where the market for a financial instrument is not active, fair value is established using a valuation technique. These valuation techniques involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. The complexity and uncertainty in the financial instrument's fair value is categorised using the fair value hierarchy.

Fair value hierarchy

Financial instruments carried at fair value have been classified under the fair value hierarchy. The classification ranges from level 1 to level 3, with more expert judgement and price uncertainty for those classified at level 3.

The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on the level of market activity for the referenced entity.

Level 1 – instruments valued using unadjusted quoted prices in active and liquid markets, for identical financial instruments. Examples include government bonds, listed equity shares and certain exchange-traded derivatives.

Level 2 - instruments valued using valuation techniques that have observable inputs. Examples include most government agency securities, investment-grade corporate bonds, certain mortgage products, including collateralised loan obligations, most bank loans, repos and reverse repos, less liquid listed equities, state and municipal obligations, most notes issued, and certain money market securities and loan commitments and most over-the-counter (OTC) derivatives.

Level 3 - instruments valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data. Examples include cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, certain emerging markets and derivatives with unobservable methodology inputs.

10. Financial instruments – valuation (continued)

The following tables show the financial instruments carried at fair value by fair value hierarchy.

	Group and Bank							
	2023				2022			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Assets								
Other financial assets (Note 13)								
- Debt securities	-	-	-	-	24	607	-	631
- Loans to customers	-	-	301	301	-	-	585	585
Derivatives	-	-	-	-	-	97	-	97
Assets of disposal groups (Note 9)								
- Other financial assets	-	-	968	968	-	-	6,085	6,085
	-	-	1,269	1,269	24	704	6,670	7,398
Liabilities								
Derivatives	-	22	-	22	-	167	-	167
	-	22	-	22	-	167	-	167

Loans to customers held at fair value through profit or loss are valued using a discounted cash flow model. The discount rate, a key unobservable input in this valuation technique, has been benchmarked against the Euro Short-term Rate (€STR).

	Group and Bank			
	2023		2022	
	Other financial assets	Assets of disposal groups	Other financial assets	Assets of disposal groups
Level 3 portfolio movement table	€m	€m	€m	€m
At 1 January	585	6,085	-	-
Reclassification from amortised cost	-	-	705	12,075
Reclassification to assets of disposal groups	(219)	219		-
Credit/(charge) to income statement				
- continuing operations	27	17	(68)	-
- discontinued operations	-	98	-	(43)
Disposal	-	(4,735)	-	(4,985)
Net settlements	(92)	(716)	(52)	(962)
At 31 December	301	968	585	6,085

The Group places reliance on the oversight of the Ring Fence Bank Valuation Committee on the Independent Price Verification (IPV) process.

Valuation techniques

The fair value of instruments are derived differently depending on whether the instrument is a non-modelled or a modelled product.

Non-modelled products are valued directly from a price input, typically on a position-by-position basis. Examples of non-modelled products include residential mortgages and equities.

Non-modelled products can fall into any fair value hierarchy level depending on the observable market activity, liquidity, and assessment of valuation uncertainty of the instruments. The assessment of fair value and the classification of the instrument to a fair value level is subject to the valuation controls discussed in the Valuation control section.

Modelled products are valued using a pricing model. For modelled products the fair value is derived using the model and the appropriate model inputs or parameters, rather than from a cash price equivalent. Model inputs are taken either directly or indirectly from available data, where some inputs are also modelled.

Fair value classification of modelled instruments is either level 2 or level 3, depending on the product/model combination, the observability and quality of input parameters and other factors. All these must be assessed to classify a position. The modelled product is assigned to the lowest fair value hierarchy level of any significant input used in that valuation. Most derivative instruments are classified as level 2. This is because they are vanilla products valued using standard market models and with observable inputs.

10. Financial instruments – valuation (continued)

Inputs to valuation models

When using valuation techniques, the fair value can be significantly affected by the choice of valuation model and underlying assumptions. Factors considered include the amounts and timing of cash flows, and application of appropriate discount rates, incorporating both funding and credit risk. Values between and beyond available data points are obtained by interpolation and extrapolation. The principal inputs to these valuation techniques are as follows:

Credit spreads - these express the return required over a benchmark rate or index to compensate for the referenced credit risk. Where available, these are derived from the price of credit default swaps or other credit-based instruments, such as debt securities. When direct prices are not available credit spreads are determined with reference to available prices of entities with similar characteristics.

Interest rates - these are principally based on interest rate swap prices referencing benchmark interest rates. Benchmark rates include Euro Short-term Rate (€STR) and the Overnight Index Swap (OIS) rate, including the Sterling Overnight Interbank Average (SONIA) rate. Other quoted interest rates may also be used from both the bond and futures markets.

Equity and equity index prices - quoted prices are generally readily available for equity shares listed on the world's major stock exchanges and for major indices on such shares.

Prepayment rates - rates used to reflect how fast a pool of assets prepay. The fair value of a financial instrument that can be prepaid by the issuer or borrower differs from that of an instrument that cannot be prepaid. When valuing prepayable instruments, the value of this prepayment option is considered.

Recovery rates/loss given default - these are used as an input to valuation models and reserves for asset-backed securities and other credit products as an indicator of severity of losses on default. Recovery rates are primarily sourced from market data providers, the value of the underlying collateral, or inferred from observable credit spreads.

Valuation control

The Group's control environment for the determination of the fair value of financial instruments includes formalised procedures for the review and validation of fair values. The review of market price and inputs review is performed by an IPV team.

IPV is a key element of the control environment. Valuations are first performed by the business which entered into the transaction. These valuations are then reviewed by the IPV team, independent of those trading the financial instruments, in light of available pricing evidence.

Independent pricing data is collated from a range of sources. Each source is reviewed for quality and the independent data applied in the IPV processes using a formalised input quality hierarchy. Consensus services are one source of independent data and encompass interest rate, currency, credit, and bond markets, providing comprehensive coverage of vanilla products and a wide selection of exotic products.

Where measurement differences are identified through the IPV process these are grouped by the quality hierarchy of the independent data. If the size of the difference exceeds defined thresholds, an adjustment is made to bring the valuation to within the independently calculated fair value range.

IPV takes place at least monthly for all fair value financial instruments. The IPV control includes formalised reporting and escalation of any valuation differences in breach of established thresholds.

The quality and completeness of the information gathered in the IPV process gives an indication as to the liquidity and valuation uncertainty of an instrument and forms part of the information considered when determining fair value hierarchy classifications. Initial fair value level classification of a financial instrument is carried out by the IPV team. These initial classifications are subject to senior management review. Particular attention is paid to instruments transferring from one level to another, new instrument classes or products, instruments where the transaction price is significantly different from the fair value and instruments where valuation uncertainty is high.

Valuation Committees are made up of valuation specialists and senior business representatives from various functions and oversee pricing, reserving and valuations issues. These committees meet monthly to review and ratify any methodology changes. The NatWest Group Executive Valuation Committee meets quarterly to address key material and subjective valuation issues, to review items escalated by Valuation Committees and to discuss other relevant industry matters.

The Group model risk policy sets the policy for model documentation, testing and review. Governance of the model risk policy is carried out by the UBIDAC Models Committee, which comprises model risk owners and independent model experts. All models are required to be independently validated in accordance with the model risk policy.

10. Financial instruments – valuation (continued)

Fair value of financial instruments measured at amortised cost

The following tables show the carrying values and the fair values of financial instruments on the balance sheet carried at amortised cost. The fair value of cash and balances at central banks has been determined using procedures consistent with the requirements of level 2 valuation methodologies. All other balances have been fair valued using procedures that fall within level 3 of the fair value methodologies.

	Group			
	2023 Carrying value €m	2023 Fair value €m	2022 Carrying value €m	2022 Fair value €m
Financial assets				
Cash & balances at central banks	104	104	3,409	3,409
Loans to banks - amortised cost	7	7	78	78
Loans to customers - amortised cost	2	2	317	310
Amounts due from holding companies and fellow subsidiaries				
- Loans to banks	660	660	947	947
Financial liabilities				
Customer deposits	228	228	6,946	6,946
Amounts due to holding companies and fellow subsidiaries				
- Bank deposits	54	54	3,067	3,067
- Customer deposits	-	-	19	19
- Debt securities in issue	580	580	559	559
Subordinated liabilities	-	-	86	87

	Bank			
	2023 Carrying value €m	2023 Fair value €m	2022 Carrying value €m	2022 Fair value €m
Financial assets				
Cash and balances at central banks	104	104	3,409	3,409
Loans to banks - amortised cost	7	7	26	26
Loans to customers - amortised cost	2	2	317	310
Amounts due from holding companies and fellow subsidiaries				
- Loans to banks	660	660	946	946
Financial liabilities				
Customer deposits	228	228	6,946	6,946
Amounts due to holding companies and fellow subsidiaries				
- Bank deposits	54	54	3,067	3,067
- Customer deposits	-	-	23	23
- Debt securities in issue	580	580	559	559
Subordinated liabilities	-	-	86	87

The assumptions and methodologies underlying the determination of the fair values of financial instruments carried at amortised cost at the balance sheet date are as follows:

Short-term financial instruments

For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks and customer demand deposits, carrying value is deemed a reasonable approximation to fair value.

Loans to banks and customers

In estimating the fair value of loans to banks and customers measured at amortised cost, the Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans.

The principal method used to estimate fair value in the Group is to discount expected cash flows at the current offer rate for the same or similar products. For certain portfolios where there are very few or no recent transactions bespoke approaches are utilised.

Bank and customer deposits

Fair values of deposits are estimated using discounted cash flow valuation techniques.

Debt securities in issue and subordinated liabilities

Fair values are determined using quoted prices for similar liabilities where available or by reference to valuation techniques, adjusting for own credit spreads where appropriate.

10. Financial instruments – maturity analysis

Maturity analysis

Remaining maturity

The following table shows the residual maturity of financial instruments, based on contractual date of maturity.

	Group					
	2023			2022		
	Less than 12 months €m	More than 12 months €m	Total €m	Less than 12 months €m	More than 12 months €m	Total €m
Assets						
Cash and balances at central banks	104	-	104	3,409	-	3,409
Derivatives	-	-	-	74	23	97
Loans to banks - amortised cost	7	-	7	78	-	78
Loans to customers - amortised cost	1	1	2	111	206	317
Amounts due from holding companies and fellow subsidiaries	660	-	660	947	-	947
Other financial assets	44	257	301	333	883	1,216
Liabilities						
Customer deposits	228	-	228	6,941	5	6,946
Lease liabilities	6	20	26	5	27	32
Amounts due to holding companies and fellow subsidiaries	51	583	634	3,086	559	3,645
Derivatives	-	22	22	54	113	167
Subordinated liabilities	-	-	-	-	86	86

	Bank					
	2023			2022		
	Less than 12 months €m	More than 12 months €m	Total €m	Less than 12 months €m	More than 12 months €m	Total €m
Assets						
Cash and balances at central banks	104	-	104	3,409	-	3,409
Derivatives	-	-	-	74	23	97
Loans to banks - amortised cost	7	-	7	26	-	26
Loans to customers - amortised cost	1	1	2	111	206	317
Amounts due from holding companies and fellow subsidiaries	660	-	660	1,001	-	1,001
Other financial assets	44	257	301	333	883	1,216
Liabilities						
Customer deposits	228	-	228	6,941	5	6,946
Lease liabilities	6	20	26	5	27	32
Amounts due to holding companies and fellow subsidiaries	51	583	634	3,090	559	3,649
Derivatives	-	22	22	54	113	167
Subordinated liabilities	-	-	-	-	86	86

Liabilities by contractual cash flow maturity

The following tables show, by contractual maturity, the undiscounted cash flows payable from the balance sheet date, including future payments of interest. The balances in the tables do not agree directly to the Group or Bank balance sheets, as the tables include all cash outflows relating to principal and future coupon payments presented on an undiscounted basis.

Financial liabilities are included at the earliest date on which the counterparty can require repayment regardless of whether or not such early repayment results in a penalty. If repayment is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the liability is included at the earliest possible date that the conditions could be fulfilled without considering the probability of the conditions being met. For example, if a structured note automatically prepays when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period whatever the level of the index at the financial year end.

10. Financial instruments – maturity analysis (continued)

	Group						
2023	0–3 months €m	3–12 months €m	1–3 years €m	3–5 years €m	5–10 years €m	10–20 years €m	>20 years €m
Liabilities by contractual maturity							
Customer deposits	228	-	-	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	55	-	588	-	-	-	-
Lease liabilities	2	5	10	4	6	3	-
	285	5	598	4	6	3	-
Guarantees and commitments notional amount							
Guarantees (1)	5	-	-	-	-	-	-
Commitments (2)	137	-	-	-	-	-	-
	142	-	-	-	-	-	-
2022							
Liabilities by contractual maturity							
Customer deposits	6,822	121	4	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	85	3,059	8	560	-	-	-
Lease liabilities	2	5	14	6	7	3	-
Subordinated liabilities	-	5	10	10	16	1	85
	6,909	3,190	36	576	23	4	85
Guarantees and commitments notional amount							
Guarantees (1)	57	-	-	-	-	-	-
Commitments (2)	794	-	-	-	-	-	-
	851	-	-	-	-	-	-

	Bank						
2023	0–3 months €m	3–12 months €m	1–3 years €m	3–5 years €m	5–10 years €m	10–20 years €m	>20 years €m
Liabilities by contractual maturity							
Customer deposits	228	-	-	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	55	-	588	-	-	-	-
Lease liabilities	2	5	10	4	6	3	-
	285	5	598	4	6	3	-
Guarantees and commitments notional amount							
Guarantees (1)	5	-	-	-	-	-	-
Commitments (2)	137	-	-	-	-	-	-
	142	-	-	-	-	-	-
2022							
Liabilities by contractual maturity							
Customer deposits	6,822	121	4	-	-	-	-
Amounts due to holding companies and fellow subsidiaries	89	3,059	8	560	-	-	-
Lease liabilities	2	5	14	6	7	3	-
Subordinated liabilities	-	5	10	10	16	1	85
	6,913	3,190	36	576	23	4	85
Guarantees and commitments notional amount							
Guarantees (1)	57	-	-	-	-	-	-
Commitments (2)	794	-	-	-	-	-	-
	851	-	-	-	-	-	-

(1) The Bank is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Bank expects most guarantees it provides to expire unused.
(2) The Bank has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. The Bank does not expect all facilities to be drawn, and some may lapse before drawdown.

11. Derivatives

The Group transacts derivatives to manage interest rate risk.

The following table shows the notional amount and fair value of the Group and Bank's derivatives.

