**Bank of Ireland Group plc**
Annual Report 2018

# Enabling our customers, colleagues and communities to thrive

Bank of Ireland

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# Annual Report 2018

**Our Ambition** is to be the National Champion Bank in Ireland, with UK and selective international diversification.

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

## Inside this report

# 2018 key performance highlights

## Strong financial performance

**€935m**
Underlying profit before tax

- NIM of 2.20%
- Net impairment gains of €42m
- NPEs reduced by 24% to €5.0bn; NPE ratio now at 6.3%

## Growth

**€1.3bn**
Net lending growth

- New lending €15.9bn, increase of 13% vs. 2017
- New Irish mortgages; Growth of 17%, stable market share of 27%
- Wealth & Insurance; 21% income growth vs. 2017

## Transformation

**3% / €48m**
Reduction in costs

- Taking the lead in building a great culture in the Bank
- Foundations of new core banking platforms in place
- Business model initiatives to drive efficiencies progressing at pace

## Capital

**13.4%**
CET 1 ratio

- Organic capital generation of 180bps
- Dividend increased to 16c per share (€173m) from 11.5c (€124m) in 2017

**55%**
employee engagement score

**58:42**
male / female appointment to management and leadership positions in 2018

**€4.9m**
total community investment in 2018

**50%**
carbon reduction target by 2030 agreed

**c.€14m**
invested in Learning & Development for colleagues

**250**
new customer facing roles

**6,000+**
colleagues attended Purpose & Values Roadshow in 2018

**1,396**
volunteer days

**16m**
interactions on our digital channels every month

**Further information on measures referred to in our 2018 key performance highlights is found in Alternative performance measures on page 326.**

# Chairman's review

The Group's financial position is strong and our strategy is clear. Over the period to 2021, our priorities are to transform our culture, systems and business model, serve customers brilliantly and grow sustainable profits.

**Patrick Kennedy**
Chairman

I am delighted to have been appointed as Chairman and Governor. This is an exciting time to be at Bank of Ireland; building on very strong foundations, our next chapter is one of transformation, investment and growth.

## Strategy

Our ambition is clear: to be the National Champion Bank in Ireland, with UK and selective international diversification. This is ambitious, but realistic. It is in our hands to deliver.

At our Investor Day in June 2018 our CEO, Francesca McDonagh, and her executive team set out Bank of Ireland's strategy. We will transform the bank, serve customers brilliantly, and grow sustainable profits. This will deliver multi-year growth across the Group's businesses and franchises. Good progress has already been made against the growth and transformation strategy with the Group performing strongly during 2018 across all of our businesses.

Customer expectations continue to evolve rapidly. The financial services sector must adapt and develop to meet these expectations and compete efficiently. While electricity powered the 20th century, technology will fuel the 21st century. Our significant technology investment means the Group is well positioned to face the many opportunities and challenges on the horizon. Successful implementation of our business transformation strategy will enable us to compete from a position of strength and ensure we continue to support our customers and drive economic activity in our core markets. I am confident the Group will deliver against its objectives.

I am excited about our new chapter in becoming Ireland's National Champion Bank. The Group plays a pivotal role in enabling and supporting growth, investment and prosperity in Ireland. We are investing in our people, our infrastructure and our businesses to strengthen the level of support, products and services we provide to all of our Irish consumer, business and corporate customers.

We are also investing in our UK and international businesses. This investment represents important strategic diversification for shareholders and attractive opportunities for growth. Improving returns in our UK business is a priority. We continue to strengthen and enhance our long standing partnership with the UK Post Office and our more recent partnership with the Automobile Association (AA). While Brexit uncertainties remain to the fore, we continue to take appropriate steps to mitigate related risks to the Group and our customers.

The Group's strong operating and financial performance combined with continued organic capital generation has contributed to a robust capital position in 2018. The Group continues to have the capital and liquidity available to support our strategic ambition and commitment to our Irish, UK and international customers.

The strength of the Group's financial performance is evident in our dividend. I am pleased to announce a proposed dividend in respect of 2018 to shareholders of 16 cent per share, an increase on the 11.5 cent per share in 2017. This demonstrates continued progress against our ambition to increase dividends on a prudent and progressive basis and, over time, build towards a payout ratio of around 50% of sustainable earnings.

## Purpose

Our purpose is to enable our customers, colleagues and communities to thrive. An appropriate corporate culture embedded across the organisation is necessary to underpin this purpose. There is much to like in Bank of Ireland's existing culture, but we are aiming to sharpen the customer focus, agility, accountability and collaboration across the organisation.

Customers are deliberately referred to in our purpose and values. We want to develop and maintain long term sustainable relationships based on trust and confidence. We aim to provide the right products and services, through the right channels, to meet our customers' preferences. We will enhance customer experience through investment across our multi-channel platforms.

Conducting our business responsibly is an integral part of our interactions with our customers, colleagues and communities. It is positive that our approach to responsible business continues to be recognised externally, including accreditation by the National Standards Authority of Ireland.

## Board

Archie Kane stepped down as Chairman and Governor on 31 July 2018. I would like to thank Archie for his service to Bank of Ireland since his appointment in 2012 until his recent retirement. His considerable experience and sound judgement were invaluable to the Group. During his time as Chairman, Bank of Ireland repaid in full the support received from the Irish State during the financial crisis, exited the Eligible Liabilities Guarantee Scheme, returned to sustainable profitability, and recommenced dividend payments.
As detailed in the Corporate Governance Statement on pages 120 to 129, we regularly review the Board's composition and diversity. We are committed to ensuring we have the right balance of skills and experience within the Board, including diversity across all its dimensions. The Board has retained its gender diversity target of 33 per cent female directors by the end of 2020, and has a medium term aspiration to have broadly equal gender representation.

Evelyn Bourke and Ian Buchanan joined the Board in May 2018. Evelyn has a strong track record in global executive management and extensive experience in financial services, risk and capital management, and mergers and acquisitions. She was appointed CEO of Bupa Group in July 2016. She is also a member of the Bupa Board.

Ian has extensive technology, digital, business transformation and customer operations experience gained through his work in a number of international retail, commercial and investment banks. Ian is a non-executive director at Openwork, one of the largest financial advisor networks in the UK, and a senior operations and technology advisor to Cerberus Capital Management.

Steve Pateman joined the Board in September 2018. Prior to joining the Board, Steve served as CEO of Shawbrook Bank and held a variety of senior positions at Santander, RBS and Nat West. Steve has extensive knowledge of the banking sector, particularly in corporate and retail banking, and has considerable lending experience in the UK.

Davida Marston retired from the Board in September 2018. I would like to thank Davida for her contribution and commitment over almost six years of membership of the Board.

I am delighted that Patrick Haren has succeeded me in the role of Deputy Chairman and Deputy Governor. He brings considerable experience and judgement to this role and I look forward to working closely with him.

## Remuneration

After a period of restructuring, the Group is in a strong financial position. We are seeing a return to normalisation within the banking sector in Ireland; however, challenges remain, including the attraction and retention of staff at all levels in an increasingly competitive labour market.

Shareholders were advised in the Chairman's Letter and Notice of the 2018 Annual General Meeting (AGM) that the Group's goal is to operate a remuneration policy including variable remuneration consistent with European Banking Authority (EBA) guidelines. To this end, the Group Remuneration Committee (GRC) engaged with major shareholders during 2018 in regard to the adoption of an appropriate executive incentive scheme and to obtain feedback from major shareholders. Any such scheme is subject to the removal or amendment of the current remuneration restrictions in Ireland and approval by shareholders.

## Outlook

In a rapidly changing world, we believe we have the right strategy and approach to transforming our business. I am confident that the quality of the Group's businesses and franchises, combined with a clear customer focus, strong leadership from Francesca and her executive team, and the commitment of colleagues across the Group, position us well to deliver value for our shareholders. We look forward with confidence to 2019 and beyond.

# Chief Executive's review

The Group has made good progress in 2018 and is already delivering against the strategic targets for growth and transformation we have set out for 2021.

**Francesca McDonagh**
Group Chief Executive

I am pleased to report that good progress has been made by the Group in 2018.

We defined our multi-year strategy in June 2018, setting out clear targets until 2021. We have grown our loan book with net lending of €1.3 billion in 2018 as we support our retail and corporate customers across all our markets. This inflection point represents growth for the first time in a number of years and we are confident of further growth. We have reduced our operating expenses by 3%, a first step towards fundamentally improving the Group's efficiency. Our systems transformation has made good progress with the testing of our first customers on the new core banking platform. We are taking actions to increase returns in our UK business. Our non-performing exposures (NPE) continue to reduce. This progress underpins our 2018 results, with the Group delivering an underlying profit of €935 million.

Our ambition is clear - to be the National Champion bank in Ireland, with UK and selective international diversification. We have defined the culture we want at Bank of Ireland while achieving this ambition. I believe this cultural transformation is as important as the changes we are making to our technology and business model.

## Strategic ambition

Our strategic priorities are to transform the bank, serve customers brilliantly and grow sustainable profits. Delivering on these priorities is key to achieving our ambition. We have accelerated and broadened our transformation with a particular focus on growth in Ireland, and a reshaped UK business to generate increased profitability and returns.

Expected growth in our Irish business will drive expansion in lending volumes and fee income, and increase our revenue on a sustainable basis. We will enable this by allocating capital and resources to be the leading supporter of home building and buying in Ireland, and building out our wealth management and insurance business.

We are committed to investing in our multi-year transformation programme including our core technology investment. This will support our growth ambitions, improve customer service, and drive efficiency. Transformation will also build a truly customer focused organisation which positively impacts the communities we serve and delivers attractive, sustainable returns to our shareholders.

A strategic focus is to increase returns in the UK market. We will do this by investing in the growth of our more profitable businesses; improving those businesses that have potential but need to deliver better returns; and repositioning those businesses where we have less certainty about achieving our return expectations.

Execution and delivery of the Group's strategic plan will enable us to generate a return on tangible equity in excess of 10%, reduce our costs to €1.7 billion in 2021, and prudently and progressively increase our dividend per share over time, building to a payout ratio of around 50% of sustainable earnings.

## Strong performance in 2018

The Group generated an underlying profit before tax of €935 million in 2018. All trading divisions are profitable.

The Irish economy performed strongly in 2018 and continues to be the fastest growing economy in the Eurozone. Despite Brexit uncertainties, the UK economy expanded, but at a more moderate pace in 2018. Job gains continued in both economies, with the unemployment rate ending 2018 at a 10-year low of 5.7% in Ireland and at a multi-decade low of 4.0% in the UK. Brexit-related uncertainty is however impacting on sentiment and activity levels. In Ireland, some firms have put their investment plans on hold and in the UK there is a clear weakening in investment by businesses.

Net Lending of €1.3 billion represented growth for the first time in a number of years. New lending volumes of €15.9 billion were 13% higher than the same period in 2017 on a constant currency basis. New mortgage lending in

Ireland increased by 17% compared to 2017 and we maintained our market share at 27%. We successfully re-entered the broker mortgage channel in Ireland in late 2018, leveraging off our award winning technology platform from the UK. The fundamentals in the Irish market remain strong and we continue to support home building and buying. In 2018, we funded the construction of 5,400 new homes on 140 sites as well as 2,750 student beds including 1,400 under development. In the UK, we grew our new lending by 13% and remain committed to improving returns in an increasingly competitive market, whilst maintaining commercial pricing and risk discipline.

We are transforming our culture, systems and business model and this is delivering efficiencies across the Group. Operating expenses (excluding levies and regulatory charges) in 2018 of €1.9 billion decreased by €48 million or 3% compared to 2017. This included €113 million, or 37%, of the €306 million we invested in our transformation programme during the period. We expect operating expenses to further reduce in 2019 and each year to 2021.

Transformation of our technology remains a key enabler to support growth, improve customer experience, and drive efficiencies in our businesses. The investments we are making in our core banking platforms will deliver simpler, state of the art technology, and improve our digital channels, services and security. A number of key programme milestones have been delivered in 2018. The foundations of our core banking platforms are now in place. A single customer view of over 2 million customers has been created and we have commenced the testing of loan and deposit origination on the new Temenos platform. Our new mobile banking app will launch during 2019, delivering an improved customer experience for retail customers.

Our fully loaded CET 1 capital ratio was 13.4% at December 2018. The Group continues to generate strong organic capital with organic capital generation of 180 basis points in 2018. We continue to strategically invest and allocate this capital supporting ongoing investments in loan book growth, our transformation programme, regulatory capital demands and distributions to our shareholders. Our capital and dividend guidance remains unchanged and the strength of our capital position is reflected in a proposed dividend of 16 cent per share or €173 million.

Our net interest margin (NIM) for the Group was 2.20% in 2018. This reflects the positive impact from new lending margins and our continued strong commercial pricing discipline, offset by the impact of the ongoing low interest rate environment, NAMA sub debt reclassification and competitive pressures in the UK mortgage market driving lower than expected market pricing and shorter customer reversion periods.

Fees and other income of €625 million arise from diversified business activities including wealth, bancassurance, foreign exchange (FX) and transactional banking fees. This includes sustainable business income of €672 million, an increase from €662 million in 2017. A key driver of this was the growth in our Wealth and Insurance business where income grew by c.20% and market share grew by c.2%.

Our asset quality continues to improve. This reflects ongoing improvement in the credit quality of our loan portfolios, our actions to manage our non-performing loans and the positive economic environment and outlook particularly in our home market in Ireland. We had net impairment gains of €36 million in 2018. NPEs reduced over the year by €1.5 billion to €5.0 billion, which equates to an NPE ratio 6.3% of gross customer loans. NPE reduction strategies continue to be kept under review given the evolving regulatory framework.

## Customers, Colleagues and Communities

Customers are the absolute core of our businesses. Their expectations and preferences are changing rapidly and we have been listening to them, and taking action. We have upgraded over 100 branches to full service branches while also recruiting 250 frontline staff to drive improved service levels. With an average of over 10 million monthly engagements on our mobile app during 2018, up over 25% on 2017, our customers are increasingly choosing digital and self-serve channels. Our customer focused strategy is to serve customers brilliantly and we continue to invest across all our businesses. We will do this as we transform our businesses by providing products and services which meet their financial requirements through easy, simple and accessible processes which align to their digital expectations.

With our ambition to become the National Champion Bank we are taking the lead in building a great culture in the Bank. Culture enables long term customer relationships, a reduced cost of risk, and growth in sustainable revenue and I am committed to embedding a new culture within the Group. During 2018, over 6,000 colleagues attended purpose and values roadshows and there has been a continual improvement in our staff engagement level scores - improving from 50% to 55%. There is still far more to do. We are also transforming our ways of working for our colleagues as we further invest in capabilities and agile working practices.

Fostering an inclusive and diverse workforce is critical to ensuring that Bank of Ireland is reflective of the modern and diverse communities we serve, as well as building a better place to work and a better place for our customers to do business. We will continue to focus on attracting, developing and retaining the talent we need to deliver our ambition. In 2018, I set out a commitment to achieve a 50:50 gender ratio in all new management and leadership appointments by 2021, and we are making good progress with females representing 42% of all senior appointments in 2018.

The extensive reach of the Group allows us to engage and support our customers in their local communities and enterprises. In 2018, we hosted over 64 local enterprise events, reaching 225 communities. Our Innovation Programme hosted over 550 events across our Workbenches and Startlabs.

Responsible and sustainable business is of significant importance to our colleagues across the Group. Our new integrated report includes a comprehensive account of our business approach and practice from the perspective of customers, colleagues and communities on pages 18 to 25.

## Looking forward

2018 has been a year of business growth, improved efficiency, and progress in the transformation of our culture, systems and business model. We are on the right track to achieve our 2021 commitments. We are mindful of the risks and uncertainties relating to Brexit and the global economy. However, we are committed to making further progress against our strategic objectives in the year ahead.

We expect our loan book to grow again in 2019 with our NIM to be c.2.16%. We expect further reductions in operating expenses, and asset quality to continue to improve. Absent a deterioration in the economic environment or outlook, we continue to expect the net impairment charge to be in the range of up to 20 to 30 basis points per annum during 2019 to 2021.

I am confident in our ability to execute our strategy and we will continue to responsibly develop our profitable, long term franchises, and achieve our ambition to serve our customers brilliantly in a way that delivers attractive, sustainable returns to our shareholders.

# Our purpose and values
## Bank of Ireland has a clearly articulated purpose underpinned by our four values

## Our purpose

### Enabling our customers, colleagues and communities to thrive

Bank of Ireland's purpose is to enable our customers, colleagues and communities to thrive.

**Customers** are at the heart of our business and always come first.

**Colleagues** keep our organisation working, innovating and adapting to meet our customers' needs.

**Communities** are where we live and work and also include other groups both local and global such as our shareholders, regulators, government and partners.

## Our values

Our purpose is supported by four key values which guide us in everything we say and do.

### Customer focused

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

### One Group, One Team

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

### Agile

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

### Accountable

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

'Typically, the most successful companies in the world are the most purposeful. Turning our purpose into a reality is a big part of my role as CEO. We want to transform and grow to become the National Champion Bank in Ireland. But this isn't just about our organisation - the way we live this purpose should have a positive effect because it will change how we serve our customers'

**Francesca McDonagh**
Group CEO, Bank of Ireland

# Our ambition
## To be the National Champion Bank in Ireland


## Our ambition

### To be the National Champion Bank in Ireland

Bank of Ireland's ambition is to be the National Champion Bank in Ireland, with UK and selective international diversification.

To be a 'National Champion', we will have strong market shares and be a driver of economic growth. We will be focused and transparent in how we run our businesses, and be recognised as a consumer champion by our customers. We will have a strong brand position, and be an employer of choice.

Delivering on this ambition will transform Bank of Ireland for our customers, colleagues and communities.

We will be easier to do business with and to bank with - supporting our customers in the way, at the time and in the place they want. And, we will be a better place to work - closer to the customer, with the right culture and our values guiding all we say and do.

To achieve our ambition we have set three strategic priorities. These are to transform the bank, serve customers brilliantly, and grow sustainable profits.

Our Group strategy to 2021 is anchored in these priorities. We have set out a clear strategy for the Group which is focused on transformation, customer service and growth, coupled with clear financial targets.

# Our strategy
## To transform the bank, to serve customers brilliantly and to grow sustainable profits

‘I am confident in our ability to execute our plan, materially enhance the sustainable returns for our shareholders and deliver on our shared common purpose ‘Enabling our customers, colleagues and communities to thrive’

**Francesca McDonagh**
Group CEO, Bank of Ireland

‘Investor Day’ - 13 June 2018

In June 2018 we set out our strategy. We are changing our culture, our systems and our business model to support our growth ambitions, improve customer service and become a progressive employer of choice.

In the coming years we will build on our strengths, unique history and heritage, and proven capabilities. We have strong businesses and close relationships with our customers. We operate in growing economies in Ireland and the UK. We are Ireland’s leading retail and commercial bank, with select and profitable operations in the UK and internationally. And our Markets and Treasury business has a proven track record.

Our plans for the future are also informed by our experience of the past decade. The Bank has moved from restructuring and risk reduction after the financial crisis to greater stability in recent years, and we now see growth and transformation opportunities. The regulatory framework continues to be demanding, with strong capital and investment requirements. This evolving framework is a challenge that we must navigate carefully and effectively to ensure we meet our customers’, shareholders’ and regulators’ expectations.

Our growth opportunities are primarily in Ireland which is an attractive, modern and outward-looking market, undergoing its own transformation. Reflecting the country’s National Development Plan, ‘Ireland 2040’, we foresee population growth of over one million people, a one-third increase in job creation and people living in half a million new homes. We’re investing in our channels including maintaining and upgrading our branch network as well as deepening our intermediary relationships. Technology that balances with an engaging personal experience, is an opportunity for our bank. And we’re focused on what matters most to our customers - those big decisions that punctuate their lives, like buying a home, growing a business, and protecting their family.

Unlocking growth in our Irish business will drive expansion in lending volumes and fee income, while increasing our revenue. We will enable this by reallocating capital and resources to be the leading supporter of home building and buying in Ireland and by maximising our wealth management and insurance business.

In all this, our customers, colleagues and shareholders have high expectations that we must meet and strive to exceed.

By the end of 2021, delivering our strategy will see Bank of Ireland as:
- a trusted brand that has retained customer loyalty and acquired new business;
- a strong enabler of the success of the fastest growing economy in Europe; and
- having taken some tough calls to be efficient, build a talented team and fulfil our potential.

## Our ambition

National Champion Bank in Ireland; UK & selective international diversification

## Our purpose

Enabling our customers, colleagues and communities to thrive

## Our values

Customer focused

One Group, One Team

Agile

Accountable

## Strategic priorities

| Transform the Bank | Serve customers brilliantly | Grow sustainable profits |
|---|---|---|
| Culture<br>Systems<br>Business model | #1 for service<br>#1 for brand | Increase revenue<br>Reduce costs<br>Manage risk |

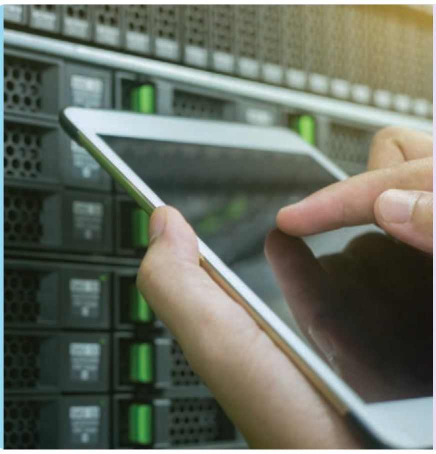
# Our strategy
## Transform the Bank

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

| | Context | Target outcomes |
|---|---|---|
| Culture | We have embarked on a multi-year transformation of our culture. A healthy internal culture improves staff engagement and becomes a magnet for talent. It also creates great customer outcomes, long-term customer relationships, a reduced cost of risk, and growth in sustainable revenue. Changing our culture is central to the bank's transformation, but it won't happen overnight. Throughout 2018, we focused on building awareness of our purpose and values and establishing baseline measures through roadshows and employee engagement research. Next steps are to embed the changes underway so that colleagues experience them in their day-to-day working lives. | • Best-in-class employee engagement.<br>• All management and leadership appointments will represent a 50:50 gender ratio by end 2021. |
| Systems | We are making a significant investment in transforming our systems as technology is critical to our growth strategy - it enables our transformation and improves efficiency, but it also improves our service to customers, who increasingly expect 24/7 banking, or banking on the move and on their phone. We are replacing our core banking systems to improve efficiency and to enhance customer experience. Almost 80% of our customer base is digitally active with over 16 million interactions in our digital channels every month and we will launch a new mobile app in 2019 to improve our digital services. | • Improved customer experience.<br>• Simplification of products and processes.<br>• Excellence in digitisation and robotics.<br>• Cost base reduced from €1.9 billion to €1.7 billion.<br>• Digital across all technology 'layers' from core to customer facing channels. |
| Business model | We have reviewed our current business model and how we are organised and resourced, and identified clear opportunities to further reduce costs and improve overall efficiency. We are becoming a flatter organisation by reducing the layers between the CEO and frontline and by getting closer to our customers. Technology and automation must blend with personal experience to support the engaging relationships we want to have with our customers. Digital services are best combined with a physical presence, and while we have a clear plan to reduce costs, it won't be at the expense of customer service delivered by the largest branch banking network in Ireland. | • Focused front line organisation.<br>• Simplified, delayered structure.<br>• Effective, sustainable sourcing arrangement.<br>• Diversified set of efficient portfolios. |

## What we've achieved in 2018

- Launch of an extensive programme of cultural transformation.
- Colleague engagement has increased each quarter from 50% (2017) to 53% (Q1: 2018) to 55% (Q2: 2018).
- 76% of Bank of Ireland employees believe the strategy being followed is the right one, which is 9% better than the Global Financial Services (GFS) norm.
- 6,000 colleagues participated in 50 roadshows across the Ireland and the UK on our purpose and values.
- In 2018, the ratio of management and leadership appointments were 58:42 male / female.
- The Bank joined the board of the 30% Club.
- In 2018, the Bank supported the establishment of the Irish Banking Culture Board.



- 2018 infrastructure build of our new platform sets a foundation for the delivery of future planned enhancements including PSD2 compliance.
- Single customer record created for over 2 million customers.
- The first customer transactions were tested successfully on our new core banking platform for deposits and loans.
- Development of new mobile banking app commenced with launch expected in 2019; which will represent the first full scale customer deliverable using new Temenos technology.
- Our state-of-the-art robotics capability, recognised as the largest in Ireland is improving outcomes for customers. We are now running 100 robots across 120 processes, improving processing times and reducing risk of error.
- The use of robotics to search systems for proof of identification has avoided the need to contact more than 250,000 customers to request information.

- €34 million / 4% reduction in staff costs with 55% of end-state spans and layers structure completed.
- We have enhanced our customer facing business and are building capability in key areas such as IT Change delivery and analytics.
- Consolidation of Dublin footprint by reducing the number of office buildings occupied.
- Introduction of flexible working across the organisation.
- Creating a leaner, agile organisation with over half of the end-state organisational design now complete and 8% reduction in senior management roles.

# Our strategy
## Serve customers brilliantly

We are committed to building a customer-focused organisation that invests in improving service and digital capabilities, while also getting the basics right. We listen to customers and respond to their feedback. We are investing in our brand to help our customers know what we stand for and how we bring value to their lives.

| | Context | Target outcomes |
|---|---|---|
| Embedding voice of customer in our businesses | Customers are the heart of our business. But the way they bank, and the services they expect, are changing and evolving faster than ever. We are committed to improving the financial wellbeing of our various customer segments through a suite of initiatives relevant to their life stages. Listening to what our customers want, understanding and acting on their reasons for complaining about our service and building segment specific propositions and strategies that will enable our customers to thrive both now and in the future is the core of our customer strategy. | • Significant improvement in customer satisfaction and advocacy.<br>• Clear listening posts for all customer cohorts.<br>• Serving customers around their key life moments.<br>• Customer centricity at the heart of our culture.<br>• Colleagues enabled to serve customers brilliantly. |
| Investing in digital and physical channels | We're investing in our channels including an upgrade to our branch network and deepening our intermediary relationships. We have the most extensive owned branch network in Ireland with 40% of our frontline staff now enabled to meet our customers at a time and place that suits them. Transforming the bank will further deliver on our customers' appetite for better digital services. This includes new channels and features that are intuitive and offer a full range of services. We'll make further progress on redesigning key customer journeys supported by investment in robotics. This makes everything faster and easier for customers and reduces costs. | • Digitally enabled Bank.<br>• Straight through processing; digital journeys.<br>• Build the API foundation for Open Banking. |
| New brand strategy | We have identified our brand purpose and drivers, putting the customer at the heart of everything we do. We are repositioning our brand to bring our purpose to life in a way that differentiates us and offers real value to our customers, colleagues and communities. This new positioning will bring all constituent parts of the business together and will be reflected in new advertising and sponsorship assets. Our creative brand position will sustain us over the next three to five years. | • #1 Bank brand in Ireland. |

## What we've achieved in 2018

- Established the Group Customer Board to drive improvement in service levels and customer propositions.
- Delivered a 'Brilliant Basics Programme' across the organisation gathering ideas from our colleagues: 3,100+ ideas and suggestions made, with 50% actioned by the end of 2018.
- Trained 3,800+ frontline colleagues in our 'Be the Difference' training programme - improving our customer service capability across the Group.
- Successfully re-entered to the Irish mortgage broker market using award winning UK mortgage broker platform with launch of The Mortgage Store in October.
- In the youth segment, current accounts have increased by 7% over the past 2 years to over 440,000 customers, and our student market share has increased from 41% to 43%.
- Post Office Money improved its Net Promoter Score for customer loans to second in the UK market.

- Direct and digital wealth sales increased to 35%.
- During 2018, we upgraded 101 branches to full cash services and increased our focus on call centres, increasing customer facing roles by c.15%, resulting in higher service levels and fewer complaints.
- We processed c.280 million customer electronic payments, including c.65% of all credit transfers and c.45% of all direct debits processed in Ireland - a 5% increase over 2017 volumes.

- Creative Brand Platform developed and due for launch in March 2019.
- Proud sponsor of all four rugby provinces in Ireland.
- €4.9 million total community investment in 2018 which incorporates our 'Give Together' charity investment programme, enterprise programme, community sponsorships and financial wellbeing programmes. Highlights include:
  - 1,396 days volunteered in our communities;
  - National Enterprise Town Awards with entries from 83 towns; and
  - 110,000 financial literacy hours delivered to students across Ireland.

# Our strategy
## Grow sustainable profits

We are focused on delivering sustainable returns for our shareholders. This is based on business growth in our key markets to expand lending, grow fee income and increase revenue sustainability. At the same time, our costs will reduce each year as the benefits are realised from multi-year transformation investment. Our UK business is being reshaped to increase returns and improve margins and efficiency.

| | Context | Target outcomes |
|---|---|---|
| Business growth | Creating growth in our Irish business will expand lending volumes and fee income, and increase our revenue. We're allocating capital and resources to help us become the leading supporter of home building and buying in Ireland, and to grow our wealth management and insurance business. As Ireland's leading retail and commercial bank and the only bancassurer in the market, we are building on our strengths, supported by the strong fundamentals - in particular the demand for housing and the supportive demographic changes called out in Ireland 2040, the national planning framework. | • National Champion Bank in Ireland with selective international diversification.<br>• Leading supporter of home building and buying in Ireland.<br>• Building out wealth and insurance business.<br>• Loan book growth in Retail Ireland of c.20% by 2021; Corporate Banking up €4 billion, c.50% in Ireland. |
| Accelerated benefits from transformation investments | A broader and accelerated transformation means a deeper investment in our IT systems to support our growth plans, to better serve our customers and to improve efficiency. Independent of the investment in our systems, we are also changing how we are structured as a business. This broadening and accelerating of our transformation will enable our costs to reduce every year between now and 2021. | • An improvement in our cost income ratio from 65% today, to c.50% in 2021. |
| Reshaping the UK business | Bank of Ireland is committed to the UK market where our focus is on increasing returns. We are investing in profitable parts of our UK business to support further growth. In other parts of our UK business we are improving returns by reducing costs of funding, customer acquisition and servicing. We are repositioning business where less certainty exists about meeting hurdle expectations including our UK credit card portfolio. | • Lower cost of funding, acquisition and servicing.<br>• New propositions targeting under-served customer segments.<br>• Reviewing those portfolios and products where returns are below expectations.<br>• Loan book growth in UK of c.10% by 2021. |

## What we've achieved in 2018

- Underlying profit of €935 million with all trading divisions profitable.
- #1 Corporate Bank position maintained.
- Growth in net new lending volumes in Ireland of €1.3 billion - representing the first growth for many years.
- New mortgage lending increased by 17% to €2.3 billion in Ireland.
- Organic capital generation of 180 basis points enabling investment in loan book growth and transformation programme.
- Improved asset quality with NPEs reduced by 200 basis points to 6.3% of gross loans.

- Cost reduction across the organisation, in line with improvement in spans and layers, and targeted spending behaviours to reduce professional fees.
- Reduction of €48 million in operating expenses, while continuing to invest in our Transformation programme, with a €113 million charge in 2018.
- We have rationalised and optimised our spend with third parties, and have embedded cost awareness through effective policies and governance, the results of which are evident though significant third-party cost reduction:
  - 34% / €32 million reduction in professional fees;
  - 18% reduction in travel costs; and
  - 65% reduction in Day Rate Contractors.

- New lending across all portfolios increased in 2018 by 13% to £5.2 billion, maintaining commercial and risk management discipline, while launching a number of new products including those supporting first time mortgage buyers.
- Northridge new business lending exceeded £1 billion (+30% versus 2017).
- Deleverage of legacy commercial lending portfolios ahead of plan.
- Strong margin management across deposits.
- Core operating costs reduced year on year

# Responsible and sustainable business

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

Having previously published a stand-alone Responsible Business Report, we now present our non-financial performance as part of our new Strategic Report. Combining the Group's financial and non-financial performance in one single report provides a comprehensive picture of the Bank's activities in 2018.


## Growing expectations

Responsible and sustainable business is an evolving area, and the expectations of stakeholders for greater transparency, are continually growing. Adopting the Sustainable Development Goals at a national level in Ireland, increases their relevance to both business and society. Legislative change is also affecting this area, with the EU non-financial reporting directive now including issues such as diversity and human rights. In addition, cultural change and business transformation within the Bank (as outlined on pages 10 to 17) are creating a context for increased focus on this area.

## Stakeholder engagement

Engaging our stakeholders helps us address the issues that are important to them and understand their expectations, so we can continually evolve our responsible and sustainable business approach. We engage with a wide variety of stakeholders, including customers, colleagues, partners, Non-Governmental Organisations (NGOs) and investors, as well as experts in the area of responsible and sustainable business. We do this through research, meetings, media analysis, and participation in expert forums and other events, and we use what we learn to inform our planning in this area.

## Governance

The Group Nomination and Governance Committee (GNGC) of the Board has overall responsibility for Responsible and Sustainable Business. It receives regular updates on progress, and reviews and approves the annual programme. Responsibility for implementing the programme as approved by the committee rests with an expert Responsible and Sustainable Business Team.

## Future development

Given growing expectations, stakeholders' interest and the business transformation within the Bank, we intend to evolve our responsible and sustainable business approach further in 2019. This will include publishing a multi-year plan informed by a materiality exercise, the successful reaccreditation of the Business Working Responsibly Mark, and the development of a community and charity investment strategy fully aligned to our business.

Our performance in 2018 is presented in the following pages through the lens of customer, colleague and community in line with our Group Purpose.


### Improving our culture

Our commitment to being a responsible and sustainable business includes transforming our culture within the bank and playing our part in cultural improvement across the wider sector. In 2018, we supported the establishment of the Irish Banking Culture Board (IBCB) - an independent board funded by five retail banks in Ireland. The IBCB has been formed in recognition of the fact that public trust in the banking sector has been damaged and that a determined effort is required to rebuild that trust and support cultural reform. In late 2018, the IBCB surveyed all colleagues within the five retail banks, held a public consultation, and appointed Mr Justice John Hedigan to the role of Chairman.

At the invitation of our regulators, Bank of Ireland took part in a number of events to contribute to the debate on cultural change in the sector. In October, our Group CEO Francesca McDonagh participated in a panel discussion as part of a joint Central Bank of Ireland (CBI) and Trinity College Dublin conference on corporate governance, 'Culture, Diversity and the Way Forward'. In November Francesca also addressed the European Central Bank (ECB) conference on 'Communications ethics and compliance: risk, reputation and returns' in Frankfurt, on the topic *'Values and valuations - why culture in banking really matters'*.

## Non-financial information statement

We aim to comply with the new European Union (disclosure of non-financial and diversity information by certain large undertakings and groups) Regulations 2017. The purpose of this table is to assist stakeholders in understanding our policies and management of key non-financial matters.

| Reporting Requirement | Policies | Risks and Management |
|---|---|---|
| **Environmental matters** | • Group Environment policy (ISO 14001)[1]<br>• Group Energy policy (ISO 50001)[1] | • Environment and Energy *(page 26)* |
| **Social and employee matters** | • Inclusion and Diversity policy<br>• Group Code of Conduct[1]<br>• Equal opportunities policy<br>• Group Health and Safety policy<br>• Employee Data Privacy<br>• Group Vulnerable Customers Policy<br>• Group Learning Policy | • Vulnerable customers *(page 21)*<br>• Inclusion and diversity *(page 23)*<br>• Learning *(page 23)*<br>• Wellbeing *(page 23)*<br>• Employee Representative Bodies *(page 23)*<br>• Communities *(page 24)*<br>• People risk *(page 62)* |
| **Respect for human rights** | • Modern slavery and human trafficking statement[1]<br>• Group procurement policy<br>• Group data protection and privacy policy | • Information security *(page 21)*<br>• Operational risk *(page 103)* |
| **Bribery and corruption** | • Group Code of Conduct[1]<br>• Speak Up policy<br>• Group Anti-Money Laundering Policy (AML)<br>• Group Anti-bribery and Corruption Policy | • Code of conduct *(page 27)*<br>• Integrity and honesty *(page 27)*<br>• AML *(page 27)*<br>• Conduct risk *(page 100)* |
| **Diversity report** | • Board Diversity Policy[1] | • Corporate Governance statement *(page 120)* |
| **Business model** | | • Divisional Review *(page 42)* |
| **Policies followed, due diligence and outcome** | | • Risk management framework *(page 68)* |
| **Description of principal risks and impact of business activity** | | • Key risk types *(page 31)*<br>• Principal risks and uncertainties *(page 61)* |
| **Non-financial key performance indicators** | | • Key highlights *(page 3)* |

[1] *These policies are available on the Group's website. All other policies listed are not published externally.*

# Responsible and sustainable business
## Enabling customers to thrive

There are many sides to our responsibility to our customers. Supporting their financial wellbeing is a key part of this responsibility, as well as ensuring that we are inclusive of our more vulnerable customers. As the bank with the largest branch network in Ireland, we are uniquely placed to support the business community.

### Tracker mortgage

Serving customers brilliantly is one of our strategic priorities. In 2018, we placed a major focus on making things right for customers affected by the tracker mortgage issue - ensuring relevant customers were on the right rate and making them an offer of redress and compensation appropriate to their circumstances. We continue to engage with our regulator on the issue. We are fully committed to becoming a more customer focused bank, and to rebuilding trust with our customers and the wider society we serve.

### Financial wellbeing

Financial wellbeing is defined as 'the extent to which someone is able to meet all their current commitments and needs comfortably and has the financial resilience to do so' (CCPC, 2018). We have a responsibility to enable and promote financial wellbeing among our customers and our communities. In 2018, we focused our support in this area on our younger and older customers.

### Younger customers

Within our youth segment, our main objective is to enable young people to thrive, through engaging financial wellbeing programmes for students throughout Ireland. Our comprehensive youth literacy programme focuses on two critical life-skill areas, financial skills and enterprise education.

**Specific activities include:**

- 'Talking Cents with Ollie magazine', a financial literacy magazine for primary schools.
- BizWorld, a two-day entrepreneurship programme for 4th and 5th Class students with over 10,000 participants in 2018.
- Financial Literacy Week to help secondary students understand basic financial skills.
- TY Academy - a three-day workshop that helps students develop key skills and provides practical guidance on starting their own business was held for students from 200 schools.
- Financial Literacy Weeks in third-level colleges, including the 'Quest Room' (an escape room with financial literacy questions).

Peter Cooney is one of 29 National Youth Coordinators supporting our financial wellbeing programmes for students. Based in Wexford and in the role since August 2017, Peter enjoys the opportunity to build a community and bring the youth programmes to life in schools.

### Older customers

Supporting our customers at all stages of life is essential. We always strive to engage with our older customers to ensure we meet their ever-changing financial needs.

**Specific activities include:**

- 'Manage Your Money Safely' - a training programme with our flagship charity partner, Age Action, including a 60-minute session focusing on digital, card and doorstep security for older people. This has been delivered to 300 participants around the country since its launch in November 2018.
- Positive Ageing Week (PAW) 2018 - with Age Action. It included 54 Bank of Ireland events, held nationwide with up to 1,000 people attending in total.

We aim to enhance our services for older customers, with a new home-improvement loan proposition, wealth products, and Age Friendly Ireland reaccreditation, among other developments.

**110,000**
literacy hours delivered to students across Ireland

**300**
older people through the 'Manage your money safely'

**620MW**
of wind energy funded

**€800,000**
invested in communities across Ireland through our National Enterprise Programme

## Silver thread

Silver Thread is a company set up by two women who believe everyone has a story to tell that can become part of their legacy. We worked with them on two initiatives in 2018. The first celebrated the centenary of Bank of Ireland Charlestown as part of Positive Ageing Week 2018; the second, at Bank of Ireland Finglas, captured some of our customers' Christmas memories. In both, we ran workshops with older people from the local communities (customers and non-customers) who brought photographs with them relating to the Charlestown and Christmas topics. Through dialogue and storytelling, the background of each photo was brought to life, and Carmel and Cathy of Silver Thread documented the stories in an exclusive book for participants to take away - and for local schools, libraries and Bank of Ireland branches to give to other members of the community. Silver Thread was a finalist in the ISAX Ingenuity (mature entrepreneur programme), which we supported.

## Vulnerable customers

In November 2018, we created a Vulnerable Customer Segment team, responsible for providing regulatory and professional guidance to the Group, and for removing barriers affecting our vulnerable customers. Working with colleagues across many different disciplines, we helped create and distribute the 'Safeguarding your money' guide, which encourages customers to plan ahead for when they may need assistance in managing and safeguarding their finances. We also created a specialist Vulnerable Customer phone team.

Our focus for 2019 will be on redesigning our product and service review process, ensuring all new and existing products and services are assessed for vulnerable customers with reference to health, capability, resilience and life events. We also aim to provide additional translation services for both our vision and hearing impaired customers.

## Supporting enterprise and business

Small and medium-sized enterprises (SMEs) are key contributors to the Irish economy, and we support them through our Enterprise programme, with a range of financing options and specialist insights across a range of sectors.

## Enterprise and community programme

This programme is an important part of our brand and commercial strategy, and helps businesses and communities across Ireland to grow. €800k was invested in 2018 and initiatives included:

- Local Enterprise Activity - a range of local enterprise and community events including 40 Enterprise Town events, sponsorship investment in the National Start-Up Awards, and 12 workbenches and five partner facilities.
- National Enterprise Week - 23 events around the country under the theme of 'Investing for business growth'.
- National Enterprise Town Awards (NETA) - 83 entries from towns and villages across the country which culminated in a gala event in November.
- ThinkBusiness.ie - the number one small business reference site in Ireland, which offers entrepreneurs free advice on starting, running and growing a business.

## Business support

We offer a range of support to businesses as they set up, establish and mature – from finance to help them make the most of opportunities, to providing specific expertise to sectors such as health, agriculture and manufacturing. Our support in this area includes:

- Business Start-up package - a two-year package for customers who have set up a new business in the last three years. It includes discounted fees, 24 months' free transactions, and two years' free subscription to Business Online.
- A range of other options to SMEs who wish to access finance through collaborations with the Strategic Banking Corporation of Ireland (SBCI) and MicroFinance Ireland.
- Sector events, providing specialist support and guidance to a range of sectors, including agriculture, healthcare, retail convenience and manufacturing.
- Financial literacy - pilot with DoLearnFinance (a tool targeted at business owner-managers who lack knowledge of financial accounts) launched on ThinkBusiness.ie to help Irish SMEs with financial literacy.

## Financing housing and the green economy

Our fund to support home building will see the delivery of c.5,400 new family homes and 2,750 student beds including 1,400 under development over the next few years in Ireland. Bank of Ireland is also a leading financier of the renewable energy sector. We have been involved in the financing of over 1GW of energy projects in Ireland, of which approximately 620MW relates to wind farms. To date, the wind projects we have funded provide the equivalent of c.450,000 homes with green energy.

## Information security

As our business becomes increasingly digital, it is vital we protect ourselves against cybercrime - and help our customers protect themselves. Our security operations team constantly monitors cyber security threats, implementing protective measures where needed. During the past year, we introduced a new-look Security Zone on our website, giving our customers security guidance, fraud alerts, and information on how to report suspicious online activity, emails or phone calls. We also held educational sessions in-branch for older customers, cyber security briefings for local businesses, and school visits with tips for children on how to connect safely. We supported Fraud Awareness Week, led by FraudSMART.ie, an initiative of the Banking & Payments Federation Ireland (BPFI). We will continue to invest in people and technology to protect customer information.

## Workbench

Bank of Ireland Workbench is a unique concept which connects entrepreneurs, branch and community by offering free dedicated space for co-working, seminars, clinics and events to encourage innovation and new ideas. Tom McDonald, Niamh Butler and Orla O'Donnell (pictured above) are all regular users of one of our newest Workbenches in Kilkenny. The opening of this and others in 2018 brings our number of Workbenchs to 12 across the country. A space away from home with a good working environment combined with the opportunity to meet and network with like-minded people are the main drivers for these start-ups to use Workbench. In 2018, Workbench collected the Excellence in Marketplace award at Chambers Ireland CSR Awards.

# Responsible and sustainable business
## Enabling colleagues to thrive

We strive to ensure that our colleagues are engaged and have the skills and capabilities to serve our customers brilliantly. At the same time, we are working hard to make our workplace more inclusive and diverse, so colleagues can be themselves and perform to their full potential.

### Engaging our colleagues

To achieve our ambition and purpose and to embed our values, we have embarked on a multi-year transformation of our culture. Throughout 2018, we focused on building awareness of our purpose and values and establishing baseline measures. This was achieved through a series of roadshows which reached over 6,000 colleagues in 44 different locations across the Group. We also held 'Open View' employee engagement surveys and skip-level meetings to gather feedback from colleagues. Colleagues told us that they welcome the opportunity to share their views; want to be involved in our transformation; support our strategic priorities; embrace flexible working and see more and more of us demonstrating our values.

Some of the key initiatives that were introduced in 2018 include:
- 'Change Makers' - a self-managed team of colleagues focused on driving changes, big or small, to improve our values based culture.
- Launch of a new Group-wide Recognition Scheme.
- Introduction of a new Competency Model that ingrains our values through every aspect of the employee lifecycle.


**55%**
engagement index score

**58:42**
male / female appointment to management and leadership positions

**c.€14m**
invested in learning

- Completion of a 'Ways of Working' pilot on flexible working that will be introduced across the Group in 2019.

Our Open View employee engagement surveys enabled us to measure colleague sentiment through our Engagement and Culture Indices. In 2018, our Engagement Index trended upwards from 50% to 55%, strengthened by colleague perceptions of our strategic priorities.

Our Culture Index is the primary measure of our cultural transformation and a measure of our colleagues' awareness, understanding, belief and demonstration of our Group Purpose and Values. As 2018 was the first year of our cultural transformation, the focus was on creating awareness, up 9% to July 2018, and ensuring understanding, up 8% to July 2018, with a baseline formed for belief and demonstration.

But there is more to do to build on this foundation. In 2019, our focus will be to improve the extent to which colleagues believe in the cultural transformation of the Bank and understand the change underway. This means delivering tangible changes that colleagues directly experience in their day to day working lives in the Bank. Initiatives to support this include:
- Delivery of 'values in action' workshops across all teams Group-wide.
- Embed 'agile ways of working' and methodologies.
- Continued focus on our Inclusion and Diversity journey to ensure colleagues can be themselves at work and develop to their full potential, while also attracting a diverse range of talents at all levels.

## Inclusion and diversity

We are committed to creating an inclusive and diverse place to work. Our Inclusion and Diversity agenda continued to gain momentum and embed in 2018. In particular, we:

- worked towards our 50:50 gender balance target for management and leadership appointments by 2021. In 2018, appointments to management and leadership positions represented a 58:42 male / female split. This has created an improvement in the overall representation of women at management and leadership level from 36% to 37%;
- further developed our six colleague diversity networks; and
- improved data collection and reporting of diversity data on age and gender.

An assessment by the CBI in 2018 acknowledged the progress that has been made by the Bank in its Inclusion and Diversity agenda and also identified opportunity for improvement in the areas of succession planning, measurement and prominence of inclusion and diversity at senior levels. We are committed to further strengthening our work in these areas and will continue to measure progress against the targets we have set.

## Learning

In 2018, we invested c.€14 million in developing the capabilities of our workforce - an important priority in supporting our transformation. This included a development programme for leaders on agile methodologies.


### Agile Leadership Training

As part of our cultural transformation, we are embedding agile methodologies and work practices across the Group. As a first step in this process, we introduced leadership training to enable a shift to business agility.

### Bank of Ireland alumni network

Our alumni form one of our most important communities. Anyone working in the Bank today is part of a much wider Bank of Ireland family, and our success is built on the hard work and dedication of those who have worked in the Group through the years. From our foundation to the present time, our organisation reflects successive generations of people who have made it what it is today, complete with its unique culture and heritage. We launched our new alumni network in November to give former colleagues an opportunity to stay connected, reflect on our history and heritage together, and share in our future ambitions. We were delighted to welcome over 300 alumni members to our iconic College Green building for a network launch in December. There was a very warm atmosphere, with alumni members reconnecting with former colleagues and friends. Group CEO, Francesca McDonagh, spoke about the importance of strong alumni networks, and Alumni President, Stephen Mason, outlined plans for the network in 2019.

We continue to ensure learning is part of our DNA. This year, we developed a wide range of bite-sized learning experiences, designed for just-in-time learning on computers and mobile devices. 60% of our learning is now through digital channels, helping our people learn as quickly and effectively as possible. We introduced 40 new courses, and provided 162,000 hours of training, with individuals completing an average of 14.5 hours.

## Talent management

An important means of developing talent and leadership is our Group-wide competency model. This comprises seven categories and we are currently integrating it across practices such as 360-degree feedback, succession planning, resourcing, performance achievement, and career and learning development. We put particular emphasis on improving capabilities across our organisation, with one of our competencies being ‘Amplify Capability’. Developing female leaders is a key commitment. Our Accelerate programme which ran over nine months with 62 participants supported the goal of appointments to management and leadership positions meeting a 50:50 gender balance.

## Wellbeing

Wellbeing is about good physical and mental health, quality of life and prosperity. Building on our Be At Your Best programme, we continue to support wellbeing in our workforce, to help us attract and develop the best people, and improve productivity.

Our approach to wellbeing addresses three pillars: mind, body and experience (with colleagues sharing their experiences for the benefit of others). In 2019, we will run inclusive activities at all locations, and establish a clear Group focus and priorities.

## Employee Representative Bodies

The Bank of Ireland Group engages with employee representative bodies (Financial Services Union, Services Industrial Professional and Technical Union (SIPTU), and Unite) in a constructive, professional and transparent manner. In the UK, our Partners’ Council - an employee council dealing with business-as-usual issues - is recognised as one of the Top Three work councils in the UK by independent experts, the Involvement and Participation Association.

# Responsible and sustainable business
## Enabling communities to thrive

Our communities are those where we live and work - as well as other local and global groups; such as our partners, shareholders and regulators. We support the wider community through our charity and community initiatives, our contribution to arts and culture, and by playing an active role in society.


**€4.9m**
total community investment

**1,396**
volunteer days

### Investing in our community

We encourage our colleagues to exercise good corporate citizenship by getting involved with local and national organisations focused on promoting the business, economic, social and cultural life of the communities we serve.

In 2018, we joined the London Benchmarking Group (LBG) to better understand, measure and benchmark our corporate community investment - which includes our Give Together charity investment programme, Enterprise Town programme, community sponsorships and financial wellbeing programmes. Using LBG methodology, we have calculated our total community investment in 2018 at €4.9 million with an additional €1.4 million given by our colleagues and 1,396 days volunteered.

### Flagship charities

Throughout the year, we continued to work with our four flagship charity partners: Age Action, Irish Heart Foundation, Jack & Jill Children's Foundation, and the Alzheimer's Society in the UK. We made a tangible difference to their work in our communities, and our colleagues supported them through numerous initiatives throughout the year. We have focused on the impact of our support rather than simply on the amounts raised or days volunteered, and we are delighted to report the following results:

- 965 teachers trained by Irish Heart Foundation to provide CPR training to 184,142 students.
- 20,536 nursing hours given to Jack & Jill families across Ireland.
- 450 Bank of Ireland volunteers tackled 200 gardens of older people in Dublin, Cork and Galway as part of the Backyard Blitz in support of Age Action.
- 1,082 days of the Alzheimer's Society's 'side by side' service for people living with dementia in the UK.

### Arts and culture

Seamus Heaney: 'Listen Now Again' is a major exhibition celebrating the life and works of one of Ireland's greatest writers. Officially launched by the President of Ireland, Michael D Higgins, it became the inaugural exhibition in the new Bank of Ireland Cultural and Heritage Centre in College Green in the summer of 2018. A partnership between the National Library of Ireland (NLI), the Department of Culture, Heritage and the Gaeltacht, and Bank of Ireland, the exhibition focuses on the


## Head 2 Head Challenge - raising vital funds for Jack & Jill

In September 2018, 56 colleagues from across the Group formed one single team to cycle 'Head 2 Head' for Jack & Jill, raising €130,000, enough for more than 8,000 nursing hours for Jack & Jill families. The peloton and their crew travelled through some of Ireland's most picturesque but challenging locations, covering 700km over the six-day event – a great achievement, and memorable for all involved.

'Being at Mizen Head to welcome in the Bank of Ireland cyclists was quite overwhelming for me and our Cork nurse Eilin. That physical and emotional effort was matched by the fundraising drive behind the Bank's Head 2 Head cycle for Jack & Jill, and I can guarantee that every €16 raised will be put to good use by funding one hour of home nursing care for our community of 357 precious children across the country.'
Carmel Doyle,
*CEO, Jack & Jill Children's Foundation*

poetry for which Heaney is best known, and features original manuscripts, letters, unpublished works, diary entries, and photographs. It also includes personal objects, such as Heaney's desk from the family's home in Sandymount, a lamp that once belonged to WB Yeats, and a portrait by Louis le Brocquy.

Group CEO, Francesca McDonagh said, 'Bank of Ireland has been part of the fabric of Irish life for over 200 years and I am delighted our College Green buildings will now house an exhibition on the life and work of Seamus Heaney - a poet and writer of such national and international standing'.

## Our direct economic impact

Through our activities and those of our customers - as well as the jobs we create and the taxes we pay - we make a significant contribution to the communities we serve in Ireland, the UK, France, Germany and the USA. Our footprint benefits both the economy and wider society. In 2018, Bank of Ireland provided €15.9 billion in new lending, spent €1.1 billion on goods and services, employed 10,367 people (EOY figure), and paid €0.37 billion in taxes to the Irish and UK exchequers.

## Providing advice to our community

We frequently publish research to provide insight and enhance decision-making for stakeholders. This independent, thought leading research helps positively shape the communities where we operate, and we make it available to the public so everyone can access and benefit from it.

**Our research includes:**

- The Bank of Ireland Economic Pulse - charting changes in sentiment due to economic and political events. We conduct the surveys in partnership with the European Commission (EC), with the data feeding into a Europe-wide study, which has run since the 1960s. Topics include the economy and household finances, and we offer insights on topical issues like Brexit and regional infrastructure.
- The Bank of Ireland / Economic & Social Reserch Institute (ESRI) savings and Investment Index - tracking households' attitudes towards savings and investment, and monitoring their perspectives on the current and future savings and investment environment.

  The Index also provides a Risk Barometer and a Retirement Optimism Index, to give insights into household risk taking and retirement planning. These are presented on alternate months.

## Engaging with our investor and political community

Over the course of 2018, Bank of Ireland took part in a number of national and international hearings and events as part of our ongoing commitment to engage with our diverse communities including our investors and the political system. The Bank appeared at a number of Oireachtas committee hearings over the year, including the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach, and the Joint committee on Business, Enterprise and Innovation.

Our Group CEO, Francesca McDonagh, addressed the Bank of America Merrill Lynch Financial CEO Conference in London in September, a significant international event for investors and analysts from our sector. There has been ongoing engagement with our regulators in both Dublin and Frankfurt throughout the year and a series of national and international investor meetings and engagements especially following the publication of our annual and interim results.

## Backyard Blitz - supporting Age Action

In June 2018, we undertook our largest-ever volunteering project, with over 450 colleagues tackling the gardens of older people in the East Wall area of Dublin, Renmore and Mervue in Galway, and Ballyphehane in Cork. 'Do not underestimate the value of this work. It was much more than tidying up a garden - for many older people it was about giving them back the opportunity to enjoy their outdoor space and all the benefits, both mental and physical, that come with that'.
Dermot Bannon
*Ambassador*

# Responsible and sustainable business
## Operating responsibly

We take seriously our responsibility to manage our impact on the environment and to reduce that impact. We must work to high standards and our Code of Conduct along with a range of polices outline the high expectations we set ourselves.

**23%**
reduction in carbon emissions to date

**27,030kWh**
of solar energy generated

**53%**
reduction in single-use cups to date

**4**
electric vehicle charging points

### Managing our impact on the environment

**50% reduction in carbon emissions by 2030**
In May, we signed up to the Low Carbon Pledge to reduce our carbon emissions intensity by 50% by 2030. This is the first collective public commitment by Irish business to lead the transition to a low-carbon economy, and help Ireland achieve its international commitments under the Paris Climate Agreement.

The pledge is part of The Leaders' Group on Sustainability, a business coalition, convened by Business in the Community Ireland (BITCI) to address the most pressing sustainability priorities - social, environmental and economic - as well as future opportunities for Ireland.

To date we have achieved a 23% reduction in carbon emissions (on a 2011 baseline).

**What we did in 2018:**

- We increased the scope of our ISO 14001 and ISO 50001 systems from eight sites to the entire Bank of Ireland Group.
- We approved an LED lighting upgrade at our IT Centre (ITC) and Operations Centre in Cabinteely, with work beginning in January 2019.
- At our ITC in Cabinteely, we generated 27,030 kWh of solar renewable energy - enough to power 2,250 two hour car charges in a year.
- Four electric vehicle charging points are now live at our ITC in Cabinteely, with four more due at our Operations Centre in January 2019.

## Enabling sustainable travel

Siobhán Gleeson bought her first electric vehicle in January 2018 because she believes it's the way of the future. It's good for the environment, as it reduces carbon emissions and other pollution. But in addition, it's cheaper to run with no need to buy petrol, reduced motor tax at just €120 a year, and significantly cheaper insurance and servicing. With a €5,000 grant from the Sustainable Energy Authority of Ireland (SEAI), Siobhán is now paying less for her car loan than she was previously paying for petrol.

When Siobhán first bought her car, she investigated the idea of having EV charging points installed at her place of work (ITC Cabinteely). At the same time, Bank of Ireland was exploring the option of putting in place charging points. Within the year the charging points were installed representing a convergence of colleague requirements and the Bank's environmental programme. This has made a huge difference - for example, if she wants to go somewhere at lunchtime, she isn't worried that she won't have enough power to get back home later.

For those thinking about buying an electric vehicle, Siobhán says, 'go for it!' Along with the cost savings and environmental benefits, she finds it more relaxing without the constant engine hum. It has made her rethink the way she travels, and she is also more conscious of her speed.

**Reducing plastic and other waste**

A big part of reducing our impact on the environment is minimising waste. One important step is to greatly reduce our reliance on single use cups in our larger buildings in the Republic of Ireland and the UK, where we use nearly 740,000 of these cups a year. We have provided KeepCups to all colleagues in these buildings along with incentives to use them. To date this has resulted in a 53% reduction.

Other measures to reduce waste in 2018:
- All disposables in our canteens are 100% recyclable, and some are compostable.
- We no longer use any Styrofoam items.
- We recycle all our paper going to confidential waste (1,527 tonnes in 2018).

## Sourcing responsibly

Our Group Procurement Policy sets out a framework for engaging with our suppliers including a commitment to procure goods in an ethically, environmentally, and socially responsible way. This includes requirements to reduce environmental impact and promote the application of good labour standards and working conditions. In accordance with relevant UK legislation, we published our statement on Modern Slavery and Human Trafficking for 2018 setting out the steps and measures we have taken to seek to ensure that modern slavery and human trafficking does not occur within our supply chain or in our business operations.

## How we conduct ourselves

Our Code of Conduct outlines the high standards we set ourselves for what we say and do in our relationships with customers, colleagues and the communities in which we do business. It sets out the standards and behaviour expected from each of us. We must all keep to the Code when we deal with others, both within and outside the Bank of Ireland Group, and in our personal financial dealings. While the Code cannot be specific to every situation, its intention is very clear and it includes details of what action can be taken in certain situations. The Bank is focused on creating an environment where colleagues feel comfortable to speak up, and challenge where they feel it is appropriate.

## Integrity and honesty

The Group has an Anti-Bribery and Corruption Policy Standard, which sets out that we expect all employees to act with integrity and honesty at all times in their dealings with business and commercial partners. This policy reiterates the Group's ethical and regulatory obligations to effectively manage bribery and corruption risks. All our employees complete mandatory online training to help them understand their obligations.

## Anti-money laundering, countering the financing of terrorism, and financial sanctions

Our policies on anti-money laundering sanctions and countering the financing of terrorism set out the standards needed to ensure the Group meets its legislative and regulatory requirements relating to key risks in this area. All our colleagues complete mandatory web based training and pass the examination assessment.

A key objective of the Group's governance framework is to ensure compliance with applicable legal and regulatory requirements, and to support the sustainable achievement of Group Strategy

# Our governance structure

The Board's role is to provide leadership of the Group within the boundaries of risk appetite and a framework of prudent and effective controls which enable risks to be identified, assessed, measured and controlled. The Board sets the Group's strategic aims and risk appetite to support the strategy, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives.

**Patrick Kennedy**
Chairman

**Francesca McDonagh**
Group Chief Executive Officer

**Patrick Haren**
Deputy Chairman, Senior Independent Director and Non-Executive Director

**Andrew Keating**
Group Chief Financial Officer and Executive Director

**Kent Atkinson**
Non-Executive Director

**Patrick Mulvihill**
Non-Executive Director

**Fiona Muldoon**
Non-Executive Director

**Richard Goulding**
Non-Executive Director

**Steve Pateman**
Non-Executive Director

**Evelyn Bourke**
Non-Executive Director

**Ian Buchanan**
Non-Executive Director

## The Board is supported by a number of Committees:

### Group Nomination and Governance Committee

**Patrick Kennedy**
Chair

Responsible for leading the process for Board, and key subsidiary Board, appointments and renewals. The Committee regularly reviews succession plans for the Board, and key subsidiary Boards, and makes appropriate recommendations to the Board. In addition the Committee monitors developments in corporate governance, assesses the implications for the Group and advises the Board accordingly.

### Group Remuneration Committee

**Patrick Haren**
Chair

Holds delegated responsibility for setting policy on the remuneration of the Governor and senior management (including Executive Directors) and approves specific remuneration packages for the Governor, each of the Executive Directors, the Group Secretary, and those senior executives who report directly to the Group Chief Executive.

### Group Audit Committee

**Patrick Mulvihill**
Chair

Monitors the integrity of the financial statements, oversees all relevant matters pertaining to the external Auditors and reviews the Group's internal controls, including financial controls, and the effectiveness of the internal audit function.

### Board Risk Committee

**Richard Goulding**
Chair

Monitors risk governance and assists the Board in discharging its responsibilities in ensuring that risks are properly identified, reported, assessed, and properly controlled; and that strategy is informed by and aligned with the Group's risk appetite.

# Risk review

We believe great risk management leads to great customer outcomes. We follow an integrated approach to risk management. This means that all material classes of risk are considered. Most importantly our overall business strategy and remuneration practices are aligned to our risk and capital management strategies.

A strong risk culture is promoted throughout the Group which encompasses the general awareness, attitude and behaviour of everyone in the Group.

Risk appetite defines the amount and type of risk we are prepared to accept in pursuit of our financial objectives. It forms a boundary condition to strategy by clarifying what is and is not acceptable. Based on the Risk Appetite approved by the Board, we set out an approach to risk in order to:

(i) protect the long-term Group franchise;
(ii) ensure financial stability; and
(iii) maintain capital levels.

Our risk principles mean that risks may only be accepted at transaction, portfolio and Group level if:

- they are within our defined risk appetite;
- the risks represent an attractive investment from a risk-return perspective;
- we have the resources and skills to analyse and manage the risks;
- appropriate risk assessment, governance and procedures have been observed; and
- stress and scenario tests around the risks exist, where appropriate, and are satisfactory.

## Group risk management framework - key components

The Risk Management Framework is aimed at all key decision-makers who are involved in risk taking, capital management, finance or strategy, including business units and Group functions. It ensures that risks are managed and reported in a consistent manner throughout the Group. It outlines the approach for setting risk appetite, risk identification, assessment, measurement, monitoring and reporting and is underpinned by strong risk governance and a robust risk culture.

The Board of Directors is responsible for ensuring that an appropriate system of internal control is maintained. This is achieved through a risk governance structure designed to facilitate the reporting and escalation of risk concerns from business units and risk functions upwards to the Board and its appointed committees and conveying approved risk management policies and decisions to business units. Individual responsibility is a key tenet of risk management in the Group and we are all accountable for our actions.

**Further information in relation to our risk management process is found in the Risk management report, on pages 60 to 111.**

**Key risks**

| Business and strategic | Credit | Funding and liquidity | Market | Life insurance | Conduct | Regulatory | Operational | Pension | Reputation |
|---|---|---|---|---|---|---|---|---|---|

**Risk Management Process**

Risk strategy and appetite

Risk identification and materiality assessment

Risk analysis and measurement

Risk monitoring and reporting

| Risk governance | Risk culture |
|---|---|

## Principal risks and uncertainties

Principal risks and uncertainties could impact on our ability to deliver our strategic plans and ambitions. We consider risks that arise from the impact of external market shocks, geopolitical event risks or other emerging risks as well as key risk types which could have a material impact on earnings, capital adequacy and / or on our ability to trade in the future.

**Further information in relation to these risks is found in the Risk management report, on pages 61 to 67.**

## Key risk types

| | |
|---|---|
| **Business and strategic risk** | This risk includes all risks that might impact our current business model and sustainability of our future strategy. It includes; the threat from fintechs, digital / technological changes, Brexit, macroeconomic and geopolitical uncertainty, and People risk. |
| **Credit risk** | The risk that counterparties fail to meet their contractual obligations to us arising from loans and advances to customers as well as financial transactions with other financial institutions, sovereigns, and state bodies. |
| **Funding and liquidity risk** | The risk that we have insufficient financial resources to meet commitments when they fall due. |
| **Market risk** | The risk of loss in the value of our assets and liabilities due to adverse movements in interest rates, FX rates or other market prices. |
| **Life insurance risk** | This risk of unexpected variations in the amount and timing of insurance claims due to, for example, changing customer mortality, life expectancy, health, and behaviour. |
| **Conduct risk** | This can arise if we behave in a negligent or inappropriate manner that leads to adverse outcomes for customers, for example selling a customer a product that does not meet their needs, or failing to respond to a customer complaint promptly or effectively. |
| **Regulatory risk** | If we fail to meet new / existing regulatory / legislative requirements and deadlines or if we fail to embed regulatory processes into our processes. |
| **Operational risk** | Operational risks, such as, availability, resilience and security of our IT systems or process failures, can lead to financial loss, disruption of services to customers, and to damage to our reputation. |
| **Pension risk** | The principal DB pension schemes are subject to market fluctuations and are currently in deficit (per IAS 19) requiring us to set aside additional capital. |
| **Reputation risk** | The risk to earnings or the value of our franchise arising from damage to our reputation leading to a reduction in trust by customers, counterparties, investors, regulators and public at large. |
| **Capital adequacy** | Capital adequacy is having a sufficient level or composition of capital to support normal business activities and to meet regulatory capital requirements both under normal operating environments or stressed conditions. Capital adequacy is not a risk type in itself but owing to the nature of capital as a critical risk mitigant is a key determinant of the overall Group Risk Appetite. |

# 2018 financial results

The Group generated an underlying profit before tax of €935 million in 2018. All trading divisions are profitable and have contributed to our strong financial performance during the year.

## Summary consolidated income statement on an underlying basis

*These financial results are presented on an underlying basis. Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business.*

| | Table | 2018 €m | 2017 €m |
|---|---|---|---|
| Net interest income | 1 | 2,146 | 2,248 |
| Net other income | 2 | 659 | 801 |
| **Operating income (net of insurance claims)** | | **2,805** | **3,049** |
| Operating expenses (before levies and regulatory charges) | 3 | (1,852) | (1,900) |
| Levies and regulatory charges | 3 | (101) | (99) |
| **Operating profit before net impairment gains / (losses) on financial instruments** | | **852** | **1,050** |
| Net impairment gains / (losses) on financial instruments | 4 | 42 | (15) |
| Share of results of associates and joint ventures (after tax) | | 41 | 43 |
| **Underlying profit before tax** | | **935** | **1,078** |
| Non-core items | 5 | (100) | (226) |
| **Profit before tax** | | **835** | **852** |
| Tax charge | | (160) | (160) |
| **Profit for the year** | | **675** | **692** |

**Profit before tax** of €835 million for 2018 is €17 million lower than 2017.

**Underlying profit before tax** of €935 million is €143 million lower than 2017. The positive impacts of lower operating expenses and net impairment gains on financial instruments are offset by reduced operating income.

**Operating income** has decreased by €244 million compared to 2017 primarily due to:

- a **net interest income** reduction of €102 million, largely reflecting Tier 2 issuances, bond sales / maturities in 2017 and the removal of the amortisation of the NAMA subordinated debt (on transition to IFRS 9); and
- a **net other income** reduction of €142 million largely reflects the negative impact on valuation items of market movements and lower gains on asset disposals. However, the Group has increased its business income by 2% year on year, with the Wealth and Insurance division performing strongly.

**Operating expenses (before levies and regulatory charges)** of €1,852 million are €48 million or 3% lower than 2017. The Group continues to focus on reducing its operational costs while maintaining its investment in regulatory compliance, technology and business growth.

Our transformation programme continues to make progress and a further €306 million was invested in this programme in 2018, of which €100 million is capitalised on the balance sheet (2017: €91 million), with an income statement charge of €113 million (2017: €104 million) and €93 million (2017: €48 million) recognised through non-core items.

**Net impairment gains on financial instruments** of €42 million under IFRS 9 'Financial Instruments' for 2018 compared to a net impairment loss of €15 million under IAS 39 'Financial Instruments: Recognition and Measurement' for 2017. The gain reflected the continued strong performance of the Group's loan portfolios, positive outcomes from the ongoing resolution of NPEs, and a continued overall positive economic environment and outlook, albeit with continued Brexit-related uncertainty.

The Group reduced its **Non-core charge** by €126 million to €100 million for the year. The 2018 non-core charge primarily reflects restructuring costs of €111 million, partially offset by a gain of €7 million on the disposal of a property. In 2017 non-core items included a charge of €170 million relating to the Tracker Mortgage Examination, there was no net incremental charge in 2018.

The **taxation charge** for the Group was €160 million in 2018 with an effective taxation rate on a statutory basis of 19% (2017: €160 million and 19%, respectively). On an underlying basis, the effective taxation rate in 2018 was 19% (2017: 17%). The effective tax rate is influenced by changes in the geographic mix of profits and losses and certain tax adjustments in respect of the prior year.

**Further information on 2018 financial results is found in the Divisional Review on pages 53 to 57.**

**Further information on measures used by the Group, including underlying profit is found in Alternative performance measures on page 326.**

## Summary consolidated income statement on an underlying basis *(continued)*

### Net interest income

**Table: 1**

| **Net interest income / net interest margin** | **2018 €m** | **2017 €m** | **Change %** |
|---|---|---|---|
| Net interest income | 2,146 | 2,248 | (5%) |
| IFRS income classifications[1] | 34 | (3) | n/m |
| *- Interest income on Life loan mortgage products[2]* | *15* | *-* | *n/m* |
| *- Other* | *19* | *(3)* | *n/m* |
| **Net interest income after IFRS income classifications** | **2,180** | **2,245** | **(3%)** |
| | | | |
| **Average interest earning assets (€bn)[3]** | | | |
| Loans and advances to customers | 76 | 77 | (1%) |
| Other interest earning assets | 23 | 21 | 10% |
| **Total average interest earning assets** | **99** | **98** | **1%** |
| | | | |
| **Net interest margin[4]** | **2.20%** | **2.29%** | |
| Gross yield - customer lending[5] | 3.23% | 3.24% | |
| Gross yield - liquid assets[5] | 0.33% | 0.60% | |
| Average cost of funds - interest bearing liabilities and current accounts[5] | (0.44%) | (0.42%) | |

**Net interest income after IFRS income classifications** of €2,180 million for 2018 is €65 million lower when compared to 2017, primarily reflecting credit risk transfer transactions, Tier 2 issuance, bond sales / maturities in 2017 and the removal of the amortisation of the NAMA subordinated debt (on transition to IFRS 9).

The Group's average net interest margin has decreased from 2.29% to 2.20%.

The Group has maintained strong pricing discipline as reflected in a stable customer lending yield. This however has been offset by the ongoing impact of the low interest rate environment on liquid asset yields and an increase in the Group's average cost of funds by 2 basis points, primarily reflecting the impact of credit risk transfer transactions, and the cost of securities issued in the second half of 2017 in advance of TRIM and MREL.

Average interest earning assets in 2018 have increased by €0.9 billion compared to 2017 due to higher average liquid asset volumes. For further information on loans and advances to customers see page 39.

[1] *The year on year changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at, or mandatorily included at 'fair value through profit or loss' (FVTPL). Where the Group hold assets and liabilities at FVTPL, the total fair value movements on these assets and liabilities, including interest income and expense, are reported in 'net other income'. However, the interest income on any assets which are funded by these liabilities and interest expense on any liabilities which fund these assets is reported internally in the 'net interest income'. In addition, assets are purchased and debt is raised in a variety of currencies and the resulting FX and interest rate risk is economically managed using derivative instruments - the cost of which is reported in 'net other income'. To enable a better understanding of underlying business trends, the impact of these IFRS income classifications is shown in the table above.*

[2] *In 2018, there was €15 million of interest income on 'Life loan mortgage products' which on transition to IFRS 9 were mandatorily classified as FVTPL, with all income on such loans reported in 'net other income'. This IFRS income classification moves the income back to 'net interest income' in line with how it was reported in prior years.*

[3] *Average interest earning assets includes €431 million of interest bearing assets carried at FVTPL.*

[4] *The net interest margin is stated after adjusting for IFRS income classifications.*

[5] *Gross yield and average cost of funds represents the interest income or expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability. See page 326 for further information.*

# **Summary consolidated income statement on an underlying basis** *(continued)*

## Net other income

| Table: 2<br>**Net other income** | **2018**<br>**€m** | **Restated[1]**<br>**2017**<br>**€m** | **Change**<br>**%** |
|---|---|---|---|
| Net other income | 659 | 801 | (18%) |
| IFRS income classifications[2] | (34) | 3 | n/m |
| *- Interest income on Life loan mortgage products[2]* | *(15)* | *-* | *n/m* |
| *- Other* | *(19)* | *3* | *n/m* |
| **Net other income after IFRS income classifications** | **625** | **804** | **(22%)** |
| **Analysed as:** | | | |
| **Business income[4]** | | | |
| Retail Ireland | 267 | 287 | (7%) |
| Wealth and Insurance | 250 | 207 | 21% |
| Retail UK | 8 | 1 | n/m |
| Corporate and Treasury | 145 | 175 | (17%) |
| Group Centre and other | 2 | (8) | 125% |
| **Total business income** | **672** | **662** | **2%** |
| **Other gains** | | | |
| Transfers from reserves on asset disposal[5] | 2 | 69 | (97%) |
| Net gain on disposal and revaluation of investments | 6 | - | 100% |
| Gain on disposal and revaluation of investment properties | 1 | 2 | (50%) |
| Gain on disposal of share warrant | - | 3 | n/m |
| **Other valuation items** | | | |
| Financial instrument valuation adjustments (CVA, DVA, FVA)[6] and other | (9) | 37 | n/m |
| Unit-linked investment variance - Wealth and Insurance | (27) | 9 | n/m |
| Interest rate movements - Wealth and Insurance | (20) | 22 | n/m |
| **Net other income after IFRS income classifications** | **625** | **804** | **(22%)** |

**Net other income after IFRS income classifications** for 2018 is €625 million, a decrease of €179 million or 22% on 2017.

**Business income** for 2018 has increased by €10 million or 2% compared to 2017. Wealth and Insurance income is €43 million higher than 2017 mainly reflecting the benefit of assumption changes and positive experience on insurance business, along with strong new business growth. Income in Retail Ireland decreased by €20 million due to strategic customer initiatives and solutions and Corporate and Treasury income decreased by €30 million driven by lower fee income in Leveraged Acquisition Finance and the impact of IBI Corporate Finance disposal.

**Other gains** include a gain of €9 million arising on the partial disposal of NAMA subordinated debt. The prior year gain arose on asset disposals relating to sovereign bonds, equity interests received following the restructure of impaired loans and the Group's interest in a UK card business, Vocalink.

**Other valuation items** are €124 million lower compared to 2017 and were negatively impacted in 2018 by widening of credit spreads, changes in interest rates and lower than expected growth in investment markets. The 2017 results reflected favourable market movements in these areas.

1 *Comparative figures have been restated to reflect the impact of the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life) which resulted in a decrease of €30 million in business income in Retail Ireland and a corresponding increase in Wealth and Insurance for 2017.*

2 *The year on year changes in 'net interest income' and 'net other income' are affected by certain IFRS income classifications. Under IFRS, certain assets and liabilities can be designated at, or mandatorily included at 'fair value through profit or loss' (FVTPL). Where the Group hold assets and liabilities at FVTPL, the total fair value movements on these assets and liabilities, including interest income and expense, are reported in 'net other income'. However, the interest income on any assets which are funded by these liabilities and interest expense on any liabilities which fund these assets is reported internally in the 'net interest income'. In addition, assets are purchased and debt is raised in a variety of currencies and the resulting FX and interest rate risk is economically managed using derivative instruments - the cost of which is reported in 'net other income'. To enable a better understanding of underlying business trends, the impact of these IFRS income classifications is shown in the table above.*

3 *In 2018, there was €15 million of interest income on 'Life loan mortgage products' which on transition to IFRS 9 were mandatorily classified as FVTPL, with all income on such loans reported in 'net other income'. This IFRS income classification moves the income back to 'net interest income' in line with how it was reported in prior years.*

4 *Business income is net other income after IFRS income classifications before other gains and other valuation items. This is a measure monitored by management as part of the review of divisional performance.*

5 *Transfer from reserves on asset disposal includes transfers from the available for sale (AFS) reserve under IAS 39 and from the debt instruments at fair value through other comprehensive income (FVOCI) under IFRS 9.*

6 *Credit Valuation Adjustment (CVA); Debit Valuation Adjustment (DVA); Funding Valuation Adjustment (FVA).*

# Summary consolidated income statement on an underlying basis *(continued)*

## Operating expenses

| Table: 3<br>Operating expenses | 2018<br>€m | Restated[1]<br>2017<br>€m | Change<br>% |
|---|---|---|---|
| Staff costs (excluding pension costs) | 721 | 752 | (4%) |
| Pension costs | 147 | 148 | (1%) |
| *- Retirement benefit costs (defined benefit plans)* | *120* | *125* | *(4%)* |
| *- Retirement benefit costs (defined contribution plans)* | *27* | *23* | *17%* |
| Depreciation and amortisation | 212 | 169 | 25% |
| Other costs | 659 | 727 | (9%) |
| **Operating expenses (before Transformation Investment and levies and regulatory charges)** | **1,739** | **1,796** | **(3%)** |
| Transformation Investment charge | 113 | 104 | 9% |
| **Operating expenses (before levies and regulatory charges)** | **1,852** | **1,900** | **(3%)** |
| Levies and regulatory charges | 101 | 99 | 2% |
| **Operating expenses** | **1,953** | **1,999** | **(2%)** |

| | | | **Change** |
|---|---|---|---|
| Staff numbers at year end | 10,367 | 10,892 | (525) |
| Average staff numbers during the year | 10,595 | 11,196 | (601) |

**Operating expenses (before levies and regulatory charges)** are €48 million or 3% lower than 2017 as the Group continued to focus on reducing its operational costs while maintaining its investment in regulatory compliance, technology and business growth.

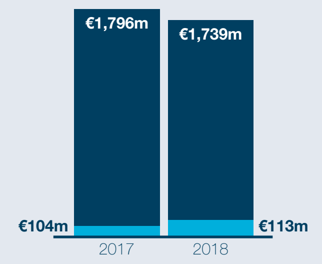
**Staff costs (excluding pension costs)** of €721 million are €31 million lower compared to 2017 primarily reflecting lower staff numbers. Average staff numbers employed by the Group in 2018 were 10,595 and have decreased by 5% compared to 11,196 in 2017. The Group paid a salary increase averaging c.2.5% effective 1 January 2018 which partially offset the impact of lower staff numbers.

**Depreciation and amortisation** has increased by €43 million primarily reflecting the impact of technology investments.

**Other costs** including technology, property, outsourced services and other non-staff costs are €68 million lower than 2017 as the Group continues to generate cost savings through strategic sourcing and efficiencies across its businesses whilst investing in strategic initiatives, technology and regulatory compliance.

**Transformation Investment charge**
Our transformation programme continues to make good progress and a further €306 million was invested in this programme in 2018, of which €100 million is capitalised on the balance sheet (2017: €91 million), with an income statement charge of €113 million (2017: €104 million) and €93 million recognised through non-core items.

**Operating expenses**




**Key:**
- Transformation Investment charge.
- Operating expenses.

[1] *Comparative figures for the Transformation Investment charge (formerly the Core Banking Platform Investment charge) have been restated to align with the revised scope of the programme which now includes culture, systems and business model resulting in a decrease of €7 million in the 'Transformation Investment charge' and a corresponding increase in Other costs' (€3 million) and 'Depreciation and amortisation' (€4 million).*

## Summary consolidated income statement on an underlying basis *(continued)*

### Net impairment (gains) / losses on financial instruments

**Table: 4**

| **Net impairment (gains) / losses on financial instruments** | **2018 €m** | **2017 €m** | **Change %** |
|---|---|---|---|
| **Net impairment (gains) / losses on loans and advances to customers at amortised cost** | | | |
| Residential mortgages | (47) | (137) | (66%) |
| *- Retail Ireland* | *(60)* | *(131)* | *(54%)* |
| *- Retail UK* | *13* | *(6)* | *n/m* |
| Non-property SME and corporate | (14) | 84 | 117% |
| *- Republic of Ireland SME* | *(54)* | *20* | *n/m* |
| *- UK SME* | *(1)* | *24* | *104%* |
| *- Corporate* | *41* | *40* | *3%* |
| Property and construction | (12) | 60 | 120% |
| *- Investment* | *(17)* | *54* | *131%* |
| *- Land and development* | *5* | *6* | *(17%)* |
| Consumer | 37 | 8 | n/m |
| **Total net impairment (gains) / losses on loans and advances to customers at amortised cost** | **(36)** | **15** | **n/m** |
| **Net impairment (gains) / losses on other financial instruments (excluding loans and advances to customers at amortised cost)[1,2]** | **(6)** | - | (100%) |
| **Total net impairment (gains) / losses on financial instruments** | **(42)** | **15** | **n/m** |
| Net impairment (gains) / losses on loans and advances to customers (bps) | (5) | 2 | n/m |

International Financial Reporting Statndards (IFRS) 9 'Financial Instruments' came into effect on 1 January 2018 and changed the basis under which the Group measures impairment on financial instruments. The Credit Risk section of the Risk Management Report (pages 74 to 90) outlines the Group's revised asset quality methodology and its methodology for loan loss provisioning under IFRS 9. It also provides information on NPEs and the composition and impairment of the Group's loans and advances to customers at amortised cost.

The Group recognised a net impairment gain under IFRS 9 of €42 million, including a net impairment gain of €36 million on loans and advances to customers at amortised cost, compared to a net impairment loss under IAS 39 of €15 million in 2017.

The gain reflected the continued strong performance of the Group's loan portfolios, positive outcomes from the ongoing resolution of NPEs (including credit-impaired loans), and a continued overall positive economic environment with an outlook of continued economic growth in the Group's key markets. While uncertainty in relation to Brexit resulted in muted demand for credit in 2018, it did not have any material impact on asset quality.

A net impairment gain under IFRS 9 on the Retail Ireland mortgage portfolio of €60 million during the year is €71 million lower than the gain of €131 million under IAS 39 in 2017. The gain incorporates the impact of strong book performance, continued growth in residential property prices and improvements in economic outlook. Retail Ireland credit-impaired and non-performing mortgages reduced by 16% and 15% respectively during 2018 with reductions achieved in both the Owner occupied and Buy to let (BTL) market segments.

A net impairment gain of €14 million under IFRS 9 on the Non-property SME and corporate loan portfolio for 2018 is €98 million favourable to the loss of €84 million under IAS 39 for 2017. A key driver of the impairment gain was more positive than expected outcomes on resolution of certain credit-impaired loans in the Republic of Ireland business banking portfolio.

A net impairment gain of €12 million under IFRS 9 on the Property and construction loan portfolio for 2018 is €72 million favourable to the loss of €60 million under IAS 39 for 2017. The gain related primarily to property investment loans, with a gain in the Republic of Ireland business banking portfolio more than offsetting a loss in the UK business banking portfolio.

A net impairment loss of €37 million under IFRS 9 on the Consumer loans portfolio for 2018 is €29 million higher than the loss of €8 million under IAS 39 for 2017. The impairment loss was primarily driven by strong volume growth in UK personal lending with an associated increase in impairment loss allowances.

[1] *At 31 December 2018, net impairment losses / (gains) on other financial instruments (excluding loans and advances to customers at amortised cost) included €6.0 million on loan commitments and €0.6 million on guarantees and irrevocable letters of credit.*

[2] *The IAS 39 impairment charge on other financial instruments (excluding loans and advances to customers) for 2017 was €nil. IAS 37 provisions recognised on loan commitments and guarantees and irrevocable letters of credit at 31 December 2017 were €nil, this was recognised in net other income.*

# **Summary consolidated income statement on an underlying basis** *(continued)*

## Non-core items

**Table: 5**

| **Non-core items** | **2018 €m** | **2017 €m** | **Change %** |
|---|---|---|---|
| Cost of restructuring programme | (111) | (48) | n/m |
| *- Transformation Investment costs* | *(93)* | *(48)* | *(94%)* |
| *- Other restructuring charges* | *(18)* | *-* | *(100%)* |
| Gain on disposal of property | 7 | - | 100% |
| Gross-up for policyholder tax in the Wealth and Insurance business | (7) | 10 | n/m |
| Investment return on treasury shares held for policyholders | 6 | (1) | n/m |
| Gain / (loss) on disposal / liquidation of business activities | 5 | (5) | n/m |
| Tracker Mortgage Examination charges | - | (170) | 100% |
| Cost of corporate reorganisation and establishment of a new holding company | - | (7) | 100% |
| (Charge) / gain arising on the movement in the Group's credit spreads | - | (5) | 100% |
| **Total non-core items** | **(100)** | **(226)** | **56%** |

Underlying performance excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. The Group has treated the following items as non-core:

**Cost of restructuring programme**
During 2018, the Group recognised a charge of €111 million. Transformation Investment costs of €93 million primarily relate to a reduction in employee numbers (€74 million), programme management costs (€8 million) and costs related to the implementation of the Group's property strategy (€11 million). Other restructuring charges of €18 million primarily relate to impairment of property, plant and equipment and intangible assets. A restructuring charge of €48 million was incurred in 2017, primarily related to changes in employee numbers.