	Group and Bank					
	2023			2022		
	Notional amounts €m	Assets €m	Liabilities €m	Notional amounts €m	Assets €m	Liabilities €m
Over-the-counter derivatives						
Exchange rate contracts	-	-	-	435	48	48
Interest rate contracts	600	-	22	10,128	49	119
	600	-	22	10,563	97	167
Amounts above include:						
Due from/to fellow subsidiaries	600	-	22	10,319	97	119

Fair value hedges of interest rate risk involve interest rate swaps transforming the fixed interest rate risk in financial assets and financial liabilities to floating. The hedged risk is the risk of changes in the hedged items' fair value attributable to changes in the benchmark interest rate risk component of the hedged item. The risk components are identified using the risk management systems of the Group and encompass the majority of the hedged items' fair value risk. For all fair value hedge relationships the Group determines that there is an adequate level of offsetting between the hedged item and hedging instrument at inception and on an ongoing basis. This is achieved by comparing movements in the fair value of the hedged item attributable to the hedged risk with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap. Hedge effectiveness is assessed on a cumulative basis over a time period management determines to be appropriate. The Group uses either the actual ratio between the hedged item and hedging instrument or one that minimises hedge ineffectiveness to establish the hedge ratio for hedge accounting. Hedge ineffectiveness is measured and recognised in the income statement as it arises.

Included in the tables are derivatives held for hedge accounting purposes as follows:

	Group and Bank							
	2023				2022			
	Notional amounts €m	Assets €m	Liabilities €m	Change in fair value used for hedge ineffectiveness €m	Notional amounts €m	Assets €m	Liabilities €m	Change in fair value used for hedge ineffectiveness €m
Fair value hedging								
Interest rate contracts	600	-	22	21	600	-	42	(42)

Hedge ineffectiveness recognised in other operating income comprised:

	2023 €m	2022 €m
Fair value hedging		
(Loss)/gain on the hedged items attributable to the hedged risk	(21)	42
Gain/(loss) on the hedging instruments	21	(42)
Fair value hedging ineffectiveness	-	-

12. Loan impairment provisions

Loan exposure and impairment metrics

The table below summarises loans and related credit impairment measures on an IFRS 9 basis.

	Group	
	2023 €m	2022 €m
Loans - amortised cost [1]		
Stage 1	13	176
Stage 2	3	181
Stage 3	12	139
Non-disposal group third party loans	28	496
Amounts due from holding companies and fellow subsidiaries [2]	660	947
Non-disposal group loans	688	1,443
Assets of disposal groups	77	1,693
Total	765	3,136
ECL provisions		
Stage 1	6	3
Stage 2	3	41
Stage 3	12	78
Non-disposal group loans	21	122
Assets of disposal groups	41	60
Total	62	182
ECL provision coverage [3,4]		
Stage 1 (%)	46.15	1.70
Stage 2 (%)	100.00	22.65
Stage 3 (%)	100.00	56.12
Non-disposal group third party loans (%)	75.00	24.60
Assets of disposal groups (%)	53.25	3.54
Total third party loans (%)	59.05	8.31
ECL charge/(credit)		
Stage 1	5	-
Stage 2	9	20
Stage 3	(11)	(29)
Continuing operations	3	(9)
Discontinued operations	(7)	(84)
Total	(4)	(93)
Amounts written off	9	31
Risk profile of loans to customers - non-performing loans [5]		
Credit-impaired	12	139
Not credit-impaired	14	215
Credit-impaired disposal group loans	46	44
Not credit-impaired disposal group loans	177	140
Total	249	538

(1) Refer to Note 10 for balance sheet analysis of financial assets that are classified as amortised cost and FVOCI, the starting point for IFRS 9 ECL framework assessment. The above table relates to gross loans only and excludes amounts that are outside the scope of the ECL framework.
(2) Amounts due from holding companies and fellow subsidiaries (Intra-NatWest Group) are all considered as Stage 1.
(3) ECL provisions coverage is ECL provisions divided by loans - amortised cost.
(4) ECL provisions coverage is calculated on third party loans and related ECL provisions.
(5) Non-performing as per the European Banking Authority definition.

12. Loan impairment provisions (continued)

Critical accounting policy

The Group's loan impairment provisions have been established in accordance with IFRS 9. Accounting policy (k) in Note 1 sets out how the expected loss approach is applied.

A loan is impaired when there is objective evidence that the cash flows will not occur in the manner expected when the loan was advanced.

Such evidence includes changes in the credit rating of a borrower, the failure to make payments in accordance with the loan agreement; a significant reduction in the value of any security; a breach of limits or covenants; and observable data about relevant macroeconomic measures.

The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows discounted at the loan's original effective interest rate.

The measurement of credit impairment under the IFRS 9 expected loss model depends on management's assessment of any potential deterioration in the credit worthiness of the borrower, its modelling of expected performance and the application of economic forecasts. All three elements require judgements that are potentially significant to the estimate of impairment losses.

For further information on the measurement of ECL, including model design principles refer to the credit risk section of Note 19.

Post model adjustments (PMAs)

Post model adjustments may be applied where management considers they are required to ensure an adequate level of overall ECL provision. All PMAs are subject to formal approval through provisioning governance.

13. Other financial assets

	Group and Bank				
	Debt securities				
	Central and local government	Other debt	Total	Loans to customers	Total
2023	€m	€m	€m	€m	€m
Mandatory fair value through profit or loss	-	-	-	301	301
Fair value through other comprehensive income	-	-	-	-	-
Total	-	-	-	301	301
2022					
Mandatory fair value through profit or loss	-	-	-	585	585
Fair value through other comprehensive income	24	607	631	-	631
Total	24	607	631	585	1,216

14. Investments in Group undertakings

Investments in Group undertakings are carried at cost less impairment. Movements during the financial year were as follows:

	Bank	
	2023	2022
	€m	€m
At 1 January	1	1
Impairment	(1)	-
At 31 December	-	1

All of the Group undertakings, as detailed in Note 26, are consolidated in the Group's financial statements. All have an accounting reference date of 31 December.

15. Other assets

	Group		Bank	
	2023	2022	2023	2022
	€m	€m	€m	€m
Prepayments	1	4	1	4
Retirement benefit assets (Note 5)	46	52	46	52
Property, plant and equipment (Note 16)	11	49	11	49
Other assets	8	49	8	48
	66	154	66	153

16. Property, plant and equipment

	Group and Bank				
	Freehold land and buildings	Leases of 50 years or less unexpired	Computer and other equipment	Right of use property	Total
2023	€m	€m	€m	€m	€m
Cost or valuation:					
At 1 January	47	28	31	163	269
Disposals and write-offs	-	-	-	(47)	(47)
Transfer to disposal group	(46)	(8)	-	-	(54)
At 31 December	1	20	31	116	168
Accumulated depreciation, impairment and amortisation:					
At 1 January	18	20	28	154	220
Disposals and write-offs	-	-	-	(47)	(47)
Depreciation charge for the financial year					
- from continuing operations	1	1	1	2	5
Impairment (release)/charge for the financial year					
- from continuing operations	(2)	-	-	1	(1)
Transfer to disposal group	(16)	(4)	-	-	(20)
At 31 December	1	17	29	110	157
Net book value at 31 December	-	3	2	6	11

2022					
Cost or valuation:					
At 1 January	47	53	53	165	318
Additions	1	-	-	1	2
Disposals and write-offs	(1)	(25)	(22)	(3)	(51)
At 31 December	47	28	31	163	269
Accumulated depreciation, impairment and amortisation:					
At 1 January	14	35	43	151	243
Disposals and write-offs	(1)	(19)	(16)	(3)	(39)
Depreciation charge for the financial year					
- from continuing operations	2	3	1	3	9
Impairment charge for the financial year					
- from continuing operations	3	1	-	3	7
At 31 December	18	20	28	154	220
Net book value at 31 December	29	8	3	9	49

17. Other liabilities

	Group		Bank	
	2023	2022	2023	2022
	€m	€m	€m	€m
Lease liabilities	26	32	26	32
Provisions for liabilities and charges	243	195	243	195
Accruals	47	97	47	93
Other liabilities	41	79	41	80
	357	403	357	400

The following amounts are included within provisions for liabilities and charges:

	Group and Bank						
	Tracker mortgage examination	Other customer remediation	Litigation	Property	Restructuring	Other	Total
	€m	€m	€m	€m	€m	€m	€m
At 1 January 2022	23	32	9	3	7	3	77
Charge to income statement							
- from continuing operations	1	27	1	10	105	2	146
Provisions utilised (1)	(12)	(12)	-	(1)	(3)	-	(28)
At 1 January 2023	12	47	10	12	109	5	195
Charge/(credit) to income statement							
- from continuing operations	-	1	-	(1)	40	(1)	39
- from discontinued operations	133	-	-	-	-	-	133
Reclassification	-	-	1	-	-	-	1
Provisions utilised (1)	(8)	(25)	(1)	(2)	(89)	-	(125)
At 31 December 2023	137	23	10	9	60	4	243

(1) Provisions utilised in the financial year with respect to tracker mortgage examination and other customer remediation included €7 million (2022 - €7 million) relating to staff costs.

There are uncertainties as to the eventual cost of redress in relation to certain of the provisions contained in the table above. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

Critical accounting policy: Provisions for liabilities

Judgement is involved in determining whether an obligation exists, and in estimating the probability, timing and amount of any outflows. Where the Group can look to another party such as an insurer to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Estimates - provisions are liabilities of uncertain timing or amount, and are recognised when there is a present obligation as a result of a past event, the outflow of economic benefit is probable and the outflow can be estimated reliably. Any difference between the final outcome and the amounts provided will affect the reported results in the period when the matter is resolved.

Tracker mortgage examination

In December 2015, correspondence was received from the CBI setting out an industry examination framework in respect of the sale of tracker mortgages from approximately 2001 until the end of 2015. The redress and compensation process has now largely concluded, although certain cases remain outstanding.

Customers of the Bank have lodged tracker mortgage complaints with the Financial Services and Pensions Ombudsman (FSPO). The Bank challenged three FSPO adjudications in the High Court. In June 2023, the High Court found in favour of the FSPO in all matters and a provision was recognised. The Bank was granted leave to appeal that decision and an appeal hearing has been scheduled to take place in the Court of Appeal.

At 31 December 2023 the Group has a provision of €137 million (2022 - €12 million). As the outcome of the appeal hearing is unknown, assumptions relating to this provision are inherently uncertain and the ultimate financial impact may be different from the amount provided. The timing of the utilisation of the provision is also uncertain.

Other customer remediation

The Group has identified other legacy issues leading to the establishment of remediation requirements and progress is ongoing to conclude activities. Any issues relating to the tracker mortgage examination are included in the tracker mortgage examination provision as outlined above. At 31 December 2023 the Group has a provision of €23 million (2022 - €47 million) based on management's best estimate of expected remediation and project costs. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different from the amount provided.

Customer remediation across these issues has progressed in 2023. The Group expects the majority of this provision to be utilised within the next 12 months.

Property

The property provisions principally comprise provisions relating to property exits. The timing for such payments is uncertain.

Restructuring

The restructuring provisions principally comprise redundancy costs. The Group expects the majority of these provisions to be utilised within the next 12 months.

18. Share capital

	Group and Bank			
	Allotted, called up and fully paid		Authorised	
	2023 €m	2022 €m	2023 €m	2022 €m
Equity shares:				
Ordinary B shares of €1.27	-	1,612	2,223	2,223
Ordinary B shares of €1	-	1,745	2,400	2,400
Ordinary A shares of £1	-	22	29	33
Total share capital	-	3,379	4,652	4,656

	Allotted, called up and fully paid		Authorised	
	2023	2022	2023	2022
Number of shares	Millions	Millions	Millions	Millions
Equity shares:				
Ordinary B shares of €1.27	-	1,268	1,750	1,750
Ordinary B shares of €1	-	1,745	2,400	2,400
Ordinary A shares of £1	-	15	25	25
Total share capital	-	3,028	4,175	4,175

All share classes rank pari passu in all respects.

On 23 March 2023 the Bank executed a capital reduction under Section 84 of the Companies Act 2014. The issued share capital was reduced to one €1 ordinary B share and €3,379 million of paid up share capital was converted to retained earnings. The share premium account was fully converted to retained earnings in the same transaction.

The Company paid interim dividends of €1,100 million per ordinary share (2022 – nil) during the financial year.

19. Risk management

Phased withdrawal

The Group is at an advanced stage of its withdrawal from the market. As a result of progress made on the delivery of its strategy in 2023, UBIDAC has become a significantly smaller and simpler organisation.

During the financial year the Bank reached a number of important milestones in the delivery of its strategy. These included completing two of the three the loan sales transactions agreed in prior years, reaching agreement on the sale of the majority of its residual performing and non-performing loans and closing the Bank's branch network whilst continuing to help customers to transition to new banking providers.

The Group continues to provide limited services to its remaining retail and commercial customers, with a focus on helping them to move to a new financial services provider as safely and seamlessly as possible. The Group no longer accepts new customers and has ceased virtually all new lending, with the exception of limited new lending to certain remaining retail and commercial customers.

The Group has reviewed its risk management activities and frameworks to reflect the phased withdrawal, and the main changes are set out in the following sections of this note.

Risk Management Framework

Introduction

The Group has an established Risk Management Framework that is centred around the embedding of a strong risk culture. The framework ensures the governance, capabilities and methods are in place to facilitate risk management and decision-making across the organisation.

The Group plans to continue to apply its existing approach to risk management although, some underlying risk processes will be right-sized proportionate to the risk profile during its planned exit from the market. The Group will continue to comply with all relevant laws and regulations. The framework ensures that the Group's key risks, which are detailed in this section, are appropriately controlled, managed and reported. In addition, there is a process to identify and manage top threats, which are those which could have a significant negative impact on the Group's ability to meet its objective of executing a safe and orderly phased withdrawal. A complementary process operates to identify emerging threats.

Both top and emerging threats are reported to and discussed with the Board on a regular basis alongside reporting on the key risks.

Risk appetite, supported by a robust set of principles, policies and practices, defines the levels of tolerance for a variety of risks and provides a structured approach to risk-taking within agreed boundaries.

All Group colleagues share ownership of the way risk is managed, working together to make sure business activities and policies are consistent with risk appetite.

Culture

Risk culture is at the centre of both the Risk Management Framework and risk management practice. The target culture across the Group is one in which risk management is part of the way colleagues work and think. A positive risk culture aims to drive sharper focus on behaviours and practices which drive good risk outcomes. The target risk culture behaviours are aligned to our core values. They are embedded in our critical people capabilities and therefore form an effective basis for risk culture, since these are used for performance management and development.

Training

Enabling colleagues to have the capabilities and confidence to manage risk is core to the Group's learning strategy. The Group offers a wide range of training, both technical and behavioural, across the risk disciplines. This training can be mandatory, role-specific or for personal development. Mandatory learning for all colleagues is focused on keeping colleagues, customers and the Group safe. This is easily accessed online and is assigned to each person according to their role and business area. The system allows monitoring at all levels to ensure completion.

Our Code

The Group's conduct guidance, Our Code, provides direction on expected behaviour and sets out the standards of conduct that support the values. The code explains the effect of decisions that are taken and describes the principles that must be followed.

Three lines of defence

The Group uses the industry-standard three lines of defence model to articulate accountabilities and responsibilities for managing risk. This supports the embedding of effective risk management throughout the organisation. The CEO ensures the efficient use of resources and the effective management of risks as stipulated in the Risk Management Framework and is therefore considered to be outside of the three lines of defence principles.

First line of defence

The first line of defence incorporates most roles in the Group, including those in the customer-facing business units, Technology and Services.

- The first line of defence is empowered to take risks within the constraints of the Risk Management Framework and policies as well as the Risk Appetite Statements and measures set by the Board.
- The first line of defence is responsible for managing its direct risks. With the support of specialist functions, such as Legal, Human Resources and Technology, it is also responsible for managing its consequential risks by identifying, assessing, mitigating, monitoring, and reporting risks.

19. Risk management – Risk management framework (continued)

Second line of defence

The second line of defence primarily comprises the Risk and Compliance functions and is independent of the first line.

- The second line of defence is empowered to design and maintain the Risk Management Framework and its components. It advises on, monitors, challenges, approves and escalates where required and reports on the risk-taking activities undertaken by the first line of defence, ensuring these are within the constraints of the framework, policies, risk appetite statements and measures set by the Board.
- Due to specific subject matter expertise, there are some activities undertaken elsewhere (Corporate Governance, Finance, Legal and Human Resources) that are responsible for defining and overseeing Group-wide controls and policies.

Third line of defence

The third line of defence is the Internal Audit function and is independent of the first and second lines.

- The third line of defence is responsible for providing independent and objective assurance to the Board and executive management on the adequacy and effectiveness of key internal controls, governance, and the risk management in place to monitor, manage and mitigate the key risks to the Group in achieving its objectives.
- The third line of defence executes its duties freely and objectively in accordance with the Chartered Institute of Internal Auditors' Code of Ethics and International Standards.

Risk appetite

Risk appetite defines the level and types of risk that are acceptable, within risk capacity, to achieve strategic objectives and execute the phased withdrawal in a safe and orderly manner. It links the goals and priorities to risk management in a way that guides and empowers colleagues to serve customers well, while executing the phased withdrawal from the market.

The Risk Management Framework, which is approved annually by the Board, supports effective risk management by promoting sound risk-taking through a structured approach, within agreed boundaries. It also ensures all emerging threats and risk-taking activities are identified, assessed, escalated and addressed in a timely manner.

Risk appetite is maintained across the Group through risk appetite statements. These provide clarity on the scale and type of activities that can be undertaken in a manner that is easily conveyed to colleagues.

Risk appetite statements, measures and limits are continually reviewed, ensuring alignment between the strategy and risk appetite. The Board sets risk appetite for the most material risks to help ensure the Group is managing its risk profile within agreed boundaries as the Group works through the phased withdrawal. The Group's risk profile is frequently reviewed and monitored, and management focus is concentrated on all material risks and emerging risk issues. Risk profile relative to risk appetite is reported regularly to the Board and senior management.

Risk appetite measures and their associated limits are an integral part of the risk appetite approach and a key part of embedding risk appetite in day-to-day risk management decisions. A clear tolerance for material risk types is set in alignment with business activities.

The Group policies directly support the qualitative aspects of risk appetite. They ensure that appropriate controls are set and monitored.

Identification and measurement

Identification and measurement within the risk management process comprise:

- Regular assessment of the overall risk profile, incorporating market developments and trends, as well as external and internal factors.
- Monitoring of the risks associated with the execution of the phased withdrawal.
- Assessment of non-trading portfolios.
- Review of potential risks in business activities and processes.

The financial and non-financial risks that the Group faces are detailed in the Risk Directory. This provides a common risk language to ensure consistent terminology is used across the Group. The Risk Directory is subject to annual review and approval by the Board. This ensures that it continues to provide a comprehensive and meaningful list of the inherent risks within the Group.

Mitigation

Mitigation is an important aspect of ensuring that risk profile remains within risk appetite. Risk mitigation strategies are discussed and agreed within the Group.

When evaluating possible strategies, costs and benefits, residual risks (risks that are retained) and secondary risks (those that are due to risk mitigation actions) are considered. Monitoring and review processes are in place to evaluate results. Early identification of changes in legislation and regulation are critical to the successful mitigation of regulatory compliance and conduct risk. The impacts of all changes are managed to ensure the timely achievement of compliance. Those changes assessed as having a high or medium-high impact are managed more closely. Action is taken to mitigate potential risks as and when required. Further in-depth analysis, including the stress testing of exposures relative to the risk, is also carried out.

Assurance

Targeted risk processes and key controls, including controls within the scope of Section 404 of the Sarbanes-Oxley Act, 2002, are subject to assurance, as defined in the Board Approved Assurance Principles.

This activity is carried out by testing teams within the first, second and third lines of defence to confirm to both internal and external stakeholders – including the Board, senior management, the customer-facing business units and the Group's regulators – that such processes and controls are being correctly implemented and operate adequately and effectively.

Assurance activity focuses on processes and controls relating to all material risks including credit risk, financial crime risk, operational risk, regulatory compliance risk and conduct risk. However, a range of controls and processes relating to other risk types is also included as deemed appropriate within the context of a robust control environment.

A third line of defence Internal Audit plan is reviewed and approved by the Audit Committee on an annual basis, with Internal Audit's opinion of material risk coverage presented quarterly.

19. Risk management – Risk management framework (continued)

Stress testing

Stress testing – capital management

Stress testing is a key risk management tool and a fundamental component of the Group's approach to capital management. It is used to quantify and evaluate the potential impact of specified changes to risk factors on the financial strength of the Group, including its capital position and is used in a manner that considers the current nature, scale and complexity of the balance sheet. Stress testing includes:

- Scenario testing, which examines the impact of a hypothetical future state to define changes in risk factors or changes in key phased withdrawal assumptions.
- Sensitivity testing, which examines the impact of an incremental change to one or more risk factors including changes in phased withdrawal assumptions or timing.

The process for stress testing consists of four broad stages:

Define scenarios	– Identify UBIDAC specific vulnerabilities and risks. – Define and calibrate scenarios to examine risks and vulnerabilities. – Formal governance process to agree scenarios.
Assess impact	– Translate scenarios into risk drivers. – Assess impact to current and projected income statement and balance sheet. – Impact assessment captures input across the Group.
Calculate results and assess implications	– Aggregate impacts into overall results. – Results form part of the risk management process. – Scenario results are used to inform the Group's business and capital plans.
Develop and agree management actions	– Scenario results are analysed by subject matter experts. Appropriate management actions are then developed. – Scenario results and management actions are reviewed and agreed by senior committees, including the Executive Risk Committee, the Asset and Liability Committee, the Board Risk Committee and the Board.

Stress testing is used widely across the Group. The following diagram summarises key areas of focus.

Specific areas that involve capital management include:

- *Strategic financial and capital planning* – by assessing the impact of sensitivities and scenarios on the capital plan, capital ratios and capital repatriation assumptions.
- *Risk appetite* – by gaining a better understanding of the drivers of, and the underlying risks associated with, risk appetite.
- *Risk monitoring* – by monitoring the risks and horizon scanning events that could potentially effect the Group's financial strength and capital position.
- *Risk mitigation* – by identifying actions to mitigate risks, or those that could be taken, in the event of adverse changes to the business or economic environment. Key risk mitigating actions are documented in the Group's capital plan.

Reverse stress testing was carried out in 2023 to identify circumstances that may lead to specific, defined outcomes such as business failure. Reverse stress testing allows potential vulnerabilities in the business model to be examined more fully. Given the advanced stage of the phased withdrawal and the de-risking of the balance sheet it is not expected that reverse stress testing will be continued in 2024.

Capital sufficiency – prudential capital requirements – forward looking view

Prudential capital requirements are examined on a forward-looking basis, including as part of the annual budgeting process, by assessing the resilience of capital adequacy and leverage ratios under hypothetical future states.

The examination of capital requirements under normal economic and adverse market conditions enables the Group to determine whether its projected capital resources meet internal and regulatory capital requirements.

Internal assessment of capital adequacy

An internal assessment of material risks is carried out annually to enable an evaluation of the amount, type and distribution of capital required to cover these risks. This is referred to as the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP consists of a point-in-time assessment of exposures and risks at the end of the financial year together with a forward-looking stress capital assessment. The ICAAP is approved by the Board and submitted to the regulators.

The ICAAP is used to form a view of capital adequacy separately to the minimum regulatory requirements. The ICAAP is used by the regulators to assess the Group's specific capital requirements through the prudential supervisory process.

Governance

Capital management is subject to substantial review and governance. The Board approves the capital plans as well as the results of related stress tests.

Stress testing – liquidity

Liquidity risk monitoring and contingency planning

A suite of tools is used to monitor, limit and stress test the risks on the balance sheet. Limit frameworks are in place to control the level of liquidity risk and funding risk. Liquidity risks are reviewed with performance reported to the Asset and Liability Committee (ALCO) on a regular basis. Liquidity and Funding Condition Indicators are monitored on an appropriate frequency between ALCO meetings. This ensures any build-up of stress is detected early and the response escalated appropriately.

19. Risk management – Risk management framework (continued)

Internal assessment of liquidity

As part of its liquidity and funding risk management the Group maintains the Internal Liquidity Adequacy Assessment Process (ILAAP). This includes assessment of liquidity and funding under base and plausible stress scenarios.

Post the phased withdrawal announcement, UBIDAC stress testing has been focussed on ensuring sufficient liquidity buffers (including usage of the committed unsecured funding line from NatWest Bank) are available to support an orderly exit from the market.

Stress scenario analysis supporting the ILAAP include the consideration of the following factors:

- Delays in the migration of assets under existing contracted loan sales.
- Delays in the contracting of further loan sales for the remainder of UBIDAC's lending that is planned to be sold.
- The impact of a macro economic stress on the phased withdrawal.

During the phased withdrawal, the Asset and Liability Committee is presented with additional stress testing of liquidity and funding risks through ongoing funding risk assessments, capturing updates in the withdrawal strategy and customer behaviour.

Stress testing – recovery and resolution planning

Given the advanced stage of the phased withdrawal, the de-risking of the balance sheet and the parental support measures that have been put in place, the requirement to maintain a standalone UBIDAC Recovery Plan has over time become less relevant as a capital and liquidity planning tool. Instead on an ongoing basis the Group monitors its projected capital and liquidity position for different phased withdrawal scenarios to ensure there is sufficient headroom to regulatory and risk appetite minimums in all scenarios. The updated results of these scenario assessments are presented to the Board.

Stress testing – non-traded market risk

Non-traded exposures are reported to regulators on a quarterly basis. This provides the regulators with an overview of the Group's banking book interest rate exposure. The Group also produces an internal scenario analysis as part of its financial planning cycles.

Non-traded market risk stress results are combined with those for other risks into the capital plan presented to the Board. The cross-risk capital planning process is conducted once a year. The scenario narratives cover both regulatory scenarios and macroeconomic scenarios identified by the Group.

Credit risk

Definition

Credit risk is the risk that customers and/or counterparties/issuers fail to meet their contractual obligation to settle outstanding amounts.

Sources of risk

The principal sources of credit risk for the Group are lending and related undrawn commitments. The Group is also exposed to settlement risk through foreign exchange and payments activities.

Governance

The Credit Risk function provides oversight and challenge of frontline credit risk management activities.

Governance activities include:

- Defining credit risk appetite measures for the management of concentration risk and credit policy to establish the key causes of risk in the process of providing credit and the controls that must be in place to mitigate them.
- Approving and monitoring operational limits for the Group's businesses and credit limits for customers in the context of the phased withdrawal.
- Oversight of the first line of defence to ensure that credit risk remains within the appetite set by the Board and that controls are being operated adequately and effectively.
- Assessing the adequacy of ECL provisions including approving any necessary in-model and post model adjustments through the Provisions Committee.
- Development and approval of credit grading models.

Risk appetite

Credit risk appetite aligns to the strategic risk appetite set by the Board and is set and monitored through Risk Appetite Frameworks tailored to the Group's Personal and Wholesale segments.

Personal

The personal credit risk appetite framework sets limits that control the quality and concentration of both existing and new business for each relevant Group business, noting appetite for new lending in the Group has been limited since November 2021 with appetite metrics largely focussed on back book quality and performance. These risk appetite measures consider the level of losses expected under stress. Credit risk is further controlled through operational limits specific to customer or product characteristics.

Wholesale

For Wholesale credit, the framework has been designed to reflect factors that influence the ability to operate within risk appetite. Tools such as stress testing and economic capital are used to measure credit risk volatility and develop links between the framework and risk appetite limits.

Four formal frameworks are used, classifying, measuring and monitoring credit risk exposure across single name, sector and country concentrations and product and asset classes with heightened risk characteristics, supported by a suite of transaction acceptance standards.

Credit policy standards are in place for both the Wholesale and Personal portfolios. They are expressed as a set of mandatory controls.

Identification and measurement

Credit stewardship

Risks are identified through relationship management and credit stewardship of customers and portfolios. Credit risk stewardship takes place throughout the customer relationship, beginning with the initial approval. It includes the application of credit assessment standards, credit risk mitigation and collateral, ensuring that credit documentation is complete and appropriate, carrying out regular portfolio or customer reviews and problem debt identification and management. This includes monitoring signs of stress, including specific credit risks associated with the phased withdrawal, increased interest rates and the cost of living.

19. Risk management – Credit risk (continued)

Mitigation

Mitigation techniques, as set out in the appropriate credit policies and transactional acceptance standards, are used in the management of credit portfolios. These techniques mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers. Where possible, customer credit balances are netted against obligations.

Mitigation tools can include structuring a security interest in a physical or financial asset and the use of guarantees and similar instruments (for example, credit insurance) from related and third parties. Property is used to mitigate credit risk across a number of portfolios, in particular residential mortgage lending and commercial real estate.

The valuation methodologies for collateral in the form of residential mortgage property and commercial real estate are detailed below.

Residential mortgages – the Group takes collateral in the form of residential property to mitigate the credit risk arising from mortgages. The Group values residential property individually during the loan underwriting process, either by obtaining an appraisal by a suitably qualified appraiser or using a statistically valid model. In both cases, a sample of the valuation outputs are periodically reviewed by an independent qualified appraiser. The Group updates residential property values quarterly using the relevant residential property index namely:

Region	Index used
Ireland	Central Statistics Office Residential Property Price Index
UK (including Northern Ireland)	Office for National Statistics House Price Index

Commercial real estate valuations – assets are revalued in line with the Central Bank of Ireland threshold requirements, which permits indexation for lower value assets, but demands regular Red Book valuations for distressed higher value assets.

Assessment and monitoring

Practices for credit stewardship – including credit assessment, approval and monitoring as well as the identification and management of problem debts – differ between the Personal and Wholesale portfolios.