**Gain on disposal of property**
During 2018, the Group recognised a gain of €7 million in relation to the disposal of a property (see note 28 on page 217).

**Gross-up for policyholder tax in the Wealth and Insurance business**
Accounting standards require that the income statement be grossed up in respect of the total tax payable by Wealth and Insurance, comprising both policyholder and shareholder tax. The tax gross-up relating to policyholder tax is included within non-core items.

**Investment return on treasury shares held for policyholders**
Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland Group plc ('BOIG plc') shares held by Wealth and Insurance for policyholders. In 2018, there was a €6 million gain (2017: €1 million loss). At 31 December 2018, there were 3.3 million shares (2017: 4.2 million shares) held by Wealth and Insurance for policyholders.

**Gain / loss on disposal / liquidation of business activities**
In 2018, a gain of €5 million (2017: €5 million loss) was recognised relating to the recycling of cumulative unrealised FX gains and losses through the income statement following the liquidation of subsidiaries.

**Charges relating to the Tracker Mortgage Examination**
During 2017, the Group incurred a charge of €170 million (€96 million in net interest income and €74 million in Operating expenses) primarily in respect of redress and compensation associated with tracker mortgage accounts. There was no incremental charge in 2018. See notes 5 and 14 for further information.

**Cost of corporate reorganisation and establishment of a new holding company**
In 2017, the Group recognised a charge of €7 million following implementation of a corporate reorganisation which resulted in BOIG plc being introduced as the listed holding company of the Group.

**Charge arising on the movement in the Group's credit spreads**
A charge of €5 million was recognised in 2017 as previously, under IAS 39, changes in fair value of the Group's own debt and structured deposits were recognised in the income statement. Under IFRS 9, these gains / charges on financial liabilities are now recognised through other comprehensive income (OCI).

## Summary consolidated balance sheet

| Summary consolidated balance sheet | Table | 2018 €bn | 2017 €bn |
|---|---|---|---|
| **Assets** *(after impairment loss allowances)* | | | |
| Loans and advances to customers (including held for sale)[1,2] | 6 | 77 | 76 |
| Liquid assets | 7 | 25 | 24 |
| Wealth and Insurance assets | | 17 | 17 |
| Other assets | 8 | 5 | 6 |
| **Total assets** | | **124** | **123** |
| | | | |
| **Liabilities** | | | |
| Customer deposits | 9 | 79 | 76 |
| Wholesale funding | 10 | 11 | 13 |
| Wealth and Insurance liabilities | | 17 | 17 |
| Other liabilities | 8 | 5 | 5 |
| Subordinated liabilities | | 2 | 2 |
| **Total liabilities** | | **114** | **113** |
| Shareholders' equity | | 9 | 9 |
| Non-controlling interests - Other equity instruments | | 1 | 1 |
| **Total liabilities and shareholders' equity** | | **124** | **123** |
| | | | |
| Liquidity Coverage Ratio[3] | | 136% | 136% |
| Net Stable Funding Ratio[4] | | 130% | 127% |
| Loan to Deposit Ratio | | 97% | 100% |
| Gross new lending volumes (€bn) | | 15.9 | 14.2 |
| Average interest earning assets | | 99 | 98 |
| Return on Tangible Equity[5] (%) | | 8.5% | 10.7% |
| Return on Tangible Equity[5] (adjusted) (%) | | 7.2% | 7.0% |
| | | | |
| Common equity tier 1 ratio - fully loaded | | 13.4% | 13.8% |
| Common equity tier 1 ratio - regulatory | | 15.0% | 15.8% |
| Total capital ratio - regulatory | | 18.8% | 20.2% |

As of 1 January 2018, IFRS 9 ‘Financial Instruments’ came into effect; the Group’s 2018 financial results as set out in the table above and on pages 39 to 41, have been prepared in accordance with IFRS 9. Comparative figures have not been restated for the impact of IFRS 9 and are presented on an IAS 39 classification and measurement basis. See note 65 on page 283 of the consolidated financial statements.

During the year, the Group's **loans and advances to customers (after impairment loss allowances)** and including loans and advances to customers classified as held for sale increased to €77.0 billion from €76.1 billion in 2017. Gross new lending increased by 13% to €15.9 billion compared to €14.2 billion in 2017.

The Group’s **asset quality** continues to improve. **NPEs** reduced by €1.5 billion to €5.0 billion during 2018, and represented 6.3% of gross loans at 31 December 2018.

At December 2018, overall Group **customer deposit** volumes are €3.0 billion higher than 2017. The main driver of this movement was a €3.5 billion growth in Retail Ireland’s current account credit balances, reflecting strong economic activity and a €0.8 billion increase in the Retail UK Division primarily due to an increase in Automobile Association (AA) and Post Office deposits, offset by a decrease of €1.2 billion in Corporate and Treasury due to pricing optimisation. The Loan to Deposit Ratio (LDR) at 31 December 2018 is 97% (2017: 100%).

**Wholesale funding** balances are €1.5 billion lower than 2017 primarily due to the repayment of Targeted Longer Term Refinancing Operation (TLTRO) funding. Total Monetary Authority borrowings at 31 December 2018 are €2.7 billion compared to €5.0 billion at the end of 2017.

The defined benefit (DB) pension deficit has decreased by c.€0.3 billion since 2017. The primary drivers of the movement in the pension deficit were the net positive impact of experience and assumptions changes in 2018, deficit reducing contributions of €116 million and additional liabilities of €4 million in respect of GMP Equalisation were recognised as a past service contribution.

The balance sheet remains strong with the Group generating **strong organic capital**. Our fully loaded Common equity tier 1 (CET 1) ratio decreased by c.40 basis points during 2018 to 13.4% and our regulatory CET 1 ratio decreased by c.80 basis points to 15.0%. The decrease of c.40 basis points is primarily due to organic capital generation, offset by risk weighted assets (RWA) growth, the impact of regulatory capital demand, investment in the Group’s core banking platforms, an accrual for a proposed dividend, the impact of IFRS 9 implementation and other net movements. For further information on capital see Capital Management on pages 107 to 111 of the Risk Management Report.

**Further information on measures referred to in the 2018 financial results, including gross new lending, NPE’s, wholesale funding and organic capital is found in Alternative performance measures on page 326.**

1 *Includes €0.3 billion of loans and advances to customers at 31 December 2018 that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.*
2 *Includes €0.6 billion of loans and advances to customers classified as held for sale.*
3 *The Group’s Liquidity Coverage Ratio (LCR) is calculated based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015.*
4 *The Group’s Net Stable Funding Ratio (NSFR) is calculated based on the Group’s interpretation of the Basel Committee on Banking Supervision (BCBS) October 2014 document.*
5 *For basis of calculation of Return on Tangible Equity (ROTE), see page 325.*

## Summary consolidated balance sheet *(continued)*

### Loans and advances to customers

| **Table: 6** | **2018** | | **2017** | |
|---|---|---|---|---|
| **Loans and advances to customers - Composition[1,2]** | **€m** | **%** | **€m** | **%** |
| Residential mortgages | 45,437 | 58% | 46,659 | 60% |
| *- Retail Ireland* | *23,716* | *30%* | *24,069* | *31%* |
| *- Retail UK* | *21,721* | *28%* | *22,590* | *29%* |
| Non-property SME and corporate | 19,465 | 25% | 18,763 | 24% |
| *- Republic of Ireland SME* | *7,601* | *10%* | *8,213* | *11%* |
| *- UK SME* | *1,570* | *2%* | *1,703* | *2%* |
| *- Corporate* | *10,294* | *13%* | *8,847* | *11%* |
| Property and construction | 8,354 | 11% | 8,747 | 11% |
| *- Investment* | *7,718* | *10%* | *8,277* | *10%* |
| *- Land and development* | *636* | *1%* | *470* | *1%* |
| Consumer | 5,174 | 6% | 4,318 | 5% |
| **Total loans and advances to customers at amortised cost** | **78,430** | **100%** | **78,487** | **100%** |
| Less impairment loss allowance on loans and advances to customers at amortised cost | (1,728) | | (2,359) | |
| **Net loans and advances to customers at amortised cost** | **76,702** | | **76,128** | |
| Loans and advances to customers at FVTPL[3] | 261 | | - | |
| **Total loans and advances to customers** | **76,963** | | **76,128** | |
| Credit-impaired loans (comparative as at 1 January 2018) | 4,485 | | 5,972 | |
| NPEs | 4,984 | | 6,521 | |
| NPE ratio | | 6.3% | | 8.3% |

The Group's **loans and advances to customers (after impairment loss allowances)** of €77.0 billion are €0.9 billion higher than 31 December 2017, primarily due to net new lending of €1.3 billion offset by the impact of transition to IFRS 9 at 1 January 2018 of €0.3 billion.

Gross new lending of €15.9 billion is €1.7 billion or 13% higher than 31 December 2017, primarily due to increases in new lending of €0.8 billion or 21% in Corporate, a €0.6 billion or 13% increase in Retail UK (mortgages and consumer portfolios) and an increase of €0.4 billion or 8% in Retail Ireland (mortgages and consumer portfolios).

Asset quality continues to improve, reflecting the strong performance of the Group's loan portfolios, ongoing resolution of NPEs (including credit-impaired loans), and a continued overall positive economic environment. NPEs reduced by €1.5 billion or 24% during 2018 to €5.0 billion and represent 6.3% of gross loans and advances to customers at 31 December 2018 (31 December 2017: 8.3%).

**Loan book growth of €0.9bn**

*Group loan book movement*


The stock of impairment loss allowances on loans and advances to customers increased by €0.1 billion to €2.5 billion on transition to IFRS 9 on 1 January 2018.

During 2018, the stock of impairment loss allowances decreased by €0.8 billion to €1.7 billion primarily due to the utilisation of impairment loss allowances against credit-impaired assets for which there was considered to be no reasonable expectation of recovery.

1 *Includes €0.3 billion of loans and advances to customers at 31 December 2018 that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.*
2 *Includes €0.6 billion of loans and advances to customers classified as held for sale.*
3 *Loans and advances to customers at FVTPL include Retail Ireland mortgages of €0.3 billion which on transition to IFRS 9 were mandatorily classified as FVTPL. At 31 December 2017, these were included in Residential mortgages in Retail Ireland.*

## **Summary consolidated balance sheet** *(continued)*

### Liquid assets (after impairment loss allowance)

| **Table: 7**<br>**Liquid assets (after impairment loss allowance)** | **2018**<br>**€bn** | **2017**<br>**€bn** |
|---|---|---|
| Cash at banks | 3 | 3 |
| Cash and balances at central banks | 6 | 7 |
| *- Bank of England* | *3* | *2* |
| *- Central Bank of Ireland* | *3* | *4* |
| *- US Federal Reserve* | *-* | *1* |
| Government bonds | 9 | 8 |
| *- Financial assets at FVOCI* | *6* | *-* |
| *- AFS* | *-* | *8* |
| *- Debt securities at amortised cost* | *3* | *-* |
| Covered bonds | 4 | 3 |
| Senior bank bonds and other | 3 | 3 |
| | **25** | **24** |

The Group's portfolio of liquid assets at 31 December 2018 of €24.8 billion has increased by c.€1.2 billion since 31 December 2017 primarily due to higher holdings of Government bonds as a result of growth in customer deposits. During 2018, the Group made a partial disposal of NAMA subordinated debt with a nominal value of €0.2 billion (remaining holding of €70 million at 31 December 2018).

### Other assets and other liabilities

| **Table: 8**<br>**Other assets and other liabilities** | **2018**<br>**€bn** | **2017**<br>**€bn** |
|---|---|---|
| Other assets | 4.8 | 5.7 |
| *- Derivative financial instruments* | *1.7* | *2.3* |
| *- Deferred tax asset* | *1.2* | *1.2* |
| *- Other assets* | *1.9* | *2.2* |
| | | |
| Other liabilities | 4.5 | 5.2 |
| *- Derivative financial instruments* | *1.8* | *2.0* |
| *- Pension deficit (net)* | *0.2* | *0.5* |
| *- Notes in circulation* | *1.2* | *1.2* |
| *- Other liabilities* | *1.3* | *1.5* |

The movement in the value of derivative assets and derivative liabilities is due to the maturity of transactions during the year, as well as changes in fair values caused by the impact of the movements in equity markets, interest rates and FX rates during 2018.

The defined pension deficit has decreased by c.€0.3 billion since 2017. The primary drivers of the movement in the pension deficit were the net positive impact of experience and assumptions changes in 2018, deficit reducing contributions of €116 million and additional liabilities of €4 million in respect of GMP Equalisation were recognised as a past service contribution.

## **Summary consolidated balance sheet** *(continued)*

### Customer deposits

| **Table: 9**<br>**Customer deposits** | **2018**<br>**€bn** | **2017**<br>**€bn** |
|---|---|---|
| Retail Ireland | 48 | 44 |
| *- Deposits* | *22* | *22* |
| *- Current account credit balances* | *26* | *22* |
| Retail UK | 22 | 22 |
| Retail UK (Stg£bn equivalent) | 20 | 19 |
| *- UK Post Office* | *14* | *14* |
| *- Other Retail UK* | *6* | *5* |
| Corporate and Treasury | 9 | 10 |
| Total customer deposits | 79 | 76 |

At 31 December 2018, Group customer deposits (including current accounts with credit balances) have increased by €3.0 billion to €78.9 billion since 31 December 2017. The main driver of this movement was due to €3.5 billion growth in Retail Ireland's current account credit balances, reflecting strong economic activity and a €0.8 billion increase in the Retail UK Division primarily due to an increase in AA and Post Office deposits, offset by a decrease of €1.2 billion in Corporate and Treasury due to pricing optimisation. For further information on customer deposits see page 93 of the Risk Management Report.

### Wholesale funding sources

| **Table: 10** | **2018** | | **2017** | |
|---|---|---|---|---|
| **Wholesale funding sources** | **€bn** | **%** | **€bn** | **%** |
| Secured funding | 9 | 77% | 11 | 86% |
| *- Monetary Authority* | *3* | *23%* | *5* | *39%* |
| *- Covered bonds* | *5* | *45%* | *5* | *38%* |
| *- Securitisations* | *1* | *9%* | *1* | *9%* |
| | | | | |
| Unsecured funding | 2 | 23% | 2 | 14% |
| *- Senior debt* | *2* | *19%* | *1* | *8%* |
| *- Bank deposits* | *-* | *4%* | *1* | *6%* |
| **Total wholesale funding** | **11** | **100%** | **13** | **100%** |
| | | | | |
| Wholesale market funding < 1 year to maturity | 2 | 22% | 2 | 19% |
| Wholesale market funding > 1 year to maturity | 6 | 78% | 6 | 81% |
| | | | | |
| Monetary Authority funding < 1 year to maturity | 1 | - | 2 | - |
| Monetary Authority funding > 1 year to maturity | 2 | - | 3 | - |

Wholesale funding sources have decreased by €2 billion to €11 billion, primarily due to the repayment of Monetary Authority borrowings. For further information on wholesale funding sources see page 93 of the Risk Management Report.

# Divisional review
## How the Group is structured

Bank of Ireland Group is one of the largest financial services groups in Ireland, with total assets of €124 billion at 31 December 2018. We provide a broad range of banking and other financial services. We are organised into four trading segments and one support division to effectively serve our customers.

**Bank of Ireland**

### Retail Ireland

Offering a broad range of financial products and services through the largest branch network in Ireland with 267 branches.

One of Ireland's largest lenders with over €5.7bn lent to the Irish economy in 2018.

2,800 front line colleagues and 1,000 specialist advisors in the community are focused on serving customers brilliantly and enabling our customers and communities to thrive.

Serving c.200,000 SME customers across a diversified portfolio of sectors, with an average relationship tenure of c.17 years.

**For more information on Retail Ireland please turn to page 44.**

### Wealth and Insurance

Formerly the Bank of Ireland Life operating segment now, as well as New Ireland Assurance, incorporates Private Banking, Investment Markets and Bank of Ireland Insurance Services.

A leading life and pension provider and general insurance provider in the Irish market.

New Ireland has been serving customers brilliantly for over 100 years.

The Group is the only bancassurer in the Irish market.

**For more information on Wealth and Insurance please turn to page 46.**

### Retail UK

Distributes consumer products via partners with trusted brands, a universal bank in Northern Ireland (NI) and strong niche businesses in attractive segments.

Distributes products including savings, mortgages, personal loans and credit cards via its partnerships with UK Post Office and AA.

Operates a universal bank in NI with 28 branches and six business centres, offering both retail and commercial banking.

Strong niche businesses include: asset finance under the Northridge Finance and Marshall Leasing brands and FX via First Rate Exchange Services Limited (FRES).

**For more information on Retail UK please turn to page 48.**

### Corporate and Treasury

Ireland's #1 Corporate Bank and leading treasury service provider.

Corporate and Treasury incorporates the Group's corporate banking, wholesale financial markets, specialised acquisition finance and large transaction property lending business.

The Bank holds market leading positions in its chosen sectors, including corporate banking, commercial property, foreign direct investment and treasury.

**For more information on Corporate and Treasury please turn to page 50.**

### Group Centre

Our business segments are supported by Group Centre: comprising Group Manufacturing, Group Finance, Group Risk, Group Marketing and Human Resources. The Group's central functions, establish and oversee policies, and provide and manage processes and delivery platforms for the divisions.

Group Centre plays an important role in enabling the Bank's purpose and creating value for stakeholders.

We are the market leader in Ireland for robotics and automation, which operates from the Robotics hub in Cabinteely.

**For more information on Group Centre please turn to page 52.**

# Divisional review
## Retail Ireland

Retail Ireland offers a broad range of financial products and services including current accounts, savings, mortgages, credit cards, motor finance and loans to personal and business banking customers.

### Business operations

Retail Ireland is one of the largest providers of financial services in Ireland and a leading supporter of house building and home buying. We have deep customer relationships with an extensive footprint at the heart of communities throughout Ireland. Over 40% of the Irish population has a relationship with us, with one in every three payments in Ireland being processed through our systems. We have a distribution network of 267 branches, phone contact centres, 1,600 self-serve devices, and online, smartphone and tablet banking applications. Our 2,800 front line colleagues and specialist advisors out in the community are focused on serving customers brilliantly and enabling our customers and communities to thrive.

### Highlights

| A leading supporter of house building and home buying in Ireland | New mortgage lending increased by 17%, maintained market share at 27% | Upgraded >100 branches, recruited 250 frontline staff |
|---|---|---|

### Key business highlights for the year

**Transform the Bank**

- We invested in our channels and recruited additional frontline colleagues:
  - 101 branches upgraded to full service; two new branches and five additional workbenches; 28 branches refurbished and modernised; and
  - 250 additional frontline colleagues in our branches and contact centres.
- We introduced a 'my application tracker' feature, initially for credit cards.
- We developed a straight through car finance platform in partnership with motor dealers.
- With an average of over 10 million monthly engagements on our mobile app during 2018, up over 25% on 2017, our customers are increasingly choosing digital and self-serve channels and we continue to invest in these offerings across all our businesses.

**Serve customers brilliantly**

- Additional frontline colleagues and branch upgrades have resulted in:
  - an additional annualised 92,000 customer counter service hours;
  - improved contact centre customer experience - faster response to customer phone queries; and
  - our customers are feeling the difference, with a significant reduction in complaints volumes.
- We hosted over 550 events as part of our National Enterprise Programme, reaching communities across the country through 'Enterprise Towns' and 'Workbench' events.
- We are making incremental changes driven by colleague suggestions through our continuous improvement programme.
- We have continued to digitise our customer journeys, giving customers choice and convenience to fulfil their product and service needs.
- We have aligned to their needs through the launch of 'Life Moments' customer propositions and 'Live Life' rewards programme.

**Grow sustainable profits**

- Market share maintained or increased across all key business lines.
- New mortgage lending in Ireland increased by 17% compared to 2017. We maintained our market share at 27% and re-entered the broker mortgage channel in Ireland in late 2018.
- New personal loans up 25% compared to 2017.
- We supported Irish businesses through:
  - a new Early Pay commercial finance product;
  - agriculture flexible lending solutions and refinancing proposition; and
  - access to expertise, information and seminars through our sector specialist teams.

### Financial results

- Underlying profit before tax of €649 million in 2018 is 7% lower than 2017, the decrease is primarily due to lower operating income.
- Net interest income of €992 million in 2018 is 7% lower than 2017, primarily reflecting a reduction in average lending volumes, with lending yields remaining stable and with a marginal reduction in deposit pay rates.

**€649m**
Underlying profit before tax

**-3%**
Reduction in operating costs

**+8%**
New lending growth

**€34.7bn**
Loans and advances to customers

**€47.7bn**
Customer deposits

**+25%**
Customer mobile app engagements

- Net other income of €272 million in 2018 is 5% lower than 2017, primarily driven by a €16 million adjustment in 2018 to the fair value of our preference shareholding in VISA (Europe) Inc. and lower business income mainly due to strategic customer initiatives and solutions.
- Operating expenses of €776 million are 3% lower than 2017 reflecting savings from lower staff numbers during the year and other cost savings initiatives.
- Loans and advances to customers (after impairment loss allowances) at 31 December 2018 of €34.7 billion were in line with 31 December 2017.
- Customer deposits of €47.7 billion at 31 December 2018 were €3.5 billion higher than 31 December 2017 primarily due to increases in current account credit balances.

**Further information in relation to our divisional results is found in the Divisional Review on page 54.**

**Further information on measures referred to in our business segments is found in Alternative performance measures on page 326.**

## Future outlook

We expect the new housing and mortgage market to continue to increase in 2019, as growing consumer confidence and employment, supported by favourable demographics, drive household formation and housing demand. We will seek to unlock this growth by supporting home building and buying, improving our customer experience and driving efficiency. For our business customers, notwithstanding Brexit uncertainties, Irish businesses are operating in a positive trading environment, with two thirds on a growth trajectory. Our diversified portfolio is well positioned to support this growth in enterprise.

# Divisional review
## Wealth and Insurance

Wealth and Insurance is a long established, market leading, life and pension provider and general insurance provider in the Irish market.

| Highlights | | |
|---|---|---|
| Increased penetration of the Bank customer base | Market share growth of 2% | New digital underwriting rules engine launched |

### Business operations

Wealth and Insurance (formerly the Bank of Ireland Life operating segment) which includes New Ireland Assurance Company plc (NIAC), now also incorporates Private Banking, Investment Markets and Bank of Ireland Insurance Services, which were previously reported within Retail Ireland.

Wealth and Insurance is focused primarily on the retail and SME market. It has a diversified channel strategy, distributing via the Group's distribution channels, independent financial brokers and its own tied financial advisor network. It provides a range of protection, investment and pension products offering customers access to a wide range of investment markets and fund managers across its fund platform. The Group is the only bancassurer in the Irish market. Wealth and Insurance also provides access to home and car insurance through the appointments it holds with various underwriters through its general insurance provider.

### Key business highlights for the year

**Transform the Bank**

- Invested in a significant transformation programme, including the launch of a new digital underwriting rules engine to further support customer experience and enhance online underwriting decision rates.
- Ongoing investment to digitise Wealth and Insurance platforms to deliver a modern digital business of scale.

**Serve customers brilliantly**

- Launched the Life Advice tool to support Online Family Protection, being the first of a planned series of developments designed to enhance the experience of our customers.
- Persistency rates increased during 2018 across all channels.
- Significant reduction in customer complaints in 2018 compared to 2017; Over 99% of complaints resolved within 40 days.

**Grow sustainable profits**

- Increased penetration of the Bank's customer base.
- Delivered a strong performance in the annuity market including writing the largest bulk annuity in the market in 2018.
- Increased new business volumes by 13% overall in Wealth and Insurance with a 15% increase in life and pensions new business.
- Increased share of the life and pension market to 20.1% (2017: 18.6%).
- Held €17 billion of assets under management, with positive customer flows into unit linked funds partly offsetting the fall in assets arising from investment markets performance.

### Financial results

- Underlying profit before tax of €67 million in 2018 (2017: €117 million). The reduction compared to the previous year is due to the adverse performance of investment markets in 2018.
- Annual Premium Equivalent (APE) new business sales were €302 million in 2018, consisting of €145 million of new lump sum business and €157 million of regular premium business.
- Operating profit of €114 million in 2018 was €28 million or 33% higher than 2017 due to higher operating income and lower operating expenses.
- Operating income of €241 million in 2018 was €22 million higher than 2017 mainly reflecting the positive experience on insurance business, strong new business growth offset by some margin reduction due to business mix.
- Operating expenses of €127 million in 2018 were €6 million lower than in 2017. Increased staff costs arising from salary increases were offset by a reduction in the number of staff. Non staff costs were also reduced as a result of the early impact of strategic initiatives.
- In 2018, unit linked fund prices reduced in aggregate over the year, particularly impacted by falls in equity markets, and the adverse variance relative to assumed growth led to an adverse investment variance of €27 million (2017: gain of €9 million).
- Interest rates in 2018 were slightly lower than 2017. However the spread on corporate bonds increased, particularly in the final quarter. The overall impact of the change in yields resulted in a €20 million loss in the year (2017: €22 million gain). The prior year benefited from the impact of narrowing bond spreads.

**€67m**
Underlying profit before tax

**-5%**
Reduction in operating costs

**€17bn**
Assets under management

**+15%**
Life and pensions APE

**20%**
Market share

**#1**
Ireland's only Bancassurer

**Further information in relation to our divisional results is found in the Divisional Review on page 55.**

**Further information on measures referred to in our business segments is found in Alternative performance measures on page 326.**

## Future outlook

The macroeconomic environment is expected to remain positive. Increased levels of income and employment along with favourable demographics will drive growth in the underlying individual pension, investment and protection needs of the population. Pension demand is also anticipated to grow, driven by a shift from DB to defined contribution (DC) and in anticipation of auto-enrolment. The Wealth and Insurance business will continue investing to support the growth plans of the business, improve customer experience and drive efficiency and cost reductions.

# Divisional review
## Retail UK

Retail UK continues to provide consumer banking in Great Britain and universal banking in Northern Ireland. Retail UK incorporates the financial services partnerships with the UK Post Office and the AA, Northridge Finance and our FX joint venture (FRES).

### Highlights

| | | |
|---|---|---|
| £70m increase in underlying profit before tax. | Strong volume and profit growth in segments such as Asset Finance with Northridge Finance gross new lending at £1.1 billion during 2018, an increase of c.30% year on year and a record for the business. | Retail UK delivered £3.3bn in new mortgage lending, up 3% on 2017.<br><br>Retail UK delivered new personal lending of £0.5 billion, up 70% on 2017. |

### Business operations

The Retail UK division incorporates a consumer banking franchise distributing products including savings, mortgages, personal loans and credit cards through trusted brands - including the UK Post Office, the AA and other intermediaries. This business also has a universal bank in NI with 28 branches and six business centres, offering both retail and commercial banking and it has selected businesses in niche segments such as asset finance and leasing under Northridge Finance. The division includes the FX joint venture with the Post Office FRES, which provides retail and wholesale FX services and remains the largest provider of retail travel money in the UK. A supply contract with the Post Office also provides c.2,400 free to use Automated Teller Machines (ATMs).

### Key business highlights for the year

**Transform the Bank**

- Delivered margin improvement through digital, product and process innovation and strong customer retention, in particular on our deposit portfolio.
- Progressing with our preferred option in relation to the strategic repositioning of the UK credit card portfolio which on completion will have a positive impact on future profitability and shareholder returns.
- Improvements such as the deposits servicing site which was upgraded in 2018 aimed at improving customer self-serve options and reducing call centre volumes. Within three months of the upgrade, usage had increased by c.35,000 users.

**Serve customers brilliantly**

- Launched a number of new mortgage products aimed at supporting first time buyers.
- Emphasis on reducing level of complaints, and, in 2018 saw an increase in the number of complaints resolved at the first point of contact.
- In 2018 the mortgage business won 8 UK industry awards, while our personal loan product was second in a Yougov NPS survey.
- Our Post Office partner won the Moneyfacts Personal Finance provider of the year award and our AA Partner received a highly recommended award for Personal Loans provider of the year at the Moneynet awards.
- Improved end-to-end customer journeys, working closely with our partner, the Post Office, to improve customer application functionality, both online and in branches, replacing the need for certain paper applications and reducing processing times considerably.
- Agile principles have been applied in launching new products, improving efficiency and also enhancing end to end customer journeys.

**Grow sustainable profits**

- Improved cost of funds, along with a continued strong liquidity and capital position.
- Against a challenging mortgage market backdrop, delivered new mortgage lending of £3.3 billion, while maintaining strong risk discipline.
- Strong growth in asset finance with gross new lending of £1.1 billion, an increase of c.30% from 2017.
- FRES had a market share of 24% in 2018 and contributed £33 million and was awarded Best FX provider at the British Travel Awards 2018.
- Growth in unsecured lending business with gross new lending of £0.5 billion, an increase of 70% on 2017.

**Further information in relation to our divisional results is found in the Divisional Review on page 56.**

**Further information on measures referred to in our business segments is found in Alternative performance measures on page 326.**

### Financial results

- Underlying profit before tax of £161 million in 2018 (2017: £91 million). The increase of £70 million is primarily driven by increased operating income of £31 million, lower operating expenses of £6 million and reduced impairment losses of £34 million.
- Net interest income increased by £20

**£161m**
Underlying profit before tax

**-2%**
Reduction in operating costs

**+13%**
New lending growth

**£24.4bn**
Loans and advances to customers

**£19.8bn**
Customer deposits

**6%**
Income growth

million, primarily due to growth in the consumer lending portfolios and improved funding costs on deposits, offset by reduced income from the mortgage business as margin pressures increased in the market.
- Net other income increased by £11 million, mainly due to improved net trading income, and the inclusion of the first full year's performance of Marshall Leasing, offset by lower net transaction fee income.
- Operating expenses have reduced by £6 million year on year as a result of the continued focus on cost management while still continuing to invest in new customer propositions.
- Impairment losses have decreased by £34 million or 34% compared to the prior year with strong arrears performance.
- Loans and advances to customers (after impairment loss allowances) at 31 December 2018 of £24.4 billion were £0.4 billion lower than 2017. This reflects net repayments and redemptions in commercial lending portfolios of £0.4 billion including the ongoing reduction in the GB business banking portfolio and £0.6 billion reduction in net mortgage volumes, partially offset by an overall increase in consumer lending of £0.6 billion, which includes Northridge and personal lending.
- Customer deposits of £19.8 billion at 31 December 2018 were £0.8 billion higher than 31 December 2017.

## Future outlook

Retail UK remains committed to the UK market with a strategy focused on increasing returns. Despite Brexit uncertainty, Retail UK is targeting ongoing loan book growth, facilitated through growth in its various portfolios and distribution network, including mortgages, asset finance and personal loans. It will continue to work closely with our trusted brands, the Post Office and AA. This growth will be in the context of focused margin management, cost control, strong risk management and by targeting improved capital returns.

# Divisional review
# Corporate and Treasury

## Corporate and Treasury is Ireland's #1 Corporate Bank and leading treasury service provider.

### Business operations

Corporate and Treasury incorporates the Group's corporate banking, specialised acquisition finance and large transaction property lending business, across the Republic of Ireland, UK and internationally, with offices in Ireland, the UK, the United States (US), Germany and France. In addition, Corporate and Treasury specialises in the provision of customer treasury products and services and manages the Group's treasury risks including market, funding and liquidity risks. During 2018, Group Treasury joined the division, centralising the management of these risks. Within the Republic of Ireland, Corporate and Treasury enjoys market leading positions in its chosen sectors, including corporate banking, commercial property, foreign direct investment and customer treasury products and services, while its acquisition finance business is well recognised by sponsors in its targeted segments within the European and US markets.

### Highlights

| | | |
|---|---|---|
| Corporate banking Ireland retained its position as Ireland's number one corporate bank and continued to bank two out of every three new foreign direct investments in Ireland. | Property Finance maintained its position as a leading domestic lender to the Irish real estate market. | Markets and Treasury continued to invest in Customer Experience enhancements including; launch of €20 million unsecured FX facility to support businesses trading internationally and extensions to FX payment cut-off times on Business Online. |

### Key business highlights for the year

**Transform the Bank**

- Significant increase in the adoption of FX Pay, the Group's online FX platform and continued to invest in customer experience enhancements including digital on-boarding and extensions to FX payment cut-off times.

**Serve customers brilliantly**

- Continued focus on 'best in class' customer service, through delivery of process improvements, efficiencies and the optimisation of relationship managers' time supporting their customers.
- Strong lending growth in Corporate Banking as we enabled our customers to achieve their ambitions.
- Successfully established a new team in Manchester to serve corporate customers in northern England as part of the strategic plan.
- Enhanced our ongoing customer communications programme, providing real-time insights to customers on market-related events and movements, distilling market related topics for their consideration.
- Launch of €20 million unsecured FX facility to support businesses trading internationally and the establishment of a loyalty programme.

**Grow sustainable profits**

- Corporate banking Ireland retained its position as Ireland's number one corporate bank and continued to support two out of every three new foreign direct investments in Ireland.
- Property Finance maintained its position as a leading domestic lender to Irish real estate market by funding the construction of c.6,000 residential units across c.120 sites and a dominant domestic student accommodation financer; funding 3,250 beds including 1,900 under development.
- Acquisition Finance continues to have strong leveraged loan volumes in Europe and US with selective growth over 2018. The business' longstanding private equity relationships resulted in c.85% repeat transactions with these key sponsors.
- In August 2018, executed an inaugural Euro BOIG Senior Transaction raising €750 million of Minimum Requirement for Own Funds and Eligible Liabilities (MREL) compliant securities. In September 2018, the inaugural Dollar BOIG senior debt issuance raised $500 million, representing the Group's first unsecured transaction targeting on-shore US investors for over 10 years.

### Financial results

- Underlying profit before tax of €486 million in 2018, a decrease of €59 million compared to 2017, primarily due to the adverse impact of market movements on valuation adjustments.
- Business net interest and other income of €706 million is €39 million lower than 2017, primarily due to a reduction in income arising from lower deposit volumes and a strong prior year not repeated in the current year.

**€486m**
Underlying profit before tax

**-9%**
Reduction in operating costs

**+13%**
Net lending growth

**€15.0bn**
Loans and advances to customers

**€9.1bn**
Customer deposits

**62**
Enterprise and community events in 2018

- Financial instruments valuation adjustments are €7 million in 2018, a decrease of €32 million compared to 2017. The 2017 result was due to favourable market moves on derivative valuations not repeated in 2018.
- Operating expenses of €194 million are €19 million lower than 2017 due to lower staff costs and the disposal of IBI Corporate Finance during 2017.
- Net impairment losses on financial instruments of €41 million are €7 million lower than 2017.
- Loans and advances to customers at 31 December 2018 of €15.0 billion are €1.7 billion higher than 2017.
- Customer deposits decreased by €1.2 billion to €9.1 billion at 31 December 2018 due to pricing optimisation.
- The euro liquid asset bond portfolio was €3.3 billion higher than 2017 at €14.6 billion.

**Further information in relation to our divisional results is found in the Divisional Review on page 57.**

**Further information on measures referred to in our business segments is found in Alternative performance measures on page 326.**

## Future outlook

Corporate and Treasury will continue to drive ongoing improvement in customer propositions and experience; extending reach to new customers via technology platforms and solutions provision; and supporting growth in the Group balance sheet. Brexit risk is monitored carefully in all new business opportunities and Corporate and Treasury are actively supporting its customers to address the challenges which Brexit may present for them.


Michael Bloomberg visiting Global Markets on June 5, 2018

# Divisional review
## Group Centre

Group Centre comprises Group Manufacturing, Group Finance, Group Risk, Group Marketing, Group Human Resources and Group Internal Audit. The Group's central functions establish and oversee policies, and provide and manage processes and delivery platforms for the divisions.

### Business operations

Group Centre's income and costs comprises income from capital and other management activities, unallocated Group support costs and the costs associated with the Irish bank levy and the UK Financial Services Compensation Scheme (FSCS) along with contributions to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) fund.

### Financial results

- Operating income of €24 million in 2018, a decrease of €21 million from 2017. This variance was primarily due to liquid asset disposals in 2017 which did not reoccur in 2018. This was partly offset by a €9 million gain from the partial disposal of NAMA subordinated debt.
- Operating expenses (before Transformation Investment and levies and regulatory charges) of €254 million in 2018 were €10 million higher than in 2017. The increase is reflective of increased investment costs in strategic initiatives, including higher amortisation charges arising from technology and infrastructure, along with costs associated with compliance and meeting regulatory expectations, partially offset by reduced staff costs.
- Our Transformation programme continues to make good progress and a further €306 million was invested in this programme in 2018, of which €100 million is capitalised on the balance sheet (2017: €91 million), with an income statement charge of €113 million (2017: €104 million) and €93 million recognised through non-core items.
- Total Transformation Investment costs recognised through non-core items were €93 million for the Group, of which €90 million was recognised through Group Centre (€74 million reflects a reduction in employee numbers, €8 million relates to programme management costs and other costs €8 million).
- Group Centre levies and regulatory charges were €97 million in 2018 compared with €94 million in 2017, an increase of €3 million.

**Further information in relation to our divisional results is found in the Divisional Review on page 57.**

# Divisional review
## Financial results

The tables below and on the following pages, provide further information on the financial performance of the Group's divisions during 2018 as well as some key performance metrics. A business review for each division can be found on pages 54 to 57 of the divisional review. Information on the financial performance of the Group as a whole can be found on page 32 of the Strategic report.

**Basis of presentation**
Percentages presented throughout the Strategic Report are calculated on the absolute underlying figures and so may differ from the percentage variances calculated on the rounded numbers presented, where the percentages are not measured this is indicated by n/m.

As of 1 January 2018, IFRS 9 'Financial Instruments' came into effect; the Group's results for 2018, as set out in this report, has been prepared in accordance with IFRS 9. Comparative figures have not been restated for the impact of IFRS 9 and are presented on an IAS 39 classification and measurement basis. See note 65 on page 283 of the consolidated financial statements.

Principal rates of exchange used in the preparation of the Financial Statements are set out on page 175.

References to 'the State' throughout this document should be taken to refer to the Republic of Ireland, its Government and, where and if relevant, Government departments, agencies and local Government bodies.

| | 2018 €m | Restated[1] 2017 €m |
|---|---|---|
| **Underlying[2] profit before tax by division** | | |
| Retail Ireland | 649 | 701 |
| Wealth and Insurance (formerly Bank of Ireland Life) | 67 | 117 |
| Retail UK | 182 | 103 |
| Corporate and Treasury | 486 | 545 |
| Group Centre | (440) | (397) |
| Other reconciling items[3] | (9) | 9 |
| **Underlying profit before tax** | **935** | **1,078** |
| Non-core items | (100) | (226) |
| **Profit before tax** | **835** | **852** |
| **Per ordinary share** | | |
| Basic earnings per share[4] (€ cent) | 57.7 | 59.1 |
| Underlying earnings per share[4] (€ cent) | 64.8 | 78.3 |
| Tangible Net Asset Value per share (€ cent) | 785 | 752 |
| | | |
| Cost income ratio[5] (%) | 65% | 65% |
| Return on assets (bps) | 54 | 56 |

[1] *Comparative figures have been restated to reflect the impact of: (i) the reclassification of €7 million of costs from the Transformation Investment charge (formerly the Core Banking Platform Investment charge) to Operating expenses (before Transformation Investment and levies and regulatory charges) for 2017. The Transformation Investment charge has been booked in Group Centre for the current and comparative year; (ii) the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life) to incorporate the Private Banking and Insurance Services business units which were previously reported within Retail Ireland. This has resulted in an increase of €11 million in the underlying profit before tax of Wealth and Insurance and a corresponding decrease in the underlying profit before tax of Retail Ireland for 2017; and (iii) the Group's decision to re-organise the Corporate and Treasury segment to incorporate Group Treasury's costs which were previously reported within Group Centre. This has resulted in a decrease of €8 million in the underlying profit before tax of Corporate and Treasury and a corresponding increase in Group Centre for 2017.*

[2] *These financial results are presented on an underlying basis. Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 37 for further information.*

[3] *Other reconciling items represent inter segment transactions which are eliminated upon consolidation and the application of hedge accounting at Group level.*

[4] *For basis of calculation of basic earnings per share see note 21 on page 210. Underlying earnings per share excludes non-core items.*

[5] *The Group has revised its approach to the calculation of the cost income ratio and the comparative figure has been restated to reflect the revised approach. See page 326 for further details.*

# Divisional review
## Retail Ireland results

| Retail Ireland: Income statement | 2018 €m | Restated[1] 2017 €m | Change % |
|---|---|---|---|
| Net interest income[2,3] | 992 | 1,065 | (7%) |
| Net other income[2] | 272 | 287 | (5%) |
| **Operating income** | **1,264** | **1,352** | **(7%)** |
| Operating expenses | (776) | (803) | (3%) |
| **Operating profit before net impairment gains on financial instruments** | **488** | **549** | **(11%)** |
| Net impairment gains on financial instruments | 157 | 148 | 6% |
| Share of results of associates and joint ventures (after tax) | 4 | 4 | - |
| **Underlying profit before tax** | **649** | **701** | **(7%)** |
| | | | |
| **Net impairment (gains) / losses on financial instruments** | | | |
| Loans and advances to customers at amortised cost | (154) | (148) | 4% |
| *- Residential mortgages* | *(60)* | *(131)* | *(54%)* |
| *- Non-property SME and corporate* | *(54)* | *20* | *n/m* |
| *- Property and construction* | *(36)* | *(27)* | *33%* |
| *- Consumer* | *(4)* | *(10)* | *(60%)* |
| Other financial instruments (excluding loans and advances to customers at amortised cost)[4,5] | (3) | - | 100% |
| **Net impairment (gains) / losses on financial instruments** | **(157)** | **(148)** | **6%** |
| | | | |
| **Loans and advances to customers (net) (€bn)** | | | |
| At 31 December | 34.7 | 34.7 | - |
| Average in year | 34.7 | 34.9 | (1%) |
| | | | |
| **Customer deposits (€bn)** | | | |
| At 31 December | 47.7 | 44.2 | 8% |
| Average in year | 45.1 | 42.5 | 6% |

*[1] Comparative figures have been restated to reflect the impact of the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life). On an underlying basis, this has resulted in a decrease of €30 million in other income (net) and a decrease of €19 million in operating expenses for 2017 in Retail Ireland with a corresponding increase in Wealth and Insurance.*

*[2] 'Net interest income' and 'net other income' are impacted by IFRS income classifications as set out on pages 33 and 34. The impact on Retail Ireland is to increase 'net interest income' in 2018 by €20 million to €1,012 million (post IFRS income classification) (2017: €nil) with fully offsetting changes to 'net other income' in both years. In 2018, this included €15 million of interest income on 'Life loan mortgage products' which on transition to IFRS 9 were mandatorily classified as FVTPL, with all income on such loans reported in 'net other income'. This IFRS income classification moves the income back to 'net interest income' in line with how it was reported in prior years.*

*[3] From 1 January 2018, the Group amended the allocation of funding and liquidity costs across the divisions which resulted in a net decrease in 2018 net interest income in the Retail Ireland division of €11 million and the Corporate and Treasury division of €4 million, with a corresponding increase in net interest income of Retail UK of €15 million, compared to the former basis. The impact of these changes, if applied to the prior year, would be to decrease 2017 net interest income by €11 million in Retail Ireland and €4 million in Corporate and Treasury with a corresponding increase in Retail UK of €15 million.*

*[4] At 31 December 2018, other financial instruments (excluding loans and advances to customers at amortised cost) include a net impairment gain of €3 million on loan commitments.*

*[5] The IAS 39 impairment charge on other financial instruments (excluding loans and advances to customers) for 2017 was €nil. IAS 37 provisions recognised on loan commitments and guarantees and irrevocable letters of credit at 31 December 2017 were €nil.*

# Divisional review
## Wealth and Insurance results

| **Wealth and Insurance:** **Income statement** | **2018 €m** | **Restated[1] 2017 €m** | **Change %** |
|---|---|---|---|
| Net interest (expense) / income | (9) | 12 | n/m |
| Net other income | 250 | 207 | 21% |
| **Operating income** | **241** | **219** | **10%** |
| Operating expenses | (127) | (133) | (5%) |
| **Operating profit** | **114** | **86** | **33%** |
| Unit-linked investment variance | (27) | 9 | n/m |
| Interest rate movement | (20) | 22 | n/m |
| **Underlying profit before tax** | **67** | **117** | **(43%)** |

| **Wealth and Insurance:** **Income statement (Market Consistent Embedded Value performance)** | **2018 €m** | **Restated[1] 2017 €m** | **Change %** |
|---|---|---|---|
| New business profits | 12 | 17 | (29%) |
| Existing business profits | 110 | 82 | 34% |
| *- Expected return* | *61* | *62* | *(2%)* |
| *- Experience variance* | *23* | *19* | *(21%)* |
| *- Assumption changes* | *26* | *1* | *n/m* |
| Intercompany payments | - | (9) | 100% |
| Interest payments | (7) | (5) | 40% |
| **Operating profit** | **115** | **85** | **35%** |
| | | | |
| Unit-linked investment variance | (42) | 21 | n/m |
| Interest rate movements | (20) | 22 | n/m |
| **Underlying profit before tax** | **53** | **128** | **(59%)** |

**Embedded value**
The table above outlines the Market Consistent Embedded Value (MCEV) performance using market consistent assumptions. The MCEV principles are closely aligned to the Solvency II principles and are consistent with the approach used for insurance contracts in the IFRS basis.

Operating profit has increased to €115 million (2017: €85 million) mainly reflecting the benefit of assumption changes compared to 2017 and changes to intercompany payments.

As outlined in the IFRS results unit linked fund performance (€42 million negative) and interest rate movements (€20 million loss) were adverse in the year resulting in a total profit of €53 million (2017: €128 million).

The table below summarises the overall balance sheet of Wealth and Insurance on an MCEV basis at 31 December 2018 compared to the value at 31 December 2017. The Value of in Force (ViF) asset represents the after tax value of future income from the existing book.

The value of net assets reflects a dividend payment of €73 million by Wealth and Insurance to the Group in 2018.

| **Wealth and Insurance:** **Summary balance sheet (MCEV)** | **2018 €m** | **Restated[1] 2017 €m** |
|---|---|---|
| Net assets | 471 | 509 |
| ViF | 640 | 644 |
| Less Tier 2 subordinated capital / debt | (162) | (184) |
| Less pension scheme deficit | (107) | (94) |
| **Total embedded value** | **842** | **875** |

[1] *Comparative figures have been restated to reflect the impact of the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life). On an underlying basis, this has resulted in an increase of €30 million in other income (net) and an increase of €19 million in operating expenses for 2017 in Wealth and Insurance with a corresponding decrease in Retail Ireland. The impact on the MCEV performance has resulted in an increase to the 2017 Underlying profit before tax by €12 million comprised of an increase in the existing business profits of €12 million. The impact to the overall balance sheet of Wealth and Insurance on an MCEV basis has resulted in an increase in Net assets of €20 million.*

# Divisional review
## Retail UK results

| Retail UK: Income statement | 2018 £m | 2017 £m | Change % |
|---|---|---|---|
| Net interest income[1] | 527 | 507 | 4% |
| Net other income | 19 | 8 | 138% |
| **Operating income** | **546** | **515** | **6%** |
| Operating expenses | (352) | (358) | 2% |
| **Operating profit before impairment losses on financial instruments** | **194** | **157** | **24%** |
| Net impairment losses on financial instruments | (66) | (100) | 34% |
| Share of results of associates and joint ventures (after tax) | 33 | 34 | (3%) |
| **Underlying profit before tax** | **161** | **91** | **77%** |
| | | | |
| **Underlying profit before tax (€m equivalent)** | **182** | **103** | **77%** |
| | | | |
| **Net impairment losses / (gains) on financial instruments** | | | |
| Loans and advances to customers at amortised cost | 68 | 100 | 32% |
| *- Residential mortgages* | *11* | *(5)* | *n/m* |
| *- Non-property SME and corporate* | *(1)* | *21* | *(105%)* |
| *- Property and construction* | *22* | *69* | *68%* |
| *- Consumer* | *36* | *15* | *(140%)* |
| Other financial instruments (excluding loans and advances to customers at amortised cost)[2,3] | (2) | - | 100% |
| **Net impairment losses / (gains) on financial instruments** | **66** | **100** | **34%** |
| | | | |
| **Loans and advances to customers[4] (net) (£bn)** | | | |
| At 31 December | 24.4 | 24.8 | (2%) |
| Average in year | 24.9 | 25.2 | (1%) |
| | | | |
| **Customer deposits (£bn)** | | | |
| At 31 December | 19.8 | 19.0 | 4% |
| Average in year | 19.6 | 19.2 | 2% |

*1 From 1 January 2018, the Group amended the allocation of funding and liquidity costs across the divisions which resulted in a net increase in 2018 net interest income in the Retail UK division of £13 million (€15 million), with a corresponding decrease in net interest income in the Corporate and Treasury division of €4 million and in the Retail Ireland division of €11 million, compared to the former basis. The impact of these changes, if applied to the prior year, would be to increase Retail UK 2017 net interest income by £13 million (€15 million), with a corresponding decrease of €4 million in Corporate and Treasury and €11 million in Retail Ireland.*

*2 At 31 December 2018, other financial instruments (excluding loans and advances to customers at amortised cost) includes a net impairment gain of £2 million on loan commitments.*

*3 The IAS 39 impairment charge on other financial instruments (excluding loans and advances to customers) for 2017 was £nil. IAS 37 provisions recognised on loan commitments and guarantees and irrevocable letters of credit at 31 December 2017 were £nil.*

*4 Includes £0.5 billion of loans and advances to customers classified as held for sale.*

# Divisional review
## Corporate and Treasury results

| Corporate and Treasury Income statement | 2018 €m | Restated[1] 2017 €m | Change % |
|---|---|---|---|
| Net interest income[2,3] | 555 | 575 | (3%) |
| Net other income[2] | 166 | 231 | (28%) |
| **Operating income** | **721** | **806** | **(11%)** |
| *- Business - net interest and other income* | *706* | *745* | *(5%)* |
| *- Financial Instruments valuation adjustments* | *7* | *39* | *(82%)* |
| *- Other debt instruments at FVOCI / AFS gains* | *8* | *22* | *(64%)* |
| Operating expenses | (194) | (213) | (9%) |
| **Operating profit before impairment losses on financial instruments** | **527** | **593** | **(11%)** |
| Net impairment losses on financial instruments | (41) | (48) | 15% |
| **Underlying profit before tax** | **486** | **545** | **(11%)** |
| | | | |
| **Net impairment losses / (gains) on financial instruments** | | | |
| Loans and advances to customers at amortised cost | 41 | 48 | (15%) |
| *- Non-property SME and corporate* | *41* | *40* | *(3%)* |
| *- Property and construction* | *-* | *8* | *(100%)* |
| | | | |
| **Loans and advances to customers (net) (€bn)** | | | |
| At 31 December | 15.0 | 13.3 | 13% |
| Average in year | 13.9 | 13.2 | 5% |
| | | | |
| **Customer deposits (€bn)** | | | |
| At 31 December | 9.1 | 10.3 | (12%) |
| Average in year | 9.1 | 10.5 | (13%) |
| | | | |
| **Euro liquid asset bond portfolio (€bn)** | | | |
| At 31 December | 14.6 | 11.3 | 29% |
| Average in year | 13.3 | 11.4 | 17% |

## Group Centre results

| Group Centre Income statement | 2018 €m | Restated[1] 2017 €m | Change % |
|---|---|---|---|
| Net operating income | 24 | 45 | (47%) |
| Operating expenses (before Transformation Investment and levies and regulatory charges) | (254) | (244) | (4%) |
| Transformation Investment charge | (113) | (104) | (9%) |
| Levies and regulatory charges | (97) | (94) | (3%) |
| **Underlying loss before tax** | **(440)** | **(397)** | **(11%)** |

[1] *Comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Corporate and Treasury segment to incorporate Group Treasury's costs which were previously reported within Group Centre. This has resulted in an increase of €8 million in operating expenses in Corporate and Treasury, with a corresponding decrease in Group Centre in 2017 and (ii) the reclassification in Group Centre of €7 million of costs from the Transformation Investment charge (formerly the Core Banking Platform Investment charge) to Operating expenses (before Transformation Investment and levies and regulatory charges) in 2017, see page 53 for further detail.*

[2] *'Net interest income' and 'net other income' are impacted by IFRS income classifications as set out on pages 33 and 34. The impact on Corporate and Treasury 2018 'net interest income' was €nil (2017: reduced by €23 million to €552 million) with fully offsetting changes to 'net other income' in both years.*

[3] *From 1 January 2018, the Group amended the allocation of funding and liquidity costs across the divisions which resulted in a net decrease in 2018 net interest income in the Corporate and Treasury division of €4 million and in the Retail Ireland division of €11 million, with a corresponding increase in net interest income of Retail UK of €15 million, compared to the former basis. The impact of these changes, if applied to the prior year, would be to decrease 2017 net interest income by €4 million in Corporate and Treasury, by €11 million in Retail Ireland with a corresponding increase in Retail UK of €15 million.*

# Divisional review
## Income statement - operating segments

| 2018 | Net interest income / (expense) €m | Net insurance premium income €m | Other income €m | Total operating income €m | Insurance contract liabilities and claims paid €m | Total operating income net of insurance claims €m | Operating expenses €m | Operating profit / (loss) before net impairment gains / (losses) on financial instruments €m | Net impairment gains / (losses) on financial instruments €m | Share of results of associates and joint ventures (after tax) €m | Gain on disposal / liquidation of business activities and property €m | Profit / (loss) before taxation €m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Retail Ireland | 992 | - | 272 | **1,264** | - | **1,264** | (776) | **488** | 157 | 4 | - | **649** |
| Wealth and Insurance | (9) | 1,499 | (345) | **1,145** | (951) | **194** | (127) | **67** | - | - | - | **67** |
| Retail UK | 596 | - | 21 | **617** | - | **617** | (398) | **219** | (74) | 37 | - | **182** |
| Corporate and Treasury | 555 | - | 166 | **721** | - | **721** | (194) | **527** | (41) | - | - | **486** |
| Group Centre | 10 | (3) | 21 | **28** | (4) | **24** | (464) | **(440)** | - | - | - | **(440)** |
| Other reconciling items | 2 | - | (17) | **(15)** | - | **(15)** | 6 | **(9)** | - | - | - | **(9)** |
| **Group - underlying[1]** | **2,146** | **1,496** | **118** | **3,760** | **(955)** | **2,805** | **(1,953)** | **852** | **42** | **41** | **-** | **935** |
| | | | | | | | | | | | | |
| **Total non-core items** | | | | | | | | | | | | |
| Cost of Restructuring Programme | - | - | - | **-** | - | **-** | (111) | **(111)** | - | - | - | **(111)** |
| Gain on disposal of property | - | - | - | **-** | - | **-** | - | **-** | - | - | 7 | **7** |
| Gross-up for policyholder tax in the Wealth and Insurance business | - | - | (7) | **(7)** | - | **(7)** | - | **(7)** | - | - | - | **(7)** |
| Investment return on treasury stock held for policyholders | - | - | 6 | **6** | - | **6** | - | **6** | - | - | - | **6** |
| Gain on disposal of business activities | - | - | - | **-** | - | **-** | - | **-** | - | - | 5 | **5** |
| Tracker Mortgage Examination charges | (12) | - | - | **(12)** | - | **(12)** | 12 | **-** | - | - | - | **-** |
| **Group total** | **2,134** | **1,496** | **117** | **3,747** | **(955)** | **2,792** | **(2,052)** | **740** | **42** | **41** | **12** | **835** |

[1] *Underlying performance excludes the impact of non-core items (see page 37).*

# Divisional review
## Income statement - operating segments *(continued)*

| Restated[1] 2017 | Net interest income €m | Net insurance premium income €m | Other income €m | Total operating income €m | Insurance contract liabilities and claims paid €m | Total operating income net of insurance claims €m | Operating expenses €m | Operating profit / (loss) before impairment charges on financial assets €m | Impairment (charge) / reversal on loans and advances to customers €m | Impairment charge on AFS financial assets €m | Share of results of associates and joint ventures (after tax) €m | Loss on disposal / liquidation of business activities €m | Profit / (loss) before taxation €m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Retail Ireland | 1,065 | - | 287 | 1,352 | - | 1,352 | (803) | 549 | 148 | - | 4 | - | 701 |
| Wealth and Insurance | 12 | 1,338 | 543 | 1,893 | (1,643) | 250 | (133) | 117 | - | - | - | - | 117 |
| Retail UK | 579 | - | 9 | 588 | - | 588 | (409) | 179 | (115) | - | 39 | - | 103 |
| Corporate and Treasury | 575 | - | 231 | 806 | - | 806 | (213) | 593 | (48) | - | - | - | 545 |
| Group Centre | 20 | 6 | 21 | 47 | (2) | 45 | (442) | (397) | - | - | - | - | (397) |
| Other reconciling items | (3) | - | 11 | 8 | - | 8 | 1 | 9 | - | - | - | - | 9 |
| **Group - underlying[2]** | **2,248** | **1,344** | **1,102** | **4,694** | **(1,645)** | **3,049** | **(1,999)** | **1,050** | **(15)** | **-** | **43** | **-** | **1,078** |
| | | | | | | | | | | | | | |
| **Total non-core items** | | | | | | | | | | | | | |
| - Tracker Mortgage Examination charges | (96) | - | - | (96) | - | (96) | (74) | (170) | - | - | - | - | (170) |
| - Cost of Restructuring Programme | - | - | - | - | - | - | (48) | (48) | - | - | - | - | (48) |
| - Gross-up for policyholder tax in the Wealth and Insurance business | - | - | 10 | 10 | - | 10 | - | 10 | - | - | - | - | 10 |
| - Cost of corporate reorganisation and establishment of a new holding company | - | - | - | - | - | - | (7) | (7) | - | - | - | - | (7) |
| - Loss on disposal / liquidation of business activities | - | - | - | - | - | - | - | - | - | - | - | (5) | (5) |
| - Charge arising on movement in the Group's credit spreads | - | - | (4) | (4) | (1) | (5) | - | (5) | - | - | - | - | (5) |
| - Investment return on treasury shares held for policyholders | - | - | (1) | (1) | - | (1) | - | (1) | - | - | - | - | (1) |
| **Group total** | **2,152** | **1,344** | **1,107** | **4,603** | **(1,646)** | **2,957** | **(2,128)** | **829** | **(15)** | **-** | **43** | **(5)** | **852** |

[1] *As outlined on page 53, comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment (formerly Bank of Ireland Life) and (ii) the Group's decision to re-organise the Corporate and Treasury segment.*

[2] *Underlying performance excludes the impact of non-core items (see page 37).*

# Risk Management Report



The information below in sections or paragraphs denoted as audited in sections 3.1, 3.2, 3.3, 3.4 and 4 and all the tables (except those denoted unaudited) in the Risk Management Report form an integral part of the audited financial statements as described in the Basis of preparation on page 175.

All other information, including charts and graphs, in the Risk Management Report is additional disclosure and does not form an integral part of the audited financial statements.

# 1 Principal Risks and Uncertainties

Key risks identified by the annual risk identification process, together with other significant and emerging risks facing the Group and key mitigating considerations are set out below. For many of the risks, the allocation of capital against potential loss is a key mitigant; other mitigating considerations include those outlined below.

This summary should not be regarded as a complete and comprehensive statement of all potential risks, uncertainties or mitigants; nor can it confirm that the mitigants would apply to fully eliminate or reduce the corresponding key risks. Additionally, other factors not yet identified, or not currently material, may adversely affect the Group.

| Principal risks and uncertainties | Key mitigating considerations |
|---|---|
| **Business and strategic risk** (see page 104)<br>Business and strategic risk arises from changes in the competitive environment, new market entrants, new products, inflexibility in the cost base or failure to develop and execute an appropriate strategy or anticipate or mitigate a related risk.<br><br>Business and strategic risk encompasses the Group's current business model on the basis of its ability to generate acceptable returns, given its quantitative performance, key success drivers and dependencies, and business environment and the sustainability of the Group's strategy on the basis of its ability to generate acceptable returns, based on its strategic plans and financial forecasts, and an assessment of the business environment. | • Business divisional strategy is developed within the boundaries of the Group's strategy as well as the Board approved Risk Appetite Limit. These strategies are developed within the divisions and challenged, endorsed, supported and monitored by Group functions.<br>• The Board receives regular deep dive presentations on key aspects of the Group's strategy, and regular updates on performance against strategic objectives by way of the monthly scorecard review.<br>• The Board receives comprehensive reports setting out the current financial performance against budget, multi-year financial projections, capital plans, the monitoring of risks, updates on the economies in which the Group operates, together with developments in the Group's franchises, operations, people, and other business activities.<br>• An independent Court Risk Report is produced quarterly and reviewed by the Executive and Non-executive Risk Committees. The content of the report includes an analysis of, and commentary on, the key existing and emerging risk types and also addresses governance, control issues and compliance with risk appetite. |
| *Brexit*<br>Ongoing uncertainty following the UK vote to exit the European Union (EU), relating to the nature and impact of withdrawal, could impact the markets in which the Group operates including pricing, partner appetite, customer confidence and credit demand, collateral values and customers' ability to meet their financial obligations and consequently the Group's financial performance, balance sheet, capital and dividend capacity. Other effects may include changes in official interest rate policy in both the UK and Eurozone, which can impact the Group's revenues and also the Group's IAS 19 DB pension deficit, and FX rate volatility, which can impact the translation of the Group's UK net assets and profits. | • The Group has established a comprehensive Brexit programme to identify, monitor and mitigate risks associated with various outcomes of Brexit. The Board and Senior Management receive regular updates on the Group's Brexit preparations ensuring close monitoring and management of the specific risks and challenges associated with same.<br>• The Group's business in the UK is primarily conducted through key partnerships, which reduces the Group's investment in infrastructure and other items of a fixed cost nature.<br>• The Group manages its exposure to interest rate risk, including GBP / EUR, through the hedging of its fixed-rate customer and wholesale portfolios, the investment of its non-interest bearing liabilities (free funds) and the setting of conservative limits on the assumption of discretionary interest rate risk.<br>• To minimise the sensitivity of the Group's capital ratios to changes in FX rates, the Group maintains reserves in sterling, ensuring that the currency composition of capital is broadly similar to the currency composition of RWAs<br>• The Group has a requirement to fund an element of its sterling balance sheet in part from euro which creates a structural exposure to the cost of this hedging. In the context of potential market volatility around Brexit, the Group has taken the pre-emptive action of pre-hedging this structural exposure beyond the end of June 2019. |

# 1 Principal Risks and Uncertainties *(continued)*

| Principal risks and uncertainties | Key mitigating considerations |
|---|---|
| **Business and strategic risk (continued)** (see page 104) | |
| *People risk*<br>Includes the continuing impact of remuneration restrictions on the Group in a recovering labour market, which may be further exacerbated post Brexit with increasing competition for skilled resources and / or restricted mobility between jurisdictions. It also includes people management, recruitment and retention risks in relation to the Group's transformation and digitalisation of banking products and services, as the Group adapts to the changing needs and preferences of our customer base. | • The Group has a Board approved human resources strategy providing it with a range of strategies to enable the Group to retain appropriate numbers and / or calibre of staff having regard to remuneration restrictions imposed by government, tax or regulatory authorities. These include Board Talent Reviews including succession planning, the Group's Performance Management Framework, and the Career and Reward Framework as aligned to our purpose and values. |
| *Digital*<br>Banking models are evolving, for both consumers and businesses in Ireland and internationally, most notably with the rise of fintech and neo-banks. Rapidly shifting consumer behaviours and available technologies are changing how customers consume products and services.<br><br>These developments affect the manner in which customers manage their day to day financial affairs and supporting products. Money transmission and data driven integrated services are also forecast to rapidly evolve in the coming years, underpinned by regulatory developments including the revised Payment Services Directive and the General Data Protection Regulation (GDPR). How the Group adapts to these developments could restrict the Group's ability to realise its market strategies and financial plans, dilute customer propositions and cause reputational damage. | • In the context of the overall business strategy, the Group assesses and develops its complementary technology strategy to support and mitigate these risks.<br>• Given the significant developments in digital demands on technology as well as increased regulatory requirements, an overarching Technology Investment Prioritisation Plan, which includes the Core Banking Transformation Programme, is in place to ensure these demands are managed within risk, capacity and financial constraints.<br>• The Group's policies, standards, governance and control models undergo ongoing review to reference the Group's digital strategy and solutions.<br>• To support the Group's digital strategy, as necessary, the Group engages with appropriate external experts.<br>• The Group Transformation Oversight Committee (GTOC) provides oversight on the Group's digital strategy. |
| *Macroeconomic conditions and geopolitical uncertainty*<br>The Group's businesses may be affected by adverse economic conditions in countries where we have exposures, particularly in Ireland and the UK, unfavourable exchange rate movements and changes in interest rates, with a potential increase in global protectionism and changes in the international tax environment posing additional risks.<br><br>Geopolitical uncertainties could impact economic conditions in countries where the Group has exposures, market risk pricing and asset price valuations; thereby potentially reducing returns. | • The Group monitors the risks and impact of changing current and forecast macroeconomic conditions on the likely achievement of the Group's strategy and objectives.<br>• The Group manages its exposures in accordance with key risk policies including maximum single counterparty limits and defined country limits.<br>• The Group has in place a comprehensive stress and scenario testing process.<br>• The Group ensures exposures are managed according to approved risk policies which include maximum single counterparty limits and country limits.<br>• The Group is diversified in terms of asset class, industry and funding source. |
| **Transformation risk**<br>The Group is undergoing significant Transformation across Culture, Business and Systems, which presents challenges and risks, and significant customer considerations. Failure to transform successfully could prevent the Group from realising its strategic priorities. | • The Board has responsibility for developing the Group's strategic priorities. These priorities were set out at the Group Investor Day on 13 June 2018.<br>• The Group has mobilised a number of significant change programmes under each of the key Transformational change areas to deliver against this strategy. These operate within both existing governance fora and newly established fora to closely monitor and manage the change, and the specific risks and challenges associated with same.<br>• The Group Transformation Oversight Committee (GTOC) has been established to govern the business and strategy aspects of the programme for its duration. |

# 1 Principal Risks and Uncertainties *(continued)*

| Principal risks and uncertainties | Key mitigating considerations |
|---|---|
| **Credit risk** (see page 74)<br>Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk includes, but is not limited to, default risk, concentration risk, country risk, migration risk and collateral risk.<br><br>Credit risk arises from loans and advances to customers and from certain other financial transactions such as those entered into by the Group with financial institutions, sovereigns and state institutions. | • Board approved Group Credit Policy and Risk Appetite limits, including credit category limits, together with a framework cascading to businesses and portfolios.<br>• Exposure limits for credit concentration risk.<br>• Defined credit processes and controls, including credit policies, independent credit risk assessment and defined authority levels for sanctioning lending.<br>• Processes to monitor compliance with policies and limits.<br>• Dedicated workout structures focused on the management and reduction of NPEs. |
| **Funding and liquidity risk** (see page 91)<br>Funding and liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds.<br><br>Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven by, amongst other things, the maturity structure of loans and investments held by the Group, while cash outflows are driven by items such as the term maturity of debt issued by the Group and outflows from customer deposit accounts.<br><br>Funding Risk can occur where there is an over-reliance on a particular type of funding, a funding gap or a concentration of wholesale funding maturities. | • Board approved Risk Appetite limits.<br>• Group funding and liquidity policies, systems and controls.<br>• Comprehensive liquidity monitoring framework.<br>• Annual forward looking Internal Liquidity Adequacy Assessment Process (ILAAP).<br>• Strategic plan articulating and quantifying deposit projections, wholesale funding and lending capacity for all divisions.<br>• Contingency Funding Plan and Recovery Plan.<br>• Maintenance of liquid assets and contingent liquidity available for use with market counterparties and / or in liquidity operations offered by Monetary Authorities. |
| **Market risk** (see page 95)<br>Market risk is the risk of loss arising from movements in interest rates, FX rates or other market prices.<br><br>Market risk arises from the structure of the balance sheet, the Group's business mix and discretionary risk-taking. Market risk arises through the conduct of customer business, particularly in fixed-rate lending and the execution of derivatives and FX business.<br><br>Within limits and policy, the Group seeks to generate income from leaving some customer-originated or intra-Group originated risk unhedged or through assuming risk proactively in the market.<br><br>Structural market risk arises from the presence of non-interest bearing liabilities (equity and current accounts) on the balance sheet, the multi-currency nature of the Group's balance sheet and changes in the floating interest rates to which the Group's assets and liabilities are linked (basis risk). | • Board approved Risk Appetite limits.<br>• Group Market Risk Policy.<br>• Comprehensive framework for monitoring compliance with the Board's market risk appetite limits, more granular market risk limits and other controls.<br>• The Group substantially reduces its market risk through hedging in external markets.<br>• Value at Risk (VaR) and extensive stress testing of market risks. |

# 1 Principal Risks and Uncertainties *(continued)*

| Principal risks and uncertainties | Key mitigating considerations |
|---|---|
| **Life insurance risk** (see page 99)<br>Life insurance risk is the result of unexpected variation in the amount and timing of claims associated with insurance benefits. This variation, arising from changing customer mortality, life expectancy, health or behavioural characteristics, may be short or long term in nature.<br><br>Life insurance risk arises from the Group's life insurance subsidiary (NIAC) selling life insurance products in the Irish market. | • Board approved Risk Appetite limits.<br>• Underwriting standards and limits are in place and apply throughout the policy lifecycle from risk acceptance to claim settlement.<br>• Reinsurance is used to manage the volatility from both individual claims and aggregate risk exposures. Coverage is placed with a diversified list of approved counterparties.<br>• The sensitivity of the Group's exposure to life insurance risk is assessed regularly and appropriate levels of capital are held to meet ongoing capital adequacy requirements.<br>• Management undertakes a rigorous analysis of claims and persistency experience on a regular basis and monitors these against the assumptions in its valuation and pricing bases so that these can be adjusted to reflect experience. Management undertakes pro-active operational initiatives in order to manage persistency risk. |
| **Conduct risk** (see page 100)<br>Conduct risk is the risk that the Group and / or its staff conduct business in an inappropriate or negligent manner that leads to adverse customer outcomes.<br><br>Examples of conduct risk include;<br>• risk of not delivering fair outcomes to customers;<br>• risk of not delivering appropriate products and services to the market in line with appropriate governance; and<br>• risk of not implementing Group standards of behaviour.<br><br>Conduct risk arises from day-to-day execution of business processes, provision of sales and services, management of key stakeholder expectations and the various activities performed by staff, contractors and third party suppliers. | • Board approved Risk Appetite limits.<br>• A robust, structured and methodical approach for the management of conduct risk is in place across the Group including the Group Conduct Risk Policy, the Conduct Risk Management Framework (CRMF), a suite of policy standards which clearly define expected standards of behaviour supported by additional guidance, Group-wide and bespoke training to assist the implementation and understanding of the CRMF.<br>• Supporting customer-focused oversight measures. |
| **Regulatory risk** (see page 102)<br>Regulatory risk is the risk of failure by the Group to meet new or existing regulatory and / or legislative requirements and deadlines or to embed regulatory requirements into processes.<br><br>The Group is exposed to regulatory risk as a direct and indirect consequence of its normal business activities. These risks may materialise from failures to comply with regulatory requirements or expectations in the day-to-day conduct of its business, as an outcome of risk events in other key risk categories and / or from changes in external market expectations or conditions. | • Board approved Risk Appetite limits.<br>• Policies and policy standards in place for regulatory compliance risk, regulatory change risk and financial crime risk.<br>• Specific group-wide processes in place to identify, assess, plan, develop and implement key compliance requirements.<br>• Regular status updates and monitoring at senior levels in the Group including reporting to the Board Risk Committee (BRC) and Board.<br>• Processes in place to identify, assess, manage, monitor and report financial crime risks as well as controls to mitigate those risks.<br>• Processes in place to support the reporting, investigation, resolution and remediation of incidents of non-compliance.<br>• Group-wide education and training in place. |

# 1 Principal Risks and Uncertainties *(continued)*

| Principal risks and uncertainties | Key mitigating considerations |
|---|---|
| **Operational risk** (see page 103)<br>Operational risks are risks which may result in financial loss, disruption of services to customers, and damage to our reputation and include the availability, resilience and security of our core IT systems and the potential for failings in our customer processes.<br><br>Operational risk arises as a direct or indirect consequence of the Group's normal business activities through the day-to-day execution of business processes, the functioning of its technologies and in the various activities performed by its staff, contractors and third party suppliers. This also includes the risks associated with major change and the failure to deliver on the Group's multi-year investment programme to replace the core banking platforms.<br><br>It also arises from the risk of cybersecurity attacks which target financial institutions and corporates as well as governments and other institutions. The risk of these attacks remains material as their frequency, sophistication and severity continue to develop in an increasingly digital world. | • Board approved Risk Appetite limit.<br>• The Group utilises a number of strategies in controlling its exposure to operational risk, with the primary strategy being the maintenance of an effective control environment, coupled with appropriate management actions.<br>• The Risk Management Framework (the 'Framework'), consisting of processes and policy standards, aims to embed adequate and effective risk management practices within business units throughout the Group.<br>• Processes to identify, assess, manage, monitor and report operational risks as well as controls to mitigate those risks in place.<br>• Processes to support the reporting, investigation, resolution and remediation of incidents in place.<br>• Given the significant developments in digital demands on technology as well as increased regulatory requirements, an overarching Technology Investment Prioritisation Plan, which includes the Core Banking Transformation Programme, is in place to ensure these demands are managed within risk, capacity and financial constraints.<br>• Clear contracts and accountability in place for third party partners for the 'Integrated Plan'.<br>• Regular internal audits and testing carried out to ensure adequacy of controls. |
| *Litigation and regulatory proceedings*<br>Uncertainty surrounding the outcome of disputes, legal proceedings and regulatory investigations and administrative sanctions proceedings, as well as potential adverse judgements in litigation or regulatory proceedings remains a risk. | The Group has processes in place to seek to ensure the Group's compliance with legal and regulatory obligations, together with clear controls in respect of the management and mitigation of such disputes, proceedings and investigations as may be instigated against the Group from time to time. |
| **Pension risk** (see page 105)<br>The principal Group sponsored DB pension schemes are currently in deficit under the IAS 19 accounting definition, requiring the Group to set aside capital to mitigate these risks.<br><br>The DB pension schemes are subject to market fluctuations and these movements impact on the Group's capital position, particularly the Group's CET 1 capital ratio, which amongst other things, could impact on the Group's dividend capacity. See note 47 Retirement benefit obligations on page 247. | • Board approved Risk Appetite limits.<br>• To help manage pension risk, DB schemes were closed to new entrants in 2007 and a new hybrid scheme (which included elements of DB and DC) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in 2014 and a new DC scheme was introduced for new entrants to the Group from that date.<br>• In addition, the Group implemented two Pension Review programmes in 2010 and 2013 resulting in significant restructuring of DB scheme benefits which were accepted by unions and by staff through individual staff member consent.<br>• In return for the deficit reduction achieved through these programmes, the Group also agreed to increase its support for the schemes, above existing arrangements, so as to broadly match the IAS 19 deficit reduction arising from the benefit changes, and to facilitate a number of de-risking initiatives.<br>• The Group monitors on an ongoing basis the opportunities at an appropriate cost to increase the correlation between the assets and liabilities of the scheme. |

# 1 Principal Risks and Uncertainties *(continued)*

| Principal risks and uncertainties | Key mitigating considerations |
|---|---|
| **Reputation risk** (see page 106)<br>Reputation risk is the risk to earnings or franchise value arising from an adverse perception of the Group's image on the part of customers, suppliers, counterparties, shareholders, investors, staff, legislators, regulators or partners.<br><br>Reputation risk arises as a direct or indirect consequence of the Group's operations and business activities. | • Group strategic priorities developed and intensively communicated to all stakeholders.<br>• Group purpose statement that is supported by four key values and communicated to all colleagues.<br>• Potential impact on reputation is considered in the decision making process.<br>• All media, government, political, regulatory and administrative stakeholder engagement is actively managed.<br>• Print, broadcast and social media reportage and commentary are monitored.<br>• Active Group CSR programme in place.<br>• Strong focus on internal communications to ensure that staff are kept informed on relevant issues and developments.<br>• Staff are required to comply with the Group Code of Conduct.<br>• Process of 'Early Warning Reports' embedded across the Group. |
| **Capital adequacy** (see page 107)<br>Capital adequacy risk is the risk that the Group breaches or may breach regulatory capital ratios and internal targets. The Group's business and financial condition would be negatively affected if the Group was, or was considered to be, insufficiently capitalised.<br><br>While all material risks impact on the Group's capital adequacy to some extent, capital adequacy is primarily impacted by significant increases in credit risk or RWAs, materially worse than expected financial performance and changes to minimum regulatory requirements as part of the annual Supervisory Review and Evaluation Process (SREP) review conducted by the Single Supervisory Mechanism (SSM). | • The Group closely monitors capital and leverage ratios to ensure all regulatory requirements and internal targets are met. In addition, these metrics are monitored against the Board approved Risk Appetite Statement and suite of Recovery Indicators.<br>• Comprehensive stress tests / forward-looking Internal Capital Adequacy Assessment Process (ICAAP) financial projections are prepared, reviewed and challenged by the Board to assess the adequacy of the Group's capital, liquidity and leverage positions.<br>• The Group has a contingency capital plan which sets out the framework and reporting process for identifying the emergence of capital concerns including potential options to remediate same. |
| **Risk in relation to Irish Government Shareholding**<br>The risk that the Irish Government, which has a c.14% discretionary shareholding in the Group via the Ireland Strategic Investment Fund (ISIF), uses its voting rights in a way that might not be in the best interests of the Group's private sector shareholders. | • The Minister for Finance and the Bank entered into a Relationship Framework Agreement dated 30 March 2012, the terms of which were prepared in the context of EU and Irish competition law and to accommodate considerations and commitments made in connection with the EU / IMF Programme for Financial Support for Ireland.<br>• The Framework Agreement provides, inter-alia, that the Minister will ensure that the investment in the Group is managed on a commercial basis and will engage with the Group in accordance with best institutional shareholder practice in a manner proportionate to the shareholding interest of the State in the Group. In March 2017, as part of the corporate reorganisation, the Company agreed to be bound by and comply with certain provisions of the relationship framework in relation to the Ministerial consent, consultation process and the Group's business plan. |

# 1 Principal Risks and Uncertainties *(continued)*

| Principal risks and uncertainties | Key mitigating considerations |
|---|---|
| **Resolution risk**<br>Arising from the implementation of the EU Bank Recovery and Resolution Directive (BRRD) and Single Resolution Mechanism (SRM) Regulation in Ireland and the UK, the relevant authorities have wide powers to impose resolution measures on the Group which could materially adversely affect the Group, as well as the shareholders and unsecured creditors of the Group. The Single Resolution Board (SRB) has the authority to exercise specific resolution powers pursuant to the SRM Regulation similar to those of the competent authorities under the BRRD, including in relation to resolution planning and the assessment of resolvability. | • The SRB advised the Group that its preferred resolution strategy consisted of a single point of entry bail-in strategy, through a group holding company. Pursuant to this strategy and following receipt of shareholder approval, the Group implemented a holding company, BOIG plc, during 2017, which became the parent company of the Group. The structure of the Group is otherwise unchanged.<br>• The Group continues to engage constructively with its resolution authorities, including the SRB, in order to meet regulatory expectations in respect of resolvability.<br>• Scenario planning and strategic planning tools are used to identify impacts. |
| **Tax rates, legislation and practice**<br>The Group's financial position and outlook are exposed to the risks associated with a change in tax laws, tax rates, regulations or practice and the risks associated with non-compliance with existing requirements. The Group is also exposed to the risk that tax authorities may take a different view to the Group on the treatment of certain items. Furthermore, failure to demonstrate that it is probable that future taxable profits will be available, or changes in government policy or tax legislation may reduce the recoverable amount of the DTAs currently recognised in the financial statements. | • The Group has clearly defined tax compliance procedures to identify, assess, manage, monitor and report tax risks and to ensure controls mitigating those risks are in place and operate effectively.<br>• The Group monitors the expected recovery period for DTAs.<br>• The Group monitors potential changes to tax legislation or government policy and considers any appropriate remedial actions. |

# 2 Risk Management Framework

**Risk statement**
Guided by the conditions of the Board approved Risk Identity and Risk Appetite, the Group follows an integrated approach to risk management to ensure that all material classes of risk are taken into consideration and that the Group's overall business strategy and remuneration practices are aligned with its risk and capital management strategies.

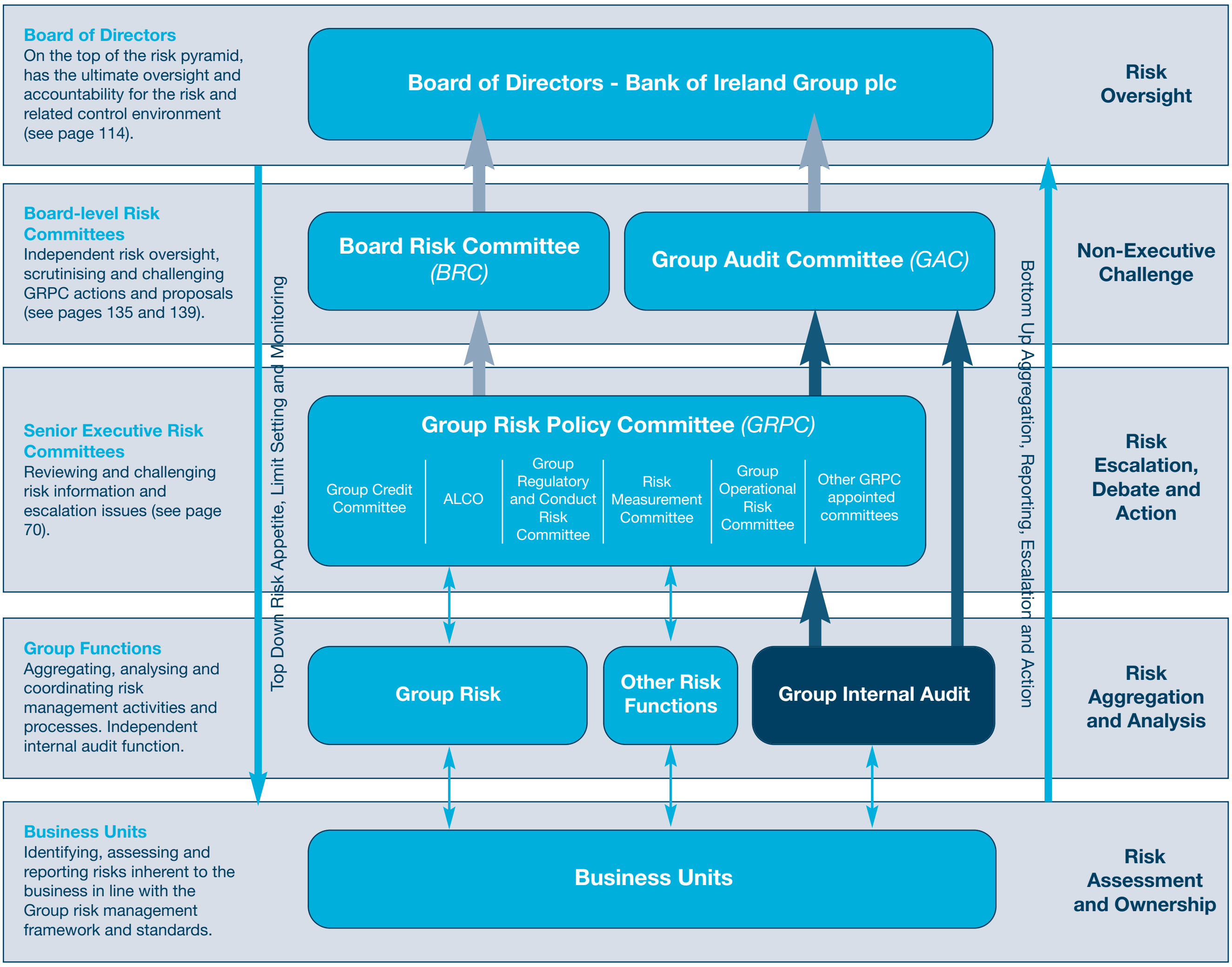
The Group Risk Framework is the overarching high level document which articulates the Group's integrated approach to risk. It is reviewed and approved annually by the Group Chief Risk Officer (GCRO) and by the Board at least every three years following consideration and recommendation by the BRC. It specifies the Group's formal governance process around risk, its framework for setting Risk Appetite and its approach to risk identification, assessment, measurement, management, and reporting.

The Group Risk Framework provides the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management practices and activities across the Group. It provides the context within which business and risk strategies are considered and developed (including risk policies, guidelines and limits / targets). The Group Risk Framework reflects the Group's analysis and responses to the impact and experience gained from economic and financial stress. This includes the implementation of specific recommendations from internal and external risk governance reviews endorsed by the Board.

## 2.1 Risk governance

The identification, assessment and reporting of risk in the Group is controlled within the Risk Governance Framework which incorporates the Board, Risk Committees (appointed by the Board (e.g. BRC and Group Audit Committee (GAC)), the Group Risk Policy Committee (GRPC) and its appointed committees (e.g. Group Regulatory and Conduct Risk Committee (GRCRC), Group Credit Committee (GCC), Asset and Liability Committee (ALCO) and Group Operational Risk Committee (GORC)).

The Board is responsible for ensuring that an appropriate system of internal control is maintained, and for reviewing its effectiveness. Each of the Risk Committees (including the BRC and GAC) has detailed terms of reference, approved by the Board or their parent committee, setting out their respective roles and responsibilities. Further detail outlining the key responsibilities of the Group's Board-level risk committees can be found on pages 135 to 142 of the Corporate Governance statement.



# 2 Risk Management Framework *(continued)*

## 2.1 Risk governance *(continued)*

The **Group Risk Policy Committee (GRPC)** is the most senior management risk committee and reports to the BRC. It is chaired by the GCRO and its membership comprises members of the Group Executive team and control function executives. It met 30 times during 2018.

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

The relevant committees are set out in the following table.

| Committee | Delegated responsibility |
|---|---|
| **Group Credit Committee** | Approval of all large credit transactions |
| **Impairment Committee** | Oversight of the impairment of financial instruments |
| **Group Regulatory and Conduct Risk Committee** | Governance of regulatory risk and conduct risk |
| **Group Operational Risk Committee** | Governance of operational risk |
| **Portfolio Review Committee** | Assessment of the composition of the Group's loan portfolio, concentration risk, including consideration of credit portfolio limits and risk-adjusted returns |
| **Risk Measurement Committee** | Approval and oversight of all aspects of credit risk measurement systems and may also oversee other risk model classes used for management purposes within the Group |
| **Asset and Liability Committee** | Oversight of interest rate, market and liquidity risks, capital and funding |
| **Group Tax Committee** | Approval of tax-based transactions and oversight of tax policy |
| **Private Equity Governance Committee** | Approval of equity underwriting transactions and private equity investments |
| **Group Liquidity / Capital Committee** | Management of the liquidity and funding positions of the Group. This committee is only invoked during periods of market disruption |
| **US Advisory Risk Committee** | Oversight of risk and compliance for the US operations (established in compliance with the Dodd-Frank Act) |

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

**First line of defence:** Primary responsibility and accountability for risk management lies with line management in individual businesses and relevant Group functions. They are responsible for the identification and management of risk at business unit / Group function level including the implementation of appropriate controls and reporting to the Group in respect of all major risk events.

**Second line of defence:** Central risk management functions are responsible for maintaining independent risk oversight and ensuring that a risk control framework is in place. Nominated 'Risk Owners' are responsible for ensuring:
- formulation of risk strategy;
- that a policy or a process is in place for the risks assigned to them;
- exposure to the risk is correctly identified, assessed according to the Group's materiality criteria, and reported;
- identified risk events are appropriately managed or escalated; and
- independent oversight and analysis along with centralised risk reporting are provided.

**Third line of defence:** Group Internal Audit (GIA) provides independent, reasonable assurance to key stakeholders on the effectiveness of the Group's risk management and internal control framework. GIA carries out risk based assignments covering Group businesses and functions (including outsourcing providers - subject to the right to audit), with ratings assigned as appropriate. Findings are communicated to senior management and other key stakeholders, with remediation plans monitored for progress against agreed completion dates. Group Credit Review (GCR), an independent function within GIA, is responsible for reviewing the quality and management of credit risk assets across the Group.

# 2 Risk Management Framework *(continued)*

## 2.1 Risk governance *(continued)*

**Management oversight of risk**
The Board, GRPC and their appointed committees are subject to annual effectiveness reviews which may result in further enhancement as endorsed by the Board. Areas of specific focus for review include organisational design, governance structures and risk appetite design, articulation and implementation.

Group Risk is responsible for the Group's overall risk strategy and integrated risk reporting to the Board, the BRC and Group Executive team, in addition to oversight of all risks. The function is led by the GCRO who is a member of the Group Executive team and reports directly to the Group CEO, and may directly influence business decisions by:

- emphasising a portfolio approach to risk management in addition to a transactional approach;
- leading the discussion on the setting of risk appetite; and
- providing appropriate risk measurements to influence the assessment of business performance.

The GCRO provides independent advice and constructive challenge to the Group Executive in the support of effective risk-informed business decisions. This involves acting as an enabler as well as a challenger of well-structured business growth opportunities that can be shown to fit within the Group's risk appetite.

In addition, a number of other Group functions have responsibility for the Group's other key risk types, namely Group Communications and Government Relations (reputation risk) and Group Finance (pension risk). Business and strategic risk is managed by the relevant Divisional CEOs, with risk ownership assigned to Group Finance and Group Strategy Development. Life insurance risk is managed within New Ireland Assurance Company (NIAC), an independent regulated subsidiary with its own independent board, with risk ownership assigned to the Chief Financial Officer, NIAC.

## 2.2 Risk culture

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

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

The Group's risk culture encompasses the general awareness, attitude and behaviour of employees to the taking of appropriate risk and the management of risk within the Group. The Group's risk culture is a key element of the Group's effective risk management framework, which enables decisions to be taken in a sound and informed manner.

Transforming the Group is a strategic priority and ongoing oversight and measurement of cultural transformation is required to deliver this efficiently and effectively. The Board supports a Culture Steering Group which is responsible for overall cultural transformation. The Group has developed a Strategic Culture Transformation Plan to support the delivery of a mature culture driven by our Purpose, Values and Strategic Priorities by 2021. It aims to embed a consistent and robust culture across the Group and build on existing infrastructure and focus on:

- **enhancing existing processes - making good better and better best** e.g. enhanced performance management drawing direct links to recognition and ultimately reward;
- **reinforcing the Purpose and Values - knowing is not enough, we must apply** e.g. by restructuring the Code of Conduct in line with the Group Values and using the Code of Conduct check in meetings; and
- **formalising existing practices - being willing is not enough, we must show and do** e.g. by formalising accountabilities so that they drive decision making.

Actions have been identified to reflect the core enablers that will allow for meaningful and measureable cultural change across the Group.

# 2 Risk Management Framework *(continued)*

## 2.3 Risk strategy and appetite

**Risk identity**
The Group's risk identity is to be the National Champion bank in Ireland focused on having long-term relationships with our retail, commercial and corporate customers. The Group's core franchise is in Ireland with income and risk diversification through a meaningful presence in the UK and selected international activities where the Group has proven competencies. The Group pursues an appropriate return for the risks taken and on capital deployed while operating within prudent Board-approved risk appetite parameters to have and maintain a robust, standalone financial position.

The Group's risk strategy and risk appetite to pursue this risk identity are set by the Board.

**Risk strategy**
The Group's risk strategy is to ensure that the Group clearly defines its risk appetite as reflected in Group strategy and that it has appropriate risk governance, processes and controls in place as articulated in the Group Risk Framework to:
- address its target markets with confidence;
- protect its balance sheet; and
- deliver sustainable profitability.

The Group seeks to accomplish its risk strategy by:
- defining risk identity and risk appetite as the boundary condition for the Group's strategic plan and annual operating plan / budget;
- defining the risk principles upon which risks may be accepted;
- ensuring that all material risks are correctly identified, assessed, measured, managed and reported;
- ensuring that capital and funding considerations shape the approach to risk selection / management in the Group;
- allocating clear roles and responsibilities / accountability for the control of risk within the Group;
- avoiding undue risk concentrations;
- engendering a prudent and balanced risk management culture;
- ensuring that the basis of remuneration for key decision makers is consistent with EBA guidelines, as appropriate; and
- ensuring that the Group's risk management structures remain appropriate to its risk profile and take account of lessons learnt and emerging internal and external factors.

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

Risk appetite is defined in qualitative terms as well as quantitatively through a series of high level limits and thresholds covering areas such as credit risk, market risk, funding and liquidity risk, operational risk and capital measures. These high level limits and thresholds are cascaded where appropriate into more granular limits and thresholds across portfolios and business units. Risk appetite guides the Group in its risk-taking and related business activities, having regard to managing financial volatility, ensuring solvency and protecting the Group's core franchises and growth platforms.

Measures, approved by the Group, are employed to track its profile against the most significant risks that it assumes. Each of these measures has a defined threshold level or limit, as appropriate, and actual performance is tracked against these threshold levels or limits.

The Risk Appetite Statement includes specific credit limits on sectoral and single name exposures among other qualitative and quantitative risk parameters and it also provides for the implementation of a hierarchy of sectoral credit limits. The Risk Appetite Statement is reviewed at least annually or in light of changing business and economic conditions. It is set and approved by the Board following consideration and recommendation by the BRC.

## 2.4 Risk identification and materiality assessment

Risks facing the Group are identified and assessed annually through the Group's risk identification process. Arising out of this process, the identified risks are aggregated and key risk types are identified which could have a material impact on the Group's earnings, capital adequacy and / or on its ability to trade in the future. These key risk types form the basis on which risk is managed and reported in the Group.

A risk owner is assigned to each key risk category and appropriate policies and / or processes put in place and a formalised measurement and management process defined and implemented. Risk appetite measures for each risk type are set by the Board.

In addition to, and separate from, the Group's risk identification process, a review of the top five risks facing the Group is carried out on a semi-annual basis. This process involves senior executive management identifying and ranking what they perceive to be the top risks facing the Group. This review facilitates the identification and discussion of new risks whose existence or importance may have been highlighted or elevated by unusual or out of course developments such as external market shocks or geopolitical event risks. It also facilitates discussion and assessment of how such risks or events may have a knock-on impact for the Group's identified key risk types.

The ten key risk types are outlined in the following table.

**Key risk types**

| | | | | |
|---|---|---|---|---|
| Business and Strategic | Conduct | Credit | Funding and Liquidity | Life Insurance |
| Market | Operational | Pension | Regulatory | Reputation |

# 2 Risk Management Framework *(continued)*

## 2.5 Risk analysis and measurement

The identified key risk types are actively analysed and measured in line with the formalised policies and management processes in place for each risk type.

For credit, funding and liquidity, life insurance, market, operational and pension risks, risk models are used to measure, manage and report on these respective risk types. Risk limits and diversification, together with regular review processes, are in place to manage potential credit risk and funding and liquidity risk concentrations which in turn could lead to increased volatility in the Group's expected financial outcomes. Additionally, the Group's calculation of economic capital takes into consideration the extent to which credit concentration risk exists in respect of single name, sector and geography.

At Group level, common measures and approaches for risk aggregation and measurement have also been adopted, in order to inform operational and strategic plans and to steer the business within the boundaries of its risk appetite. These include one-year or multi-year forecasting / stress testing and a capital allocation framework which incorporates economic capital modelling and risk adjusted return analysis. The Group uses a suite of risk measurement models and systems to support decision-making processes at transaction and portfolio levels, e.g. approving a loan facility to a borrower.

**Return on Capital**
The common measure of return on risk used by the Group is Risk Adjusted Return on Capital (RAROC). RAROC is used to objectively assess the return of individual loans, portfolios and businesses, and is a key performance metric for the Group in the context of allocation of capital.

**Loan loss forecasting and solvency stress testing**
Forecasting and stress testing are risk management tools used by the Group to alert management to adverse unexpected outcomes related to a variety of risks and inform risk appetite and contingent mitigating action.

The Group conducts:

- loan loss forecasting which informs senior management about potential outcomes related to loan loss evolution under chosen macroeconomic scenarios (base or stress). This information is regularly used as an input into the Group's budget, strategic plan and ICAAP. Additionally, it can be used to forecast future provisioning needs and / or to understand, and therefore anticipate, earnings volatility and future capital utilisation, such as at portfolio / transaction level. Results of forecasting are used by the Group to make decisions around risk appetite and capital adequacy or to help prepare mitigating actions. They are also used to inform the forward looking point-in-time Probability of Default (PD) which inform the calibration and stress testing of the Group's Internal Rating Based (IRB) Models;
- solvency stress tests evaluate the Group's financial position under a 'severe but plausible' scenario or shock and provide an indication of how much capital might be needed to absorb losses should such a shock occur. Scenarios for solvency stress testing are approved by GRPC but regulators can also request that a mandated stress scenario be run to assess capital needs across banks in a particular jurisdiction. The approved scenarios are applied to the Group's credit portfolios and financials as appropriate, in order to generate stressed loan loss forecasts and other impacts over the scenario period. The outputs of the solvency stress testing are reviewed and approved by the Board, and used by the Group to inform risk appetite, strategy and capital planning and are an integral component of the Group's ICAAP process. They are also used by regulators to assess the Group's ability to continue to meet its capital requirements under severe adverse conditions; and
- reverse stress testing evaluates the Group's ability to survive an unforeseen severe event or combination of events that would cause the Group's business model to become unviable. Reverse stress testing complements and builds on solvency stress testing by exploring more extreme scenarios / events beyond the likelihood thresholds looked at in solvency stress testing. This is achieved as reverse stress testing is developed in reverse, working back from an outcome of business failure to causal analysis, while the more typical solvency stress testing works towards defining a range of outcomes or probabilities given defined inputs.

The Group also runs more frequent and / or ad hoc stress tests for general risk management purposes. These cover:

***Market risk***
The following market risks are subject to stress testing as part of its normal risk measurement and management process:

- discretionary market risk, consisting of Trading Book positions and discretionary Interest Rate Risk in the Banking Book (IRRBB) risk;
- structural IRRBB consisting of balance sheet basis risk; and
- structural FX, the sensitivity of Group capital ratios to exchange rate movement.

Discretionary risk and basis risk are stressed using empirically-based scenario analyses. In the case of discretionary risk, the stress test results are potential changes in the economic value of positions; in the case of basis risk, the results are potential changes in one year-ahead net interest income.

***Operational risk***
Operational risk stresses are modelled based on a scenario-based approach. Severe, yet plausible operational risk loss scenarios are applied on a Group-basis and are used to inform the assessment of the Group's Pillar 2 capital requirement.

***Life insurance risk***
Life insurance regulations require each life company to complete an annual Own Risk and Solvency Assessment (ORSA). The ORSA process is intended to consider severe but plausible risks to the business, and the capital or mitigating actions required to withstand those risks within the context of its business plans. This assessment considers a range of sensitivities and scenario tests, including deterioration in the insurance risk experience.

***Funding and liquidity risk***
The Group stresses its exposure to liquidity risk through liquidity stress testing which provides senior management with the ability to assess the degree to which the Group is vulnerable to extreme but plausible adverse liquidity conditions. It is used to identify the potential impact of a range of adverse shocks, including the impacts of rating downgrades and the reduction / withdrawal of certain funding markets such as customer deposits or wholesale markets on the Group's ability to fund its outflows (asset financing and / or contractual obligations) at the required time and at a reasonable cost.

# 2 Risk Management Framework *(continued)*

## 2.5 Risk analysis and measurement *(continued)*

**Recovery planning**
In line with the BRRD for EU banks, the Group maintains a Recovery Plan which sets out options to restore financial stability and viability of the Group in the event of the relevant circumstances arising. The Group's Recovery Plan is approved by the Board on the recommendation of BRC and GRPC. Under a separate but complementary process, the SRB in conjunction with other relevant resolution authorities, conducts resolution planning for all financial institutions that fall under the resolution regime, including the Group. This involves the resolution authority developing the set of actions that would be taken in the event that a firm within scope of the regime fails.

## 2.6 Risk monitoring and reporting

The GCRO reports on risk to the GRPC, the BRC and the Board on a regular basis. This allows Group management to be clear and consistent in communication with internal and external stakeholders, including markets, rating agencies and regulators. Additionally, it is a process which assists in discharging the regulatory responsibilities of the Group, which stipulates that management understand the major risks facing the Group and the process in place for managing those risks.

The key risk types identified under the Group's risk identification process are assessed and their status is reported quarterly by the GCRO in the Court Risk Report which is reviewed by the GRPC, the BRC and the Board. The content of the report includes an analysis of and commentary on all key risk types as set out on pages 74 to 106. Updates on risk dashboards and risk appetite compliance are provided on a monthly basis. The Court Risk Report constitutes the highest point of the routine reporting hierarchy with more detailed risk information being considered by divisional level management.

As part of the Group's risk monitoring and review processes and in support of the Group's ICAAP, a suite of risk and capital reports are regularly reviewed by ALCO, the Portfolio Review Committee (PRC) and GRPC. In addition, the Group performs regular ongoing operational reporting and monitoring of credit quality, grade migration and other risk trends as well as the tracking of market risk and operational risk within the Group risk functions. Furthermore, the measurement and reporting process is subject to ongoing review and is enhanced where appropriate.

Breaches of the Group Risk Framework or breaches / exceptions to Board / Board appointed committee approved policies or limits are advised to the GRPC by the relevant risk owner and reported, as necessary by the Chair of GRPC, to the BRC and Board.

Material breaches to other GRPC approved policies are advised to the GRPC by the relevant risk owner at the earliest possible opportunity.

The BRC also receives risk information through its review of the GRPC minutes and through investigations carried out into specific risk matters. The GAC separately receives Internal Audit reports on a range of matters following completion of its independent, risk based assignments or ad hoc reviews.

# 3 Management of key Group risks

## 3.1 Credit risk

**Key points:**

- The macroeconomic environment in Ireland and the UK, which are the Group's key markets, continued to be favourable in 2018. While uncertainty in relation to Brexit resulted in muted overall demand for credit, it did not have a material impact on credit quality.
- Total loans and advances to customers (before impairment loss allowance) at amortised cost[1] increased to €78.4 billion at 31 December 2018 from €78.0 billion at 1 January 2018 reflecting the combined impacts of net new lending, utilisation of impairment loss allowance and currency translation.
- Overall asset quality trends have continued to improve. NPEs reduced by €1.5 billion to €5.0 billion during 2018, with reductions across all loan portfolios with elevated levels of NPEs.
- Total net impairment gain on loans and advances to customers of €36 million under IFRS 9 represents a significant improvement on the prior year loss of €15 million under IAS 39. The gain reflects the continued strong performance of the Group's loan portfolios, the ongoing reductions in NPEs, and a continued overall positive economic environment during the year in the Group's key markets. Total impairment loss allowance as a percentage of NPEs was 35% at 31 December 2018 (2017: 36%).

### Definition of credit risk *(audited)*

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

Credit risk arises from loans and advances to customers and from certain other financial transactions such as those entered into by the Group with financial institutions, sovereigns and state institutions.

Credit facilities can be largely grouped into the following categories:
- cash advances (e.g. loans, overdrafts, revolving credit facilities (RCFs) and bonds), and associated commitments and letters of offer;
- credit related contingent facilities (issuing of guarantees / performance bonds / letters of credit);
- derivative instruments; and
- settlement lines.

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

**Default risk**
Default risk is the risk that financial institutions, sovereigns, state institutions, companies or individuals will be unable to meet the required payments on their debt obligations. Default may be as a result of one or a number of factors including, but not limited to:
- deterioration in macroeconomic or general market conditions;
- deterioration in a borrower's capacity to service its credit obligation;
- a credit event (e.g. a corporate transaction);
- a natural or manmade disaster;
- regulatory change, or technological development that causes an abrupt deterioration in credit quality;
- a mismatch between the currency of a borrower's income and their borrowing / repayments; and
- environmental factors that impact on the credit quality of the counterparty.

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

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

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

**Collateral risk**
Collateral risk is the risk of loss arising from a change in the value or enforceability of security held due to errors in the nature, quantity, pricing, or characteristics of collateral security held in respect of a transaction with credit risk.

[1] *Excludes €0.3 billion of loans and advances to customers at 31 December 2018 that are measured at FVTPL and are therefore not subject to impairment under IFRS 9 (€0.3 billion at 1 January 2018) and includes €0.6 billion of loans and advances to customers classified as held for sale at 31 December 2018 (with the corresponding gross carrying amount being €0.7 billion at 1 January 2018).*

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

### Credit risk management *(audited)*

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

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

**Credit risk management**
The Group's approach to the management of credit risk is focused on a detailed credit analysis at origination followed by early intervention and active management of accounts where creditworthiness has deteriorated.

Through its ongoing credit review processes, the Group seeks early identification of deteriorating loans with a view to taking corrective action to prevent a loan becoming credit-impaired. Typically, loans that are at risk of becoming credit-impaired are managed by dedicated specialist units / debt collection teams focused on working-out loans. For loans that become credit-impaired, the focus is to minimise the loss that the Group will incur. This may involve implementing forbearance solutions, entering into restructuring arrangements or action to enforce security.

The Group credit risk function has responsibility for the independent oversight of credit risk, and for overall risk reporting to the GRPC, the BRC and the Board on developments in credit risk and compliance with specific risk limits. It is led by the Chief Credit Officer who reports directly to the GCRO. The function provides independent oversight and management of the Group's credit risk strategy, credit risk management information and credit risk underwriting. A separate Customer Loans Solutions (CLS) function also reports to the GCRO and provides experienced and dedicated management of challenged assets.

**Credit policy**
The core values and principles governing the provision of credit are contained in Group Credit Policy which is approved by the Board. Individual business unit credit policies (which include specific sectoral / product credit policies) define in greater detail the credit approach appropriate to the units concerned. These policies are aligned with, and have regard to, the Group's Risk Appetite Statement and applicable credit limits, the lessons learned from the Group's loss history, the markets in which the business units operate and the products which they provide.

**Lending authorisation**
The Group's credit risk management systems operate through a hierarchy of lending authorities which are related to internal loan ratings. All exposures above certain levels require approval by the GCC. Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgement and experience. Material lending proposals are referred to credit units for independent assessment / approval or formulation of a recommendation for subsequent adjudication by the applicable approval authority. Certain retail loan applications may be approved automatically where they meet both approved policy rules and minimum thresholds for the score produced by internal credit scoring tools.

**Controls and limits**
The Group imposes credit risk control limits and guide points to mitigate significant concentration risk. These limits and guide points are informed by the Group's Risk Appetite Statement which is approved annually by the Board.

It includes specific long term limits for each category and maximum exposure limits to a customer or a group of connected customers.

The Board approves a framework of country maximum exposure guide points which are used as benchmarks for the setting of country limits. A maximum exposure limit framework for exposures to banks is also approved by the GRPC for each rating category. Limits are set and monitored for countries, sovereign obligors and banks in accordance with these frameworks.

### Credit risk measurement *(audited)*

All credit transactions are assessed at origination for credit quality and the borrower is assigned a credit grade based on a predefined credit rating scale. The risk, and consequently the credit grade, is reassessed periodically. The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group.

**Loan impairment**
Under IFRS 9 which was adopted by the Group on 1 January 2018, essentially all credit risk exposures not measured at FVTPL are subject to recognition of an impairment loss allowance for expected credit losses (ECL). The Group's impairment modelling methodologies are approved by Risk Measurement Committee (RMC) and the quantum of the Group's impairment gain or loss, NPEs and impairment loss allowances are reviewed by the Impairment Committee and by the GRPC in advance of providing a recommendation to the GAC.

The Group's credit risk rating systems and impairment models and methodologies play a key role in quantifying the appropriate level of impairment loss allowance. Further details are provided in the section on credit risk methodologies on page 82.

An analysis of the Group's impairment loss allowances at 31 December 2018 is set out in note 30 on page 227.

Under IAS 39, which applied for the year ended 31 December 2017, all credit exposures, either individually or collectively, were regularly reviewed for objective evidence of impairment. Where such evidence of impairment existed, the exposure was measured for an impairment provision. The Group's provisioning methodology was approved by the GRPC and the quantum of the Group's impairment charge, NPEs and impairment provisions

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

were reviewed by the GRPC in advance of providing a recommendation to the GAC.

### Credit risk mitigation *(audited)*

An assessment of the borrower's ability to service and repay the proposed level of debt (principal repayment source) is undertaken for credit requests and is a key element in the Group's approach to mitigating risk. In addition, the Group mitigates credit risk through the adoption of both proactive preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks should these materialise, including hedging, securitisation and the taking of collateral (which acts as a secondary repayment source).

**Risk transfer**
The objective of risk mitigation / transfer is to limit the risk impact to acceptable levels. At portfolio level, credit risk is assessed in relation to the degree of name, sector and geographic concentration. Where possible emergence of undue risk concentrations are identified, the risk capital implications are assessed and, where appropriate, risk transfer and mitigation options (e.g. securitisations, hedging strategies) are explored and recommended to the PRC.

**Collateral**
Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures. The Group takes collateral as a secondary repayment source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally envisaged. Various types of collateral are accepted, including property, securities, cash, guarantees and insurance.

The nature and level of collateral required depends on a number of factors including, but not limited to, the amount of the exposure, the type of facility made available, the term of the facility, the amount of the borrower's own cash input and an evaluation of the level of risk or PD.

The Group's requirements around completion, valuation and management of collateral are set out in appropriate Group or business unit policies and procedures. The extent to which collateral and other credit enhancements mitigate credit risk in respect of the Group's Residential mortgage portfolio is set out in the tables on pages 310 and 315.

**Counterparty credit risk arising from derivatives**
Trading in over-the-counter (OTC) derivatives is governed by the European Market Infrastructure Regulation (EMIR). The Group has executed standard internationally recognised documents such as International Swaps and Derivatives Association (ISDA) agreements and Credit Support Annexes (CSAs) with all of its derivative financial counterparties. In addition, the Group has Cleared Derivatives Execution Agreements (CDEAs) with its principal interbank derivative counterparties enabling the Group to clear eligible derivatives through an EU approved and regulated central counterparty. If a derivative contract cannot be cleared through a central counterparty, a CSA serves to limit the potential cost of replacing that contract at market price in the event of a default by the financial counterparty. All of the Group's interbank derivatives are covered by CDEAs or CSAs and are hence collateralised.

### Credit risk reporting / monitoring *(audited)*

Credit risk at a Group, divisional and significant operating unit / product type level is reported on a monthly basis to senior management. This monthly reporting includes information and detailed commentary on loan book growth, quality of the loan book (credit grade and PD profiles and RWAs), impairment loss allowances, and individual large credit-impaired exposures.

Credit risk, including compliance with key credit risk limits, is monitored and reported monthly in the Court Risk Report. This report is presented to and discussed by the GRPC and the Board. The quarterly Court Risk Report is also presented to and discussed by the BRC. A report on exceptions to credit policy is presented to and reviewed by the GRPC, the BRC and the Board on a quarterly basis.

The PRC considers and recommends to the GRPC, on a quarterly basis, credit concentration reports which track changes in sectoral and single name concentrations measured under agreed parameters.

In addition other reports are submitted to senior management and the Board as required.

GCR, an independent function within GIA, reviews the quality and management of credit risk assets across the Group. Using a risk based approach, GCR carries out periodic reviews of Group lending portfolios, lending units and credit units.

### Management of challenged assets *(audited)*

The Group has in place a range of initiatives to manage challenged and vulnerable credit. These include:
- enhanced collections and recoveries processes;
- specialist work-out teams to ensure early intervention in vulnerable cases;
- intensive review cycles for 'at risk' exposures and the management of excess positions; and
- support from central teams in managing 'at risk' portfolios at a business unit level.

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

The forbearance strategies adopted by the Group seek to maximise recoveries and minimise losses arising from non-repayment of debt, while providing suitable and sustainable

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

restructure options that are supportive of customers in challenged circumstances. Such strategies may include, where appropriate, one or a combination of measures such as a temporary reduction in contractual payments, a term extension, capitalisation of arrears, adjustment or non-enforcement of covenants and / or more permanent restructuring measures. Forbearance requests are assessed on a case by case basis, taking due consideration of the individual circumstances and risk profile of the borrower.

A request for forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a deterioration in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed. Under IFRS 9, this assessment may also result in a loan being considered to have experienced a 'significant increase in credit risk' or becoming classified as credit-impaired. Under IAS 39, this assessment may also have resulted in a loan becoming classified as impaired and subject to a specific provision.

The Group Credit Policy and Group Credit Framework outlines the core principles and parameters underpinning the Group's approach to forbearance with individual business unit policies and procedures defining in greater detail the forbearance strategies appropriate to each unit.

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

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

### Asset quality - Loans and advances to customers

*(audited except where denoted unaudited)*

#### *Asset quality methodology for the year ended 31 December 2018*

The Group revised its asset quality reporting methodology to reflect the adoption of IFRS 9.

Under the new methodology, the Group has allocated financial instruments into one of the following categories at the reporting date:

- **Stage 1 - 12 month Expected Credit Losses (ECL) (not credit-impaired):** Financial instruments which have not experienced a significant increase in credit risk since initial recognition and are not credit-impaired. An impairment loss allowance equal to 12-month ECL is recognised, which is the portion of lifetime ECL resulting from default events that are possible within the next 12 months.

- **Stage 2 - Lifetime ECL (not credit-impaired):** Financial instruments which have experienced a 'significant increase in credit risk since initial recognition' and are not credit-impaired. An impairment loss allowance equal to lifetime ECL is recognised, being the ECL resulting from all possible default events over the expected life of the financial instrument. 'Credit risk' in this context refers to the change in the risk of a default occurring over the expected life of the financial instrument.

- **Stage 3 - Lifetime ECL (credit-impaired):** Credit-impaired financial instruments, other than Purchased or originated credit-impaired (POCI) financial assets. An impairment loss allowance equal to lifetime ECL is recognised. The manner in which the Group identifies financial assets as credit-impaired results in the Group's population of credit-impaired financial assets being consistent with its population of defaulted financial assets (in accordance with Article 178 of the CRR) in scope for the impairment requirements of IFRS 9. This encompasses loans where: (i) the borrower is considered unlikely to pay in full without recourse by the Group to actions such as realising security (including 'forborne collateral realisation' (FCR) loans); and / or (ii) the borrower is greater than 90 days past due and the arrears amount is material. A broader population of loans is captured than under the discontinued classification of 'impaired' which comprised exposures carrying a specific provision under IAS 39.

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

Further information on the approach to identifying a 'significant increase in credit risk since initial recognition' and in identifying credit-impaired assets is outlined in the Credit risk methodologies section on pages 85 and 86.

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

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

**Forborne loans:**
Loans where a forbearance measure has been granted and where the criteria to exit a forborne classification, in line with EBA guidance[1], are not yet met. Loans that have never been forborne or loans that are no longer required to be reported as 'forborne' are classified as 'non-forborne'.

**'Forborne collateral realisation' loans (FCRs):**
Loans (primarily Residential mortgages) which meet both of the following criteria: (i) not greater than 90 days past due; and (ii) forbearance is in place and future reliance on the realisation of collateral is expected for the repayment in full of the loan when such reliance was not originally envisaged. Such loans are considered credit-impaired and include Split Mortgages and certain 'Interest Only' / 'Interest Only plus' arrangements.

**'Non-performing exposures' (NPEs):** These are:
**(i)** **credit-impaired loans** which includes loans where the borrower is considered unlikely to pay in full without recourse by the Group to actions such as realising security, including FCR cases, and loans where the borrower is greater than 90 days past due and the arrears amount is material; and
**(ii)** **other / probationary loans** that have yet to satisfy exit criteria in line with EBA guidance[1] to return to performing.

*The asset quality reporting methodology applicable under IAS 39 for the year ended 31 December 2017 is outlined on page 82.*

Quantitative information about credit risk can be found in the credit risk exposure note on page 226 in the consolidated financial statements.

**NPEs**
The table below provide an analysis of loans and advances to customers that are non-performing by asset classification and includes loans classified as held for sale. Comparative figures for the year have not been restated and are presented on an IAS 39 classification and measurement basis.

| **2018** Risk profile of loans and advances to customers - NPEs | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| Credit-impaired | 2,466 | 1,068 | 843 | 108 | 4,485 |
| Not credit-impaired[1] | 277 | 144 | 75 | 3 | 499 |
| **Total** | **2,743** | **1,212** | **918** | **111** | **4,984** |

| **2017** Risk profile of loans and advances to customers - NPEs | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| Impaired | 1,314 | 1,339 | 1,301 | 89 | 4,043 |
| Past due greater than 90 days but not impaired | 304 | 94 | 66 | - | 464 |
| Neither impaired nor past due greater than 90 days | 1,467 | 244 | 302 | 1 | 2,014 |
| **Total** | **3,085** | **1,677** | **1,669** | **90** | **6,521** |

*Unaudited:*
In addition to the NPEs on loans and advances to customers shown above, the Group has total non-performing off-balance sheet exposures amounting to €0.1 billion (2017: €0.1 billion).

NPEs decreased to €5.0 billion at 31 December 2018 from €6.5 billion at 31 December 2017, with reductions evident across all portfolios with elevated levels of NPEs. NPEs in 31 December 2018 comprise credit-impaired loans of €4.5 billion and other NPEs[2] of €0.5 billion.

[1] *Other / probationary loans, including forborne loans that have yet to satisfy exit criteria in line with EBA guidance to return to performing.*
[2] *In particular the EBA's 'Implementing Technical Standards on supervisory reporting on forbearance and NPEs'.*

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

**Composition and impairment**
The table below summarises the composition, credit-impaired volumes and related impairment loss allowance of the Group's loans and advances to customers at amortised cost (including loans classified as held for sale at 31 December 2018) as at 31 December 2018 based on IFRS 9 requirements. Comparative figures for 31 December 2017 have not been restated and are presented on an IAS 39 classification and measurement basis.

| **31 December 2018**<br>**Total loans and advances to customers at amortised cost - Composition and impairment[1,2]** | **Advances (pre-impairment loss allowance) €m** | **Credit impaired loans[3] €m** | **Credit impaired loans as % of advances %** | **Impairment loss allowance[4] €m** | **Impairment loss allowance as % of credit impaired loans %** |
|---|---|---|---|---|---|
| Residential mortgages | 45,437 | 2,466 | 5.4% | 492 | 20% |
| *- Retail Ireland* | *23,716* | *2,026* | *8.5%* | *444* | *22%* |
| *- Retail UK* | *21,721* | *440* | *2.0%* | *48* | *11%* |
| Non-property SME and corporate | 19,465 | 1,068 | 5.5% | 501 | 47% |
| *- Republic of Ireland SME* | *7,601* | *730* | *9.6%* | *340* | *47%* |
| *- UK SME* | *1,570* | *79* | *5.0%* | *37* | *47%* |
| *- Corporate* | *10,294* | *259* | *2.5%* | *124* | *48%* |
| Property and Construction | 8,354 | 843 | 10.1% | 369 | 44% |
| *- Investment* | *7,718* | *760* | *9.8%* | *321* | *42%* |
| *- Land and development* | *636* | *83* | *13.1%* | *48* | *58%* |
| Consumer | 5,174 | 108 | 2.1% | 70 | 65% |
| **Total** | **78,430** | **4,485** | **5.7%** | **1,432** | **32%** |

| **1 January 2018**<br>**Total loans and advances to customers at amortised cost - Composition and impairment[1]** | **Advances (pre-impairment loss allowance) €m** | **Credit impaired loans[3] €m** | **Credit impaired loans as % of advances %** | **Impairment loss allowance[4] €m** | **Impairment loss allowance as % of credit impaired loans %** |
|---|---|---|---|---|---|
| Residential mortgages | 46,365 | 2,876 | 6.2% | 599 | 21% |
| *- Retail Ireland* | *23,775* | *2,398* | *10.1%* | *558* | *23%* |
| *- Retail UK* | *22,590* | *478* | *2.1%* | *41* | *9%* |
| Non-property SME and corporate | 18,623 | 1,505 | 8.1% | 791 | 53% |
| *- Republic of Ireland SME* | *8,211* | *1,130* | *13.8%* | *577* | *51%* |
| *- UK SME* | *1,702* | *125* | *7.3%* | *59* | *47%* |
| *- Corporate* | *8,710* | *250* | *2.9%* | *155* | *62%* |
| Property and construction | 8,724 | 1,494 | 17.1% | 685 | 46% |
| *- Investment* | *8,257* | *1,328* | *16.1%* | *591* | *45%* |
| *- Land and development* | *467* | *166* | *35.5%* | *94* | *57%* |
| Consumer | 4,318 | 97 | 2.2% | 64 | 66% |
| **Total** | **78,030** | **5,972** | **7.7%** | **2,139** | **36%** |

[1] *Excludes €261 million of loans and advances to customers at 31 December 2018 that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.*
[2] *Includes €630 million of loans and advances to customers classified as held for sale.*
[3] *Credit impaired loans include stage 3 and POCI.*
[4] *Impairment loss allowance on credit impaired loans and POCI assets.*

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

| **31 December 2017**<br><br>**Total loans and advances to customers at amortised cost - Composition and impairment** | **Advances (pre-impairment) €m** | **Impaired loans €m** | **Impaired loans as % of advances %** | **Specific impairment provisions €m** | **Specific as % of impaired loans %** |
|---|---|---|---|---|---|
| Residential mortgages | 46,659 | 1,314 | 2.8% | 492 | 37% |
| *- Retail Ireland* | *24,069* | *1,125* | *4.7%* | *471* | *42%* |
| *- Retail UK* | *22,590* | *189* | *0.8%* | *21* | *11%* |
| Non-property SME and corporate | 18,763 | 1,339 | 7.1% | 764 | 57% |
| *- Republic of Ireland SME* | *8,213* | *982* | *12.0%* | *553* | *56%* |
| *- UK SME* | *1,703* | *100* | *5.9%* | *52* | *52%* |
| *- Corporate* | *8,847* | *257* | *2.9%* | *159* | *62%* |
| Property and construction | 8,747 | 1,301 | 14.9% | 681 | 52% |
| *- Investment* | *8,277* | *1,135* | *13.7%* | *581* | *51%* |
| *- Land and development* | *470* | *166* | *35.3%* | *100* | *60%* |
| Consumer | 4,318 | 89 | 2.1% | 56 | 63% |
| **Total** | **78,487** | **4,043** | **5.2%** | **1,993** | **49%** |

At 31 December 2018, loans and advances to customers (pre-impairment loss allowance) of €78.4 billion were €0.4 billion higher than 1 January 2018, reflecting the combined impacts of net new lending, utilisation of impairment loss allowance and currency translation.

Credit-impaired loans decreased to €4.5 billion or 5.7% of customer loans at 31 December 2018 from €6.0 billion or 7.7% at 1 January 2018. This reduction reflects the Group's continued implementation of resolution strategies that include appropriate and sustainable support to viable customers who are in financial difficulty; and a continued positive economic environment and outlook in key markets. Resolution strategies include the realisation of cash proceeds from property sales activity and, where appropriate, have given rise to utilisation of impairment loss allowance against loan amounts for which there is no reasonable expectation of recovery.

The stock of impairment loss allowance on credit-impaired loans decreased to €1.4 billion at 31 December 2018 from €2.1 billion at 1 January 2018. This reduction incorporates the impact of impairment loss allowance utilisation totalling c.€0.7 billion, which was the primary driver of a decrease in impairment loss allowance as a percentage of credit-impaired loans across the Group's loan portfolios.

*Unaudited:*

Included in the preceding table is €31.2 billion of UK customer exposure[1] at 31 December 2018. Of this, €21.7 billion relates to Retail UK mortgages, €4.5 billion Non-property SME and corporate, €2.0 billion Property and construction, and €3.0 billion Consumer.

Of the €4.5 billion UK Non-property SME and corporate exposure (€1.5 billion SME and €3.0 billion corporate) at 31 December 2018, €0.2 billion was credit-impaired, primarily related to UK corporate. UK Non-property SME and corporate credit-impaired loans impairment loss allowance coverage ratio is 44% at 31 December 2018.

Of the €2.0 billion UK Property and construction exposure at 31 December 2018, €0.2 billion is credit-impaired. At 31 December 2018, UK Property and construction credit-impaired loans impairment loss allowance coverage ratio was 42%.

Of the €3.0 billion UK Consumer lending at 31 December 2018, €44 million is credit-impaired, with a credit-impaired loans impairment loss allowance coverage ratio of 68% reflecting the unsecured nature of this lending.

[1] *The geographical breakdown is primarily based on the location of the customer.*

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

The table below summarises the composition, NPEs and related impairment loss allowance of the Group's loans and advances to customers and includes loans classified as held for sale at 31 December 2018. Comparative figures for the year have not been restated and are presented on an IAS 39 classification and measurement basis.

| 2018<br>Total loans and advances to customers<br>Composition and impairment[1,2] | Advances (pre-impairment) loss allowance €m | NPEs €m | NPEs as % of advances % | Total impairment loss allowance €m | Total Impairment loss allowance as % of NPEs % |
|---|---|---|---|---|---|
| Residential mortgages | 45,437 | 2,743 | 6.0% | 537 | 20% |
| *- Retail Ireland* | *23,716* | *2,254* | *9.5%* | *464* | *21%* |
| *- Retail UK* | *21,721* | *489* | *2.3%* | *73* | *15%* |
| Non-property SME and corporate | 19,465 | 1,212 | 6.2% | 625 | 52% |
| *- Republic of Ireland SME* | *7,601* | *848* | *11.2%* | *412* | *49%* |
| *- UK SME* | *1,570* | *96* | *6.1%* | *51* | *53%* |
| *- Corporate* | *10,294* | *268* | *2.6%* | *162* | *60%* |
| Property and Construction | 8,354 | 918 | 11.0% | 411 | 45% |
| *- Investment* | *7,718* | *829* | *10.7%* | *363* | *44%* |
| *- Land and development* | *636* | *89* | *14.0%* | *48* | *54%* |
| Consumer | 5,174 | 111 | 2.1% | 155 | 140% |
| **Total** | **78,430** | **4,984** | **6.3%** | **1,728** | **35%** |

| 2017<br>Total loans and advances to customers<br>Composition and impairment | Advances (pre-impairment) €m | NPEs €m | NPEs as % of advances % | Total impairment provisions €m | Total Impairment provisions as % of NPEs % |
|---|---|---|---|---|---|
| Residential mortgages | 46,659 | 3,085 | 6.6% | 706 | 23% |
| *- Retail Ireland* | *24,069* | *2,650* | *11.0%* | *643* | *24%* |
| *- Retail UK* | *22,590* | *435* | *1.9%* | *63* | *14%* |
| Non-property SME and corporate | 18,763 | 1,677 | 8.9% | 826 | 49% |
| *- Republic of Ireland SME* | *8,213* | *1,263* | *15.4%* | *579* | *46%* |
| *- UK SME* | *1,703* | *147* | *8.6%* | *62* | *42%* |
| *- Corporate* | *8,847* | *267* | *3.0%* | *185* | *69%* |
| Property and construction | 8,747 | 1,669 | 19.1% | 739 | 44% |
| *- Investment* | *8,277* | *1,484* | *17.9%* | *637* | *43%* |
| *- Land and development* | *470* | *185* | *39.4%* | *102* | *55%* |
| Consumer | 4,318 | 90 | 2.1% | 88 | 98% |
| **Total** | **78,487** | **6,521** | **8.3%** | **2,359** | **36%** |

*Unaudited:*
The movements in NPEs in the year are broadly consistent with the movements in credit-impaired loans as set out on page 79. At 31 December 2018, the Group's NPE impairment loss allowance cover ratio was 35% (2017: 36%).

[1] *Excludes €261 million of loans and advances to customers at 31 December 2018 that are measured at FVTPL and are therefore not subject to impairment under IFRS 9.*
[2] *Includes €0.6 billion of loans and advances to customers classified as held for sale.*

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

*Asset quality methodology for the year ended 31 December 2017*

The Group revised its asset quality reporting methodology to reflect the adoption of IFRS 9. The asset quality reporting methodology previously applicable under IAS 39 for the year ended 31 December 2017 is outlined below.

**Forborne loans**
Defined as set out in the section 'Asset quality methodology for the year ended 31 December 2018'.

**'Forborne collateral realisation' loans (FCRs)**
Defined as set out in the section 'Asset quality methodology for the year ended 31 December 2018'

The Group classified forborne and non-forborne loans and advances to customers as 'neither past due nor impaired', 'past due but not impaired' and 'impaired' in line with the requirements of IFRS 7.

The Group applies internal ratings to both forborne and non-forborne loans based on an assessment of the credit quality of the customer, as part of its credit risk management system. A thirteen point credit grade rating scale is used for more complex, individually managed loans, including wholesale, corporate and larger business loans. A seven point credit grade rating scale is used for standard products including mortgages, personal and smaller business loans.

**'Neither past due nor impaired' ratings**
Mappings to external rating agencies are indicative only, as additional factors such as collateral will be taken into account by the Group in assigning a credit grade to a counterparty:

- high quality ratings applied to loans to customers, strong corporate and business counterparties and consumer banking borrowers (including Residential mortgages) with whom the Group had an excellent repayment experience. For both forborne and non-forborne loans, high quality ratings were derived from grades 1 to 4 on the thirteen point grade scale, grades 1 and 2 on the seven point grade scale. These ratings are broadly aligned to AAA, AA+, AA, AA-, A+, A, A-, BBB+ and BBB for the external major rating agencies;
- satisfactory quality ratings applied to good quality loans that were performing as expected, including loans to small and medium sized enterprises, leveraged entities and more recently established businesses. Satisfactory quality ratings also included some element of the Group's retail portfolios. For both forborne and non-forborne loans, satisfactory quality ratings were derived from grades 5 to 7 on the thirteen point grade scale and grade 3 on the seven point grade scale. These ratings are broadly equivalent to BBB-, BB+, BB and BB-. In addition, satisfactory quality ratings applied to certain mortgage forbearance arrangements where the customer was making full interest and capital repayments;
- acceptable quality ratings applied to loans to customers with increased risk profiles that were subject to closer monitoring and scrutiny by lenders with the objective of managing risk and moving accounts to an improved rating category. For both forborne and non-forborne loans, acceptable quality ratings were derived from grades 8 and 9 on the thirteen point grade scale and grade 4 on the seven point scale. These ratings are broadly equivalent to external ratings of B+. In addition, acceptable quality ratings applied to certain mortgage forbearance arrangements where the customer was making at least full interest payments; and
- lower quality ratings applied to those loans that were neither past due nor impaired where the Group required a work-down or work-out of the relationship unless an early reduction in risk was achievable. For both forborne and non-forborne loans, lower quality ratings were derived from outstandings within rating grades 10 and 11 on the thirteen point grade scale, grade 5 on the seven point grade scale and external ratings equivalent to B or below. In addition, lower quality ratings applied to certain mortgage forbearance arrangements where the customer was making less than full interest payments.

**'Non-performing exposures' (NPEs) consisted of:**

- impaired loans;
- loans past due greater than 90 days but not impaired;
- FCRs; and
- other / probationary loans that had yet to satisfy exit criteria in line with EBA guidance to return to performing.

**'Impaired'** loans were defined as exposures which carried a specific provision whether forborne or not. Specific provisions were as a result of either individual or collective assessment for impairment.

**'Past due but not impaired'** loans, whether forborne or not, were defined as loans where repayment of interest and / or principal were overdue by at least one day but which were not impaired.

### Credit risk methodologies *(audited)*

*Credit risk methodologies for the year ended 31 December 2018*

The Group's credit risk methodologies in respect of impairment were revised on adoption of IFRS 9 on 1 January 2018 and are as set out below. The Group's approach to internal credit rating models and rating systems is unchanged as set out below.

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

**Internal credit rating models**
The use of internal credit rating models and scoring tools, which measure the degree of risk inherent in lending to specific counterparties, is central to the credit risk assessment and ongoing management processes within the Group.

The primary model measures used are:

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

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

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

**The structure of internal rating systems**
The Group divides its internal rating systems into non-retail and retail approaches.

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

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

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

**Non-retail internal rating systems**
The Group has adopted the Foundation IRB approach for most of its non-retail portfolios. Under this approach, the Group calculates its own estimates for PD and uses supervisory estimates of LGD and credit conversion factors.

To calculate PD under the FIRB approach, the Group assesses the credit quality of borrowers based on transaction and borrower specific characteristics. Scorecards are developed for each significant portfolio or type of lending, with outputs used to assign a PD grade to each borrower.

In the case of financial institutions, external credit agency ratings are used to provide a significant challenge within the Group's ratings approach. For exposures other than financial institutions, external ratings, when available for borrowers, play a role in the independent validation of internal estimates.

For non-retail exposures, the Group calculates its own estimates of PD on a TtC basis and on a cyclical basis. The TtC PD estimates are based on internal default experience, or where default data is limited, statistical model estimates combined with available data to reflect the average default rate over the course of an economic cycle. The TtC PDs do not vary with the economic cycle and are used to calculate risk weighted exposure amounts and to determine minimum regulatory capital requirements. The cyclical PD estimates which capture a change in borrower risk over the economic cycle are used for internal credit management purposes. Both measures are estimated from the same borrower risk factors.

**Retail internal rating systems**
The Group has adopted the Retail IRB approach for the majority of its retail exposures. Under this approach, the Group calculates its own estimates for PD, LGD and credit conversion factors. External ratings do not play a role within the Group's retail internal rating systems, however, external credit bureau data can play a role in assessing certain borrowers.

Under the Retail IRB approach, scorecards based on internal behavioural data and, where relevant, transaction specific characteristics are developed for specific portfolios or product types, the output from the scorecard is used to determine the PD estimate.

The Group calculates retail PDs on a TtC or cyclical basis depending on the portfolio. The TtC estimates are calibrated based on long run average default rates over the course of an economic cycle (based on internal default experience) within identified discrete risk pools. The cyclical estimates are calibrated based on a weighted average of the expected long-run default rate over the course of an economic cycle and the most recently observed annual default rate. These retail PDs are used for both the calculation of risk weighted exposure amounts and for internal credit management purposes.

LGD estimates are based on historic loss experience and associated costs for all observed defaults for a defined time period. The time period is set for each model to ensure LGD estimates are representative of economic downturn conditions. Estimates of credit conversion factors (which determine the extent to which a currently undrawn amount is assumed to be drawn and outstanding at point of default) are similarly derived based on historic experience from observed defaults, and are calibrated to produce estimates of behaviour characteristic of an economic downturn.

The assumption that the time periods and data used for the estimation of LGD and credit conversion factors remain representative of economic downturn conditions is subject to review and challenge on an ongoing basis.

**Other uses of internal estimates**
Internal estimates play an essential role in risk management and decision making processes as well as the credit approval functions, the internal capital allocation function and the corporate governance functions of the Group. The specific uses of internal estimates differ from portfolio to portfolio, and for retail and non-retail approaches, but typically include:

- credit decisioning / automated credit decisioning and borrower credit approval;
- credit management;
- calculation of RAROC;
- internal reporting; and
- internal capital allocation between businesses of the Group.

For other purposes, the cyclical PD estimates typically are used. Both estimates feature within internal management reporting.

Impairment models are described further on page 84.

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

**Control mechanisms for credit rating and impairment models**
The Group Model Risk Policy and Group Model Risk Standards, as approved by the GRPC, set out the Group's overall approach to model risk management. The Group also sets out more detailed requirements with respect to development, monitoring and validation of credit rating and impairment models. These standards are approved by the RMC. Model development and redevelopment for credit rating and impairment models are approved by the RMC and the results of model performance monitoring are reported to the RMC on a regular basis.

The Group mitigates model risk for credit rating and impairment models as follows:
- **model development standards:** the Group adopts centralised standards and methodologies over the operation and development of models. This ensures a common approach in key areas such as documentation, data quality and management and model testing;
- **model governance:** the Group adopts a uniform approach to the governance of all risk rating model related activities and impairment model related activities, ensuring the appropriate involvement of relevant stakeholders;
- **model performance monitoring:** credit risk rating models are subject to testing on a quarterly basis which is reported to the RMC. This includes assessment of model performance against observed outcomes, including:
  - rank order of borrowers;
  - accuracy of parameter estimates;
  - the stability of the rating;
  - the quality of data; and
  - the appropriate of model use.
- **independent validation:** all models are subject to in-depth analysis on a periodic basis, which includes an assessment of model performance against observed outcomes, including: rank order of borrowers; accuracy of parameter estimates; the stability of the rating population; the quality of data; and the appropriateness of model use. This analysis is carried out by a dedicated unit (the Independent Validation Unit (IVU)) which is independent of credit origination and management functions.

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

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

*Methodology for loan loss provisioning under IFRS 9 for the year ended 31 December 2018*

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

In general, a loss allowance is recognised for all financial instruments in scope for the impairment requirements of IFRS 9. However this may not be the case for very highly collateralised loans, such as residential mortgages at low loan to value (LTV) ratios. There have been no significant changes in the quality of collateral or credit enhancements as a result of changes in the Group's collateral policies during the year. The Group's methodologies for valuation of property collateral are set out on page 86, noting further that Forward Looking Information (FLI) (see page 86) is applied as appropriate to RoI and UK property collateral values in measuring impairment loss allowances under IFRS 9. The Group's critical accounting estimates and judgements, including those with respect to impairment of financial instruments, are set out in note 2 to the consolidated financial statements.

An analysis of the Group's net impairment gains / (losses) on financial instruments and impairment loss allowances is set out in notes 17, 29 and 30 of the consolidated financial statements.

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

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

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

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

Together, the current point-in-time IFRS 9 PD and future point-in-time IFRS 9 PDs are used to generate an IFRS 9 lifetime PD expectation for each FLI scenario. The scenario weighted averages are used to generate an overall IFRS 9 lifetime PD expectation. At origination of a new financial instrument, these

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

expectations are stored, together with prepayment estimates where relevant, and allow for comparison at future reporting dates as one of the key determinants as to whether a 'significant increase in credit risk' has occurred. As lifetime PD was not calculated historically, the Group used reasonable and supportable information available without undue cost or effort to approximate the residual IFRS 9 lifetime PD expectations at initial recognition for most financial instruments originated prior to the adoption of IFRS 9 on 1 January 2018.

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

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

**Individual DCF analysis**
For credit-impaired financial instruments in Business Banking, Corporate Banking and certain other relationship-managed portfolios, the impairment loss allowance is primarily determined by an individual DCF analysis completed by lenders in business units and subject to review, challenge and, potentially, revision by independent credit professionals in underwriting units within Group Risk. The expected future cash flows are based on an assessment of future recoveries and include forecasted principal and interest payments (not necessarily contractual amounts due) and expected cash flows, if any, from the realisation of collateral / security held, less realisation costs.

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

**Identifying a significant increase in credit risk**
The Group's standard criteria to identify financial instruments which have had a 'significant increase in credit risk since initial recognition' are applied to the vast majority of loans and advances to customers. 'Credit risk' in this context refers to the change in the risk of a default occurring over the expected life of the financial instrument. Unless credit-impaired or a POCI, a financial instrument is generally allocated to stage 2 if any of the following criteria are met at the reporting date:
- remaining lifetime PD is more than double and more than 50 basis points higher than the remaining lifetime PD at the reporting date as estimated based on facts and circumstances as at initial recognition (adjusted where relevant for changes in prepayment expectations);
- a contractual payment is greater than 30 days past due; and / or
- the exposure is a forborne loan or a NPE.

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

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

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

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

For some smaller and / or low risk portfolios, the Group identifies a 'significant increase in credit risk since initial recognition' solely by reference to whether a contractual payment is greater than 30 days past due.

**Identifying defaulted assets and credit-impaired assets**
The Group's definition of default for impairment purposes (i.e. for the purposes of allocating financial instruments to 'stages' and for measuring impairment loss allowances under IFRS 9) is consistent with its application of the definition of default in Article 178 of the CRR noting that IFRS 9 requires the Group to use a definition which is consistent with that used for internal credit risk management purposes. The manner in which the Group identifies financial assets as credit-impaired results in the Group's population of credit-impaired financial assets being consistent with its population of defaulted financial assets in scope for the impairment requirements of IFRS 9.

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

The Group considers certain events as resulting in mandatory default and credit-impaired classification without further assessment. These include:
- greater than 90 days past due and the past due amount is material;
- a forbearance arrangement is put in place where future reliance on realisation of collateral is expected for repayment in full when this was not originally envisaged;
- legal action is underway by the Group to enforce repayment or realise security;
- the Group or a receiver takes security into possession; and
- the Group has formally sought an insolvency arrangement in respect of the borrower.

Certain other events necessitate a lender assessment and, if the outcome of the lender assessment is that the contractual amount of principal and interest will not be fully repaid in what is assessed to be the most likely cash flow scenario, default and credit-impaired classification is mandatory. For larger value cases (typically greater than €1 million or £850,000), the lender assessment involves production of an individual DCF analysis. The events differ by portfolio and include those set out below.

**All portfolios:**
- a forbearance measure has been requested by a borrower and formally assessed;
- the non-payment of interest (e.g. via interest roll-up, arrears capitalisation etc.) as a result of the terms of modification of loans, including refinancing and renegotiation of facilities where during the renegotiation process, the lender becomes aware that the borrower is under actual or apparent financial distress;
- evidence of fraudulent activity by the borrower or another party connected with the loan;
- the contractual maturity date has passed without repayment in full; or
- it becomes known that the borrower has formally sought an insolvency arrangement.

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

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

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

**Methodologies for valuation of property collateral**
The Group's approach to the determination of the market value of property collateral is set out in a Board-approved Group Property Collateral Valuation Policy, supported by GRPC-approved Group Property Collateral Valuation Guidelines, and is summarised below. The Group's approach to applying FLI to those values for the purposes of measuring impairment loss allowance for the year ended 31 December 2018 is set out in the Board-approved Group Impairment Policy and is described below.

Retail Ireland mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Central Statistics Office (CSO) Residential Property Price Index (RPPI). Retail UK mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Nationwide UK house price index.

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

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

Typically, more frequent valuations are required for properties held as security for NPEs with an annual valuation required for NPEs in excess of €300,000. During 2018, the Group completed an exercise to ensure that recent valuations from external professionals were held for all NPEs in excess of €300,000.

**Forward Looking Information (FLI)**
FLI refers to probability-weighted future macroeconomic scenarios approved semi-annually by the GRPC and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9. The Group generally uses three RoI FLI scenarios and three UK FLI scenarios, being a central scenario, an upside scenario and a

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

downside scenario, all extending over a five year forecast period. In each case the central scenario is based on internal and external information and management judgement. The Group keeps under review the need for FLI for other economies.

The Group's FLI model uses the central scenario, recent actual observed values and historical data to generate many scenarios distributed around the central scenario. The central scenario is at the 50th percentile of the distribution of scenarios (meaning that there is a 50% likelihood of the expected ECL outcome being better and a 50% likelihood of it being worse) and the upside and downside scenarios are those scenarios at chosen lower and higher percentiles respectively. The probability weightings attached to the scenarios are a function of the chosen percentiles, with lower probability weightings attached to scenarios which are at percentiles more distant from the central scenario.

Typically, one or two macroeconomic variables are incorporated into each impairment model, being those determined through macro regression techniques to be most relevant to forecasting default of the credit risk exposures flowing through that model.

The lifetime PD expectation for an exposure generated under each of the scenarios, weighted by the probability of each scenario occurring, is used to generate the lifetime PD expectations used for the assessment of 'significant increase in credit risk'.

Forecasts of residential and commercial property price growth are incorporated as appropriate into the LGD component of the ECL calculation.

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

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

The table below shows the mean average forecast values for some of the key macroeconomic variables under each scenario for the five year forecast period 2019 to 2023 together with the associated percentiles and probability weightings.

| | Republic of Ireland | | | United Kingdom | | |
|---|---|---|---|---|---|---|
| | **Downside** | **Central** | **Upside** | **Downside** | **Central** | **Upside** |
| Percentile | 85th | 50th | 15th | 85th | 50th | 15th |
| Scenario probability weighting | 30% | 39% | 31% | 29% | 40% | 31% |
| GDP growth | 1.6% | 3.1% | 5.6% | 0.5% | 1.5% | 1.8% |
| GNP growth | 1.1% | 2.8% | 5.2% | n/a | n/a | n/a |
| Unemployment rate | 6.4% | 5.0% | 4.3% | 5.5% | 4.5% | 4.5% |
| Residential property price growth | (3.0%) | 2.1% | 8.1% | (0.4%) | 0.4% | 5.0% |
| Commercial property price growth | (7.6%) | 1.4% | 7.8% | (5.5%) | 0.2% | 0.8% |

FLI is generally not applied to exposures to which the low credit risk expedient has been applied given factors such as a lack of internal default history to inform macro regression and that applying FLI would be unlikely to have a material impact given low PDs and that exposures are subject to 12-month rather than lifetime ECL.

**Group management adjustment**

To ensure that the measurement of impairment reflects reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions, the need for a 'Group management adjustment' to the outputs of the Group's staging and impairment measurement methodologies is considered at each reporting date in arriving at the final impairment loss allowance. Such a need may arise, for example, due to a model limitation or late-breaking event. A Group management adjustment was applied at 31 December 2018 and is detailed in note 2 on page 193 to the consolidated financial statements.

### *Credit risk methodologies for the year ended 31 December 2017*

The Group revised its credit risk methodologies in respect of impairment to reflect the adoption of IFRS 9 as outlined on page 82 to 87. The credit risk methodologies in respect of impairment previously applicable under IAS 39 for the year ended 31 December 2017 are outlined below.

**Methodology for loan loss provisioning under IAS 39**

All credit exposures, either individually or collectively, were regularly reviewed for objective evidence of impairment. Where such evidence of impairment existed, the exposure was measured for an impairment provision. The criteria used to determine if there was objective evidence of impairment included:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- granting a concession to a borrower, for economic or legal reasons, relating to the borrower's financial difficulty that would otherwise not be considered;

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

- deterioration of the borrower's competitive position;
- deterioration in the value of collateral;
- external rating downgrade below an acceptable level; or
- initiation of bankruptcy proceedings.

At 31 December 2017, the following events required the completion of an impairment assessment to determine whether a loss event had occurred at the reporting date that might lead to recognition of impairment losses:
- loan asset had fallen 90 days past due;
- a forbearance measure had been requested by a borrower and formally assessed; and
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there was evidence of a loss event and / or borrower financial distress.

**Portfolio specific events for Residential mortgages**
- notification of, or intended application for, bankruptcy proceedings, debt settlement or personal insolvency arrangement or similar; or
- offer of voluntary sale at possible shortfall or voluntary surrender of property security.

**Portfolio specific events for larger SME / corporate and property loans**
- internal credit risk rating, or external credit rating, had been downgraded below a certain level;
- financial statements or financial assessment indicated inability of the borrower to meet debt service obligations and / or a negative net assets position;
- borrower had ceased trading;
- initiation of bankruptcy / insolvency proceedings;
- a fall in the assessed current value of security such that the LTV ratio was greater than or equal to 120% (Property and construction only);
- a fall in net rent such that it was inadequate to cover interest with little / no other income to support debt service capacity (investment property exposures only); or
- a fall in the assessed gross development value such that sale proceeds were no longer expected to fully repay debt (development exposures only).

Where objective evidence of impairment existed, as a result of one or more past events, the Group was required to estimate the recoverable amount of the exposure or group of exposures.

For financial reporting purposes, loans on the balance sheet that became impaired were written down to their estimated recoverable amount. The amount of this write down was taken as an impairment charge in the income statement. Impaired loans had a specific provision attaching.

The Group's impairment provisioning methodologies were compliant with IAS 39 which required objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or 'events') has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Losses expected as a result of future events, no matter how likely, were not recognised.

**Methodology for individually assessing impairment**
An individual impairment assessment was performed for any exposure for which there was objective evidence of impairment and where the exposure was above an agreed threshold. For Residential mortgage, non-property SME and corporate, and Property and construction exposures, a de-minimis total customer exposure level of €1 million applied for the mandatory completion of a DCF analysis for the assessment of impairment. The carrying amount of the exposure net of the estimated recoverable amount (and thus the specific provision required) was calculated using DCF analysis. This calculated the estimated recoverable amount as the present value of the estimated future cash flows, discounted at the exposure's original effective interest rate (or the current effective interest rate for variable rate exposures). The estimated future cash flows included forecasted principal and interest payments (not necessarily contractual amounts due) including cash flows, if any, from the realisation of collateral / security held, less realisation costs.

**Methodology for collectively assessing impairment**
Where exposures fell below the threshold for individual assessment of impairment, or exposures did not otherwise require individual lender assessment, such exposures were included for collective impairment provisioning. For collective impairment provisioning, exposures with similar credit risk characteristics (e.g. portfolio of consumer personal loans) were pooled together and a provision was calculated by estimating the future cash flows of a group of exposures. In pooling exposures based on similar credit risk characteristics, consideration was given to features including: asset type; industry; past due status; collateral type; and forbearance classification. The provision estimation considered the expected contractual cash flows of the exposures in a portfolio and the historical loss experience for exposures with credit risk characteristics similar to those in the portfolio being assessed. Assumptions and parameters used in the collective provisioning models, which were based on historical experience (i.e. amount and timing of cash flows / LGD) were regularly compared against current experience in the loan book and current market conditions.

Some of the key parameters at 31 December 2017 used in the Retail Ireland Residential mortgage collective specific provisioning model included assumptions in relation to:
- indexed residential property valuation[1];
- forced sale discount (23% to 55%);
- workout costs (7%);
- weighted average cure rate (33.43% over three years, with cure assumptions segmented by: forbearance classification and region (for relevant cohorts));
- weighted average repayment rate (5.91% over three years); and
- time to sale (3.5 years from the reporting date).

The provisioning model assumptions and parameters used historical loan loss experience adjusted where appropriate for current conditions and current observable data. Cure assumptions reflected the definition of cure per the CBI 'Impairment Provisioning and Disclosure Guidelines' (May 2013) which required satisfactory completion of a twelve month probation period, while being less than 30 days past due.

[1] *Indexed value with reference to end September 2017 CSO, RPPI for 'Dublin - all residential properties' and 'National excluding Dublin - all residential properties' (hereafter 'Non-Dublin'). At that date, the Dublin index was 24% lower than its peak and the non-Dublin index was 29.8% lower than its peak. The end September CSO index was published on 8 November 2017 and was used in the updating of the Retail Ireland mortgage collective impairment provisioning parameters and assumptions, which were approved internally for year ended 31 December 2017.*

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

Where there was objective evidence of impairment on a collective basis, this was reported as a specific provision ('collective specific') in line with individually assessed loans. An analysis of the Group's impairment provisions and impairment charge by nature of impairment provision for the year ended 31 December 2017 is set out in the tables on pages 207 and 221.

**Methodology for establishing incurred but not reported (IBNR) provisions**
Impairment provisions were also recognised for losses not specifically identified but which, experience and observable data indicated, were present in the portfolio / group of exposures at the date of assessment. These were described as IBNR provisions. Statistical models were used to determine the appropriate level of IBNR provisions for a portfolio / group of exposures with similar credit risk characteristics (e.g. asset type, geographical location, forbearance classification). These models estimated latent losses taking into account three observed and / or estimated parameters / assumptions:

- loss emergence rates (based on historic grade migration experience and current PD grades, offset by cure expectations where appropriate);
- the emergence period (historic experience adjusted to reflect current conditions); and
- LGD rates (loss and recovery rates using historical loan loss experience, adjusted where appropriate to reflect current observable data).

A key assumption used in the calculation of the IBNR impairment provisions for past due greater than 90 days but not impaired Retail Ireland Residential mortgages was the value of underlying residential properties securing the loans. The IBNR provisioning model parameters and assumptions were reviewed during 2017 informed by the Group's most recent observed experience (including updated residential property sales data). The resulting updates, particularly in relation to the residential property value assumptions, the forced sale discounts and work-out costs used in the IBNR provisioning model, were the same as those outlined above in respect of the Retail Ireland Residential mortgage collective specific provisioning methodology.

At 31 December 2017, the cure assumptions for the past due greater than 90 days but not impaired IBNR model reflected a weighted average cure rate of 50.84% over a three year period. At 31 December 2017, the weighted average repayment rate applied to the past due greater than 90 days but not impaired IBNR model was 10.05% over a three year period.

Emergence period referred to the period of time between the occurrence and reporting of a loss event. Emergence periods were reflective of the characteristics of the particular portfolio. For example, at 31 December 2017 emergence periods were in the following ranges: 6 to 20 months for both forborne and non-forborne Retail Ireland Residential mortgages and three to four months for both forborne and non-forborne larger SME / corporate and property loans. Emergence periods were estimated based on historic loan loss experience supported by back testing and, as appropriate, individual case sampling.

The LGD was calculated using historical loan loss experience and was adjusted where appropriate to apply management's credit expertise to reflect current observable data (including an assessment of any changes in the property sector, discounted collateral values and repayment prospects).

The Group's critical accounting estimates and judgements, including those relating to impairment, are set out in note 2 to the consolidated financial statements.

**Methodology for loan loss provisioning and forbearance**
A request for forbearance was a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment.

This assessment might have resulted in a deterioration in the credit grade assigned to the loan, potentially increasing the frequency of the formal review process; where impairment was also deemed to have occurred, this would result in a specific provision.

**Individually assessing impairment and forbearance**
The methodology for individually assessing impairment, whether an exposure was forborne or not, was as outlined above (i.e. on an individual case-by-case basis).

**Collectively assessing impairment and forbearance[1]**
Forborne exposures were pooled together for collective impairment provisioning, including IBNR provision calculations. Assumptions and parameters used to create the portfolio provision(s) took into consideration the historical experience on assets subject to forbearance (e.g. amount and timing of cash flows, cure experience, emergence period), adjusted where appropriate to reflect current conditions, and required the satisfactory completion of a twelve month probation period, while being less than 30 days past due. Management adjustments were also applied, as appropriate, where historical observable data on forborne assets might be limited. Impairment provisioning methodologies and provisioning model parameters and assumptions applied to forborne loan pools were reviewed regularly, and revised as necessary, to ensure that they remained reasonable and appropriate and reflective of the credit characteristics of the portfolio being assessed and current conditions. This included a comparison of actual experience to expected outcome.

**Provisioning and forbearance**
Exposures which were subject to forbearance and had a specific provision were reported as both 'forborne' and 'impaired'. The total provision book cover on forborne loans was reflective of the additional credit risk inherent in such loans (given that forbearance is only provided to borrowers experiencing actual or apparent financial stress or distress), particularly the potentially higher risk of default and / or re-default.

**Impaired loans review**
Irrespective of the valuation methodology applied, it was Group policy to review impaired loans above agreed thresholds semi-annually, with the review including a reassessment of the recovery strategy, the continued appropriateness of the valuation methodology and the adequacy of the impairment provision. Where information was obtained between reviews that impacted

[1] *For collective provisioning purposes, the Group applied a definition of forbearance that was aligned with the CBI's 'Impairment Provisioning and Disclosures Guidelines' 2013.*

# 3 Management of key Group risks *(continued)*

## 3.1 Credit risk *(continued)*

expected cash flows (e.g. evidence of comparable transactions emerging, changes in local market conditions), an immediate review and assessment of the required impairment provision was undertaken. An impaired loan was restored to unimpaired status when the contractual amount of principal and interest was deemed to be fully collectible. Typically, a loan was deemed to be fully collectible based on an updated assessment by the Group of the borrower's financial circumstances. The assessment included a demonstration of the customer's ability to make payments on the original or revised terms and conditions as may have been agreed with the Group as part of a sustainable forbearance arrangement.

**Methodologies for valuation of property collateral**
The Group's approach to the determination of the market value of property collateral was set out in a Board approved Group Property Collateral Valuation Policy, supported by GRPC approved Group Property Collateral Valuation Guidelines, and is summarised below.

Retail Ireland mortgage loan book property values were determined by reference to the original or latest property valuations held indexed to the CSO RPPI. Retail UK mortgage loan book property values were determined by reference to the original or latest property valuations held indexed to the Nationwide UK house price index.

Commercial property valuations included formal written valuations from external or internal professionals, or 'internally assessed valuations' completed by business units. Internally assessed valuations were informed by the most appropriate sources available for the assets in question. This included property specific information / characteristics, local market knowledge, comparable transactions, professional advice (e.g. asset management reports) or a combination thereof, in line with more detailed guidance approved at least annually by GRPC. This guidance was informed by both internal and externally sourced market data / valuation information, including input from the Group's REAU.

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

# 3 Management of key Group risks *(continued)*

## 3.2 Funding and liquidity risk

**Key points:**

- Group customer deposits of €78.9 billion have increased by €3.0 billion since 31 December 2017. The Group's LDR reduced by 3% to 97% at 31 December 2018. The increase in Group customer deposits of €3.0 billion comprised of an increase in Retail Ireland division (€3.5 billion), an increase in Retail UK division (€0.8 billion) offset by a decrease in Corporate and Treasury division (€1.2 billion). On a constant currency basis, Group customer deposits increased by €3.2 billion.
- The Group's LCR at 31 December 2018 was 136%. The Group's NSFR at 31 December 2018 was 130%.

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

Liquidity risk arises from differences in timing between cash inflows and outflows. Liquidity risk can increase due to the unexpected lengthening of maturities or non-repayment of assets, a sudden withdrawal of deposits or the inability to refinance maturing debt. These factors are often associated with times of distress or adverse events such as a credit rating downgrade(s) or economic or financial turmoil.

Funding risk can occur where there is an over-reliance on a particular type of funding, a funding gap or a concentration of wholesale funding maturities. The Group's ability to access funding markets at a sustainable cost and in a sufficient volume can be negatively impacted by a credit rating downgrade(s) or deterioration in market sentiment which in turn could impact the financial position of the Group.

**Liquidity risk statement** *(audited)*
Funding and liquidity risk arises from a fundamental part of the Group's business model; the maturity transformation of primarily short term deposits into longer term loans. The Group's funding and liquidity strategy is to maintain a stable funding base with loan portfolios substantially funded by retail originated customer deposit portfolios.

**Liquidity risk framework** *(audited)*
The Group has established a liquidity risk management framework which encompasses the liquidity policies, systems and controls in place to ensure that the Group is positioned to address its daily liquidity obligations and to withstand a period of liquidity stress. Principal components of this framework are the Group's Risk Appetite Statement and associated limits and the Group's Funding and Liquidity Policy, both of which are approved by the Board on the recommendation of ALCO.

The Group Funding and Liquidity Policy outlines the Group's governance process with respect to funding and liquidity risk, and sets out the core principles that govern the manner in which the risk is mitigated, monitored and managed. The operation of this policy is delegated to the Group's ALCO.

These principal components are supported by further liquidity policies, systems and controls which the Group has to manage funding and liquidity risk.

**Liquidity risk management** *(audited)*
Liquidity risk management within the Group focuses on the control, within prudent limits, of risk arising from the mismatch in contracted maturities of assets and liabilities and the risks arising from undrawn commitments and other contingent liabilities. The Group manages its liquidity by jurisdiction with liquid assets predominantly held in the currency of each jurisdiction.

The Group's treasury function within Markets and Treasury provides top-down centralised management of the Group's funding and liquidity position including overall responsibility for the management of the Group's liquidity position and funding strategy. This ensures a co-ordinated approach to balance sheet management and is accomplished through the incorporation of funding and liquidity risk appetite metrics into risk appetite at a consolidated level, monitoring liquidity metrics for each jurisdiction and compliance by the business units with the Group's funds transfer pricing policy.

The Group's Market and Liquidity Risk function provides independent oversight of funding and liquidity risk and is responsible for proposing and maintaining the Group's funding and liquidity risk management framework and associated risk appetite metrics.

Liquidity risk management consists of two main activities:
- structural liquidity management focuses on the balance sheet structure, the funding mix, the expected maturity profile of assets and liabilities and the Group's debt issuance strategy; and
- tactical liquidity management focuses on monitoring current and expected daily cash flows to ensure that the Group's liquidity needs can be met.

The Group is required to comply with the regulatory liquidity requirements of the SSM and the requirements of local regulators in those jurisdictions where such requirements apply to the Group. SSM requirements include compliance with CRR / Capital Requirements Directive (CRD IV) and associated Delegated Acts. The Group has remained in full compliance with the regulatory liquidity requirements throughout 2018, and as at 31 December 2018 maintained a buffer significantly in excess of regulatory liquidity requirements.

Bank of Ireland (UK) plc is authorised by the Prudential Regulation Authority (PRA) and is subject to the regulatory liquidity regime of the PRA. Bank of Ireland (UK) plc has remained in full compliance with the regulatory liquidity regime in the UK throughout 2018, and as at 31 December 2018 maintained a buffer significantly in excess of regulatory liquidity requirements.

The annual ILAAP enables the Board to assess the adequacy of the Group's funding and liquidity risk management framework, to assess the key liquidity and funding risks to which it is exposed; and details the Group's approach to determining the level of liquid assets and contingent liquidity that is required to be maintained under both BAU and severe stress scenarios.

A key part of this assessment is cash flow forecasting that includes assumptions on the likely behavioural cash flows of

# 3 Management of key Group risks *(continued)*

## 3.2 Funding and liquidity risk *(continued)*

certain customer products. Estimating these behavioural cash flows allows the Group assess the stability of its funding sources and potential liquidity requirements in both business as usual and stressed scenarios. The stressed scenarios incorporate Group specific and systemic risks and are run at different levels of possible, even if unlikely, severity. Actions and strategies available to mitigate the impacts of the stress scenarios are evaluated as to their appropriateness. Stress test results are reported to ALCO, the BRC and the Board.

The Group also monitors a suite of Recovery Indicators and Early Warning Signals in order to identify the potential emergence of a liquidity stress. As part of its contingency and recovery planning the Group has identified a suite of potential funding and liquidity options which could be exercised to help the Group to restore its liquidity position on the occurrence of a major stress event.

**Liquidity risk reporting** *(audited)*
The Group's liquidity risk appetite is defined by the Board to ensure that funding and liquidity are managed in a prudent manner. The Board monitors adherence to the liquidity risk appetite through the monthly Court Risk Report.

Management informs the Board in the monthly Court Risk Report of any significant changes in the Group's funding or liquidity position. The Court Risk Report includes the results of the Group's liquidity stress testing. This estimates the potential impact of a range of stress scenarios on the Group's liquidity position including its available liquid assets and contingent liquidity.

Management reviews daily, weekly and monthly funding and liquidity reports and stress testing results which are monitored against the Group's Risk Appetite Statement. It is the responsibility of ALCO to ensure that the measuring, monitoring and reporting of funding and liquidity is adequately performed and complies with the governance framework.

**Liquidity risk measurement** *(audited)*
The Group's cash flow and liquidity reporting processes provide management with daily liquidity risk information by designated cash flow categories. These processes capture the cash flows from both on-balance sheet and off-balance sheet transactions.

The tables below and on the following page summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 31 December 2018 and 31 December 2017. These maturity profiles are based on the remaining contractual maturity period at the reporting date (discounted). The Group measures liquidity risk by adjusting the contractual cash flows on deposit books to reflect their behavioural stability.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,239 million and €11,003 million respectively (2017: €5,766 million and €10,878 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

Customer accounts include a number of term accounts that contain access features. These allow the customer to access a portion or all of their deposits notwithstanding that this withdrawal could result in a financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the following table.

| **2018**<br>**Maturities of financial assets and liabilities** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances at central banks | 6,033 | - | - | - | - | 6,033 |
| Trading securities | - | - | - | 6 | 23 | 29 |
| Derivative financial instruments | 195 | 19 | 176 | 664 | 670 | 1,724 |
| Other financial assets at FVTPL[1] | 1,204 | 23 | 30 | 1,623 | 1,913 | 4,793 |
| Loans and advances to banks | 237 | 2,250 | 138 | - | - | 2,625 |
| Debt securities at amortised cost | - | 61 | 274 | 1,386 | 2,207 | 3,928 |
| Financial assets at FVOCI | - | 469 | 913 | 5,748 | 4,918 | 12,048 |
| Loans and advances to customers (before impairment provisions) | 2,217 | 4,179 | 7,048 | 28,949 | 36,298 | 78,691 |
| **Total** | **9,886** | **7,001** | **8,579** | **38,376** | **46,029** | **109,871** |
| **Liabilities** | | | | | | |
| Deposits from banks | 78 | 367 | - | - | - | 445 |
| Monetary Authorities secured funding | - | 251 | 224 | 2,179 | - | 2,654 |
| Customer accounts | 65,517 | 6,117 | 4,137 | 2,923 | 205 | 78,899 |
| Derivative financial instruments | 205 | 31 | 102 | 617 | 864 | 1,819 |
| Debt securities in issue | - | 1,176 | 230 | 4,799 | 2,082 | 8,287 |
| Subordinated liabilities | - | - | - | 464 | 1,640 | 2,104 |
| Short positions in trading securities | 16 | - | - | - | - | 16 |
| **Total** | **65,816** | **7,942** | **4,693** | **10,982** | **4,791** | **94,224** |

[1] *Excluding equity shares which have no contractual maturity.*

# 3 Management of key Group risks *(continued)*

## 3.2 Funding and liquidity risk *(continued)*

| **2017**<br>**Maturities of financial assets and liabilities** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances at central banks | 7,379 | - | - | - | - | 7,379 |
| Trading securities | - | - | - | 38 | 30 | 68 |
| Derivative financial instruments | 155 | 271 | 283 | 823 | 816 | 2,348 |
| Other financial assets at FVTPL[1] | 1,087 | 30 | 32 | 178 | 3,014 | 4,341 |
| Loans and advances to banks | 555 | 2,267 | 239 | - | - | 3,061 |
| AFS assets[1] | - | 682 | 1,511 | 6,281 | 4,732 | 13,206 |
| Loans and advances to customers (before impairment provisions) | 1,663 | 5,099 | 7,122 | 27,400 | 37,203 | 78,487 |
| | **10,839** | **8,349** | **9,187** | **34,720** | **45,795** | **108,890** |
| **Liabilities** | | | | | | |
| Deposits from banks | 87 | 699 | - | - | - | 786 |
| Monetary Authorities secured funding | - | 169 | 1,726 | 3,113 | - | 5,008 |
| Customer accounts | 60,993 | 7,586 | 4,871 | 2,379 | 40 | 75,869 |
| Derivative financial instruments | 160 | 45 | 54 | 578 | 1,150 | 1,987 |
| Debt securities in issue | - | 730 | 19 | 4,800 | 1,386 | 6,935 |
| Subordinated liabilities | - | - | - | 488 | 1,619 | 2,107 |
| Short positions in trading securities | - | - | - | - | - | - |
| **Total** | **61,240** | **9,229** | **6,670** | **11,358** | **4,195** | **92,692** |

**Funding strategy** *(unaudited)*
The Group seeks to maintain a stable funding base with loan portfolios funded substantially by granular retail originated deposits with any residual funding requirements principally met through term wholesale funding and equity.

**Customer deposits** *(unaudited)*
The Group's customer deposit strategy is to:

- maintain and optimise its stable retail customer deposit base in Ireland and the UK, in line with balance sheet requirements;
- prudently manage deposit pricing and margins; and
- optimise stable funding levels in line with regulatory liquidity requirements.

Group customer deposits of €78.9 billion were €3.0 billion higher than 2017. This comprises an increase in Retail Ireland division of €3.5 billion, an increase of €0.8 billion in Retail UK Division offset by a decrease in Corporate and Treasury division of €1.2 billion. On a constant currency basis, Group customer deposits increased by €3.2 billion.

In the Retail Ireland Division, customer deposits of €47.7 billion have increased by €3.5 billion since 31 December 2017 due to growth in current account credit balances, reflecting strong economic activity.

In the Retail UK Division, customer deposits of £19.8 billion have increased by £0.8 billion since 31 December 2017, primarily due to an increase in AA and Post Office deposits.

In the Corporate and Treasury Division, customer deposits of €9.1 billion have decreased by €1.2 billion since 31 December 2017, due to pricing optimisation, including charging negative interest rates where appropriate.

At 31 December 2018, customer deposits of €78.9 billion (2017: €75.9 billion) do not include €0.6 billion (2017: €0.8 billion) of savings and investment products sold by Bank of Ireland Life. These products have fixed terms (typically five to seven years) and consequently are an additional source of stable funding for the Group.

| **Customer deposits** | **2018 €bn** | **2017 €bn** |
|---|---|---|
| Retail Ireland | 48 | 44 |
| *- Deposits* | *22* | *22* |
| *- Current account credit balances* | *26* | *22* |
| Retail UK | 22 | 22 |
| *Retail UK (Stg£bn equivalent)* | *20* | *19* |
| *- UK Post Office* | *14* | *14* |
| *- Other Retail UK* | *6* | *5* |
| Corporate and Treasury | 9 | 10 |
| **Total customer deposits** | **79** | **76** |
| **LDR** | **97%** | **100%** |

**Wholesale funding** *(unaudited)*
The Group in the normal course aims to maintain funding diversification, minimise concentrations across funding sources and minimise refinancing maturity concentrations.

Following the establishment in July 2017 of the Group's holding company, BOIG plc, initial issuance of MREL eligible senior debt has been completed by BOIG plc and down-streamed to the Bank.

[1] *Excluding equity shares which have no contractual maturity.*

# 3 Management of key Group risks *(continued)*

## 3.2 Funding and liquidity risk *(continued)*

**Foreign exchange funding mismatch** *(unaudited)*
The Group's operations in the UK are conducted primarily through Bank of Ireland (UK) plc. The Group's strategy is to originate all new retail lending in the UK through Bank of Ireland (UK) plc which is match funded via sterling deposits.

The Group also provides banking services in the UK through its UK branch comprised of corporate and business banking activities and the management of residential mortgage contacts which have not been transferred to Bank of Ireland (UK) plc. Within the Group, there exists a structural mismatch between sterling denominated assets and liabilities which is funded primarily through cross currency derivatives.