Personal

Following the cessation of most new lending as part of the phased withdrawal, credit decisions for any permitted exceptional mortgage lending are referred to Credit Underwriting for a manual decision. These decisions are made within specified delegated authority limits that are issued dependent on the experience of the individual.

Underwriting standards and portfolio performance are monitored on an ongoing basis to ensure they remain appropriate to support the Group's strategy in the current market environment.

The actual performance of each portfolio is tracked relative to operational limits. The limits apply to a range of credit risk-related measures including projected credit default rates across products and the loan-to-value (LTV) ratio of the mortgage portfolios. Where operational limits identify areas of concern management action is taken to adjust credit or business strategy. Most UBIDAC operational limits are focussed solely on the existing portfolio following cessation of new business which is now non-material in volume.

Wholesale

The Group has announced the cessation of new lending to new to bank and existing commercial customers. Some restructuring activity continues, along with settlement activities as part of the phased withdrawal.

For all other transactions credit is only granted to customers following joint approval, one from the business and the other from the credit risk function. The joint business and credit approvers act within a delegated approval authority under the Wholesale Credit Assessment and Approval Policy. The level of delegated authority held by approvers is dependent on their experience and expertise with only a small number of senior executives holding the highest approval authority.

Both business and credit approvers are accountable for the quality of each decision taken, although the credit risk approver holds ultimate sanctioning authority.

Transactional acceptance standards provide detailed transactional lending and risk acceptance metrics and structuring guidance. As such, these standards provide a mechanism to manage risk appetite at the customer/transaction level and are supplementary to the established credit risk appetite.

Credit grades and loss given default (LGD) are reviewed and re-approved annually.

Problem debt management

Personal

Collections

Personal customers experiencing financial difficulty are managed by the Collections team. If the Collections team is unable to provide appropriate support after discussing suitable options with the customer, management of that customer moves to the Recoveries team. If at any point in the collections and recoveries process, the customer is identified as being potentially vulnerable, the customer will be separated from the regular process and supported by a specialist team to ensure the customer receives appropriate support for their circumstances.

The relationship may pass to a specialist support team prior to any transfer to recoveries, depending on the outcome of customer financial assessment.

Recoveries

The Recoveries team will issue a default notice to the customer and, if required, a formal demand. They also register the account with credit reference agencies where appropriate. Following this, the customer's debt may then be placed with a third-party debt collection agency, or alternatively a solicitor, to agree an affordable repayment plan with the customer. An option that may also be considered is the sale of unsecured debt. Exposures subject to formal debt recovery are defaulted and categorised as Stage 3 impaired. Since the 2022 change in the UBIDAC business model, all retail mortgages are measured at fair value and IFRS 9 staging is not applicable.

19. Risk management – Credit risk (continued)

Wholesale

Early problem identification

Each segment and sector have defined early warning indicators to identify customers experiencing financial difficulty, and to increase monitoring if needed. Early warning indicators may be internal, such as a customer's bank account activity, or external, such as a publicly listed share price. If early warning indicators show a customer is experiencing potential or actual difficulty, or if relationship managers or credit officers identify other signs of financial difficulty, they may decide to classify the customer within the Risk of Credit Loss framework. A new framework was introduced in response to COVID-19 which has been retained to supplement the Risk of Credit Loss Framework.

Risk of Credit Loss framework

The Risk of Credit Loss process focuses on Wholesale customers whose credit profiles have deteriorated materially since origination. Expert judgement is applied by experienced credit risk officers to classify cases into categories that reflect progressively deteriorating credit risk. There are two classifications which apply to non-defaulted customers within the framework – Heightened Monitoring and Risk of Credit Loss. For the purposes of provisioning, all exposures subject to the framework are categorised as Stage 2 and subject to a lifetime loss assessment. Defaulted exposures are categorised as Stage 3 for provisioning purposes.

Agreed customer management strategies are regularly monitored by both the business and credit teams.

Appropriate corrective action is taken when circumstances emerge that may affect the customer's ability to service its debt. Corrective actions may include granting a customer various types of concessions. Any decision to approve a concession will be a function of specific appetite, the credit quality of the customer, the market environment and the loan structure and security. All customers granted forbearance are classified as Heightened Monitoring as a minimum.

Other potential outcomes of the relationship review are to: remove the customer from the Risk of Credit Loss framework; offer additional lending and continue monitoring; transfer the relationship to Restructuring if appropriate; or exit the relationship.

Restructuring

For the Wholesale problem debt portfolio, customer relationships are mainly managed by the Strategic Debt Solutions (SDS) team. SDS protects the Group's capital by working with corporate and commercial customers in financial difficulty on their restructuring and repayment strategies and ideally restoring the customers to financial health. SDS will always aim to recover capital fairly and efficiently.

Where a solvent outcome is not possible, insolvency may be considered as a last resort. However, helping the customer return to financial health and restoring a normal banking relationship is always the preferred outcome. Managing a customer's journey in a transparent, orderly, and acceptable manner through the phased withdrawal from the market is a key priority.

Specialists in SDS work with customers experiencing financial difficulties and showing signs of financial stress. Throughout SDS involvement, the mainstream relationship manager will remain an integral part of the customer relationship, unless a repayment strategy is deemed appropriate. The objective is to find a mutually acceptable solution, including restructuring of existing facilities, repayment or refinancing to support our customers now and help them to prepare for the future.

Forbearance

Forbearance takes place when a concession is made on the contractual terms of a loan/debt in response to a customer's financial difficulties.

The aim of forbearance is to support and restore the customer to financial health while minimising risk. To ensure that forbearance is appropriate for the needs of the customer, minimum standards are applied when assessing, recording, monitoring and reporting forbearance.

A credit exposure may be forborne more than once, generally where a temporary concession has been granted and circumstances warrant another temporary or permanent revision of the loan's terms.

Forbearance is always assessed on a case-by-case basis to ensure individual credit deterioration is understood and support is tailored to individual customer circumstances.

In the Personal portfolio, loans are reported as forborne until they meet the exit criteria set out by the European Banking Authority. These include being classified as performing for two years since the last forbearance event, making regular repayments and the loan/debt being less than 30 days past due. Exit criteria are not currently applied for Wholesale portfolios.

Types of forbearance

Personal

In the Personal portfolio, forbearance may involve payment concessions and loan rescheduling (including extensions in contractual maturity), loan modifications, capitalisation of arrears and temporary interest-only or partial capital and interest arrangements. Forbearance support is provided for both mortgages and unsecured lending.

Wholesale

In the Wholesale portfolio, forbearance may involve covenant waivers, amendments to margins, payment concessions and loan rescheduling (including extensions in contractual maturity), capitalisation of arrears, and debt forgiveness or debt-for-equity swaps.

Monitoring of forbearance

Personal

For Personal portfolios, forborne loans are separated and regularly monitored and reported while the forbearance strategy is implemented, until they exit forbearance.

The incidence of the main types of Personal forbearance on the balance sheet as at 31 December 2023 by gross lending value is analysed below. Definitions are based on those used within the CBI forbearance guidelines. The fair value of the total Personal loans in forbearance was €21 million (2022: €209 million).

	2023 €m	2022 €m
Term extensions – capital repayment and interest only	2	29
Interest only conversions	1	17
Payment concessions/holidays	7	261
Capitalisation of arrears	17	84
Other	1	4
Total	28	395

19. Risk management – Credit risk (continued)

Wholesale

In the Wholesale portfolio, customer probability of default (PD) and facility LGDs are reassessed prior to finalising any forbearance arrangement. The ultimate outcome of a forbearance strategy is highly dependent on the co-operation of the borrower and a viable business or repayment outcome. Where forbearance is no longer appropriate, the Group will consider other options such as the enforcement of security, insolvency proceedings or both, although these are options of last resort.

Credit grading models

Credit grading models is the collective term used to describe all models, frameworks and methodologies used to calculate PD, exposure at default (EAD), LGD, maturity and the production of credit grades.

Credit grading models are designed to provide:

- An assessment of customer and transaction characteristics.
- A meaningful differentiation of credit risk.
- Accurate internal default rate, loss and exposure estimates that are used in the capital calculation or wider risk management purposes.

Impairment, provisioning and write-offs

The Group's IFRS 9 provisioning models, many of which use existing Basel models as a starting point, incorporate term structures and forward-looking information. Regulatory conservatism within the Basel models has been removed as appropriate to comply with the IFRS 9 requirement for unbiased ECL estimates.

Five key areas may materially influence the measurement of credit impairment under IFRS 9 – two of these relate to model build and three relate to model application.

Model build:

- The determination of economic indicators that have most influence on credit loss for each portfolio and the severity of impact (this leverages existing stress testing models which are reviewed annually).
- The build of term structures to extend the determination of the risk of loss beyond 12 months that will influence the impact of lifetime loss for assets in Stage 2.

Model application:

- The assessment of the significant increase in credit risk (SICR) and the formation of a framework capable of consistent application.
- The determination of asset lifetimes that reflect behavioural characteristics while also representing management actions and processes (using historical data and experience).
- The choice of forward-looking economic scenarios and their respective probability weights.

IFRS 9 ECL model design principles

Modelling of ECL for IFRS 9 follows the conventional approach to divide the estimation of credit losses into its component parts of PD, LGD and EAD.

To meet IFRS 9 requirements, the PD, LGD and EAD parameters differ from Pillar 1 internal rating based (IRB) parameters in the following aspects:

- Unbiased – material regulatory conservatism has been removed from IFRS 9 parameters to produce unbiased estimates.
- Point-in-time – IFRS 9 parameters reflect actual economic conditions at the reporting date instead of long-run average or downturn conditions.
- Forward-looking – IFRS 9 PD estimates and, where appropriate, EAD and LGD estimates reflect forward-looking economic conditions.
- Tenor – IFRS 9 PD, LGD and EAD are provided as multi-period term structures up to exposure lifetimes instead of over a fixed one-year horizon.

IFRS 9 requires that at each reporting date, an entity shall assess whether the credit risk on an account has increased significantly since initial recognition. Part of this assessment requires a comparison to be made between the current lifetime PD (i.e. the PD over the remaining lifetime at the reporting date) with the equivalent lifetime PD as determined at the date of initial recognition.

For assets originated before IFRS 9 was introduced, comparable lifetime origination PDs did not exist. These have been retrospectively created using the relevant model inputs applicable at initial recognition.

PD estimates

Personal models

Personal PD models follow a discrete multi-horizon survival approach, predicting quarterly PDs up to lifetime at account level, with a key driver being scores from related IRB PD models. Forward-looking economic information is brought in by economic response models, which leverage the existing stress test model suite. The current suite of PD models was introduced in 2022 replacing the previous, first-generation models to remediate a range of model weaknesses.

Wholesale models

Wholesale PD models use a point-in-time/through-the-cycle framework to convert one-year regulatory PDs into point-in-time estimates that reflect economic conditions at the reporting date. The framework utilises credit cycle indices (CCIs) for a comprehensive set of region/industry segments.

One year point-in-time PDs are extended to forward-looking lifetime PDs using a conditional transition matrix approach and a set of econometric forecasting models.

LGD estimates

The general approach for the IFRS 9 LGD models is to leverage corresponding Basel LGD models with bespoke adjustments to ensure estimates are unbiased and where relevant, forward-looking.

Personal

Analysis has shown minimal impact of economic conditions on LGDs for the unsecured Personal portfolios.

Wholesale

Forward-looking economic information is incorporated into LGD estimates using the existing CCI framework. For low default portfolios, including sovereigns and banks, loss data is too scarce to substantiate estimates that vary with economic conditions. Consequently, for these portfolios, LGD estimates are assumed to be constant throughout the projection horizon.

19. Risk management – Credit risk (continued)

EAD estimates

Personal

The IFRS 9 Personal modelling approach for EAD is dependent on product type.

- Revolving products use the existing Basel models as a basis, with appropriate adjustments incorporating a term structure based on time to default.
- Amortising products use an amortising schedule, where a formula is used to calculate the expected balance based on remaining terms and interest rates.
- There is no EAD model for Personal loans. Instead, debt flow (i.e. combined PD x EAD) is modelled directly.

Analysis has indicated that there is minimal impact on EAD arising from changes in the economy for all Personal portfolios.

Wholesale

For Wholesale, EAD values are projected using product specific credit conversion factors (CCFs), closely following the product segmentation and approach of the respective Basel model. However, the CCFs are estimated over multi-year time horizons and contain no regulatory conservatism or downturn assumptions.

No explicit forward-looking information is incorporated, on the basis of analysis showing the temporal variation in CCFs is mainly attributable to changes in exposure management practices rather than economic conditions.

Governance and post model adjustments

The IFRS 9 PD, EAD and LGD models are subject to the Group's model risk policy that stipulates periodic model monitoring, periodic re-validation and defines approval procedures and authorities according to model materiality. Various post model adjustments (PMAs) are applied where management judged they are necessary to ensure an adequate level of overall ECL provision. PMAs are subject to formal approval through provisioning governance, and are categorised as follows:

- Economic uncertainty – PMAs arising from uncertainties associated with multiple economic scenarios.
- Other adjustments – ECL adjustments where it was judged that the modelled ECL was required to be amended.

ECL post model adjustments

The table below shows ECL post model adjustments by segment

	2023 €m	2022 €m
Economic uncertainty	-	2
Other adjustments	27	17
Total	27	19
Of which:		
- Stage 1	9	-
- Stage 2	10	19
- Stage 3	8	-

PMAs have increased since 31 December 2022 reflecting management's opinion that continuing actions on the phased withdrawal from the market will lead to higher, and/or earlier, crystallisation of losses. In 2023, the ECL on all remaining loans have been benchmarked to their expected sales price and PMAs have been applied to ensure they are consistent. As portfolio sales will occur shortly, no additional adjustments have been deemed necessary as they would relate to longer-term considerations.

Significant increase in credit risk (SICR)

Exposures that are considered significantly credit deteriorated since initial recognition are classified in Stage 2 and assessed for lifetime ECL measurement (exposures not considered deteriorated carry a 12-month ECL). The Group has adopted a framework to identify deterioration based primarily on relative movements in lifetime PD supported by additional qualitative backstops. The principles applied are consistent across the Group and align to credit risk management practices, where appropriate.