At 31 December 2018, the Group's mismatch in sterling of £7.0 billion was broadly unchanged from 2017.

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| **Wholesale funding maturity analysis**[1] *(unaudited)* | **Unsecured funding €bn** | **Secured funding from Monetary Authorities €bn** | **Secured funding private sources €bn** | **Total wholesale funding €bn** | **Unsecured funding €bn** | **Secured funding from Monetary Authorities €bn** | **Secured funding private sources €bn** | **Total wholesale funding €bn** |
| Less than three months | 1 | - | 1 | 2 | 1 | - | 1 | 2 |
| Three months to one year | - | 1 | - | 1 | - | 2 | - | 2 |
| One to five years | 1 | 2 | 4 | 7 | 1 | 3 | 4 | 8 |
| More than five years | - | - | 1 | 1 | - | - | 1 | 1 |
| **Wholesale funding** | **2** | **3** | **6** | **11** | **2** | **5** | **6** | **13** |

**Funding and liquidity position** *(unaudited)*
The BOIG plc senior debt credit ratings from Moody's, Standard & Poor's (S&P) and Fitch have remained unchanged during 2018 at Baa3, BBB- and BBB respectively.

During 2018, the Bank's senior debt credit rating was upgraded by Moody's S&P to A3 and BBB+ respectively. Fitch revised the outlook on the Bank's senior debt credit rating to Positive from Stable, the credit rating from Fitch remained stable during 2018 at BBB.

Moody's and S&P continue to assign a Positive outlook to both the BOIG plc and Bank senior debt credit ratings.

| **Ireland - Senior debt** *(unaudited)* | **2018** | **2017** |
|---|---|---|
| Standard & Poor's | A+ (Stable) | A+ (Stable) |
| Moody's | A2 (Stable) | A2 (Stable) |
| Fitch | A+ (Stable) | A+ (Stable) |

| **BOIG plc - Senior debt** *(unaudited)* | **2018** | **2017** |
|---|---|---|
| Standard & Poor's | BBB- (Positive) | BBB- (Positive) |
| Moody's | Baa3 (Positive) | Baa3 (Positive) |
| Fitch | BBB (Stable) | BBB (Stable) |

| **The Governor and Company of the Bank of Ireland - Senior debt** *(unaudited)* | **2018** | **2017** |
|---|---|---|
| Standard & Poor's | BBB+ (Positive) | BBB (Positive) |
| Moody's | A3 (Positive) | Baa1 (Positive) |
| Fitch | BBB (Positive) | BBB (Stable) |

**Balance sheet encumbrance** *(unaudited)*
It is Group policy to ensure that the level of encumbrance of the balance sheet is consistent and supportive of the Group's unsecured funding issuance plans.

At 31 December 2018, the Group's overall encumbrance level was 14% (2017: 18%) with €16 billion of the Group's assets encumbered (2017: €19 billion). The decrease in encumbered assets is due to a reduction in the volume of assets in the Group's collateral programmes and repayment of borrowings under the TLTRO.

As part of managing its funding requirements, the Group from time to time encumbers assets as collateral to support wholesale funding initiatives. This would include covered bonds, asset backed securities, securities repurchase agreements and other structures that are secured over customer loans.

Covered bonds, a key element of the Group's long term funding strategy are issued through its subsidiary Bank of Ireland Mortgage Bank (BoIMB). BoIMB is registered as a designated mortgage credit institution to issue Irish Asset Covered Securities in accordance with relevant legislative requirements. BoIMB is required to maintain minimum contractual overcollateralization of 5% and minimum legislative overcollateralization of 3% (both on a prudent market value basis). This is monitored by the Covered Asset Monitor on behalf of the CBI.

[1] *The maturity analysis has been prepared using the expected maturity of the liabilities.*

# 3 Management of key Group risks *(continued)*

## 3.3 Market risk

**Key points:**

- The VaR arising from discretionary risk-taking remained at relatively low levels during 2018, this partly reflected the comparatively low levels of market volatility. The Group continues to take moderate interest rate positions in both Trading and Banking books in addition to positions in FX and traded credit markets.
- With the exception of basis risks, the Group manages its structural interest rate and FX positions according to passive conventions.

**Definition and background** *(audited)*
Market risk is the risk of loss arising from movements in interest rates, FX rates or other market prices. Market risk arises from the structure of the balance sheet, the Group's business mix and discretionary risk-taking. The Group recognises that the effective management of market risk is essential to the maintenance of stable earnings, the preservation of shareholder value and the achievement of the Group's corporate objectives.

**Risk management, measurement and reporting** *(audited)*
The management of market risk in the Group is governed by the Group's Risk Appetite Statement and by the Group Policy on Market Risk, both of which are approved by the Board. The Group has an established governance structure for market risk that involves the Board, the BRC, the GRPC and the ALCO, which has primary responsibility for the oversight of market risk in the Group. The relevant limits and other controls are set by ALCO.

The Board monitors adherence to market risk appetite through the monthly Court Risk Report.

Group Market and Liquidity Risk (GM&LR) ensures that the Group identifies, understands, measures and manages the market risks to which it is exposed. GM&LR is a part of the Group Risk Function reporting to the GCRO.

It is Group policy to minimise exposure to market risk, subject to defined limits for discretionary risk. Nonetheless, certain structural market risks remain and, in some cases, are difficult to eliminate fully. In addition, the Group bears economic exposure to changes in the value of securities held as liquid assets, or held as matching assets in NIAC as a result of credit spread movements. This is the predominant economic exposure arising on the NIAC fixed interest portfolio.

Market risks that arise are centralised by way of internal hedging transactions with Bank of Ireland Global Markets (BoIGM), which is the treasury execution arm of the Group. These market risks are hedged by BoIGM as a matter of course with external markets or, in the case of a small quantum of the risks concerned, are run as short-term discretionary risk positions subject to policy and limits. Discretionary risk-taking is confined to interest rate, FX and traded credit risk.

Similarly, market risks in the Group's life assurance business, NIAC, are managed within defined tolerances. However, certain residual risks are inherent in this business, notably exposure to credit spreads on assets held to match policyholder liabilities, and indirect exposure to equity markets through changes in the discounted value of fees applied to equity assets held by policyholders in insurance contracts. This is outlined in greater detail below.

**Classification of market risk** *(unaudited)*
In accordance with Group policy and aligned with regulatory requirements and guidance the Group classifies market risk as follows:

- **Interest Rate Risk in the Banking Book (IRRBB):** This is risk that arises naturally through the conduct of retail and wholesale banking business. This is broken down into re-pricing risk, yield curve risk, basis risk and optionality risk. It also includes earnings risk arising from non-interest, floored or perpetually fixed assets and liabilities.
- **Trading Book Risk:** This consists of risk positions that are pro-actively assumed which are booked in the Trading Book in compliance with the CRR.
- **Other market-related risks to earnings and / or capital:** Risks to earnings and / or capital that do not fall naturally within the regulatory-defined categories of Trading Book and IRRBB fall under this heading. For the most part, these risks reflect the application of mark-to-market accounting to particular portfolios or the impact of FX rate movements on what is de facto a dual-currency balance sheet. The most material risks arise from the fair valuation of credit risk in securities portfolios and derivative books.

**Balance sheet linkage**
The accompanying table (see page 96) classifies the balance sheet in terms of Banking Book, Trading Book (as defined above) and Insurance assets and liabilities. The principal risk factors which drive changes in earnings or value in relation to each line item are also outlined. Trading Book assets and liabilities were a small proportion of the balance sheet at 31 December 2018 and this is representative of the position throughout the year. Interest rates are the most significant risk factor.

**Classification by equivalent risks**
Similar or equivalent risks arise in the three-way classification set out above and accordingly, for presentational purposes in the sections to follow, the risks will be collected into discretionary and structural risk.

**Discretionary market risk** *(unaudited)*
Discretionary risk is a risk that is carried in the expectation of gain from near-term movements in liquid financial markets realised through the closing-out of the positions concerned. BoIGM is the sole Group business unit permitted to run discretionary market risk.

Discretionary risk can be taken by leaving naturally arising retail or wholesale- generated risks unhedged for a period (discretionary IRRBB) or by taking proprietary positions in the market (Trading Book risk). In conformity with the CRR, customer derivatives are booked in the Trading Book and can be a source of trading risk if not fully closed out.

# 3 Management of key Group risks *(continued)*

## 3.3 Market risk *(continued)*

| Market risk linkage to the balance sheet (unaudited) 2018 | Total €m | Trading €m | Non-trading €m | Insurance €m | Primary Risk Sensitivity |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances at central banks | 6,033 | - | 6,033 | - | Interest Rate |
| Derivative financial instruments | 1,724 | 651 | 1,073 | - | Interest Rate, FX, Credit Spread |
| Trading and other financial assets at FVTPL | 14,164 | 29 | 207 | 13,928 | Interest Rate, FX, Credit Spread |
| Loans and advances to banks | 2,625 | - | 2,323 | 302 | Interest Rate |
| Loans and advances to customers | 76,363 | - | 76,363 | - | Interest Rate |
| Debt securities at amortised cost | 3,928 | - | 3,928 | - | Interest Rate |
| Financial assets at FVOCI | 12,048 | - | 12,048 | - | Interest Rate, FX, Credit Spread |
| ViF business | 571 | - | - | 571 | Equity |
| Other assets | 6,213 | - | 3,957 | 2,256 | Interest Rate |
| **Total assets** | **123,669** | **680** | **105,932** | **17,057** | |
| **Liabilities** | | | | | |
| Deposits from banks | 2,482 | - | 2,482 | - | Interest Rate |
| Customer deposits | 78,899 | - | 78,899 | - | Interest Rate |
| Derivative financial instruments | 1,819 | 586 | 1,233 | - | Interest Rate, FX, Credit Spread |
| Debt securities in issue | 8,904 | - | 8,904 | - | Interest Rate |
| Liabilities arising from insurance and investment contracts | 16,242 | - | - | 16,242 | Interest Rate, FX, Credit Spread, Equity |
| Loss allowance provision on loan commitments and financial guarantees | 29 | - | 29 | - | Interest Rate |
| Other liabilities | 3,139 | - | 2,591 | 548 | Interest Rate, FX |
| Subordinated liabilities | 2,104 | - | 2,104 | - | Interest Rate |
| **Total liabilities** | **113,618** | **586** | **96,242** | **16,790** | |

Discretionary market risk is subject to strict controls which set out the markets and instruments in which risk can be assumed, the types of positions which can be taken and the limits which must be complied with. BoIGM's discretionary market risk is confined to interest rate risk, FX risk and credit spread exposure to sovereigns, banks and credit default swap (CDS) indices. A limit on discretionary risk and a high-level stop loss are set in the Risk Appetite Statement approved by the Board. A hierarchy of other limits and controls, based on VaR (see below), scenario stress tests and sensitivities are set by ALCO. The Group does not seek to generate a material proportion of its earnings through discretionary risk-taking and it has a low tolerance for earnings volatility arising from this activity which is reflected in policy, limits and other controls applied.

The Group employs a VaR approach to measure, and set limits on, discretionary market risk. This applies to risk taken in the Banking Book (naturally arising risk that is left unhedged) or risk that is pro-actively assumed in the Trading Book. The Group measures VaR for a one-day horizon at the 99% (two-tailed) level of statistical confidence. The volatilities and correlations which are used to generate VaR numbers are estimated using the exponentially weighted moving average (EWMA) approach which gives more weight to recent data and responds quickly to changes in market volatility. VaR is backtested and reported on a daily basis with all exceptions subject to review and explanation.

For the nature of risks assumed by the Group, VaR remains a reliable basis of risk measurement, supplemented by stress testing.

The Group uses VaR to allocate capital to discretionary risk in its ICAAP but uses the standardised approach (TSA) for Pillar 1 Trading Book capital.

The Group recognises that VaR is subject to certain inherent limitations and therefore VaR limits are supplemented by scenario-based stress tests. These are particularly important in periods of low market volatility when VaR numbers can understate the risks of loss from large adverse market moves. Position limits and 'stop losses' are also a central element of the control environment.

The table below shows total VaR at 31 December 2018 was €1.1 million (€0.8 million in 2017). Total VaR is the sum of overall interest rate, FX and traded credit VaR. Overall Interest Rate VaR is a correlated measure of trading book interest rate and discretionary IRRBB.

The Group's peak, average and end-period VaR numbers for the Trading Book by risk class and discretionary IRRBB are shown in the 'VaR' table (see page 97) for 31 December 2018 and 2017.

| **Total VaR** *(audited)* | 2018 €m | 2017 €m |
|---|---|---|
| Total | 1.1 | 0.8 |

# 3 Management of key Group risks *(continued)*

## 3.3 Market risk *(continued)*

| **Total VaR** *(unaudited)* | **2018 €m** | **2017 €m** |
|---|---|---|
| **Discretionary IRRBB** | | |
| Peak | 0.4 | 0.7 |
| Average | 0.2 | 0.2 |
| End period | 0.3 | 0.1 |
| **Trading book interest rate VaR** | | |
| Peak | 1.8 | 2.4 |
| Average | 0.8 | 0.9 |
| End period | 0.6 | 0.5 |
| **Foreign exchange VaR** | | |
| Peak | 0.8 | 1.0 |
| Average | 0.3 | 0.4 |
| End period | 0.2 | 0.2 |
| **Traded credit risk VaR** | | |
| Peak | 0.5 | 0.8 |
| Average | 0.3 | 0.4 |
| End period | 0.2 | 0.2 |

**Structural and other risks** *(audited)*
Notwithstanding the overriding objective of running minimal levels of market risk, certain structural market risks remain and are managed centrally as part of the Group's asset and liability management process.

**Structural interest rate risk** *(unaudited)*
Structural interest rate risk is predominantly the exposure of Group earnings to the interest rate cycle arising from the presence of non-interest bearing or behaviourally fixed-rate assets and liabilities on the balance sheet. The principal non-interest bearing liabilities are equity and non-interest bearing current accounts. It is Group policy to invest its net non-interest bearing liabilities (or free funds) in a portfolio of swaps with an average life of 3.5 years and a maximum life of seven years. This has the effect of mitigating the impact of the interest rate changes on net interest margin.

Other structural risks arise from credit-impaired loans and floored (or negative-rate) loans and deposits.

**Net interest income sensitivity analysis** *(unaudited)*
The Group uses net interest income sensitivity analysis to measure the responsiveness of earnings to scenarios for short and long-term rates.

The table below shows the estimated sensitivity of the Group's income (before tax) to an instantaneous and sustained 1% parallel movement in interest rates. The estimates are based on management assumptions primarily related to the repricing of customer transactions; the relationship between key official interest rates set by Monetary Authorities and market determined interest rates; and the assumption of a constant balance sheet by size and composition. In addition, changes in market interest rates could impact a range of other items including the valuation of the Group's IAS 19 DB pension schemes.

**Basis risk** *(unaudited)*
Basis risk is the exposure of the Group's earnings to sustained changes in the differentials between the floating market related benchmark rates to which the Group's assets, liabilities and derivative hedges are linked. In the Group's case, the principal rates used for product and derivative repricing are one, three and six month Euribor and sterling Libor, the ECB refinancing rate and the Bank of England (BoE) base rate. In addition, the Group has a requirement to fund an element of its sterling balance sheet in part from euro which creates a structural exposure to the cost of this hedging. In the context of potential market volatility around Brexit, the Group has taken the pre-emptive action of pre-hedging this structural exposure beyond the end of June 2019.

The Group applies notional limits and stress scenario analysis to its basis positions.

**Credit spread risk** *(unaudited)*
Securities purchased as liquid assets and classified as FVOCI are held at fair value on the balance sheet. Movements in fair value of these holdings as a consequence of changes in the spread to Euribor or Libor are recognised in reserves. At 31 December 2018, the Group held €12.0 billion in securities classified as FVOCI (2017: €13.2 billion AFS financial assets). A 1% point increase in the average spread to Euribor or Libor of the book in 2018 would have reduced its value by €488 million (2017: €516 million).

An analogous economic risk exists in relation to securities held by NIAC to match policyholder liabilities and to invest its capital. At 31 December 2018, NIAC's bond portfolio had a market value of €1.4 billion (2017: €1.4 billion). At 31 December 2018, a 1% point widening of all credit spreads (measured as bond yields minus the corresponding swap rate) would have had an impact on earnings of €94 million negative, while a 1% point tightening would have had a positive impact of €109 million (2017: €140 million negative and €161 million positive respectively).

The Group also models the spread risk for both the FVOCI and NIAC portfolios over a 1-year horizon using a delta-normal VaR model. It approximates a potential one-year loss in portfolio value due to changes in credit spreads.

**Interest rate risk in NIAC** *(unaudited)*
In managing the interest rate risk in its business, NIAC has regard to the sensitivity of its capital position, as well as its IFRS earnings, to market movements. NIAC follows a policy of asset / liability matching to ensure that the exposure of its capital position to interest rate movements remains within tolerances, while also managing the impact on IFRS profits. At 31 December 2018, a 1% point fall in swap and yield rates would have reduced its excess own funds (own funds less solvency capital requirement) by €64 million and increased its IFRS profit by €18 million (2017: €63 million and €20 million respectively).

**Equity risk** *(unaudited)*

| **Estimated sensitivity of Group income (1 year horizon)** *(unaudited)* | **2018 €m** | **2017 €m** |
|---|---|---|
| 100bps higher | c.180 | c.170 |
| 100bps lower | (c.210) | (c.200) |

# 3 Management of key Group risks *(continued)*

## 3.3 Market risk *(continued)*

NIAC's earnings are also indirectly exposed to changes in equity markets. This arises because a management fee is charged on the value of €4 billion of equities held for policyholders in insurance contracts in its unit linked book. As equity markets move up and down, this gives rise to a change in current and discounted future streams of equity-related fees which is reflected in NIAC's earnings. Every 1% fall in equity markets applied to positions at 31 December 2018 would have reduced NIAC's earnings by €2 million (2017: €2 million reduction). Every 1% increase in equity markets would have had a broadly equal and opposite impact.

**Structural FX** *(unaudited)*
The Group defines structural FX risk as the exposure of its key capital ratios to changes in exchange rates. Changes in exchange rates can increase or decrease the overall euro-equivalent level of RWAs. It is Group policy to manage structural FX risk by ensuring that the currency composition of its RWAs and its structural net asset position by currency are broadly similar. This is designed to minimise the impact of exchange rate movements on the principal capital ratios.

At 31 December 2018, the estimated sensitivity of the Group's fully loaded CET 1 ratio to a 10% depreciation of sterling and dollar combined against the euro was 4 basis points.

*The structural FX positions at 31 December 2018 and the preceding year end were as follows:*

| **Structural FX position** *(audited)* | **2018 €m** | **2017 €m** |
|---|---|---|
| Sterling - net asset position | 2,365 | 2,396 |
| US dollar - net asset position | 577 | 547 |
| **Total structural FX position** | **2,942** | **2,943** |

**Use of derivatives in the management of market risk**
*(unaudited)*
The activities set out above involve, in many instances, transactions in a range of derivative instruments. The Group makes extensive use of derivatives to hedge its balance sheet, service its customer needs and, to a lesser extent, assume discretionary risk. The Group's participation in derivatives markets is subject to policy approved by the BRC. The Group makes a clear distinction between derivatives which must be transacted on a perfectly hedged basis and those whose risks can be managed within broader interest rate or FX books.

Discretionary market risk can only be assumed in clearly defined categories of derivatives which are traded in well-established liquid markets, supported by industry standard conventions and documentation and valued in accordance with generally accepted methods.

The approach to hedging and managing market risk is governed by policies explicitly designed to ensure that all hedging activities are risk reducing. Interest rate risk arising on customer lending and term deposit-taking is centralised by way of internal hedging transactions with BoIGM. This exposure is, in turn, substantially eliminated by BoIGM through external hedges.

Structural risk is managed by way of selective and strategic hedging initiatives which are executed under hedging authority delegated by ALCO to the CEO Markets and Treasury.

Policy requires that, where behavioural optionality hedging relies on assumptions about uncertain customer behaviour, and where material, it is subject to limits or other control.

# 3 Management of key Group risks *(continued)*

## 3.4 Life insurance risk

**Key points:**

- NIAC remains focused on the Irish insurance market, selling a core suite of products across a range of distribution channels, including the Bank of Ireland customer base. The risk profile in respect of life insurance risk is largely stable. The processes of appropriate underwriting at both the new business and claims stages, as well as reinsuring a proportion of the life insurance risk written, all remain key risk management tools.
- The 2018 ORSA has been completed and reported to the NIAC board. This report considered, amongst other things, potential areas of upstream risk affecting life insurance business such as uncertain trends in rates of mortality improvement and evolving product design. A number of appropriate recommendations were made to enable appropriate risk management.
- NIAC continues to be self-funding, enabling it to meet the costs associated with selling and maintaining a portfolio of life insurance business without requiring other sources of funding. This has been tested under a wide range of adverse sensitivities and scenarios with no significant weaknesses identified.

**Definition** *(audited)*
Life insurance risk is the result of unexpected variation in the amount and timing of claims associated with insurance benefits. This variation, arising from changing customer mortality, life expectancy, health or behaviour characteristics, may be short or long term in nature. The sub-categories of life insurance risk such as mortality, longevity and persistency risk each relate to different sources of loss which arise as a result of writing life insurance business.

**Risk management** *(audited)*
Life insurance risk is underwritten and managed by NIAC, a wholly owned subsidiary of the Group. The management of insurance risk is the responsibility of the board of NIAC which is delegated through internal governance structures. Aggregate life insurance risk exposure and exposure to the sub-categories of life insurance risk are monitored through the GRPC supporting risk appetite measures.

The risks that arise as a result of writing life insurance business are also managed by a number of governance fora as well as senior management. The minimum standards required when managing these risks are set out in a suite of NIAC board approved policies.

NIAC transfers some life insurance risk to reinsurance companies who then meet an agreed share of the claims that arise on a book of business in return for a premium. This creates a credit exposure to these reinsurance companies which is managed within the NIAC risk management framework with responsibilities delegated through the Reinsurance Risk Policy. A review of the panel of reinsurers that may be used and the structure of reinsurance arrangements is carried out at least annually. Senior members of the management team with actuarial and underwriting expertise contribute to the effective oversight of this risk.

**Risk measurement** *(audited)*
Risk experience is monitored regularly with actual claims experience being compared to the underlying risk assumptions. The results of this analysis are used to inform management of the appropriateness of those assumptions for use in pricing, capital management and new product design.

Exposure to life insurance risk is measured by means of sensitivity and scenario testing. Risk capital is calculated for each individual risk type by stressing the best estimate assumptions of future experience by extreme, but plausible, factors. The stress factors are pre-defined by regulation and are set at a level with an expected frequency of occurrence of one year in every 200. NIAC also carries out an ORSA annually which is overseen by the NIAC board. Within the ORSA, NIAC's risk profile is considered, both quantitatively and qualitatively, in a holistic manner with potential areas of risk identified along with conclusions in respect of how those risks will be mitigated. Further details can be found in note 39 on page 241.

**Risk mitigation** *(audited)*
NIAC mitigates the potential impact of insurance risk through a number of measures. Capital is held against exposure to life insurance risk. Exposure to risk is also managed and controlled by the use of medical and financial underwriting, risk mitigating contract design features and reinsurance, as detailed in risk management policies.

**Risk reporting** *(audited)*
An update on the status of life insurance risk is included in the Court Risk Report on a quarterly basis. NIAC's ORSA report in respect of the NIAC annual assessment is also presented to the GRPC on an annual basis.

# 3 Management of key Group risks *(continued)*

## 3.5 Conduct risk

**Key points:**

- Significant activity has taken place to embed an appropriate customer focused risk culture, with emphasis on Conduct risk. An approach and methodology for strengthening the Group Culture was outlined in the Group Strategic Culture Transformation Plan, this Plan articulated the substantial work that has been undertaken over the last two years and outlined the steps to transform culture across the Group based on strengthening and reinforcing the Group Purpose, Values and Strategic Priorities as part of an outcomes focused Group cultural transformation.
- During 2018, there was a particular focus on the resolution of customer conduct issues, including in relation to tracker mortgages. The pace and quality of remediation remained a focus, including root cause analysis to establish lessons learned and help prevent similar issues in the future.
- In 2018, the Group reviewed the enhanced Group Conduct Risk Policy and CRMF. The Group Conduct Risk Policy sets out the minimum requirements for the effective management of conduct risk within the Group, to ensure that conduct risk remains within the boundary conditions of the Board's approved risk appetite. In 2018 this Policy was updated to align to the Group Purpose and Values and was approved at BRC.

**Definition**

Conduct risk is defined as the risk that the Group and / or its staff conduct business in an inappropriate or negligent manner that leads to adverse customer outcomes. The Group has no appetite for the Group and / or its staff conducting business in an inappropriate or negligent manner that leads to adverse outcomes for customers, colleagues, communities, (including shareholders, suppliers and regulators). While the Group acknowledges that a level of residual risk arises from the provision of a full range of financial services across a range of systems and processes it is committed to continually reducing such outcomes.

The key conduct risk exposure areas managed by the Group include the following:

***Customer-focused strategy:*** The delivery of fair outcomes for customers forms the principal consideration of the Group's customer-focused strategy. To this end, the risk of systemic unfair and adverse outcomes for customers, if crystallised would be inconsistent with the Group Risk Appetite. However, it is acknowledged that there may be a certain level of risk arising from the nature of the Group's operations e.g. staff and systems dependency, and that unintended unfair or adverse outcomes may occur. While the Group acknowledges that a level of residual risk arises from the provision of a full range of financial services across a range of systems and processes it is committed to continually reducing such outcomes.

***Product and Service Lifecycle Management:*** The Group is committed to creating and maintaining suitable and appropriate products and services for customers as they are working towards their financial goals. This helps to ensure that the customer has a positive experience throughout the product and service lifecycle. The failure to design and develop products and services that continue to be suitable over the lifetime of the product, or respond to changing customer needs would be inconsistent with the Group Risk Appetite. However, it is acknowledged that there may be a certain level of risk arising from the nature of the Group's operations e.g. staff and systems dependency, and that unintended unfair or adverse outcomes may occur in the product and service lifecycle, and the Group is committed to continually reducing such outcomes.

***Governance, culture and people:*** The Group is committed to mitigating any risk arising out of business unit or employee behaviours which result in poor outcomes for customers. Therefore, the foundations of a good conduct risk and customer - focused culture lie in the clear definition and consistent application of the standards and behaviours expected of employees. The risk of staff not meeting set standards of behaviour that has a material negative outcome for stakeholders including customers, colleagues, shareholders, suppliers, the Government and regulators, if crystallised would be inconsistent with the Group Risk Appetite. However, it is acknowledged that there may be a certain level of risk arising from people dependent-processes within the Group e.g. where there is unintentional human error and the Group is committed to continually reducing same. This risk should be managed in accordance with the Group's Operational and Regulatory Risk Assessment and Issue Management Policy Standard.

**Risk management and measurement**

The Group manages conduct risk under the Group CRMF.

The CRMF specifies the component parts of the approach used by the Group to manage its conduct risk exposure. The CRMF is consistent with the overarching Group Risk Framework. It sets out the risk management activities and underlying enablers (tools, structures and roles) established by the Group to ensure an effective, prudent and proportionate response to its principal Conduct risks. The risk management activities and enablers together form a framework for identifying, measuring, mitigating, controlling and reporting on the performance and status of conduct risk within the Group. A key priority of the CRMF is the avoidance of systemic unfair customer outcomes.

The CRMF comprises the following risk management activities, namely:

- conduct risk management approach;
- conduct risk governance;
- key metrics and risk indicators;
- conduct risk policy development and policy compliance; and
- guidance and training.

# 3 Management of key Group risks *(continued)*

## 3.5 Conduct risk *(continued)*

While the structure of the CRMF is intended to remain relatively constant over time, specific initiatives are pursued in respect of risk management activities and the underlying enablers to ensure the CRMF:
- remains fit for purpose;
- is aligned with business and strategic objectives, and the Board's approved appetite; and
- is responsive to regulatory developments and relevant external events and changes.

In particular, the Group seeks to ensure that its conduct risk management practices comply with any specific conduct risk related obligations arising within the jurisdictions in which it operates. On an annual basis, the Board approves the Group Risk Appetite Statement, which incorporates statements for all material risks, including conduct risk.

**Risk mitigation**
The primary risk mitigants for conduct risk are the suite of Policies and Policy Standards which clearly define risk management requirements and the expected standards of behaviour across the Group. The Group Conduct Risk Policy sets out the minimum requirements for the effective management of Conduct risk within the Group to ensure that the Group's overall exposure remains within the boundary conditions of the Board's approved conduct risk appetite. The standards of behaviour are detailed in the Group Code of Conduct to which all management and staff must adhere and affirm annually. The Speak Up Policy sets out the steps staff can take to raise any concerns they might have of wrongdoing, risk or malpractice in the Group. The Group has a training schedule across the Group to support staff and management in this regard.

**Risk reporting**
The current status of conduct risk is reported to senior executives and Board members through the Court Risk Report on a monthly basis. Group Conduct report to the GRCRC on the status of conduct risk in the Group, including the progress of associated risk mitigation initiatives, issues and breaches, and significant regulatory interactions on a quarterly basis.

# 3 Management of key Group risks *(continued)*

## 3.6 Regulatory risk

**Key points:**

- During 2018, supervisory bodies focused on the key areas of business model and profitability risk, credit risk, impairment provisioning (IFRS 9), credit risk modelling, capital adequacy, business continuity management, operational risk, Brexit, stress testing and behaviour and culture.
- Engagement with the Group's regulators in 2018 included matters such as credit risk modelling, TRIM, Tracker Mortgage Examination and AML.
- Existing programmes continued and new programmes were established in the Group during the year to continue preparations for the significant regulatory change agenda over the coming years.
- The heavy regulatory and compliance agenda is expected to continue in 2019. The Group will maintain its focus on continuing compliance with the existing regulatory requirements of the jurisdictions in which it operates.
- Regulators conduct investigations and examinations on an industry wide basis from time to time.

### Definition

Regulatory risk is the risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. Underpinned by strong engagement with regulatory stakeholders, regulatory risk comprises regulatory compliance risk, corporate governance risk, regulatory change risk and financial crime risk.

**Regulatory change risk** is the risk that changes to existing or new laws / regulations / codes / guidance applicable to the Group are not effectively addressed and the risk that the Group fails to take timely and remedial actions.

**Regulatory compliance risk** is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards which can lead to fines, damages and / or the violating of contracts and can diminish an institution's reputation.

**Corporate governance risk** is the risk of loss arising from inappropriate corporate governance structures, authorities or activities leading to incorrect or improper business decisions, or regulatory / legal sanctions.

**Financial crime risk** is the risk that the measures adopted by the Group to prevent and detect money laundering, terrorist financing or sanctions evasion are not effective and / or do not meet regulatory expectations.

### Risk management and measurement

The Group manages regulatory risk under the Group Risk Framework. The framework identifies the Group's formal governance process around risk, including its framework for setting risk appetite and its approach to risk identification, assessment, measurement, management and reporting. This is implemented by accountable executives and monitored by the GRCRC, the GRPC, the BRC and Board in line with the overall Group risk governance structure outlined on pages 68 to 70. The effective management of regulatory risk is primarily the responsibility of business management and is supported by the Group Compliance and Operational risk function.

As detailed in the Group's Risk Appetite Statement, the Group has no appetite to knowingly breach any of its regulatory obligations. However, it acknowledges that instances may occur as a consequence of being in business. The Group has therefore established an approach to ensure the identification, assessment, monitoring, management and reporting of these instances. The Group also undertakes risk based regulatory and compliance monitoring.

### Risk mitigation

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

### Risk reporting

The current status of regulatory risk is reported to senior executives and Board members through the Court Risk Report on a monthly basis. The Group Chief Compliance Officer reports to the GRCRC on the status of regulatory risk in the Group, including the status of the top regulatory risks, the progress of risk mitigation plans, issues and breaches, and significant regulatory interactions, on a quarterly basis.

# 3 Management of key Group risks *(continued)*

## 3.7 Operational risk

**Key points:**
- The business control framework has continued to mature across the Group resulting in enhanced risk identification and assessment, leading to improved risk based decisions and prioritisation of mitigating activities.
- Continued improvements in deployment of the control framework has resulted in the Group managing operational losses below its historical average.
- During 2018, a number of enhancements to the business control environment were developed. Plans are in place to enhance control certification and testing, business process mapping, and forward looking risk management processes.
- The Group continues its multi-year programme to make substantial investment in its IT systems and given the risk attendant to any large transformation, there is continued focus to ensure the sustainability and integrity of the Group's operations.

### Definition
Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes business continuity, information security, unauthorised trading, fraud, sourcing, cyber-crime, payments, and information technology risk.

### Risk management
The Group faces operational risks in the normal pursuit of its business objectives. The primary goals of operational risk management are ensuring the sustainability and integrity of the Group's operations and the protection of its reputation by controlling, mitigating or transferring the impact of operational risk. Operational risk cannot be fully eliminated. The Group has established a formal approach to the management of operational risk in the form of an 'Operational Risk Management Framework' which defines the Group's approach to identifying, assessing, managing, monitoring and reporting the operational risks which may impact the achievement of the Group's business objectives.

This framework outlines, inter alia the following:
- formulation and dissemination of a Group Operational Risk Policy specifying the risk management obligations of management and staff within the Group;
- maintaining organisational structures for the oversight, monitoring and management of operational risk throughout the Group;
- setting aside capital and maintaining a suite of insurance policies;
- setting out the boundary conditions in which operational risks are to be managed, by way of Board approved Risk Appetite Statement; and
- embedding formal operational risk management processes and standards throughout the Group.

### Operational risk policy and governance
In 2018, in accordance with its risk appetite, the Group continued to maintain its on-going oversight and control of its exposure to operational risk. A critical component of the operational risk management framework is a BRC approved Operational Risk Policy which sets out the Group's objectives and the obligations of management in respect of operational risk.

Governance and oversight of operational risk forms part of the Group's Risk Framework which aims to ensure that risk management activities are adequate and commensurate with the Board approved risk appetite. The GORC is appointed by the GRPC and is responsible for the oversight and monitoring of operational risk within the Group and material subsidiaries. Business units hold primary responsibility for the management of operational risk and compliance with internal control requirements.

Group Operational Risk is accountable for the development and maintenance of an Operational Risk Management Framework to ensure a robust, consistent and systematic approach is applied to managing operational risk exposures across the Group.

### Operational risk appetite
The Board has set out its appetite for operational risk in terms of both qualitative factors and quantitative measures reflecting the nature of non-financial risks. As such, the monitoring of operational risk indicators is supplemented with qualitative review and discussion at senior management executive committees to ensure appropriate actions are taken to enhance controls

### Risk assessment
A systematic identification and assessment of the operational risks faced by the Group is a core component of the Group's overall operational risk framework. This is known as the Risk and Control Self-Assessment (RCSA) and is a framework for capturing, measuring and managing operational risk as well as providing a mechanism for consistent identification, monitoring, reviewing, updating and reporting of risks throughout the Group. A key element of this process is the categorisation of risks by taxonomy.

### Risk mitigation and transfer
In addition to business unit risk mitigation initiatives, the Group implements specific policies and risk mitigation measures for key operational risks including, but not limited to, fraud, sourcing, technology and business disruption risks. This strategy is further supported by risk transfer mechanisms such as the Group's insurance programme, whereby selected risks are reinsured externally. The Group Insurance programme is reviewed annually to ensure coverage remains appropriate to the Group's risk management objectives.

The Group's total capital requirement arising from operational risk is covered by Pillar 1 regulatory capital, calculated using the TSA, and the Pillar 2 capital add-on, calculated using an internal model based on outputs of the scenario analysis programme as part of the ICAAP process.

### Risk reporting
Regular reporting of operational risk is a key component of the Group's Operational Risk Framework

The Board receives monthly update on the operational risk profile via the Court Risk Report which provides a timely assessment of material operational risks against risk appetite.

At least four times a year, the Head of Group Operational Risk reports to GORC on the status of operational risk in the Group, including the status of the top operational risks, the progress of risk mitigation initiatives and programmes, significant loss events, and the nature, scale and frequency of overall losses.
In addition, specified operational risk information is collated for the purposes of reporting to regulatory supervisors in the jurisdictions in which the Group operates.

# 3 Management of key Group risks *(continued)*

## 3.8 Business and strategic risk

**Key points:**

- On an annual basis, the Board reviews the Group's strategic objectives and key underlying assumptions to confirm that the strategic shape and focus of the Group remains appropriate.
- The Group continues to effectively manage a range of programmes including the Core Banking Transformation Programme and other ongoing investment in its infrastructure, complying with the evolving regulatory environment whilst continuing to invest in improving resilience, efficiencies and customer experience across channels.
- The continued low levels of bond yields, official interest rates and discount rates, together with the slow conversion of Irish economic activity into credit formation, causes challenges and risk.
- Economic growth in core markets of Ireland and UK remain positive, notwithstanding ongoing uncertainties related to Brexit.

**Definition**

Business and strategic risk encompasses:

(i) the Group's current business model on the basis of its ability to generate acceptable returns, given its quantitative performance, key success drivers and dependencies, and business environment; and

(ii) the sustainability of the Group's strategy on the basis of its ability to generate acceptable returns based on its strategic plans and financial forecasts, and an assessment of the business environment.

It includes the risk that the Group fails to develop or to execute successful strategies to deliver acceptable returns in the context of the economic, competitive, regulatory / legal and interest rate environments that arise. It also includes non-financial risks such as people risks and risks relating to climate change.

**Risk management, measurement and reporting**

Divisions and business units are responsible for delivery of their business plans and management of such factors as pricing, sales and loan volumes, operating expenses and other factors that may introduce earnings volatility. Business, divisional and portfolio strategy is developed within the boundaries of the Group's strategy as well as the Group's Risk Appetite Statement. These strategies are approved by business divisional CEOs and presented to the Board on an annual basis.

Monitoring of business and strategic risk is performed on a divisional basis, and measured quarterly, with a scorecard addressing movements in key indicators around income diversification, margin trends, customer advocacy, direct and indirect costs, and staff turnover. In addition to this, business and strategic risk is evaluated through quarterly updates in the Court Risk Report which is reviewed by the GRPC, the BRC and the Board. The key dimensions evaluated within business and strategic risk are:

- the strength of the Group's returns;
- appropriate strategic plan and financial projections;
- strength of the Group's competitive position; and
- management capability, technology capability and resource availability.

The Group also reviews business and strategic risk as part of the annual risk identification process. In addition there is an annual review of business and strategic risk to ensure that the BRC is comfortable with the processes in place to manage business and strategic risk and that residual risk is within the Group's risk appetite.

**Risk mitigation**

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

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

In the case of strategic risk, this risk is mitigated through regular updates to the Board on industry developments, the macroeconomic environment and associated trends which may impact the Group's activities, review of the competitive environment and strategies at a divisional and business unit level.

# 3 Management of key Group risks *(continued)*

## 3.9 Pension risk

**Key points:**

- DB pension funds are subject to market fluctuations, and interest rate and inflation risks, thus a level of volatility is associated with DB pension funding.
- In order to further address this volatility, a review of the Group sponsored DB pension schemes was initiated and completed in 2013. The resulting proposals arising from the review were accepted by employee members of the main DB scheme, the Bank of Ireland Staff Pensions Fund (BSPF).
- These proposals have now been implemented for the BSPF. Similar proposals were implemented for two other Group DB schemes during 2014 and a third scheme in 2015.
- The Group has continued to support Trustees in taking action to improve the correlation between assets and liabilities and reduce volatility.
- The Group has reduced deficit sensitivity to both euro and sterling interest rate and inflation rate movements through increased hedging.
- The Group has also supported Trustees in diversifying asset portfolios away from listed equity into other return-seeking but potentially less volatile asset classes.
- Further liability and risk management exercises will be considered on an ongoing basis in 2019.

**Definition**

Pension risk is the risk in the Group DB pension schemes that the assets are inadequate or fail to generate returns that are sufficient to meet the schemes' liabilities. This risk crystallises for the sponsor when a deficit emerges of a size which implies a material probability that the liabilities will not be met.

**Risk management, measurement and reporting**

The Group sponsors a number of DB pension schemes for past and current employees. At 31 December 2018, the Group's net IAS 19 pension deficit was €0.2 billion (2017: €0.5 billion) (see note 47). The investment policy pursued to meet the schemes' estimated future liabilities is a matter for the Trustees and the schemes' Investment Committees. The Group, as sponsor, has an opportunity to communicate its views on investment strategy to the Trustees and receives regular updates including scenario analysis of pension risk.

The Board receives monthly updates on movements in assets, liabilities and the size of the deficit and also more detailed quarterly updates through the Court Risk Report. In addition, there is an annual review of pension risk to ensure that the Board is satisfied with the processes in place to manage the risk and that residual risk is within the Group's risk appetite.

**Risk mitigation**

In order to mitigate pension risk, a new hybrid scheme was introduced in 2007 for all new entrants (see note 47) and the DB schemes were closed to new entrants. A DC scheme was introduced during 2014 for all new employees and the hybrid scheme was closed to new entrants.

In 2010, the Group carried out an extensive pensions review in order to address the pension deficit by a combination of benefit restructuring and additional employer contributions over a period of time to 2017.

In 2013, a further review, which also incorporated benefit restructuring, was carried out which reduced the pension deficit and is expected to further reduce the deficit through additional employer financial support in the period from 2016 to 2020. This additional financial support will broadly match the deficit reduction as a result of the benefit restructuring.

Liability and risk management exercises continued in 2018 and are considered on an ongoing basis. Nevertheless, a deficit still exists and as the pension funds are subject to market fluctuations, interest rate and inflation risks, a level of volatility associated with IAS 19 pension deficits (see note 47) and their impact on the Group's capital ratios remains.

# 3 Management of key Group risks *(continued)*

## 3.10 Reputation risk

**Key points:**

- The Group's reputation continues to be influenced and shaped by a range of factors; macroeconomic and political environment, media and public commentary and general sector developments. More specifically, the Group's decisions and actions in pursuit of its strategic and tactical business objectives and their interaction with the external environment will influence reputation and how these will be perceived by stakeholders will influence reputation.
- Within this context, actions and achievements of the Group over the past 12 months that have impacted positively on the Group's reputation, include:
  - communication of Group Strategic Plan to 2021;
  - the Group's Enterprise Programme which supports enterprise development including support for start-ups and entrepreneurs, culminating in the Enterprise Town Awards; and
  - the extension of counter services at approximately 40% of the Retail branch network.
- Some events in 2018 had a negative impact on the Group's reputation including the ongoing CBI Tracker Mortgage Examination. This and all reputational issues were carefully and intensively managed through the identification of potential risks and the deployment of communication strategies to mitigate these risks, as appropriate.

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

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

**Risk management, measurement and reporting**
Group Communications is the primary function responsible for managing reputation risk in the Group. With the exception of certain specific communications to, for example, investors and regulators, Group Communications manages all external and internal communications, stakeholder and government relations, and CSR, helping to reinforce the Group's reputation with its employees, customers, government, general public and the wider community. Reputation risk indicators are tracked on an ongoing basis.

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

The Group reviews reputation risk as part of the annual risk identification process and has a Group Reputation Risk Policy in place.

Quarterly updates are reported to the GRPC, the BRC and the Board as part of the Court Risk Report. In addition, there is an annual review of reputation risk to ensure that the BRC is comfortable with the processes in place to manage reputation risk and that residual risk is within the Group's risk appetite.

**Risk mitigation**
A wide range of processes and structures are used to identify, assess and mitigate the potential risk to the Group's reputation. Managing the Group in a manner that ensures that the potential impact on the Group's reputation is taken into account in decision making is paramount in mitigating against reputation risk.

# 4 Capital management

**Key points:**

- CET 1 ratio is 15.0% under regulatory rules at 31 December 2018.
- The Group is required to maintain a minimum CET 1 ratio of 9.55% on a regulatory basis from 1 January 2019, increasing to 10.65% from July 2019.
  - This includes a Pillar 1 requirement of 4.5%, a Pillar 2 requirement (P2R) of 2.25%, a capital conservation buffer (CCB) of 2.5%, a UK Countercyclical buffer of 0.3%, an Other Systemically Important Institution (O-SII) buffer of 0.5% (from 1 July 2019) and an RoI Countercyclical buffer (CCYB) of 0.6% (from 5 July 2019).
  - Pillar 2 guidance (P2G) is not disclosed in accordance with regulatory preference
- The Group expects to maintain a CET 1 ratio in excess of 13% on a regulatory basis and on a fully loaded basis at the end of the O-SII phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer.
- Total capital ratio is 18.8% under regulatory rules at 31 December 2018.
- On a fully loaded basis, the CET 1 ratio is 13.4% at 31 December 2018.
- Leverage ratio is 7.0% on a regulatory basis and 6.4% on a fully loaded basis as at 31 December 2018.

**Capital management objectives and policies** *(audited)*
The objectives of the Group's capital management policy are to ensure that the Group has sufficient capital to cover the risks of its business and support its strategy and at all times to comply with regulatory capital requirements. It seeks to minimise refinancing risk by managing the maturity profile of non-equity capital whilst the currency mix of capital is managed to ensure that the sensitivity of capital ratios to currency movements is minimised. The capital adequacy requirements set by the SSM / ECB and economic capital based on internal models are used by the Group as the basis for its capital management. The Group seeks to maintain sufficient capital to ensure that these requirements are met.

The current status of capital adequacy, including risk dashboards and risk appetite compliance, is reported to senior executives and the Board through the Court Risk Report on a monthly basis.

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

The ICAAP process demonstrates that the Group has sufficient capital under both the base and stress case scenarios to support its business and achieve its objectives having regard to Board approved Risk Appetite and Strategy, and to meet its CRD IV regulatory capital, leverage and liquidity requirements.

The Board approved ICAAP Report and supporting documentation is submitted to the ECB and CBI on an annual basis, and is subject to regulatory review as part of the SREP.

# 4 Capital management *(continued)*

| CRD IV - 2017 *(unaudited)* | | | CRD IV - 2018 *(unaudited)* | |
|---|---|---|---|---|
| **Regulatory €m** | **Fully loaded €m** | | **Regulatory €m** | **Fully loaded €m** |
| | | **Capital Base** | | |
| 9,667 | 9,667 | Total equity | 10,051 | 10,051 |
| (124) | (124) | - less foreseeable dividend deduction[1] | (173) | (173) |
| (750) | (750) | - less AT1 capital | (750) | (750) |
| **8,793** | **8,793** | **Total equity less foreseeable dividend deduction and equity instruments not qualifying as CET 1** | **9,128** | **9,128** |
| **(614)** | **(1,479)** | **Regulatory adjustments being phased in / out under CRD IV** | **(577)** | **(1,350)** |
| *(345)* | *(1,150)* | *- Deferred tax assets[2]* | *(439)* | *(1,097)* |
| *-* | *(78)* | *- 10% / 15% threshold deduction[3]* | *-* | *(30)* |
| *95* | *-* | *- Retirement benefit obligations[4]* | *-* | *-* |
| *(68)* | *-* | *- AFS reserve[5]* | *-* | *-* |
| *(10)* | *-* | *- Pension supplementary contributions[4]* | *-* | *-* |
| *-* | *-* | *- IFRS 9 transitional adjustment* | *85* | *-* |
| *(286)* | *(251)* | *- Other adjustments[6]* | *(223)* | *(223)* |
| **(1,057)** | **(1,119)** | **Other regulatory adjustments** | **(1,400)** | **(1,400)** |
| *(247)* | *(309)* | *- Expected loss deduction[7]* | *(589)* | *(589)* |
| *(723)* | *(723)* | *- Intangible assets and goodwill* | *(738)* | *(738)* |
| *(2)* | *(2)* | *- Coupon expected on AT1 instrument* | *(2)* | *(2)* |
| *(41)* | *(41)* | *- Cash flow hedge reserve* | *9* | *9* |
| *22* | *22* | *- Own credit spread adjustment (net of tax)* | *(22)* | *(22)* |
| *(66)* | *(66)* | *- Securitisation deduction* | *(58)* | *(58)* |
| **7,122** | **6,195** | **Common equity tier 1** | **7,151** | **6,378** |
| | | **Additional tier 1 (AT1)** | | |
| - | - | AT1 instruments (issued by parent entity[8]) | - | - |
| 534 | 480 | Instruments issued by subsidiaries that are given recognition in AT1 capital[9] | 499 | 499 |
| **(31)** | **-** | **Regulatory adjustments** | **-** | **-** |
| *(31)* | *-* | *- Expected loss deduction[7]* | *-* | *-* |
| **7,625** | **6,675** | **Total tier 1 capital** | **7,650** | **6,877** |
| | | **Tier 2** | | |
| 785 | 785 | Tier 2 instruments (issued by parent entity[8]) | 803 | 803 |
| 799 | 699 | Instruments issued by subsidiaries that are given recognition in Tier 2 capital[9] | 678 | 678 |
| **(31)** | **-** | **Regulatory adjustments** | **-** | **-** |
| *(31)* | *-* | *- Expected loss deduction[7]* | *-* | *-* |
| 9 | - | Standardised IBNR provisions | - | - |
| (106) | (160) | Other adjustments | (160) | (160) |
| **1,456** | **1,324** | **Total tier 2 capital** | **1,321** | **1,321** |
| **9,081** | **7,999** | **Total capital** | **8,971** | **8,198** |
| **45.0** | **44.8** | **Total risk weighted assets (€bn)** | **47.8** | **47.6** |
| | | **Capital ratios** | | |
| 15.8% | 13.8% | Common equity tier 1 | 15.0% | 13.4% |
| 17.0% | 14.9% | Tier 1[9] | 16.0% | 14.4% |
| 20.2% | 17.9% | Total capital[9] | 18.8% | 17.2% |
| 7.0.% | 6.2% | Leverage ratio[9] | 7.0% | 6.3% |

[1] *A foreseeable dividend of €173 million has been deducted as required under Article 2 of EU Regulation No. 241/2014.*
[2] *Deduction relates to DTAs on losses carried forward, net of certain deferred tax liabilities. The deduction is phased at 40% in 2018, increasing annually at a rate of 10% thereafter.*
[3] *The 10% / 15% threshold deduction was phased in at 80% in 2017, increased to 100% in 2018 and is deducted in full from CET 1 under fully-loaded rules.*
[4] *Regulatory deductions applicable under CRD and phased out under CRD IV relate primarily to national filters. These were phased out at 20% per annum until December 2017 and are not applicable under fully loaded rules.*
[5] *CRD IV transitional rules in 2017 require phasing in 80% of unrealised losses and 80% of unrealised gains. In 2018 unrealised losses and gains are phased in at 100%. The reserve is recognised in capital under fully loaded CRD IV rules.*
[6] *Includes technical items such as non-qualifying CET 1 items, PVA and pension asset deductions.*
[7] *Under CRD IV transitional rules, expected loss was phased in at 80% in 2017 and increased to 100% in 2018. Expected loss not deducted from CET 1 is deducted 50:50 from Tier 1 and Tier 2 capital. It is deducted in full from CET 1 under fully loaded rules.*
[8] *The parent entity refers to BOIG plc.*
[9] *The calculation of the Group's Tier 1, Total Capital and related ratios (including Leverage ratio) at 31 December 2018 are stated after a prudent application of the requirements of Articles 85 and 87 of CRR (further details are provided on page 110). As a result of the establishment of BOIG plc, and due to the requirements of Articles 85 and 87 of the CRR, regulatory capital instruments issued by subsidiaries (i.e. The Governor and Company of the Bank of Ireland) cannot be recognised in full in the prudential consolidation.*

# 4 Capital management *(continued)*

| CRD IV - 2017 *(unaudited)* | | | CRD IV - 2018[3] *(unaudited)* | |
|---|---|---|---|---|
| **Regulatory €bn** | **Fully loaded €bn** | | **Regulatory €bn** | **Fully loaded €bn** |
| | | **Risk weighted assets (RWA)[1,2]** | | |
| 35.6 | 35.6 | Credit risk | 38.7 | 38.7 |
| 0.7 | 0.7 | Counterparty credit risk | 0.6 | 0.6 |
| 0.5 | 0.5 | Securitisation | 0.5 | 0.5 |
| 0.5 | 0.5 | Market risk | 0.6 | 0.6 |
| 4.6 | 4.6 | Operational risk | 4.5 | 4.5 |
| 3.1 | 2.9 | Other assets / 10% / 15% threshold deduction | 2.9 | 2.7 |
| **45.0** | **44.8** | **Total RWA** | **47.8** | **47.6** |

**CRD IV** *(unaudited)*
Implementation of the CRD IV legislation commenced on a phased basis from 1 January 2014. The CRD IV transition rules resulted in a number of deductions from CET 1 capital being introduced on a phased basis, all of which are now fully implemented, with the exception of the DTAs (dependent on future profitability) deduction which in the case of the Group is phased to 2024. The ratios outlined in this section reflect the Group's interpretation of the CRD IV rules as published on 27 June 2013 and subsequent clarifications, including ECB regulation 2016/445 on the exercise of options and discretions.

**Regulatory Capital Developments** *(unaudited)*
CRD IV continues to evolve through amendments to current regulations and the adoption of new technical standards. On 23 November 2016, the EC published a set of legislative proposals, including amendments of the existing CRD and the Capital Requirements Regulation (CRR), as well as the related EU BRRD and the SRM Regulation. The proposed changes are expected to start entering into force in 2019 at the earliest.

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

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

In addition to the new Basel rules, there are a number of changes to ECB / EBA regulatory requirements planned for the coming years that will impact the Bank's regulatory capital and RWA calculations. These include new ECB and EBA NPL Guidelines; EBA standards and guidelines on Definition of Default and PD / LGD Estimates.

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

**IFRS 9 capital impact** *(unaudited)*
The impact of the adoption of IFRS 9, which came into effect on 1 January 2018, resulted in an increase in the stock of impairment provisions upon transition, which reduced the Group's CET 1 ratio by c.20 basis points, before the application of the regulatory transitional arrangement.

The Group has elected to apply the transitional arrangement which, on a regulatory basis, partially mitigates the initial and future impacts of IFRS 9 in the period to 2022. This involves a capital addback of a portion of the increase in impairment loss allowance on transition to IFRS 9 and also any subsequent increase in the stage 1 and 2 loss allowances at future reporting dates. The transition period is for five years, with a 95% add-back allowed in 2018, decreasing to 85%, 70%, 50% and 25% in subsequent years.

**IFRS 16 capital impact** *(unaudited)*
IFRS 16, Leases, is effective from 1 January 2019 and requires lessees to recognise assets and liabilities for all leases where previously lessees could recognise a lease as either an operating or finance lease. The impact of the adoption of IFRS 16 is estimated to increase the Group's RWAs by c.€800 million, which is estimated to reduce our fully loaded CET 1 ratio by c.20 basis points.

**Regulatory change capital impact** *(unaudited)*
The Group has been engaging with the ECB as part of the ECB's TRIM process. The review with respect to Irish mortgages is complete.

The TRIM process for UK mortgage and non-retail models is ongoing and expected to conclude in H1 2019.

In 2018, regulatory change reduced the Group's fully loaded CET 1 ratio by c.70 basis points[4].

**EU-wide stress tests** *(unaudited)*
The EBA published the results of the EU-wide stress test on 2 November 2018. While no pass / fail threshold was set, the results were used to inform the 2018 SREP and were an input into the Group's 2019 regulatory capital requirements.

[1] *RWA reflect the application of certain CBI required Balance Sheet Assessment (BSA) adjustments and the updated treatments of expected loss.*
[2] *Further details on RWA as at 31 December 2018 can be found in the Group's Pillar 3 disclosures for the year ended 31 December 2018 available on the Group's website.*
[3] *Capital ratios have been presented including the benefit of the retained profit in the year. Under Article 26 (2) of the CRR, financial institutions may include independently verified interim profits in their regulatory capital only with the prior permission of the competent authority, namely the ECB, and such permission has been provided.*
[4] *Regulatory change capital impact includes the impact of TRIM for ROI Mortgages and changed regulatory deductions for Additional Valuation Adjustments and Securitisations.*

# 4 Capital management *(continued)*

| Pro forma CET 1 Regulatory Capital Requirements | Set by | Range | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| Pillar 1 - CET 1 | CRR | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% | 4.50% |
| Pillar 2 Requirement (P2R) | SSM | 1% - 2.25%[1] | 2.25% | 2.25% | 2.25% | 2.25% | 2.25% |
| Capital Conservation Buffer (CCB) | CRD | 2.50% | 1.25% | 1.88% | 2.50% | 2.50% | 2.50% |
| **Countercyclical buffer (CCyB)** | | | | | | | |
| Ireland (c.60% of RWA) (from 5 July 2019) | CBI | 0% - 2.50% | - | - | 0.60% | 0.60% | 0.60% |
| UK (c.30% of RWA) | FPC (UK) | 0% - 2.50% | - | 0.30% | 0.30% | 0.30% | 0.30% |
| US and other (c.10% of RWA) | Fed / Various | 0% - 2.50% | - | - | - | - | - |
| O-SII Buffer (from 1 July 2019) | CBI | 0% - 2.00% | - | - | 0.50% | 1.00% | 1.50% |
| Systemic Risk Buffer - Ireland | Minister for Finance | 0% - 3.00% | n/a | n/a | n/a | n/a | n/a |
| **Pro forma Minimum CET 1 Regulatory Requirements** | | | **8.00%** | **8.93%** | **10.65%** | **11.15%** | **11.65%** |
| **Pillar 2 Guidance (P2G)** | | | | **Not disclosed in line with regulatory preference** | | | |

**Capital requirements / buffers** *(unaudited)*
The table above sets out the Group's CET 1 capital requirements for 2019 and the authorities responsible for setting those requirements.

The Group is required to maintain a CET 1 ratio of 9.55% on a regulatory basis from 1 January 2019, increasing to 10.65% from July 2019. This includes a Pillar 1 requirement of 4.5%, a P2R of 2.25%, a CCB of 2.50%, a UK Countercyclical Buffer of 0.3%, O-SII Buffer of 0.5% (from 1 July 2019) and an RoI Countercyclical Buffer of 0.6% (from 5 July 2019). P2G is not disclosed in accordance with regulatory preference.

The countercyclical capital buffers (CCyBs) are independently set in each country by the relevant designated authority. CCyBs are applied in proportion to an institution's risk weighted asset exposures in the particular country. The Financial Policy Committee (FPC) in the UK has set a CCyB of 1.0% in the UK (from November 2018). In RoI, the CBI has announced the introduction of a 1.0% CCyB from 5 July 2019.

CCyB rates are subject to quarterly review by the relevant designated authority.

The CBI has advised that the Group will be required to maintain an O-SII buffer, which will be 0.5% from July 2019, 1.0% from July 2020 and 1.5% from July 2021. The O-SII buffer is subject to annual review by the CBI.

The Group expects to maintain a CET 1 ratio in excess of 13% on a regulatory basis, and on a fully loaded basis at the end of the O-SII phase-in period. This includes meeting applicable regulatory capital requirements plus an appropriate management buffer.

**Minimum Requirement for Own Funds and Eligible Liabilities** *(unaudited)*
In May 2018, the SRB advised that the binding MREL for the Group had been set at €13.3 billion (representing 26.39% of RWA at 31 December 2016), to be met by 1 January 2021. The Group's MREL position at 31 December 2018 is 23.1% (based on December 2018 RWA). Modest MREL eligible issuance of c.€1 billion to €2 billion per annum anticipated.

**Risk weighted assets** *(unaudited)*
RWA on a regulatory basis, were €47.8 billion at 31 December 2018 (2017: €45.0 billion). The increase of €2.8 billion in Credit RWA is primarily due to loan book growth of €2.0 billion, IRB risk weight changes (predominantly due to the impact of TRIM) (€1.6 billion), offset by a decrease in RWA due to asset quality (€0.7 billion) and other net movements (€0.4 billion).

**Regulatory ratio** *(unaudited)*
The CET 1 ratio was 15.0% at 31 December 2018 (2017: 15.8%). The decrease of c.80 basis points is primarily due to organic capital generation (c.+160 basis points) offset by RWA growth (c.-40 basis points), the impact of regulatory capital demand (c.-70 basis points), the impact of CRD phasing for 2018 and IFRS 9 impacts (c.-40 basis points), investment in the Group's core banking platforms (c.-60 basis points), an accrual for a proposed dividend (c.-40 basis points) and other net movements (c.+10 basis points.

**Fully loaded ratio** *(unaudited)*
The Group's fully loaded CET 1 ratio is estimated at 13.4% at 31 December 2018 (2017: 13.8%). The decrease of c.40 basis points is primarily due to organic capital generation (c.+180 basis points) offset by RWA growth (c.-40 basis points), the impact of regulatory capital demand (c.-70 basis points), investment in the

[1] *Expected range.*

# 4 Capital management *(continued)*

Group's core banking platforms (c.-60 basis points), an accrual for a proposed dividend (c.-40 basis points), the impact of IFRS 9 implementation (c.-20 basis points) and other net movements (c.+10 basis points).

**Leverage ratio** *(unaudited)*
The leverage ratio at 31 December 2018 is 7.0% on a CRD IV regulatory basis (2017: 7.0%), 6.3% on a pro-forma fully loaded basis (2017: 6.2%).

The EC has proposed the introduction of a binding leverage requirement of 3% as part of the revised CRD proposals. It is anticipated that the binding leverage requirement will be applicable from 2021 at the earliest pending final agreement of the proposals at EU level. The Group expects to remain well in excess of this requirement.

**Distribution policy** *(unaudited)*
The Group recommenced the payment of dividends with a payment of €124 million, equivalent to 11.5 cents per share, in respect of the 2017 financial year.

In respect of 2018, the Board has proposed a dividend of €173 million, equivalent to 16 cents per share, representing a payout of 30% of sustainable earnings and an increase of 12% on the 11.5 cents per share paid in respect of 2017.

The Group expects that dividends will increase on a prudent and progressive basis and, over time, will build towards a payout ratio of around 50% of sustainable earnings.

The dividend level and the rate of progression will reflect, amongst other things, the strength of the Group's capital and capital generation, the Board's assessment of the growth and investment opportunities available, any capital the Group retains to cover uncertainties and any impact from the evolving regulatory and accounting environments.

Other means of capital distribution will be considered to the extent the Group has excess capital.

**Distributable items** *(unaudited)*
In July 2017, following the corporate reorganisation described in note 49 on page 254, the High Court approved a capital reduction and the creation of €5.5 billion in distributable reserves in BOIG plc. Since that date, the Company has generated profits attributable to shareholders of €0.7 billion and therefore, as at 31 December 2018, the Company had reserves available for distribution of €6.4 billion. Further information on the Company's equity is provided on page 293.

**Individual consolidation** *(unaudited)*
The regulatory CET 1 ratio of the Bank calculated on an individual consolidated basis as referred to in Article 9 of the CRR is 15.2% at 31 December 2018 (2017: 15.3%).

**Impediments to the transfer of funds** *(unaudited)*
There is a requirement to disclose any impediment to the prompt transfer of funds within the Group. In respect of the Group's licensed subsidiaries, the Group is obliged to meet certain license conditions in respect of capital and / or liquidity. These requirements may include meeting or exceeding appropriate capital and liquidity ratios and obtaining appropriate regulatory approvals for the transfer of capital or, in certain circumstances, liquidity. The Group's licensed subsidiaries would be unable to remit funds to the parent when to do so would result in such ratios or other regulatory permissions being breached. Apart from this requirement, there is no restriction on the prompt transfer of own funds or the repayment of liabilities between the subsidiary companies and the parent.

At 31 December 2018, own funds were in excess of the required minimum requirement.

# Governance

# Senior Independent Director Report
## Chairman Succession Process

**Patrick Haren** *(69)*
Senior Independent Director;
Non-Executive Director

Approximately one year ahead of Archie Kane's anticipated retirement date, the Board approved a special purpose committee under my leadership to oversee the Chairman succession process. The Committee comprised unconflicted members of the Nominations and Governance Committee, augmented by the (then) chair of Audit and the immediate past-chair of Risk. The Committee considered the skills and experience on the Board and the challenges facing the business, taking account also of the Group CEO succession which was underway at that time. Based on this, the Committee developed a description of the role and capabilities required, for which we sought and obtained Board approval. The Committee engaged Egon Zehnder to advise on international benchmarking and to provide a full candidate assessment.

In arriving at a recommendation, the Committee took account of a number of exceptional factors, including:

- the anticipated very significant level of turnover on the Board, due to retirements, over the medium term;
- the appointment in October 2017 of an externally recruited, previously UK-based Group CEO; and
- the Board's preference that the incoming Chairman should have a complementary knowledge of the Irish environment, embracing customers, regulators and Government, and knowledge and understanding of the Bank of Ireland Group, including its recent history, particularly of regulatory engagement, and the lessons learned during the recovery period.

These factors led the Board and the Committee to prefer an Irish-based Non-Executive Director (NED) with some years' experience on the Board, subject to meeting all other criteria and performing strongly in the benchmarking and assessment process.

The Committee recommended Patrick Kennedy, who had served as Deputy Chairman since April 2015 and Chair of the Board Risk Committee since July 2016, and who is based in Ireland, as Chairman. In their assessment process, Egon Zehnder rated Mr Kennedy against their market benchmark as an exceptional candidate for the role.

Mr Kennedy combines a deep knowledge of the Bank with exceptional commercial acumen gained from a highly successful career in national and international business. The Board believes Mr Kennedy brings very strong leadership to the Board, providing experience and local knowledge complementary to the skills and experience of the Group CEO and necessary continuity during a period of significant change.

**Patrick Haren**
Senior Independent Director

22 February 2019

# Chairman's Introduction

**Patrick Kennedy**
Chairman

**Appointed:**
August 2018

**Independent:**
Yes

Dear Shareholders,

I am pleased to present our Corporate Governance Report for 2018. This report sets out our approach to governance in practice, how the Board of Directors (the 'Board') operates, how it has spent its time during the year and how it has evaluated its performance. It includes reports from each of the Board's committees and explains how the Group applies the principles of good governance. The role of the Board is to promote the long-term success of the Group, whilst contributing to wider society. In order to do this, we must have a robust corporate governance framework, providing systems of checks and controls to ensure accountability and drive better decision-making, and also policies and practices which ensure that the Board and its committees operate effectively.

The Board is accountable to shareholders for the overall direction and control of the Group. It is committed to high standards of governance designed to protect the long term interests of shareholders and all other stakeholders while promoting the highest standards of integrity, transparency and accountability.

A key objective of the Group's governance framework is to ensure compliance with applicable legal and regulatory requirements.

| Corporate Governance Codes Compliance |
|---|
| **Irish Code[1] -** *Comply fully* |
| **UK Corporate Governance Code 2016 -** *Comply fully* |
| **Irish Corporate Governance Annex[2] -** *Comply fully* |
| **EBA Guidelines on Internal Governance (2018) -** *Comply fully* |
| **EBA Guidelines on Assessment of Suitability[3] (2018) -** *Comply fully* |

**Strategic priorities**
The Board has responsibility for developing the Group's strategic priorities. These priorities were set out at the Group Investor Day on 13 June 2018 and can be found in 'Our Strategy' on page 10.

For the duration of the Transformation programme, a Group Transformation Oversight Committee (GTOC) has been set up to conduct deeper reviews and provide regular and timely reporting and ensure momentum is maintained on the Transformation programmes.

The GTOC also oversee the Transformation spend and benefits against budget and targets agreed with the Board and performs deep dives on specific programmes.

**Board changes in 2018**
The Nomination and Governance Committee is responsible for reviewing the composition of the Board and its Committees and assessing whether the balance of skills, experience, knowledge and independence is appropriate to enable them to operate effectively. It went through a rigorous process leading to a number of changes to the Board in 2018, including my appointment as Chairman and Chair of the GN&GC, succeeding Archie G Kane who retired in July 2018. Patrick Haren was appointed Deputy Chairman. Evelyn Bourke, Ian Buchanan and Steve Pateman were appointed as independent Non-Executive Directors (NEDs), bringing with them significant technology and business transformation, insurance, retail and corporate banking experience. Patrick Mulvihill was appointed Chair of the Group Audit Committee in April 2018 and Richard Goulding was appointed Chair of the Board Risk Committee in August 2018. Davida Marston retired from the Board in September 2018.

I would like to thank each of the Directors for their commitment and support during 2018. I would also like to express the Board's appreciation to Archie Kane as Chair for his contribution to the success of the Group and to Davida Marston for her contribution to the Group as NED over the years. I wish them well in all their future ventures.

**Looking ahead**
2019 will be a year of focus on the execution of our strategic priorities, and I look forward to working closely with the boards and committees of the Group and its significant subsidiaries to ensure we have a strong framework for clear, effective and consistent corporate governance. Your board will continue to work effectively with executive management.

We remain focused on working hard to execute the Group's strategy in order to create sustainable long-term value for our shareholders.

**Patrick Kennedy**
Chairman

22 February 2019

[1] *The CBI Corporate Governance Requirements for Credit Institutions 2015 (the 'Irish Code') - The Group's primary banking subsidiary, The Governor and Company of the Bank of Ireland, was subject to the Irish Code, (which is available on www.centralbank.ie) throughout 2018. The Bank is also subject to the additional requirements of Appendix 1 and Appendix 2 of the Irish Code for High Impact Designated Institutions, and Credit Institutions which are deemed 'Significant' Institutions (for the purposes of the CRD IV), respectively.*
[2] *The Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange, t/a Euronext Dublin which is available on www.ise.ie.*
[3] *EBA Guidelines on the assessment of the suitability of members of the management body and key function holders.*

# Your Board

**Patrick Kennedy**
Independent (on appointment)

### Role
Non-Executive Director (July 2010). Chairman (August 2018, Deputy Chairman April 2015). Chair, Group Nomination and Governance Committee (August 2018, Member from September 2014).

Member, Risk Committee from January 2011 and Chair July 2016 to July 2018. Member, Remuneration Committee from January 2011 to July 2016. Member of the Audit Committee from July 2016 to July 2018.

Member of Group Transformation Oversight Committee (August 2018).

### Particular Skills
Strong leadership qualities. Deep knowledge of the Bank with exceptional commercial acumen. In-depth knowledge of international business, management, finance, corporate transactions, strategic development and risk management gained from a highly successful career in national and international business.

### External Appointments
Chairman and Chair of the Audit, Risk, Remuneration and Nomination Committees of Cartrawler.

### Experience
Patrick was Chief Executive of Paddy Power plc from 2006 to 2014, prior to which he served as an Executive Director from 2005 and Non-Executive Director from 2004. Prior to joining Paddy Power plc, Patrick worked at Greencore Group plc for seven years where he was Chief Financial Officer and also held a number of senior strategic and corporate development roles. He previously worked with KPMG Corporate Finance in Ireland and the Netherlands, with McKinsey & Co. in London, Dublin and Amsterdam and as a Non-Executive Director of Elan Corporation plc.

### Qualifications
Fellow Chartered Accountants Ireland.

**Patrick Haren**
Independent

### Role
Non-Executive Director (January 2012). Deputy Chairman (August 2018). Senior Independent Director (April 2015). Chair, Remuneration Committee (May 2015, Member January 2012). Member, Nomination and Governance Committee (November 2015). Member, Audit Committee from January 2012 to July 2018.

Trustee of the Bank of Ireland Staff Pensions Fund.

### Particular Skills
Experienced Chief Executive Officer who has gained extensive strategic, corporate development and transactional experience.

### External Appointments
None.

### Experience
Patrick acts as an Advisor to Green Sword Environmental Ltd. He is a former CEO of the Viridian Group, having joined Northern Ireland Electricity (NIE) in 1992 as Chief Executive. He previously worked with the ESB, including as Director - New Business Investment and also served as a board member of Invest Northern Ireland for a number of years. Patrick led the privatisation of NIE by IPO and grew the business under the new holding company Viridian through to 2007, positioning the company as the market leader in independent electricity generation and supply in competitive markets in Ireland, North and South. He is a past director of Bank of Ireland (UK) plc where he also served as Chair of the Remuneration Committee and a member of the Nomination Committee.

### Qualifications
Member of the Institute of Directors (UK). Awarded a knighthood in 2008 for services to the electricity industry in Northern Ireland.

**Francesca McDonagh**
Non-Independent

### Role
Group Chief Executive Officer and Executive Director (October 2017).

### Particular Skills
A skilled global banker, renowned for strategic thinking and a proven track record in successfully executing strategy. A history of delivering strong financial performance coupled with leadership of transformation to drive future results. Experience in a range of senior banking roles, and in a range of countries and operating structures. She brings to the Board a leadership style characterised by strong commercial results orientation, a clear strategic vision and significant customer focus.

### External Appointments
Director of Ibec Company Limited By Guarantee. Member of the PRA Practitioner Panel.

### Experience
Francesca joined the Group from HSBC Group, where she held a number of senior management roles over a twenty year period including Group General Manager and Regional Head of Retail Banking and Wealth Management, UK and Europe, Regional Head of Retail Banking and Wealth Management, Middle East and North Africa, and Head of Personal Financial Services, Hong Kong. She has previously served on the board of the British Bankers' Association (BBA), where she was Deputy Chair, and on the board of the National Centre for Universities and Business in the UK.

### Qualifications
Bachelor of Arts Degree in Politics, Philosophy and Economics from Oxford University. Awarded an OBE in 2017 for services to banking.

# Your Board *(continued)*

**Kent Atkinson**
Independent

### Role
Non-Executive Director (January 2012). Member, Audit Committee (January 2012, Chair, April 2012 to April 2018). Member, Risk Committee (January 2012). Member, Remuneration Committee (July 2016).

### Particular Skills
Extensive commercial and financial executive experience in the financial services industry. Significant experience as a NED across a range of international companies. Significant experience in governance, risk management and financial oversight, including in the capacity of Senior Independent Director, Chair of Audit Committee of a number of entities, and as a member of Risk, Strategy and M&A, Remuneration and Nomination Committees.

### External Appointments
None.

### Experience
Kent was Group Finance Director of Lloyds TSB Group between 1994 and 2002. Prior to that, he held a number of senior executive appointments in Retail Banking with Lloyds, including Regional Executive Director for their South East region, and worked for twenty two years in South America and the Middle East with the Group. Previous board appointments include Coca-Cola HBC AG, Cookson Group plc, Gemalto N.V., Standard Life plc, Telent plc (formerly Marconi plc), UK Asset Resolution Limited and Millicom International Cellular S.A.

**Ian Buchanan**
Independent

### Role
Non-Executive Director (May 2018). Member, Risk Committee (May 2018). Director, Bank of Ireland (UK) plc (September 2018).

Chair of Group Transformation Oversight Committee (August 2018).

### Particular Skills
Extensive technology, digital, business transformation and customer operations experience gained through his work in a number of international retail, commercial and investment banks.

### External Appointments
Non-Executive Director of Openwork Holdings Limited.

### Experience
Ian was Group Chief Information Officer for Barclays plc and Chief Operating Officer for Barclaycard until 2016. Before joining Barclays in 2011, Ian was Chief Information Officer for Société Générale Corporate & Investment Banking (2009 to 2011), a member of the public board and Group Manufacturing Director of Alliance & Leicester plc (2005 to 2008) and a member of the Executive Committee and Chief Operations & Technology Officer of Nomura International (1994 to 2005). Ian's earlier career was spent at Credit Suisse, Guinness, and BP.

### Qualifications
Bachelor of Science degree in Physics from the University of Durham.

**Evelyn Bourke**
Independent

### Role
Non-Executive Director (May 2018). Member, Audit and Nomination and Governance Committees (May 2018).

### Particular Skills
Strong track record in global executive management and extensive experience in financial services, risk and capital management, and mergers and acquisitions.

### External Appointments
Group CEO of BUPA.

### Experience
Evelyn was appointed Group CEO of BUPA in July 2016, having been Acting CEO from April 2016. She is also a member of the Bupa board. She joined Bupa as CFO in September 2012, from Friends Life Group, where she was Chief Executive Officer of its Heritage division. Previously at Friends Provident, she was the Executive Director responsible for strategy, capital and risk and, prior to that, Chief Financial Officer. She was previously a Non-Executive Director of the IFG plc, Dublin, where she was Chair of the Board Risk Committee. Evelyn's earlier career was spent at Standard Life Assurance plc, Chase De Vere Financial Solutions, St. James's Place, Nascent Group, Tillinghast Towers Perrin, in the UK, and Lifetime Assurance and New Ireland Assurance in Dublin.

### Qualifications
Fellow of Institute and Faculty of Actuaries. MBA from London Business School.

# Your Board *(continued)*

**Richard Goulding**
Independent

### Role
Non-Executive Director (July 2017). Chair, Risk Committee (Aug 2018, Member, July 2017). Member, Remuneration Committee (July 2017). Member, Audit Committee (August 2018).

Member of Group Transformation Oversight Committee (August 2018).

### Particular Skills
Extensive risk management and executive experience in a number of banks with an international profile, and brings a strong understanding of banking and banking risks, with a deep knowledge of operational risk.

### External Appointments
Non-Executive Director of Citigroup Global Markets Limited, where he is Chair of the Risk Committee and a member of the Audit and Remuneration and Nomination Committees. Non-Executive Director of Zopa Bank Limited, where he is Chair of the Risk Committee and a member of the Audit, Nomination and Remuneration Committees.

### Experience
Richard held the role of Group Chief Risk Officer and Director at Standard Chartered Bank from 2006 to 2015, where he was a member of the Group Executive Committee, prior to which he held the role of Chief Operating Officer, Wholesale Banking Division. Before joining Standard Chartered in 2002, he held senior executive positions with Old Mutual Financial Services in the U.S., UBS Warburg / SBC Warburg, London and Switzerland, Astra Holding plc, Bankers Trust Company and the Midland Bank Group, London.

### Qualifications
Qualified Chartered Accountant (South Africa), Bachelor of Commerce degree and a postgraduate degree in finance from the University of Natal, South Africa.

**Andrew Keating**
Non-Independent

### Role
Group Chief Financial Officer, Executive Director (February 2012).

### Particular Skills
Extensive financial management and leadership experience, having worked for twenty years in executive and senior finance roles in Bank of Ireland and Ulster Bank. Andrew has a deep and broad knowledge of financial management, risk and capital management, and related regulatory and governance requirements. Andrew has strong leadership qualities, embraces change and transformation, and is exceptionally focussed on delivering commercial results. Andrew is a strong advocate for Culture Transformation, and he is the Group Sponsor of Inclusion and Diversity.

### External Appointments
Non-executive Director of Irish Management Institute CLG.

### Experience
Andrew joined the Group in 2004 and held a number of senior finance leadership roles before being appointed as an Executive Director and Group Chief Financial Officer in 2012. Prior to his appointment as Group Chief Financial Officer, Andrew held the role of Director of Group Finance. Andrew joined the Group from Ulster Bank where he held a number of senior finance roles, including Chief Accountant. He qualified as a Chartered Accountant with Arthur Andersen.

### Qualifications
Bachelor of Commerce from University College Cork, Masters of Accounting from University College Dublin, Fellow of Chartered Accountants Ireland.

**Fiona Muldoon**
Independent

### Role
Non-Executive Director (June 2015). Member, Risk Committee (November 2015). Member, Nomination and Governance Committee (January 2019).

### Particular Skills
Significant experience in governance, regulatory compliance and financial oversight and is an experienced financial services professional. Significant previous experience within a financial institution with an international focus.

### External Appointments
Group Chief Executive of FBD Holdings plc and Chief Executive of FBD Insurance plc. Director of Insurance Ireland (Member Association) CLG.

### Experience
Fiona is Group Chief Executive of FBD Holdings plc and FBD Insurance plc, one of Ireland's largest property and casualty insurers. She served from 2011 to 2014 with the Central Bank of Ireland including as Director, Credit Institutions and Insurance Supervision. Fiona spent 17 years of her career with XL Group in Dublin, London and Bermuda, where she worked in various management positions including general insurance responsibilities, corporate treasury and strategic activities including capital management, rating agency engagement and corporate development.

### Qualifications
Bachelor of Arts Degree from University College Dublin, Fellow Chartered Accountants Ireland.

# Your Board *(continued)*

**Patrick Mulvihill**
Independent

### Role
Non-Executive Director (December 2011). Chair, Audit Committee (April 2018, Member December 2011). Member, Risk Committee (December 2011 to May 2017, January 2018 to date).

Member of Group Transformation Oversight Committee (April 2016). Trustee of the Bank of Ireland Staff Pensions Fund (December 2017).

### Particular Skills
In-depth knowledge of financial and management reporting, regulatory compliance, operational, risk and credit matters within a global financial institution.

### External Appointments
Non-Executive Director of International Fund Services (Ireland) Limited. Director of Beachvista Limited.

### Experience
Patrick spent much of his career at Goldman Sachs, retiring in 2006 as Global Head of Operations covering all aspects of Capital Markets Operations, Asset Management Operations and Payment Operations. He previously held the roles of Co-Controller, Co-Head of Global Controller's Department, covering financial / management reporting, regulatory reporting, product accounting and payment services. He was also a member of the firm's Risk, Finance and Credit Policy Committees. Patrick has over twenty years' experience of international financial services and has held a number of senior management roles based in London and New York with Goldman Sachs.

### Qualifications
Fellow Chartered Accountants Ireland and Associate of the Institute of Directors.

**Steve Pateman**
Independent

### Role
Non-Executive Director (September 2018). Member, Audit, Risk and Remuneration Committees (September 2018).

### Particular Skills
Brings to the Board the strategic insights of a Chief Executive Officer of a UK Bank and a strong lending and credit background with deep commercial experience including the operational challenges facing lending institutions.

### External Appointments
Director and CEO of Hodge Group.

### Experience
Steve was Chief Executive Officer of Shawbrook Bank Limited from October 2015 to December 2018. He joined Shawbrook from Santander UK, where he was Executive Director and Head of UK Banking and was responsible for the bank's Corporate, Commercial, Business and Retail Banking operations as well as Wealth Management. He also held a number of senior positions at Santander UK, Royal Bank of Scotland and NatWest. In January 2019, Steve joined Julian Hodge Bank Limited as CEO and was appointed to the Board in February 2019. Steve is a member of the Financial Capability Board for the Money Advice Service and was appointed Vice President of the Chartered Institutes of Bankers Scotland in June 2017 and Chair of the Professional Standards Board in December 2018. Steve was Director of The Mortgage Lender Limited from May 2018 to January 2019.

# Your Board *(continued)*

**Senior Independent Director**
Patrick Haren

**Group Audit Committee**
Patrick Mulvihill (Chair)
Kent Atkinson
Evelyn Bourke
Richard Goulding
Steve Pateman
Patrick Haren *(resigned from the Committee July 2018)*
Patrick Kennedy *(resigned from the Committee July 2018)*
Davida Marston *(resigned September 2018)*

**Group Remuneration Committee**
Patrick Haren (Chair)
Kent Atkinson
Richard Goulding
Steve Pateman
Archie G Kane *(resigned July 2018)*

**Group Nomination and Governance Committee**
Patrick Kennedy (Chair)
Evelyn Bourke
Patrick Haren
Fiona Muldoon
Archie G Kane *(resigned July 2018)*

**Board Risk Committee**
Richard Goulding (Chair)
Kent Atkinson
Ian Buchanan
Fiona Muldoon
Patrick Mulvihill
Steve Pateman
Patrick Kennedy *(resigned from the Committee July 2018)*

**Group Transformation Oversight Committee**
Ian Buchanan (Chair)
Richard Goulding
Patrick Kennedy
Patrick Mulvihill

**Directors who are Trustees of the Bank of Ireland Staff Pensions Fund**
Patrick Haren
Patrick Mulvihill

**Group Risk Policy Committee**
Vincent Mulvey (Chair)
Sean Crowe
Des Crowley
Tom Fee
Tom Hayes
Andrew Keating
Gavin Kelly
Francesca McDonagh
Declan Murray
Jackie Noakes
Helen Nolan
Gabrielle Ryan
Maureen Stanley

## Group Executive

| | |
|---|---|
| Francesca McDonagh | Group Chief Executive Officer |
| Sean Crowe | Chief Executive, Markets and Treasury |
| Des Crowley | Chief Executive, Retail (UK) |
| Henry Dummer | Chief Marketing Officer |
| Matt Elliot | Chief People Officer |
| Tom Hayes | Chief Executive, Corporate Banking |
| Andrew Keating | Group Chief Financial Officer |
| Gavin Kelly | Chief Executive, Retail (Ireland) |
| Vincent Mulvey | Group Chief Risk Officer |
| Jackie Noakes | Group Chief Operating Officer |

# Your Board *(continued)*

## Board composition and succession

The Board comprises of eleven Directors, two Executive Directors, the Chairman, who was independent on appointment and eight independent NEDs.

The Board considers that a board size of 11 Directors allows for a good balance between having the full range of skills necessary on the Board and to populate its committees and retaining a sense of accountability by each Director for Board decisions.

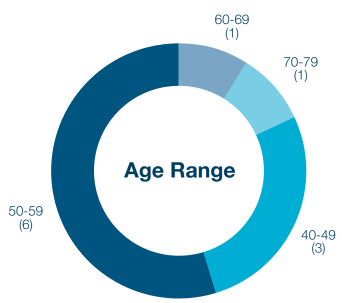
On the recommendation of the GN&GC, the Board determines, on a regular basis, the skills and experience required, taking into account the Group's major business lines, geographies, risk profile and governance requirements, to provide sound governance oversight, and assesses the profile of the Board against these requirements. These include experience in banking, insurance, Republic of Ireland (RoI) and UK markets and regulatory environments, risk management, financial management, strategy development, technology and operations experience and knowledge of governance, compliance and audit.

The GN&GC then projects forward the impact of expected retirements on the skills profile and succession requirements for Board Committees. During 2018, Mr Archie Kane and Ms Davida Marston, both experienced bankers, retired from the Board. The GN&GC identified as a priority for recruitment deep experience in corporate, retail and banking. Mr Steve Pateman was recruited in September 2018 to replenish the Board's core banking skills. The GN&GC also recommended that the Board's insurance experience and diversity profile be considered in advance of these retirements in 2018 and Ms Evelyn Bourke, an experienced insurance executive with an actuarial background, was recruited in May 2018.

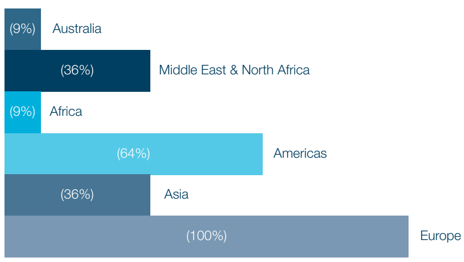
The Group's strategy involves a major technology-enabled transformation programme. Mr Ian Buchanan, who has very valuable experience of leading major technology- enabled change programmes in a banking environment, was recruited in May 2018.

Recruitment of these three Directors was supported by Russell Reynolds, an international search agency. In each case, a detailed role profile, based on the above analysis, was agreed with the search agency. They identified a range of candidates and conducted an independent assessment of short-listed candidates, providing reports to the Board in advance of a series of interviews for each candidate with the GN&GC and other Directors. The Board identified the preferred candidates and conducted appropriate due diligence, including a full assessment of the Fitness and Probity of each prospective director. Regulatory approval from the ECB was also received for each of the new Directors.

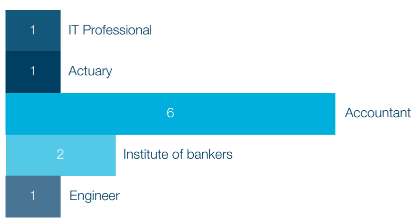
The Board believes its current composition and skills profile is appropriate for its role. The Board has a Board Diversity Policy and is strongly committed to diversity across all its dimensions, as it believes diversity of thinking is essential to sound decision-making. The Board has retained its gender diversity target of 33% female directors by the end of 2020. It has prioritised further diversity, and knowledge of the Irish market and environment, for recruitment activity in 2019. The Board's medium term aspiration is to have broadly equal gender representation.

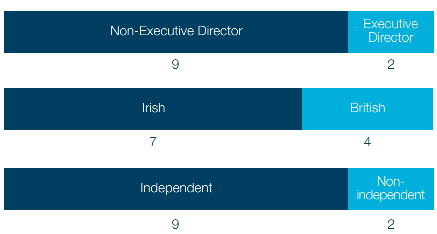


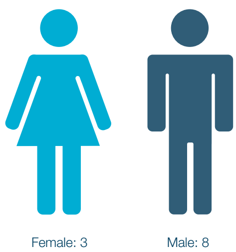

**International Experience**




**Qualifications**



# Your Board *(continued)*

**On appointment, each Director receives an individual induction plan**

On appointment, each Director receives an individual induction plan, tailored to his or her specific requirements including committee membership. It consists of meetings with senior management on Group and Divisional strategy, deep dives on businesses, an overview of the Group's risk appetite and Group Risk Framework, supplemented by sessions on the management of key risks, and a comprehensive range of meetings covering the Group's regulatory environment, people strategies, technology and payments. Deep dives on capital and liquidity management and an overview of the Group's financial position are also included, along with sessions relevant to membership of specific committees.

**Ongoing education is provided for the Board**

Ongoing education is provided for the Board, informed by the effectiveness reviews of the Board and individual Directors, as well as emerging external developments. Topics given particular focus in 2018 included Brexit and the economic environment, cybercrime and operational risk management.

**Board Development**

**Tailored Induction Programmes in 2018**

**Patrick Kennedy**
*(As Chairman)*

**Richard Goulding**
*(As Chair of Board Risk Committee)*

**Patrick Mulvihill**
*(As Chair of Group Audit Committee and as a Trustee of the Bank Staff Pensions Fund)*

**Evelyn Bourke**
*(As Director and member of Audit and Nomination and Governance Committees)*

**Ian Buchanan**
*(As Director and member of Board Risk Committee, a Director of BOI UK plc and specific induction on Group Transformation Programme)*

**Steve Pateman**
*(As Director and member of Group Audit Committee, Board Risk Committee and Group Remuneration Committee)*

**Patrick Haren**
*(As Trustee of the Bank Staff Pensions Fund)*

**Board Education and Development 2018**

**External Developments**
*Brexit including scenario planning, disorderly Brexit monitoring and risk mitigation, Operational risk, Blockchain and other Crypto-assets.*

**Deep Dives**
*Housing, Leveraged Acquisition Finance, Operational Risk, IT Security, Risk Appetite, Retail Banking RoI and UK, Corporate and Treasury including Global Markets, Capital and Funding.*

## Assessing the Effectiveness of the Board

### Board

Each year, the Board reviews its effectiveness and seeks to find ways to improve its operation. It is our policy to have an external review at least every three years. The last external review was in 2016. Following the 2017 internal review, which determined the Board to be effective, the Board's agenda in 2018 focused more effectively on strategy, non-financial drivers of performance and high quality discussion. The core element of the 2018 review, which was internal, was an in-depth one-to-one discussion between the Chairman and each Director, facilitated by a questionnaire and comments in advance from each Director. The Chairman extracted key themes to guide the Board's agenda in 2019. These related primarily to continued focus on delivery of the Group strategy, Board training and engagement with management on talent development and succession planning. These were then discussed by the Board at a dedicated session. The Board concluded that it remains effective.

### Committee

Each Board Committee also conducted a review of its effectiveness, led by the Committee Chair and supported by tailored questionnaires. In each case, the Committee considered the outcome and concluded that it remained effective. Specific opportunities to improve Committee operation were identified and actioned in each case.

# Your Board *(continued)*

### Chairman
The Senior Independent Director (SID) led the assessment of the Chairman's effectiveness. He met individually with each Director and, with the support of a questionnaire, discussed the Chairman's performance the outcome was the conclusion that Patrick Kennedy is highly effective in the Chair and provides very strong leadership to the Board.

### Individual Director
The Chairman met with Directors on a one to one basis to discuss their individual performance taking account of their input, which was submitted in advance of the meetings. In each case, the Chairman assessed each Director as fully effective in his or her role on the Board and its Committees. A particularly rigorous assessment was undertaken of the independence of Mr Patrick Haren, Mr Patrick Mulvihill and Mr Kent Atkinson, who have served more than six years on the Board. In all cases, the Board concluded that they continue to demonstrate independence of mind and therefore remain independent.

## How the Board spent its time at Board meetings in 2018

**Business Context**
- Chairman's update
- CEO perspective and priorities
- CEO / GEC Scorecard - reporting on strategic objectives

**Strategic Priorities and Business Deep Dives**
- Setting the Group's Risk Appetite
- Development of Group Strategy - presented on Investor Day (13 June 2018)
- Reviews of key strategic priorities, including Transformation Programme, UK Business, Financial Performance
- Reviews of Business Programmes, including Group Culture Programme, Marketing and Brand, Organisation Design, Inclusion and Diversity
- Business Deep Dives, including Leveraged Acquisition Finance, Corporate Banking UK and RoI, Wealth and Insurance

**Environment**
- Investor Relations
- Economic Environment
- Stakeholder Engagements

**Business Performance Reports**
- Financial Performance
- Customer Focus
- Risk Report
- Regulatory Interactions

**Reports from Board Committees**
- Recommendations from committees on key policies and matters reviewed in depth by committees for Board decision
- Reports on committee proceedings

**Governance and Oversight**
- Key governance policies and documents
- Subsidiary oversight
- Tracking of agreed actions

## Attendance at meetings in 2018

The Board held 15 meetings during the year ended 31 December 2018. Further details on the number of Board and Committee meetings and attendance by individual Directors are set out on page 143.

# Your Board *(continued)*

## Roles and Responsibilities

### Role of the Board

The Group is led by an effective and committed Board, which is collectively responsible for the long term success of the Group. The Board's role is to provide leadership of the Group within the boundaries of Risk Appetite and a framework of prudent and effective controls which enable risk to be identified, assessed, measured and controlled. The Board sets the Group's strategic aims and risk appetite to support the strategy, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives. The Board also reviews management performance. The Board has a schedule of matters specifically reserved for its decision which is reviewed and updated regularly.

The Board is responsible for endorsing the appointment of individuals who may have a material impact on the risk profile of the Group and monitoring on an ongoing basis their appropriateness for the role. The removal from office of the head of a 'control function', as defined in the Irish Code, is also subject to Board approval.

The Board is responsible for determining high-level policy and strategic direction in relation to the nature and scale of risk that the Group is prepared to assume to achieve its strategic objectives.

The respective roles of the Chairman and the Group Chief Executive Officer, which are separate, are set out in writing and have been agreed by the Board.

The Board approves the Group Risk Framework on an annual basis and receives regular updates on the Group's risk environment and exposure to the Group's material risk types through a Court Risk Report reviewed monthly for all risks. Further information on risk management and the Board's role in the risk governance of the Group is set out in the Risk Management Report on pages 60 to 111.

The work of the Board follows an agreed schedule of topics which evolves based on business need and is formally reviewed annually by the Board.

### Role of the Chairman

The Chairman oversees the operation and effectiveness of the Board, including ensuring that agendas cover the key strategic items confronting the Group and encouraging all Directors to participate fully in the discussions and activities of the Board. He also ensures that there is effective communication with shareholders and promotes compliance with corporate governance standards. The Chairman commits a substantial amount of time to the Group and his role has priority over any other business commitment. During the year, the Chairman and NEDs met without the Executive Directors present, to discuss a range of business matters.

### Role of the Deputy Chairman, SID

The Deputy Chairman deputises for the Chairman as required and is a Trustee of the Bank Staff Pensions Scheme. The SID provides Board members, the Group Secretary, shareholders and customers with an additional channel, other than the Chairman or the Group Chief Executive Officer, through which to convey, should the need so arise, concerns affecting the Chairmanship of the Board, or any other issue. He also oversees the appointment of the Chairman.

### Role of the Independent NEDs

The NEDs (including the Chairman and Deputy Chairman) bring independent challenge and judgement to the deliberations of the Board through their character, objectivity and integrity.

### Role of the Group Chief Executive Officer

The Group Chief Executive Officer is responsible for execution of approved strategy, holds delegated authority from the Board for the day to day management of the business and has ultimate executive responsibility for the Group's operations, compliance and performance. Procedures are in place to review the Group Chief Executive's contract at least every five years.

The Directors have access to the advice and services of the Group Secretary, who is responsible for advising the Board on all governance issues and for ensuring that the Directors are provided with relevant information on a timely basis to enable them to consider issues for decision and to discharge their oversight responsibilities.

The Directors also have access to the advice of the Group Legal Adviser and to independent professional advice, at the Group's expense, if and when required. Committees of the Board have similar access and are provided with sufficient resources to undertake their duties.

The Group Secretary provides dedicated support for Directors on any matter relevant to the business on which they require advice separately from or additional to that available in the normal board process. The Group has in place Directors' and Officers' liability insurance in respect of legal actions against its Directors.

# Your Board *(continued)*

## Matters requiring Board approval include

**1. Strategy and Risk Appetite**
- *Determination of risk appetite and approval of the Group's Risk Appetite Statement.*
- *Determination of the Group's strategy.*

**2. Corporate and Capital Structure**
- *Approval of Common Equity Tier 1 capital investments of greater than €20 million in a regulated subsidiary and €40 million in any other subsidiary.*
- *Approval of share issuances by any Group member to an entity outside of the Group.*
- *Approval of equity underwriting of sums greater than €20 million.*
- *Approval and payment of dividends, notwithstanding the existing legal requirement for same.*

**3. Management**
- *Approval of the Group's business plans and budgets.*
- *Overseeing management of the business.*

**4. Financial and Regulatory Reporting, Internal Controls, Risk and Capital Management**
- *Approval of Interim and Annual Report.*
- *Approval of the Group Risk Framework.*
- *Approval of the Group ICAAP, ILAAP and Recovery Plan.*
- *Overseeing the internal control and risk management systems of the Group.*

**5. Transactions**
- *Approval of acquisitions or divestments of the business or assets of any Group member involving a third party, except for credit management purposes.*
- *Approval of guarantees, including those in respect of subsidiary companies, entered into by a member of the Group, other than in the normal course of business.*
- *Approval of capital expenditure in excess of €40 million;*
- *Approval of Class 1 or Class 2 transactions (each as defined by the Listing Rules).*
- *Approval of related party transactions (as defined by the Listing Rules) giving rise to an obligation to issue a shareholder circular.*

**6. Corporate governance, Board and other appointments**
- *Promoting the appropriate culture, value and ethics of the Group.*
- *Overseeing corporate governance and succession planning.*
- *Approving specified senior management appointments.*

**7. Pension Scheme**
- *Approval of all changes to the funding of pension schemes in the Group and / or benefits of same.*

## The Group's approach to Strategy Development and Monitoring

**Development of Transformation Strategy**

From mid-2017 the Board commenced work on a new strategy in the context of a fundamental shift in customer demands for service, increasing and changing competition and the need for business and core systems transformation. This work accelerated following the appointment of the Group CEO in October 2017, with working groups across the Group engaged in looking forward to the likely impact of changing technology, customer needs and competition, and developing scenarios for different economic backdrops.

The emerging analysis was debated at a number of Board meetings and working sessions and robustly tested against the Group's risk appetite, culminating in the agreement of the new strategic ambition - to be the National Champion Bank in Ireland, with UK and selective international diversification. The discussion also concluded that the strategic priorities would be to transform the bank, serve customers brilliantly and grow sustainable profits.

This work also covered the development and approval, through Board deep dive sessions, of a series of growth, transformation and financial targets, which were communicated to the market at the Group Investor Day in June 2018.

**Monitoring of Transformation Strategy**

Having agreed the key initiatives and the overall scale and pace of the transformation, the Board has moved to monitor the execution of the detailed plan.

This work includes:
- monthly review with the Group Chief Executive of progress against execution priorities and targets;
- insights on stakeholder, employee and cultural matters;
- assessing the progress of execution of strategy through deep-dive sessions across the key business divisions;
- regular reviews of the systems transformation, culture transformation and cost reduction programmes;
- establishment of a designated sub-committee (the GTOC) with a mandate to oversee the transformation of the business, systems and organisation structure, as well as the safe delivery of some regulatory mandated change programmes; and
- review of the potential implications of the UK's preparations to leave the EU and oversight of management monitoring and risk mitigation activities.

# Your Board *(continued)*

**Stakeholder Engagement**

**Shareholders**

**Board understanding of views of major shareholders**
Directors receive an investor relations update from management at all scheduled Board meetings. The content of this update is varied, based on recent investor activities, but typically includes market updates, details of recent equity and debt investor interactions, share price and valuation analysis, analyst updates, and share register analysis. All Directors are encouraged and facilitated to hear the views of investors and analysts at first hand. The Chairman met with a number of major shareholders to discuss governance matters, and he and the SID consulted with shareholders on remuneration policy in 2018, and the Board was updated on the outcome of these discussions. The Chairman and / or the SID are available to all shareholders if they have concerns that cannot be resolved through the normal channels.

**Institutional equity investors and analysts**
Communication with shareholders is given high priority. One of the responsibilities of the Chairman is to ensure effective communication with shareholders and to ensure that Directors develop an understanding of the views of major investors. Investor Relations has primary responsibility for managing and developing the Group's external relationships with existing and potential institutional equity investors and analysts. The Group has an active and well developed Investor Relations programme, which involves regular meetings by Executive Directors, selected senior executives and the Director of Group Investor Relations and other authorised officers with the Group's principal institutional shareholders, other investors, financial analysts and brokers. Approximately 400 such meetings and presentations were held in 2018, chief amongst which was Investor Day, when the Group CEO and members of her leadership team presented Bank of Ireland's strategy to investors. All meetings with shareholders are conducted in such a way as to ensure that price sensitive information is not divulged. A dedicated Debt Investor section of the Group website provides access to relevant information, including presentations, publications and bond tables.

**Retail shareholders.**
The Group Secretary's team, supported by the Group's registrar, Computershare Investor Services (Ireland) Limited, maintains the Group's share register, engages with retail shareholders and delivers the Group's AGM. With the assistance of Computershare, the Group addresses shareholder queries and through its online facilities enables shareholders to view their portfolio and amend their information securely.

**Annual General Meeting (AGM)**
The AGM provides an opportunity for shareholders to hear directly from the Board on the Group's performance and strategic direction. The aim of the Board is to make constructive use of the AGM and all shareholders are encouraged to participate in the proceedings. Questions are invited from shareholders in advance of the AGM, and a substantial part of the agenda of the AGM is dedicated to responding to shareholder questions. A 'Help Desk' facility is provided by the Group's registrar to assist shareholders to resolve any specific queries that they may have in relation to their shareholding. The AGM was held on 20 April 2018 in the O'Reilly Hall, UCD, Belfield, Dublin 4 (2018 AGM).

At the 2018 AGM separate resolutions were proposed on each substantially separate issue and voting was conducted by way of poll. The results of every general meeting, including details of votes cast for, against and withheld on each resolution, are posted on the Group's website and released to the Irish and London Stock Exchanges. As soon as the results of the 2018 AGM were calculated and verified, they were released to applicable exchanges, as set out above, and were made available on the Group's website.

In line with the Group's policy to issue notice of the AGM 20 working days before the meeting, notice of the 2018 AGM was circulated to stockholders on 20 March 2018. The Chairman (who is also Chairman of the Nomination and Governance Committee) and the Chairmen of the Audit Committee, Risk Committee and Remuneration Committee were in attendance to hear the views of shareholders and answer questions. It is usual for all Directors at the time of the AGM to attend and all members of the Board attended the 2018 AGM.

The AGM of the Group in 2019 is scheduled to be held on 14 May 2019. Shareholders who will be unable to attend on this date are encouraged to submit queries and vote in advance to ensure continued participation.

# Your Board *(continued)*

## Stakeholder Engagement *(continued)*

### Customers

The Group's aim is to serve customers brilliantly by being the number one for service and having the best brand in our target markets including the best bank for partnerships in the UK. The Board consistently reviews the strategy, receives updates on implementation and reviews progress as part of the governance process. In 2018, the Board oversaw the establishment of a Group Customer Board to ensure customer focus by management, a Customer Advisory Council to ensure external challenge to our approach to customer engagement, the appointment of a Chief Marketing Officer and the approach to re-position the Bank of Ireland brand. The Board receives regular updates on progress against customer metrics and reports from the Group Customer Board and Customer Advisory Group. In addition, its understanding of customers' perspectives is informed by deep dives on customer themes, customer complaints and visits by Directors to customer call centres to hear customer voices at first hand. The Board schedule for 2019 expands its direct engagement with customers to reflect the importance of 'serving customers brilliantly' in our strategy.

### Colleagues

The Board receives regular updates on the progress of the Group Culture Programme. The Board reviews the outputs from the Group's OpenView staff survey and receives updates on progress in implementing actions in response to staff feedback.

The Board pays particular attention to the Group Code of Conduct and Speak Up Policy and the GN&GC reviews its effectiveness annually. The Board strives to create an environment in which staff are encouraged to speak up where they have any concerns. Ms Fiona Muldoon, on behalf of the Board, actively sponsors the Group Code of Conduct and Speak Up Policy. The Board also meets with small groups of managers from across the Group in 'Visibility Sessions'. They conduct site visits from time to time, including to London in 2018. The Board schedule for 2019 is designed to enhance their engagement with the workforce and includes a wider range of site visits to meet colleagues across the Group.

### Regulators and Government

The Chairman and members of the Board regularly meet with regulators and government bodies, including the Joint Supervisory Team, the CBI, BoE, FCA, PRA, ECB and Department of Finance, etc. Core themes include regulation and supervision, risk governance and oversight, the future of the banking industry, strategic challenges and rebuilding trust and culture. The Board also met with senior management of the CBI to receive their views on banking culture. The Chairman and Group CEO update the Board on their meetings with regulators and government representatives at each Board meeting.

### Communities

The Group's communities are those where its employees live and work, as well as other local and global groups, such as partners, shareholders and regulators. The Group supports the wider community through charity and community activities, contribution to arts and culture, and by playing an active role in society.

In 2018, the Group joined the London Benchmarking Group (LBG) to better understand, measure and benchmark our corporate community investment which includes the Give Together charity investment programme, Enterprise Town programme, community sponsorships and financial education programmes. Using LBG methodology, we have calculated our total community investment in 2018 at €4.9 million, with an additional €1.5 million given by our colleagues.

## Board's oversight of risk management and internal control systems

**Accountability and audit**

The Report of the Directors, including a going concern statement and a viability statement, is set out on pages 144 to 149. This Corporate Governance Statement forms part of the Report of the Directors.

**Board Responsibility**

The Board is responsible for overseeing the Group's risk management and internal control systems, which are designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations, and to review the effectiveness of same.

In establishing and reviewing the risk management and internal control systems, the Directors carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity, the likelihood of a risk event occurring and the costs of control. The process for identification, evaluation and management of the principal risks faced by the Group is integrated into the Group's overall framework for risk governance. The Group is forward-looking in its risk identification processes to ensure emerging risks are identified. The risk identification, evaluation and management process also identifies whether the controls in place result in an acceptable level of risk. At Group level, a consolidated risk report and risk appetite dashboard is reviewed and regularly debated by the Board Risk Committee and the Board to ensure that they are satisfied with the overall risk profile, risk accountabilities and mitigating actions. The report and dashboard provide a monthly view of the Group's overall risk profile, key risks and management actions, together with performance against risk appetite and an assessment of emerging risks which could affect the Group's performance over the life of the operating plan.

# Your Board *(continued)*

## Board's oversight of risk management and internal control systems *(continued)*

Information regarding the main features of the internal control and risk management systems is provided within the risk management report on pages 60 to 111. The Board concluded that the Group's risk management arrangements are adequate to provide assurance that the risk management systems put in place are suitable with regard to the Group's profile and strategy.

### Control systems

The Group's overall control systems include:

- a clearly defined organisation structure with defined authority limits and reporting mechanisms;
- three lines of defence approach to the management of risk across the Group: line management in individual businesses and relevant Group functions; central risk management functions; and GIA;
- Board and Management Committees with responsibility for core policy areas;
- a set of policies and processes relating to key risks;
- reconciliation of data consolidated into the Group's financial statements to the underlying financial systems. A review of the consolidated data is undertaken by management to ensure that the financial position and results of the Group are appropriately reflected, through compliance with approved accounting policies and the appropriate accounting for non-routine transactions;
- a Code of Conduct setting out the standards expected of all Directors, officers and employees in driving an appropriate, transparent risk culture;
- a Risk Control Self-Assessment framework, where risks are logged, managed and mitigated across the first-line, with clear reporting, escalation and second-line oversight. Action plans are developed and implemented to address any control deficiencies;
- a comprehensive set of accounting policies; and
- a compliance framework incorporating the design and testing of specific controls over key financial processes.

The Group operates a comprehensive internal control framework over financial reporting with documented procedures and guidelines to support the preparation of the consolidated financial statements.

The main features are as follows:

- a comprehensive set of accounting policies relating to the preparation of the annual and interim financial statements in line with International Financial Reporting Standards as adopted by the European Union;
- a GIA function with responsibility for providing independent, reasonable assurance to key internal (Board, Group and Subsidiary Audit and Risk committees and Senior Management) and external (Regulators and External Auditors) stakeholders on the effectiveness of the Group's risk management and internal control framework;
- a compliance framework incorporating the design and testing of specific controls over key financial processes to confirm that the Group's key controls are appropriate to mitigate the financial reporting risks;
- a robust control process is followed as part of interim and annual financial statements preparation, involving the appropriate level of management review and attestation of the significant account line items, and where judgements and estimates are made, they are independently reviewed to ensure that they are reasonable and appropriate. This ensures that the consolidated financial information required for the interim and annual financial statements is presented fairly and disclosed appropriately;
- the Annual Report and Interim Report are also subject to detailed review and approval through a structured governance process involving senior and executive finance personnel;
- summary and detailed papers are prepared for review and approval by the Group Audit Committee covering all significant judgemental and technical accounting issues, together with any significant presentation and disclosure matters; and
- user access to the financial reporting system is restricted to those individuals that require it for their assigned roles and responsibilities.

### Reviews by the Board

The effectiveness of the risk management and internal control systems is reviewed regularly by the Board, the Group Audit Committee and the Board Risk Committee, which also receive reports of reviews undertaken by Group Risk and GIA. The Group Audit Committee receives reports from the Group's Auditor (which include details of significant internal control matters that they have identified), and has separate discussions with the external and internal Auditors at least once a year without executives present, to ensure that there are no unresolved issues of concern.

The Group's risk management and internal control systems are regularly reviewed by the Board and are consistent with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting issued by the Financial Reporting Council and compliant with the requirements of CRD IV. They have been in place for the year under review and up to the date of the approval of the annual report. The Group has determined a pathway to compliance with the Basel Committee on Banking Supervision (BCBS 239) risk data aggregation and risk reporting requirements and continues to actively manage enhancements.

### Continuous improvement

The Group's controls frameworks are continuously improved and enhanced, addressing known issues and keeping pace with the dynamic environment. Progress continues to be made in operational (including IT and Information Security), regulatory and conduct risks. The 2018 internal control assessment provides reasonable assurance that the Group's controls are effective, or that where control weaknesses are identified, they are subject to management oversight and action plans. The Group Audit Committee, in conjunction with the Board Risk Committee, following an assessment of whether the significant challenges facing the Group are understood and are being addressed, concluded that the assessment process was effective and recommended them to the Board for approval.

# Your Board *(continued)*

## Board Governance

### Conflicts of Interest

The Board has an approved Conflicts of Interest Policy which sets out how actual, potential or perceived conflicts of interest are to be identified, reported and managed to ensure that Directors act at all times in the best interests of the Group. This policy is reviewed on an annual basis.

The Group Code of Conduct, which applies to all employees and Directors of the Group, clarifies the duty on all employees to avoid conflicts of interests. The Code of Conduct is reviewed on an annual basis and communicated throughout the Group.

### Time Commitment

The Group ensures that individual Board Directors have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships which may be held by any individual Director. The Company and the Bank have each been classified as 'significant institutions' under the European Union (Capital Requirements) Regulations 2014 (the 'Regulations'). During the year ended 31 December 2018, all Directors were within the directorship limits set out for significant institutions under the Regulations.

All newly-appointed Directors are provided with a comprehensive letter of appointment detailing their responsibilities as Directors, the terms of their appointment and the expected time commitment for the role. A copy of the standard terms and conditions of appointment of Non-executive Directors can be inspected during normal business hours by contacting the Group Secretary. Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings and briefings, preparation time for meetings and visits to business units. In addition, NEDs are normally required to sit on at least one Board Committee, which involves the commitment of additional time. Certain NEDs, such as the Deputy Chairman, SID and Committee Chairmen, are required to allocate additional time in fulfilling those roles.

### Term of Appointment and Re-election of Directors

NEDs are normally appointed for an initial three year term, with an expectation of a further term of three years, assuming satisfactory performance and subject to the needs of the business, shareholder re-election and continuing fitness and probity. On recommendation by the GN&GC, in order to maintain continuity and succession on the Board and its Committees, the Board approved the proposal that Patrick Haren and Patrick Mulvihill would be requested to serve for a third term of three years and that Kent Atkinson would be requested to serve for one further year, starting from the AGM to be held in April 2018.

A NED's term of office will not extend beyond nine years in total unless the Board, on the recommendation of the GN&GC, concludes that such extension is necessary due to exceptional circumstances. In respect of Executive Directors, no service contract exists between the Company and any Director which provides for a notice period from the Group of greater than one year. None of the NEDs has a contract of service with the Group.

It is Group practice that, following evaluation, all Board Directors are subject to annual re-election by shareholders. All Directors retired at the AGM held on 20 April 2018. The following Directors, being eligible, offered themselves for election and were elected at the AGM in 2018: Kent Atkinson, Richard Goulding, Patrick Haren, Archie G Kane, Andrew Keating, Patrick Kennedy, Davida Marston, Francesca McDonagh, Fiona Muldoon and Patrick Mulvihill.

The names of Directors submitted for election or re-election are accompanied by sufficient biographical details and any other relevant information in the AGM documentation to enable shareholders to take an informed decision on their election.

### Roles and Responsibilities

The structure of governance for BOIG plc operates as follows in that it has:
- delegated authority to the Group CEO;
- a Board Terms of Reference in place for the Group; and
- Board Committees in place including Audit, Risk, Nomination and Governance and Remuneration Committees.

# Your Board *(continued)*

## Board Governance *(continued)*

### Organisational Structure

The Group believes it has robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks to which it is or might be exposed and appropriate internal control mechanisms, including sound administrative and accounting procedures, IT systems and controls. The system of governance is subject to regular internal review. These governance arrangements provide systems of checks and controls to ensure accountability and drive better decision-making, and also include policies and practices which ensure that the Board and its Committees operate effectively.

The Group's overall control systems include a clearly defined organisation structure with defined authority limits and reporting mechanisms to higher levels of management and to the Board, which support the maintenance of a strong control environment. Corporate and capital structure is a matter requiring Board approval. In accordance with section 225(2) of the Companies Act 2014, the Directors acknowledge that appropriate structures that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations (as defined in section 225(1)) have been put in place. The Board reviews annually the corporate legal structure of the Group and any changes to the structure of the Group effected since the Board's previous review.

### Subsidiary Governance

The interaction between the Group Board and the Boards of our strategically significant subsidiaries are closely monitored. The Chairman meets regularly with the Chairmen of these subsidiaries in order to ensure good communication and alignment. The Board reviews the performance of these significant subsidiaries, and as part of its oversight of significant subsidiaries, the Board visited the UK business including holding one Board meeting in the UK. Ian Buchanan is also a NED of BOI UK plc.

The Chairmen of Group Board Committees attend the equivalent committees of the strategically significant subsidiaries once a year.

In 2018, the Board reviewed the Group Subsidiary Governance Policy including the New Subsidiary / Entity process document, which sets out the required procedure should any party in the Group wish to set up a new Group subsidiary or entity in which the Group will have a controlling interest.

The Group has commenced a new corporate simplification programme designed to remove a number of subsidiaries from the Group. The purpose of this programme is to achieve a simplification of the corporate structure with a view to generating efficiencies and cost savings.

### Operational Structure

In 2018, the Group announced a number of changes to the Group's operational structure. These changes will ensure that the Group is structured effectively to achieve the Group's ambition, purpose and transformation. The new structure complements the review of the Group's organisational design to simplify the organisation.

The Group launched its strategic priorities in 2018, and redefined the Group's Target Operational Model (TOM). The guiding principles of the TOM design are aligned with the Group's purpose, values and strategic priorities.

### Our Business Model

We have strong businesses with competitive strengths in attractive markets, which enable us to create sustainable value for our stakeholders:
- Ireland's leading retail and commercial bank with #1 or #2 market share in all principal product lines;
- Extensive distribution network, Ireland's only bancassurer;
- A diverse portfolio of profitable businesses in the UK and internationally;
- A strong track record of credit risk management with commercial pricing and risk discipline.

We have targeted a number of changes to the business model in order to transform the bank:
- cost base to decline year on year to 2021;
- income growth; and
- strengthened culture.

One of the Group's strategic priorities is to serve customers brilliantly, which we will achieve by embedding the voice of the customer in our businesses, investing in digital and physical channels and through a new brand strategy.

# Report of the Group Nomination and Governance Committee

**Patrick Kennedy**
Chair

Dear Shareholders,

## Membership and meetings

At close of business on 31 December 2018, the Group Nomination and Governance Committee (the 'Committee' or the 'GN&GC') comprised Patrick Kennedy, Patrick Haren and Evelyn Bourke. Patrick Kennedy succeeded Archie Kane as Chair of the Board and the Committee on 1 August 2018, following Archie's retirement from those roles. Biographical details, including each member's background and experience, are set out on pages 115 to 118.

The Committee met six times in 2018. The Chair and Members of the Committee, together with their attendance at meetings, are shown below. The Group Chief Executive is invited to attend meetings. The Committee meets annually with no management present.

## Role and responsibilities

The key responsibilities of the Committee are set out in its terms of reference (which are available on www.bankofireland.com) and include:

- leading the process for appointments and renewals for the Board and Board Committees and succession planning for key board roles;
- overseeing the process for appointments and renewals of the Boards of substantial regulated subsidiaries;
- with the support of the Group Secretary, keeping Board governance arrangements under review and making appropriate recommendations to the Board to ensure corporate governance practices are consistent with high corporate governance standards;
- overseeing subsidiary governance to ensure that appropriate and proportionate governance arrangements are in place for Group subsidiaries; and
- overseeing senior management succession.

### Matters considered by the Committee

The principal matters considered and actions taken by the Committee during the year are described on page 131.

**Group Nomination and Governance Committee Meetings**

| GN&GC meetings | Eligible to attend | Attended |
|---|---|---|
| Archie G Kane[1] | 4 | 4 |
| Patrick Kennedy | 6 | 6 |
| Patrick Haren | 6 | 6 |
| Evelyn Bourke[2] | 3 | 3 |
| Fiona Muldoon[3] | - | - |

### Board Composition, Succession and Diversity

The Committee continued to keep under review the structure, size and composition of the Board and its Committees.

Acknowledging the tenure of a number of Board members in 2018, the Committee devoted considerable time to succession planning and recruitment of a new Chairman, Deputy Chairman and three new NEDs, all of whom were appointed during the year. Details of the process are set out on page 120.

The Committee engaged Russell Reynolds, an international search agency to support the director searches and considered a number of potential candidates in each case, leading to the appointment of NEDs Evelyn Bourke and Ian Buchanan in May 2018 and Steve Pateman in September 2018. The process to appoint Patrick Kennedy as Chairman is described on page 113. The Committee also oversaw the succession of Patrick Haren to the role of Deputy Chairman, succeeding Patrick Kennedy. Changes to the memberships of the Committees of the Board were made to ensure smooth succession and renewal. Other than in connection with the appointment of the NEDs, Russell Reynolds has no connection with the Group.

As part of the process of succession planning and determining the appropriate range and mix of skills required to maintain an effective Board, each member of the Board is requested to self-assess against the skills template introduced in 2017 in the EBA Guidelines on Suitability of Management Body Members and Key Function Holders. This assessment provided the Committee with valuable analysis of the skills and experience of Board members, relative to required and desirable Board competencies, and contributes to ensuring that the Board continues to have an appropriate range and depth of skills and experience.

The Group recognises the benefits of having a diverse Board and workforce, creating a work environment where everyone has an opportunity to fully participate in creating business success, and where each person is valued for his or her distinctive skills, experiences and perspectives. In reviewing Board composition and identifying suitable candidates, the Committee considers the benefits of all aspects of diversity including the skills identified as relevant to the business of the Group, regional and industry experience, background, nationality, gender, age and other relevant qualities in order to maintain an appropriate range and balance of skills, experience and background on the Board. All Board appointments are made on merit, in the context of the skills, experience, independence and knowledge which the Board as a whole requires to be effective.

[1] *Retired 31 July 2018*
[2] *Appointed 17 May 2018*
[3] *Appointed 20 January 2019.*

# Report of the Group Nomination and Governance Committee *(continued)*

**Matters considered and action taken by the GN&GC in 2018**

| Key issue | Committee considerations | Committee conclusion |
|---|---|---|
| **Board Composition, renewal, succession and effectiveness** | • Board skills assessment, composition, diversity, size, tenure, succession planning.<br>• Committee composition and succession planning.<br>• NED recruitment and appointments, including Fitness and Probity assessments.<br>• Effectiveness Reviews of Board, Chairman and Individual Directors. | Board appointments during the year were made to enhance the composition, diversity and skills profile of the Board, replacing skills of retiring Directors and introducing additional skills, experience and perspectives that equip the Board to address the strategic challenges facing the Group. The Board remains effective. |
| **Executive** | • Senior Executive succession planning and appointments, including Fitness and Probity assessments.<br>• Review of UK Individual Accountability Regime. | The Committee supported the Group CEO's renewal of the Group Executive and succession planning for key roles. |
| **Governance** | • Corporate Governance Statement.<br>• Matters Reserved to Board and delegations.<br>• Code of Conduct and Speak Up Policy and review of effectiveness.<br>• Updates to key corporate governance codes and regulations including UK Corporate Governance Code and EBA Guidelines on Internal Governance and Suitability. | The Committee approved changes to ensure that new corporate governance requirements are met. They approved the communication on corporate governance with key stakeholders through the Corporate Governance Statement. They reviewed the appropriateness and effectiveness of the Group's Code of Conduct and Speak Up Policy. |
| **Policies** | • Board Terms of Reference.<br>• Board Conflicts of Interest Policy.<br>• Director Assessment Policy and Key Function Holders Assessment Policy.<br>• Board Diversity Policy.<br>• Board Training and Induction Policy. | The Committee was satisfied that the key board policies are appropriate and effective. |
| **Subsidiary Governance** | • Appointments to boards of substantial regulated subsidiaries.<br>• Subsidiary Governance Policy and Guidelines.<br>• Review of composition and succession plans of key subsidiary Boards.<br>• Review of effectiveness of key subsidiary Boards.<br>• Pension Scheme trustee appointments. | The Committee ensured that the boards of subsidiaries are properly composed with suitable directors and sound governance and that Group oversight of subsidiaries is appropriate. |
| **Committee Governance** | • Committee Effectiveness Review<br>• Committee Terms of Reference | The Committee remains effective. |

During 2018 the Committee reviewed the Board Diversity Policy (the latest version of which is available on the Group's website) and the measurable objectives set out thereunder. The Board has set a target of achieving a minimum of 33% female representation on the Board for the year ending 31 December 2020. As at 31 December 2018 there was 27% female representation on the Board. In 2018, the Group made further progress in addressing diversity in the Group's workforce through its Inclusion and Diversity Programme, which recognises that developing and utilising the skills and perspectives of all our employees is critical to the Group's ongoing business success.

The Committee also devoted considerable time to senior executive succession planning and appointments, including Fitness and Probity Assessments.

### Governance Matters

The Committee keeps under review updates to corporate governance and regulations and briefs the Board on their implementation. In 2018, the Committee oversaw the implementation of the EBA Guidelines on Internal Governance, and on the Assessment of the Suitability of the Management Body Members and Key Function Holders (March 2018) amongst

# Report of the Group Nomination and Governance Committee *(continued)*

other matters. It also considered the changes required to comply with the UK Corporate Governance Code (July 2018) which will become effective for the financial year 2019.

**Effectiveness Reviews**

The Committee oversaw the annual review of the effectiveness of the Board and its Committees, including the Group Nominations and Governance Committee, which was conducted internally in 2018. For further details, see page 121.

**Patrick Kennedy**
Chair of the Group Nomination and Governance Committee

22 February 2019

# Report of the Group Remuneration Committee

**Patrick Haren**
Chair

Dear Shareholders,

## Membership and meetings

At close of business on 31 December 2018, the Group Remuneration Committee (the 'Committee' or the 'GRC') comprised four independent NEDs from diverse backgrounds to provide a balanced and independent view on remuneration matters. Its composition is compliant with the requirements of the Irish Code and CRD IV, and with the recommendations of the UK Code.

Steve Pateman was appointed to the GRC on 10 September 2018 and Archie G. Kane resigned from the GRC on 31 July 2018. In order to ensure that remuneration policies and procedures are consistent with effective risk management, there is common membership between the GRC and the Board Risk Committee. Kent Atkinson, Richard Goulding and Steve Pateman were members of both Committees in 2018. Biographical details, including each member's background and experience, are set out on pages 115 to 118.

The GRC met eleven times in 2018. The Members of the GRC, together with their attendance at meetings, are shown below. The Chairman, the Group Chief Executive, Head of Group HR and the Head of Group Performance and Reward are invited to attend meetings as appropriate.

## Role and responsibilities

The GRC holds delegated responsibility from the Board of Directors for the oversight of Group-wide remuneration policy with specific reference to the Chair, Directors and senior management across the Group, and those employees whose activities have a material impact on the Group's risk profile.

The GRC is responsible for overseeing the annual review of the Group Remuneration Policy with input from the Board Risk Committee and relevant risk management functions Committee.

The remuneration of NEDs is determined and approved by the Board. Neither the Chair nor any Director participates in decisions relating to their own personal remuneration.

The Group is currently operating under a number of remuneration restrictions which cover all Directors, senior management, employees and certain service providers across the Group. For further information, please see page 150 of the Remuneration Report.

Mercer Kepler are the current external advisors to the Group Remuneration Committee and also provided remuneration services to the Remuneration Committee of Bank of Ireland UK plc.

The Committee is of the view that Mercer Kepler provides independent remuneration advice to the Committee and to the Remuneration Committee of Bank of Ireland UK plc, and does not have any connections with the Group that may impair its independence.

## Matters considered by the GRC

The matters considered, and action taken by the GRC during the year are set out below. The Chair of the GRC, reported to the Board after each meeting to ensure all Directors were fully informed of the GRC's activities.

**Group Remuneration Committee Meetings**

| GRC meetings | Eligible to attend | Attended |
|---|---|---|
| Patrick Haren | 11 | 11 |
| Kent Atkinson | 11 | 10 |
| Richard Goulding | 11 | 11 |
| Steve Pateman | 4 | 4 |
| Archie G Kane | 7 | 7 |

# Report of the Group Remuneration Committee *(continued)*

**Matters considered and action taken by the GRC in 2018**

| Key issue | Committee considerations | Committee conclusion |
|---|---|---|
| **Remuneration Policy, including impact of risk profile.** | • Approval of Group Remuneration Policy and of governance and monitoring of that policy.<br>• Review of group risk profile and implications of remuneration policies for risk and risk management.<br>• Design of a potential incentive scheme, including scope, reflection of risk, and application at various levels, including Executive Directors.<br>• Governance of potential incentive scheme.<br>• Design of Organisational Balanced Scorecard.<br>• Investor perspectives on potential incentive scheme. | • Current Remuneration Policy is properly governed and implemented and does not lead to inappropriate risk taking.<br>• Any potential incentive scheme design will be subject to removal of relevant restrictions and shareholder approval. |
| **Remuneration Disclosure** | • Annual Report - Remuneration Report.<br>• Pillar 3 disclosures.<br>• Design of Remuneration Report and disclosures if an incentive scheme is introduced. | • Current disclosures are appropriate.<br>• Future disclosures should reflect good practice and shareholder expectations. |
| **Performance and Remuneration of Senior Management** | • Objective setting and performance appraisal of Senior Executives.<br>• Review of approach to remuneration of Senior Officers.<br>• Benchmarking and approval of changes to remuneration of senior executives. | • There is an appropriate process in place to assess the performance of senior executives.<br>• Changes to senior executive remuneration are properly assessed and approved. |
| **Governance and review of remuneration practice.** | • Approval of Group Material Risk Taker Policy.<br>• Approval of Group Code Role Holder Policy and review of Code Role Holders.<br>• Approval of remuneration of Senior Officers in Independent Control Functions.<br>• Review of top earners.<br>• Review of regulatory developments.<br>• Review of internal audits relevant to remuneration policy or practice. | There is good governance around remuneration particularly of those who could materially impact the Group's risk profile. |
| **NED fees** | Review and benchmarking of fees paid to the Group Chairman, Group NEDs and NEDs of subsidiary boards. | Group NED fees are subject to remuneration restrictions. Subsidiary NED fees are appropriate. |
| **Committee Governance** | Review of Committee Terms of Reference and effectiveness. | The Committee is effective. |

**Patrick Haren**
Chair of the Group Remuneration Committee

22 February 2019

# Report of the Group Audit Committee

**Patrick Mulvihill**
Chair

Dear Shareholders,

2018 was a year of significant change for the Group Audit Committee (the 'Committee' or the 'GAC'). Patrick Mulvihill was appointed Chair of the Committee replacing Kent Atkinson in this role. Evelyn Bourke, Richard Goulding, and Steve Pateman were appointed to the Committee. The Committee oversaw the change in external Auditor from PricewaterhouseCoopers to KPMG following the tender process in 2017.

Over half of the Committee's time is typically spent on financial reporting and the integrity of information provided to external parties. In 2018 it focused on assessing judgements and outcomes relating to asset quality, various material accounting judgements and conduct matters. The Committee also oversaw the preparation for various new accounting standards and regulatory requirements, including the first year of reporting under IFRS 9 'Financial Instruments'.

The external environment for the Group continues to evolve from both a regulation and competition perspective. As a result the Group is in the process of transforming its business model and ways of working. This creates challenges for financial reporting and internal controls, and the Committee has already spent significant time considering the implications of this significant level of change.

This report covers in more detail how the Committee operates and the matters on which it focused.

## Committee purpose and responsibilities

The purpose of the Committee is to monitor and review the integrity of the Group's financial reporting arrangements, the effectiveness of the Group's internal controls (including over financial reporting) and the risk management framework, whistleblowing arrangements and each of the internal and external audit processes, including the statutory audit of the consolidated financial statements and the independence of the statutory Auditor.

The Committee reports to the Board on how it discharges its responsibilities and makes recommendations to the Board. A full list of responsibilities is detailed in the Committee's terms of reference, which can be found at https://www.bankofireland.com/about-bank-of-ireland/corporate-governance/. The Committee monitors and reviews the Group's financial and reporting arrangements as detailed within the Transparency Regulations; the production of periodic financial reports, disclosure of major shareholdings, and dissemination of regulated information.

During the year the Committee considered a number of topics relating to the Group's financial reporting. These matters are summarised on the next page, including discussion of the conclusions the Committee reached, and the key factors considered by the Committee in reaching its conclusions.
In addition, the Committee considered a number of other significant topics not related directly to financial reporting, including internal controls, internal audit and external audit. These matters are also discussed in detail in the next section, including insight into the key factors considered by the Committee in reaching its conclusions.

## Committee composition, skills and experience

The Committee acts independently of the executive to ensure that the interests of the shareholders are properly protected in relation to financial reporting and internal control. All members of the Committee are independent NEDs with competence in the financial sector and their biographies can be found on pages 115 to 118. Kent Atkinson and Patrick Mulvihill have extensive knowledge of financial markets, treasury, risk management and international accounting standards, and are the members with recent and relevant financial experience for the purposes of the UK Corporate Governance Code.

The members of the Committee keep their skills up to date with Board deep dives and Audit Committee training. A key focus of specific Audit Committee training this year was IFRS 9. During the course of the year, the Committee held separate sessions with the internal and external audit teams, without members of the executive management present. The Committee undertakes an effectiveness review annually and this year concluded that it continues to be effective.

Details of the Committee's membership and meeting attendance are shown below. The Head of Group Finance, the Group Chief Internal Auditor, the external Auditor, the Group Chief Executive, the Chief Financial Officer and the Group Chief Risk Officer also attend meetings of the Committee as appropriate.

**Group Audit Committee Meetings**

| GAC meetings | Eligible to attend | Attended |
|---|---|---|
| Kent Atkinson | 10 | 10 |
| Eveyln Bourke | 5 | 5 |
| Richard Goulding | 4 | 4 |
| Patrick Haren | 7 | 7 |
| Patrick Kennedy | 7 | 7 |
| Davida Marston | 8 | 8 |
| Patrick Mulvihill | 10 | 10 |
| Steve Pateman | 3 | 3 |

# Report of the Group Audit Committee *(continued)*

**Financial Reporting**
During the year, the Committee considered the following matters in relation to the Group's financial statements and disclosures, with input from management, GIA and the external Auditor. Further information on some of these significant items is set out in the Critical Accounting Estimates and Judgements on pages 192 to 195.

Overall the Committee was satisfied that the Annual Report, including the financial statements, is fair, balanced and understandable.

**Matters considered and action taken by the GAC in 2018**

| Key issue | Committee considerations | Committee conclusion |
|---|---|---|
| **IFRS 9 and impairment of financial instruments** | The Committee reviewed management papers and discussed and challenged management judgements used in determining the following based on IFRS 9 requirements:<br>• impact on shareholders' equity of transition to IFRS 9 on 1 January 2018;<br>• correct classification and measurement of financial instruments;<br>• opening and closing stage allocations and stock of impairment loss allowance (including any necessary Group management adjustments to reflect model limitations and / or late breaking events);<br>• net impairment gain for the reporting period; and<br>• quantum of NPEs.<br><br>The Group's approach to the measurement of impairment is set out in the Group Impairment Policy. The policy includes the Group's criteria for allocating financial instruments to stages, the method used to measure impairment for each material portfolio, core impairment model methodologies, and the criteria for classifying financial assets as NPEs. The policy has been approved by the Board on the recommendation of the Committee, following recommendation by the Impairment Committee and the GRPC.<br><br>The impairment models are approved for use by the RMC and are maintained and executed by a specialist central unit within Group Risk. The Committee reviewed the impact of key model changes made during the reporting period.<br><br>The Board Risk Committee (BRC), on a semi-annual basis, provides observations on the Group's asset quality management and profile to the GAC and this serves as an input into the GAC's assessment of year end impairment loss allowances.<br><br>Further information on the impact of the transition to IFRS 9 on 1 January 2018 is set out in note 65 on page 283 to the consolidated financial statements. | The Committee was satisfied that the impact of transition to IFRS 9 had been appropriately determined and that the associated disclosures were appropriate based on the relevant accounting and disclosure standards, principally IFRS 7 and IAS 8.<br><br>The Committee was satisfied that the opening and closing stage allocations and impairment loss allowances, and the net impairment gain for the reporting period, had been appropriately determined in accordance with the Group's methodologies and relevant accounting standards. The Committee was also satisfied that the associated disclosures were appropriate based on the relevant accounting standards including IFRS 7. |
| **Deferred taxation** | The Committee considered the extent of deferred tax assets (DTAs) to be recognised in respect of unutilised tax losses, and in particular the projections for future taxable profits against which those losses may be utilised. In order for the Group to recognise these assets, it must be probable that sufficient future taxable profits will be available against which the losses can be utilised.<br><br>The Group has prepared financial projections which are being used to support the Group's Internal Capital Adequacy Assessment Process (ICAAP). The financial projections are prepared for the purpose of the Group's assessment of its capital adequacy. They are subjected to considerable internal governance at a divisional and Group level and are reviewed and approved by executive management and the Board. Management's assessment of the projections determined that it was probable that there would be sufficient taxable profits in the future to recover the DTA arising from unused tax losses. | The Committee discussed with management its assessment of the recoverability of the DTA and the related disclosures. The Committee and the Board concluded that it was probable that there would be sufficient taxable profits in the future to recover the DTA arising from unused tax losses, and that the related disclosures were as required under IAS 12 'Income Taxes'. |
| **Intangible assets - Capitalisation of the Transformation Investment asset** | The Committee considered the appropriateness of Management's internal controls and governance surrounding the capitalisation of costs associated with internally generated intangible assets associated with the current Transformation Investment asset. | The Committee was satisfied, based on the effective operation of governance and controls, that the capitalisation of costs relating to the Transformation Investment asset, and the carrying value of the related intangible assets, was reasonable and in line with the requirements of IFRS. |

# Report of the Group Audit Committee *(continued)*

| Key issue | Committee considerations | Committee conclusion |
|---|---|---|
| **Life assurance accounting** | The Committee considered management's key assumptions and judgements used in determining the valuations of the ViF business and insurance contract liabilities. The key assumptions in projecting future surpluses and other net cash flows attributable to the shareholder arising from business written were the interest rate and unit growth rate, lapse rates, mortality, morbidity and expenses. Interest rates and unit-growth rates are based on a range of duration specific rates determined by a risk free yield curve. This yield curve is provided by the European Insurance and Occupational Pensions Authority (EIOPA). | The Committee was satisfied that the significant assumptions are appropriately applied and that the accounting for the Group's ViF business and insurance contract liabilities is appropriate. |
| **Retirement benefit obligations** | The Committee considered management's key assumptions and judgements used in determining the actuarial values of the liabilities of each of the Group's sponsored DB pension schemes under IAS 19 'Employee Benefits'. Management considered advice from independent actuaries, Willis Towers Watson, for the determination of significant actuarial assumptions including discount rates and inflation. The key assumptions proposed by management and considered by the Committee were assumptions relating to inflation rates, demographic assumptions and discount rates in Ireland and the UK which are used in determining liabilities at the reporting date. | The Committee was satisfied that the inflation rates, discount rates and other significant assumptions were appropriate and that the accounting for the Group's sponsored DB pension schemes and related disclosures was in accordance with IAS 19. |
| **BOIG plc's investment in the Bank** | In relation to the financial statements of the Company, the Committee considered management's assessment of the recoverability of the Company's investment in the Bank, which arose from the corporate reorganisation of 7 July 2017. | The Committee considered management's assessment of both the fair value of the investment, based on the share price of the Company with appropriate adjustments, and its value in use, based on the financial projections set out in the Group's business plan. The Committee was satisfied that the higher of fair value and value in use was in excess of the carrying value of the investment, and that no impairment charge was required. For further information see note c on page 295 in the Company financial statements. |
| **Going concern** | The Committee considered management's assessment of the appropriateness of preparing the financial statements of the Group for the year ended 31 December 2018 on a going concern basis. In making this assessment, matters considered include the performance of the Group's business, profitability projections, funding and capital plans, under both base and plausible stress scenarios. The considerations assessed by the GAC are set out on page 175 in the Going Concern disclosure within the Accounting Policies in note 1 to the consolidated financial statements. | On the basis of the review performed and the discussions with management, the Committee was satisfied that there were no material uncertainties related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern over the period of assessment. This assessment together with the Going Concern disclosure (as set out on pages 175 and 176) was subsequently approved by the Board. |
| **IT operational risk** | The Committee considered and discussed management's assessment of IT risks and the ongoing risk management programme to identify, rate, mitigate and report on IT risks, including GIA's review of the internal control considerations related to the Group's IT investment programme. | On the basis of the review performed, discussions with management, and the continued operation of the comprehensive internal control framework over financial reporting, the Committee was satisfied that these risks did not impact financial reporting. |

# Report of the Group Audit Committee *(continued)*

## Other responsibilities
The following matters were also considered by the Committee during the year:

**Risk management and internal control systems**
Full details of the internal control and risk management systems in relation to the financial reporting process are detailed within the risk management section on pages 60 to 111.

Specific matters that the Committee considered for the year included:
- the effectiveness of systems for internal control, financial reporting and risk management;
- the extent of the work undertaken by the Finance teams across the Group and consideration of the resources required to ensure that the control environment continued to operate effectively; and
- findings of internal investigations into control weaknesses, fraud or misconduct and management's response along with any control deficiencies identified through the assessment of the effectiveness of the internal controls over financial reporting process.

The Committee was satisfied that internal controls over financial reporting were appropriately designed and operating effectively.

## Group Internal Audit
In monitoring the activity, role and effectiveness of the internal audit function and their audit programme the Committee:
- monitored the effectiveness of GIA and their audit programme through quarterly reports on the activities undertaken;
- approved the annual audit plan and budget, including resources and reviewed progress against the plan through the year;
- reviewed progress in the implementation of the GIA strategy; and
- considered the findings of significant internal audits, management's response and the timeliness of remediation of issues.

## Auditor independence and remuneration
Both the Board and the external Auditor have safeguards in place to protect the independence and objectivity of the external Auditor. The Committee continues to operate a policy to regulate the use of the Auditor for non-audit services to ensure compliance with the revised Ethical Standards for Auditors (Ireland) 2017 from the Irish Auditing Accounting Standards Authority (IAASA).

In order to ensure the objectivity and independence of the external Auditor, the policy sets a financial threshold above which all non-audit services provided by the external Auditor must be approved in advance by the Committee, with additional provision made for the approval of non-material services which are below the threshold by certain members of senior management. The policy further formalises within the Group the restriction on the provision of non-audit services by the external Auditor.

The fees paid to KPMG for the year ended 31 December 2018 amounted to €3.9 million (PricewaterhouseCoopers 2017: €6.0 million), of which €0.6 million (2017: €2.4 million) was payable in respect of non-audit services. Non-audit services represented 15% of the statutory audit fee (2017: 66%). Further information on fees paid in respect of audit and non-audit services, along with details of non-audit services provided during the year are set out in note 16 to the consolidated financial statements 'Auditor's remuneration'.

## External Auditor
The Committee oversees the relationship with the external Auditor. During the year, the Committee's focus was ensuring a successful handover from PricewaterhouseCoopers, the Group's sole Auditor from 1990 to 2017, to KPMG.

The Committee considered the Auditor's terms of engagement (including remuneration), its independence and objectivity and approved the plans for the interim review and year end audit. The Committee also assessed the Auditor's findings, conclusions and recommendations arising from the interim review and year-end audit. Niamh Marshall is KPMG's statutory audit partner for the Group and attends all meetings of the Committee.

The Committee concluded that it was satisfied with the Auditor's performance and recommended to the Board a proposal for the reappointment of the auditor, to be approved at the Company's AGM.

The Committee also considered a number of global audit quality matters and met with KPMG to discuss how the firm was responding to these challenges.

## Other focus areas
The Committee dedicated time to review and oversee a number of key programmes with potential financial reporting impact - GDPR, BCBS239 and the Regulatory Reporting Improvement Programme.

The Committee also reviewed talent development and succession planning for the finance function.

**Patrick Mulvihill**
Chair of the Group Audit Committee

22 February 2019

# Report of the Board Risk Committee

**Richard Goulding**
Chair

Dear Shareholders,

The Board Risk Committee (the 'Committee' or the 'BRC') continues to give detailed consideration to existing and emerging risks, through a balanced agenda which ensures sufficient focus on standing areas of risk management through the Group Risk Framework, together with specific attention being given to those emerging risks which are considered to be of ongoing importance to the Group and its customers. The latter included areas such as transformation risk, IT resilience and cyber security, where the dynamic nature and significance of related risks and challenges continue to evolve.

Focus has also been given to regulatory risk, including that related to change programmes, proactive identification and resolution of conduct issues, and uplifting the Group's operational risk framework and capability. Progress across each of these areas will be a key ongoing focus for the Committee during 2019.

The environment within which the Group operates continues to be subject to considerable change. Uncertainties, including the UK exit from the EU and wider geo-political risks continue to provide challenges, and the Committee will continue to monitor developments and any associated impact on the Group's risk profile.

The Committee concluded that the Group continues to have strong discipline in the management of both emerging and existing risks, and the Committee's work continues to help support the Group in safely achieving its purpose and strategy.

## Risk Management - Discussions and Decisions

Key matters covered included:

- recommending the Group's Risk Appetite Framework and Risk Appetite Statement. Considering breaches of risk appetite, remediation plans and required communications;
- recommending policies for Credit, Market and Liquidity risks and approving other key risk policies;
- regularly assessing the Group's overall risk profile and emerging risk themes, hearing directly from the Group Chief Risk Officer and reviewing the monthly consolidated risk report and risk appetite dashboard;
- receiving reports on the Group's operational and technology capability, including specific updates on cyber risk capability, IT stability and IT Service Continuity Management (ITSCM);
- recommending the Group's plan for managing NPEs, a key driver of managing legacy credit risk;
- recommending the Group's 2018 ICAAP, ILAAP and Recovery Plan; and
- hearing from representatives of the ECB and CBI regulators about regulatory expectations and their specific views on the Group.

## Committee purpose and responsibilities

The Committee is responsible for the risk culture of the Group and setting the tone from the top in respect of risk management. It is also responsible for ensuring the risk culture is fully embedded and supports at all times the Group's agreed risk appetite, covering the extent and categories of risk which the Board considers acceptable for the Group.

In seeking to achieve this, the Committee assumes responsibility for monitoring the Group's Risk Management Framework, which embraces risk principles, policies, methodologies, systems, processes, procedures and people. It also includes the review of new, or material amendments to, risk principles and policies, and overseeing any action resulting from material breaches of such policy. More details on the Group's wider approach to risk management can be found in the risk management report on page 60. Full details of the Committee's responsibilities are set out in its terms of reference, which can be found at https://www.bankofireland.com/about- bank-of-ireland/corporate-governance/.

## Committee composition, skills and experience

Richard Goulding, Chair of the Committee, is a highly regarded retail and commercial banker, having been the Group Chief Risk Officer and Executive Director at Standard Chartered Bank and has substantial operations management experience. The Committee is composed of independent NEDs, who provide core banking and risk knowledge, together with breadth of experience which brings knowledge from other sectors, and a clear awareness of the importance of putting the customer at the centre of all that the Group does.

The Group Chief Risk Officer has full access to the Committee and normally attends meetings. The Group Chief Internal Auditor and members of the Executive also attend meetings, as appropriate.

During the year the Committee met its key objectives and carried out its responsibilities effectively. Details of Committee membership and meeting attendance are shown below.

**Board Risk Committee Meetings**

| BRC meetings | Eligible to attend | Attended |
|---|---|---|
| Kent Atkinson | 12 | 11 |
| Ian Buchanan | 7 | 7 |
| Richard Goulding | 12 | 12 |
| Patrick Kennedy | 8 | 8 |
| Fiona Muldoon | 12 | 12 |
| Patrick Mulvihill | 12 | 12 |
| Steve Pateman | 4 | 4 |

# Report of the Board Risk Committee *(continued)*

**Matters considered and action taken by the BRC in 2018**

| Key issue | Committee considerations | Committee conclusion |
|---|---|---|
| **Credit Risk** | Credit quality continues to improve as the Group's key economies perform strongly.<br><br>The Committee considered overall credit quality during the year and the Group's strategy and operating plan for NPEs. The Committee also reviewed residual risk in the motor finance portfolio, sectors most exposed to Brexit and concentrations in the mortgage portfolio. | Credit portfolios continue to perform well. NPEs continue to decrease in line with the approved NPE strategy, albeit they remain higher than long-term appetite. |
| **Capital Adequacy** | Regular reviews are undertaken to ensure that Regulatory and Fully Loaded capital ratios have appropriate buffers above the Group's own minimum targets and regulatory requirements.<br><br>The Committee considered the impacts of future capital requirement and capital availability and reviewed in detail the Internal Capital Adequacy Assessment Process, including under stress scenarios. | The Group holds sufficient capital to deliver its planning horizon. |
| **Funding and Liquidity Risk** | Regular reviews are undertaken to ensure that the Group is compliant with all risk appetite measures and regulatory liquidity requirements.<br><br>The Committee reviewed the results of regular stress testing and of the Internal Liquidity Adequacy Assessment Process. | The Group continues to be fully compliant and has no issues with market access or pricing. |
| **Market Risk** | Regular reviews are undertaken to ensure that the Group is compliant with all risk appetite measures across credit spread risk, discretionary risk, VaR and scenario based stress testing.<br><br>The Committee reviewed the results of regular market risk reporting and considered the impacts of emerging market developments including Brexit. | The Group continues to operate within risk appetite in this area. |
| **Pension Risk** | The Group is exposed to Pension Risk as a consequence of its sponsorship of the Group's DB pension schemes. The key sensitivities associated with Pension Risk are outside the control of the Group. | The Group continues to take asset and liability management actions in order to reduce volatility and consequent capital impact.<br><br>The Group has made, and continues to make progress. |

# Report of the Board Risk Committee *(continued)*

| Key issue | Committee considerations | Committee conclusion |
|---|---|---|
| **Operational Risk** | Managing operational risk continues to be a key focus within the Group due to the complexity and volume of change, the Group's IT infrastructure, cyber risk and reliance on third party suppliers.<br><br>The Committee continues to focus on ensuring the Group has an effective framework for managing operational risk, including enhancing the use of key risk and control indicators and residual risk reporting. The Committee has considered a number of reports in relation to operational risk framework across cyber, IT, sourcing, information security, data and business continuity. | The Group has made progress in its management of operational risk. The Group will continue to focus on enhancing the maturity of the framework during 2019. |
| **Regulatory Risk** | Managing regulatory risk continues to be a key focus for the Group due to the complexity and volume of change and interdependent regulatory reform to be managed.<br><br>The Committee continues to focus on ensuring there are sufficient controls over and oversight of compliance programmes. | The Group has placed significant focus on ensuring compliance with regulatory requirements. Regulatory risk will remain a key area of focus for the Committee in 2019 given the importance of continued compliance. |
| **Conduct Risk** | The Committee focused on the Group's management of conduct risk.<br><br>Throughout 2018, the Committee has considered reports on the resolution of customer conduct issues, with a particular focus on tracker mortgages. The pace and quality of remediation remained a focus, including root cause analysis to establish lessons learned and help prevent similar issues in the future. The Committee continues to consider developments in the Group's conduct culture as well as reports on rectification programmes, complaints and conduct risk appetite metric performance. | While good progress has been made in 2018, ongoing improvement in risk profile and embedding of conduct initiatives will remain a priority for the Group in 2019, and a subject of focus for the Committee. |
| **Business and Strategic Risk** | The Committee recognises the risks in delivering the agreed strategy, associated with the transformation agenda, customer expectations and regulatory change. | The Group is engaged in a significant programme to transform the bank, serve customers brilliantly and grow sustainable profits. It acknowledges the challenges faced with delivering this strategy whilst additionally enhancing systems and controls and meeting regulatory change.<br><br>New performance measures have been introduced to enable performance monitoring, risk management and the assessment of delivery. These will be further developed and embedded during 2019. |

# Report of the Board Risk Committee *(continued)*

| Key issue | Committee considerations | Committee conclusion |
|---|---|---|
| **IT and Information Security** | A resilient IT environment is critical to providing reliable services to customers, and meeting current and future demands. The risk of cybersecurity attacks, which target financial institutions and corporates as well as governments and other institutions, remains material as their frequency, sophistication and severity continue to develop in an increasingly digital world.<br><br>During the year, GTOC gave consideration to a wide range of issues, including cyber and IT controls, technology resilience and cybersecurity programme updates. The Committee also worked closely with GTOC, overseeing transformation to ensure appropriate prioritisation to risk management. | Whilst there has been significant improvement in cyber capability, IT resilience and transformation risk will remain areas of key focus during 2019 as the Group continues to invest in its infrastructure and replace core systems. |
| **Brexit** | There is still considerable uncertainty over the outcome of Brexit, including the possibility of a hard, disorderly one, and how this will impact on the markets in which the Group operates. | The Brexit risks impacting the Group are credit risk, business and strategic risk and operating model risk.<br><br>The Committee continues to oversee the Group's preparation and risk mitigations plans, which have been executed effectively. |

**Richard Goulding**
Chair of the Board Risk Committee

22 February 2019

# Attendance table

Attendance at scheduled meetings of the Board and its Committees during the year ended 31 December 2018.

| | Board | | Audit Committee | | Nomination & Governance Committee | | Remuneration Committee | | Risk Committee | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Name** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** | **A** | **B** |
| **Kent Atkinson** | 15 | 14 | 10 | 10 | - | - | 11 | 10 | 12 | 11 |
| **Evelyn Bourke**<br>*(appointed to Board, Audit and Nomination Committees 17 May 2018)* | 8 | 8 | 5 | 5 | 3 | 3 | - | - | - | - |
| **Ian Buchanan**<br>*(appointed to Board and Risk Committees 17 May 2018)* | 8 | 8 | - | - | - | - | - | - | 7 | 7 |
| **Richard Goulding**<br>*(appointed to Audit Committee 1 August 2018)* | 15 | 15 | 4 | 4 | - | - | 11 | 11 | 12 | 12 |
| **Patrick Haren**<br>*(resigned from Audit Committee 1 August 2018)* | 15 | 15 | 7 | 7 | 6 | 6 | 11 | 11 | - | - |
| **Archie G Kane**<br>*(resigned 31 July 2018)* | 11 | 11 | - | - | 4 | 4 | 7 | 7 | - | - |
| **Andrew Keating** | 15 | 15 | - | - | - | - | - | - | - | - |
| **Patrick Kennedy**<br>*(appointed as Chairman 1 August 2018)* | 15 | 15 | 7 | 7 | 6 | 6 | - | - | 8 | 8 |
| **Davida Marston**<br>*(resigned 30 September 2018)* | 12 | 12 | 8 | 8 | - | - | - | - | - | - |
| **Francesca McDonagh** | 15 | 15 | - | - | - | - | - | - | - | - |
| **Fiona Muldoon** | 15 | 15 | - | - | - | - | - | - | 12 | 12 |
| **Patrick Mulvihill**<br>*(appointed to Risk Committee on 1 January 2018 and Chair of Audit Committee on 20 April 2018)* | 15 | 15 | 10 | 10 | - | - | - | - | 12 | 12 |
| **Steve Pateman**<br>*(appointed to Board, Audit, Risk and Remuneration Committees 10 September 2018)* | 4 | 4 | 3 | 3 | - | - | 4 | 4 | 4 | 4 |

**Column A:** *Indicates the number of meetings held during the year the Director was a member of the Board and / or the Committee and was eligible to attend.*
**Column B:** *Indicates the number of meetings attended.*

# Report of the Directors

### Results
In 2018, the Group made a profit before tax of €835 million and an after tax profit of €675 million. Profit of €55 million is attributable to non-controlling interests, and €620 million of profit is attributable to ordinary shareholders.

### Dividends
A dividend of 16 cents per share on ordinary shares will be paid on 10 June 2019 to those ordinary shareholders who appear on the Company's register on 10 May 2019, the record date for the dividend, subject to ordinary shareholder approval.

### Group activities
The Group provides a range of banking and other financial services. The Strategic Report on pages 3 to 59 contains a review of the results and operations of the Group, of most recent events, and of likely future developments.

In relation to the Group's business, no contracts of significance to the Group within the meaning of LR 6.8.1(10) of the Euronext Dublin Listing Rules existed at any time during the year ended 31 December 2018.

### Principal Risks and Uncertainties
Information concerning the Principal Risks and Uncertainties facing the Group is set out on pages 61 to 67 in the Risk Management Report.

### Financial risk management objectives and policies
Information regarding the financial risk management objectives and policies of the Group, in relation to the use of financial instruments, is set out in the Risk Management Report on pages 68 to 111.

### Share capital
As at 31 December 2018, the Group had 1,078,822,872 ordinary shares of €1.00 each in issue, of which 3,307,259 were treasury shares. Further detail on the structure of the Group's capital is set out in note i of the Company financial statements on page 299.

### Takeover Bids Regulations
The disclosures required by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 are set out in the Schedule to the Report of the Directors on pages 147 to 149.

### Directors
The names of the members of the Board of Directors of the Company as at 31 December 2018, together with a short biographical note on each Director appear on pages 115 to 118.

In July 2017, a corporate restructuring programme was completed whereby the Company became the new holding company of the Bank and its subsidiaries (together the Group). The Directors of the Bank prior to completion of the corporate restructuring (other than Brad Martin who retired from the Bank's Court of Directors on 28 April 2017) were also appointed to the Board of the Company. As the Company was the newly established parent company of the Group, all Directors offered themselves for election, rather than re-election, at the Company's Annual General Meeting (AGM) on 20 April 2018 and all Directors were elected.

Evelyn Bourke and Ian Buchanan were appointed as Independent NEDs on 17 May 2018. Steve Pateman was also appointed as an independent NED on 10 September 2018. Archie G Kane and Davida Marston retired from the Board on 31 July 2018 and 30 September 2018 respectively.

### Remuneration
See Remuneration Report on pages 150 to 156.

### Directors' and Secretary's interests
The interests of the Directors and Secretary in office as at 31 December 2018 in the shares issued by the Company as disclosed to the Company are shown in the Remuneration Report on page 156.

### Listing rules disclosures
Information required under UK Listing Rule LR 9.8.4C can be found on page 153 for Directors' Emoluments and above under 'Group activities' for Contracts of Significance.

### Substantial shareholdings
There were 100,078 registered holders of ordinary shares of the Company at 31 December 2018. An analysis of these holdings is shown on page 323. In accordance with LR 6.8.3(2) of the Euronext Dublin Listing Rules, details of notifications received by the Company in respect of substantial interests in its ordinary shares are provided in Table 1 below as at 31 December 2018 and 22 February 2019. Other than the Directors' interests set out on page 156 there were no other interests disclosed to the Company in accordance with the Market Abuse Regulation and Part 5 of the Transparency Regulations and the related transparency rules during the period from 31 December 2018 to 22 February 2019.

For information on acquisition or disposal of own shares, refer to note 50 on page 256.

| Table: 1 | 31 December 2018 % | 22 February 2019 % |
|---|---|---|
| Ireland Strategic Investment Fund (ISIF) / Minister for Finance | 13.95 | 13.95 |
| Blackrock, Inc. | 4.82 | 4.82 |
| The Capital Group Companies, Inc. | 4.64 | 4.64 |
| Baillie Gifford & Co. | 4.53 | 4.53 |
| Templeton Global Advisors Limited | 3.29 | 3.29 |
| Prudential plc group of companies | 3.11 | 3.11 |
| Templeton Investment Counsel, LLC | 3.00 | 3.00 |

### Authority to purchase own Ordinary Shares
At the 2018 AGM held on 20 April 2018, members gave the Company, and any of its subsidiaries, the authority to make market purchases up to approximately 10% of its own Ordinary Shares. This authority will expire on close of business on the date of the AGM of the Company in 2019 or on 20 July 2019, whichever is earlier.

# Report of the Directors *(continued)*

The Directors do not have any current intention to exercise the power to purchase the Company's own Ordinary Shares. This authority was sought at the Company's AGM to allow for greater flexibility in the management of the Company's capital resources. Any Ordinary Shares so purchased would be cancelled.

Any such purchases would be made only at a price level that the Directors considered to be in the best interest of shareholders generally, after taking into account the Company's overall financial position and regulatory capital obligations and requirements. In addition, the authority provides that the maximum price which may be paid for such Shares shall not be less than the nominal value of the Shares and the maximum price shall be the higher of 105% of the average market price of such Ordinary Shares and the amount stipulated by Article 3(2) of Commission Delegated Regulation (EU) 2016/1052.

**Corporate governance**
Statements by the Directors in relation to the Bank's compliance with the CBI's Corporate Governance Requirements for Credit Institutions 2015, (the 'Irish Code') and additional requirements of Appendix 1 and Appendix 2 of the Irish Code for High Impact Designated Institutions, and Credit Institutions which are deemed 'Significant' Institutions (for the purposes of the CRD IV), respectively, are set out on pages 113 to 143. The Company is also subject to the UK Corporate Governance Code 2016 published by the Financial Reporting Council in the UK (the 'UK Code') and the Irish Corporate Governance Annex to the Listing Rules of the Irish Stock Exchange, t/a Euronext Dublin. The Corporate Governance Statement forms part of the Report of the Directors.

**Directors' Compliance Statement**
As required by Section 225 of the Companies Act 2014, as amended, of Ireland, the directors acknowledge that they are responsible for securing the Company's compliance with its 'relevant obligations' (as defined in that legislation). The Directors further confirm that a compliance policy statement has been drawn up, and that appropriate arrangements and structures have been put in place that are, in the directors' opinion, designed to secure material compliance with the relevant obligations. A review of those arrangements and structures has been conducted in the financial year to which this report relates.

**Environment**
The Group's environmental policy is accessible at www.bankofireland.com and details of its environmental activities are outlined in the 'Responsible and Sustainable Business' section of the Group's Strategic Report, on page 26. Further information is available on the Group's website.

**Political donations**
Political donations are required to be disclosed under the Electoral Acts 1992 to 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during 2018.

**Branches outside the State**
The Company has no branches established outside the State. The Bank has branches in the UK, France, Germany and the US. The Bank is in the process of establishing a branch in Spain.

**Going concern**
The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for 2018 on pages 175 and 177 which forms part of the Report of the Directors and on page 137 in the Corporate Governance Statement.

**Viability statement**
In accordance with the requirements of the UK Code, the Directors have assessed the viability of the Group, taking account of the Group's current position and the potential impact of the principal risks facing the Group.

The Directors have selected a three-year period for this assessment, reflecting the time horizon that they consider fits with the various risk and planning frameworks taken into account in arriving at the viability statement.

The Directors have assessed the prospects of the Group through a number of frameworks, including the ICAAP, the ILAAP, each of which include an assessment of the impact of Brexit, the monitoring of key risks identified under the Group's risk identification process by the GRPC, the BRC and the Board (see page 71 of the Risk Management Report), and the assessment of Principal Risks and Uncertainties (see pages 61 to 67) together with the Group's strategic direction as set out in the Strategic report (see pages 3 to 59). Within the Principal Risks and Uncertainties, the Directors consider Credit risk, Funding and Liquidity risk and Capital adequacy to be the most relevant to the viability assessment.

The ICAAP process facilitates the Board and senior management in adequately identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital to support its risk profile. ICAAP is subject to review by the Group's prudential regulator, the ECB SSM. Underpinning the ICAAP process, the Group prepares detailed financial projections under both a base case and a stress case. Base case projections are prepared using consensus macroeconomic forecasts together with Group-specific assumptions, and the stress case is prepared based on a severe but plausible stress economic scenario, (see Risk Management Report sections 2.5, 3.2 and 4). The ICAAP process demonstrates that the Group has sufficient capital under both the base and stress case scenarios to support its business and achieve its objectives having regard to Board approved Risk Appetite and Strategy, and to meet its CRD IV regulatory capital, leverage and liquidity requirements.

The Group's ILAAP analysis demonstrates that the volume and capacity of liquidity resources available to the Group are adequate to support its business model, to achieve its strategic objectives under both business as usual and severe but plausible stress scenarios and to meet regulatory requirements including the Liquidity Coverage and Net Stable Funding Ratios.

The Directors confirm that their assessment of the principal risks facing the Group, through the processes set out above, was robust. Based upon this assessment, and their assessment of the Group's prospects, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.

# Report of the Directors *(continued)*

**Accounting records**
The Directors ensure that adequate accounting records are kept at the Company's registered office, through the appointment of suitably qualified competent personnel, the implementation of appropriate computerised systems and the use of financial and other controls over the systems and the data.

**Auditor**
PricewaterhouseCoopers resigned as Auditor during the year and KPMG, Chartered Accountants, were appointed in their place and will continue in office in accordance with Section 383(2) of the Companies Act 2014.

**Relevant audit information**
The Directors in office at the date of this report have each confirmed that as far as they are aware, there is no relevant audit information of which the Group's Auditor is unaware; and they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's Auditor is aware of that information.

**Non-financial information**
Information required in accordance with the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and Groups) Regulations 2017 can be found in in the Strategic Report on page 19.

**Post balance sheet events**
These are described in note 66 to the financial statements.

**Patrick Kennedy**
Chairman

**Patrick Haren**
Deputy Chairman

Bank of Ireland Group plc
Registered Office
40 Mespil Road,
Dublin 4

22 February 2019

# Schedule to the Report of the Directors

**Information required under the European Communities (Takeover Bids (Directive 2004/ 25/EC)) Regulations 2006.**

As required by these Regulations, the information contained below represents the position as at 31 December 2018.

## 1. Structure of the Company's capital

The capital of the Company is divided into ordinary shares and preference shares.

As at 31 December 2018, there were 1,078,822,872 ordinary shares in issue. As at 31 December 2018, there were no preference shares in issue.

Further detail on the structure of the Company's capital is set out in note i to the consolidated financial statements.

### (i) Rights and Obligations attaching to the classes of shares

***Ordinary shares***

*Dividend rights*
Under Irish law, dividends are payable on the ordinary shares of the Company only out of profits available for distribution. Subject to the provisions of the Companies Act 2014 (the 'Companies Act'), holders of the ordinary shares of the Company are entitled to receive such dividends as may be declared by the Company by ordinary resolution, provided that the dividend cannot exceed the amount recommended by the Directors. The Company may pay shareholders interim dividends if it appears to the Directors that they are justified by the profits of the Company available for distribution. Any dividend which has remained unclaimed for twelve years from the date of its declaration may be forfeited and cease to remain owing by the Company.

*Voting rights*
Voting at any general meeting is by a show of hands or by poll. On a show of hands, every shareholder who is present in person or by proxy has one vote regardless of the number of ordinary shares held by him or her. On a poll, every shareholder who is present in person or by proxy has one vote for every ordinary share of €1.00 each.

A poll may be demanded by:
(i) the Chairman of the meeting;
(ii) at least three members of the Company present in person or by proxy having the right to vote at the meeting;
(iii) any member or members present in person or by proxy representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
(iv) a member or members present in person or by proxy holding shares in the Company conferring the right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The necessary quorum for a general meeting is ten persons present in person or by proxy and entitled to vote. All business is considered to be special business if it is transacted at an Extraordinary General Meeting (EGM) as is all business transacted at an AGM other than the declaration of a dividend, the consideration of the Company's statutory financial statements and reports of the Directors and Auditors on those statements, the review by the members of the Company's affairs, the election of Directors in the place of those retiring, the reappointment of the retiring Auditors (subject to Sections 380 and 382 to 385 of the Companies Act), the fixing of the remuneration of the Auditors and the consideration of a special resolution for the purpose of Section 1102(2)(b) of the Companies Act. Any business that is required to be dealt with by way of special resolution must be passed by not less than 75 per cent of the votes cast by such members as, being entitled so to do, vote in person or by proxy at a general meeting at which not less than twenty one clear days' notice specifying the text or substance of the proposed resolution has been duly given.

Any business that is required to be dealt with by way of ordinary resolution must be passed by a simple majority of the votes cast by the members as, being entitled to do so, vote in person or by proxy at a general meeting. Where an equal number of votes have been cast on any resolution the Chairman of the meeting is not entitled to a second or casting vote.

An EGM (other than an EGM called for the passing of a special resolution) may be called on at least 14 days' notice where:
(i) the Company offers the facility for members to vote by electronic means accessible to all members who hold shares that carry rights to vote at general meetings; and
(ii) a special resolution reducing the period of notice to fourteen days has been passed at the immediately preceding AGM or at an EGM held since the immediately preceding AGM.

*Liquidation rights*
In the event of any surplus arising on the occasion of the liquidation of the Company, the ordinary shareholders would be entitled to a share in that surplus in proportion to the capital at the commencement of the liquidation paid up or credited as paid up on the ordinary shares held by them respectively.

*Preference shares*
As at 31 December 2018, there were no preference shares in issue. Where authorised to issue authorised but unissued shares in the capital of the Company (including where relevant, by shareholder approval under Section 1021 of the Companies Act), and subject to the scope of any such authority, in accordance with the Company's articles of association (the 'Articles'), the Directors are authorised to issue all or any of the authorised but unissued preference shares from time to time in one or more classes or series, and to fix for each such class or series such voting power, full or limited or no voting power, and such designations, preferences or special rights and qualifications, limitations or restrictions thereof in any resolution adopted by the Directors providing for the issuance of such class or series of preference shares.

### (ii) Variation of class rights

Whenever the share capital of the Company is divided into different classes of shares, the rights attached to any class may be varied or abrogated with the consent in writing of three-fourths in nominal value of the issued shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that

# Schedule to the Report of the Directors *(continued)*

class, either while the Company is a going concern or during or in contemplation of a winding-up.

**(iii) Percentage of the Company's capital represented by class of share**
The ordinary shares represent 99.9% of the authorised share capital and 100% of the issued share capital. The preference shares represent 0.1% of the authorised share capital and 0% of the issued share capital.

## 2. Restrictions on the transfer of shares in the Company

There are no restrictions imposed by the Company on the transfer of shares, nor are there any requirements to obtain the approval of the Company or other shareholders for a transfer of shares, save in certain limited circumstances set out in the Articles. A copy of the Articles may be found on www.bankofireland.com or may be obtained on request from the Group Secretary.

## 3. Persons with a significant direct or indirect holding of stock in the Company.

Details of significant shareholdings may be found on page 144.

## 4. Special rights with regard to the control of the Company

There are no special rights with regard to control of the Company.

## 5. Shares relating to an employee share scheme that carry rights with regards to the control of the Company that are not exercisable directly by employees.

The Bank of Ireland Inland Revenue Approved UK Stock Incentive Plan (SIP) provides that in respect of resolutions proposed at general meetings of the Company, voting rights in respect of shares held in trust for employees who are participants in the SIP are to be exercised in accordance with the employees' written instructions to the trustees of the SIP. In the case of 'any other business' at an AGM of the Company, the SIP trustees are entitled to vote (or refrain from voting) as they think fit.

## 6. Restrictions on voting rights

There are no unusual restrictions on voting rights.

## 7. Agreements between shareholders that are known to the Company and may result in restrictions on the transfer of securities or voting rights.

There are no arrangements between shareholders, known to the Company, which may result in restrictions on the transfer of securities or voting rights.

## 8. Rules of the Company concerning the:

***(a) appointment and replacement of Directors***
With the exception of any Director(s) nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Act 2008, all Directors nominated between AGMs are submitted to shareholders for election at the first AGM following their co-option. In accordance with the UK Code, all Directors other than any nominated by the Minister for Finance, retire by rotation every year and, if eligible, may offer themselves for re-election, subject to satisfactory performance evaluation. Any Director(s) nominated by the Minister for Finance are not subject to retirement by rotation but may not serve as a Director of the Company for a period longer than nine years after the date of their appointment. In proposing the election or re-election of any individual Director to the AGM, the reasons why the Board believes that the individual should be elected or re-elected are provided in the Chairman's Letter to shareholders.

***(b) amendment of the Company's Constitution***
The Company's Constitution may be amended by special resolution passed at an AGM or EGM. An AGM and a Meeting called for the passing of a special resolution shall be called by at least twenty one clear days' notice. Special resolutions must be approved by not less than 75 per cent of the votes cast by such members as, being entitled so to do, vote in person or by proxy. No business may be transacted at any General Meeting unless a quorum of members is present at the time when the Meeting proceeds to business. Ten persons present in person or by proxy and entitled to vote shall constitute a quorum.