The framework comprises the following elements:

- IFRS 9 lifetime PD assessment (the primary driver) - on modelled portfolios, the assessment is based on the relative deterioration in forward-looking lifetime PD and is assessed monthly. To assess whether credit deterioration has occurred a comparison is made between the current lifetime PD (i.e. the current probability of default over the remaining lifetime) with the equivalent lifetime PD as determined at the date of initial recognition (DOIR). If the current lifetime PD exceeds the residual origination PD by more than a threshold amount, deterioration is assumed to have occurred and the exposure transferred to Stage 2 for a lifetime loss assessment. For Wholesale, a doubling of PD would indicate a SICR subject to a minimum PD uplift of 0.1%. For Personal portfolios, the criteria vary by risk band, with lower risk exposures needing to deteriorate more than higher risk exposures, as outlined in the following table:

Personal risk bands	PD bandings (based on residual lifetime PD calculated at DOIR)	PD deterioration threshold criteria
Risk band A	<0.762%	PD@DOIR + 1%
Risk band B	<4.306%	PD@DOIR + 3%
Risk band C	>=4.306%	1.7 x PD@DOIR

19. Risk management – Credit risk (continued)

- Qualitative high-risk backstops – the PD assessment is complemented with the use of qualitative high-risk backstops to further inform whether significant deterioration in lifetime risk of default has occurred. The qualitative high-risk backstop assessment includes the use of the mandatory 30+ days past due backstop, as prescribed by IFRS 9 guidance, and other features such as forbearance support and wholesale exposures managed within the Risk of Credit Loss framework.
- Persistence (Personal and business banking customers only) – the persistence rule ensures that accounts which have met the criteria for PD driven deterioration are still considered to be significantly deteriorated for three months thereafter. This additional rule enhances the timeliness of capture in Stage 2. The persistence rule is applied to PD driven deterioration only.

The criteria are based on a significant amount of empirical analysis and seek to meet three key objectives:
- Criteria effectiveness – the criteria should be effective in identifying significant credit deterioration and prospective default population.
- Stage 2 stability – the criteria should not introduce unnecessary volatility in the Stage 2 population.
- Portfolio analysis – the criteria should produce results which are intuitive when reported as part of the wider credit portfolio.

Monitoring the effect on relative PD deterioration when originating new lending at times of weaker economic outlook (therefore, higher PDs at initial recognition) is important to ensure SICR criteria remains effective.

Provisioning for forbearance

Personal

The methodology used for provisioning in respect of Personal forborne loans will differ depending on whether the loans are performing or non-performing.

Granting forbearance will only change the arrears status of the loan in specific circumstances, which can include capitalisation of principal and interest in arrears, where the loan may be returned to the performing book if the customer has demonstrated an ability to meet regular payments and is likely to continue to do so. The loan would continue to be reported as forborne until it meets the exit criteria set out by the European Banking Authority.

For ECL provisioning, all forborne but performing exposures are categorised as Stage 2 and are subject to a lifetime loss provisioning assessment. Where the forbearance treatment includes the cessation of interest on the customer balance (i.e. non-accrual), this will be treated as a Stage 3 default.

For non-performing forborne loans, the Stage 3 loss assessment process is the same as for non-forborne loans.

Wholesale

Provisions for forborne loans are assessed in accordance with normal provisioning policies. The customer's financial position and prospects – as well as the likely effect of the forbearance, including any concessions granted, and revised PD or LGD gradings – are considered in order to establish whether an impairment provision increase is required.

Wholesale loans granted forbearance are individually assessed in most cases. Performing loans subject to forbearance treatment are categorised as Stage 2 and subject to a lifetime loss assessment.

Forbearance may result in the value of the outstanding debt exceeding the present value of the estimated future cash flows. This difference will lead to a customer being classified as non-performing.

In the case of non-performing forborne loans, an individual loan impairment provision assessment generally takes place prior to forbearance being granted. The amount of the loan impairment provision may change once the terms of the forbearance are known, resulting in an additional provision charge or a release of the provision in the period the forbearance is granted.

The transfer of Wholesale loans from impaired to performing status follows assessment by relationship managers and credit managers. When no further losses are anticipated and the customer is expected to meet the loan's revised terms, any provision is written-off or released and the balance of the loan returned to performing status. This is not dependent on a specified time period and follows the credit risk manager's assessment.

Asset lifetimes

The choice of initial recognition and asset duration is another critical judgement in determining the quantum of lifetime losses that apply.

- The date of initial recognition reflects the date that a transaction (or account) was first recognised on the balance sheet; the PD recorded at that time provides the baseline used for subsequent determination of SICR as detailed above.
- For asset duration, the approach applied (in line with IFRS 9 requirements) is:
  - Term lending – the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected pre-payment and amortisation).
  - Revolving facilities – for Personal portfolios (except credit cards), asset duration is based on behavioural life and this is normally greater than contractual life (which would typically be overnight). For Wholesale portfolios, asset duration is based on annual counterparty review schedules and will be set to the next review date.
  - A capped lifetime approach of up to 36 months is used on credit card balances.

Economic loss drivers

Introduction

The portfolio segmentation and selection of economic loss drivers for IFRS 9 follow closely the approach used in stress testing. To enable robust modelling the forecasting models for each portfolio segment (defined by product or asset class and where relevant, industry sector and region) are based on a selected, small number of economic factors, (typically three to four) that best explain the temporal variations in portfolio loss rates. The process to select economic loss drivers involves empirical analysis and expert judgement.

19. Risk management – Credit risk (continued)

Economic scenarios

At 31 December 2023, the range of anticipated future economic conditions was defined by a set of four internally developed scenarios and their respective probabilities. In addition to the base case, they comprised upside, downside and extreme downside scenarios. The scenarios primarily reflected the current risks faced by the economy, particularly in relation to the path of inflation and interest rates.

For 2023, the four scenarios were deemed appropriate in capturing the uncertainty in economic forecasts and the non-linearity in outcomes under different scenarios. These four scenarios were developed to provide sufficient coverage across potential rises in unemployment, inflation, asset price declines and the degree of permanent damage to the economy, around which there remains pronounced levels of uncertainty.

Upside – this scenario assumes robust growth as inflation falls sharply and rates are lowered more quickly than expected. Consumer spending is supported by savings built up since COVID-19 and further helped by fiscal support and strong business investment. The labour market remains resilient, with the unemployment rate falling. The housing market slows down compared to the previous year but remains robust.

Base case – high inflation and tight monetary policy leads to muted economic growth. However, continued disinflation allows an easing cycle to start in 2024. The unemployment rate rises modestly but there are no wide-spread job losses. Inflation moderates and falls to a target level of 2% by early 2025. The housing market experiences modest nominal price decline but the extent of the decline is lower than experienced during prior stresses. Housing market activities remain weak but gains pace gradually as interest rates fall and real income recovers.

Since 31 December 2022, the economic outlook has improved as energy prices fell sharply and the labour market remained resilient. The near-term inflation outlook remains elevated and upside risks remain but they have reduced since last year. Rates increased to levels higher than expected previously and are expected to remain higher for longer. Economic growth is still expected to be muted in the near-term. The base case now assumes muted growth in 2023 as opposed to a mild recession assumed previously. The unemployment rate still rises but the peak is marginally lower and is underpinned by a resilient labour market The peak to trough house price correction remains broadly similar to the previous assumption but the timing of the fall is more spread out.

Downside – inflation resurges as energy prices rise and core inflation remains persistently high. The economy experiences a recession as consumer confidence weakens due to a fall in real income. Interest rates are raised higher than the base case and remain elevated for longer. High rates are assumed to have a more significant impact on the labour market. Unemployment is higher than the base case scenario while house prices experience declines comparable to previous episodes of stress.

Extreme downside – this scenario assumes a classical recession with loss of consumer confidence leading to a deep economic recession. This results in widespread job losses with the unemployment rate rising above the levels seen during the 2008 financial crisis. Rates are cut sharply in response, leading to some support to the recovery. House prices lose approximately a third of their value.

Banking activities

Introduction

This section details the credit risk profile of the Group's banking activities. Refer to Note 1, accounting policy (k) and Note 12 for policies and critical judgements relating to impairment loss determination.

Financial assets within the scope of the IFRS 9 ECL framework

Refer to Note 10 for balance sheet analysis of financial assets that are classified as amortised cost (AC) or fair value through other comprehensive income (FVOCI), the starting point for IFRS 9 ECL framework assessment.

	2023			2022		
	Gross	ECL	Net	Gross	ECL	Net
	€m	€m	€m	€m	€m	€m
Balance sheet total gross amortised cost and FVOCI assets	133			4,555		
In scope of IFRS 9 ECL framework	132			4,255		
% in scope	99%			93%		
Loans to customers - in scope - amortised cost	21	20	1	431	120	311
Loans to banks - in scope - amortised cost	7	-	7	65	-	65
Total loans - in scope - amortised cost	28	20	8	496	120	376
Stage 1	13	5	8	176	2	174
Stage 2	3	3	-	181	40	141
Stage 3	12	12	-	139	78	61
Other financial instruments - in scope - amortised cost	104	-	104	3,111	-	3,111
Other financial instruments - in scope - FVOCI	-	-	-	648	-	648
Total other financial instruments - in scope	104	-	104	3,759	-	3,759
Stage 1	104	-	104	3,759	-	3,759
Out of scope of IFRS 9 ECL framework	1	na	1	300	na	300

The assets outside the IFRS 9 ECL framework in 2022 included settlement balances, items in the course of collection, cash balances and other non-credit risk assets.

Note that financial assets classified as amortised cost in assets of disposal groups are not included in the analysis above.

19. Risk management – Credit risk (continued)

Contingent liabilities and commitments

In addition to the contingent liabilities and commitments disclosed in Note 20, reputationally-committed limits were also included in the scope of the IFRS 9 ECL framework. For 2023, the out of scope balance was €66 million (2022 – €124 million) and primarily related to facilities that, if drawn, would not be classified as amortised cost or FVOCI, or undrawn limits relating to financial assets exclusions. Total contingent liabilities (including financial guarantees) and commitments within IFRS 9 ECL scope were €28 million (2022 – €665 million), comprising stage 1 €24 million (2022 – €540 million); stage 2 €1 million (2022 – €98 million); and stage 3 €3 million (2022 – €27 million).

The ECL relating to off balance sheet exposures was €1 million (2022 - €2 million). The total ECL provision in the remainder of the credit risk section of €21 million (2022 - €122 million) includes ECL for both on and off balance sheet exposures for continuing operations.

Asset quality

Internal asset quality ratings have ranges for the probability of default. Customers are assigned credit grades, based on various credit grading models that reflect the key drivers of default for the customer type. All credit grades map to both an asset quality scale, used for external financial reporting, and a master grading scale used for internal management reporting across portfolios. The table that follows details the relationship between internal asset quality (AQ) bands and external ratings published by Standard & Poor's (S&P), for illustrative purposes only.

Internal asset quality band	Probability of default range	Indicative S&P rating
AQ1	0% - 0.034%	AAA to AA
AQ2	0.034% - 0.048%	AA to AA-
AQ3	0.048% - 0.095%	A+ to A
AQ4	0.095% - 0.381%	BBB+ to BBB-
AQ5	0.381% - 1.076%	BB+ to BB
AQ6	1.076% - 2.153%	BB- to B+
AQ7	2.153% - 6.089%	B+ to B
AQ8	6.089% - 17.222%	B- to CCC+
AQ9	17.222% - 100%	CCC to C
AQ10	100%	D

Disposal groups ECL analysis

The table below analyses the split of the exposures in the disposal groups that are subject to ECL assessment between Personal and Wholesale. Gross loans and ECL provisions are shown by stage and the value of the off-balance sheet exposures is provided. The remaining tables in the credit risk section exclude these exposures.

	Loans - amortised cost and FVOCI				Off-balance sheet		ECL provisions			
	Stage 1	Stage 2	Stage 3	Total	Loan commitments	Contingent liabilities	Stage 1	Stage 2	Stage 3	Total
2023	€m	€m	€m	€m	€m	€m	€m	€m	€m	€m
Personal	3	4	2	9	-	-	-	1	2	3
Wholesale	6	18	44	68	1	3	3	8	27	38
Total	9	22	46	77	1	3	3	9	29	41
2022										
Wholesale	1,435	214	44	1,693	453	1	19	21	20	60
Total	1,435	214	44	1,693	453	1	19	21	20	60

19. Risk management – Credit risk (continued)

Portfolio summary - sector analysis

The following tables detail financial assets and off-balance sheet exposures gross of ECL and related ECL provision, impairment and past due by sector, asset quality and geographical region for the financial year and the previous financial year.

2023	Personal €m	Wholesale €m	Total €m
Loans by geography	18	10	28
- Ireland	18	3	21
- United Kingdom	-	-	-
- Other	-	7	7
Loans by asset quality	18	10	28
- AQ 3	-	1	1
- AQ 4	-	6	6
- AQ 5	1	-	1
- AQ 6	3	-	3
- AQ 7	3	-	3
- AQ 8	1	-	1
- AQ 9	1	-	1
- AQ 10	9	3	12
Loans by stage	18	10	28
- Stage 1	6	7	13
- Stage 2	3	-	3
- Stage 3	9	3	12
Loans - past due analysis	18	10	28
- Not past due	10	6	16
- Past due 1-30 days	1	-	1
- Past due 31-89 days	1	1	2
- Past due 90-180 days	2	2	4
- Past due > 180 days	4	1	5
Loans - stage 2 past due analysis	3	-	3
- Not past due	2	-	2
- Past due 1-30 days	-	-	-
- Past due 31-89 days	1	-	1
ECL provision (total)	18	3	21
ECL provisions by geography	18	3	21
- Ireland	18	3	21
- United Kingdom	-	-	-
- Other	-	-	-
ECL provisions by stage	18	3	21
- Stage 1	6	-	6
- Stage 2	3	-	3
- Stage 3	9	3	12
ECL provision coverage (total) - ECL/loans	100.00	30.00	75.00
- Stage 1 (%)	100.00	-	46.15
- Stage 2 (%)	100.00	-	100.00
- Stage 3 (%)	100.00	100.00	100.00
ECL charge/(release)	16	(13)	3
ECL charge/(release) by geography	16	(13)	3
- Ireland	16	(11)	5
- United Kingdom	-	(2)	(2)
Amounts written off	2	7	9
Other financial assets by asset quality	-	104	104
- AQ 1-4	-	104	104
Off balance sheet	-	29	29
Loan commitments	-	19	19
Financial guarantees	-	10	10
Off balance sheet by asset quality	-	29	29
- AQ 1-4	-	2	2
- AQ 5-8	-	23	23
- AQ 9	-	1	1
- AQ 10	-	3	3
Weighted average life - ECL measurement (years)	2	5	2
Weighted average life 12 months PDs			
- IFRS 9 (%)	4.84	0.97	3.02
- Basel (%)	6.22	2.30	4.36

Stage 2 decomposition - arrears status and contributing factors: €1 million of the Stage 2 exposures were in arrears (more than 30 days past due) at 31 December 2023 (2022: €5 million). €2 million of exposures were up-to-date (2022: €176 million) with the main contributing factor for decomposition being PD deterioration.