## 9. Powers of the Company's Directors, including powers in relation to issuing or buying back by the Company of its shares

Under its Articles, the business of the Company is managed by the Directors, who exercise all powers of the Company as are not, by the Articles, required to be exercised by the Company in General Meeting. The Directors may exercise all the borrowing powers of the Company and may give security in connection therewith. These borrowing powers may be amended or restricted only by the shareholders in General Meeting. The members of the Company in General Meeting may at any time and from time to time by resolution increase the share capital of the Company by such amount as they think proper. Whenever the share capital of the Company is so increased, the Directors may, subject to various provisions of the Articles, issue shares to such amount not exceeding the amount of such enlargement as they think proper. All ordinary shares so issued shall rank in equal priority with existing ordinary shares.

Subject to provisions of the Companies Act, to any rights conferred on any class of shares in the Company and to the Articles, the Company may purchase any of its shares of any class and may cancel any shares so purchased or hold such shares as treasury shares (the 'treasury shares') with liberty to re-issue any such treasury shares in accordance with Section 109 of the Companies Act 2014. The Company shall not make market purchases of its own shares unless such purchases shall have been authorised by a special resolution of the Company and by a special resolution passed at a separate general meeting of the holders of each class of shares.

# Schedule to the Report of the Directors *(continued)*

### 10. Significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a bid and the effects of any such agreements.

There are no significant agreements to which the Company is party that take effect, alter or terminate upon a change of control of the Company following a bid, however, certain Group agreements may be altered or terminated upon a change of control of the Bank following a takeover. Those that may be deemed to be significant in terms of their potential impact on the business of the Group as a whole are the joint ventures between the Bank and Post Office Limited in the UK (in respect of FX and Post Office branded retail financial service products) and the agreement between Bank of Ireland (UK) plc, AA plc and AA Financial Services Limited in the UK (in respect of AA branded financial services products).

### 11. Agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a bid.

There are no agreements between the Company and its Executive Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a bid.

The service contracts for NEDs do not make provision for benefits on termination in the event of a bid.

# Remuneration Report

## Remuneration Restrictions

The Group is currently operating under significant Remuneration Restrictions which cover all Directors, senior management, employees and certain service providers across the Group. The Remuneration Restrictions were contained within the Covered Institutions Financial Support Scheme 2008 and the 'Minister's Letter' (July 2011), under which the Group gave a number of commitments and undertakings to the Minister for Finance in respect of remuneration practices. The Minister's Letter was a further condition of the Transaction and Underwriting Agreement entered into with the Irish Government (July 2011) during the 2011 Recapitalisation of the Group.

As a result of the Remuneration Restrictions, the Group is currently unable to provide a fixed / variable remuneration mix, which results in risks in terms of attraction, retention, and alignment with the needs of the business and some restrictions on the application of discretion and inflexibilities with the cost base. If the Group fails to recruit and retain skilled and qualified people, its businesses may be negatively impacted. The Group considers itself to be in compliance with these Remuneration Restrictions.

In addition, in the absence of the Remuneration Restrictions, the Excess Bank Remuneration Charge on RoI tax residents in Covered Institutions[1], where variable pay equals or exceeds €20,000, impacts the application of the Group Remuneration Policy.

## Remuneration Report

The Bank of Ireland Group's objective of attracting, retaining and motivating high calibre people is deemed fundamental to the delivery of our business strategy. Subject to the Remuneration Restrictions, we want to ensure we have the right people in the right roles and we recognise the importance that our shareholders place in the management of our remuneration strategy, frameworks, policies and practices. To reflect this, we operate strong governance across the organisation on the management of remuneration frameworks, policies and practices that support our strategy.

## Governance Structures

Subject to the Remuneration Restrictions, it is the GRCs responsibility to consider, agree and approve a remuneration strategy that supports the Group's objectives of long-term sustainability and success, sound and effective risk management and good corporate governance.

With delegated authority from the Board, the GRC reviews and approves the remuneration of the Chairman of the Board, the Executive Directors, members of the Group Executive Committee, and Senior Officers in Independent Control Functions.

During 2018 independent advice was received by the Group from a number of external advisers including Mercer and Willis Towers Watson on a range of issues relating to remuneration including variable pay structures, evolving pay regulations, market pay practices, international mobility and benefits. Engagement with Mercer and Willis Towers Watson is ongoing.

Shareholders were advised in the Chairman's Letter and Notice of AGM 2018 that the Group's goal is to operate a remuneration policy including variable remuneration consistent with EBA Guidelines. To this end, the GRC engaged with major shareholders during 2018 in regard to the adoption of an appropriate executive incentive scheme and to obtain feedback from major shareholders. This engagement has continued into 2019. Any such scheme is subject to removal / amendment of the current Remuneration Restrictions and approval by shareholders.

## European Banking Authority Remuneration Guidelines (the 'EBA Guidelines')

The objective of these guidelines is to ensure that an institution's remuneration policies and practices are consistent with and promote sound and effective risk management. They apply to all institutions which are currently covered by the CRD including the Bank of Ireland Group.

Whereas the Group seeks to ensure it operates remuneration policies which are compliant with regulatory guidelines, the Group is currently operating under significant governmental and legal constraints in relation to remuneration. The Group's Remuneration Policy, therefore, can only be implemented to the extent possible given these Remuneration Restrictions.

**Material Risk Takers**
In accordance with EBA Guidelines for the identification of those employees whose professional activities are deemed to have a material impact on the Group's risk profile, the Group maintains a list of these material risk takers.

**Disclosure**
During 2018, the Group continued to comply with its annual requirements to provide disclosures relating to:
- Remuneration at Bank of Ireland.
- Decision-making processes related to the remuneration policy.
- Material Risk Taker assessment and reporting.
- Remuneration Restrictions.
- Link between pay and performance.
- Group Remuneration Strategy.
- Remuneration Expenditure.
- All Staff Reporting.

These disclosures were made as part of the Group's 2017 Pillar 3 disclosure in February 2018. The Group's 2018 Pillar 3 disclosures were made in February 2019. Both are available on the Group's website.

As a significant institution in an Irish banking context, the Group is required to submit additional disclosures under the EBA Remuneration data collection exercises. The Group continued to comply with its annual reporting requirements in 2018, submitting the following reports via the CBI to the SSM:
- 2017 European Benchmarking exercise; and
- 2017 High Earners report.

**Alignment of performance and reward with risk**
The Group's Risk Appetite Statement as set out on page 71 forms an integral element of remuneration structures, practices and frameworks. The Group's Risk Appetite Statement has been cascaded, as appropriate, throughout the Group.

[1] *Covered Institutions are defined as institutions that have executed a guarantee acceptance deed and have been designated in an order by the Minister for Finance under the Credit Institutions (Financial Support) Scheme 2008. The Group's covered institutions are The Governor and Company of the Bank of Ireland and BoIMB.*

**Involvement of Risk Function**
The Chair of the BRC and the Court Risk Committee and the Group Chief Risk Officer attended the GRC meeting in November 2018. At this meeting, the Group Chief Risk Officer, reported on the Group's risk profile and its relationship to remuneration.

## Attraction, Motivation and Retention

The Group's success depends in part on the availability of high calibre people and the continued services of members of its management team, both at its head office and at each of its business units.

If the Group fails to attract and appropriately train, motivate and retain high calibre people, its businesses may be negatively impacted. Restrictions, including the Remuneration Restrictions, imposed on remuneration by Government, tax or regulatory authorities or other factors outside the Group's control in relation to the retention and recruitment of employees may adversely impact on the Group's ability to attract and retain such staff.

The Remuneration Restrictions place the Group at an increasing competitive disadvantage in seeking to retain and attract staff, particularly those with certain skill sets and in international locations.

## Group Remuneration Policy

Subject to the Remuneration Restrictions, the Group's Remuneration Policy, which aims to support the Group's objectives of long term sustainability and success, sound and effective risk management and good corporate governance, was reviewed in 2018.

The application of this policy is consistent with the Group's Risk Appetite Statement and regulations that govern remuneration in the jurisdictions where the Group operates.

Subject to the Remuneration Restrictions, the Group Remuneration Policy sets out how the remuneration components used by the Group operate. Our remuneration approach is to reward our people fairly and competitively for the achievement of the Group's objectives of long-term sustainability and success, sound and effective risk management, good corporate governance, responsible business conduct and to support the Group in attracting, engaging and retaining high calibre people.

The Group aims to ensure it has the right people in the right roles and recognises the importance that our shareholders place on the effective governance of our remuneration policies and practices to ensure that the way we pay our people is aligned to our business strategy. The Group Remuneration Policy supports the Group's objective of achieving, maintaining and safeguarding a sound capital base. A policy summary is accessible to all staff through the company intranet.

The Group Remuneration Policy, supported by management policies and operational procedures, collectively known as the 'remuneration structures' (e.g. Reward Framework, Performance Achievement Policy, Material Risk Taker Policy and Governance of Career & Reward Framework), are designed to ensure that our approach to remuneration meets the principles below. The Group's ability to meet these principles is impacted in their entirety by the Remuneration Restrictions.

**Alignment with Group Objectives**
- The remuneration structures are aligned with, and contribute to the long-term strategy, sustainability, value creation and success of the Group.
- Remuneration is determined on the basis of firm wide, business unit and individual performance.
- Business and individual performance measures and targets are aligned with business objectives at either a Group or local business level, through a performance achievement process based on a balanced scorecard, ensuring alignment with business strategy, risk measures and priorities.
- The remuneration structures support the Group's values of 'Customer Focused', 'One Group, One Team', 'Agile', 'and 'Accountable'.

**Fair Treatment of Customers**
The Group's remuneration structures are designed to:
- Place customers at the heart of our businesses by delivering products and services that meet their evolving financial requirements and are sold based on the suitability to individual customer's needs.
- Support and encourage the fair treatment of customers.
- Support and encourage responsible business conduct.
- Mitigate the potential for conflict between commercial, customer and public interests.
- Avoid any conflict with an employee's duty to act in the best interests of customers or clients.

**Employee-Focused**
- The Group's remuneration structures are designed to attract, retain and engage high calibre employees, enabling the Group to provide a competitive remuneration package across all markets, in a cost effective manner, subject to the remuneration restrictions.
- Remuneration policies and practices are simple, transparent, easy to understand and implement.

**Aligned with Risk Appetite**
- Sound and effective risk management is reflected in the Group's approach to performance achievement. Employee performance is assessed against a balanced scorecard of financial and non-financial metrics, including risk outcomes and behaviours.
- Remuneration structures are applied in consideration of and in alignment with the Group's Risk Appetite Statement and overall risk governance structures.
- Risk adjusted financial performance is an important measure when evaluating performance.
- Remuneration policies are subject to appropriate governance.
- The Group is compliant with all applicable remuneration regulations as they relate to the Group.

Subject to the Remuneration Restrictions, the Group will continue to seek to ensure that its remuneration strategy enables it to be competitive and comprehensively adhere to regulatory principles and guidelines set out by relevant regulatory authorities, including the EBA. These design features support all remuneration frameworks, policies and processes across the Group, being applied proportionately depending on the nature, scale and complexity of the particular business area.

## Performance Achievement

The Group's performance achievement policy plays a critical role in aligning individual objectives with the Group's overall customer ambition, strategy, purpose and values, and financial and non-financial goals.

A robust performance achievement system and process, incorporating performance planning and review, remains critical and is a key pillar of the Group's compliance with remuneration guidelines.

The performance achievement framework enables the Group to align individual, business unit and divisional performance to the Group's strategic objectives through an ongoing dialogue between managers and their direct team members ensuring a strong alignment to risk.

Managers have mandatory risk goals which reflect the nature of their role and their seniority within the Group and have an appropriate weighting attached to them.

However, the Remuneration Restrictions impact the effectiveness of the Group's performance achievement system as it prevents a strong link between performance and reward.

**The Balanced Scorecard and Key Result Areas**
The Balanced Scorecard approach incorporated within the Group's Performance Achievement Policy is consistent with the EBA Guidelines.

It ensures that:
- organisational performance is continually enhanced by measuring staff against the four Key Result Areas in the balanced scorecard;
- all key deliverables and accountabilities of a role are taken into account when performance is assessed. For example, financial results, risk management, impact on customers, leadership and development of people, regulatory and compliance requirements; and
- a comprehensive view of an individual's performance is taken, rather than focusing on one or two key areas to the detriment of others.

Each of the Key Result Areas that apply to all employees in the Group has a minimum weighting of 10% (with the exception of risk which has a minimum weighting of 20%), dependent on the type of role the individual is performing. All weightings must add up to 100%. The Key Result Areas are:
- Customer.
- Leadership, People and Personal Development.
- Financial / Revenue / Cost / Efficiency.
- Risk (covers all areas of Risk including Credit, Regulatory, Operational Risk and Conduct Risk).

Goals set within these Key Result Areas are linked to overall Divisional and Group Strategy, support the achievement of business unit objectives and are aligned to the Group's Risk Appetite Statement.

Key deliverables are agreed for each employee with his / her line manager at the beginning of the performance cycle. Regular informal reviews take place at times during the performance cycle. A formal interim review occurs at a mid-point in the performance cycle and a formal end of year review occurs at the end of the performance cycle.

The Remuneration Restrictions impact the effectiveness of the Group's performance achievement system as it prevents a strong link between performance and reward. In addition, the lack of variable remuneration also impacts the Group's ability to incentivise and re-enforce cultural change and the Group's values of:
- Customer focused.
- One Group, one team.
- Accountable.
- Agile.

## Remuneration Policy for Directors

The key elements of the remuneration policy for Executive Directors (further detail is available in Table 1 on page 153) are as follows:

- Salary - Executive Director Salaries are currently fixed by the Remuneration Restrictions. The Remuneration Restrictions place the Group at an increasing competitive disadvantage in seeking to retain and attract staff. Implementation of our remuneration policy for Executive Directors would reward our people fairly and competitively for the achievement of the Group's objectives of long-term sustainability and success, sound and effective risk management, good corporate governance, responsible business conduct and to support the Group in attracting, engaging and retaining high calibre people; and
- Retirement Benefits - (the 'Executive Directors')
  - Ms Francesca McDonagh does not participate in a Bank of Ireland Employee Pension Scheme.
  - Mr Andrew Keating, Chief Financial Officer, is a member of the Bank of Ireland Staff Pensions Fund which is a contributory DB scheme and also a member of the supplementary section of the contributory RetireWell DC arrangement.
- Non-salary benefits - employment related benefits can include, for example, the use of company cars (or car allowance), medical / life insurance, mobile phone, relocation costs. These are agreed on a case by case basis. The level of benefit can vary depending on the cost of providing the individual items and the individual's circumstances.

As permitted by the EBA Guidelines, other elements of the Group's remuneration policy for Executive Directors can include the following:
- Performance related annual incentive awards - These are currently prohibited under the Remuneration Restrictions and no Executive Director has received such a bonus since 2008.
- Performance related long term incentive awards - The Bank of Ireland Group 2004 Long Term Incentive Plan expired in 2014 and has not been renewed on account of the Remuneration Restrictions.
- Employee-wide share saving / share participation plans - the Group's SAYE Scheme and Stock Incentive Scheme were established in 1999 and 2006, respectively. These Schemes are Revenue approved share plans which are required to be operated on an employee wide basis. The schemes did not operate in 2018 and no Executive Director received an award under either Scheme in 2018.

Subject to the Remuneration Restrictions, the Remuneration Committee may agree remuneration proposals on hiring a new Executive Director which are outside the standard policy to facilitate the hiring of someone of the calibre required to deliver the Group's strategy. When determining appropriate remuneration arrangements the Remuneration Committee will take into account all relevant factors including (among others) the level of opportunity, the type of remuneration opportunity being forfeited and the jurisdiction the candidate was recruited from.

When determining leaving arrangements for an Executive Director, the Remuneration Committee takes into account applicable provision of Irish employment law, any contractual agreements and the performance and conduct of the individual.

Details of the remuneration and benefits of NEDs are set out in the table on page 153. The remuneration of NEDs is determined by the Board of Directors as a whole subject to the limits in the Company's Constitution and the Remuneration Restrictions.

Under this policy and subject to the Remuneration Restrictions, the Remuneration Committee may make minor changes to this policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation.

# Directors' remuneration

*The information below forms an integral part of the audited financial statements as described in the Basis of preparation on page 175.*

**Directors' remuneration for the year ended 31 December 2018 (all figures in €000s)**

| Table: 1 | Gross salary[1,2] | Fees[3] | Performance bonus[4] | Other remuneration[5] | Pension funding contributions[6] | Total 2018[7] |
|---|---|---|---|---|---|---|
| **Chairman** | | | | | | |
| P Kennedy<br>*(appointed Chairman 1 August 2018)* | 238 | - | - | - | - | 238 |
| A Kane<br>*(resigned 31 July 2018)* | 230 | 34 | - | 22 | - | 286 |
| **Deputy Chairman** | | | | | | |
| P Haren<br>*(appointed Deputy Chairman 1 August 2018)* | 53 | 68 | - | - | - | 121 |
| **Executive Directors** | | | | | | |
| F McDonagh | 950 | - | - | 8 | - | 958 |
| A Keating | 468 | - | - | 30 | 53 | 551 |
| **NEDs** | | | | | | |
| K Atkinson | - | 94 | - | - | - | 94 |
| E Bourke<br>*(appointed 17 May 2018)* | - | 49 | - | - | - | 49 |
| I Buchanan<br>*(appointed 17 May 2018)* | - | 65 | - | - | - | 65 |
| R Goulding | - | 87 | - | - | - | 87 |
| D Marston<br>*(resigned 30 September 2018)* | - | 53 | - | - | - | 53 |
| F Muldoon | - | 71 | - | - | - | 71 |
| P Mulvihill | - | 103 | - | - | - | 103 |
| S Pateman<br>*(appointed 10 September 2018)* | - | 27 | - | - | - | 27 |
| **Totals** | **1,939** | **651** | **-** | **60** | **53** | **2,703** |
| **Ex-gratia payments paid to former Directors / dependents of The Governor and Company of the Bank of Ireland** | | | | | | **168** |

1 *The Chairman and Deputy Chairman, as Non-executive Officers of the Company, are remunerated by way of non-pensionable salary. For the period from 1 January 2018 to his date of resignation, A Kane received a non-pensionable salary of €229,833 for his role as Chairman. In addition he had a consultancy arrangement with Bank of Ireland (UK) plc in respect of which he received a fee of €34,417. He also received an accommodation, utilities and car allowance of €21,583.*

2 *The Group Chief Financial Officer, A Keating, receives an annual salary of €468,000. His annual salary for pension purposes is €240,000 and the balance of his salary (€228,000) is excluded for pension purposes.*

3 *Fees are paid to NEDs and a basic fee of €63,000 per annum applies. Additional fees are paid to the SID, Committee Chairmen and for Committee membership. On 1 February 2009, all NEDs agreed to reduce their fees by 25%. These reductions applied throughout 2018. The basic fee of €63,000 is the reduced fee. In addition to the above, I Buchanan was appointed as NED and committee member of Bank of Ireland (UK) plc with effect from 4 September 2018 and received separate fees for these roles (Stg£18,104, equivalent €20,376 for the year ended 31 December 2018).*

4 *No bonuses were awarded in respect of 2018.*

5 *The figures include car allowances and, where applicable, benefits in kind.*

6 *The amounts shown for A Keating relate to the Group's pension funding contribution in respect of the pension benefit he accrued in line with his contractual entitlement during 2018. There were no changes to Executive Directors' contractual pension benefit entitlements in the year. The pension funding cost to the Group, in relation to the Group's sponsored DB schemes, is updated following triennial pension scheme valuations to reflect changing market conditions and actuarial assumptions. The pension funding cost also reflects the increased actuarial cost of each year's accrual as each Executive Director's term to normal retirement age reduces. All pension amounts have been determined by Willis Towers Watson, the Group's actuarial advisors, and are approved by the GRC.*

7 *In addition to the amounts shown, the Group bears the total costs of Directors' travel and subsistence to and from Board and Committee meetings or while on the business of the Group.*

# Directors' remuneration *(continued)*

**Directors' remuneration for the year ended 31 December 2017 (all figures in €000s)**

| | Gross salary[1,2] | Fees[3] | Performance bonus[4] | Other remuneration[5] | Pension funding contributions[6] | Total 2017[7] |
|---|---|---|---|---|---|---|
| **Governor** | | | | | | |
| A Kane | 394 | 59 | - | 37 | - | 490 |
| **Deputy Governor** | | | | | | |
| P Kennedy | 126 | - | - | - | - | 126 |
| **Executive Directors** | | | | | | |
| F McDonagh *(appointed 2 October 2017)* | 238 | - | - | 8 | - | 246 |
| R Boucher *(resigned 1 October 2017)* | 690 | - | - | 34 | 240 | 964 |
| A Keating | 468 | - | - | 31 | 53 | 552 |
| **NEDs** | | | | | | |
| K Atkinson | - | 110 | - | - | - | 110 |
| P Butler *(resigned 31 December 2017)* | - | 154 | - | - | - | 154 |
| T Considine *(resigned 31 December 2017)* | - | 87 | - | - | - | 87 |
| R Goulding *(appointed 20 July 2017)* | - | 35 | - | - | - | 35 |
| P Haren | - | 117 | - | - | - | 117 |
| D Marston | - | 74 | - | - | - | 74 |
| B Martin[8] *(resigned 28 April 2017)* | - | 21 | - | - | - | 21 |
| F Muldoon | - | 71 | - | - | - | 71 |
| P Mulvihill | - | 74 | - | - | - | 74 |
| **Totals** | **1,916** | **802** | **-** | **110** | **293** | **3,121** |

| | |
|---|---|
| **Ex-gratia payments paid to former Directors / dependents of The Governor and Company of the Bank of Ireland** | **178** |

**Directors' remuneration post corporate reorganisation 2017**

In 2017, the Group implemented a corporate reorganisation which resulted in BOIG plc being introduced as the listed holding company of the Group on 7 July 2017. Since 29 April 2017, the Board and main Committees of BOIG plc and the Court of the Bank comprise the same Directors. For the period from 7 July 2017 to 31 December 2017, the aggregate amount of emoluments paid to or receivable by Directors was €2,080,622; this included salaries, any amount of expenses (insofar as chargeable to tax) that were paid to or receivable by Directors, cash equivalent of annual leave that was due but not taken by the Directors at the end of 2017, together with any other benefits.

1 *The Governor and Deputy Governor, as Non-executive Officers of the Company, are remunerated by way of non-pensionable salary. A Kane received an annual non-pensionable salary of €394,000 for his role as Governor. In addition he had a consultancy arrangement with Bank of Ireland (UK) plc in respect of which he received an annual fee of €59,000. He also received an accommodation, utilities and car allowance of €37,000 per annum.*

2 *The Group Chief Financial Officer, A Keating, receives an annual salary of €468,000. His annual salary for pension purposes is €240,000 and the balance of his salary (€228,000) is excluded for pension purposes.*

3 *Fees are paid to NEDs and a basic fee of €63,000 per annum applies. Additional fees are paid to the SID, Committee Chairmen and for Committee membership. On 1 February 2009, all NEDs agreed to reduce their fees by 25%. These reductions applied throughout 2017. The basic fee of €63,000 is the reduced fee. In addition to the above, P Butler was appointed as NED and committee member of Bank of Ireland (UK) plc with effect from 10 January 2017 and received separate fees for these roles (Stg£58,750, equivalent €67,140 for the year ended 31 December 2017).*

4 *No bonuses were awarded in respect of 2017.*

5 *The figures include car allowances and, where applicable, benefits in kind.*

6 *The amounts shown for R Boucher and A Keating relate to the Group's pension funding contribution in respect of the pension benefit they accrued in line with their contractual entitlement during 2017. There were no changes to Executive Directors' contractual pension benefit entitlements in the year. The pension funding cost to the Group, in relation to the Group's sponsored DB schemes, is updated following triennial pension scheme valuations to reflect changing market conditions and actuarial assumptions. The pension funding cost also reflects the increased actuarial cost of each year's accrual as each Executive Director's term to normal retirement age reduces. All pension amounts have been determined by Willis Towers Watson, the Group's actuarial advisors, and are approved by the GRC.*

7 *In addition to the amounts shown, the Group bears the total costs of Directors' travel and subsistence to and from Board and Committee meetings or while on the business of the Group.*

8 *The amounts shown for B Martin relate to his role as NED of The Governor and Company of the Bank of Ireland until 28 April 2017, his date of resignation.*

## Executive share options held by Directors and Secretary

No share options were granted or exercised during 2018 and there were no options to subscribe for ordinary shares outstanding in favour of the Executive Directors or Secretary as at 31 December 2018.

## Payments within the reporting year to past Directors

Following his resignation as an Executive Director and Group CEO on 1 October 2017, R Boucher remained an employee of the Group until 31 January 2018. During 2018, the total amount of remuneration received by him was €312,901 in respect of salary, car allowance, pension contributions and outstanding annual leave associated with his time as a Director.

## External appointments held by Executive Directors

During 2018 no Executive Director held an external appointment for which they received fees.

## Directors' pension benefits

Set out below are details of the change in accrued pension benefits for the Directors during 2018.

| Table: 2 | (a) Additional inflation-adjusted accrued DB pension in the year € | (b) Increase in DB transfer value € | (c) Accrued DB pension benefits at 31 December 2018 € | (d) Group DC contributions € |
|---|---|---|---|---|
| **Executive Directors** | | | | |
| A Keating | 3,113 | 30,719 | 47,437 | 8,000 |

Column (a) represents the inflation-adjusted increase in the individual's accrued DB pension during the year. Increases are shown after the opening position has been adjusted for known statutory revaluation, and comprise allowance for additional pensionable service, any increases in pensionable earnings and any agreed adjustment in the individual's pension accrual. This is in line with the requirements of the Listing Rules and the related actuarial professional guidance.

Column (b) is the additional capital value, less the Director's contributions, of Column (a) which could arise if the DB pension were to be transferred to another pension plan on the Director leaving the Group and is calculated using factors supplied by the actuary in accordance with actuarial guidance notes ASP PEN-2, and is based on leaving service pension benefits becoming payable at normal retirement date, age 60.

Column (c) is the aggregate DB pension benefit payable at normal retirement age based on the Director's pensionable service with the Group at 31 December 2018.

Column (d) is the Group's contributions to the supplementary section of its RetireWell DC arrangement.

## Directors' and Secretary's interests in shares

The beneficial interests of the Directors and Secretary in shares issued by the Group as disclosed to the Group are detailed below in accordance with Irish Listing Rule LR 6.8.3(1).

| Table: 3 | Number of €1.00 ordinary shares in BOIG plc at 31 December 2018 | Number of €1.00 ordinary shares in BOIG plc at 1 January 2018 or at date of appointment |
|---|---|---|
| **Directors** | | |
| K Atkinson | 67 | 67 |
| E Bourke *(appointed 17 May 2018)* | 1,639 | 1,639 |
| I Buchanan *(appointed 17 May 2018)* | 34 | 34 |
| R Goulding | 15,000 | 2,000 |
| P Haren | 1,334 | 1,334 |
| A Keating | 10,961 | 10,961 |
| P Kennedy | 105,156 | 75,156 |
| F McDonagh | 2,000 | 2,000 |
| F Muldoon | 2,866 | 2,866 |
| P Mulvihill | 167 | 167 |
| S Pateman *(appointed 10 September 2018)* | 250 | - |
| **Secretary** | | |
| H Nolan | 2,669 | 2,669 |

Apart from the interests set out above, the Directors and Secretary had no other interests in the shares / securities of the Company or its Group undertakings at 31 December 2018. There has been no change in the interests of each Director disclosed to the Company under the provisions of article 19 of the Market Abuse Regulation occurring between the end of the period under review and 22 February 2019.

# Financial Statements

| Index | Page |
|---|---|

# Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' Report set out on pages 159 to 165, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS, the EU (Credit Institutions: Financial Statements) Regulations, 2015 and, in respect of the consolidated financial statements, Article 4 of the International Accounting Standards (IAS) Regulation. Company law requires the Directors to prepare Group and Company financial statements for each financial year.

The Directors are responsible for preparing the Company financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the United Kingdom (UK), including Financial Reporting Standard 101 'Reduced disclosure framework', and promulgated by the Institute of Chartered Accountants in Ireland and Irish law).

Under Irish law the Directors shall not approve the Group's and Company's financial statements unless they are satisfied that they give a true and fair view of the Group's and the Company's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Group for the financial year.

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the consolidated financial statements have been prepared in accordance with IFRS adopted by the EU, and the Company financial statements have been prepared in accordance with FRS 101, and ensure that they contain the additional information required by the Companies Act 2014; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to:
- correctly record and explain the transactions of the Company; and
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Company to be determined with reasonable accuracy.

The Directors are also responsible under section 282 of the Companies Act 2014 for taking all reasonable steps to ensure such records are kept by its subsidiaries which enable them to ensure that the financial statements of the Group comply with the provisions of the Companies Act 2014 including Article 4 of the IAS Regulation and enable the financial statements to be audited.

The Directors are responsible for monitoring the effectiveness of the Company's systems of internal control in relation to the financial reporting process, and have a general responsibility for the safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish and London Stock Exchanges, the Directors are also responsible for preparing a Directors' Report and reports relating to Directors' remuneration and corporate governance. The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules to include a management report containing a fair review of the business and a description of the Principal Risks and Uncertainties facing the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of each Director's knowledge and belief:
- they have complied with the above requirements in preparing the financial statements;
- the consolidated financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Group and of the profit of the Group;
- the Company financial statements, prepared in accordance with FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company;
- the management report contained in the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the Principal Risks and Uncertainties that they face; and
- the Annual Report and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Board by
22 February 2019

| **_Patrick Kennedy_** | **_Patrick Haren_** | **_Francesca McDonagh_** |
|---|---|---|
| _Chairman_ | _Deputy Chairman_ | _Group Chief Executive_ |

# Independent Auditor's Report
## to the members of Bank of Ireland Group plc

### Report on the audit of the financial statements

**Opinion**

We have audited the Group and Company financial statements of Bank of Ireland Group plc (the 'Company') for the year ended 31 December 2018 set out on pages 166 to 300, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement, company balance sheet, company statement of changes in equity and related notes, including the Group accounting policies set out in note 1 and the Company accounting policies on page 294. 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, Irish Law and FRS 101 Reduced Disclosure Framework.

In our opinion:

- the financial statements give a true and fair view of the assets, liabilities and financial position of the Group and Company as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework issued by the UK's Financial Reporting Council; and
- the Group and Company financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

**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 section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our reporting to the Group Audit Committee.

We were appointed as Auditor by the Board of Directors on 19 April 2018. The period of total uninterrupted engagement is therefore one year for the year ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remained independent of the Group in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to public interest entities. No non-audit services prohibited by that standard were provided.

**Other matter – first year audit considerations**

Prior to the commencement of the current financial year and our formal appointment in April 2018, we were required to become independent of the Group. During this time, we met with management across the Group to understand the business and to gather information which we needed to plan our first audit effectively. We met with the former Auditors and attended the Group Audit Committee (GAC) meetings throughout the 2017 audit cycle to understand the key audit matters as and when they arose. We also assessed the audit work papers of the former Auditors to gain sufficient audit evidence about whether the opening balances contained misstatements that could materially affect the current year financial statements.

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

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

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

### Impairment loss allowance under IFRS 9

*Refer to pages 176 to 181 (accounting policy) and note 29 (financial disclosures)*

**The key audit matter**

The calculation of credit provisions requires a high degree of judgement to reflect recent developments in credit quality, arrears experience, and / or emerging macroeconomic risks.

On 1 January 2018 the Group adopted IFRS 9. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation. These judgements have been key in the development of the new IFRS 9 models which have been built and implemented to measure the expected credit losses (ECL) on loans measured at amortised cost.

The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's implementation of IFRS 9 include but are not limited to:

- ***Accuracy of Expected Credit Loss (ECL) models:*** The calculation of ECL uses complex and inherently judgemental modelling techniques. The models used in the various loan portfolios are the key drivers of the Group's ECL results and are therefore the most significant judgemental aspect of the Group's ECL modelling approach.
- ***Significant Increase in Credit Risk (SICR):*** The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation. The application of the criteria relies on a significant number of data elements, which form the basis of modelling of ECL. The application of the appropriate criteria and accuracy of the key data elements used in the loan processes are significant in determining the ECL allowances.

- *Forward looking macroeconomic scenarios:* IFRS 9 requires the Group to measure ECL on a forward-looking basis reflecting future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them, particularly given these assessments are subject to material uncertainty from Brexit. The impact of Brexit is subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.
- *Management adjustments:* Adjustments to the model-driven ECL results are applied by management to address known impairment model limitations or emerging trends. Such adjustments are inherently uncertain and significant management judgment is involved.
- *Individual provisions for stage 3 assets:* Provisions for loans identified as credit impaired in the secured lending portfolios are determined by means of discounted cash flows (DCF) and require significant judgement in many cases.

How the matter was addressed in our audit
- We performed end-to-end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the design and operating effectiveness of the key controls over the completeness and accuracy of the key data inputs into the impairment models.
- We tested SICR criteria relating to the authorisation of the criteria, the validation metrics, and the application of the criteria in the models.
- In conjunction with our modelling specialists, we tested the design and implementation of controls over the modelling process and methodologies, including model monitoring, validation and approval, as well as testing the design of controls over model outputs and recognition and approval of post model adjustments.
- We tested the design and implementation of key controls relating to the selection and implementation of material economic variables and the controls over the associated scenario selection and probability weightings applied to them.
- We re-performed key aspects of the Group's SICR calculations and selected samples of financial instruments to determine whether a SICR was appropriately identified.
- We assessed the appropriateness of the key judgements in the ECL models and tested the key controls over the loss rate ECL calculations.
- We compared the Forward Looking Information (FLI) against industry forecasts and the inputs used by management in order to determine the base case and upside and downside scenarios.
- We assessed the adequacy of post model adjustments for certain portfolios, having regard for the risk profile of loan books, recent loss history and performance of the relevant portfolios and key uncertainties such as Brexit. We challenged whether the modelled collective impairment provision already appropriately reflected the assumptions underpinning the adjustments or if a management adjustment was required.
- For a risk-based sample of loans, we critically assessed, by reference to the underlying documentation and through inquiry of management, whether the indicators for a credit impairment had been identified. We challenged the reasonableness of management's judgement in this regard.
- For a sample of credit-impaired loans, where relevant, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment provision and challenged the assumptions through comparing estimates to external support where available. Where appropriate, this work involved considering third party valuations of collateral, internal valuation guidelines derived from benchmark data and / or externally prepared reports to determine whether appropriate valuation methodologies were employed.
- The results of our testing were satisfactory and we found the ECL charge and provision recognised to be reasonable.

**Valuation of defined benefit pension net liability €228 million (2017: €478 million)**
*Refer to page 188 (accounting policy) and to note 47 (financial disclosures)*

The key audit matter
The Group operates a number of defined benefit pension schemes which in total are significant in the context of both the overall balance sheet and the results of the Group. The schemes have an aggregate IAS 19 defined benefit pension deficit of €228 million at 31 December 2018.

The valuations of the pension obligations are calculated with reference to a number of actuarial assumptions and inputs including discount rate, rate of inflation and mortality rates. The treatment of curtailments, settlements, past service costs and other amendments can significantly impact the balance sheet and results of the Group.

We regard the determination of the Group's defined benefit pension liability as a key audit matter because its valuation is complex and requires judgement in choosing appropriate actuarial assumptions. Small changes in these assumptions can have a material impact on the liability.

How the matter was addressed in our audit
- We obtained an understanding of the process around the defined benefit pension schemes and tested the design and implementation and operating effectiveness of the key controls relating to the defined benefit pension schemes.
- We tested the design, implementation and operating effectiveness of the controls over the maintenance of schemes' membership data.
- We tested key data to source documentation establishing the obligation to members, and vice versa.
- We obtained independent confirmations relating to the valuation of the schemes' assets.
- In conjunction with our actuarial specialists we met with management and the scheme actuary to understand, assess and challenge the judgements made in determining the key assumptions used in the calculation of the liability.
- We also considered the adequacy of the Group's disclosures in respect to the sensitivity of the pension liability to these assumptions.
- Overall, we found that the key assumptions and methodologies used by management in the valuation of the retirement benefit obligations to be appropriate.

**Valuation of the insurance contract liabilities €11,003 million (2017: €10,878 million) and the Value of in Force (ViF) business asset €571 million (2017: €565 million)**
*Refer to page 189 (accounting policy) and to notes 43 and 39 (financial disclosures)*

The key audit matter
We consider the valuation of insurance contract liabilities and the related ViF asset to be a key audit matter owing to the complex

calculations and the use of detailed methodologies and significant judgements. This includes judgement over uncertain future outcomes which for insurance contract liabilities mainly relate to the ultimate settlement value of long term policyholder liabilities; and for the ViF asset, includes future margins on insurance contracts.

The valuation of the insurance contract liabilities and the related ViF asset is based on a number of key assumptions such as mortality, morbidity, persistency, expenses, unit growth rates and interest rates.

**How the matter was addressed in our audit**
In testing the valuation of the insurance contract liabilities and ViF asset:

- We evaluated and tested the design, implementation and operating effectiveness of the key controls relevant to the valuation of the insurance contract liabilities and the ViF asset.
- We tested the completeness and accuracy of the key data used in the valuation calculation.
- In conjunction with our actuarial specialists, we evaluated the methodologies applied and the key assumptions applied in the valuation.
- We assessed and challenged the methodology and basis used to set the underlying assumptions with reference to guidance issued by the European Insurance and Occupational Pensions Authority (EIOPA), the Group's actuarial experience investigations and our experience of similar companies in the marketplace as applicable.
- We assessed the calculation of insurance contract liabilities and the ViF asset through:
  - Agreeing the assumptions and key data input into the actuarial models to those we had evaluated;
  - Testing the design, implementation and operating effectiveness of management's controls over the output of the calculations; and
  - Evaluating the external actuary's report on the actuarial methodologies, assumptions and calculations.
- We found that the insurance contract liabilities and the ViF asset were appropriately calculated.

## IT Operational Risk

**The key audit matter**
As with many banks, the Group is highly dependent on IT systems for the processing and recording of significant volumes of transactions. Our audit approach relies extensively on automated controls and therefore on the effectiveness of controls over IT systems.

In particular we consider user access management controls to be critical in ensuring that only approved changes to applications and underlying data are authorised and made appropriately. Moreover, appropriate access controls contribute to mitigating the risk of potential fraud or error as a result of changes to applications and data.

The Group has a complex IT environment and operates a large number of applications, many of which are legacy systems which we understand will be replaced as the Group executes its multi-year investment programme to replace its core banking IT platforms. This programme operates in tandem with existing initiatives to maintain the operating effectiveness of the Group's existing IT systems. Each of these elements has been brought together in an Integrated IT Plan. Management has an ongoing risk management programme in place to identify, rate, mitigate and report on risk including IT and Operational risk matters.

We regard this area as a key audit matter owing to the high level of IT dependency within the Group as well as the associated complexity and the risk that automated controls are not designed and operating effectively.

**How the matter was addressed in our audit**

- we evaluated the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting;
- in conjunction with our IT audit specialists, we obtained an understanding of the Group's IT environment having particular regard for developments with respect to the Group's Integrated IT plan;
- we examined the design of the governance framework associated with the Group's IT architecture. We tested relevant General IT Controls for IT applications we considered relevant to the financial reporting process, including access management, performance development and change management;
- we also tested the design, implementation and operating effectiveness of key IT application controls, including the configuration, security and accuracy of end user computing controls. Where IT controls could not be relied upon we conducted additional substantive procedures and where relevant, we determined whether compensating controls were effective mitigants for any design or operating deficiencies; and
- while we identified certain design and operating effectiveness deficiencies with user access controls, the combination of our controls and substantive testing provided us with sufficient evidence to rely on the operation of the Group's IT systems for the purposes of our audit.

## Recognition and impairment of internally generated intangible assets €708 million (2017: €667 million)

*Refer to page 187 (accounting policy) and to notes 34 and 15 (financial disclosures)*

**The key audit matter**
The Group balance sheet includes capitalised intangible assets of €708 million, a material proportion of which relates to costs incurred in connection with the Group's Core Banking Systems Programme.

Owing to the significance of the costs capitalised and the fact that there is judgement involved in assessing whether the criteria in IAS 38 required for capitalisation of such costs, have been met - including the likelihood of the project delivering sufficient future economic benefits - we considered this a key audit matter.

Where the costs incurred are internally generated (for example employee costs) there is further judgement required, such as the accuracy of amount of time spent on the projects.

In light of the development of new software and systems, we also focused on whether the carrying value of previously capitalised software or systems was impaired.

### How the matter was addressed in our audit

- We obtained an understanding of the various projects, and their stage of completion. We tested the design, implementation and operating effectiveness of key controls relating to the capitalisation of expenditure and the impairment analysis performed by management.
- We tested a sample of costs capitalised in the period to assess whether these had been appropriately treated in line with the Group's accounting policy and IAS 38.
- We inquired of management responsible for certain costs to obtain an understanding of their associated projects so as to enable us to determine whether the costs met the criteria for capitalisation as set out in IFRS.
- Where external third party contractors were used, we agreed the hours and charge out rates to the invoices issued by the contractor, and assessed whether the costs were directly related to a capital project. To determine whether internal employee costs were directly attributable to projects, we obtained listings of hours worked on individual projects for the employment costs capitalised. We then selected a sample of the individual hours recorded and obtained an understanding of the work performed by the employee and checked that the hours charged were consistent with the value of costs capitalised.
- We challenged management's assessment as to whether the development of new software identified any impairment indicators for any of the existing internally generated intangible assets on the balance sheet. In addition, we used our understanding of both new and existing projects to consider whether, in our view, any existing software was no longer in use or whether its life had been shortened by the development activity. We found no such items.
- We found that the costs capitalised were supportable, consistent with the requirements of IFRS and the carrying value of the internally generated intangible assets was reasonable at year end.

## Recoverability of deferred tax assets (DTAs) €1,165 million (2017: €1,237 million)

*Refer to page 188 (accounting policy) and to note 37 (financial disclosures)*

### The key audit matter

The Group has DTAs of €1,165 million which are projected to be recovered by 2030. Within this balance there is a separate asset in respect of Ireland (€1,055 million) and the UK (€110 million) with recovery periods of 12 and 13 years respectively.

Detailed projections of future taxable profits for a five year period are prepared by the Group. The projections for the final year are then extrapolated at estimated annual long term growth rates for the Irish and UK economies for the purposes of projecting future taxable profits beyond five years.

The recognition of a DTA relies on management's judgements relating to the probability, timing and sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions and business performance and current legislation governing the use of historical trading losses carried forward. These are inherently uncertain and subject to a high degree of estimation particularly given the Brexit uncertainty at year end.

Under UK and Irish tax legislation, there is no time limit on the utilisation of the Group's tax losses. However, in the UK the amount of a bank's annual profits that can be sheltered with trading losses carried forward is restricted to 25%.

We regard this area as a key audit matter because of the judgements required by management as the estimation of future taxable profits is inherently judgemental.

### How the matter was addressed in our audit

- In addressing this matter, we evaluated and tested the design and implementation of key controls over the determination and approval of the forecast taxable profits used to support the recognition of the DTAs.
- We assessed management's basis for allocating forecast profits between legal entities by testing the allocation methodology, challenging significant assumptions and using our understanding of the Group's activities.
- We assessed whether the forecasted profits were appropriate by challenging both the assumptions particular to the Group's future performance and broader economic assumptions, including how uncertainties such as Brexit were considered by management in determining the forecasted profits.
- We focused on those assumptions directly impacting the forecasted profits, for example interest rates, projected lending volumes and gross domestic product with reference to observable benchmarks. In this regard, we compared a number of the economic assumptions to external data sources and also assessed the accuracy of previous forecasts relative to actual results.
- We assessed whether the combination of the Group's current profitability and the Directors' projections provided an appropriate basis for the judgement that sufficient taxable profits will be available to utilise unused tax losses.
- We assessed the adequacy of disclosures provided in the financial statements, including disclosures of the assumptions and found them to be appropriate.
- On the basis of the work performed, we found that the Group's net DTA met the criteria for recognition under IAS 12 and that its carrying value was reasonable.

## Recoverability of the carrying value of the investment by BOIG plc in the Governor and Company of the Bank of Ireland (Company risk and key audit matter only) €7,035 million (2017: €7,035 million)

*Refer to page 294 (accounting policy) and to note c of the Company Financial statements (financial disclosures)*

### The key audit matter

The Group completed a corporate reorganisation during 2017 which included the creation of a new Group holding company, Bank of Ireland Group plc (the 'Company').

The Company balance sheet includes a €7 billion investment in the Governor and Company of the Bank of Ireland (GovCo).

The Group assesses the carrying value as the higher of the value in use (VIU) and its fair value less costs of disposal in accordance with IAS 36.

We consider this a key audit matter because of the significance of the investment to the Company and the judgement associated with its recovery which is predicated on the achievement of future projections.

How the matter was addressed in our audit

- We evaluated and tested the design of key controls over the production and approval of the projections of future profits. The Group prepares detailed projections covering a five year period and then extrapolates the final year using estimated long term growth rates for Ireland and the UK.
- We evaluated management's fair value assessment which was based on the market capitalisation both before and after the year end and on external broker reports.
- We challenged the key assumptions underlying the VIU calculations and benchmarked to external data where available. We tested the back testing applied by the Group and assessed whether the Group had stressed the projections for alternative plausible outcomes particularly in light of Brexit.
- We tested and challenged management's identification of the Group's key cash generating units and the process for selecting discount rates.
- We assessed the adequacy of disclosures in the Company's financial statements.
- Based on evidence obtained, we found that management's assertion that the investment by the Company in GovCo is not impaired, is reasonable.

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

The materiality for the Group financial statements as a whole was set at €37.6 million. This has been calculated as c.5% of the benchmark of Group profit before taxation (PBT), which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. We reported to the GAC all corrected and uncorrected misstatements we identified through our audit with a value in excess of €1.9 million in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

The materiality for the Company financial statements is €80 million which represents 1% of net assets. The Company is the ultimate holding company of the Group and its activities to date have been limited to its investment in GovCo and the issue of subordinated liabilities and debt securities. Hence a benchmark based on net assets reflects the focus of the users of the financial statements.

Our audit work addressed each of the Group's five operating segments which are headquartered in Ireland and the UK: Retail Ireland, Wealth and Insurance, Retail UK, Corporate and Treasury (C&T) and Group Centre. We performed full scope audits of the complete financial information of the Retail Ireland, Wealth and Insurance and Retail UK operating segments. Audits of account balances were performed on C&T and Group Centre operating segments.

The Group audit team instructed component Auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group audit team approved the materiality for components which ranged from €10 million to €25 million, having regard to the mix of size and risk profile of the Group across the components.
The Group team visited all component locations in Dublin and London, and undertook an assessment of the audit risk and strategy. Regular meetings were held both in person and through telephone conference meetings with these component Auditors. At these visits and meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component Auditor.

Audit coverage for individual line items within the consolidated income statement and consolidated balance sheet falls in the range 60% to 100%; most line items have audit coverage above 90%.

The work on five of the six components was performed by KPMG Ireland, including the audit of the parent company. The remaining work was covered by overseas component Auditors.

***We have nothing to report on going concern***

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- if the related statement under the Listing Rules set out on page 144 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

*Other information*

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the Strategic Report on pages 3 to 59, the unaudited sections of the Risk Management Report on pages 60 to 111, the Governance Section on pages 112 to 156 (except for the Remuneration Report on page 153), the unaudited parts of Other Information on pages 301 to 329. The financial statements and our Auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information:

- we have not identified material misstatements in the Directors' report;

- in our opinion, the information given in the Directors' report is consistent with the financial statements; and
- in our opinion, the Directors' report has been prepared in accordance with the Companies Act 2014.

*Disclosures of principal risks and longer-term viability*
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:
- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated;
- the Directors' confirmation within the Report of the Directors, page 145, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity; and
- the Directors' explanation in the Report of the Directors of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

*Other corporate governance disclosures*
We are required to address the following items and report to you in the following circumstances:
- fair, balanced and understandable: if we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- Report of the Group Audit Committee: if the section of the Annual Report describing the work of the Group Audit Committee does not appropriately address matters communicated by us to the Group Audit Committee; or
- statement of compliance with UK Corporate Governance Code: if the Directors' statement does not properly disclose a departure from provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

In addition as required by the Companies Act 2014, we report, in relation to information given in the Governance section on pages 112 to 156, that:
- based on the work undertaken for our audit, in our opinion, the description of the main features of internal control and risk management systems in relation to the financial reporting process, and information relating to voting rights and other matters required by the European Communities (Takeover Bids (Directive 2004/25/EC) Regulations 2006 and specified for our consideration, is consistent with the financial statements and has been prepared in accordance with the Act;
- based on our knowledge and understanding of the Company and its environment obtained in the course of our audit, we have not identified any material misstatements in that information; and
- the Governance section contains the information required by the European Union (Disclosure of Non-Financial and Diversity Information by certain large undertakings and groups) Regulations 2017.

We also report that, based on work undertaken for our audit, other information required by the Act is contained in the Corporate Governance Statement.

*Our opinions on other matters prescribed by the Companies Act 2014 are unmodified*
We have obtained all the information and explanations which we consider necessary for the purpose of our audit.

In our opinion, the accounting records of the Company were sufficient to permit the Company financial statements to be readily and properly audited and the Company's financial statements are in agreement with the accounting records.

*We have nothing to report on other matters on which we are required to report by exception*
The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made.

The Companies Act 2014 also requires us to report to you if, in our opinion, the Company has not provided the information required by section 5(2) to (7) of the European Union (Disclosure of non-financial and diversity Information by certain large undertakings and groups) Regulations 2017 for the year ended 31 December 2018 as required by the European Union (Disclosure of non-financial and diversity Information by certain large institutions and groups) (amendment) Regulations 2018.

The Listing Rules of the Irish Stock Exchange and UK Listing Authority require us to review:
- the Directors' Statement, set out on page 145, in relation to going concern and longer-term viability;
- the part of the Governance section on page 114 relating to the Company's compliance with the provisions of the UK Corporate Governance Code and the Irish Corporate Governance Annex specified for our review; and
- certain elements of disclosures in the report to shareholders by the Board of Directors' remuneration committee.

**Respective responsibilities and restrictions on use**

*Directors' responsibilities*
As explained more fully in their statement set out on page 158, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

*Auditor's responsibilities*
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an Auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a

material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation and not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on IAASA's website at https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_Auditors_responsiblities_for_audit.pdf

***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 our report, or for the opinions we have formed.

**N Marshall**
for and on behalf of
**KPMG**
Chartered Accountants
1 Harbourmaster Place
IFSC
Dublin 1
Ireland

22 February 2019

# Consolidated financial statements

## **Consolidated income statement** *(for the year ended 31 December 2018)*

| | Note | 2018 €m | 2017 €m |
|---|---|---|---|
| Interest income calculated using the effective interest method | 5 | 2,354 | 2,394 |
| Interest income on finance leases and hire purchase receivables | 5 | 159 | 152 |
| **Interest income** | | **2,513** | **2,546** |
| Interest expense | 6 | (379) | (394) |
| **Net interest income** | | **2,134** | **2,152** |
| Net insurance premium income | 7 | 1,496 | 1,344 |
| Fee and commission income | 8 | 521 | 543 |
| Fee and commission expense | 8 | (224) | (217) |
| Net trading income | 9 | 55 | 161 |
| Life assurance investment income gains and losses | 10 | (331) | 450 |
| Other leasing income | 11 | 52 | 3 |
| Other leasing expense | 11 | (41) | (3) |
| Other operating income | 12 | 85 | 170 |
| **Total operating income** | | **3,747** | **4,603** |
| Insurance contract liabilities and claims paid | 13 | (955) | (1,646) |
| **Total operating income, net of insurance claims** | | **2,792** | **2,957** |
| Other operating expenses | 14 | (1,941) | (2,080) |
| Cost of restructuring programme | 15 | (111) | (48) |
| **Operating profit before impairment gains / (losses) on financial instruments** | | **740** | **829** |
| Net impairment gains / (losses) on financial instruments | 17 | 42 | (15) |
| **Operating profit** | | **782** | **814** |
| Share of results of associates and joint ventures (after tax) | 18 | 41 | 43 |
| Gain on disposal of asset held for sale | 28 | 7 | - |
| Gain / (loss) on disposal / liquidation of business activities | 19 | 5 | (5) |
| **Profit before tax** | | **835** | **852** |
| Taxation charge | 20 | (160) | (160) |
| **Profit for the year** | | **675** | **692** |
| | | | |
| Attributable to shareholders | | 620 | 664 |
| Attributable to non-controlling interests | 51 | 55 | 28 |
| **Profit for the year** | | **675** | **692** |
| | | | |
| Earnings per ordinary share | 21 | 57.7c | 59.1c |
| | | | |
| Diluted earnings per ordinary share | 21 | 57.7c | 59.1c |

# Consolidated statement of comprehensive income *(for the year ended 31 December 2018)*

| | Note | 2018 €m | 2017 €m |
|---|---|---|---|
| **Profit for the year** | | **675** | **692** |
| | | | |
| **Other comprehensive income, net of tax:** | | | |
| **Items that may be reclassified to profit or loss in subsequent years:** | | | |
| | | | |
| *Debt instruments at FVOCI reserve, net of tax:* | | | |
| Changes in fair value | | (137) | - |
| Transfer to income statement | | | |
| - Asset disposal | | (2) | - |
| **Net change in debt instruments at FVOCI reserve** | | **(139)** | **-** |
| | | | |
| *Available for sale financial assets, net of tax:* | | | |
| Gain on reclassification from held to maturity portfolio | | - | 45 |
| Changes in fair value | | - | 22 |
| Transfer to income statement | | | |
| - Asset disposal | | - | (60) |
| - Amortisation | | - | (16) |
| **Net change in available for sale reserve** | | **-** | **(9)** |
| | | | |
| *Cash flow hedge reserve, net of tax:* | | | |
| Changes in fair value | | (1) | 179 |
| Transfer to income statement | | (50) | (294) |
| **Net change in cash flow hedge reserve** | | **(51)** | **(115)** |
| | | | |
| *Foreign exchange reserve:* | | | |
| Foreign exchange translation gains / (losses) | | 8 | (158) |
| Transfer to income statement | | 2 | 11 |
| **Net change in foreign exchange reserve** | | **10** | **(147)** |
| | | | |
| **Total items that may be reclassified to profit or loss in subsequent years** | | **(180)** | **(271)** |
| | | | |
| **Items that will not be reclassified to profit or loss in subsequent years:** | | | |
| Remeasurement of the net defined benefit pension liability, net of tax | | 129 | (113) |
| Revaluation of property, net of tax | | (5) | 15 |
| Net change in liability credit reserve, net of tax[1] | | 37 | - |
| **Total items that will not be reclassified to profit or loss in subsequent years** | | **161** | **(98)** |
| | | | |
| **Other comprehensive expense for the year, net of tax** | | **(19)** | **(369)** |
| **Total comprehensive income for the year, net of tax** | | **656** | **323** |
| | | | |
| Total comprehensive income attributable to equity shareholders | | 601 | 295 |
| Total comprehensive income attributable to non-controlling interests | | 55 | 28 |
| **Total comprehensive income for the year, net of tax** | | **656** | **323** |

The effect of tax on these items is shown in note 20.

[1] *Prior to 1 January 2018, under IAS 39, changes in fair value of the Group's own debt and structured deposits were recognised in the income statement. Under IFRS 9, these gains / charges are now accounted for through other comprehensive income (OCI).*

# **Consolidated balance sheet** *(for the year ended 31 December 2018)*

| | Note | 2018 €m | 2017 €m |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances at central banks | | 6,033 | 7,379 |
| Items in the course of collection from other banks | | 259 | 307 |
| Trading securities | | 29 | 68 |
| Derivative financial instruments | 22 | 1,724 | 2,348 |
| Other financial assets at FVTPL | 23 | 14,135 | 14,421 |
| Loans and advances to banks | 24 | 2,625 | 3,061 |
| Debt securities at amortised cost | 25 | 3,928 | - |
| Financial assets at FVOCI | 26 | 12,048 | - |
| Available for sale financial assets | 27 | - | 13,223 |
| Assets classified as held for sale | 28 | 602 | 28 |
| Loans and advances to customers | 29 | 76,363 | 76,128 |
| Interest in associates | 32 | 53 | 59 |
| Interest in joint ventures | 33 | 69 | 69 |
| Intangible assets and goodwill | 34 | 802 | 779 |
| Investment properties | 35 | 1,037 | 912 |
| Property, plant and equipment | 36 | 438 | 434 |
| Current tax assets | | 33 | 50 |
| Deferred tax assets | 37 | 1,165 | 1,237 |
| Other assets | 38 | 2,280 | 1,993 |
| Retirement benefit assets | 47 | 46 | 58 |
| **Total assets** | | **123,669** | **122,554** |
| | | | |
| **Equity and liabilities** | | | |
| Deposits from banks | 40 | 2,482 | 4,339 |
| Customer accounts | 41 | 78,899 | 75,869 |
| Items in the course of transmission to other banks | | 268 | 263 |
| Derivative financial instruments | 22 | 1,819 | 1,987 |
| Debt securities in issue | 42 | 8,904 | 8,390 |
| Liabilities to customers under investment contracts | 43 | 5,239 | 5,766 |
| Insurance contract liabilities | 43 | 11,003 | 10,878 |
| Other liabilities | 44 | 2,460 | 2,482 |
| Current tax liabilities | | 11 | 12 |
| Provisions | 45 | 84 | 205 |
| Loss allowance provision on loan commitments and financial guarantees | 46 | 29 | - |
| Deferred tax liabilities | 37 | 42 | 53 |
| Retirement benefit obligations | 47 | 274 | 536 |
| Subordinated liabilities | 48 | 2,104 | 2,107 |
| **Total liabilities** | | **113,618** | **112,887** |
| | | | |
| **Equity** | | | |
| Share capital | 50 | 1,079 | 1,079 |
| Share premium account | | 456 | 456 |
| Retained earnings | | 7,975 | 7,333 |
| Other reserves | | (242) | 24 |
| Own shares held for the benefit of life assurance policyholders | | (25) | (33) |
| **Shareholders' equity** | | **9,243** | **8,859** |
| Non-controlling interests | 51 | 808 | 808 |
| **Total equity** | | **10,051** | **9,667** |
| **Total equity and liabilities** | | **123,669** | **122,554** |

| ***Patrick Kennedy*** | ***Patrick Haren*** | ***Francesca McDonagh*** | ***Helen Nolan*** |
|---|---|---|---|
| *Chairman* | *Deputy Chairman* | *Group Chief Executive* | *Group Secretary* |

# Consolidated statement of changes in equity *(for the year ended 31 December 2018)*

| | Note | 2018 €m | 2017 €m |
|---|---|---|---|
| **Share capital** | | | |
| Balance at the beginning of the year | | 1,079 | 2,545 |
| Impact of corporate reorganisation and capital reduction | 49 | - | (1,466) |
| *- Redemption and cancellation of Bank deferred stock* | | - | *(920)* |
| *- Cancellation of Bank treasury stock* | | - | *(2)* |
| *- Cancellation of Bank capital stock* | | - | *(1,616)* |
| *- Issue of share capital of Bank of Ireland Group plc* | | - | *6,473* |
| *- Transfer to capital reserve on renominalisation of share capital* | | - | *(5,394)* |
| *- Transfer of preference stock to non-controlling interest* | | - | *(7)* |
| **Balance at the end of the year** | 50 | **1,079** | **1,079** |
| | | | |
| **Share premium account** | | | |
| Balance at the beginning of the year | | 456 | 571 |
| Impact of corporate reorganisation and capital reduction | 49 | - | (115) |
| *- Stock premium cancelled on Bank capital stock* | | - | *(512)* |
| *- Transfer of premium on preference stock to non-controlling interest* | | - | *(59)* |
| *- Capitalisation of merger reserve* | | - | *562* |
| *- Transfer to retained earnings* | | - | *(106)* |
| **Balance at the end of the year** | | **456** | **456** |
| | | | |
| **Retained earnings** | | | |
| Balance at the beginning of the year | | 7,333 | 5,214 |
| Impact of adopting IFRS 9 at 1 January 2018 | 65 | (31) | - |
| Restated balance at 1 January 2018 | | 7,302 | 5,214 |
| Profit retained | | 496 | 636 |
| *- Profit for year attributable to shareholders* | | *620* | *664* |
| *- Dividends on ordinary shares* | 63 | *(124)* | - |
| *- Dividends on preference equity interests paid in cash* | | - | *(4)* |
| *- Distribution on other equity instruments - AT1 coupon, net of tax* | 51 | - | *(24)* |
| Impact of corporate reorganisation and capital reduction | 49 | - | 1,553 |
| *- Reserve of the Bank at date of corporate reorganisation* | | - | *(3,947)* |
| *- Transfer from capital reserve* | | - | *5,394* |
| *- Transfer from share premium* | | - | *106* |
| Transfer from revaluation reserve | | 9 | - |
| Transfer from capital reserve | | 37 | 41 |
| Remeasurement of the net defined benefit pension liability | 20 | 129 | (113) |
| Other movements | | 2 | 2 |
| **Balance at the end of the year** | | **7,975** | **7,333** |
| | | | |
| **Other reserves:** | | | |
| **Available for sale reserve** | | | |
| Balance at the beginning of the year | | 341 | 350 |
| Impact of adopting IFRS 9 at 1 January 2018 | 65 | (341) | - |
| **Restated balance at 1 January 2018** | | **-** | 350 |
| Gain on reclassification from held to maturity portfolio | | - | 52 |
| Net changes in fair value | | - | 24 |
| Transfer to income statement (pre tax) | | | |
| - Asset disposal | 12 | - | (69) |
| - Amortisation | 5 | - | (18) |
| Deferred tax on reserve movements | | - | 2 |
| **Balance at the end of the year** | | **-** | **341** |

## Consolidated statement of changes in equity *(for the year ended 31 December 2018) (continued)*

| | Note | 2018 €m | 2017 €m |
|---|---|---|---|
| **Other reserves (continued):** | | | |
| **Debt instruments at FVOCI reserve** | | | |
| Balance at the beginning of the year | | - | - |
| Impact of adopting IFRS 9 at 1 January 2018 | | 272 | - |
| Restated balance at 1 January 2018 | | 272 | - |
| Net changes in fair value | | (157) | - |
| Transfer to income statement (pre tax) | | | |
| - Asset disposal | | (2) | - |
| Deferred tax on reserve movements | | 20 | - |
| **Balance at the end of the year** | | **133** | **-** |
| | | | |
| **Cash flow hedge reserve** | | | |
| Balance at the beginning of the year | | 41 | 156 |
| Changes in fair value | | (1) | 203 |
| Transfer to income statement (pre tax) | | | |
| - Net trading expense (foreign exchange and amortisations) | | (117) | (336) |
| - Net interest income | 5 | 61 | 2 |
| Deferred tax on reserve movements | | 6 | 16 |
| **Balance at the end of the year** | | **(10)** | **41** |
| | | | |
| **Liability credit reserve** | | | |
| Balance at the beginning of the year | | - | - |
| Impact of adopting IFRS 9 at 1 January 2018 | | (13) | - |
| Restated balance at 1 January 2018 | | (13) | - |
| Changes in fair value of liabilities designated at FVTPL due to own credit risk | | 43 | - |
| Deferred tax on reserve movements | | (6) | - |
| **Balance at the end of the year** | | **24** | **-** |
| | | | |
| **Foreign exchange reserve** | | | |
| Balance at the beginning of the year | | (843) | (696) |
| Exchange adjustments during the year | | 8 | (158) |
| Transfer to income | | 2 | 11 |
| **Balance at the end of the year** | | **(833)** | **(843)** |
| | | | |
| **Capital reserve** | | | |
| Balance at the beginning of the year | | 433 | 529 |
| Transfer to retained earnings | | (37) | (41) |
| Impact of corporate reorganisation and capital reduction | 49 | - | (55) |
| *- Redemption and cancellation of Bank deferred stock for nil consideration* | | - | *920* |
| *- Cancellation of Bank treasury stock* | | - | *2* |
| *- Reserve of the Bank at date of corporate reorganisation* | | - | *(977)* |
| *- Transfer from share capital - renominalisation of share capital* | | - | *5,394* |
| *- Transfer to retained earnings* | | - | *(5,394)* |
| **Balance at the end of the year** | | **396** | **433** |
| | | | |
| **Merger reserve** | | | |
| Balance at the beginning of the year | | 17 | - |
| Impact of corporate reorganisation and capital reduction | 49 | - | 17 |
| *- Creation of merger reserve arising from issue of ordinary shares* | | - | *562* |
| *- Capitalisation of merger reserve to share premium* | | - | *(562)* |
| *- Reserves of the Bank at date of corporate reorganisation* | | - | *17* |
| **Balance at the end of the year** | | **17** | **17** |

## Consolidated statement of changes in equity *(for the year ended 31 December 2018) (continued)*

| | Note | 2018 €m | 2017 €m |
|---|---|---|---|
| **Other reserves (continued):** | | | |
| **Revaluation reserve** | | | |
| Balance at the beginning of the year | | 35 | 20 |
| Transfer to retained earnings | | (9) | - |
| Revaluation of property | | 11 | 16 |
| Deferred tax on reserve movements | | (6) | (1) |
| **Balance at the end of the year** | | **31** | **35** |
| **Total other reserves** | | **(242)** | **24** |
| **Own shares held for the benefit of life assurance policyholders** | | | |
| Balance at the beginning of the year | | (33) | (11) |
| Changes in value and amount of shares held | | 8 | (22) |
| **Balance at the end of the year** | | **(25)** | **(33)** |
| **Total shareholders' equity excluding other equity instruments and non-controlling interests** | | **9,243** | **8,859** |
| **Other equity instruments** | | | |
| Balance at the beginning of the year | | - | 740 |
| Transfer to non-controlling interests on date of corporate reorganisation | 49 | - | (740) |
| **Balance at the end of the year** | | **-** | **-** |
| **Non-controlling interests** | | | |
| Balance at the beginning of the year | | 808 | 1 |
| Impact of corporate reorganisation and capital reduction | 49 | - | 806 |
| *- Transfer of preference stock from share capital* | | - | *7* |
| *- Transfer from share premium* | | - | *59* |
| *- Transfer from other equity instruments* | | - | *740* |
| Share of net profit | | 55 | 28 |
| Dividends paid to non-controlling interests - preference stock | | (7) | (3) |
| Distribution to non-controlling interests - AT1 coupon, net of tax | | (48) | (24) |
| **Balance at the end of the year** | 51 | **808** | **808** |
| **Total equity** | | **10,051** | **9,667** |

# **Consolidated cash flow statement** *(for the year ended 31 December 2018)*

| | Note | 2018 €m | 2017 €m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 835 | 852 |
| Share of results of associates and joint ventures | 18 | (41) | (43) |
| Gain / (loss) on disposal / liquidation of business activities | 19 | (5) | 5 |
| Gain on disposal of asset held for resale | 28 | (7) | - |
| Depreciation and amortisation | 11,14 | 235 | 169 |
| Net impairment loss on financial instruments, excluding cash recoveries | 17 | 7 | 15 |
| Impairment of property, plant and equipment | 15 | 9 | - |
| Impairment of intangible assets | 15 | 6 | - |
| Reversal of impairment on property | 14 | (4) | (4) |
| Revaluation of investment property | 35 | (33) | (40) |
| Interest expense on subordinated liabilities | 53 | 119 | 98 |
| Charge for pension and similar obligations | 47 | 118 | 122 |
| Charges arising on the movement in credit spreads on the Group's own debt and deposits accounted for at FVTPL | 9 | - | 5 |
| Net change in accruals and interest payable | | 12 | (43) |
| Net change in prepayments and interest receivable | | 17 | 51 |
| Charge for provisions | 45 | 94 | 224 |
| Non-cash and other items | | 7 | 43 |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **1,369** | **1,454** |
| | | | |
| Net change in items in the course of collection from other banks | | 53 | (28) |
| Net change in trading securities | | 39 | (50) |
| Net change in derivative financial instruments | | 359 | 494 |
| Net change in other financial assets at FVTPL | | 708 | (1,194) |
| Net change in loans and advances to banks | | (71) | 5 |
| Net change in loans and advances to customers, including loans and advances to customers held for sale | | (1,334) | 1,035 |
| Net change in NAMA senior bonds | | - | 454 |
| Net change in other assets | | (306) | (23) |
| Net change in deposits from banks | | (1,841) | 658 |
| Net change in customer accounts | | 3,229 | 1,570 |
| Net change in debt securities in issue | | 520 | (2,292) |
| Net change in liabilities to customers under investment contracts | | (527) | 119 |
| Net change in insurance contract liabilities | | 125 | 420 |
| Net change in other operating liabilities | | (311) | (258) |
| **Net cash flow from operating assets and liabilities** | | **643** | **910** |
| | | | |
| **Net cash flow from operating activities before tax** | | **2,012** | **2,364** |
| Tax paid | | (44) | (105) |
| **Net cash flow from operating activities** | | **1,968** | **2,259** |
| | | | |
| Investing activities (section a below) | | (3,552) | (1,054) |
| Financing activities (section b below) | | (301) | 568 |
| Effect of exchange translation and other adjustments | | 33 | 129 |
| **Net change in cash and cash equivalents** | | **(1,852)** | **1,902** |
| | | | |
| Opening cash and cash equivalents | | 10,201 | 8,299 |
| **Closing cash and cash equivalents** | 52 | **8,349** | **10,201** |

# Consolidated cash flow statement *(for the year ended 31 December 2018) (continued)*

| | Note | 2018 €m | 2017 €m |
|---|---|---|---|
| **(a) Investing activities** | | | |
| Additions to financial assets at FVOCI | 26 | (4,652) | - |
| Disposal / redemption of financial assets at FVOCI | 26 | 2,541 | - |
| Additions to debt securities at amortised cost | | (1,440) | - |
| Disposal / redemption of debt securities at amortised cost | | 293 | - |
| Additions to available for sale financial assets | 27 | - | (4,763) |
| Disposal / redemption of available for sale financial assets | 27 | - | 4,001 |
| Additions to property, plant and equipment | 36 | (72) | (44) |
| Disposal of property, plant and equipment | 36 | 14 | 4 |
| Additions to intangible assets | 34 | (207) | (235) |
| Acquisition of subsidiary (net of cash acquired) | | - | (48) |
| Additions to investment property | 35 | (123) | (74) |
| Disposal of investment property | 35 | 13 | 57 |
| Disposal of assets held for sale | 28 | 35 | 3 |
| Dividends received from joint ventures | 33 | 36 | 39 |
| Net change in interest in associates | 32 | 10 | - |
| Net proceeds / (cost) from disposal of business activity | | - | 6 |
| **Cash flows from investing activities** | | **(3,552)** | **(1,054)** |
| | | | |
| **(b) Financing activities** | | | |
| Proceeds from issue of subordinated liabilities | 53 | - | 750 |
| Repayment of subordinated liabilities | 53 | - | (32) |
| Interest paid on subordinated liabilities | 53 | (115) | (88) |
| Dividend paid to ordinary shareholders | | (124) | - |
| Dividend paid on other preference equity interests | | - | (4) |
| Distributions paid on other equity instruments - AT1 coupon | 51 | - | (27) |
| Distribution to non-controlling interests - AT1 coupon | 51 | (55) | (28) |
| Dividend paid to non-controlling interests - preference stock | 51 | (7) | (3) |
| **Cash flows from financing activities** | | **(301)** | **568** |

# Notes to the consolidated financial statements

# 1 Group accounting policies

## Basis of preparation

These consolidated financial statements are financial statements of the Bank of Ireland Group plc ('BOIG plc' or the 'Company') and its subsidiaries (collectively the 'BOIG plc Group' or the 'Group').

The financial statements comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheets, the Consolidated and Company statements of changes in equity, the Consolidated cash flow statement, the notes to the consolidated financial statements on pages 174 to 290 and the notes to the Company financial statements on pages 294 to 300.

The financial statements include the information that is described as being an integral part of the audited financial statements contained in:

(i) Sections 3.1, 3.2, 3.3, 3.4 and 4 of the Risk Management Report as described further on the bottom of page 60;
(ii) the Remuneration Report as described further on page 153; and
(iii) Other Information - Group exposures to selected countries as described further on the top of page 302.

The financial statements also include the tables in Other Information - Supplementary asset quality disclosures that are described as being an integral part of the audited financial statements as described further on the top of page 306.

The amounts presented in the financial statements are rounded to millions.

The consolidated financial statements of the Group are prepared in accordance with IFRS as adopted by the EU and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS and with the EU (Credit Institutions: Financial Statements) regulations 2015 and the Asset Covered Securities Acts 2001 and 2007.

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

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

The accounting policies and critical accounting estimates applied by the Company are included in note a to the Company financial statements on page 294.

Foreign exchange (FX) rates used during year are as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Average** | **Closing** | **Average** | **Closing** |
| € / Stg£ | 0.8847 | 0.8945 | 0.8767 | 0.8872 |
| € / US$ | 1.1810 | 1.1450 | 1.1297 | 1.1993 |

**Impact of corporate reorganisation**

On 28 April 2017, the ordinary stockholders of The Governor and Company of the Bank of Ireland (the 'Bank') approved the resolutions necessary to implement a corporate reorganisation. The reorganisation was implemented by a scheme of arrangement under the Companies Act 2014 (the 'Scheme'), approved by the High Court on 23 June 2017.

The Scheme became effective on 7 July 2017 and, as a result, BOIG plc became the new parent entity of the Bank on that date.

This transaction fell outside the scope of IFRS 3 'Business Combinations'. Accordingly, following the guidance regarding the selection of an appropriate accounting policy provided by IAS 8 'Accounting policies, changes in accounting estimates and errors', the transaction was accounted for as a corporate reorganisation that did not change the substance of the pre-existing group, of which the Bank was the parent. The new group, of which BOIG plc is the parent, was considered to be a continuation of the pre-existing group.
Predecessor accounting was applied to the Scheme, such that the consolidated financial statements of the BOIG plc Group incorporated the assets and liabilities of the pre-existing group at their consolidated carrying values as at the date of the Scheme, and included the full year's results of the pre-existing group, including comparatives. The net assets of the BOIG plc Group immediately after implementation of the Scheme did not differ from the net assets of the pre- existing group immediately before the Scheme.

References to the 'State' throughout this document should be taken to refer to the Republic of Ireland (RoI), its Government and, where and if relevant, Government departments, agencies and local Government bodies.

## Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for 2018 is a period of twelve months from the date of approval of these financial statements (the 'period of assessment').

In making this assessment, the Directors considered the Group's business, profitability projections, funding and capital plans, together with a range of other factors such as the outlook for the Irish economy, the impact of Brexit, along with ongoing developments in EU economies.

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

**Capital**

The Group has developed capital plans under base and stress scenarios and the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment.

**Funding and liquidity**

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

# 1 Group accounting policies *(continued)*

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

## Comparatives
Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current year. Any adjustments to comparatives are disclosed in the relevant note or supplementary asset quality disclosures as appropriate.

## Adoption of new accounting standards
The following new standards and amendments to standards have been adopted by the Group during the year ended 31 December 2018:
- IFRS 9 'Financial Instruments; and
- Amendment to IFRS 9 'Prepayment features with negative compensation'
- IFRS 15 'Revenue from Contracts with Customers'

The Group's accounting policies have been updated for the application of IFRS 9 and IFRS 15 from 1 January 2018. The updates together with the accounting policies for the comparative year up to 31 December 2017 are detailed below.

**IFRS 9 'Financial Instruments'**
IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: recognition and measurement'. It sets out requirements relating to recognition and derecognition, classification, measurement and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model. Financial assets within its scope are required to be classified as being measured, subsequent to initial recognition, at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

The classification is dependent on both the overall objective of the business model within which the asset is held and the contractual cash flow characteristics of the asset. Impairment under IFRS 9 is forward-looking and is based on expected rather than incurred losses. For financial liabilities, there is no change to classification and measurement except for recognition of changes in own credit risk in other comprehensive income (OCI) for certain liabilities designated at FVTPL. The Group has made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

The consolidated financial statements for the comparative year have not been restated to reflect the change.

**Presentation**
IFRS 9 amends IAS 1 'Presentation of financial statements' to require certain items to be presented as line items in the income statement, including impairment gains or losses, gains or losses arising from the derecognition of financial assets measured at amortised cost and interest revenue calculated using the effective interest method. Accordingly, interest income on financial assets calculated using the effective interest method is now presented separately from interest income on finance leases, recognised based on a pattern reflecting a constant periodic rate of return on the net investment in the lease.

**IFRS 15 'Revenue from contracts with customers'**
IFRS 15 specifies how and when an entity recognises revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single principles-based five-step model to be applied to all contracts with customers. The standard does not impact income recognition related to financial instruments within the scope of IFRS 9, lease contracts within the scope of IAS 17 and insurance contracts within the scope of IFRS 4.

The Group has applied this standard retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application. Prior periods have not been restated. For contracts completed before the earliest period presented, the Group has not restated the opening balance of retained earnings. IFRS 15 did not have a material impact on the Group's consolidated financial statements.

## Interest income and expense
Interest income and expense are recognised in the income statement using the effective interest method for financial instruments measured at amortised cost and financial assets which are debt instruments measured at FVOCI, in accordance with IFRS 9, and previously IAS 39. Interest income and expense from derivative financial instruments designated as hedging instrument are accounted for in net interest income, in line with the underlying hedged asset or liability. Interest in relation to derivatives not designated as a hedging instrument is included in trading income.

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

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

From 1 January 2018, in the case of a financial asset that is neither credit-impaired nor a purchased or originated credit-impaired financial asset, interest revenue is calculated by applying the effective interest rate to the gross carrying amount. In the case of a financial asset that is not a POCI financial asset but is credit-impaired at the reporting date, interest revenue is calculated by applying the effective interest rate to the amortised cost, which is the gross carrying amount adjusted for any impairment loss allowance.

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

# 1 Group accounting policies *(continued)*

Where the Group revises its estimates of payments or receipts on a financial instrument (excluding modifications of a financial asset and changes in ECL under the requirements of IFRS 9), it recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets under IFRS 9). The adjustment is recognised as interest income or expense.

**Modifications**

From 1 January 2018, where the contractual cash flows of a financial asset are modified and the modification does not result in derecognition of the financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the modified contractual cash flows that are discounted at the financial asset's original effective interest rate and recognises a modification gain or loss in the income statement. Where a modification is a forbearance measure which does not result in derecognition, the modification gain or loss is included in the income statement within net impairment gains or losses. Otherwise, the modification gain or loss is included within interest income.

Under both IFRS 9 and IAS 39, interest income and expense excludes interest on financial instruments at FVTPL which is instead included within the fair value movements recognised within net trading income.

## Fee and commission income

The Group accounts for fee and commission income when the contract with the customer is agreed and each party's rights under the contract, together with the payment terms, are identified. In addition it must be probable that the Group will collect the consideration to which it is entitled. Fee and commission income is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. Fee income on the provision of current accounts to customers is recognised as the service is provided. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Loan syndication and arrangement fees are recognised at a point in time when the performance obligation is completed. Other fees including interchange income, Automated Teller Machine (ATM) fees and FX fees are recognised on completion of the transaction and once the Group has completed its performance obligations under the contract.

Previously, under IAS 18 up to 31 December 2017, fees and commissions which were not an integral part of the effective interest rate of a financial instrument were generally recognised as the related services were provided. Commissions and fees arising from negotiating, or participating in the negotiations of a transaction with a third party, such as the acquisition of loans, shares and other securities or the purchase or sale of businesses were recognised on completion of the underlying transaction.

## Financial assets

**1. Recognition, classification and measurement:**

### From 1 January 2018, the Group applies the following accounting policies to the classification, recognition and measurement policies to financial assets

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

- financial assets at amortised cost;
- financial assets at FVOCI; or
- financial assets at FVTPL.

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

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

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

**(a) Financial assets at amortised cost.**

*Debt instruments*

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

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

## 1 Group accounting policies *(continued)*

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

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

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

*Debt instruments*

A debt instrument is measured, subsequent to initial recognition, at FVOCI where it meets both of the following conditions and has not been designated as measured at FVTPL:

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

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

*Equity instruments*

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

Regular way purchases and sales of financial assets measured at FVOCI are recognised on trade date.

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

All other financial assets are measured, subsequent to initial recognition, at FVTPL. Financial assets at FVTPL comprise:

***Financial assets mandatorily measured at fair value through profit or loss***

Financial assets meeting either of the conditions below are mandatorily measured at FVTPL (other than in respect of an equity investment designated as at FVOCI):

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

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

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

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

**2. Reclassification**

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

**3. Derecognition**

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred substantially all the risks and rewards of ownership. Where a modification results in a substantial change to the contractual cash flows of a financial asset, it may be considered to represent expiry of the contractual cash flows, resulting in derecognition of the original financial asset and recognition of a new financial asset at fair value. The Group reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

# 1 Group accounting policies *(continued)*

## Impairment of financial instruments

**Scope**
The Group recognises impairment loss allowances for ECL on the following categories of financial instruments unless measured at FVTPL:

- financial assets that are debt instruments;
- loan commitments;
- lease receivables recognised under IAS 17 'Leases';
- financial guarantee contracts issued and not accounted for under IFRS 4 'Insurance contracts'; and
- receivables and contract assets recognised under IFRS 15 'Revenue from contracts with customers'.

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

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

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

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

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

With the exception of POCI financial assets, a financial instrument may migrate between stages from one reporting date to the next.

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

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

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

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

ECL are measured as follows:

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

For financial assets, the discount rate used in measuring ECL is the effective interest rate (or 'credit-adjusted effective interest rate' for a POCI financial asset) or an approximation thereof. For undrawn loan commitments, it is the effective interest rate, or an approximation thereof, that will be applied when recognising the financial asset resulting from the loan commitment.

## 1 Group accounting policies *(continued)*

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

- **Financial assets at amortised cost:** as a deduction from the gross carrying amount in the balance sheet.
- **Loan commitments and financial guarantee contracts:** generally, as a provision in the balance sheet.
- **Debt instruments at FVOCI:** an amount equal to the allowance is recognised in OCI as an accumulated impairment amount.

**Utilisation of impairment loss allowances**

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

**Forbearance**

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

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

Financial assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with European Banking Authority (EBA) guidance on non-performing and forborne classifications. Forborne financial assets which are not credit-impaired are generally allocated to stage 2.

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

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

**Until 31 December 2017, under the requirements of IAS 39, the Group categorised its financial assets as: financial assets at fair value through profit or loss; loans and receivables; held to maturity or AFS financial assets and determined the classification of its financial assets at initial recognition. The Group's policies for classification, recognition and measurement of financial assets for the comparative period for the year ended 31 December 2017 under IAS 39 are as follows:**

**(a) Financial assets at fair value through profit or loss**

Financial assets at FVTPL can either be held for trading, if acquired principally for the purpose of selling in the short-term, or designated at FVTPL at inception.

The principal category of assets designated at FVTPL are those held by the Group's life assurance business, which are managed on a fair value basis.

Regular way purchases and sales of financial assets at FVTPL are recognised on trade date: the date on which the Group commits to purchase or sell the asset. Thereafter they are carried on the balance sheet at fair value, with all changes in fair value included in the income statement.

**(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

**(c) Held to Maturity**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity, other than:

- those that the Group upon initial recognition designates as at fair value though profit or loss;
- those that the Group designates as available for sale (AFS); and
- those that meet the definition of loans and receivables.

Purchases and sales of held to maturity investments are recorded on trade date. They are initially recognised at fair value plus transaction costs and are subsequently accounted for at amortised cost using the effective interest method.

A sale or reclassification of a more than insignificant amount of held to maturity investments results in the reclassification of all held to maturity investments to AFS financial assets. On such reclassification, the difference between their carrying amount and fair value is recognised in OCI.

**(d) Available for sale (AFS)**

AFS financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Purchases and sales of AFS financial assets are recognised on trade date. They are initially recognised at fair value plus transaction costs. Fair value movements are recognised in OCI. Interest is calculated using the effective interest method and is recognised in the income statement.

# 1 Group accounting policies *(continued)*

If an AFS financial asset is derecognised or impaired the cumulative gain or loss previously recognised in OCI is reclassified to the income statement.

AFS financial assets that would have met the definition of loans and receivables may be reclassified to loans and receivables if the Group has the intention and ability to hold the asset for the foreseeable future or until maturity.

AFS financial assets may be reclassified to held to maturity if there is a change in intention or ability to hold those assets to maturity.

When a financial asset is reclassified, the fair value of the asset on that date becomes its new amortised cost. Any previous gain or loss on the asset that has been recognised in OCI is amortised to profit or loss over the remaining life of the asset using the effective interest method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest method.

**Derecognition**
Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

## Impairment of financial instruments (IAS 39)

**Assets carried at amortised cost**
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events;
(a) delinquency in contractual payments of principal or interest;
(b) cash flow difficulties;
(c) breach of loan covenants or conditions;
(d) deterioration of the borrower's competitive position;
(e) deterioration in the value of collateral;
(f) external rating downgrade below an acceptable level;
(g) initiation of bankruptcy proceedings; and
(h) granting a concession to a borrower, for economic or legal reasons relating to the borrower's financial difficulty that would otherwise not be considered.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is deemed uncollectable, it is derecognised and the provision for impairment is utilised. Subsequent recoveries decrease the amount of the charge for loan impairment in the income statement.