19. Risk management – Credit risk (continued)

2022	Personal €m	Wholesale €m	Total €m
Loans by geography	162	334	496
- Ireland	161	256	417
- United Kingdom	1	13	14
- Other	-	65	65
Loans by asset quality	162	334	496
- AQ 3	-	5	5
- AQ 4	9	61	70
- AQ 5	20	2	22
- AQ 6	25	9	34
- AQ 7	48	92	140
- AQ 8	31	34	65
- AQ 9	15	6	21
- AQ 10	14	125	139
Loans by stage	162	334	496
- Stage 1	58	118	176
- Stage 2	90	91	181
- Stage 3	14	125	139
Loans - past due analysis	162	334	496
- Not past due	136	257	393
- Past due 1-30 days	7	3	10
- Past due 31-89 days	7	7	14
- Past due 90-180 days	2	7	9
- Past due > 180 days	10	60	70
Loans - stage 2 past due analysis	90	91	181
- Not past due	79	89	168
- Past due 1-30 days	4	1	5
- Past due 31-89 days	7	1	8
ECL provision (total)	29	93	122
ECL provisions by geography	29	93	122
- Ireland	29	84	113
- United Kingdom	-	8	8
- Other	-	1	1
ECL provisions by stage	29	93	122
- Stage 1	1	2	3
- Stage 2	16	25	41
- Stage 3	12	66	78
ECL provision coverage (total) - ECL/loans	17.90	27.84	24.60
- Stage 1 (%)	1.72	1.69	1.70
- Stage 2 (%)	17.78	27.47	22.65
- Stage 3 (%)	85.71	52.80	56.12
ECL charge/(release)	13	(22)	(9)
ECL charge/(release) by geography	13	(22)	(9)
- Ireland	13	(25)	(12)
- United Kingdom	-	3	3
Amounts written off	2	29	31
Other financial assets by asset quality	-	3,759	3,759
- AQ 1-4	-	3,759	3,759
Off balance sheet	375	290	665
Loan commitments	375	244	619
Financial guarantees	-	46	46
Off balance sheet by asset quality	375	290	665
- AQ 1-4	13	43	56
- AQ 5-8	277	219	496
- AQ 9	78	8	86
- AQ 10	7	20	27
Weighted average life - ECL measurement (years)	8	4	5
Weighted average life 12 months PDs			
- IFRS 9 (%)	9.45	4.93	6.84
- Basel (%)	6.95	4.08	5.30

19. Risk management – Credit risk (continued)

Flow statements

The flow statements that follow show the main ECL and related income statement movements. They also show the changes in ECL as well as the changes in related financial assets used in determining ECL. Due to differences in scope, exposures in this section may therefore differ from those reported in other tables, principally in relation to exposures in Stage 1 and Stage 2. These differences do not have a material ECL impact. Other points to note:

- Financial assets include treasury liquidity portfolios, comprising balances at central banks and debt securities, as well as loans. Both modelled and non-modelled portfolios are included.
- Stage transfers (for example, exposures moving from Stage 1 to Stage 2) are a key feature of the ECL movements, with the net re-measurement cost of transitioning to a worse stage being a primary driver of income statement charges. Similarly, there is an ECL benefit for accounts improving stage.
- Changes in risk parameters shows the reassessment of the ECL within a given stage, including any ECL overlays and residual income statement gains or losses at the point of write-off or accounting write-down.
- Other (income statement only) includes any subsequent changes in the value of written-down assets (for example, fortuitous recoveries) along with other direct write-off items such as direct recovery costs. Other (income statement only) affects the income statement but does not affect balance sheet ECL movements.
- Amounts written-off – represent the gross asset written-down against accounts with ECL, including the net asset write-down for debt sale activity.
- The impact of any change in PMAs during the financial year is reported under changes in risk parameters, as are any impacts arising from changes to the underlying models.
- All movements are captured monthly and aggregated. Interest suspended post default is included within Stage 3 ECL with the movement in the value of suspended interest during the year reported under currency translation and other adjustments.

	Stage 1		Stage 2		Stage 3		Total	
	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL	Financial assets	ECL
Total	€m	€m	€m	€m	€m	€m	€m	€m
At 1 January 2023	4,518	3	186	41	149	78	4,853	122
Currency translation and other adjustments	-	4	-	7	(1)	(7)	(1)	4
Transfers from Stage 1 to Stage 2	(93)	(2)	93	2	-	-	-	-
Transfers from Stage 2 to Stage 1	59	3	(59)	(3)	-	-	-	-
Transfers to Stage 3	(12)	(1)	(60)	(23)	72	24	-	-
Transfers from Stage 3	-	-	13	9	(13)	(9)	-	-
Net re-measurement of ECL on stage transfer	-	(1)	-	(1)	-	11	-	9
Changes in risk parameters (model inputs)	-	9	-	29	-	(2)	-	36
Other changes in net exposure	(4,116)	(3)	(62)	(19)	(80)	(25)	(4,258)	(47)
Other (income statement only)	-	-	-	-	-	5	-	5
Income statement (releases)/charges	-	5	-	9	-	(11)	-	3
Amounts written-off	-	-	-	-	(9)	(9)	(9)	(9)
Transfer to disposal groups and fair value reclass	-	(6)	(100)	(39)	(104)	(48)	(204)	(93)
Unwinding of discount	-	-	-	-	-	(1)	-	(1)
At 31 December 2023	356	6	11	3	14	12	381	21
Net carrying amount	350		8		2		360	
At 1 January 2022	16,485	11	1,054	77	957	462	18,496	550
2022 movements	(11,967)	(8)	(868)	(36)	(808)	(384)	(13,643)	(428)
At 31 December 2022	4,518	3	186	41	149	78	4,853	122
Net carrying amount	4,515		145		71		4,731	

2022 movements included transfers from Stage 1 to Stage 2 of €169 million (ECL – €5 million), transfers from Stage 2 to Stage 1 of €106 million (ECL – €7 million), transfers into Stage 3 of €48 million (ECL – €12 million) and transfers from Stage 3 of €13 million (ECL – €6 million). An increase in ECL of €15 million was recognised as a result of these cumulative transfers. Also included were financial assets written-off of €31 million.

Credit risk enhancement and mitigation

At the balance sheet date the Group had a maximum credit risk exposure of €111 million on financial assets (2022: €4,134 million), the Stage 3 element was €nil (2022: €61 million). The off-balance sheet maximum credit risk was €29 million (2022: €664 million), of which €3 million was Stage 3 (2022: €27 million).

The Group had no credit risk enhancement and mitigation (CREM) against financial assets (2022: €107 million, of which €51 million was in respect of Stage 3 exposures) and €1 million of CREM against off-balance sheet exposures, none of which is in respect of Stage 3 (2022: €3 million, of which €1 million was in respect of stage 3 exposures). The principal type of CREM in 2022 was Property which comprised €105 million of the financial assets total and €2 million of the off-balance sheet total.

19. Risk management (continued)

Capital, liquidity and funding risk

The Group continually ensures a comprehensive approach is taken to the management of capital, liquidity and funding, underpinned by the Risk Management Framework, risk appetite and policies, to manage and mitigate capital, liquidity and funding risks. This ensures the tools and capability are in place to facilitate the management and mitigation of risk during the phased withdrawal, ensuring the Group operates within its regulatory requirements and risk appetite.

Definitions

Regulatory capital consists of reserves and instruments issued that are available, have a degree of permanency and are capable of absorbing losses. A number of strict conditions set by regulators must be satisfied to be eligible as capital.

Capital risk is the risk that the Bank is unable to conduct business in base or stress conditions on a risk or leverage basis due to insufficient qualifying capital as well as the risk that the Bank fails to assess, monitor, plan and manage capital adequacy requirements.

Liquidity consists of assets that can be readily converted to cash within a short timeframe at a reliable value. Liquidity risk is the risk of being unable to meet actual or potential financial obligations as and when they fall due.

Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk of not maintaining a diversified and stable funding base. Liquidity and funding risks arise in a number of ways, including through the maturity transformation role that banks perform.

Sources of risk

Capital

The eligibility of instruments and financial resources as regulatory capital is laid down by applicable regulation. Capital is categorised by applicable regulation under two tiers (Tier 1 and Tier 2) according to the ability to absorb losses on either a going or gone concern basis, the degree of permanency and the ranking of absorbing losses. There are three broad categories of capital across these two tiers:

- Common Equity Tier 1 (CET1) capital - CET1 capital must be perpetual and capable of unrestricted and immediate use to cover risks or losses as soon as these occur. This includes ordinary shares issued and retained earnings.
- Additional Tier 1 (AT1) capital - This is the second type of loss absorbing capital and must be capable of absorbing losses on a going concern basis. These instruments are either written down or converted into CET1 capital when the CET1 ratio falls below a pre-specified level.
- Tier 2 capital - Tier 2 capital is the Bank's supplementary capital and provides loss absorption on a gone concern basis. Tier 2 capital absorbs losses after Tier 1 capital. It typically consists of subordinated debt securities with a minimum maturity of five years.

Minimum requirement for own funds and eligible liabilities (MREL)

In addition to capital, other specific loss absorbing instruments, including senior notes issued by UBIDAC to NatWest Holdings may be used to cover certain gone concern capital requirements which is referred to as MREL. Gone concern refers to the situation in which resources must be available to enable an orderly resolution, in the event that resolution authorities deem that the Group has failed or is likely to fail.

Liquidity

The Group maintains a prudent approach to the definition of liquid resources. The Group manages its liquidity to ensure it is always available when and where required, considering regulatory, legal and other constraints.

Liquid resources are divided into primary and secondary liquidity as follows:

- Primary liquid assets include cash and balances at central banks, high quality government and agency bonds.
- Secondary liquid assets are eligible as collateral for central bank liquidity facilities and repurchase agreements.

Funding

By 31 December 2023 the Group had largely completed its exit from customer and wholesale deposit markets. There is a small balance of customer deposit liabilities that are in the course of being exited. As such the Bank no longer relies on its deposit activity to fund its remaining loan and other assets. The primary source of funding at December 2023 is capital and intergroup financing. During the financial year the Bank utilised a contingent liquidity facility with NatWest Bank to bridge any mismatches between inflows from loan asset sales and outflows from deposit exits, within prescribed liquidity and funding risk appetites.

Capital risk management

Capital management is the process by which the Group ensures that it has sufficient capital and other loss absorbing instruments to operate effectively including meeting minimum regulatory requirements, operating within Board approved risk appetite and supporting phased withdrawal strategic goals.

Capital planning is integrated into the Group's annual budgeting process and is assessed and updated at least monthly.

Produce capital plans	– Capital plans are produced for the Group over the phased withdrawal planning horizon under expected and stress conditions. Stressed capital plans are produced to support internal stress testing in the ICAAP for regulatory purposes. – Shorter term forecasts are developed frequently in response to actual performance, changes in internal and external business environment and to manage risks and opportunities.
Assess capital adequacy	– Capital plans are developed to maintain capital of sufficient quantity and quality to support the Group over the planning horizon within approved risk appetite, as determined via stress testing, and minimum regulatory requirements. – Capital resources and capital requirements are assessed across a defined planning horizon.
Inform capital actions	– Capital planning informs potential capital actions including dividends via internal Group transactions. – Decisions on capital actions will be influenced by strategic and regulatory requirements, risk appetite, costs and prevailing market conditions.

19. Risk management – Capital, liquidity and funding risk (continued)

Capital planning is one of the tools that the Group uses to monitor and manage capital risk on a going and gone concern basis, including the risk of excessive leverage.

At the balance sheet date the Bank's capital comprised CET1 capital. There were no AT1 or Tier 2 instruments in issue.

Liquidity risk management

The Group manages its liquidity risk taking into account regulatory, legal and other constraints to ensure sufficient liquidity is available where required to cover liquidity stresses.

The Group categorises its liquidity portfolio, including its locally managed liquidity portfolios, into primary and secondary liquid assets.

The size of the liquidity portfolio is determined by referencing UBIDAC's liquidity risk appetite. The Group retains a prudent approach to setting the composition of the liquidity portfolios, which is subject to internal policies applicable to all entities and limits over quality of counterparty, maturity mix and currency mix.

The liquidity value of the portfolio is determined by taking current market prices and applying a discount or haircut, to give a liquidity value that represents the amount of cash that can be generated by the asset.

Funding risk management

The Group manages funding risk through a comprehensive framework which measures and monitors the funding risk on the balance sheet.

Key developments in 2023

- In March 2023, in advance of the transfer of mortgage loan balances to AIB, the Bank repurchased the loans from its internal securitisation vehicle, Dunmore Securities No. 1 DAC. Following this transaction, the Bank no longer relies on securitisation or other secured funding programmes for the funding of assets on its balance sheet.
- Following the completion of asset sales, in July 2023 the Group fully repaid its drawings under the contingent liquidity facility with NatWest Bank. In the same month the facility limit was reduced to €1 billion given the reduced stressed funding requirement that is expected over the remaining time period of the phased withdrawal.
- To reflect the excess capital over risk appetite requirements the Bank launched a tender offer and consent solicitation exercise to the holders of its subordinated bonds in September 2023. These bonds were eligible for treatment as Tier 2 capital instruments. Following the adoption of the required resolutions at the bondholder meetings, the bonds were repaid and/or redeemed during Q4 2023. The Bank subsequently retired its public listing for these instruments.
- To reflect the advanced stage of the phased withdrawal, the Bank liquidated its debt securities portfolio in Q4 2023. UBIDAC's liquid assets now comprise a cash holding with the CBI (required to meet minimum prudential regulatory liquidity requirements) and excess cash maintained in short term interbank placements with NatWest Bank.

The strong capital, liquidity and funding positions at year end will continue to support the orderly reduction in assets and liabilities during the phased withdrawal. Progress will be closely monitored across the three lines of defence.

Minimum requirements

Capital adequacy ratios

The Group is subject to minimum capital requirements relative to risk weighted assets (RWAs). The table below summarises the minimum ratios of capital to RWAs that the Group is expected to meet.

Type	CET1	Total Tier 1	Total capital
Minimum capital requirements	4.5%	6.0%	8.0%
Pillar 2 requirement (1)	2.0%	2.7%	3.6%
Capital conservation buffer	2.5%	2.5%	2.5%
Countercyclical capital buffer (2)	1.0%	1.0%	1.0%
Total	10.0%	12.2%	16.1%

(1) Banks are permitted to use capital instruments that do not qualify as CET1 capital, for example AT1 or Tier 2 instruments, to meet the Pillar 2 requirements.
(2) The countercyclical capital buffer requirement is determined by the CBI and is applicable to all Irish banks. The CBI announced that this rate increased to 0.5% in June 2023 and then 1.0% in November 2023. A further increase to 1.5% will be effective June 2024.

19. Risk management (continued)

Non-traded market risk

Definition

Non-traded market risk is the risk to the value of assets or liabilities or the risk to income that arises from changes in market prices such as interest rates, foreign exchange rates and equity prices, or from changes in managed rates. The Group has no trading books and no exposure to traded market risk.

Sources of risk

The key sources of non-traded market risk are interest rate risk and foreign exchange risk. Equity risk is not material. Each of these risk types are largely managed separately.

Risk appetite

The Group's qualitative market risk appetite is set out in the non-traded market risk appetite statement.

Its quantitative market risk appetite is expressed in terms of exposure limits for the non-trading activities that are consistent with business plans. Limits are considered for approval at ALCO and Board.

For each desk, a document known as dealing authority compiles details of all applicable limits and dealing restrictions.