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

Prior to any decision to grant forbearance the Group performs an assessment of a customer's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the loan. If the Group determines that no objective

# 1 Group accounting policies *(continued)*

evidence of impairment exists for an individually assessed forborne asset, whether significant or not, it includes the asset in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

Where the forborne loan is considered to be impaired the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of terms. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with EBA guidance on non-performing and forborne classifications.

Where the cash flows from a forborne loan are considered to have expired, the original asset is derecognised and a new asset is recognised, initially measured at fair value. Any difference between the carrying value of the original asset and the fair value of the new asset on initial recognition is recognised in the income statement. Interest accrues on the new asset based on the current market rates in place at the time of the renegotiation.

### Non-forbearance renegotiation

Where a concession or agreed change to a loan is not directly linked to apparent financial stress or distress, these amendments are not considered forbearance. Any changes in expected cash flows are accounted for under IAS 39. If a renegotiated asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. However, where cash flows on the original asset have been considered to have expired, the original asset is derecognised and a new asset is recognised at fair value. Any difference arising between the derecognised asset and the new asset is recognised in the income statement.

### Available for sale (AFS) financial assets

The Group assesses at each reporting date whether there is objective evidence that an AFS financial asset is impaired. In addition to the factors set out above, a significant or prolonged decline in the fair value of an investment in an AFS equity instrument below its cost is considered in determining whether an impairment loss has been incurred. If an impairment loss has been incurred, the cumulative loss that had been recognised in OCI is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

## Financial liabilities

Under both IFRS 9 and IAS 39, the Group classifies its financial liabilities as being measured at amortised cost unless it has designated liabilities at FVTPL or is required to measure liabilities mandatorily at FVTPL such as derivative liabilities. Financial liabilities are initially recognised at fair value, (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For financial liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method.

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

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

A financial liability may be designated as at FVTPL only when:

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

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

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

The Group designates certain financial liabilities at FVTPL as set out in note 59 to the financial statements.

From 1 January 2018, the movement in own credit risk related to financial liabilities designated at FVTPL is recorded in OCI unless this would create or enlarge an accounting mismatch in profit or loss for the Group (in which case all gains or losses are recognised in profit or loss).

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

## Embedded derivatives

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

If a hybrid contract contains a host that is not a financial asset within the scope of IFRS 9, an embedded derivative is separated from the host and accounted for as a derivative if, and only if, its economic characteristics and risks are not closely related to

# 1 Group accounting policies *(continued)*

those of the host, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the hybrid contract is not measured at FVTPL.

## Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the original or modified terms of a debt instrument.

### Financial guarantees held by the Group

A financial guarantee contract requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due. From 1 January 2018, where the Group is the holder of such a guarantee and it is considered integral to the contractual terms of the guaranteed debt instrument(s), the guarantee is not accounted for separately but is considered in the determination of the impairment loss allowance for ECL of the guaranteed instrument(s).

### Financial guarantees issued by the Group

The Group issues financial guarantees to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities and in connection with the performance of customers under payment obligations related to contracts and the payment of import duties. Under both IFRS 9 and IAS 39, the Group's liability under an issued financial guarantee contract is initially measured at fair value. The liability is subsequently measured at the higher of the initial measurement, less, from 1 January 2018, the cumulative amount of income recognised in accordance with the principles of IFRS 15, and the amount of the impairment loss allowance for ECL determined in accordance with the requirements of IFRS 9. Up until 31 December 2017, subsequent to initial recognition, they were measured at the higher of the initial measurement, less cumulative amortisation, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the reporting date.

Any change in the liability is taken to the income statement and recognised on the balance sheet within provisions. Where the Group issues a financial liability which contains a financial guarantee, the liability is measured at amortised cost using the effective interest method.

## Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is currently a legally enforceable right of set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Under IFRS 9, no impairment loss allowance for ECL is recognised on a financial asset, or portion thereof, which has been offset.

## Valuation of financial instruments

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses.

Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

For liabilities designated at FVTPL, the fair values reflect changes in the Group's own credit spread.

**Transfers between levels of the fair value hierarchy**

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred.

## Group accounts

1. **Subsidiaries**

   Subsidiary undertakings are investees controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it controls an investee when facts and circumstances indicate that there are changes to one or more elements of control. The existence and effect of potential voting rights are considered when assessing whether the Group controls an investee only if the rights are substantive.

   A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such entities by considering factors such as: the purpose and design of the

# 1 Group accounting policies *(continued)*

entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns from the entity.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial year.

*Business combinations*
Except for where predecessor accounting applies, subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. In addition, FX gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

**2. Associates and Joint Ventures**
Associates are all entities over which the Group has significant influence, but not control, over the entity's financial and operating decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint arrangement is an arrangement of which two or more parties have joint control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

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

The Group utilises the venture capital exemption for investments where significant influence is present and the business operates as a venture capital business. These investments are designated at initial recognition at FVTPL.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Accounting policies of associates and joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

**3. Non-controlling interests**
Transactions with non-controlling interests where the Group has control over the entity are accounted for using the Economic entity model. This accounting model requires that any surplus or deficit that arises on any transaction(s) with non-controlling interests to dispose of or to acquire additional interests in the entity that does not result in loss of control is recognised in equity.

**4. Securitisations**
Certain Group undertakings have entered into securitisation transactions in order to finance specific loans and advances to customers.

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:
- the rights to the cash flows have expired or been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group. In this case the asset is derecognised entirely if the transferee has the ability to sell the financial asset. Otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where the above conditions apply to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

## Foreign currency translation

Items included in the financial statements of each entity of the Group are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Group and the financial statements of the Company are presented in euro.

Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. FX gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at

# 1 Group accounting policies *(continued)*

FVTPL, are reported as part of the fair value gain or loss. Translation differences on non- monetary items such as equities classified at FVOCI are recognised in OCI. Exchange differences arising on translation to presentation currency and on consolidation of overseas net investments, are recognised in OCI.

Assets, liabilities and equity of all the Group entities that have a functional currency different from the presentation currency ('foreign operations') are translated at the closing rate at the reporting date and items of income and expense are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). All resulting exchange differences are recognised in OCI and accumulated in a separate component of equity. On disposal of a foreign operation the amount accumulated in the separate component of equity is reclassified from equity to profit or loss. The Group may dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital, abandonment or through loss of control or significant influence.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## Operating profit / loss

Operating profit / loss includes the Group's earnings from ongoing activities after net impairment gains / (losses) on financial instruments, and before share of profit or loss on associates and joint ventures (after tax), profit / loss on disposal of property and profit / loss on disposal / liquidation of business activities.

## Leases

1. **A Group company is the lessee**
   The total payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

   When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

   Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

   The corresponding rental obligations, net of finance charges, are included in long-term payables. The interest element of the finance costs is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

## Sale and repurchase agreements and lending of assets

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

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

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

Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return the securities is recorded at fair value as a trading liability.

## Issued debt and equity securities

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities. The coupons on these instruments are recognised in the income statement as interest expense using the effective interest method. Where the Group has absolute discretion in relation to the payment of coupons and repayment of principal, the instrument is classified as equity and any coupon payments are classified as distributions in the period in which they are made.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other operating income, net of any costs or fees incurred.

## Derivative financial instruments and hedge accounting

The Group has made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each reporting date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments that are not financial assets are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the entire host contract is not carried at FVTPL.

## 1 Group accounting policies *(continued)*

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:
(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge relationships are concluded to be effective if the hedging instruments that are used in hedging transactions offset the changes in fair value or cash flow of the hedged items within a range of 80% to 125%.

Where a hedging instrument is novated to a clearing counterparty, the Group does not discontinue hedge accounting where the following criteria are met:
- the novation arises due to laws or regulations, or the introduction of laws and regulations;
- the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- the novation does not result in changes to the terms of the original instrument except for those changes necessary to effect the change in counterparty.

**(a) Fair value hedge**
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The hedged item in a micro fair value hedge is a single specified item e.g. a fixed rate commercial loan or a FVOCI (previously AFS) bond. If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

The hedged item in a macro fair value hedge is a pool of assets or liabilities with similar risk characteristics and profiles, such as a pool of fixed rate mortgages. Unlike micro fair value hedge accounting, macro fair value hedge accounting is not discontinued if an individual asset or liability within the pool of hedged items is sold, so long as the overall pool of hedged items retains its characteristics as documented at inception of the hedge. In addition, hedge effectiveness testing is performed on a portfolio basis rather than on an individual hedge relationship by hedge relationship basis.

The Group also avails of the relaxed hedge accounting provisions permitted by IAS 39 'Financial Instruments: recognition and measurement' as adopted by the EU. Under these provisions the Group applies portfolio fair value hedge accounting of interest rate risk to its demand deposit book. The Group resets portfolio fair value hedges of its demand deposit book on a weekly basis and other macro fair value hedges are reset on a monthly basis.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

**(b) Cash flow hedge**
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in OCI are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in OCI at that time remains in OCI and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately reclassified to the income statement.

### Property, plant and equipment

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

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

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

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

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:
- adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease; and
- computer and other equipment - maximum of ten years.

# 1 Group accounting policies *(continued)*

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

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

## Investment property

Property held for long-term rental yields and capital appreciation is classified as investment property. Investment property comprises freehold and long leasehold land and buildings. It is carried at fair value in the balance sheet based on annual revaluations at open market value as determined by external qualified property surveyors and is not depreciated. Changes in fair values are recorded in the income statement. Rental income from investment properties is recognised as it becomes receivable over the term of the lease.

## Intangible assets

**(a) Computer software**

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

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

**(b) Other intangible assets**

Other intangible assets are carried at cost less amortisation and impairment, if any, and are amortised on a straight line basis over their useful lives, which range from five years to twenty years.

Computer software and other intangible assets are assessed for impairment indicators annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such indicators exist, the asset's recoverable amount is estimated. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell and its VIU.

**(c) Goodwill**

Goodwill represents the excess of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment or more frequently if there is any indication that it may be impaired, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. An impairment loss arises if the carrying value of the CGU exceeds the recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its VIU, where the VIU is the present value of the future cash flows expected to be derived from the CGU.

## Provisions

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

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features. A levy payable to a Government is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy.

Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

## Employee benefits

**(a) Pension obligations**

The Group operates both defined contribution (DC) and DB plans. A DB plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. A DC plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

The asset or liability recognised in the balance sheet in respect of DB pension plans is the present value of the DB obligation at the reporting date minus the fair value of plan assets. The DB obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the DB obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

# 1 Group accounting policies *(continued)*

Service cost and net interest on the net DB liability / (asset) are recognised in profit or loss, within operating expenses.

Remeasurements of the net DB liability / (asset) that are recognised in OCI include:
- actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions; and
- the return on plan assets, excluding amounts included in net interest on the net DB liability / (asset).

A settlement is a transaction that eliminates all further legal and constructive obligations for part or all of the benefits provided under a DB plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

For DC plans, contributions are recognised as employee benefit expense when they are due.

**(b) Short-term employee benefits**
Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered.

**(c) Termination payments**
Termination payments are recognised as an expense at the earlier of:
- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:
- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

## Income taxes

**(a) Current income tax**
Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise.

Tax provisions are provided on a transaction by transaction basis using a best estimate approach. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that there will be a future outflow of funds to a fiscal authority to settle the obligation.

**(b) Deferred income tax**
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

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

Deferred tax on items taken to OCI is also recognised in OCI and is subsequently reclassified to the income statement together with the deferred gain or loss. Income tax on items recognised directly in equity is recognised directly in equity.

## Share capital and reserves

**1. Equity transaction costs**
Incremental external costs directly attributable to equity transactions, including the issue of new equity shares or options, are shown as a deduction from the component of equity in which the equity transaction is recognised, net of tax.

**2. Dividends on ordinary shares**
Final dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders on the recommendation of the Board of Directors, or approved by the Board of Directors, as appropriate. Interim dividends are recognised in equity in the period in which they are paid.

**3. Treasury shares**
Where the Company or its subsidiaries purchase the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity. Any changes in the value of treasury shares held are recognised in equity at the time of the disposal and dividends are not recognised as income or distributions.

**4. Capital reserve**
The capital reserve represents transfers from share capital, retained earnings and other reserves in accordance with relevant legislation. The capital reserve is not distributable.

# 1 Group accounting policies *(continued)*

**5. Foreign exchange (FX) reserve**
The FX reserve represents the cumulative gains and losses on the translation of the Group's net investment in its foreign operations since 1 April 2004. Gains and losses accumulated in this reserve are reclassified to the income statement when the Group loses control, joint control or significant influence over the foreign operation or on disposal or partial disposal of the operation.

**6. Revaluation reserve**
The revaluation reserve represents the cumulative gains and losses on the revaluation of property occupied by Group businesses, included within property, plant and equipment and non-financial assets classified as held for sale. The revaluation reserve is not distributable.

**7. Available for sale (AFS) reserve (IAS 39 only)**
The AFS reserve represents the cumulative change in fair value of AFS financial assets together with the impact of any fair value hedge accounting adjustments.

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

**9. Share premium account**
Where the company issues shares at a premium, a sum equal to the aggregate amount or value of the premiums on those shares is transferred to the share premium account. Where, pursuant to Section 84 of the Companies Act 2014, there has been a reduction of the Company's share capital by the cancellation of share premium, the resulting profits available for distribution, as defined by Section 117 of the Companies Act 2014, are reclassified from the share premium account to retained earnings.

**10. Merger reserve**
In the Company balance sheet, the merger reserve represents the difference between the carrying value of the Company's initial investment in the Bank arising from the corporate reorganisation detailed in note 49 on page 254, and the nominal value of the shares issued as part of that reorganisation, less amounts capitalised as share premium. In the Consolidated balance sheet, the merger reserve also includes an adjustment to eliminate the capital stock, share premium, capital reserve and retained earnings of the Bank at the date of corporate reorganisation, which do not carry forward to the balance sheet of the Group.

**11. Debt instruments at fair value through other comprehensive income (FVOCI) reserve**
The debt instruments at FVOCI reserve comprises the cumulative net change in the fair value of debt securities measured at FVOCI together with the impact of fair value hedge accounting, less the ECL allowance recognised in profit or loss.

**12. Liability credit reserve**
The liability credit reserve represents the cumulative changes in the fair value of financial liabilities designated as at FVTPL that are attributable to changes in the credit risk of those liabilities, other than those recognised in profit or loss.

## Life assurance operations
In accordance with IFRS 4, the Group classifies all life assurance products as either insurance or investment contracts for accounting purposes.

Insurance contracts are those contracts that transfer significant insurance risk. These contracts are accounted for using an embedded value basis.

Investment contracts are accounted for in accordance with IFRS 9 and previously IAS 39. All of the Group's investment contracts are unit linked in nature. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

The Group recognises an asset for deferred acquisition costs relating to investment contracts. Upfront fees received for investment management services are deferred. These amounts are amortised over the period of the contract.

Non-unit linked insurance liabilities are calculated using a gross premium method of valuation. The computation is made on the basis of recognised actuarial methods annually by an actuary, with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

The Group recognises the ViF life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. This represents the present value of expected future cash flows, using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and discounting using the risk free interest rate curve. Thus, the use of best estimate assumptions in the valuation of the ViF asset ensures that the net carrying amount of insurance liabilities less the ViF asset is adequate.

The ViF asset in the consolidated balance sheet and movements in the asset in the income statement are presented on a gross of tax basis. The tax charge comprises both current and deferred tax expense and includes tax attributable to both shareholders and policyholders for the period.

**Premiums and claims**
Premiums receivable in respect of non-unit linked insurance contracts are recognised as revenue when due from policyholders.

# 1 Group accounting policies *(continued)*

Premiums received in respect of unit linked insurance contracts are recognised in the same period in which the related policyholder liabilities are created. Claims are recorded as an expense when they are incurred.

**Reinsurance**
Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group are dealt with as insurance contracts, subject to meeting the significant insurance risk test in IFRS 4. The impairment requirements of IFRS 4 are applied to these assets. Outward reinsurance premiums are accounted for in accordance with the contract terms when due for payment.

## Collateral

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

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

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

## Operating segments

The Group's reportable operating segments have been identified on the basis that the chief operating decision maker uses information based on these segments to make decisions about assessing performance and allocating resources. The analysis of results by operating segment is based on management accounts information.

# 1 Group accounting policies *(continued)*

## Impact of new accounting standards

The following standards and amendments to standards will be relevant to the Group but were not effective at 31 December 2018 and have not been applied in preparing these financial statements. There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in future reporting periods. The Group's current view of the impact of these accounting changes is outlined as follows:

**Pronouncement**
**IFRS 16 'Leases'**

**Nature of change**
IFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that all operating leases will be accounted for on-balance sheet for lessees. The accounting for lessors will not materially change. The standard replaces IAS 17 'Leases' and related interpretations.

The revised standard was endorsed by the EU on 31 October 2017.

As permitted under IFRS 16, the Group has elected to apply the standard under the modified retrospective application rather than full retrospective application. Under the modified retrospective application, the Group as a lessee is not required to restate comparative information, instead recognising the cumulative effect of initially applying the standard as an adjustment to retained earnings.

As permitted, the Group is availing of the following exemptions:
- short-term leases (lease term of 12 months or less); and
- leases for which the underlying asset is of low value.

The Group will recognise the lease payments associated with those leases as an expense.

**Effective date**
Financial periods beginning on or after 1 January 2019 and earlier application was permitted if IFRS 15 'Revenue from contracts with customers' was applied at the same time.

**Impact**
The principal impact on the Group will be in relation to property leases that the Group, as the lessee, currently accounts for as operating leases under IAS 17. The Group will recognise a lease liability for leases previously classified as operating leases, measured at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate (IBR). The Group will recognise a right of use (RoU) asset equal to the lease liability, adjusted by the amounts of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately prior to date of initial application. The estimated quantitative impact on initial adoption of IFRS 16 is an increase in both assets and liabilities of approximately c.€0.8 billion. This translates to c.20 basis points of CET 1 capital on a fully loaded basis from 1 January 2019 as the assets being recognised will be risk weighted at 100%. The Group expects that there will be no material impact to retained earnings at 1 January 2019.

**Pronouncement**
**IFRIC 23 'Uncertainty over income tax treatments'**

**Nature of change**
IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 'Income taxes', are applied where there is uncertainty over income tax treatments.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates.

The revised standard was endorsed by the EU on 23 October 2018.

**Effective date**
Financial periods beginning on or after 1 January 2019

**Impact**
While the Group continues to engage with the tax authorities in respect of the treatment of certain commercial transactions (including certain legacy transactions), the Group continues to believe that it is appropriate to consider these matters on a transaction by transaction basis and the tax treatments adopted for each transaction are appropriate. As such, the IFRIC is not expected to have a significant impact on the Group.

**Pronouncement**
**IFRS 17 'Insurance contracts'**

**Nature of change**
IFRS 17 replaces IFRS 4 'Insurance contracts', which was introduced as an interim standard in 2004. IFRS 17 addresses the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in a consistent manner. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosures of insurance contract liabilities, ensuring an entity provides relevant information that faithfully represents those contracts.

The standard is still subject to EU endorsement.

**Effective date**
Currently the effective date is for financial periods beginning on or after 1 January 2021, however the International Accounting Standards Board (IASB) is considering delaying the mandatory implementation date by 1 year to 2022. Earlier application of the standard is permissible.

**Impact**
The Group began a business and financial assessment of the impacts of IFRS 17 during 2018. The Group expects that IFRS 17 is likely to have a significant adverse impact on the recognition, measurement and presentation of the insurance business in the financial statements.

## 2 Critical accounting estimates and judgements

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

**(a) Impairment loss allowance on financial assets**

The measurement of impairment loss allowance requires significant judgement and is dependent in large part on complex impairment models. In arriving at impairment loss allowances, accounting judgements and estimates which could have a material influence on the quantum of impairment loss allowance and net impairment charge include:

- the Group's criteria for assessing if there has been a significant increase in credit risk since initial recognition such that a loss allowance for lifetime rather than 12 month ECL is required;
- generation of forward-looking macroeconomic scenarios and their probability weightings which are used in both the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances;
- selection of the most relevant macroeconomic variables for particular portfolios and determining associations between those variables and model components such as Probability of Default (PD) and Loss Given Default (LGD);
- the selection of appropriate methodologies and model factors for internal risk rating and impairment models;
- determining the period over which to measure ECL for uncommitted revolving credit facilities;
- valuing collateral and determining timeframe to realisation and likely net sale proceeds;
- the approximation made at transition to IFRS 9 of the residual lifetime PD expectations for most exposures originated prior to adoption of IFRS 9; and
- determining what Group management adjustments may be necessary to impairment model outputs to address impairment model limitations or late breaking events.

The Group's approach to measurement of impairment loss allowances and associated methodologies, including the key macroeconomic variables applied at 31 December 2018, is set out in the credit risk methodologies section on pages 82 to 87.

The quantum of impairment loss allowance is impacted by the application of three probability weighted future macroeconomic scenarios. The following table indicates the approximate extent to which the impairment loss allowance at 31 December 2018 was increased by virtue of applying multiple scenarios rather than only a central scenario.

| Impact of applying multiple scenarios rather than only a central scenario | Additional impairment loss allowance | | Additional impairment loss allowance on stage 1 and 2 financial instruments | |
|---|---|---|---|---|
| | Impact €m | % Impact | Impact €m | % Impact |
| Residential Mortgages | 7 | 2% | 4 | 10% |
| Non-property SME and Corporate | 9 | 1% | 9 | 7% |
| Property and construction | 5 | 1% | 5 | 13% |
| Consumer | 1 | 1% | 1 | 1% |
| **Total** | **22** | **1%** | **19** | **7%** |

The following table indicates the approximate extent to which impairment loss allowance, excluding Group management adjustments, would be higher or lower than reported were a 100% weighting applied to the upside and downside future macroeconomic scenarios respectively:

| Impact of applying only an upside or downside scenario rather than applying multiple probability-weighted scenarios | Impact of applying a 100% weighting to the upside scenario | | Impact of applying a 100% weighting to the downside scenario | |
|---|---|---|---|---|
| | €m | % | €m | % |
| Residential Mortgages | (130) | (29%) | 162 | 37% |
| Non-property SME and Corporate | (36) | (6%) | 59 | 9% |
| Property and construction | (23) | (6%) | 39 | 9% |
| Consumer | (8) | (5%) | 12 | 7% |
| **Total** | **(197)** | **(12%)** | **272** | **17%** |

## 2 Critical accounting estimates and judgements *(continued)*

At 31 December 2018, the impairment loss allowance for Residential Mortgages of €537 million includes a management adjustment of €92 million. This reflects consideration of factors specific to that portfolio including the evolving nature of impairment modelling under IFRS 9, measurement uncertainty and the non-linear relationship between macroeconomic indicators and associated credit losses. The corresponding adjustment on transition to IFRS 9 on 1 January 2018 was €150 million, with the reduction to €92 million reflecting model refinements and parameter updates applied at 31 December 2018 which resulted in a portion of the opening adjustment being embedded in the impairment model outputs.

**For the year ended 31 December 2017 the following critical accounting estimates and judgements applied under IAS 39.**
The Group reviewed its loan portfolios for impairment on an ongoing basis. The Group first assessed whether objective evidence of impairment existed. This assessment was performed individually for financial assets that were individually significant, and individually or collectively for financial assets that were not individually significant. Impairment provisions were also recognised for losses not specifically identified but, which experience and observable data indicated, were present in the portfolio at the date of assessment.

Management used estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows were reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience was supplemented with significant management judgement to assess whether current economic and credit conditions were such that the actual level of impairment losses was likely to differ from those suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess incurred loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the reporting date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors were taken into account when calculating the appropriate levels of impairment allowances by adjusting the impairment loss derived solely from historical loss experience. The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the credit risk methodologies section on pages 87 to 90 of the Risk Management Report.

At 31 December 2017, the Retail Ireland Residential mortgage portfolio before impairment provisions was €24 billion against which the Group held provisions for impairment of €0.6 billion, which comprised of collectively assessed provisions of €0.3 billion and individually assessed provisions of €0.3 billion. A key assumption used in the calculation of the impairment charge for Retail Ireland Residential mortgages was the value of the underlying residential properties securing the loans (i.e. the 'assumed value' for collective provisioning purposes).

During 2017, the assumption adopted by the Group in respect of the value of Irish residential properties for collective provisioning (i.e. collective specific and incurred but not reported (IBNR) provisioning) reflected the indexed value of the property, using the Residential Property Price Index (RPPI) published by the Central Statistics Office (CSO), adjusted downwards for forced sale discount and disposal cost assumptions to estimate the assumed value of the underlying residential properties for collective provisioning purposes. The 'forced sale discount' assumptions, segmented by both region and market segment, estimated the difference between the indexed value of the underlying residential properties securing the loans and the expected sales price, based on the Group's most recent property sales experience. The disposal costs assumptions reflected the estimated costs associated with selling the underlying residential properties.

In addition to containing judgements in relation to the assumed value of residential properties for provisioning, the Retail Ireland Residential mortgage collective mortgage impairment charges contained key assumptions relating to: 'time to sale'; 'loss emergence periods'; 'weighted average cure rates'; and 'weighted average repayment rates'. The assumptions relating to the assumed value of underlying properties securing the loans, together with all other key collective impairment provisioning model factors were as part of the Group's 2017 year end and 2017 half year financial reporting cycle.

The collective impairment provisions on the Retail Ireland mortgage portfolio could be sensitive to movements in any one of these assumptions, or a combination thereof. The sensitivities and estimated impacts set out below were based on movements in each of these individual assumptions in isolation at 31 December 2017.

- A 1% absolute increase in the 'forced sale discount' assumptions would have increased collective impairment provisions by c.€5 million.
- A 1% absolute increase in the 'disposal costs' assumption would have increased collective impairment provisions by c.€4 million.
- An increase of three months in the 'time to sale' assumption (being an estimate of the period of time taken from the recognition of the impairment charge to the sale of the underlying residential properties securing the loans) would have increased collective impairment provisions by c.€3 million.
- A 1% absolute increase in the 'weighted average cure rate' assumption (which refers to the percentage of loans estimated to return from defaulted to less than 30 days past due and satisfactorily complete a twelve month probation period) would have reduced collective impairment provisions by c.€1 million.
- A 1% absolute increase in the 'weighted average repayment rate' assumption (which refers to the estimated percentage reduction in non-cured loan balances due to repayments) would have reduced collective impairment provisions by c.€2 million.

## 2 Critical accounting estimates and judgements *(continued)*

A further important judgemental area was in relation to the level of impairment provisions applied to the Property and construction portfolio. At 31 December 2017, Property and construction loans before impairment provisions were €8.7 billion including NPEs of €1.7 billion, against which the Group held provisions for impairment of €0.7 billion.

In the case of the Property and construction portfolio, a collective impairment provision was made for IBNR impairment charges. A key assumption used in calculating this charge was the emergence period between the occurrence and reporting of the loss event. At 31 December 2017, emergence periods for Property and construction loans ranged from three to four months. An increase of one month in this emergence period beyond the assumed level would have increased impairment provisions by c.€16 million.

In the case of the Non-property Small Medium Enterprise (SME) and corporate portfolio, a collective impairment provision was made for IBNR impairment charges. A key assumption used in calculating this charge was the emergence period between the occurrence and reporting of the loss event. At 31 December 2017, emergence periods for Non-property SME and corporate loans ranged from three to four months. An increase of one month in this emergence period beyond the assumed level would have increased impairment provisions by c.€12 million.

**(b) Taxation**

The taxation charge accounts for amounts due to fiscal authorities in the various territories in which the Group operates and includes estimates, based on a judgement of the application of law and practice in certain cases, to determine the quantification of any liabilities arising. There is a risk that the final taxation outcome could be different to the amounts currently recorded.

At 31 December 2018, the net DTA was €1,123 million (2017: €1,184 million), of which €1,162 million (2017: €1,253 million) related to trading losses. See note 37. The closing DTA includes €1.1 billion of Irish trading losses and €0.1 billion of UK trading losses.

A significant judgement relates to the Group's assessment of the recoverability of the portion of the DTA relating to trading losses.

A DTA is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unutilised tax losses can be utilised. In order for the Group to recognise an asset for unutilised losses, it must be probable that future taxable profits will be available against which the losses can be utilised. The recognition of a DTA relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

To the extent that the recognition of a DTA is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required. Under current UK and Irish legislation, there is no time limit on the utilisation of these losses. The Group's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation and future reversals of existing taxable temporary differences.

Irish tax legislation does not currently contain any restriction on the use of carried forward tax losses. However, there was previously a restriction, between 2009 and 2013, which limited to 50% the amount of current year Irish taxable profits that could be offset by carried forward Irish tax losses.

UK legislation restricts the proportion of a bank's annual taxable profit that can be offset by pre-April 2015 carried forward losses to 25% from 1 April 2016. This restriction significantly lengthens the period over which the Group could use its UK trading losses and has been considered in the context of the measurement and recognition of the DTA at 31 December 2018.

Notwithstanding the absence of any expiry date for trading losses in the UK, the Group has concluded that, for the purpose of valuing its DTA, its brought forward trading losses within the Bank's UK branch (the 'UK branch') will be limited by reference to a 10 year period of projected UK branch profits at the prevailing UK tax rates. Any remaining unutilised UK branch carried forward trading losses have been recognised for DTA purposes at the Irish tax rate, on the basis that it is expected that these will be utilised against future Bank profits in Ireland as permitted by current tax legislation. This 10 year timescale is the period over which the Group believes it can conclude that it is probable that future taxable profits will be available in the UK branch.

The Group has assessed the probability of future profits within the current business plans of both its Irish operations and Bank of Ireland (UK) plc and concluded that no similar limitation applies.

Based on the Group's projections, the DTA in respect of tax losses is estimated to be recovered in full by the end of 2030 (2017: 2036).

Another significant judgement relates to a series of liability management exercises that the Group conducted between 2009 and 2011 in order to enhance its equity capital which involved the repurchase or exchange of certain of its external liabilities in the UK at less than par, thus generating gains. The Group determined, with the benefit of opinions from external tax advisors and legal counsel that these gains were not subject to taxation. The Group has proactively engaged with the UK tax authority, HM Revenue & Customs (HMRC), over the last number of years as it considers these transactions. HMRC has concurred with the Group's tax assessment in respect of certain of the gains that arose and its review continues in respect of others. HMRC has challenged the tax treatment of gains in the amount of £168 million (€189 million) arising in respect of one transaction. The Group continues to believe that all of the gains arising from these transactions are not subject to tax and hence that it is not probable that a liability will arise. No provisions have therefore been made. See note 20.

## 2 Critical accounting estimates and judgements *(continued)*

**(c) Retirement benefits**

The Group sponsors a number of DB pension schemes. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future development and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, member mortality and other demographic assumptions. There are acceptable ranges in which these estimates can validly fall. The impact on the results for the period and financial position could be materially different if alternative assumptions were used. A quantitative analysis of the sensitivity of the DB pension liability to changes in the key assumptions is set out in note 47.

**(d) Life assurance operations**

The Group accounts for the value of the shareholders' interest in its long-term assurance business using Market Consistent Embedded Value (MCEV) Principles and Guidelines. Embedded value is comprised of the net tangible assets of Bank of Ireland Wealth and Insurance and the ViF business. The ViF asset represents the expected future profits on insurance contracts and this is calculated using an embedded value approach with market consistent assumptions.

The ViF asset is measured by projecting expected future surpluses using best estimate and market consistent assumptions and a risk free interest rate curve.

Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and investment expenses. Surpluses are projected by making assumptions about future experience, having regard to both actual experience and projected long-term economic trends.

Changes to these assumptions may cause the present value of future surpluses to differ from those assumed at the reporting date and could significantly affect the value attributed to the in force business. The ViF business could also be affected by changes in the amounts and timing of other net cash flows (principally annual management charges and other fees levied upon the policyholders) or the rate at which the future surpluses and cash flows are discounted. In addition, the extent to which actual experience is different from that assumed will be recognised in the income statement for the period. A quantitative analysis of the sensitivity of profit to changes in the key life assurance assumptions is set out in note 39.

## 3 Transition from IAS 39 to IFRS 9

As set out in the basis of preparation and the Group accounting policies, the Group has adopted IFRS 9 as endorsed by the EU. The Group has availed of the exemption in paragraph 7.2.15 of IFRS 9 from restating prior periods in respect of the classification and measurement requirements of IFRS 9. Accordingly, differences in the carrying amount of financial instruments arising from the adoption of IFRS 9 are recognised in equity as at 1 January 2018.

A description of the IFRS 9 accounting policies is set out in pages 176 to 181 of this document. A reconciliation of the balance sheet classification as at 1 January 2018 under IAS 39 to the classification under IFRS 9 is included in note 65 (separately identifying by measurement category the changes in the carrying amount arising from reclassification and remeasurement on transition to IFRS 9). In addition, a reconciliation of the closing impairment provision under IAS 39 and provision under IAS 37 at 31 December 2017 to the opening loss allowance at 1 January 2018 determined in accordance with IFRS 9 is included on page 289.

| | **Shareholders' equity €m** |
|---|---|
| As reported under IAS 39 / 37 at 31 December 2017 | 8,859 |
| Impact of remeasurement (after tax) | (113) |
| **As reported under IFRS 9 at 1 January 2018** | **8,746** |

## 4 Operating segments

The Group has five reportable operating segments which reflect the internal financial and management reporting structure and are organised as follows:

**Retail Ireland**
Retail Ireland is managed through a number of business units, namely Distribution Channels, Customer Segments and Propositions, Products (including Bank of Ireland Mortgage Bank (BoIMB)) and Business Banking (including Bank of Ireland Finance).

**Wealth and Insurance (formerly Bank of Ireland Life)**
Wealth and Insurance includes the Group's life assurance subsidiary New Ireland Assurance Company plc (NIAC) which distributes protection, investment and pension products to the Irish market, through independent financial brokers, its own tied Financial Advisor network and the Group's distribution channels, which include Private Banking as a tied agent of NIAC. It also includes the Group's general insurance brokerage Bank of Ireland Insurance Services, which offers home and car insurance cover through its agency with insurance providers. Both the Private Banking and Bank of Ireland Insurance Services businesses transferred from the Retail Ireland division to the Wealth and Insurance division following an organisational restructure during the year.

**Retail UK**
The Retail UK division incorporates the financial services partnership and FX joint venture with the UK Post Office, the financial services partnership with the Automobile Association (AA), the UK residential mortgage business, the Group's branch network in Northern Ireland (NI), the Group's business banking business in NI and the Northridge Finance motor and asset finance, vehicle leasing and fleet management business. The Group also has a business banking business in Great Britain (GB) which is being run down. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licenced banking subsidiary.

**Corporate and Treasury (C&T)**
C&T incorporates the Group's corporate banking, wholesale financial markets, specialised acquisition finance and large transaction property lending business, across the RoI, UK and internationally, with offices in Ireland, the UK, the United States (US), Germany and France. During 2018, Group Treasury (which manages capital together with funding and liquidity risk) joined the division.

**Group Centre**
Group Centre comprises Group Manufacturing, Group Finance, Group Risk, Group Internal Audit (GIA), Group Marketing and Group Human Resources. These Group central functions establish and oversee policies and provide and manage certain processes and delivery platforms for the divisions.

**Other reconciling items**
Other reconciling items represent inter segment transactions which are eliminated upon consolidation and the application of hedge accounting at Group level.

**Basis of preparation of segmental information**
The analysis of results by operating segment is based on the information used by the chief operating decision maker to allocate resources and assess performance. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are considered to be the chief operating decision maker for the Group. The Group's operating segments reflect its organisational and management structures. The CEO and CFO review the Group's internal reporting based around these segments to assess performance and allocate resources. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The measures of segmental assets and liabilities provided to the chief operating decision maker are not adjusted for transfer pricing adjustments or revenue sharing agreements as the impact on the measures of segmental assets and liabilities is not significant.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

On an ongoing basis, the Group reviews the methodology for allocating funding and liquidity costs in order to ensure that the allocations continue to reflect each division's current funding requirement. During 2018, the Group amended the basis of allocating funding and liquidity costs across the divisions which resulted in an increase in net interest income for 2018 in the Retail UK division of €15 million with a corresponding decrease in net interest income in the Retail Ireland division of €11 million and the C&T division of €4 million, compared to the former basis.

Gross external revenue comprises interest income calculated using effective interest rate, interest income on finance leases and hire purchase receivables, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, other leasing income, other operating income and share of results of associates and joint ventures.

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit' in its internal management reporting systems. Underlying profit excludes:

- cost of restructuring programme;
- gain on disposal of property;
- gross-up for policyholder tax in the Wealth and Insurance business;
- Investment return on treasury shares held for policy holders
- gain / loss on disposal / liquidation of business activities;
- Tracker Mortgage Examination
- cost of corporate reorganisation and establishment of a new holding company; and
- charge arising on the movement in the Group's credit spreads[1].

[1] *Prior to 1 January 2018, under IAS 39, changes in fair value of the Group's own debt and structured deposits were recognised in the income statement. Under IFRS 9, these gains / charges are now accounted for through OCI.*

# 4 Operating segments *(continued)*

| 2018 | Retail Ireland €m | Wealth and Insurance €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items[1] €m | Group €m |
|---|---|---|---|---|---|---|---|
| **Net interest income** | 992 | (9) | 596 | 555 | 10 | 2 | 2,146 |
| Other income, net of insurance claims | 272 | 203 | 21 | 166 | 14 | (17) | 659 |
| **Total operating income, net of insurance claims** | **1,264** | **194** | **617** | **721** | **24** | **(15)** | **2,805** |
| | | | | | | | |
| Other operating expenses | (719) | (121) | (363) | (182) | (361) | 5 | (1,741) |
| *- Other operating expenses (before Transformation Investment and levies and regulatory charges)* | *(719)* | *(119)* | *(361)* | *(182)* | *(151)* | *5* | *(1,527)* |
| *- Transformation Investment charge* | *-* | *-* | *-* | *-* | *(113)* | *-* | *(113)* |
| *- Levies and regulatory charges* | *-* | *(2)* | *(2)* | *-* | *(97)* | *-* | *(101)* |
| Depreciation and amortisation | (57) | (6) | (35) | (12) | (103) | 1 | (212) |
| **Total operating expenses** | **(776)** | **(127)** | **(398)** | **(194)** | **(464)** | **6** | **(1,953)** |
| | | | | | | | |
| **Underlying operating profit / (loss) before impairment charges on financial assets** | **488** | **67** | **219** | **527** | **(440)** | **(9)** | **852** |
| Net impairment gains / (losses) on financial instruments | 157 | - | (74) | (41) | - | - | 42 |
| Share of results of associates and joint ventures | 4 | - | 37 | - | - | - | 41 |
| **Underlying profit / (loss) before tax** | **649** | **67** | **182** | **486** | **(440)** | **(9)** | **935** |

| 2018<br>Reconciliation of underlying profit before tax to profit before tax | Group €m |
|---|---|
| Underlying profit before tax | 935 |
| Cost of restructuring programme | (111) |
| Gain on disposal of property | 7 |
| Gross-up for policyholder tax in the Wealth and Insurance business | (7) |
| Investment return on treasury shares held for policyholders | 6 |
| Gain / (loss) on disposal / liquidation of business activities | 5 |
| Tracker Mortgage Examination charges | - |
| Cost of corporate reorganisation and establishment of a new holding company | - |
| Charge arising on the movement in the Group's credit spreads | - |
| **Profit before tax** | **835** |

[1] *Other reconciling items represent inter segment transactions which are eliminated upon consolidation and the application of hedge accounting at Group level.*

# 4 Operating segments *(continued)*

| Restated[1] 2017 | Retail Ireland €m | Wealth and Insurance €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items[2] €m | Group €m |
|---|---|---|---|---|---|---|---|
| **Net interest income** | **1,065** | **12** | **579** | **575** | **20** | **(3)** | **2,248** |
| Other income, net of insurance claims | 287 | 238 | 9 | 231 | 25 | 11 | 801 |
| **Total operating income, net of insurance claims** | 1,352 | 250 | 588 | 806 | 45 | 8 | 3,049 |
| Other operating expenses | (742) | (128) | (382) | (202) | (377) | 1 | (1,830) |
| *- Other operating expenses (before Transformation Investment and levies and regulatory charges)* | *(741)* | *(128)* | *(378)* | *(202)* | *(179)* | *1* | *(1,627)* |
| *- Transformation Investment charge* | *-* | *-* | *-* | *-* | *(104)* | *-* | *(104)* |
| *- Levies and regulatory charges* | *(1)* | *-* | *(4)* | *-* | *(94)* | *-* | *(99)* |
| Depreciation and amortisation | (61) | (5) | (27) | (11) | (65) | - | (169) |
| **Total operating expenses** | **(803)** | **(133)** | **(409)** | **(213)** | **(442)** | **1** | **(1,999)** |
| **Underlying operating profit / (loss) before impairment charges on financial assets** | **549** | **117** | **179** | **593** | **(397)** | **9** | **1,050** |
| Net impairment gains / (losses) on financial instruments | 148 | - | (115) | (48) | - | - | (15) |
| Share of results of associates and joint ventures | 4 | - | 39 | - | - | - | 43 |
| **Underlying profit / (loss) before tax** | **701** | **117** | **103** | **545** | **(397)** | **9** | **1,078** |

| 2017 Reconciliation of underlying profit before tax to profit before tax | Group €m |
|---|---|
| Underlying profit before tax | 1,078 |
| Tracker Mortgage Examination charges | (170) |
| Cost of restructuring programme | (48) |
| Gross-up for policyholder tax in the Wealth and Insurance business | 10 |
| Cost of corporate reorganisation and establishment of a new holding company | (7) |
| Charge arising on the movement in the Group's credit spreads | (5) |
| Loss on disposal / liquidation of business activities | (5) |
| Investment return on treasury shares held for policyholders | (1) |
| **Profit before tax** | **852** |

[1] *Comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment to incorporate the Private Banking and Insurance Services business units which were previously reported within Retail Ireland. This has resulted in an increase of €11 million in the underlying PBT of Wealth and Insurance and a corresponding decrease in the underlying PBT of Retail Ireland for the year ended 31 December 2017;*
*(ii) the Group's decision to re-organise the C&T segment to incorporate Group Treasury's costs which were previously reported within Group Centre. This has resulted in a decrease of €8 million in the underlying PBT of C&T and a corresponding increase in Group Centre for the year ended 31 December 2017 and (iii) the reclassification of €7 million of costs from the Transformation Investment charge (formerly the Core Banking Platform Investment charge) to Other operating expenses (before Transformation Investment and levies and regulatory charges) (€3 million) and depreciation and amortisation (€4 million) for 2017. The Transformation Investment charge has been booked in Group Centre for the current and comparative year.*

[2] *Other reconciling items represent inter segment transactions which are eliminated upon consolidation and the application of hedge accounting at Group level.*

# 4 Operating segments *(continued)*

| 2018 Analysis by operating segment | Retail Ireland €m | Wealth and Insurance €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items €m | Group €m |
|---|---|---|---|---|---|---|---|
| **Investment in associates and joint ventures** | **53** | **-** | **69** | **-** | **-** | **-** | **122** |
| External assets | 35,507 | 17,062 | 33,755 | 32,643 | 4,705 | (3) | 123,669 |
| Inter segment assets | 63,747 | 727 | 2,580 | 86,609 | 25,316 | (178,979) | - |
| **Total assets** | **99,254** | **17,789** | **36,335** | **119,252** | **30,021** | **(178,982)** | **123,669** |
| External liabilities | 52,124 | 16,830 | 26,236 | 14,243 | 4,180 | 5 | 113,618 |
| Inter segment liabilities | 44,936 | 257 | 7,486 | 103,958 | 22,334 | (178,971) | - |
| **Total liabilities** | **97,060** | **17,087** | **33,722** | **118,201** | **26,514** | **(178,966)** | **113,618** |

| 2017[1] Analysis by operating segment | Retail Ireland €m | Wealth and Insurance €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items €m | Group €m |
|---|---|---|---|---|---|---|---|
| **Investment in associates and joint ventures** | **59** | **-** | **69** | **-** | **-** | **-** | **128** |
| External assets | 36,060 | 17,329 | 33,884 | 28,530 | 6,754 | (3) | 122,554 |
| Inter segment assets | 60,152 | 860 | 3,034 | 82,723 | 26,503 | (173,272) | - |
| **Total assets** | **96,212** | **18,189** | **36,918** | **111,253** | **33,257** | **(173,275)** | **122,554** |
| External liabilities | 51,636 | 17,167 | 25,701 | 14,947 | 3,431 | 5 | 112,887 |
| Inter segment liabilities | 42,631 | 275 | 9,162 | 95,160 | 26,031 | (173,259) | - |
| **Total liabilities** | **94,267** | **17,442** | **34,863** | **110,107** | **29,462** | **(173,254)** | **112,887** |

| 2018 Gross revenue by operating segments | Retail Ireland €m | Wealth and Insurance €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items €m | Group €m |
|---|---|---|---|---|---|---|---|
| **Gross external revenue** | **1,359** | **1,253** | **1,097** | **677** | **61** | **(3)** | **4,444** |
| Inter segment revenues | 486 | (38) | 47 | 422 | 238 | (1,155) | - |
| **Gross revenue before claims paid** | **1,845** | **1,215** | **1,144** | **1,099** | **299** | **(1,158)** | **4,444** |
| Insurance contract liabilities and claims paid | - | (951) | - | - | (4) | - | (955) |
| **Gross revenue** | **1,845** | **264** | **1,144** | **1,099** | **295** | **(1,158)** | **3,489** |
| **Interest expense** | **(92)** | **-** | **(199)** | **80** | **(175)** | **7** | **(379)** |
| **Capital expenditure** | **12** | **12** | **70** | **3** | **182** | **-** | **279** |

[1] *As outlined on page 198 comparative figures have been restated to reflect the Group's decision to re-organise the Wealth and Insurance operating segment to incorporate the Private Banking and Bank of Ireland Insurance Services business units which were previously reported within Retail Ireland. On an underlying basis, this has resulted in an increase in the Wealth and insurance division of €58 million in total assets and an increase of €13 million in total liabilities as at 31 December 2017, with a corresponding decrease in the Retail Ireland division.*

# 4 Operating segments *(continued)*

| 2017[1] Gross revenue by operating segments | Retail Ireland €m | Wealth and Insurance €m | Retail UK[2] €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items €m | Group €m |
|---|---|---|---|---|---|---|---|
| **Gross external revenue** | **1,336** | **1,903** | **1,075** | **880** | **78** | **(12)** | **5,260** |
| Inter segment revenues | 562 | 66 | 41 | 451 | 148 | (1,268) | - |
| **Gross revenue before claims paid** | **1,898** | **1,969** | **1,116** | **1,331** | **226** | **(1,280)** | **5,260** |
| Insurance contract liabilities and claims paid | - | (1,643) | - | - | (3) | - | (1,646) |
| **Gross revenue** | **1,898** | **326** | **1,116** | **1,331** | **223** | **(1,280)** | **3,614** |
| **Interest expense** | **(109)** | **(1)** | **(178)** | **7** | **(127)** | **14** | **(394)** |
| **Capital expenditure** | **22** | **4** | **49** | **11** | **193** | **-** | **279** |

| 2018 Geographical analysis | Republic of Ireland €m | United Kingdom €m | Rest of World €m | Other reconciling items €m | Total €m |
|---|---|---|---|---|---|
| Gross external revenue | 3,196 | 1,148 | 101 | (1) | 4,444 |
| Inter segment revenues | (94) | (115) | (25) | 234 | - |
| **Gross revenue before claims paid** | **3,102** | **1,033** | **76** | **233** | **4,444** |
| Insurance contract liabilities and claims paid | (951) | - | (4) | - | (955) |
| **Gross revenue** | **2,151** | **1,033** | **72** | **233** | **3,489** |
| **Capital expenditure** | **209** | **70** | **-** | **-** | **279** |
| External assets | 86,915 | 35,458 | 1,296 | - | 123,669 |
| Inter segment assets | 10,457 | 4,518 | 1,053 | (16,028) | - |
| **Total assets** | **97,372** | **39,976** | **2,349** | **(16,028)** | **123,669** |
| External liabilities | 86,636 | 26,901 | 81 | - | 113,618 |
| Inter segment liabilities | 3,419 | 10,508 | 2,101 | (16,028) | - |
| **Total liabilities** | **90,055** | **37,409** | **2,182** | **(16,028)** | **113,618** |

| 2017 Geographical analysis | Republic of Ireland €m | United Kingdom[2] €m | Rest of World €m | Other reconciling items €m | Total €m |
|---|---|---|---|---|---|
| Gross external revenue | 3,946 | 1,217 | 109 | (12) | 5,260 |
| Inter segment revenues | 141 | 69 | 16 | (226) | - |
| **Gross revenue before claims paid** | **4,087** | **1,286** | **125** | **(238)** | **5,260** |
| Insurance contract liabilities and claims paid | (1,643) | - | (3) | - | (1,646) |
| **Gross revenue** | **2,444** | **1,286** | **122** | **(238)** | **3,614** |
| **Capital expenditure** | **230** | **49** | **-** | **-** | **279** |
| External assets | 84,566 | 36,009 | 1,979 | - | 122,554 |
| Inter segment assets | 12,555 | 4,718 | 568 | (17,841) | - |
| **Total assets** | **97,121** | **40,727** | **2,547** | **(17,841)** | **122,554** |
| External liabilities | 86,261 | 26,503 | 123 | - | 112,887 |
| Inter segment liabilities | 3,435 | 12,160 | 2,250 | (17,845) | - |
| **Total liabilities** | **89,696** | **38,663** | **2,373** | **(17,845)** | **112,887** |

[1] *As outlined on page 198, comparative figures have been restated to reflect the impact of: (i) the Group's decision to re-organise the Wealth and Insurance operating segment which resulted in a decrease of €30 million in business income in Retail Ireland and a corresponding increase in Wealth and Insurance for the year ended 31 December 2017.*

[2] *Prior year figures have been restated to reflect leasing income included in gross revenue.*

# 5 Interest income

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as an offset against interest expense.

There was no further charge in 2018 (2017: €96 million) in respect of redress under the Tracker Mortgage Examination Review. However there was a reallocation of €12 million charged to interest income from operating expenses during the year (see note 14).

*Interest income recognised on loans and advances to customers*
In 2018, €86 million of interest was recognised on credit-impaired loans and advances to customers. In 2017, €74 million of interest income was recognised on impaired loans and advances to customers on which a specific impairment provision had been recognised.

In 2018, €93 million of interest income was received on credit-impaired loans and advances to customers. In 2017, €78 million of interest income was received on impaired loans and advances to customers on which a specific impairment provision had been recognised.

In 2018, interest income received on total forborne loans and advances to customers was €158 million (2017: €178 million).

In 2018, interest recognised on total forborne loans and advances to customers was €162 million (2017: €154 million).

*Transferred from cash flow hedge reserve*
Interest income also includes a charge of €61 million (2017: €2 million charge) transferred from the cash flow hedge reserve (see page 170).

*Interest income recognised on debt securities at fair value through other comprehensive income (FVOCI)*
Interest income on FVOCI financial assets is recognised net of interest of €27 million on derivatives which are in a hedge relationship with the relevant financial asset.

*Interest income recognised on AFS financial assets*
On 31 December 2017, under IAS 39 interest income on AFS assets was recognised net of interest expense of €86 million on derivatives which are in a hedge relationship with the relevant asset. Under IFRS 9 financial assets which were classified as AFS have been reclassified as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL.

| | 2018 €m | 2017 €m |
|---|---|---|
| **Financial assets measured at amortised cost** | | |
| Loans and advances to customers | 2,249 | 2,241 |
| Loans and advances to banks | 28 | 15 |
| Debt securities at amortised cost | 12 | - |
| Held to maturity financial assets[1] | - | 29 |
| NAMA senior bonds | - | 3 |
| **Interest income on financial assets measured at amortised cost** | **2,289** | **2,288** |
| | | |
| **Financial assets at FVOCI** | | |
| Debt securities at FVOCI | 46 | - |
| AFS financial assets | - | 95 |
| | **2,335** | **2,383** |
| Negative interest on financial liabilities | 19 | 11 |
| **Interest income calculated using the effective interest method** | **2,354** | **2,394** |
| | | |
| Interest income on finance leases and hire purchase receivables | 159 | 152 |
| **Interest income** | **2,513** | **2,546** |

# 6 Interest expense

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as an offset against interest income.

*Interest expense recognised on subordinated liabilities*
Interest expense on subordinated liabilities is recognised on an Effective Interest Rate (EIR) basis, net of interest income of €19 million (2017: €21 million) on derivatives which are in a hedge relationship with the relevant liability.

*Interest expense recognised on debt securities in issue*
Interest expense on debt securities in issue is recognised on an EIR basis net of interest income of €58 million (2017: €57 million) on derivatives which are in a hedge relationship with the relevant liability.

| | 2018 €m | 2017 €m |
|---|---|---|
| Customer accounts | 164 | 201 |
| Subordinated liabilities | 100 | 77 |
| Debt securities in issue | 89 | 82 |
| Deposits from banks | 14 | 20 |
| **Interest expense on financial liabilities measured at amortised cost** | **367** | **380** |
| Negative interest on financial assets | 12 | 14 |
| **Interest expense** | **379** | **394** |

[1] *2017 included €18 million of amortisation transferred from AFS reserve in relation to the assets reclassified from AFS held to maturity.*

## 7 Net insurance premium income

| | 2018 €m | 2017 €m |
|---|---|---|
| Gross premiums written | 1,807 | 1,431 |
| Ceded reinsurance premiums | (311) | (87) |
| **Net insurance premium income** | **1,496** | **1,344** |

## 8 Fee and commission income and expense

| 2018 Income | Retail Ireland €m | Wealth and Insurance €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Group €m |
|---|---|---|---|---|---|---|
| Retail banking customer fees | 277 | - | 106 | 42 | - | 425 |
| Credit related fees | 8 | - | 6 | 16 | - | 30 |
| Insurance commissions | - | 13 | 2 | - | - | 15 |
| Asset management fees | - | 3 | - | - | - | 3 |
| Brokerage fees | 1 | - | 1 | - | - | 2 |
| Other | 11 | 7 | 5 | 23 | - | 46 |
| **Fee and commission income** | **297** | **23** | **120** | **81** | **-** | **521** |

| 2017 Income | Retail Ireland €m | Wealth and Insurance €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Group €m |
|---|---|---|---|---|---|---|
| Retail banking customer fees | 276 | - | 116 | 39 | - | 431 |
| Credit related fees | 11 | - | 9 | 26 | - | 46 |
| Insurance commissions | - | 13 | 2 | - | - | 15 |
| Asset management fees | - | 4 | - | - | - | 4 |
| Brokerage fees | 1 | - | 1 | - | - | 2 |
| Other | 9 | 6 | 4 | 26 | - | 45 |
| **Fee and commission income** | **297** | **23** | **132** | **91** | **-** | **543** |

There has been no significant changes to any of the line items above as a result of the adoption of IFRS 15 for the year ended 31 December 2018.

**Expense**

Fee and commission expense of €224 million (2017: €217 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

## 9 Net trading income

Net trading income includes the gains and losses on financial instruments held for trading and those designated at FVTPL (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €13 million (2017: €28 million) in relation to net charge arising from FX.

Net fair value hedge ineffectiveness reflects a net gain from hedging instruments of €63 million (2017: net gain of €9 million) offsetting a net charge from hedged items of €63 million (2017: net gain of €9 million).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement in 2018 amounted to €nil (2017: €nil).

| | 2018 €m | 2017 €m |
|---|---|---|
| Financial assets designated at fair value | - | 14 |
| Financial liabilities designated at fair value | 62 | (79) |
| Related derivatives held for trading | (77) | 49 |
| | **(15)** | **(16)** |
| **Net income from financial instruments mandatorily measured at fair value through profit or loss**[1] | | |
| Other financial instruments held for trading | 28 | 177 |
| Securities and non-trading debt | 18 | - |
| Loans and advances | 14 | - |
| Equities[2] | 10 | - |
| | **55** | **161** |
| Net fair value hedge ineffectiveness | - | - |
| Cash flow hedge ineffectiveness | - | - |
| **Net trading income** | **55** | **161** |

*The impact on the Group's income statement of the gains arising on the movement in credit spreads on the Group's own debt and deposits during 2017 is set out below. Under IFRS 9 credit spreads are reported in the liability credit reserve of the consolidated statement of OCI.*

| | 2017 €m |
|---|---|
| Recognised in | |
| - Net trading income | (4) |
| - Insurance contract liabilities and claims paid | (1) |
| | **(5)** |
| Cumulative charges arising on the movement in credit spreads relating to the Group's liabilities designated at fair value through profit or loss | (27) |

## 10 Life assurance investment income, gains and losses

Life assurance investment income, gains and losses comprise the investment return, realised gains and losses and unrealised gains and losses which accrue to the Group on all investment assets held by Wealth and Insurance, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts. These instruments are mandatorily measured at FVTPL.

| | 2018 €m | 2017 €m |
|---|---|---|
| (Losses) / gains on other financial assets held on behalf of Wealth and Insurance policyholders | (342) | 429 |
| Gains on investment property held on behalf of Wealth and Insurance policyholders | 11 | 21 |
| **Life assurance investment income, gains and losses** | **(331)** | **450** |

[1] *Net income from other financial assets mandatorily measured at FVTPL includes interest income from debt instruments and dividend income from equities. It also includes realised and unrealised gains and losses.*

[2] *Non-trading equities and debt securities mandatorily measured at FVTPL are reported in the balance sheet under the caption 'Other financial assets at FVTPL'. The income from life assurance investments which also comprise 'Other financial assets at FVTPL' is reported in note 10 Life assurance investment income, gains and losses.*

## 11 Other leasing income and expense

Other leasing income and expense relate to the business activities of Marshall Leasing Limited (MLL), a wholly owned subsidiary of the Group which was acquired in 2017. MLL is a car and commercial leasing and fleet management company based in the UK. Other leasing income relates to operating leases. Other leasing expense includes depreciation of €23 million related to rental vehicles (2017: €nil).

| | 2018 €m | 2017 €m |
|---|---|---|
| Other leasing income | 52 | 3 |
| Other leasing expense | (41) | (3) |
| **Net other leasing income** | **11** | **-** |

## 12 Other operating income

| | 2018 €m | 2017 €m |
|---|---|---|
| Other insurance income | 53 | 56 |
| Movement in Value of in Force asset (note 39) | 6 | 25 |
| Elimination of investment return on treasury stock held for the benefit of policyholders in the Wealth and Insurance business | 3 | - |
| Transfer from debt instruments at FVOCI reserve on asset disposal (note 26) | 2 | - |
| Dividend income | 2 | 20 |
| Transfer from AFS reserve on asset disposal (note 27) | - | 69 |
| Other income | 19 | - |
| **Other operating income** | **85** | **170** |

## 13 Insurance contract liabilities and claims paid

| | 2018 €m | 2017 €m |
|---|---|---|
| **Claims paid** | | |
| Policy surrenders | 824 | 1,001 |
| Death and critical illness claims | 158 | 152 |
| Annuity payments | 83 | 76 |
| Other claims | 70 | 65 |
| **Gross claims paid** | **1,135** | **1,294** |
| Recovered from reinsurers | (103) | (93) |
| **Net claims paid** | **1,032** | **1,201** |
| | | |
| **Change in insurance contract liabilities** | | |
| Change in reinsured liabilities | (202) | 24 |
| Change in gross liabilities | 125 | 421 |
| **Net change in insurance contract liabilities** | **(77)** | **445** |
| **Insurance contract liabilities and claims paid** | **955** | **1,646** |

## 14 Other operating expenses

| Administrative expenses and staff costs | 2018 €m | Restated[1] 2017 €m |
|---|---|---|
| Staff costs excluding restructuring and Transformation Investment staff costs | 867 | 904 |
| Levies and regulatory charges | 101 | 99 |
| *- Irish bank levy* | *29* | *29* |
| *- Other* | *72* | *70* |
| Amortisation of intangible assets (note 34) | 178 | 134 |
| Transformation Investment charge | 113 | 104 |
| Depreciation of property, plant and equipment (note 36) | 34 | 35 |
| Reversal of impairment on property (note 36) | (4) | (4) |
| Other administrative expenses excluding cost of restructuring programme | 652 | 808 |
| **Total** | **1,941** | **2,080** |
| | | |
| **Total staff costs are analysed as follows:** | | |
| Wages and salaries | 650 | 685 |
| Retirement benefit costs (defined benefit plans) (note 47) | 120 | 125 |
| Social security costs | 74 | 76 |
| Retirement benefit costs (defined contribution plans) | 27 | 23 |
| Other staff expenses | 9 | 8 |
| | **880** | **917** |
| Staff costs capitalised | (13) | (13) |
| **Staff costs excluding restructuring and Transformation Investment staff costs** | **867** | **904** |
| | | |
| **Additional restructuring and Transformation Investment staff costs:** | | |
| Included in cost of restructuring programme (note 15) | 74 | 48 |
| Included in Transformation Investment charge | 15 | 13 |
| **Total staff costs recognised in the income statement** | **956** | **965** |

The Group has incurred levies and regulatory charges of €101 million (2017: €99 million). The charge for 2018 primarily reflects the Group's contribution to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) fund, along with the charges for the Financial Services Compensation Scheme (FSCS) levy and the Irish bank levy.

Transformation Investment income statement charge of €113 million (2017: €104 million) includes associated application and infrastructure costs which will be included as part of the Transformation Investment charge until it is customer supporting.

There was no further charge in 2018 (2017: €74 million) in respect of the Tracker Mortgage Examination Review. However, there was a reallocation of €12 million to interest income which reduced operating expenses during the year (see note 5).

[1] *Comparative figures for the Transformation Investment charge (formerly the Core Banking Platform Investment charge) have been restated to align with the revised scope of the programme which now includes culture, systems and business model resulting in a decrease of €7 million in the 'Transformation Investment charge' and a corresponding increase in 'Other administrative expenses excluding cost of restructuring programme' (€3 million) and 'amortisation of intangible assets' (€4 million).*

## 14 Other operating expenses *(continued)*

**Staff numbers**
At 31 December 2018, the number of staff (full time equivalents) was 10,367 (2017: 10,892).

In addition to the reduction in the average number of staff employed by the Group, the table also reflects the ongoing centralisation of support functions in order to maximise operating efficiencies.

| Average number of staff (full time equivalents) | 2018 | 2017 |
|---|---|---|
| Retail Ireland | 2,875 | 4,185 |
| Retail UK | 1,607 | 1,707 |
| Wealth and Insurance | 899 | 900 |
| Corporate and Treasury | 610 | 652 |
| Group Centre | 4.604 | 3,752 |
| **Total** | **10,595** | **11,196** |

## 15 Cost of restructuring programme

| | 2018 €m | 2017 €m |
|---|---|---|
| Transformation Investment costs | 93 | 48 |
| *- Staff costs (note 14)* | *74* | *48* |
| *- Property related costs* | *11* | *-* |
| *- Programme management costs* | *8* | *-* |
| | | |
| Other restructuring charges | 18 | - |
| *- Impairment of property, plant and equipment (note 36)* | *9* | *-* |
| *- Impairment of intangible assets (note 34)* | *6* | *-* |
| *- Other related costs* | *3* | *-* |
| **Total** | **111** | **48** |

During 2018, the Group recognised a charge of €111 million of which €93 million relates to Transformation Investment costs and €18 million relating to other restructuring charges as set out in the table above. A restructuring charge of €48 million was incurred in 2017, primarily related to changes in employee numbers.

## 16 Auditor's remuneration (excluding VAT)

| | | Current Auditor | | | | Former Auditor | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | RoI (i) €m | Overseas (ii) €m | 2018 €m | 2017 €m | RoI €m | Overseas €m | 2018 €m | 2017 €m |
| **Audit and assurance services** | | | | | | | | | |
| Statutory audit | | 2.6 | 0.7 | 3.3 | - | - | - | - | 3.6 |
| Assurance services | (iii) | 0.6 | - | 0.6 | - | - | - | - | 2.1 |
| | | 3.2 | 0.7 | 3.9 | - | - | - | - | 5.7 |
| **Other services** | | | | | | | | | |
| Taxation services | | - | - | - | - | - | - | - | 0.1 |
| Other non-audit services | | - | - | - | - | - | - | - | 0.2 |
| **Total Auditor's remuneration** | | **3.2** | **0.7** | **3.9** | **-** | **-** | **-** | **-** | **6.0** |

On 19 April 2018, PwC (former Auditor), resigned as Auditor of the Group.

Disclosure of Auditor's fees is made in accordance with Section 322 of the Companies Act which mandates the disclosure of fees in particular categories and that fees paid to the Group Auditor only (KPMG) for services provided to the Group be disclosed in this format. All years presented are on that basis.

The amounts in the table above relate to fees payable to KPMG from the date of their appointment for services provided.

(i) Fees paid to the Statutory Auditor, KPMG;
(ii) Fees paid to overseas Auditors principally consist of fees paid to KPMG UK in the UK; and
(iii) Assurance services consist primarily of review of the interim financial statements, fees in connection with reporting to regulators including the CBI, letters of comfort and review of compliance with the Government Guarantee Schemes. (2017: €2.1 million including fees in respect of the 2017 Corporate Reorganisation).

# 17 Net impairment gains / (losses) on financial instruments

| | 2018 €m | 2017 €m |
|---|---|---|
| Loans and advances to customers | 36 | (15) |
| - *Cash recoveries* | *49* | 48 |
| - *Movement in impairment loss allowances / impairment provisions* (note 29) | *(13)* | *(63)* |
| Loan commitments | 6 | - |
| **Net impairment gains / (losses) on financial instruments** | **42** | **(15)** |

## Loans and advances to customers at amortised cost

**Net impairment gains / (losses)**
The Group's net impairment gains / (losses) on loans and advances to customers at amortised cost is set out in this table. The comparative figures for the prior year have not been restated and are presented on an IAS 39 classification and measurement basis.

| | 2018 €m | 2017 €m |
|---|---|---|
| Residential mortgages | 47 | 137 |
| - *Retail Ireland* | *60* | *131* |
| - *Retail UK* | *(13)* | *6* |
| Non-property SME and corporate | 14 | (84) |
| - *Republic of Ireland SME* | *54* | *(20)* |
| - *UK SME* | *1* | *(24)* |
| - *Corporate* | *(41)* | *(40)* |
| Property and construction | 12 | (60) |
| - *Investment* | *17* | *(54)* |
| - *Land and development* | *(5)* | *(6)* |
| Consumer | (37) | (8) |
| **Total** | **36** | **(15)** |

| **Impairment charges / (reversals) on loans and advances to customers by nature of impairment provision** | **2017 €m** |
|---|---|
| Specific charge individually assessed | (181) |
| Specific charge collectively assessed | 43 |
| Incurred but not reported | 123 |
| **Total impairment charge** | **(15)** |

# 18 Share of results of associates and joint ventures (after tax)

| | 2018 €m | 2017 €m |
|---|---|---|
| First Rate Exchange Services (note 33) | 37 | 40 |
| Associates (note 32) | 4 | 3 |
| **Share of results of associates and joint ventures (after tax)** | **41** | **43** |

## 19 Gain / (loss) on disposal / liquidation of business activities

As part of the Group's focus on simplifying its corporate structure, the Group has an ongoing programme of winding up a number of wholly owned, dormant and non-trading companies, a number of which are foreign operations. During 2018, the Group voluntarily appointed a liquidator to manage the winding up of a number of foreign operations. Upon appointment of the liquidator, the Group is considered to have lost control of the foreign operations and has accounted for this loss of control as a disposal. In accordance with IAS 21, the Group has reclassified net cumulative FX gains of €4 million relating to these foreign operations from the FX reserve to the income statement during 2018 (2017: losses of €11 million).

| | 2018 €m | 2017 €m |
|---|---|---|
| Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities | 4 | (11) |
| Other | 1 | 6 |
| **Gain / (loss) on disposal / liquidation of business activities** | **5** | **(5)** |

## 20 Taxation

The effective taxation rate on a statutory profit basis for 2018 is 19% (2017: 19%).

Between 2009 and 2011, the Group conducted a series of liability management exercises in order to enhance its equity capital which involved the repurchase or exchange of certain of its external liabilities in the UK at less than par, thus generating gains. The Group determined, with the benefit of opinions from external tax advisors and legal counsel that these gains were not subject to taxation. The Group has proactively engaged with the UK tax authority, HMRC, over the last number of years as it considers these transactions. HMRC has concurred with the Group's tax assessment in respect of certain of the gains that arose and its review continues in respect of others. HMRC has challenged the tax treatment of gains in the amount of £168 million (€189 million) arising in respect of one transaction. The Group continues to believe that all of the gains arising from these transactions are not subject to tax and hence that it is not probable that a liability will arise. No provisions have therefore been made.

| **Recognised in income statement** | 2018 €m | 2017 €m |
|---|---|---|
| **Current tax** | | |
| Irish Corporation Tax | | |
| - Current year | 23 | 16 |
| - Adjustment in respect of prior year | 3 | (19) |
| Double taxation relief | - | (2) |
| Foreign tax | | |
| - Current year | 57 | 75 |
| - Adjustments in respect of prior year | (5) | - |
| **Current tax charge** | **78** | **70** |
| **Deferred tax** | | |
| Current year profits | 91 | 17 |
| Adjustments in respect of prior year | 10 | 12 |
| Impact of Corporation Tax rate change | - | 10 |
| Reassessment of the value of tax losses carried forward | - | (2) |
| Origination and reversal of temporary differences | (19) | 53 |
| **Deferred tax charge** | **82** | **90** |
| **Taxation charge** | **160** | **160** |

# 20 Taxation *(continued)*

| **Reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to actual tax charge** | **2018 €m** | **2017 €m** |
|---|---|---|
| **Current tax** | | |
| Profit before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2017: 12.5%) | 104 | 107 |
| Effects of: | | |
| Foreign earnings subject to different rates of tax | 42 | 34 |
| Wealth and Insurance companies - different basis of accounting | - | 21 |
| Impact of corporation tax rate change on deferred tax | - | 10 |
| Adjustments in respect of prior year | 8 | (7) |
| Share of results of associates and joint ventures shown post tax in the income statement | (5) | (5) |
| Other adjustments for tax purposes | 11 | 2 |
| Reassessment of the value of tax losses carried forward | - | (2) |
| **Taxation charge** | **160** | **160** |

| | **2018** | | | **2017** | | |
|---|---|---|---|---|---|---|
| | **Pre-tax €m** | **Tax €m** | **Net of Tax €m** | **Pre-tax €m** | **Tax €m** | **Net of Tax €m** |
| **Debt instruments at FVOCI reserve** | | | | | | |
| Changes in fair value | (157) | 20 | (137) | - | - | - |
| Transfer to income statement | | | | | | |
| - Asset disposal | (2) | - | (2) | - | - | - |
| **Net change in debt instruments at FVOCI reserve** | **(159)** | **20** | **(139)** | **-** | **-** | **-** |
| **AFS reserve** | | | | | | |
| Gain on reclassification for held to maturity portfolio | - | - | - | 52 | (7) | 45 |
| Changes in fair value | - | - | - | 24 | (2) | 22 |
| Transfer to income statement | | | | | | |
| - On asset disposal | - | - | - | (69) | 9 | (60) |
| - Amortisation | - | - | - | (18) | 2 | (16) |
| **Net change in reserve** | **-** | **-** | **-** | **(11)** | **2** | **(9)** |
| **Remeasurement of the net defined benefit pension liability** | **156** | **(27)** | **129** | **(127)** | **14** | **(113)** |
| **Cash flow hedge reserve** | | | | | | |
| Changes in fair value | (1) | - | (1) | 203 | (24) | 179 |
| Transfer to income statement | (56) | 6 | (50) | (334) | 40 | (294) |
| **Net change in cash flow hedge reserve** | **(57)** | **6** | **(51)** | **(131)** | **16** | **(115)** |
| **Net change in foreign exchange reserve** | **10** | **-** | **10** | **(147)** | **-** | **(147)** |
| **Net change in revaluation reserve** | **1** | **(6)** | **(5)** | **16** | **(1)** | **15** |
| **Liability credit reserve** | | | | | | |
| Changes in fair value of liabilities designated at fair value through profit or loss due to own credit risk | 43 | (6) | 37 | - | - | - |
| **Other comprehensive income for the year** | **(6)** | **(13)** | **(19)** | **(400)** | **31** | **(369)** |

## 21 Earnings per share

The calculation of basic earnings per ordinary share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue excluding treasury shares and own shares held for the benefit of life assurance policyholders.

Diluted earnings per share is based on the profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue excluding treasury shares and own shares held for the benefit of life assurance policyholders adjusted for the effect of all dilutive potential ordinary shares.

For 2018 and 2017, there was no difference in the weighted average number of units of share used for basic and diluted earnings per share as the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive.

| | 2018 €m | 2017 €m |
|---|---|---|
| **Basic and diluted earnings per share** | | |
| Profit attributable to shareholders | 620 | 664 |
| Distributions on other equity instruments - AT1 coupon, net of tax | - | (24) |
| Dividend on other preference equity interests | - | (4) |
| **Profit attributable to ordinary shareholders[1]** | **620** | **636** |
| | **Shares (millions)** | **Shares (millions)** |
| Weighted average number of shares in issue excluding treasury shares and own shares held for the benefit of life assurance policyholders | 1,075 | 1,076 |
| Basic and diluted earnings per share (cent) | 57.7c | 59.1c |

## 22 Derivative financial instruments

The Group's use of, objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in the Risk Management Report on pages 60 to 111. The notional amounts of certain types of derivatives do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments give rise to assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The notional amounts and fair values of derivative instruments held by the Group are set out in the table on the next page.

Derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered into with economic hedging intent to which the Group does not apply hedge accounting. Derivatives classified as held for hedging comprise only those derivatives to which the Group applies hedge accounting.

The Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €1.7 billion at 31 December 2018 (2017: €2.3 billion):

- €1.3 billion (2017: €1.4 billion) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities; and
- €0.4 billion (2017: €0.9 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the reporting date.

At 31 December 2018, cash collateral of €0.2 billion (2017: €0.6 billion) was held against these assets and is reported within deposits from banks (note 40).

*[1] In 2017, Additional tier 1 (AT1) coupons and dividends on other preference equity interests paid after the date of the corporate reorganisation of 7 July 2017 were deducted in arriving at profit attributable to shareholders, as those components of equity were reclassified to non-controlling interests on that date.*

# 22 Derivative financial instruments *(continued)*

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Contract notional amounts €m | Fair values Assets €m | Fair values Liabilities €m | Contract notional amounts €m | Fair values Assets €m | Fair values Liabilities €m |
| **Derivatives held for trading** | | | | | | |
| **Foreign exchange derivatives** | | | | | | |
| Currency swaps | 4,027 | 38 | 34 | 4,954 | 45 | 38 |
| Currency forwards | 2,068 | 14 | 26 | 1,426 | 16 | 14 |
| Over the counter currency options | 356 | 3 | 3 | 593 | 6 | 6 |
| **Total foreign exchange derivatives held for trading** | **6,451** | **55** | **63** | **6,973** | **67** | **58** |
| **Interest rate derivatives** | | | | | | |
| Interest rate swaps | 148,350 | 1,000 | 1,214 | 117,575 | 1,161 | 1,432 |
| Cross currency interest rate swaps | 1,185 | 106 | 95 | 1,145 | 125 | 122 |
| Over the counter interest rate options | 9,815 | 17 | 33 | 8,594 | 16 | 31 |
| Interest rate futures | 6,038 | 1 | 2 | 3,598 | 3 | 1 |
| Exchange traded interest rate options | - | - | - | 5 | - | - |
| Forward rate agreements | 10,575 | 2 | 2 | 3,759 | 2 | 1 |
| **Total interest rate derivatives held for trading** | **175,963** | **1,126** | **1,346** | **134,676** | **1,307** | **1,587** |
| **Equity contracts, commodity contracts and credit derivatives** | | | | | | |
| Equity index-linked contracts held | 1,812 | 65 | 56 | 2,112 | 206 | 6 |
| Commodity contracts | 24 | 21 | 21 | 68 | 6 | 6 |
| Credit derivatives | 100 | 1 | - | 162 | 1 | 2 |
| **Total equity contracts and credit derivatives** | **1,936** | **87** | **77** | **2,342** | **213** | **14** |
| **Total derivative assets / liabilities held for trading** | **184,350** | **1,268** | **1,486** | **143,991** | **1,587** | **1,659** |
| **Derivatives held for hedging** | | | | | | |
| **Derivatives designated as fair value hedges** | | | | | | |
| Interest rate swaps | 44,205 | 361 | 306 | 31,291 | 234 | 300 |
| Cross currency interest rate swaps | - | - | - | 11 | - | - |
| **Total designated as fair value hedges** | **44,205** | **361** | **306** | **31,302** | **234** | **300** |
| **Derivatives designated as cash flow hedges** | | | | | | |
| Cross currency interest rate swaps | 8,136 | 81 | 15 | 7,474 | 393 | 1 |
| Interest rate swaps | 2,012 | 14 | 12 | 9,385 | 134 | 27 |
| **Total designated as cash flow hedges** | **10,148** | **95** | **27** | **16,859** | **527** | **28** |
| **Total derivative assets / liabilities held for hedging** | **54,353** | **456** | **333** | **48,161** | **761** | **328** |
| **Total derivative assets / liabilities** | **238,703** | **1,724** | **1,819** | **192,152** | **2,348** | **1,987** |

At 31 December 2018, placements with other banks and loans and advances to customers include cash collateral of €0.4 billion (2017: €0.5 billion) placed with derivative counterparties in respect of a net derivative liability position of €0.4 billion (2017: €0.5 billion) and is reported within loans and advances to banks (note 24) and loans and advances to customers (note 29).

The Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.
At 31 December 2018, the Group held the following interest rate swaps and cross currency interest rate swaps as hedging instruments.

# 22 Derivative financial instruments *(continued)*

The timing of the nominal amounts of hedging instruments (excluding those subject to a dynamic macro-hedging process) and the applicable average rates were as follows:

| 2018<br>Hedging strategy | Up to 1 year<br>€m | 1-2 years<br>€m | 2-5 years<br>€m | >5 years<br>€m |
|---|---|---|---|---|
| **Fair value hedge** | | | | |
| *Interest rate risk* | | | | |
| - Interest rate swap - notional amount | 3,847 | 3,549 | 9,271 | 6,725 |
| - Average fixed interest rate | 0.76% | 0.88% | 0.69% | 0.78% |
| *Foreign exchange risk* | | | | |
| - Cross currency interest rate swap - notional amount | - | - | - | - |
| - Average EUR - GBP foreign exchange rate | - | - | - | - |
| | | | | |
| **Cash flow hedge** | | | | |
| *Interest rate risk* | | | | |
| - Interest rate swap - notional amount | - | - | 644 | 1,368 |
| - Average fixed interest rate | - | - | 0.95% | 1.21% |
| *Foreign exchange risk* | | | | |
| - Cross currency interest rate swap - notional amount | 3,157 | 4,974 | 5 | - |
| - Average EUR - GBP foreign exchange rate | 0.88 | 0.89 | 0.87 | - |

**Fair value hedges**
Certain interest rate and cross currency interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate and FX exposure on the Group's fixed rate debt held, fixed rate mortgages, customer accounts and debt issued portfolios. The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year were as follows.

| Items designated as hedging instruments and hedge ineffectiveness<br>2018<br>Risk category | Hedging instrument[1] | Nominal amount of the hedging instrument<br>€m | Carrying amount of the hedging instrument<br>Assets<br>€m | <br>Liabilities<br>€m | Changes in value used to calculate hedge ineffectiveness[2,3]<br>€m | Ineffectiveness recognised in profit or loss[2,3]<br>€m |
|---|---|---|---|---|---|---|
| Interest rate risk | Interest rate swaps | 44,205 | 361 | (306) | (63) | - |
| Foreign exchange risk | Cross currency interest rate swaps | - | - | - | - | - |
| **Total** | | **44,205** | **361** | **(306)** | **(63)** | **-** |

| 2018<br>Line item on the balance sheet in which the hedged item is included | Carrying amount of the hedged item<br>Assets<br>€m | <br>Liabilities<br>€m | Accumulated amount of fair value adjustments on the hedged item included in the carrying amount of the hedged item<br>Assets<br>€m | <br>Liabilities<br>€m | Changes in value used for calculating hedge ineffectiveness<br>€m | Remaining adjustments for discontinued hedges<br>€m |
|---|---|---|---|---|---|---|
| **Interest rate risk** | | | | | | |
| Debt instruments measured at FVOCI | 11,079 | - | - | - | (53) | (77) |
| Debt securities at amortised cost | 3,479 | - | 32 | - | (37) | - |
| Loans and advances to customers | 7,305 | - | (14) | - | 21 | 4 |
| Deposits from banks | - | 385 | - | - | (1) | - |
| Customer accounts | - | 13,837 | - | (120) | 143 | 1 |
| Debt securities in issue | - | 9,382 | - | (107) | (10) | - |
| | | | | | | |
| **Foreign exchange risk** | | | | | | |
| Debt instruments measured at FVOCI | - | - | - | - | - | - |
| **Total** | **21,863** | **23,604** | **18** | **(227)** | **63** | **(72)** |

*1 All hedging instruments are included within derivative financial instruments on the balance sheet.*
*2 Ineffectiveness is included within net trading income on the income statement.*
*3 There are no material causes of ineffectiveness in the Group's fair value hedges.*

# 22 Derivative financial instruments *(continued)*

**Cash flow hedges**
The Group designates certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year were as follows.

| 2018<br>Risk category and hedging instrument[1] | Nominal amount of the hedging instrument €m | Carrying amount of the hedging instrument Assets €m | Carrying amount of the hedging instrument Liabilities €m | Changes in value used for calculating hedge ineffectiveness €m | Changes in the value of the hedging instrument recognised in other comprehensive income €m | Ineffectiveness recognised profit or loss[2,3] €m | Amount reclassified from the cash flow hedge reserve to profit or loss[3,4] €m |
|---|---|---|---|---|---|---|---|
| **Interest rate risk** | | | | | | | |
| Interest rate swaps | 2,012 | 14 | (12) | 29 | (29) | - | (67) |
| **Foreign exchange risk** | | | | | | | |
| Cross currency interest rate swaps | 8,136 | 81 | (15) | (3) | 3 | - | 12 |
| **Total** | **10,148** | **95** | **(27)** | **26** | **(26)** | **-** | **(55)** |

| 2018<br>Risk category | Changes in the hedged risk used for calculating hedge ineffectiveness €m | Cash flow hedge reserve €m | Remaining adjustments for discontinued hedges €m |
|---|---|---|---|
| Interest rate risk | (30) | 2 | 19 |
| Foreign exchange risk | 3 | (1) | - |
| **Total** | **(27)** | **1** | **19** |

In 2018, there were no forecast transactions to which the Group had applied hedge accounting which were no longer expected to occur.

Movements in the cash flow hedge reserve are shown in the Consolidated statement of changes in equity (page 170).

A reconciliation of the movements in the cash flow hedge reserve for 2018 is shown in the table.

| | 2018 €m |
|---|---|
| **Changes in fair value** | |
| - Interest rate risk | (8) |
| - Foreign exchange risk | 9 |
| **Transfer to income statement** | |
| *Interest income* | |
| - Interest rate risk | 25 |
| - Foreign exchange risk | (86) |
| *Net trading income / (expense)* | |
| - Interest rate risk | 43 |
| - Foreign exchange risk | 74 |
| Deferred tax on reserve movements | (6) |
| **Net change in cash flow hedge reserve** | **51** |

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within net trading income on the income statement.*
[3] *There are no material causes of ineffectiveness in the Group's cash flow hedges.*
[4] *€nil relates to amounts transferred to profit or loss for which hedge accounting was previously applied but for which hedged future cash flows are not expected to occur. The line items affected in profit or loss because of the reclassification are net interest income and net trading income / (expense).*

## 22 Derivative financial instruments *(continued)*

**Cash flow hedges**
At 31 December 2017, the Group designated certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. Movements in the cash flow hedge are shown in the consolidated statement of changes in equity.

*As at 31 December 2017, the years in which the hedge cash flows are expected to occur are as follows:*

| 2017 | Up to 1 year €m | 1 to 2 years €m | 2 to 5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|
| Forecast receivable cash flows | 5,319 | 1,808 | 63 | 28 | 7,218 |
| Forecast payable cash flows | (16) | (11) | - | (2) | (29) |

*As at 31 December 2017, the years in which the hedge cash flows are expected to impact the income statement are as follows:*

| 2017 | Up to 1 year €m | 1 to 2 years €m | 2 to 5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|
| Forecast receivable cash flows | 7,114 | 18 | 64 | 22 | 7,218 |
| Forecast payable cash flows | (19) | (8) | - | (2) | (29) |

## 23 Other financial assets at fair value through profit or loss

Other financial assets at FVTPL include assets managed on a fair value basis by the life assurance business and those assets which do not meet the requirements in order to be measured at FVOCI or amortised cost.

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 31 December 2018, such assets were €12,314 million (2017: €12,814 million).

Other financial assets of €1,821 million (2017: €1,607 million) of which €1,626 million (2017: €1,592 million) relates to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities. Further details on financial assets mandatorily measured at FVTPL is set out in note 59.