The limit framework comprises value-at-risk (VaR), and sensitivity limits including earnings-at-risk (EaR) and Economic Value of Equity (EVE) limits. The limits are reviewed to reflect changes in risk appetite, business plans, portfolio composition and the market and economic environments. To ensure approved limits are not breached and that the Group remains within its risk appetite, triggers at the Group and lower levels have been set such that if exposures exceed a specified level, action plans are developed by the front office and Risk.

Interest rate risk

Non-traded interest rate risk (NTIRR) arises from the provision to customers of a range of banking products with differing interest rate characteristics. When aggregated, these products form portfolios of assets and liabilities with varying degrees of sensitivity to changes in market interest rates. Mismatches can give rise to volatility in net interest income as interest rates vary.

NTIRR comprises three primary risk types: gap risk, basis risk and option risk. To manage exposures within its risk appetite, the Group aggregates interest rate positions and hedges its residual exposure, primarily with interest rate swaps.

Structural hedging aims to reduce gap risk and the sensitivity of earnings to interest rate shocks. It also provides some protection against prolonged periods of falling rates. By the end of the financial year, given the advanced stage of the phased withdrawal, all structural hedging was terminated as the Bank fully removed behavioural assumptions from its NTIRR measurement approach. It should be noted that given the repricing profile of residual assets and liabilities and the terms of loan sales agreements, the three components of NTIRR are no longer deemed a material source of risk.

Non-traded interest rate risk can be measured from either an economic value-based or earnings-based perspective, or a combination of the two. The Group uses VaR as its value-based approach and sensitivity of net interest earnings as its earnings-based approach.

Foreign exchange risk

Non-traded foreign exchange risk arises from two main sources:

- Non-trading book foreign exchange risk – arises from customer transactions and profits and losses that are in a currency other than euro.
- Forecast earnings or costs in foreign currencies – the Group assesses its potential exposure to forecast foreign currency income and expenses.

Key developments in 2023

- Since the announcement of the phased withdrawal, the Bank has dynamically managed the non-traded market risk implications of implementing a withdrawal strategy. Structural hedging activity was adjusted to reflect assumptions on the timing of asset sales and the execution of the liability exit programme. As a result, behavioural assumptions have decreased in importance and relevance in managing the Bank's non-traded market risk.
- In December 2023 the Board approved the reclassification of non-traded market risk to 'non-material' for UBIDAC.

Pension risk

Definition

Pension risk is the risk that the Group will have an inability to meet contractual obligations and other liabilities to the established employee or related company pension schemes.

Sources of risk

The Group has exposure to pension risk through its defined benefit schemes. The Ulster Bank Pension Scheme (the main scheme) is the largest source of pension risk. Collectively the schemes have €1,359 million of assets and €1,162 million of liabilities as at 31 December 2023 (2022 – €1,340 million of assets and €1,041 million of liabilities).

Pension scheme liabilities vary with changes in long-term interest rates and inflation as well as with pensionable salaries, the longevity of scheme members and legislation.

Pension scheme assets vary with changes in interest rates, inflation expectations, credit spreads, exchange rates, and equity and property prices. The Group is exposed to the risk that the schemes' assets, together with future returns and additional future contributions, are estimated to be insufficient to meet liabilities as they fall due. In such circumstances, the Group could be obliged (or might choose) to make additional contributions to the schemes or be required to hold additional capital to mitigate this risk.

Governance

The UBIDAC Pension Committee was retired in 2023 with oversight responsibilities reverting to ALCO. ALCO considers and discusses financial strategy, risk management, balance sheet and remuneration and policy implications of the pension schemes operating in Ireland.

Risk appetite

The Group maintains an independent view of the risk inherent in its pension funds. The Group has an annually reviewed pension risk appetite statement relating to the pension schemes incorporating defined metrics against which risk is measured.

A pension risk management process is in place to provide formal controls for pension risk reporting, modelling, governance and stress testing. A pension risk policy, which sits within the Risk Management Framework, is also in place and is subject to associated framework controls.

Monitoring and measurement

Pension risk is monitored by ALCO, the Executive Risk Committee and the Board Risk Committee by way of the periodic Risk Management Report.

19. Risk management – Pension risk (continued)

The Group also undertakes stress tests on its material defined benefit pension schemes each financial year.

The stress testing framework includes pension risk capital calculations for the purposes of the ICAAP as well as additional stress tests for a number of internal management purposes. The results of the stress tests and their consequential impact on the Group's balance sheet, income statement and capital position are incorporated into the Group's stress test results.

In 2022, the Group reached agreement with the trustees of the schemes regarding the long-term scheme sponsorship arrangements. These agreements ensure continuation of the sponsor's commitment to supporting the delivery of members' accrued benefits after the completion of the phased withdrawal. A Joint Working Group comprising the trustees, the Bank and representatives from NatWest Group meet on a quarterly basis to monitor the progress of the schemes against the long-term plan set out in the 2022 agreements.

Mitigation

Following risk mitigation measures taken by the trustees in recent years the defined benefit schemes are now well protected against interest rate and inflation risks and are being run on a low-risk basis with relatively low equity risk exposure. The schemes use both physical and derivative instruments to achieve a desired asset class exposure, including hedging movements in interest rates and inflation.

The potential impact of climate change is one of the factors considered in managing the assets of the main scheme. The trustee monitors the risk to its investments from changes in the global economy and invests, where return justifies the risk, in sectors that reduce the world's reliance on fossil fuels, or that may otherwise promote environmental benefits.

Key developments in 2023

- There have been no material changes to the Group's exposure to pension risk during the financial year and the valuation positions of the defined benefit schemes that the Group sponsors have remained strong. The underlying surpluses in the schemes remain strong, notwithstanding the reduction and volatility in interest rates during 2023.
- The Group performed a further two Enhanced Transfer Value (ETV) exercises during 2023, these transactions offered deferred members (ex-employees of the defined benefit schemes that have not reached retirement age) the opportunity to take their benefits out of the scheme and into a Personal Retirement Bond or another pension scheme of which they are a member. UBIDAC provided an enhancement to the standard transfer value that is available to members and provided free independent financial advice so that members could make an informed decision on the offer.
- In December 2023 the Board approved the reclassification of pension risk to 'non-material' for UBIDAC.

Operational risk

Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. It arises from day-to-day operations and is relevant to every aspect of the business and to every employee.

Sources of risk

Operational risk may arise from a failure to manage operations, systems, transactions and assets appropriately. This can take the form of human error, an inability to deliver change adequately or on time, the non-availability of technology services, or the loss of customer data. Theft, as well as the threat of cyber-attacks, are sources of operational risk, as is the impact of natural and man-made disasters. Operational risk can also arise from a failure to account for changes in law or regulations or to take appropriate measures to protect assets.

Key developments in 2023

- Oversight of the phased withdrawal planning and execution remained a key focus area.
- Operational risk appetite and profile methodologies were revised to enable enhanced profiling of operational risk across the Group, inclusive of activities relevant to the phased withdrawal.
- Heightened focus on change risk execution to ensure effective delivery of key phased withdrawal plan milestones.
- Continued focus on operational resilience to ensure planning, controls and operational activities remained robust and appropriate, with ongoing attention on the potential operational risks arising from changes in working practices.
- The security threat and the potential for cyber-attacks on the Group continues to be closely monitored.

Governance

A strong operational risk management function is vital to support the Group's strategy of safely withdrawing from the market while supporting customers and colleagues. Improved management of operational risk against defined appetite is vital for stability and reputational integrity.

The first line of defence is responsible for managing operational risks directly while the second line is responsible for proactive oversight and continuous monitoring of operational risk management across the Group. The second line is responsible for reporting and escalating key concerns to Executive Risk Committee and Board Risk Committee.

The Operational Risk Framework provides a holistic view of how operational risk is managed in the Group, to support the effective mitigation of exposure to operational risk, and of how this is overseen by the Board.

The scope of the Operational Risk Framework extends across all relevant non-financial risks, business lines, internal units, internal control functions, relevant subsidiaries and to any other NatWest Group or third-party entity that provides outsourced services to the Group.

Risk appetite

Operational risk appetite measurement, monitoring and reporting supports effective management of material operational risk. It expresses the level and types of operational risk the Group is willing to accept in pursuing its strategic objectives and business plans.

Mitigation

The Control Environment Certification (CEC) process is a self-assessment by the CEO. It provides a consistent and comparable view on the adequacy and effectiveness of the internal control environment.

19. Risk management – Operational risk (continued)

CEC covers non-financial material risks and the underlying key controls, including financial, operational and compliance controls, as well as supporting Risk Management Frameworks and effective change management. The CEC outcomes, including forward-looking assessments and progress on control environment improvements, are reported to Executive Risk Committee and Board Risk Committee.

Risks are mitigated by applying key preventative and detective controls, an integral step in the risk assessment methodology which determines residual risk exposure. Control owners are accountable for the design, execution, performance and maintenance of key controls. Key controls are regularly assessed for adequacy and tested for effectiveness. The results are monitored and, where a material change in performance is identified, the associated risk is re-evaluated.

Operational resilience

The Group manages and monitors operational resilience through its risk appetite and Risk and Control Self-Assessment methodology. This is underpinned by setting and monitoring risk indicators and performance metrics for key business services.

Event and loss data management

The operational risk event and loss data management process ensures the Group captures and records operational risk financial and non-financial events that meet defined criteria. Loss data is used for regulatory and industry reporting and is included in capital modelling when calculating economic capital for operational risk. The most serious events are escalated in a simple, standardised process to all senior management, by way of an Event Escalation Process.

As part of the wider ICAAP an operational risk capital adequacy assessment is undertaken, taking into account external and internal losses and scenario analysis impacts.

Reputational risk

Definition

Reputational risk is defined as the risk of damage to stakeholder trust due to negative consequences arising from internal actions or external events.

Sources of risk

Reputational risks originate from internal actions and external events. The three primary drivers of reputational risk have been identified as: failure in internal execution; a conflict between the Group's values and the public agenda; and contagion (when the Group's reputation is damaged by failures in the wider financial sector).

Key developments in 2023

- Continued refinement of reputational risk monitoring focused on understanding the impact of the phased withdrawal announcement on the Group.
- Environmental, Social & Ethical risk factors continue to be considered as relevant given the advanced stage of the phased withdrawal, within the reputational risk management approach.

Governance

A reputational risk policy supports reputational risk management across the Group. The Reputational Risk Committee, which has delegated authority from the Personal Banking Credit Risk Committee, opines on cases, issues, sectors and themes that represent a material reputational risk, which have been escalated to it by the various parts of the Group. The Board Risk Committee (BRC) oversees the identification and reporting of reputational risk.

Risk appetite

The Group manages and articulates its appetite for reputational risk through a qualitative reputational risk appetite statement and quantitative measures. The Group seeks to identify, measure, and manage risk exposures arising from internal actions and external events. This is designed to ensure that stakeholder trust is retained. However, reputational risk is inherent in the Group's operating environment and public trust is a specific factor in setting reputational risk appetite.

Monitoring and measurement

Relevant internal and external factors are monitored through regular reporting to the Reputational Risk Committee and escalated, where appropriate, to BRC, the NatWest Group Reputational Risk Committee, NatWest Group Board Risk Committee or the NatWest Group Sustainable Banking Committee.

Mitigation

Standards of conduct are in place across the Group requiring strict adherence to policies, procedures, and ways of working to ensure business is transacted in a way that meets, or exceeds, stakeholder expectations.

External events that could cause reputational damage are identified and mitigated through NatWest Group's top and emerging threats process as well as through the NatWest Group and business segment-level risk registers.

Regulatory compliance & conduct risk

Definitions

Regulatory Compliance Risk is the risk of legal or regulatory sanctions, material financial loss or loss to reputation as a result of the failure to observe the letter and spirit of all applicable laws, codes, rules, regulations and standards of good market practice.

Conduct Risk is the risk that the conduct of Group and its colleagues towards customers leads to damage arising from inappropriate behaviour towards customers, or in the markets in which we operate, which leads to unfair or inappropriate customer outcomes.

Sources of risk

Regulatory compliance and conduct risks exist across all stages of the Group's relationships with its customers and its banking activities, including complaint handling, colleague training, post-sales processes and handling of confidential insider information. Both risks were heightened during 2023 as a result of UBIDAC's phased withdrawal from the market.

Key developments in 2023

- Preparation and execution of an Annual Compliance Plan for 2023.
- Risk appetite statements and measures were reviewed in line with the phased withdrawal of the Group from the market.
- As part of the withdrawal programme:
  - Second line of defence Compliance and Conduct quorum members are engaged in all decision-making and strategic planning governance committees.
  - Second line of defence Compliance and Conduct opinions delivered for all strategic decisions focused on achieving compliance with regulation and good customer outcomes.
  - Provided key input into all customer communication activities related to the withdrawal programme.
  - Input into Customer Impact Assessments on withdrawal programme strategies.

19. Risk management – Regulatory compliance & conduct risk (continued)

- Oversight of mandatory change programmes.
- Oversight of the implementation of frameworks for the closure of customer accounts and branches.
- Monitoring in place to ensure Dear CEO expectations associated with the phased withdrawal are met, e.g. treatment of vulnerable customers, clear communications, management of errors/complaints.

Governance/Reporting
The Group defines appropriate standards of compliance and conduct and ensures adherence to those standards through its Risk and Compliance management frameworks. Relevant compliance and conduct matters are escalated through Compliance and Conduct Risk Committee, Executive Risk Committee and Board Risk Committee.

Risk appetite
Risk appetite for compliance and conduct risks is set at Board level. Risk appetite statements articulate the levels of risk that businesses and functions work within when pursuing their strategic objectives and business plans. Appropriate changes were implemented taking into account the phased withdrawal plan.

A range of controls ensure the businesses deliver good conduct and customer outcomes, delivered in accordance with legal and regulatory requirements. A suite of policies, addressing compliance and conduct risks, set appropriate standards across the Bank. Examples of these include the Complaints Management & Errors Management Policy, Product Lifecycle Policy, Regulatory Interactions & Developments Policy as well as policies relating to customers in vulnerable situations and managing conflicts of interest. Continuous monitoring and targeted assurance is carried out as appropriate. Appropriate frameworks were implemented in relation to the closure of customer accounts and branches.

Monitoring and measurement
Regulatory compliance and conduct risks are measured and managed through continuous assessment and reporting to the senior executive committees and at Board level in accordance with the UBIDAC Internal Control, Risk Management and Compliance Risk Frameworks. The Bank's frameworks facilitate the consistent identification, monitoring, measurement and reporting of compliance with laws and regulations and the delivery of consistently good customer outcomes. The first line of defence is responsible for effective risk identification, reporting and monitoring, with oversight, challenge and review by the second line. Compliance and conduct risk management is also integrated into the phased withdrawal programme.

Mitigation
Activity to mitigate the most material compliance and conduct risks is carried out across the Group in accordance with its frameworks. Examples of mitigation include consideration of customer needs in product withdrawal, complaints and errors management including analysis, mapping and monitoring against CBI 'Dear CEO' letters, as well as broader second line and third line assurance activity. Internal policies help support a strong customer focus across the Bank.

Financial Crime Risk
Definition
Financial Crime Risk (FCR) is presented by criminal activity in the form of money laundering, terrorist financing, bribery and corruption, fraud (internal and external), sanctions, and tax evasion.

Sources of risk
FCR is the risk that UBIDAC products, services, employees and/or third parties intentionally or unintentionally facilitate or conduct financial crime. FCR is an inherent risk across all lines of business.

Key developments in 2023
- Oversight of financial crime control measures pertaining to the phased withdrawal and within the agreed asset sales.
- Implementing updated risk mitigation aligned to EU and NWG Sanctions directives.
- Reporting to the BRC and Board on all aspects of Financial Crime risk management and mitigation.

The Financial Crime Committee, which is chaired by the Financial Crime Accountable Executive, is the principal financial crime risk management forum. The committee reviews and, where appropriate, reports material financial crime risks and issues across the Group to the Executive Risk Committee and the Board Risk Committee.

Risk appetite
UBIDAC seeks to prevent and detect financial crime and fraud to protect the bank, people, families and businesses. The Group strives to avoid breaches in financial crime legislation but accepts that financial crime and fraud risk present itself as a result of conducting business.

The Group manages its exposure to financial crime and fraud risk by ensuring it operates within approved risk appetite; manages external fraud losses impacting our customers through governance and controls: and that there is timely completion of control activity that monitors, detects and prevents financial crime and fraud.

FCR appetite is expressed via the Operational Risk Economic Capital Model, quality standards and timeliness in in-life reviews and the value of fraud and scam losses.

Regulatory confidence is maintained through a strong and sustained control environment with evidence that UBIDAC identifies and manages financial crime and fraud risks in a timely manner.

Monitoring and measurement
Financial crime risks are identified, measured, monitored and reported through continuous risk management and oversight and regular reporting to the Group's senior risk committees and the Board Risk Committee and Board. Quantitative and qualitative data is reviewed and assessed to check that financial crime risk is within risk appetite.

Mitigation
Through the Compliance Risk Framework, relevant financial crime policies, systems, processes and controls are used to mitigate financial crime risk. This includes the use of dedicated screening and monitoring controls to identify people, organisations, transactions and behaviours that may require further investigation or other actions. Centralised expertise is available to detect and disrupt threats to the Group and its customers. Intelligence is shared with law enforcement, regulators and government bodies to strengthen national and international defences against those who would misuse the financial system for criminal motives.

20. Memorandum items

Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2023. Although the Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of the Group's expectation of future losses.

	Group and Bank	
	2023	2022
	€m	€m
Contingent liabilities and commitments		
Guarantees and assets pledged as collateral security	5	57
Other contingent liabilities	7	182
Standby facilities, credit lines and other commitments	137	799
Total	149	1,038

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Group's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table. These commitments and contingent obligations are subject to the Group's normal credit approval processes.

Guarantees - the Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that the Group will meet a customer's obligations to third parties if the customer fails to do so. The maximum amount that the Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. The Group expects most guarantees it provides to expire unused.

Other contingent liabilities - these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities.

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material losses will arise from these transactions.

Commitments to lend - under a loan commitment the Bank agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived.

Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by the Group to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and revolving underwriting facilities, documentary credits and other short-term trade related transactions.

The Bank has given guarantees on the liabilities of the following subsidiary undertakings in accordance with the provisions of Section 357 of the Companies Act 2014 and these entities will avail of the exemptions under Section 357 regarding the provisions of Sections 347 and 348:

The RBS Group Ireland Retirement Savings Trustee Limited
Ulster Bank Holdings (ROI) Limited
First Active Limited
Ulster Bank Pension Trustees (R.I.) Limited
Ulydien Trust Company Limited
Ulster Bank Dublin Trust Company Unlimited Company

Litigation, investigations and reviews

The Group is involved in litigation arising in the ordinary course of business. No material adverse effect on the net assets of the Group is expected to arise from the ultimate resolution of these claims.

Material litigation, investigations and reviews involving the Group are described below. These matters could, individually or in aggregate, have a material adverse effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Review and investigation of treatment of tracker mortgage customers

In December 2015, correspondence was received from the CBI setting out an industry examination framework in respect of the sale of tracker mortgages from approximately 2001 until the end of 2015. The redress and compensation process has now largely concluded, although certain cases remain outstanding.

Customers of the Bank have lodged tracker mortgage complaints with the Financial Services and Pensions Ombudsman (FSPO). The Bank challenged three FSPO adjudications in the High Court. In June 2023, the High Court found in favour of the FSPO in all matters and a provision was recognised. The Bank was granted leave to appeal that decision and an appeal hearing has been scheduled to take place in the Court of Appeal.

Other customer remediation

The Group has identified other legacy issues leading to the establishment of remediation requirements and progress is ongoing to conclude activities.

Regulatory enquiries and investigations

In the normal course of business the Bank and its subsidiaries co-operate with regulatory authorities in their enquiries or investigations into alleged or possible breaches of regulations.

21. Non-cash and other items

This note shows non-cash items adjusted for in the cash flow statement and movement in operating assets and liabilities.

	Group		Bank	
	2023	2022	2023	2022
	€m	€m	€m	€m
Depreciation, impairment and amortisation	4	16	4	16
Gain on sale of subordinated liabilities	(1)	-	(1)	-
Interest on subordinated liabilities and debt securities in issue	8	10	8	10
Defined benefit pension schemes	35	45	35	45
Impairment releases	(4)	(93)	(4)	(93)
Change in fair value of amounts due to holding companies and fellow subsidiaries	20	(42)	20	(42)
Loss on sale of other financial assets	3	26	3	26
Loss on sale of net assets and liabilities of disposal groups	112	172	112	172
Charges and releases on provisions	172	146	172	146
Other non-cash items	2	2	3	2
Non-cash and other items	351	282	352	282
Change in operating assets and liabilities				
Change in loans to customers	370	7,705	370	7,705
Change in amounts due from holding companies and fellow subsidiaries	13	(17)	67	(20)
Change in assets of disposal groups	307	(4,142)	307	(4,142)
Change in other financial assets	284	(585)	284	(585)
Change in other assets	43	(52)	43	(52)
Change in derivative assets and liabilities	(48)	96	(48)	96
Change in bank and customer deposits	(6,718)	(15,299)	(6,718)	(15,299)
Change in amounts due to holding companies and fellow subsidiaries	(3,074)	2,959	(3,078)	2,959
Change in liabilities of disposal groups	(14)	11	(14)	11
Change in other liabilities	(269)	(90)	(266)	(90)
Change in operating assets and liabilities	(9,106)	(9,414)	(9,053)	(9,417)

22. Analysis of changes in financing during the financial year

	Group and Bank					
	Share capital and share premium		Subordinated liabilities		Debt securities in issue (1)	
	2023	2022	2023	2022	2023	2022
	€m	€m	€m	€m	€m	€m
At 1 January	4,236	4,236	86	616	559	601
Redemption of subordinated liabilities			(83)	(530)	-	-
Interest paid on subordinated liabilities and debt securities in issue			(5)	(6)	(4)	(4)
Net cash outflows from financing activities	-	-	(88)	(536)	(4)	(4)
Reduction of capital	(4,236)	-				
Interest payable on subordinated liabilities and debt securities in issue			4	6	4	4
Currency translation and other adjustments	-	-	(2)	-	21	(42)
At 31 December	-	4,236	-	86	580	559

(1) Debt securities in issue are included in amounts due to holding companies and fellow subsidiaries (Note 10).

23. Analysis of cash and cash equivalents

	Group		Bank	
	2023	2022	2023	2022
	€m	€m	€m	€m
Cash and balances at central banks	104	3,409	104	3,409
Loans to banks	7	78	7	26
Amounts due from holding companies and fellow subsidiaries	660	947	660	946
Cash and cash equivalents	771	4,434	771	4,381

24. Transactions with directors

There were no transactions, arrangements or agreements entered into by the Bank in respect of loans to persons who were directors of the Bank (or persons connected with them) at any time during the financial year or previous financial year.

There were no loan balances as at 1 January 2023, as at 31 December 2023 or during 2023 in respect of any individual who served as a director of the Bank in the financial year.

Connected parties

Pursuant to the provisions of the Companies Act 2014 the amounts required to be disclosed include: aggregate amounts outstanding as at 31 December 2023 of €nil (2022 - €123,744) and aggregate maximum amounts outstanding during the financial year of €123,744 (2022 - €1,589,201).

There were no relevant persons for, or with, whom relevant transactions as at 31 December 2023 were made by the Bank (2022 - 2). The maximum number of relevant persons for, or with, whom relevant transactions, arrangements and agreements with the Bank were in place at any time during the financial year was 1 (2022 - 2).

There were no guarantees, security or arrangements involving a guarantee or security entered into by authorised institutions in the Group in respect of guarantees to persons who were directors of the Bank (or persons connected with them) at any time during the financial period (2022 - nil).

At 31 December 2023, the total amount outstanding under any arrangement by the Bank with any director or person connected to a director was less than 10% of the Bank's total assets.

There were no amounts outstanding at 31 December 2023 (2022 - nil) in respect of loans made to directors by subsidiary undertakings which were not authorised institutions.

25. Directors' and secretary's interest in shares

At 31 December 2023 the directors and secretary did not have any interest in the shares or debentures of the ultimate holding company representing more than 1% of the nominal value of its issued share capital.

26. Related parties

UK Government

The UK government's shareholding is managed by UK Government Investments Limited, a company wholly owned by the UK government. As a result, the UK government and UK government controlled bodies are related parties of the Group. The following table details active related undertakings incorporated in Ireland which are 100% owned by the Bank and fully consolidated for accounting purposes.

Entity name	Activity [1]
First Active Limited	OTH
The RBS Group Ireland Retirement Savings Trustee Limited	TR
Ulster Bank Holdings (ROI) Limited	OTH
Ulster Bank Pension Trustees (R.I.) Limited	TR
Ulydien Trust Company Limited	TR
Ulster Bank Dublin Trust Company Unlimited Company	SC

The following table details related undertakings incorporated in Ireland which are 100% owned by the Bank that are in liquidation but fully consolidated.

Entity name	Activity [1]
UB SIG (ROI) Limited	INV

(1) Activity - Other/non-financial (OTH), Service Company (SC), Investment (shares or property)holding company (INV), Trustee (TR)

(a) Directors and key management

At 31 December 2023 the Bank had advanced no amounts to persons who served as directors during the financial period (2022 - nil).

There were no transactions between the Bank and its directors, key management, their close families or companies which they control during the financial year (2022 - nil).

There were no balances outstanding as at 31 December 2023 between the Bank and its directors, key management, their close families or companies which they control.

26. Related parties (continued)

(b) Related party transactions

Included in the Group and Bank balance sheets are the following balances with related parties at the financial year end:

	Group		Bank	
	2023	2022	2023	2022
Assets	€m	€m	€m	€m
Loans:				
Other related parties, including fellow subsidiaries	660	947	660	1,001
Other assets:				
Fellow subsidiaries	6	17	6	17
Derivatives:				
Fellow subsidiaries	-	97	-	97
Total assets	666	1,061	666	1,115

	Group		Bank	
	2023	2022	2023	2022
Liabilities	€m	€m	€m	€m
Deposits:				
Key management	-	1	-	1
Other related parties, including fellow subsidiaries	54	3,086	54	3,090
	54	3,087	54	3,091
Other liabilities:				
Fellow subsidiaries	39	81	39	81
Debt securities in issue:				
Parent companies	580	559	580	559
Derivatives:				
Fellow subsidiaries	22	119	22	119
Total liabilities	695	3,846	695	3,850

(c) Compensation of key management

The aggregate remuneration of directors and other members of key management during the financial year was as follows:

	Group	
	2023	2022
	€	€
Short-term benefits	5,083,544	5,097,749
Share-based benefits	1,378,571	1,131,319
Termination benefits	1,267,936	361,496
Other long-term benefits	97,329	-
Post-employment benefits	263,404	360,581
	8,090,784	6,951,145

27. Ultimate holding company

The Bank's ultimate holding company is NatWest Group plc which is incorporated in the United Kingdom and registered in Scotland. On 1 December 2023, the Bank's immediate parent company changed from NatWest Holdings Limited to NatWest Bank Europe GmbH following supervisory approval. NatWest Bank Europe GmbH is incorporated and registered in Germany.

As at 31 December 2023, NatWest Group plc heads the largest group in which the Bank is consolidated. Copies of the consolidated accounts of NatWest Group plc may be obtained from The Secretary, NatWest Group plc, Gogarburn, PO Box 1000, Edinburgh, EH12 1HQ.

The UK Government, through HM Treasury, currently holds 37.97% of the issued ordinary share capital of the ultimate holding company and is therefore the Bank's ultimate controlling party.

28. Post balance sheet events

There have been no significant events between the financial year end and the date of approval of the financial statements which would require a change to or additional disclosure in the financial statements.

29. Date of approval

The financial statements were approved by the Board of Directors on 14 February 2024.

30. Capital resources - unaudited

Capital management

The capital resources for the Bank are set out below.

	Unaudited [1] 2023 €m	Unaudited [1] 2022 €m
Shareholders' equity	901	2,627
Regulatory adjustments and deductions		
Defined benefit pension fund adjustment	(40)	(46)
Deferred tax assets	(6)	(7)
Prudential valuation adjustments	(18)	(4)
Insufficient coverage for non-performing exposures	(3)	(11)
Other adjustments for regulatory purposes	(56)	(93)
	(123)	(161)
Common Equity Tier 1 capital [2]	778	2,466
Total Tier 1 capital	778	2,466
Qualifying Tier 2 capital		
Grandfathered Tier 2 capital instruments [3]	-	85
Total Tier 2 capital	-	85
Total regulatory capital	778	2,551
Key capital ratios	%	%
Common Equity Tier 1	43.1	38.6
Tier 1	43.1	38.6
Total capital	43.1	39.9
Risk weighted assets by risk	€m	€m
Credit risk	1,060	5,319
Counterparty risk	-	78
Market risk	32	34
Operational risk	713	959
Total risk weighted assets	1,805	6,390

(1) The capital metrics included in the above table have not been audited for the financial years ended 31 December 2023 and 31 December 2022.
(2) The Common Equity Tier 1 capital includes the total comprehensive loss for the financial year.
(3) The Tier 2 instruments subject to CRR2 grandfathering provisions were redeemed during 2023 following regulatory approvals.

In the management of capital resources, the Group is governed by the UBIDAC and NatWest Group policies which are to maintain a strong capital base and maintain a prudent relationship between the capital base and the underlying risks of the business.

In carrying out these policies the Group has regard to and has complied with the capital supervisory requirements of the ECB and CBI throughout the financial year.