Included within other financial assets are subordinated bonds issued by National Asset Management Agency (NAMA) with a nominal value of €70 million (2017: €281 million) and a fair value of €76 million (2017: €293 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA in 2010, with the remaining 95% received in the form of NAMA senior bonds. The subordinated bonds are not guaranteed by the State and the payment of interest and repayment of capital is dependent on the performance of NAMA. These bonds were previously reported in AFS financial assets and have been reclassified in accordance with IFRS 9 from 1 January 2018. A gain of €9 million was recognised in respect of the partial disposal of NAMA subordinated bonds for the year ended 31 December 2018.

| | 2018 €m | 2017 €m |
|---|---|---|
| **Assets linked to policyholder liabilities** | | |
| Equity securities | 9,244 | 10,024 |
| Unit trusts | 1,142 | 1,072 |
| Debt securities | 1,089 | 915 |
| Government bonds | 839 | 803 |
| | **12,314** | **12,814** |
| **Other financial assets** | | |
| Debt securities | 844 | 348 |
| Government bonds | 804 | 1,178 |
| Equity securities | 84 | 32 |
| Unit trusts | 89 | 49 |
| | **1,821** | **1,607** |
| **Other financial assets at fair value through profit or loss** | **14,135** | **14,421** |

## 24 Loans and advances to banks

From 1 January 2018 loans and advances to banks have been classified and measured in accordance with IFRS 9. This involved reclassifying loans and advances to banks from loans and receivables to financial assets at amortised cost or financial assets mandatorily at FVTPL, and measuring the associated impairment loss allowance on loans and advances to banks on a 12-month or lifetime ECL approach. The comparative figures have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.

Loans and advances to banks at FVTPL include assets managed on a fair value basis by the life assurance business and those assets which do not meet the requirements in order to be measured at FVOCI or amortised cost.

Placements with other banks includes cash collateral of €0.4 billion (2017: €0.4 billion) placed with derivative counterparties in relation to net derivative liability positions (note 22).

Mandatory deposits with central banks includes €1,400 million relating to collateral in respect of the Group's issued bank notes in NI (2017: €1,340 million).

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 31 December 2018, the fair value of this collateral was €16 million (2017: €200 million). This balance is now included in the loans and advances to banks at FVTPL.

Loans and advances to banks includes €213 million (2017: €446 million) of assets held on behalf of Wealth and Insurance life policyholders.

Further information on the credit risk of loans and advances to banks can be found in the credit risk exposure in note 30 on page 226.

| | 2018 €m | 2017 €m |
|---|---|---|
| Mandatory deposits with central banks | 1,449 | 1,369 |
| Placements with banks | 831 | 1,473 |
| Securities purchased with agreement to resell | - | 200 |
| Funds placed with the Central Bank of Ireland not on demand | 28 | 19 |
| | **2,308** | **3,061** |
| Less impairment loss allowance on loans and advances to banks | (1) | - |
| **Loans and advances to banks at amortised cost[1]** | **2,307** | **3,061** |
| Loans and advances to banks at FVTPL[2] | 318 | - |
| **Loans and advances to banks** | **2,625** | **3,061** |

There has been no significant change in the impairment loss allowance on loans and advances to banks held at amortised cost since 1 January 2018. The composition of loans and advances to banks at amortised cost by stage is set out on page 226 and the asset quality of loans and advances to banks at amortised cost is set out on page 233.

## 25 Debt securities at amortised cost

From 1 January 2018 financial assets which were classified as AFS under IAS 39 have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL, and measuring the associated impairment loss allowance on debt securities at amortised cost on a 12 month or lifetime ECL approach as appropriate. Comparative notes have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis. Details of the impairment loss allowances are set out in note 30.

| | 2018 €m |
|---|---|
| Government bonds | 3,313 |
| Other debt securities at amortised cost | 559 |
| Asset backed securities | 57 |
| Less impairment loss allowance[3] | (1) |
| **Debt securities at amortised cost** | **3,928** |

[1] *The Group had no provision for impairment on loans and advances to banks at 31 December 2017.*
[2] *Loans and advances to banks at FVTPL are not subject to impairment under IFRS 9.*
[3] *There are no significant changes in the impairment loss allowance on debt securities at amortised cost, assets are stage 1.*

## 26 Financial assets at fair value through other comprehensive income

From 1 January 2018 financial assets which were classified as AFS under IAS 39 have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL, and measuring the associated impairment loss allowance on financial assets at FVOCI or debt securities at amortised cost on a 12 month or lifetime ECL approach as appropriate. Comparative notes have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement. Further details are available in the IAS 39 to IFRS 9 transitional disclosures (note 65).

At 31 December 2018, debt instruments at FVOCI with a fair value of €67 million had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements on the balance sheet.

The impairment loss allowance for ECL on debt instruments at FVOCI does not reduce the carrying amount but an amount equal to the allowance is recognised in OCI as an accumulated impairment amount, with corresponding impairment gains or losses recognised in the income statement.

The impairment loss allowance on debt instruments at FVOCI was €nil at 31 December 2017. Details of the movement in impairment loss allowance on debt instruments at FVOCI are set out on page 227.

In 2018, the Group sold debt instruments at FVOCI of €85 million which resulted in a transfer of €2 million from the debt instruments at FVOCI reserve to the income statement (note 12).

At 31 December 2018, financial assets at FVOCI included €543 million placed with Monetary Authorities as contingency, to access intraday and other funding facilities, if required (2017: €1.7 billion included in AFS).

| | 2018 €m |
|---|---|
| **Debt instruments at FVOCI** | |
| Government bonds | 6,074 |
| Other debt securities | |
| - listed | 5,974 |
| - unlisted | - |
| **Total debt instruments at FVOCI** | **12,048** |
| **Impairment loss allowance on debt instruments at FVOCI**[1] | **(3)** |

| **Fair value** | 2018 €m |
|---|---|
| Closing balance 31 December 2017 | - |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | 10,118 |
| **Opening balance 1 January 2018** | **10,118** |
| Additions | 4,652 |
| Redemptions and disposals | (2,541) |
| Revaluation, exchange and other adjustments | (181) |
| **Closing balance 31 December 2018** | **12,048** |

[1] *There are no significant changes in the impairment loss allowance on debt instruments at FVOCI, assets are stage 1.*

## 27 Available for sale financial assets

From 1 January 2018 AFS financial assets have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as either financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL. Details of the IFRS 9 impact, reclassifications and re-measurement as at 1 January 2018 are set out in note 65.

At 31 December 2017, unlisted debt securities included subordinated bonds issued by NAMA with a nominal value of €281 million and a fair value of €293 million. These bonds represented 5% of the nominal consideration received for assets sold to NAMA in 2010, with the remaining 95% received in the form of NAMA senior bonds.

At 31 December 2017, AFS financial assets with a fair value of €0.1 billion had been pledged to third parties in sale and repurchase agreements. The Group has not derecognised any securities delivered in such sale and repurchase agreements.

At 31 December 2017, AFS financial assets included €0.2 billion pledged as collateral in respect of customer deposits and debt securities in issue (excluding Monetary Authority secured funding).

In 2017, the Group sold other AFS financial assets of €1.5 billion which resulted in a transfer of €69 million from the AFS reserve to the income statement (note 12). At 31 December 2017, AFS financial assets included €1.7 billion placed with Monetary Authorities as contingency, to access intraday and other funding facilities, if required.

| | 2017 €m |
|---|---|
| Government bonds | 7,491 |
| Other debt securities | |
| - listed | 5,394 |
| - unlisted | 313 |
| Equity securities | |
| - unlisted | 25 |
| **AFS financial assets** | **13,223** |

| **Analysis of movement on available for sale financial assets** | **2018 €m** | **2017 €m** |
|---|---|---|
| Closing balance 31 December 2017 | 13,223 | - |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | (13,223) | - |
| Opening balance 1 January 2018 | - | - |
| At beginning of year | - | 10,794 |
| Additions | - | 4,763 |
| Redemptions | - | (2,530) |
| Reclassification from held to maturity financial assets | - | 1,833 |
| Disposals | - | (1,471) |
| Revaluation, exchange and other adjustments | - | (166) |
| Impairment | - | - |
| **At end of year** | **-** | **13,223** |

## 28 Assets classified as held for sale

Following a strategic review carried out in 2018, Retail UK is in the process of disposing of its UK credit card loan portfolio. As a result, these assets in the amount of €600 million net of impairment loss allowance have been reclassified from loans and advances to customers together with €2 million of related interest receivable reclassified from other assets to assets classified as held for sale. The assets continue to be measured at amortised cost using the effective interest rate method net of the related impairment loss allowance and the disposal is expected to be completed in early 2019.

During 2017, the Group decided to sell a property located in central Dublin. The sale was completed in 2018 resulting in a gain of €7 million and the reclassification of €9 million from the revaluation reserve to retained earnings.

| | 2018 €m | 2017 €m |
|---|---|---|
| UK credit card portfolio | 602 | - |
| Property held for sale | - | 28 |
| **At end of year** | **602** | **28** |

## 29 Loans and advances to customers

From 1 January 2018 loans and advances to customers have been classified and measured in accordance with IFRS 9. This involved reclassifying loans and advances to customers from loans and receivables to either financial assets at amortised cost or financial assets mandatorily at FVTPL, and measuring the impairment loss allowance on loans and advances to customers at amortised cost on a 12 month and lifetime ECL approach as appropriate. Comparative figures have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.

Loans and advances to customers includes cash collateral of €0.1 billion (2017: €0.1 billion) placed with derivative counterparties in relation to net derivative liability positions.

Loans and advances to customers at FVTPL represent the Life Loan mortgage product, which was offered by the Group until November 2010. The cash flows of the Life Loans are not considered to consist solely of payments of principal and interest, and as such are classified as FVTPL.

| | 2018 €m | 2017 €m |
|---|---|---|
| Loans and advances to customers at amortised cost | 74,428 | 75,556 |
| Finance leases and hire purchase receivables | 3,372 | 2,931 |
| | 77,800 | 78,487 |
| Less allowance for impairment charges on loans and advances to customers[1] | (1,698) | (2,359) |
| **Loans and advances to customers at amortised cost** | **76,102** | **76,128** |
| Loans and advances to customers at fair value through profit or loss[2] | 261 | - |
| **Total loans and advances to customers** | **76,363** | **76,128** |

The Group's portfolios of loans and advances to customers at amortised cost at 31 December 2018 are classified as follows:

| 2018 | Gross carrying amount at amortised cost €m | Impairment loss allowance €m | Total loans and advances to customers at amortised cost €m |
|---|---|---|---|
| Loans and advances to customers at amortised cost | 77,800 | (1,698) | 76,102 |
| Loans and advances to customers classified as held for sale (note 28) | 630 | (30) | 600 |
| **Total** | **78,430** | **(1,728)** | **76,702** |

The following tables show the gross carrying amount, the movement in the gross carrying amount, impairment loss allowances and movement in impairment loss allowances subject to 12 month and lifetime ECL on loans and advances to customers at amortised cost for the year ended 31 December 2018.

The opening gross carrying amount and impairment loss allowance on loans and advances to customers at amortised cost is presented as those subject to 12 month and lifetime ECL measurement following the adoption of IFRS 9, with no comparative restatement of 31 December 2017 positions. There were no financial assets that were initially purchased or originated credit-impaired during 2018.

| 31 December 2018 Gross carrying amount at amortised cost including held for sale (before impairment loss allowance) | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| Stage 1 - 12 month ECL (not credit impaired) | 41,096 | 16,547 | 6,343 | 4,816 | 68,802 |
| Stage 2 - Lifetime ECL (not credit impaired) | 1,873 | 1,850 | 1,102 | 250 | 5,075 |
| Stage 3 - Lifetime ECL (credit impaired) | 2,465 | 1,067 | 843 | 108 | 4,483 |
| Purchased / originated credit-impaired | 3 | 1 | 66 | - | 70 |
| **Gross carrying amount at 31 December 2018** | **45,437** | **19,465** | **8,354** | **5,174** | **78,430** |

*[1] The comparative figures for the prior year have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.*
*[2] Loans and advances to customers at FVTPL are not subject to impairment under IFRS 9.*

## 29 Loans and advances to customers *(continued)*

| **1 January 2018**<br>**Gross carrying amount at amortised cost (before impairment loss allowance)** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | 46,659 | 18,763 | 8,747 | 4,318 | 78,487 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | (294) | (140) | (23) | - | (457) |
| **Opening balance 1 January 2018** | **46,365** | **18,623** | **8,724** | **4,318** | **78,030** |
| | | | | | |
| Stage 1 - 12 month ECL (not credit impaired) | 41,168 | 15,209 | 5,850 | 3,948 | 66,175 |
| Stage 2 - Lifetime ECL (not credit impaired) | 2,319 | 1,909 | 1,313 | 273 | 5,814 |
| Stage 3 - Lifetime ECL (credit impaired) | 2,875 | 1,457 | 1,494 | 97 | 5,923 |
| Purchased / originated credit-impaired[1] | 3 | 48 | 67 | - | 118 |
| **Gross carrying amount at 1 January 2018** | **46,365** | **18,623** | **8,724** | **4,318** | **78,030** |

| **2018**<br>**Gross carrying amount (before impairment loss allowance) including held for sale** | **Stage 1 - 12 month ECL (not credit impaired) €m** | **Stage 2 - Lifetime ECL (not credit impaired) €m** | **Stage 3 - Lifetime ECL (credit impaired) €m** | **Purchased / originated credit impaired[1,2] €m** | **Total gross carrying amount €m** |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | | | | | 78,487 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | | | | | (457) |
| **Opening balance 1 January 2018[3]** | **66,175** | **5,814** | **5,923** | **118** | **78,030** |
| | | | | | |
| Total net transfers | (430) | 143 | 287 | - | - |
| *- to 12-month ECL not credit-impaired* | *3,119* | *(3,093)* | *(26)* | - | - |
| *- to lifetime ECL not credit-impaired* | *(3,301)* | *3,956* | *(655)* | - | - |
| *- to lifetime ECL credit-impaired* | *(248)* | *(720)* | *968* | - | - |
| Net changes in exposure | 3,211 | (875) | (984) | (7) | 1,345 |
| Impairment loss allowances utilised[4] | - | - | (748) | (42) | (790) |
| Exchange adjustments | (191) | (12) | (6) | (1) | (210) |
| Measurement reclassification and other movements | 37 | 5 | 11 | 2 | 55 |
| **Gross carrying amount at 31 December 2018** | **68,802** | **5,075** | **4,483** | **70** | **78,430** |

[1] *Included in the table above are purchased or originated credit-impaired assets of €70 million, €68 million of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination.*

[2] *The total amount of undiscounted ECL at initial recognition on financial assets that were initially purchased or originated credit impaired during the year is €nil.*

[3] *The opening gross carrying amount and impairment loss allowance on loans and advances to customers at amortised cost is now presented as those subject to 12 month and lifetime ECL measurement following the adoption of IFRS 9, with no comparative restatement of 2017 positions.*

[4] *Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2018 includes €352 million of contractual amounts outstanding that are still subject to enforcement activity.*

# 29 Loans and advances to customers *(continued)*

| **2018**<br>**Impairment loss allowance including held for sale** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| Stage 1 - 12 month ECL (not credit impaired) | 14 | 50 | 4 | 52 | 120 |
| Stage 2 - Lifetime ECL not credit impaired | 31 | 74 | 38 | 33 | 176 |
| Stage 3 - Lifetime ECL credit impaired | 492 | 501 | 369 | 70 | 1,432 |
| Purchased / originated credit-impaired | - | - | - | - | - |
| **Impairment loss allowance at 31 December 2018** | **537** | **625** | **411** | **155** | **1,728** |

| **1 January 2018**<br>**Impairment loss allowance** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | 706 | 826 | 739 | 88 | 2,359 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | (64) | 109 | (4) | 50 | 91 |
| **Opening balance 1 January 2018** | **642** | **935** | **735** | **138** | **2,450** |
| | | | | | |
| Stage 1 - 12 month ECL (not credit impaired) | 13 | 60 | 7 | 41 | 121 |
| Stage 2 - Lifetime ECL (not credit impaired) | 30 | 84 | 42 | 33 | 189 |
| Stage 3 - Lifetime ECL (credit impaired) | 599 | 754 | 685 | 64 | 2,102 |
| Purchased / originated credit-impaired | - | 37 | 1 | - | 38 |
| **Impairment loss allowance at 1 January 2018** | **642** | **935** | **735** | **138** | **2,450** |

| **2018**<br>**Impairment loss allowance cost including held for sale** | **Stage 1 - 12 month ECL (not credit-impaired) €m** | **Stage 2 - Lifetime ECL (not credit-impaired) €m** | **Stage 3 - Lifetime ECL (credit-impaired) €m** | **Purchased / originated credit-impaired €m** | **Total impairment loss allowance €m** |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | | | | | 2,359 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | | | | | 91 |
| **Opening balance 1 January 2018** | **121** | **189** | **2,102** | **38** | **2,450** |
| | | | | | |
| Total net transfers | 7 | 44 | (51) | - | - |
| *- to 12-month ECL not credit-impaired* | *56* | *(46)* | *(10)* | - | - |
| *- to lifetime ECL not credit-impaired* | *(43)* | *125* | *(82)* | - | - |
| *- to lifetime ECL credit-impaired* | *(6)* | *(35)* | *41* | - | - |
| Net impairment (losses) / gains in income statement | 1 | (53) | 61 | 4 | 13 |
| *- Re-measurement* | *(1)* | *(38)* | *166* | *4* | *131* |
| *- Net changes in exposure* | *15* | *(25)* | *(138)* | - | *(148)* |
| *- ECL model parameter and / or methodology changes* | *(13)* | *10* | *33* | - | *30* |
| Impairment loss allowances utilised | - | - | (748) | (42) | (790) |
| Exchange adjustments | - | - | (2) | - | (2) |
| Measurement reclassification and other movements | (9) | (4) | 70 | - | 57 |
| **Impairment loss allowance at 31 December 2018** | **120** | **176** | **1,432** | **-** | **1,728** |

## 29 Loans and advances to customers *(continued)*

| **2017**<br>**Impairment loss allowance** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| Provision at 1 January 2017 | 988 | 1,082 | 1,717 | 98 | 3,885 |
| Exchange adjustments | (3) | (15) | (12) | (1) | (31) |
| Charge / (reversal) in income statement | (137) | 84 | 60 | 8 | 15 |
| Provisions utilised | (160) | (465) | (952) | (37) | (1,614) |
| Other movements | 18 | 140 | (74) | 20 | 104 |
| **Provision at 31 December 2017** | **706** | **826** | **739** | **88** | **2,359** |

Under IAS 39, impairment provisions included specific and IBNR provisions. IBNR provisions were recognised on all categories of loans for incurred losses not specifically identified but which, experience and observable data indicated, were present in the portfolio at the date of assessment.

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not, of itself, alter a customer's obligations nor does it impact on the Group's rights to take relevant enforcement action.

The movement in both the gross carrying amount and impairment loss allowances subject to 12 month and lifetime ECL on loans and advances to customers at amortised cost by portfolio asset class for the 2018 is set out in the following tables.

The opening gross carrying amount and impairment loss allowance on loans and advances to customers at amortised cost is now presented as those subject to 12 month and lifetime ECL measurement following the adoption of IFRS 9, with no comparative restatement of 31 December 2017 positions.

| | **31 December 2017 €m** |
|---|---|
| Specific provisions individually assessed | 1,661 |
| Specific provisions collectively assessed | 332 |
| Incurred but not reported | 366 |
| **Total impairment provision** | **2,359** |

### Residential Mortgages

| **2018**<br>**Residential mortgages - Gross carrying amount (before impairment loss allowance)** | **Stage 1 - 12 month ECL (not credit-impaired) €m** | **Stage 2 - Lifetime ECL (not credit-impaired) €m** | **Stage 3 - Lifetime ECL (credit-impaired) €m** | **Purchased / originated credit-impaired €m** | **Total impairment loss allowance €m** |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | | | | | 46,659 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | | | | | (294) |
| **Opening balance 1 January 2018** | **41,168** | **2,319** | **2,875** | **3** | **46,365** |
| Total net transfers | 158 | (192) | 34 | - | - |
| *- to 12-month ECL not credit-impaired* | *2,388* | *(2,388)* | *-* | - | - |
| *- to lifetime ECL not credit-impaired* | *(2,168)* | *2,643* | *(475)* | - | - |
| *- to lifetime ECL credit-impaired* | *(62)* | *(447)* | *509* | - | - |
| Net changes in exposure | (70) | (251) | (364) | - | (685) |
| Impairment loss allowances utilised | - | - | (76) | - | (76) |
| Exchange adjustments | (169) | (4) | (4) | - | (177) |
| Measurement reclassification and other movements | 9 | 1 | - | - | 10 |
| **Gross carrying amount at 31 December 2018** | **41,096** | **1,873** | **2,465** | **3** | **45,437** |

# 29 Loans and advances to customers *(continued)*

| 2018<br><br>**Residential mortgages - Impairment loss allowance** | Stage 1 - 12 month ECL (not credit-impaired) €m | Stage 2 - Lifetime ECL (not credit-impaired) €m | Stage 3 - Lifetime ECL (credit-impaired) €m | Purchased / originated credit-impaired €m | Total impairment loss allowance €m |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | | | | | 706 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | | | | | (64) |
| **Opening balance 1 January 2018** | **13** | **30** | **599** | **-** | **642** |
| Total net transfers | (7) | 32 | (25) | - | - |
| *- to 12-month ECL not credit-impaired* | *28* | *(28)* | *-* | - | - |
| *- to lifetime ECL not credit-impaired* | *(34)* | *75* | *(41)* | - | - |
| *- to lifetime ECL credit-impaired* | *(1)* | *(15)* | *16* | - | - |
| Net impairment (losses) / gains in income statement | 8 | (31) | (17) | - | (40) |
| *- Re-measurement* | *20* | *(29)* | *(36)* | *-* | *(45)* |
| *- Net changes in exposure* | *(12)* | *(7)* | *(14)* | *-* | *(33)* |
| *- ECL model parameter and / or methodology changes* | *-* | *5* | *33* | *-* | *38* |
| Impairment loss allowances utilised | - | - | (76) | - | (76) |
| Exchange adjustments | - | - | (1) | - | (1) |
| Measurement reclassification and other movements | - | - | 12 | - | 12 |
| **Impairment loss allowance at 31 December 2018** | **14** | **31** | **492** | **-** | **537** |

Impairment loss allowances utilised on Residential mortgages at amortised cost during 2018 includes €69 million of contractual amounts outstanding that are still subject to enforcement activity.

## Non-property SME and corporate

| 2018<br><br>**Non-property SME and corporate - Gross carrying amount (before impairment loss allowance)** | Stage 1 - 12 month ECL (not credit-impaired) €m | Stage 2 - Lifetime ECL (not credit-impaired) €m | Stage 3 - Lifetime ECL (credit-impaired) €m | Purchased / originated credit-impaired €m | Total impairment loss allowance €m |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | | | | | 18,763 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | | | | | (140) |
| **Opening balance 1 January 2018** | **15,209** | **1,909** | **1,457** | **48** | **18,623** |
| Total net transfers | (485) | 325 | 160 | - | - |
| *- to 12-month ECL not credit-impaired* | *368* | *(350)* | *(18)* | - | - |
| *- to lifetime ECL not credit-impaired* | *(736)* | *806* | *(70)* | - | - |
| *- to lifetime ECL credit-impaired* | *(117)* | *(131)* | *248* | - | - |
| Net changes in exposure | 1,792 | (387) | (250) | (7) | 1,148 |
| Impairment loss allowances utilised | - | - | (287) | (42) | (329) |
| Exchange adjustments | 4 | (1) | (1) | - | 2 |
| Measurement reclassification and other movements | 27 | 4 | (12) | 2 | 21 |
| **Gross carrying amount at 31 December 2018** | **16,547** | **1,850** | **1,067** | **1** | **19,465** |

# 29 Loans and advances to customers *(continued)*

| 2018<br><br>**Non-property SME and corporate - Impairment loss allowance** | Stage 1 - 12 month ECL (not credit-impaired) €m | Stage 2 - Lifetime ECL (not credit-impaired) €m | Stage 3 - Lifetime ECL (credit-impaired) €m | Purchased / originated credit-impaired €m | Total impairment loss allowance €m |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | | | | | 826 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | | | | | 109 |
| **Opening balance 1 January 2018** | **60** | **84** | **754** | **37** | **935** |
| Total net transfers | 8 | 1 | (9) | - | - |
| *- to 12-month ECL not credit-impaired* | *17* | *(10)* | *(7)* | - | - |
| *- to lifetime ECL not credit-impaired* | *(6)* | *22* | *(16)* | - | - |
| *- to lifetime ECL credit-impaired* | *(3)* | *(11)* | *14* | - | - |
| Net impairment (losses) / gains in income statement | (11) | (9) | 22 | 5 | 7 |
| *- Re-measurement* | *(13)* | *(3)* | *94* | *4* | *82* |
| *- Net changes in exposure* | *4* | *(10)* | *(73)* | *1* | *(78)* |
| *- ECL model parameter and / or methodology changes* | *(2)* | *4* | *1* | - | *3* |
| Impairment loss allowances utilised | - | - | (287) | (42) | (329) |
| Exchange adjustments | - | - | - | - | - |
| Measurement reclassification and other movements | (7) | (2) | 21 | - | 12 |
| **Impairment loss allowance at 31 December 2018** | **50** | **74** | **501** | **-** | **625** |

Impairment loss allowances utilised on non-property SME and corporate during 2018 includes €149 million of contractual amounts outstanding that are still subject to enforcement activity.

## Property and construction

| 2018<br><br>**Property and construction - Gross carrying amount (before impairment loss allowance)** | Stage 1 - 12 month ECL (not credit-impaired) €m | Stage 2 - Lifetime ECL (not credit-impaired) €m | Stage 3 - Lifetime ECL (credit-impaired) €m | Purchased / originated credit-impaired €m | Total impairment loss allowance €m |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | | | | | 8,747 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | | | | | (23) |
| **Opening balance 1 January 2018** | **5,850** | **1,313** | **1,494** | **67** | **8,724** |
| Total net transfers | (68) | 29 | 39 | - | - |
| *- to 12-month ECL not credit-impaired* | *313* | *(309)* | *(4)* | - | - |
| *- to lifetime ECL not credit-impaired* | *(340)* | *448* | *(108)* | - | - |
| *- to lifetime ECL credit-impaired* | *(41)* | *(110)* | *151* | - | - |
| Net changes in exposure | 567 | (234) | (361) | - | (28) |
| Impairment loss allowances utilised | - | - | (350) | - | (350) |
| Exchange adjustments | (1) | (6) | (1) | (1) | (9) |
| Measurement reclassification and other movements | (5) | - | 22 | - | 17 |
| **Gross carrying amount at 31 December 2018** | **6,343** | **1,102** | **843** | **66** | **8,354** |

# 29 Loans and advances to customers *(continued)*

| 2018<br>Property and construction - Impairment loss allowance | Stage 1 - 12 month ECL (not credit-impaired) €m | Stage 2 - Lifetime ECL (not credit-impaired) €m | Stage 3 - Lifetime ECL (credit-impaired) €m | Purchased / originated credit-impaired €m | Total impairment loss allowance €m |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | | | | | 739 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | | | | | (4) |
| **Opening balance 1 January 2018** | **7** | **42** | **685** | **1** | **735** |
| Total net transfers | 2 | 18 | (20) | - | - |
| *- to 12-month ECL not credit-impaired* | *5* | *(4)* | *(1)* | - | - |
| *- to lifetime ECL not credit-impaired* | *(2)* | *26* | *(24)* | - | - |
| *- to lifetime ECL credit-impaired* | *(1)* | *(4)* | *5* | - | - |
| Net impairment (losses) / gains in income statement | (3) | (21) | 21 | (1) | (4) |
| *- Re-measurement* | *(3)* | *(15)* | *67* | - | *49* |
| *- Net changes in exposure* | - | *(9)* | *(47)* | *(1)* | *(57)* |
| *- ECL model parameter and / or methodology changes* | - | *3* | *1* | - | *4* |
| Impairment loss allowances utilised | - | - | (350) | - | (350) |
| Exchange adjustments | - | - | (1) | - | (1) |
| Measurement reclassification and other movements | (2) | (1) | 34 | - | 31 |
| **Impairment loss allowance at 31 December 2018** | **4** | **38** | **369** | **-** | **411** |

Impairment loss allowances utilised on Property and construction during 2018 includes €111 million of contractual amounts outstanding that are still subject to enforcement activity.

## Consumer

| 2018<br>Consumer - Gross carrying amount (before impairment loss allowance) including held for sale | Stage 1 - 12 month ECL (not credit-impaired) €m | Stage 2 - Lifetime ECL (not credit-impaired) €m | Stage 3 - Lifetime ECL (credit-impaired) €m | Purchased / originated credit-impaired[1] €m | Total impairment loss allowance €m |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | | | | | 4,318 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | | | | | - |
| **Opening balance 1 January 2018** | **3,948** | **273** | **97** | **-** | **4,318** |
| Total net transfers | (35) | (19) | 54 | - | - |
| *- to 12-month ECL not credit-impaired* | *50* | *(46)* | *(4)* | - | - |
| *- to lifetime ECL not credit-impaired* | *(57)* | *59* | *(2)* | - | - |
| *- to lifetime ECL credit-impaired* | *(28)* | *(32)* | *60* | - | - |
| Net changes in exposure | 922 | (3) | (9) | - | 910 |
| Impairment loss allowances utilised | - | - | (35) | - | (35) |
| Exchange adjustments | (25) | (1) | - | - | (26) |
| Measurement reclassification and other movements | 6 | - | 1 | - | 7 |
| **Gross carrying amount at 31 December 2018** | **4,816** | **250** | **108** | **-** | **5,174** |

## 29 Loans and advances to customers *(continued)*

| **2018**<br><br>**Consumer - Impairment loss allowance including held for sale** | **Stage 1 - 12 month ECL (not credit-impaired) €m** | **Stage 2 - Lifetime ECL (not credit-impaired) €m** | **Stage 3 - Lifetime ECL (credit-impaired) €m** | **Purchased / originated credit-impaired €m** | **Total impairment loss allowance €m** |
|---|---|---|---|---|---|
| Closing balance 31 December 2017 | | | | | 88 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | | | | | 50 |
| **Opening balance 1 January 2018** | **41** | **33** | **64** | **-** | **138** |
| | | | | | |
| Total net transfers | 4 | (7) | 3 | - | - |
| *- to 12-month ECL not credit-impaired* | *6* | *(4)* | *(2)* | - | - |
| *- to lifetime ECL not credit-impaired* | *(1)* | *2* | *(1)* | - | - |
| *- to lifetime ECL credit-impaired* | *(1)* | *(5)* | *6* | - | - |
| Net impairment (losses) / gains in income statement | 7 | 8 | 35 | - | 50 |
| *- Re-measurement* | *(5)* | *9* | *41* | - | *45* |
| *- Net changes in exposure* | *23* | *1* | *(4)* | - | *20* |
| *- ECL model parameter and / or methodology changes* | *(11)* | *(2)* | *(2)* | - | *(15)* |
| Impairment loss allowances utilised | - | - | (35) | - | (35) |
| Exchange adjustments | - | - | - | - | - |
| Measurement reclassification and other movements | - | (1) | 3 | - | 2 |
| **Impairment loss allowance at 31 December 2018** | **52** | **33** | **70** | **-** | **155** |

Impairment loss allowances utilised on Consumer during 2018 includes €23 million of contractual amounts outstanding that are still subject to enforcement activity.

### Finance leases and hire purchase receivables

Loans and advances to customers include finance leases and hire purchase receivables, which are analysed in the table.

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers. At 31 December 2018, the accumulated allowance for uncollectable minimum lease payments receivable was €nil (2017: €nil). A related ECL has been recognised under IFRS 9 in 2018.

### Securitisations

Loans and advances to customers include balances that have been securitised but not derecognised, comprising both residential mortgages and commercial loans. In general, the assets, or interests in the assets, are transferred to structured entities, which then issue securities to third party investors or to other entities within the Group. All of the Group's securitisation structured entities are consolidated. See note 57 for further details.

| | **2018 €m** | **2017 €m** |
|---|---|---|
| Gross investment in finance leases | | |
| Not later than 1 year | 1,114 | 1,045 |
| Later than 1 year and not later than 5 years | 2,526 | 2,099 |
| Later than 5 years | 12 | 14 |
| | 3,652 | 3,158 |
| Unearned future finance income on finance leases | (280) | (227) |
| **Net investment in finance leases** | **3,372** | **2,931** |
| | | |
| *The net investment in finance leases is analysed as follows:* | | |
| Not later than 1 year | 1,029 | 970 |
| Later than 1 year and not later than 5 years | 2,332 | 1,948 |
| Later than 5 years | 11 | 13 |
| | **3,372** | **2,931** |

# 30 Credit risk exposures

The following disclosures provide quantitative information about credit risk within financial instruments held by the Group. Details of the credit risk methodologies are set out on pages 82 to 87.

In addition to credit risk, the primary risks affecting the Group through its use of financial instruments are: funding and liquidity risk, market risk and life insurance risk. The Group's approach to the management of these risks, together with its approach to Capital management, are set out in sections 3.1 (credit risk), 3.2 (funding and liquidity risk), 3.3 (market risk), 3.4 (life insurance risk) and 4 (capital management) of the Risk Management Report.

The table below illustrates the relationship between the Group's internal credit risk rating grades as used for credit risk management purposes and PD percentages, and further illustrates the indicative relationship with credit risk ratings used by external rating agencies.

| Internal credit risk ratings | | |
|---|---|---|
| **PD Grade** | **PD %** | **Indicative S&P type external ratings** |
| 1-4 | 0% ≤ PD < 0.26% | AAA, AA+, AA, AA-, A+, A, A-, BBB+ |
| 5-7 | 0.26% ≤ PD < 1.45% | BBB, BBB-, BB+, BB |
| 8-9 | 1.45% ≤ PD < 3.60% | BB-, B+ |
| 10-11 | 3.60% ≤ PD < 100% | B, Below B |
| 12 (credit-impaired) | 100% | n/a |

## Financial assets

### Composition and risk profile

The table below summarises the composition and risk profile of the Group's financial assets subject to impairment including loans and advances to customers held for sale at 31 December 2018. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

| | 2018 | | | | | 2017 |
|---|---|---|---|---|---|---|
| **Financial assets exposure by stage (before impairment loss allowance) including held for sale** | **Stage 1 - 12 month ECL (not credit-impaired) €m** | **Stage 2 - Lifetime ECL (not credit-impaired) €m** | **Stage 3 - Lifetime ECL (credit-impaired) €m** | **Purchased / originated credit-impaired[1] €m** | **Total €m** | **Total €m** |
| **Financial assets measured at amortised cost** | | | | | | |
| Loans and advances to customers | 68,802 | 5,075 | 4,483 | 70 | 78,430 | 78,487 |
| Loans and advances to banks | 2,302 | 6 | - | - | 2,308 | 3,061 |
| Debt securities | 3,929 | - | - | - | 3,929 | - |
| Other financial assets | 6,294 | - | - | - | 6,294 | 7,754 |
| **Total financial assets measured at amortised cost** | **81,327** | **5,081** | **4,483** | **70** | **90,961** | **89,302** |
| Debt instruments at FVOCI | 12,048 | - | - | - | 12,048 | - |
| AFS financial assets | - | - | - | - | - | 13,223 |
| **Total** | **93,375** | **5,081** | **4,483** | **70** | **103,009** | **102,525** |

At 31 December 2018, purchased or originated credit-impaired assets included €68 million of assets which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as purchased or originated credit-impaired until derecognition.

Loans and advances to customers excludes €261 million of loans mandatorily at FVTPL at 31 December 2018 which are not subject to impairment under IFRS 9 and are therefore excluded from impairment related tables (see note 29).

At 31 December 2018, other financial assets includes: cash and balances at central banks of €6,035 million (2017: €7,379 million) and items in the course of collection from other banks of €259 million (2017: €307 million). The above table excludes loan commitments, guarantees and letters of credit of €15,505 million at 31 December 2018 (2017: €nil) that are subject to impairment (see note 46).

[1] *At 31 December 2018, purchased or originated credit-impaired assets included €68 million of assets with an impairment loss allowance of €nil which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as purchased or originated credit-impaired until derecognition.*

# 30 Credit risk exposures *(continued)*

**Impairment loss allowance**
The impairment loss allowance on financial assets is set out in the table below. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

| | 2018 | | | | | 2017 |
|---|---|---|---|---|---|---|
| **Impairment loss allowance on financial assets including held for sale** | **Stage 1 - 12 month ECL (not credit-impaired) €m** | **Stage 2 - Lifetime ECL (not credit-impaired) €m** | **Stage 3 - Lifetime ECL (credit-impaired) €m** | **Purchased / originated credit-impaired[1] €m** | **Total €m** | **Total €m** |
| **Financial assets measured at amortised cost** | | | | | | |
| Loans and advances to customers | 120 | 176 | 1,432 | - | 1,728 | 2,359 |
| Loans and advances to banks | 1 | - | - | - | 1 | - |
| Debt securities | 1 | - | - | - | 1 | - |
| Other financial assets | 2 | - | - | - | 2 | - |
| **Total financial assets measured at amortised cost** | **124** | **176** | **1,432** | **-** | **1,732** | **2,359** |
| Debt instruments at FVOCI | 3 | - | - | - | 3 | - |
| AFS financial assets | - | - | - | - | - | - |
| **Total** | **127** | **176** | **1,432** | **-** | **1,735** | **2,359** |

There was €nil impairment on loans and advances to banks, debt securities at amortised cost, other financial assets, debt instruments at FVOCI and AFS financial assets at 31 December 2017.

## Loans and advances to customers at amortised cost

**Composition and risk profile**
The table below summarises the composition and risk profile of the Group's loans and advances to customers at amortised cost. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

| | 2018 | | | | 2017 | |
|---|---|---|---|---|---|---|
| **Loans and advances to customers including held for sale Composition and risk profile (before impairment loss allowance)[2]** | **Not credit-impaired €m** | **Credit-impaired €m** | **Total €m** | **Total %** | **Total €m** | **Total %** |
| Residential mortgages | 42,969 | 2,465 | 45,434 | 58% | 46,659 | 60% |
| *- Retail Ireland* | *21,688* | *2,025* | *23,713* | *30%* | *24,069* | *31%* |
| *- Retail UK* | *21,281* | *440* | *21,721* | *28%* | *22,590* | *29%* |
| Non-property SME and corporate | 18,397 | 1,067 | 19,464 | 25% | 18,763 | 24% |
| *- Republic of Ireland SME* | *6,871* | *729* | *7,600* | *10%* | *8,213* | *11%* |
| *- UK SME* | *1,491* | *79* | *1,570* | *2%* | *1,703* | *2%* |
| *- Corporate* | *10,035* | *259* | *10,294* | *13%* | *8,847* | *11%* |
| Property and construction | 7,445 | 843 | 8,288 | 11% | 8,747 | 11% |
| *- Investment* | *6,892* | *760* | *7,652* | *10%* | *8,277* | *10%* |
| *- Land and development* | *553* | *83* | *636* | *1%* | *470* | *1%* |
| Consumer | 5,066 | 108 | 5,174 | 6% | 4,318 | 5% |
| **Total** | **73,877** | **4,483** | **78,360** | **100%** | **78,487** | **100%** |
| **Impairment loss allowance on loans and advances to customers** | **296** | **1,432** | **1,728** | **2%** | **2,359** | **3%** |

[1] *At 31 December 2018, purchased or originated credit-impaired assets included €nil of assets with an impairment loss allowance of €nil which, while credit-impaired upon purchase or origination were no longer credit-impaired at the reporting date due to improvements in credit risk. These assets will remain classified as purchased or originated credit-impaired until derecognition.*

[2] *Excluded from the table above are purchased or originated credit-impaired assets of €70 million, €68 million of which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination.*

# 30 Credit risk exposures *(continued)*

**Asset quality - not credit-impaired**
The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers at amortised cost that are not credit-impaired.

| 2018 | Stage 1 | | | | Stage 2 | | | |
|---|---|---|---|---|---|---|---|---|
| **Not credit-impaired loans and advances to customers including held for sale Composition and impairment loss allowance** | **Loans €m** | **Loans as % of total advances %** | **Impairment loss allowance €m** | **Impairment loss allowance as % of loans %** | **Loans €m** | **Loans as % of total advances %** | **Impairment loss allowance €m** | **Impairment loss allowance as % of loans %** |
| Residential mortgages | 41,096 | 52% | 14 | 0.03% | 1,873 | 2% | 31 | 1.66% |
| *- Retail Ireland* | *20,403* | *26%* | *5* | *0.02%* | *1,285* | *1%* | *15* | *1.17%* |
| *- Retail UK* | *20,693* | *26%* | *9* | *0.04%* | *588* | *1%* | *16* | *2.72%* |
| Non-property SME and corporate | 16,547 | 22% | 50 | 0.30% | 1,850 | 2% | 74 | 4.00% |
| *- Republic of Ireland SME* | *5,890* | *8%* | *29* | *0.49%* | *981* | *1%* | *43* | *4.38%* |
| *- UK SME* | *1,232* | *2%* | *3* | *0.24%* | *259* | *-* | *11* | *4.25%* |
| *- Corporate* | *9,425* | *12%* | *18* | *0.19%* | *610* | *1%* | *20* | *3.28%* |
| Property and construction | 6,343 | 8% | 4 | 0.06% | 1,102 | 1% | 38 | 3.45% |
| *- Investment* | *5,820* | *7%* | *4* | *0.07%* | *1,072* | *1%* | *38* | *3.54%* |
| *- Land and development* | *523* | *1%* | *-* | *0.00%* | *30* | *-* | *-* | *-* |
| Consumer | 4,816 | 6% | 52 | 1.08% | 250 | - | 33 | 13.20% |
| **Total** | **68,802** | **88%** | **120** | **0.17%** | **5,075** | **5%** | **176** | **3.47%** |

The table below provides analysis of the asset quality of loans and advances to customers at amortised cost that are not credit-impaired based on mapping the IFRS 9 twelve month PD of each loan to a PD grade based on the table provided on page 226.

| **2018 Not credit-impaired loans and advances to customers including held for sale** | **Residential mortgages** | | **Non-property SME and corporate** | | **Property and construction** | | **Consumer** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Asset quality[1] - PD grade** | **€m** | **%** | **€m** | **%** | **€m** | **%** | **€m** | **%** | **€m** | **%** |
| **Stage 1** | | | | | | | | | | |
| 1-4 | 22,622 | 52% | 5,421 | 30% | 5,244 | 70% | 84 | 2% | 33,371 | 45% |
| 5-7 | 16,185 | 38% | 6,505 | 35% | 1,038 | 14% | 2,208 | 44% | 25,936 | 35% |
| 8-9 | 1,535 | 4% | 4,076 | 22% | 56 | 1% | 1,590 | 31% | 7,257 | 10% |
| 10-11 | 754 | 2% | 545 | 3% | 5 | - | 934 | 18% | 2,238 | 3% |
| **Total Stage 1** | **41,096** | **96%** | **16,547** | **90%** | **6,343** | **85%** | **4,816** | **95%** | **68,802** | **93%** |
| **Stage 2** | | | | | | | | | | |
| 1-4 | 96 | - | 191 | 1% | 69 | 1% | - | - | 356 | 1% |
| 5-7 | 227 | - | 356 | 2% | 696 | 10% | 7 | - | 1,286 | 2% |
| 8-9 | 377 | 1% | 521 | 3% | 157 | 2% | 22 | 1% | 1,077 | 1% |
| 10-11 | 1,173 | 3% | 782 | 4% | 180 | 2% | 221 | 4% | 2,356 | 3% |
| **Total Stage 2** | **1,873** | **4%** | **1,850** | **10%** | **1,102** | **15%** | **250** | **5%** | **5,075** | **7%** |
| **Not credit-impaired** | | | | | | | | | | |
| 1-4 | 22,718 | 52% | 5,612 | 31% | 5,313 | 71% | 84 | 2% | 33,727 | 46% |
| 5-7 | 16,412 | 38% | 6,861 | 37% | 1,734 | 24% | 2,215 | 44% | 27,222 | 37% |
| 8-9 | 1,912 | 5% | 4,597 | 25% | 213 | 3% | 1,612 | 32% | 8,334 | 11% |
| 10-11 | 1,927 | 5% | 1,327 | 7% | 185 | 2% | 1,155 | 22% | 4,594 | 6% |
| **Total not credit-impaired** | **42,969** | **100%** | **18,397** | **100%** | **7,445** | **100%** | **5,066** | **100%** | **73,877** | **100%** |

[1] *Excluded from the table above are purchased or originated credit-impaired loans of €70 million with impairment loss allowances of €68 million which were no longer credit-impaired at the reporting date due to improvement in credit risk since purchase or origination. These loans will remain classified as Purchased or Originated Credit-impaired loans until derecognition.*

# 30 Credit risk exposures *(continued)*

`The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers at amortised cost that are credit-impaired (i.e. stage 3).

| **2018 Credit-impaired loans and advances to customers including held for sale Composition and impairment loss allowance** | **Credit-impaired loans €m** | **Credit-impaired loans as % of total advances %** | **Impairment loss allowance €m** | **Impairment loss allowance as % of loans %** |
|---|---|---|---|---|
| Residential mortgages | 2,465 | 3% | 492 | 20% |
| *- Retail Ireland* | *2,025* | *2%* | *444* | *22%* |
| *- Retail UK* | *440* | *1%* | *48* | *11%* |
| Non-property SME and corporate | 1,067 | 1% | 501 | 47% |
| *- Republic of Ireland SME* | *729* | *1%* | *340* | *47%* |
| *- UK SME* | *79* | *-* | *37* | *47%* |
| *- Corporate* | *259* | *-* | *124* | *48%* |
| Property and construction | 843 | 1% | 369 | 44% |
| *- Investment* | *760* | *1%* | *321* | *42%* |
| *- Land and development* | *83* | *-* | *48* | *58%* |
| Consumer | 108 | - | 70 | 65% |
| **Total credit-impaired** | **4,483** | **5%** | **1,432** | **32%** |

All loans and advances to customers that are greater than 90 days past due are classified as being credit-impaired. All credit-impaired loans and advances to customers are risk rated PD grade 12.

### Segmental analysis

| **31 December 2018 Risk profile of loans and advances to customers including held for sale (before impairment loss allowance)** | **Retail Ireland €m** | **Retail UK €m** | **Corporate & Treasury €m** | **Total Group €m** |
|---|---|---|---|---|
| Stage 1 - 12 month ECL (not credit impaired) | 29,482 | 25,337 | 13,983 | 68,802 |
| Stage 2 - Lifetime ECL (not credit impaired) | 2,753 | 1,378 | 944 | 5,075 |
| Stage 3 - Lifetime ECL (credit impaired) | 3,430 | 781 | 272 | 4,483 |
| Purchased / originated credit-impaired | 4 | 66 | - | 70 |
| **Gross carrying amount at 31 December 2018** | **35,669** | **27,562** | **15,199** | **78,430** |

| **1 January 2018 Risk profile of loans and advances to customers (before impairment loss allowance)** | **Retail Ireland €m** | **Retail UK €m** | **Corporate & Treasury €m** | **Total Group €m** |
|---|---|---|---|---|
| Closing balance 31 December 2017 | 37,005 | 28,330 | 13,152 | 78,487 |
| Impact of adopting IFRS 9 on 1 January 2018 (note 65) | (294) | - | (163) | (457) |
| **Opening balance 1 January 2018** | **36,711** | **28,330** | **12,989** | **78,030** |
| | | | | |
| Stage 1 - 12 month ECL (not credit impaired) | 29,050 | 25,480 | 11,645 | 66,175 |
| Stage 2 - Lifetime ECL (not credit impaired) | 3,020 | 1,735 | 1,059 | 5,814 |
| Stage 3 - Lifetime ECL (credit impaired) | 4,633 | 1,048 | 242 | 5,923 |
| Purchased / originated credit-impaired | 8 | 67 | 43 | 118 |
| **Gross carrying amount at 1 January 2018** | **36,711** | **28,330** | **12,989** | **78,030** |

# 30 Credit risk exposures *(continued)*

| 2018<br>Risk profile of loans and advances to customers including held for sale<br>- non-performing exposures | Retail Ireland €m | Retail UK €m | Corporate & Treasury €m | Total Group €m |
|---|---|---|---|---|
| Credit-impaired | 3,432 | 781 | 272 | 4,485 |
| Not credit-impaired[1] | 407 | 80 | 12 | 499 |
| **Total** | **3,839** | **861** | **284** | **4,984** |

| 2017<br>Risk profile of loans and advances to customers<br>- non-performing exposures | Retail Ireland €m | Retail UK €m | Corporate & Treasury €m | Total Group €m |
|---|---|---|---|---|
| Impaired | 3,089 | 675 | 279 | 4,043 |
| Past due greater than 90 days but not impaired | 299 | 165 | - | 464 |
| Neither impaired nor past due greater than 90 days | 1,761 | 242 | 11 | 2,014 |
| **Total** | **5,149** | **1,082** | **290** | **6,521** |

**Geographical and industry analysis of loans and advances to customers**

The following table provides a geographical and industry breakdown of total loans including loans held for sale (before impairment loss allowances).

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| **Geographical / industry analysis[2]** | **RoI €m** | **UK €m** | **RoW €m** | **Total €m** | **RoI €m** | **UK €m** | **RoW €m** | **Total €m** |
| Personal | 25,875 | 24,736 | - | 50,611 | 26,036 | 24,941 | - | 50,977 |
| *- Residential mortgages* | *23,716* | *21,721* | - | *45,437* | *24,069* | *22,590* | - | *46,659* |
| *- Other consumer lending* | *2,159* | *3,015* | - | *5,174* | *1,967* | *2,351* | - | *4,318* |
| Property and construction | 7,099 | 1,255 | - | 8,354 | 6,593 | 2,154 | - | 8,747 |
| *- Investment* | *6,518* | *1,200* | - | *7,718* | *6,220* | *2,057* | - | *8,277* |
| *- Land and development* | *581* | *55* | - | *636* | *373* | *97* | - | *470* |
| Business and other services | 6,191 | 1,487 | 413 | 8,091 | 5,964 | 1,628 | 484 | 8,076 |
| Manufacturing | 3,935 | 415 | 458 | 4,808 | 2,804 | 625 | 547 | 3,976 |
| Distribution | 2,234 | 195 | 51 | 2,480 | 2,190 | 153 | 27 | 2,370 |
| Agriculture | 1,653 | 233 | - | 1,886 | 1,581 | 293 | - | 1,874 |
| Transport | 891 | 129 | 61 | 1,081 | 997 | 125 | 66 | 1,188 |
| Financial | 498 | 59 | 22 | 579 | 617 | 39 | 50 | 706 |
| Energy | 467 | 58 | 15 | 540 | 499 | 59 | 15 | 573 |
| **Total** | **48,843** | **28,567** | **1,020** | **78,430** | **47,281** | **30,017** | **1,189** | **78,487** |

**Repossessed collateral**

At 31 December 2018, the Group had collateral held as security, as follows:

Repossessed collateral is sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

| Repossessed collateral | 2018 €m | 2017 €m |
|---|---|---|
| **Residential properties** | | |
| Ireland | 19 | 20 |
| UK and other | 7 | 8 |
| | 26 | 28 |
| **Other** | 1 | 1 |
| **Total** | **27** | **29** |

[1] *Other / probationary loans, including forborne loans that have yet to satisfy exit criteria in line with EBA guidance to return to performing.*

[2] *The geographical breakdown is primarily based on the location of the business unit where the asset is booked.*

# 30 Credit risk exposures *(continued)*

### IAS 39 comparatives

| **2017**<br>**Risk profile of loans and advances to customers (before impairment provisions)** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total loans and advances to customers €m** | **Total loans and advances to customers %** |
|---|---|---|---|---|---|---|
| **Total loans and advances to customers** | | | | | | |
| High quality | 41,823 | 6,157 | 3,829 | 3,921 | 55,730 | 71% |
| Satisfactory quality | 789 | 8,627 | 1,617 | 230 | 11,263 | 14% |
| Acceptable quality | 1,380 | 1,712 | 1,238 | 14 | 4,344 | 6% |
| Lower quality but neither past due or impaired | 78 | 735 | 620 | - | 1,433 | 2% |
| **Neither past due nor impaired** | **44,070** | **17,231** | **7,304** | **4,165** | **72,770** | **93%** |
| Past due but not impaired | 1,275 | 193 | 142 | 64 | 1,674 | 2% |
| Impaired | 1,314 | 1,339 | 1,301 | 89 | 4,043 | 5% |
| **Total loans and advances to customers** | **46,659** | **18,763** | **8,747** | **4,318** | **78,487** | **100%** |

| **2017**<br>**Risk profile of loans and advances to customers - past due and / or impaired** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| **Total loans and advances to customers** | | | | | |
| Past due up to 30 days | 469 | 61 | 32 | 38 | 600 |
| Past due 31 - 60 days | 389 | 27 | 37 | 20 | 473 |
| Past due 61 - 90 days | 113 | 11 | 7 | 6 | 137 |
| Past due greater than 90 days but not impaired | 304 | 94 | 66 | - | 464 |
| **Past due but not impaired** | **1,275** | **193** | **142** | **64** | **1,674** |
| Impaired | 1,314 | 1,339 | 1,301 | 89 | 4,043 |
| **Total loans and advances to customers - past due and / or impaired** | **2,589** | **1,532** | **1,443** | **153** | **5,717** |

### Segmental analysis

The table below provides an analysis of the Group's loans and advances to customers over the following the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired' by division.

| **2017**<br>**Risk profile of loans and advances to customers (before impairment provisions)** | **Retail Ireland €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Total Group €m** |
|---|---|---|---|---|
| High quality | 24,049 | 24,534 | 7,147 | 55,730 |
| Satisfactory quality | 5,501 | 1,054 | 4,708 | 11,263 |
| Acceptable quality | 2,700 | 942 | 702 | 4,344 |
| Lower quality but neither past due nor impaired | 864 | 261 | 308 | 1,433 |
| **Neither past due nor impaired** | **33,114** | **26,791** | **12,865** | **72,770** |
| Past due but not impaired[1] | 802 | 864 | 8 | 1,674 |
| Impaired | 3,089 | 675 | 279 | 4,043 |
| **Total** | **37,005** | **28,330** | **13,152** | **78,487** |

# 30 Credit risk exposures *(continued)*

The table below provides an aged analysis of loans and advances to customers 'past due and / or impaired' by division.

| 2017<br>Loans and advances to customers<br>- past due and / or impaired<br>(before impairment provisions) | Retail Ireland<br>€m | Retail UK<br>€m | Corporate and Treasury<br>€m | Total Group<br>€m |
|---|---|---|---|---|
| Past due up to 30 days | 326 | 272 | 2 | 600 |
| Past due 31 - 60 days | 114 | 353 | 6 | 473 |
| Past due 61 - 90 days | 63 | 74 | - | 137 |
| Past due greater than 90 days but not impaired | 299 | 165 | - | 464 |
| **Past due but not impaired** | **802** | **864** | **8** | **1,674** |
| Impaired | 3,089 | 675 | 279 | 4,043 |
| **Total** | **3,891** | **1,539** | **287** | **5,717** |

**Asset quality**

The table below summarises the asset quality of debt instruments at FVOCI by IFRS 9 twelve month PD grade.

| 2018<br>Debt instruments at fair value through OCI<br>Asset quality | Stage 1 | | Stage 2 | | Total | |
|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | % |
| **PD Grade** | | | | | | |
| 1-4 | 11,115 | 92% | - | - | 11,115 | 92% |
| 5-7 | 933 | 8% | - | - | 933 | 8% |
| 8-9 | - | - | - | - | - | - |
| 10-11 | - | - | - | - | - | - |
| **Total** | **12,048** | **100%** | **-** | **-** | **12,048** | **100%** |

The table below summarises the asset quality of debt securities at amortised cost by IFRS 9 twelve month PD grade.

| 2018<br>Debt securities at amortised cost<br>(before impairment loss allowance)<br>Asset quality | Stage 1 | | Stage 2 | | Total | |
|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | % |
| **PD Grade** | | | | | | |
| 1-4 | 3,917 | 100% | - | - | 3,917 | 100% |
| 5-7 | 12 | - | - | - | 12 | - |
| 8-9 | - | - | - | - | - | - |
| 10-11 | - | - | - | - | - | - |
| **Total** | **3,929** | **100%** | **-** | **-** | **3,929** | **100%** |

## 30 Credit risk exposures *(continued)*

The table below summarises the asset quality of loans and advances to banks at amortised cost by IFRS 9 twelve month PD grade.

| 2018<br>Loans and advances to banks at amortised cost (before impairment loss allowance)<br>Asset quality | Stage 1 | | Stage 2 | | Total | |
|---|---|---|---|---|---|---|
| | €m | % | €m | % | €m | % |
| **PD Grade** | | | | | | |
| 1-4 | 2,244 | 97% | - | - | 2,244 | 97% |
| 5-7 | 1 | - | - | - | 1 | - |
| 8-9 | 57 | 3% | 6 | 100% | 63 | 3% |
| 10-11 | - | - | - | - | - | - |
| **Total** | **2,302** | **100%** | **6** | **100%** | **2,308** | **100%** |

**Asset quality: Other financial instruments**
Other financial instruments as set out in the table include instruments that are not within the scope of IFRS 9 or are not subject to impairment under IFRS 9. These include trading securities, derivative financial instruments, loans and advances to banks at fair value, other financial instruments at FVTPL (excluding equity instruments) and any reinsurance assets. The table summarises the asset quality of these financial instruments by equivalent external risk ratings.

| Other financial instruments with ratings equivalent to: | 2018 | | 2017[1] | |
|---|---|---|---|---|
| | €m | % | €m | % |
| AAA to AA- | 3,693 | 46% | 12,459 | 52% |
| A+ to A- | 2,773 | 34% | 9,119 | 38% |
| BBB+ to BBB- | 1,077 | 13% | 1,769 | 7% |
| BB+ to BB- | 203 | 3% | 281 | 1% |
| B+ to B- | 313 | 4% | 87 | 1% |
| Lower than B- | 23 | - | 320 | 1% |
| **Total** | **8,082** | **100%** | **24,035** | **100%** |

## 31 Modified financial assets

The following table provides analysis of financial assets for which the contractual cash flows have been modified while they had an impairment loss allowance measured at an amount equal to lifetime ECL, and where the modification did not result in derecognition.

| | 2018<br>€m |
|---|---|
| **Financial assets modified during the year** | |
| Amortised cost before modification | 923 |
| Net modification gains (i.e. net of impairment gains impact) | 6 |
| **Financial assets modified since initial recognition** | |
| Gross carrying amount of financial assets for which impairment loss allowance has changed from lifetime to 12 month expected credit losses during the year as at 31 December 2018 | 894 |

[1] *Comparative figures for the prior year have not been restated and include loans and advances to banks, AFS financial assets (excluding equity instruments) and interest receivable.*

## 32 Interest in associates

The Group has availed of the venture capital exemption in accounting for its interests in associates. In line with the accounting policy set out on page 184, these interests have been designated at initial recognition at FVTPL. Changes in the fair value of these interests are included in the share of results of associates (after tax) line on the income statement.

In presenting details of the associates of the Group, the exemption permitted by Section 316 of the Companies Act 2014 has been availed of and the Group will annex a full listing of associates to its annual return to the Companies Registration Office.

| | 2018 €m | 2017 €m |
|---|---|---|
| At beginning of year | 59 | 56 |
| Decrease in investments | (15) | (11) |
| Increase in investments | 5 | 11 |
| Share of results after tax (note 18) | 4 | 3 |
| **At end of year** | **53** | **59** |

## 33 Interest in joint ventures

For further information on joint ventures refer to note 57 Interests in other entities.

| | 2018 €m | 2017 €m |
|---|---|---|
| At beginning of year | 69 | 71 |
| Exchange adjustments | (1) | (3) |
| Share of results after tax (note 18) | 37 | 40 |
| *- First Rate Exchange Services* | *37* | *40* |
| Dividends received | (36) | (39) |
| **At end of year** | **69** | **69** |

## 34 Intangible assets and goodwill

| | 2018 | | | | | 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Goodwill €m | Computer software externally purchased €m | Computer software internally generated €m | Other externally purchased intangible assets €m | Total €m | Goodwill €m | Computer software externally purchased €m | Computer software internally generated €m | Other externally purchased intangible assets €m | Total €m |
| **Cost** | | | | | | | | | | |
| **At 1 January** | **31** | **71** | **1,560** | **208** | **1,870** | **-** | **101** | **1,379** | **201** | **1,681** |
| Additions | - | - | 207 | - | 207 | - | - | 233 | 2 | 235 |
| Acquisitions | - | - | - | - | - | 31 | - | - | 15 | 46 |
| Disposals / write-offs | - | - | - | (1) | (1) | - | (29) | (46) | (5) | (80) |
| Reclassifications | 3 | - | - | (3) | - | - | - | - | - | - |
| Exchange adjustments | - | - | 1 | - | 1 | - | (1) | (6) | (5) | (12) |
| **At 31 December** | **34** | **71** | **1,768** | **204** | **2,077** | **31** | **71** | **1,560** | **208** | **1,870** |
| **Accumulated amortisation** | | | | | | | | | | |
| **At 1 January** | - | (70) | (893) | (128) | (1,091) | - | (99) | (829) | (118) | (1,046) |
| Disposals / write-offs | - | (1) | - | 2 | 1 | - | 29 | 46 | 5 | 80 |
| Impairment (note 15) | - | - | (6) | - | (6) | - | - | - | - | - |
| Amortisation charge for the year (note 14) | - | - | (158) | (20) | (178) | - | - | (115) | (19) | (134) |
| Exchange adjustments | - | - | (3) | 2 | (1) | - | - | 5 | 4 | 9 |
| **At 31 December** | **-** | **(71)** | **(1,060)** | **(144)** | **(1,275)** | **-** | **(70)** | **(893)** | **(128)** | **(1,091)** |
| **Net book value** | **34** | **-** | **708** | **60** | **802** | **31** | **1** | **667** | **80** | **779** |

## 34 Intangible assets and goodwill *(continued)*

The category 'computer software internally generated' includes the Transformation Investment asset with a carrying value of €253 million (2017: €163 million).

**Goodwill**
In 2017, the Group acquired 100% of the ordinary share capital of MLL, a car and commercial vehicle leasing and fleet management company based in the UK.

In 2017 goodwill was recognised on the acquisition date relates to the expected growth, cost synergies and the value of MLL's workforce which cannot be separately recognised as an intangible asset. During 2018, the Group finalised the accounting for the acquisition of MLL with the result that goodwill has been increased by €3 million from €31 million to €34 million and intangible assets have been reduced by €3 million from €15 million to €12 million. The goodwill has been allocated to the Group's Retail UK segment and is not expected to be deductible for tax purposes.

**Impairment Review - Goodwill**
Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of goodwill to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its VIU, where the VIU is the present value of the future cash flows expected to be derived from the asset.

**Impairment testing of goodwill**
Goodwill is allocated to cash generating units (CGU) at a level which represents the smallest identifiable group of assets that generate largely independent cash flows.

The calculation of the recoverable amount of goodwill for each of these CGU is based upon a VIU calculation that discounts expected pre-tax cash flows at an interest rate appropriate to the cash generating unit. The determination of both requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance.

The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement. The recoverable amount calculations performed for the significant amounts of goodwill are sensitive to changes in the following key assumptions:

***Cash flow forecasts***
Cash flow forecasts are based on internal management information for a period of up to five years, after which a growth factor appropriate for the business is applied. Initial cash flows are based on performance in the twelve month period ended 31 December 2018 and the next four years' cash flows are consistent with approved plans for each business.

**Growth rates**
Growth rates beyond five years are determined by reference to local economic growth, inflation projections or long term bond yields. The assumed long term growth rate for MLL is 3%.

**Discount rate**
The discount rate applied to MLL is the pre-tax weighted average cost of capital for the Group increased to include a risk premium to reflect the specific risk profile of the cash generating unit to the extent that such risk is not already reflected in the forecast cash flows. A rate of 12% has been used in the model.

Certain elements within these cash flow forecasts are critical to the performance of the business. The impact of changes in these cash flows, growth rate and discount rate assumptions has been assessed by the Directors in the review. The Directors consider that reasonably possible changes in key assumptions used to determine the recoverable amount of MLL would not result in any impairment of goodwill. No impairment has been identified as at 31 December 2018 (2017: €nil).

**Impairment review - intangible assets**
Intangible assets have been reviewed for any indication that impairment may have occurred. Where any such indication exists impairment has been measured by comparing the carrying value of the intangible asset to its recoverable amount.

There was €6 million impairment identified in the year ended 31 December 2018 (2017: €nil).

## 35 Investment properties

In 2018, rental income from investment property amounted to €48 million (2017: €43 million). Expenses directly attributable to investment property generating rental income was €5 million (2017: €8 million). There were no expenses directly attributable to investment properties which are not generating rental income for 2018 or 2017.

In 2018, a number of real estate funds totalling €15 million were reclassified from investment properties to other financial assets at FVTPL.

At 31 December 2018, the Group held investment property of €1,037 million (2017: €912 million) on behalf of Wealth and Insurance policyholders.

| | 2018 €m | 2017 €m |
|---|---|---|
| At beginning of year | 912 | 864 |
| Exchange adjustment | (3) | (9) |
| Additions | 123 | 74 |
| Revaluation | 33 | 40 |
| Reclassifications | (15) | - |
| Disposals | (13) | (57) |
| **At end of year** | **1,037** | **912** |

## 36 Property, plant and equipment

| 2018 | Freehold land and buildings and long leaseholds (held at fair value) €m | Adaptations (at cost) €m | Computer and other equipment (at cost) €m | Finance lease assets (at cost) €m | Payments on accounts and assets in the course of construction (at cost) €m | Total €m |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| **At 1 January 2018** | **155** | **156** | **385** | **15** | **11** | **722** |
| Exchange adjustments | - | - | - | - | - | - |
| Acquisitions | - | - | - | - | - | - |
| Additions | - | - | 50 | 2 | 20 | 72 |
| Disposals / write-offs | - | (2) | (57) | - | - | (59) |
| Reversal of impairment (note 14) | 4 | - | - | - | - | 4 |
| Revaluation recognised in OCI | 11 | - | - | - | - | 11 |
| Reclassifications | - | 10 | 8 | - | (18) | - |
| **At 31 December 2018** | **170** | **164** | **386** | **17** | **13** | **750** |
| | | | | | | |
| **Accumulated depreciation** | | | | | | |
| **At 1 January 2018** | **-** | **(88)** | **(192)** | **(8)** | **-** | **(288)** |
| Exchange adjustments | - | - | (3) | - | - | (3) |
| Impairment (note 15) | - | - | (9) | - | - | (9) |
| Disposals / write-offs | - | 2 | 43 | - | - | 45 |
| Charge for the year (note 11,14) | - | (10) | (43) | (4) | - | (57) |
| **At 31 December 2018** | **-** | **(96)** | **(204)** | **(12)** | **-** | **(312)** |
| | | | | | | |
| **Net book value at 31 December 2018** | **170** | **68** | **182** | **5** | **13** | **438** |

## 36 Property, plant and equipment *(continued)*

At 31 December 2018, property, plant and equipment held at fair value was €170 million (2017: €155 million). The historical cost of property, plant and equipment held at fair value was €76 million (2017: €76 million). The net book value of property, plant and equipment held at cost less accumulated depreciation and impairment was €268 million (2017: €279 million).

During 2018, the Group disposed of an office building in Dublin. This asset had been reclassified from property, plant and equipment to assets classified as held for sale. In 2017 this asset was held at fair value less costs to sell and the disposal was completed in 2018.

| 2017 | Freehold land and buildings and long leaseholds (held at fair value) €m | Adaptations (at cost) €m | Computer and other equipment (at cost) €m | Finance lease assets (at cost) €m | Payments on accounts and assets in the course of construction (at cost) €m | Total €m |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| **At 1 January 2017** | **167** | **187** | **301** | **25** | **14** | **694** |
| Exchange adjustments | (2) | (1) | (4) | - | - | (7) |
| Acquisitions | - | - | 90 | - | - | 90 |
| Additions | - | - | 7 | 6 | 31 | 44 |
| Disposals / write-offs | - | (40) | (32) | (16) | - | (88) |
| Reversal of impairment (note 14) | 4 | - | - | - | - | 4 |
| Revaluation recognised in OCI | 16 | - | - | - | - | 16 |
| Reclassifications | (30) | 10 | 23 | - | (34) | (31) |
| **At 31 December 2017** | **155** | **156** | **385** | **15** | **11** | **722** |
| **Accumulated depreciation** | | | | | | |
| **At 1 January 2017** | **-** | **(118)** | **(202)** | **(21)** | **-** | **(341)** |
| Exchange adjustments | - | 1 | 3 | - | - | 4 |
| Disposals / write-offs | - | 38 | 30 | 16 | - | 84 |
| Charge for the year (note 14) | - | (9) | (23) | (3) | - | (35) |
| **At 31 December 2017** | **-** | **(88)** | **(192)** | **(8)** | **-** | **(288)** |
| **Net book value at 31 December 2017** | **155** | **68** | **193** | **7** | **11** | **434** |

### Property
A revaluation of Group property was carried out as at 31 December 2018.

### Future capital expenditure
This table shows future capital expenditure in relation to both property, plant and equipment and intangible assets.

| Future capital expenditure | 2018 €m | 2017 €m |
|---|---|---|
| Contracted but not provided for in the financial statements | 11 | 31 |
| Authorised by the Directors but not contracted | 199 | 161 |

## 36 Property, plant and equipment *(continued)*

**Operating leases**
The Group leases a number of branch and office premises to carry out its business. The commercial leases typically are 25 to 35 year operating leases with five-yearly rent reviews. The majority of the rent reviews are on an upwards only basis. Some leases also include break options. The Group also holds a number of short-term leases for less than ten years and a number of long-term leases at market rent with less than 135 years unexpired.

Minimum future rentals are the rentals payable under operating leases up to the next available break option where this exists or to expiry date of the lease. Both the required break option notice period and the amount of any penalty rent have been included in the amounts payable below.

The Group has entered into a small number of sub-leases as lessor which represent properties and components of properties surplus to the Group's own requirements.

**Minimum future rentals under non-cancellable operating leases**
Included in receivable, for 2018, is an amount of €8 million in relation to sub-lease rental (2017: €10 million).

Also included in receivable for 2018 is €49 million (2017: €48 million) for future income receivable from existing car rental contracts relating to MLL.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Payable €m | Receivable €m | Payable €m | Receivable €m |
| Not later than 1 year | 63 | 28 | 64 | 26 |
| Later than 1 year (not later than 5 years) | 223 | 32 | 236 | 33 |
| Later than 5 years | 394 | 1 | 441 | 2 |

**Finance leases**
The Group leases computer equipment under finance lease agreements. The leases range from one to five years, contain no material contingent rents or restrictions imposed by lease agreements and contain standard terms of renewal. At 31 December 2018, the net carrying amount of the assets held under finance leases was €5 million (2017: €7 million).

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Total minimum future payments €m | Future finance charges €m | Present value of finance lease commitments €m | Total minimum future payments €m | Future finance charges €m | Present value of finance lease commitments €m |
| Not later than 1 year | 4 | - | 4 | 4 | - | 4 |
| Later than 1 year not later than 5 years | 1 | - | 1 | 3 | - | 3 |

# 37 Deferred tax

| | 2018 €m | 2017 €m |
|---|---|---|
| The movement on the deferred tax account is as follows: | | |
| At beginning of year | 1,184 | 1,236 |
| Impact of adopting IFRS 9 at 1 January 2018 (note 65) | 33 | - |
| Income statement charge (note 20) | (82) | (90) |
| Debt instruments at FVOCI | 20 | - |
| Cash flow hedges credit / (charge) to OCI | 6 | 16 |
| Liability credit reserve - credit / (charge) to OCI | (6) | - |
| Pensions and other retirement benefits | (27) | 14 |
| AT1 - credit to equity (note 51) | 7 | 7 |
| AFS financial assets - credit to OCI | - | 2 |
| Revaluation of property | (6) | (1) |
| Other movements (including foreign exchange) | (6) | - |
| **At end of year** | **1,123** | **1,184** |
| | | |
| Deferred tax assets and liabilities are attributable to the following items: | | |
| **Deferred tax assets** | | |
| Unutilised tax losses | 1,162 | 1,253 |
| Pensions and other post retirement benefits | 28 | 70 |
| Impact of adopting IFRS 9 | 19 | - |
| Impairment loss allowance | - | 15 |
| Accelerated capital allowances on equipment used by the Group | 26 | 14 |
| Cash flow hedge reserve | 11 | 5 |
| Other temporary differences | 21 | 17 |
| **Deferred tax assets** | **1,267** | **1,374** |
| | | |
| **Deferred tax liabilities** | | |
| Wealth and Insurance | (35) | (57) |
| Debt instruments at FVOCI | (20) | - |
| Property revaluation surplus | (20) | (13) |
| Liability credit reserve | (6) | - |
| AFS reserve | - | (49) |
| Other temporary differences | (63) | (71) |
| **Deferred tax liabilities** | **(144)** | **(190)** |
| | | |
| **Represented on the balance sheet as follows:** | | |
| Deferred tax assets | 1,165 | 1,237 |
| Deferred tax liabilities | (42) | (53) |
| | **1,123** | **1,184** |

In accordance with IAS 12, in presenting the deferred tax balances, the Group offsets DTAs and deferred tax liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the DTAs and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings for overseas subsidiaries totalled €461 million (2017: €432 million).

The DTA of €1,165 million (2017: €1,237 million) shown on the balance sheet is after netting by jurisdiction (€1,267 million before netting by jurisdiction (2017: €1,374 million)). This includes an amount of €1,162 million in 2018 (2017: €1,253 million) in respect of operating losses which are available to relieve future profits from tax. Of these losses approximately €1.1 billion relates to Irish tax losses and €0.1 billion relates to UK tax losses.

The recognition of a DTA requires the Directors to be satisfied that it is probable that the Group will have sufficient future taxable profits against which the DTAs can be utilised to the extent they have not already reversed.

The Group's projections of future taxable profits is based on forecasts covering its 5 year strategic planning period to 2023 and incorporates estimates and assumptions on economic factors such as employment levels and interest rates as well as other measures such as loan volumes, margins, costs and impairment losses. The Group assumes long-term growth in profitability from year 5 in line with macroeconomic projections.

Based on the Group's projections, the DTA, in respect of tax losses, is estimated to be recovered in full by the end of 2030 (2017: 2036).

## 37 Deferred tax *(continued)*

The use of alternative assumptions representing reasonably possible alternative outcomes would not impact the recognition of the Group's DTAs, although they could increase or decrease the recovery period. If the projected rate of growth of taxable profits from the 5th year of the strategic planning period was decreased by two percentage points, the Group estimates that this would increase the recovery period by one year.

Net DTAs at 31 December 2018 of €1.1 billion (2017: €1.2 billion) are expected to be recovered after more than one year.

The Group has US tax losses carried forward which are subject to a twenty year life, and are scheduled to expire in the period 2025 to 2029. A DTA of €46 million (2017: €44 million) has not been recognised in respect of these losses as an annual limitation on use will result in their expiring unused.

## 38 Other assets

| | 2018 €m | 2017 €m |
|---|---|---|
| Reinsurance asset | 942 | 740 |
| Value of in Force asset (note 39) | 571 | 565 |
| Sundry and other debtors | 331 | 289 |
| Interest receivable[1] | 278 | 254 |
| Trade receivables and contract assets | 52 | - |
| Accounts receivable and prepayments | 106 | 145 |
| **Other assets** | **2,280** | **1,993** |
| | | |
| **Trade receivables and contract assets** | | |
| Trade receivables | 48 | - |
| Contract assets | 4 | - |
| Less: impairment loss allowance on trade receivables and contract assets | - | - |
| **Total trade receivable and contract assets** | **52** | **-** |
| | | |
| Other assets are analysed as follows: | | |
| Within 1 year | 707 | 634 |
| After 1 year | 1,573 | 1,359 |
| | **2,280** | **1,993** |
| | | |
| The movement in the reinsurance asset is noted below: | | |
| At beginning of year | 740 | 765 |
| New business | 217 | 10 |
| Changes in business | (15) | (35) |
| **At end of year** | **942** | **740** |

For the purpose of disclosure of credit risk exposures, the reinsurance asset is included within other financial instruments of €8 billion (2017: €24.0 billion) in note 30 on page 233.

[1] *Interest receivable is subject to impairment under IFRS 9; the impairment loss allowance on interest receivable is presented in the balance sheet along with the financial asset to which it relates.*

## 39 Life assurance business

The Group recognises the ViF life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. The ViF asset, which is presented gross of attributable tax, represents the present value of future profits, less an allowance for the cost of required capital, expected to arise from insurance contracts written by the reporting date. It is determined by projecting the future surpluses and other cash flows attributable to the shareholder arising from these contracts and discounting using risk free interest rates as specified under the Solvency II directive.

The process used in determining the key economic and experience assumptions is as follows:

*Interest rates and unit growth rate*
Interest rates and unit-growth rates are based on a range of duration specific rates determined by a risk free yield curve. This yield curve is provided by the EIOPA.

*Shareholder tax rate*
The current rate of corporation tax is assumed to be maintained over the term of the business. Deferred tax has been allowed for on future surpluses attributable to shareholders estimated to arise from insurance contracts.

*Mortality and morbidity*
The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant market data.

*Persistency rate*
Persistency rates refer to the rate of policy termination for insurance policies. Best estimate policy lapse rate assumptions are set with regard to the Group's actual experience and other relevant market data.

*Maintenance expenses*
Allowance is made for future policy costs and expense inflation explicitly.

**Sensitivities**
This table indicates the standalone impact of changes in the key assumptions on profit.

| Value of in Force asset | 2018 €m | 2017 €m |
|---|---|---|
| At beginning of year | 565 | 540 |
| Income statement movement in Value of in Force asset (gross of tax) | 6 | 25 |
| **At end of year** | **571** | **565** |

| Sensitivities: Impact on annual profit before tax | 2018 €m | 2017 €m |
|---|---|---|
| 1% increase in interest rates and unit growth rates | (26) | (27) |
| 1% decrease in interest rates and unit growth rates | 18 | 20 |
| 10% improvement in mortality | 25 | 19 |
| 10% improvement in longevity[1] | (31) | (30) |
| 10% improvement in morbidity | 10 | 9 |
| 10% deterioration in persistency | (21) | (21) |
| 10% increase in equity and property markets | 35 | 38 |
| 5% improvement in maintenance expenses | 19 | 17 |
| 0.5% widening in bond spreads[2] | (51) | (70) |

While this table shows the impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

*Volatility Adjustment*
The Volatility Adjustment (VA) is an addition to the risk-free curve under the Solvency II regulations which is designed to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position. The VA is based on a risk-corrected spread on the assets in a reference portfolio. NIAC obtained approval to use VA from the CBI in January 2018.

## 40 Deposits from banks

Deposits from banks include cash collateral of €0.2 billion (2017: €0.6 billion) received from derivative counterparties in relation to net derivative asset positions (note 22).

| | 2018 €m | 2017 €m |
|---|---|---|
| Monetary Authority secured funding | 2,037 | 3,553 |
| Deposits from banks | 445 | 786 |
| **Deposits from banks** | **2,482** | **4,339** |

[1] *Impact on Annuity book of business.*
[2] *Includes impact of VA.*

## 40 Deposits from banks *(continued)*

| Monetary Authority secured funding | 2018 TLTRO €m | 2018 TFS €m | 2018 ILTR €m | 2018 Total €m | 2017 TLTRO €m | 2017 TFS €m | 2017 ILTR €m | 2017 Total €m |
|---|---|---|---|---|---|---|---|---|
| Deposits from banks | 386 | 1,427 | 224 | 2,037 | 1,806 | 1,353 | 394 | 3,553 |
| Debt securities in issue (note 42) | 617 | - | - | 617 | 1,455 | - | - | 1,455 |
| **Total** | **1,003** | **1,427** | **224** | **2,654** | **3,261** | **1,353** | **394** | **5,008** |

The Group's secured funding from the European Central Bank (ECB) comprises drawings under Targeted Longer Term Refinancing Operation (TLTRO). The Group's TLTRO borrowings will be repaid by March 2021, in line with the terms and conditions of the TLTRO facility. Drawings under the Term Funding Scheme (TFS) from the Bank of England (BoE) will be repaid between October 2020 and November 2021. Index Long Term Repo (ILTR) funding from the BoE has a maturity of less than one year. The Group's Monetary Authority funding is secured by financial assets at FVOCI and loans and advances to customers.

## 41 Customer accounts

The movement in own credit risk related to the Group's customer accounts designated at FVTPL for the year is shown below. Under IAS 39, movements in own credit risk were recognised in net trading income, see note 9.

There were no amounts presented in OCI relating to liabilities that the Group designated at FVTPL which were derecognised during the year.

The carrying amount of the customer accounts designated as at FVTPL at 31 December 2018 was €31 million lower than the contractual amount due at maturity (2017: €2 million higher). This is set out in note 59 on page 270.

At 31 December 2018, the Group's largest 20 customer deposits amounted to 3% (2017: 4%) of customer accounts. Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products. Information on the contractual maturities of customer accounts is set out on page 94 in the Risk Management Report.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the liquidity risk and profile note (see page 267).

Term deposits and other products include €67 million (2017: €91 million) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

Under the European Communities (Deposit Guarantee Scheme) Regulations 2015, eligible deposits of up to €100,000 per depositor per credit institution are covered. Eligible deposits includes credit balances in current accounts, demand deposit accounts and term deposit accounts. The scheme is administered by the CBI and is funded by the credit institutions covered by the scheme.

On 24 November 2015, the European Commission (EC) released a proposal, European Deposit Insurance Scheme (EDIS), designed to achieve a common European deposit protection scheme by 2024.

The EU (Bank Recovery and Resolution) Regulations 2015, which transposed the Bank Recovery and Resolution Directive (BRRD) into Irish Law, provides that covered deposits (i.e. eligible deposits up to €100,000) are excluded from the scope of the bail-in tool. The bail-in tool enables a resolution authority to write

| | 2018 €m | 2017 €m |
|---|---|---|
| Current accounts | 33,127 | 30,518 |
| Demand deposits | 26,828 | 26,034 |
| Term deposits and other products | 18,057 | 17,954 |
| **Customer accounts at amortised cost** | **78,012** | **74,506** |
| Term deposits at fair value through profit or loss | 887 | 1,363 |
| **Total customer accounts** | **78,899** | **75,869** |
| Amounts include: | | |
| Due to associates and joint ventures | 10 | 43 |

| Movement in own credit risk on deposits at FVTPL | 2018 €m |
|---|---|
| Balance at beginning of the year | 12 |
| Recognised in OCI | (30) |
| **Balance at end of the year[1]** | **(18)** |

[1] Under IAS 39, movements in own credit risk were recognised in net trading income, see note 9.

## 41 Customer accounts *(continued)*

down the value of certain liabilities or convert them into equity, to the extent necessary to absorb losses and recapitalise an institution. It also introduces 'depositor preference', where shareholders' equity and other unsecured creditors (including senior bondholders) will have to be fully written down before losses are imposed on preferred depositors. The bail-in rules allow in exceptional circumstances for the exclusion or partial exclusion of certain liabilities (with a key focus being eligible deposits) from the application of the write down or conversion powers.

In addition to the deposits covered by these Regulations, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK FSCS (in respect of eligible deposits with Bank of Ireland (UK) plc).

## 42 Debt securities in issue

There were no amounts presented in OCI relating to liabilities that the Group designated at FVTPL which were derecognised during the year.

Following a realignment in 2018 of the collateral pledged by the Group against its TLTRO funding, the element of the TLTRO funding that is classified as Debt Securities in Issue has reduced to €615 million (2017: €1,450 million), with a corresponding increase in the element classified as Bank Deposits.

The carrying amount of the debt securities in issue designated as at FVTPL at 31 December 2018 was €19 million higher than the contractual amount due at maturity (2017: €31 million higher). This is set out in note 59 on page 270.

| | 2018 €m | 2017 €m |
|---|---|---|
| Bonds and medium term notes | 6,792 | 5,258 |
| Monetary Authorities secured funding (note 40) | 617 | 1,455 |
| Other debt securities in issue | 973 | 1,141 |
| **Debt securities in issue at amortised cost** | **8,382** | **7,854** |
| Debt securities in issue at fair value through profit or loss | 522 | 536 |
| **Total debt securities in issue** | **8,904** | **8,390** |

*The movement on debt securities in issue is analysed as follows:*

| | 2018 €m | 2017 €m |
|---|---|---|
| Opening balance | 8,390 | 10,697 |
| Issued during the year | 2,048 | 172 |
| Redemptions | (1,501) | (2,184) |
| Repurchases | (42) | (183) |
| Other movements | 9 | (112) |
| **Closing balance** | **8,904** | **8,390** |

| **Movement in own credit risk on debt securities in issue at FVTPL** | 2018 €m |
|---|---|
| Balance at beginning of the year | 3 |
| Recognised in OCI | (13) |
| **Balance at end of the year**[1] | **(10)** |

[1] *Under IAS 39, movements in own credit risk were recognised in net trading income, see note 9.*

## 43 Liabilities to customers under investment and insurance contracts

Wealth and Insurance writes the following life assurance contracts that contain insurance risk:

**Non-unit linked life assurance contracts**
These contracts provide the policyholder with insurance in the event of death, critical illness or permanent disability (principally mortality and morbidity risk).

**Non-unit linked annuity contracts**
These contracts provide the policyholder with an income until death (principally longevity and market risk).

**Unit linked insurance contracts**
These contracts include both policies primarily providing life assurance protection and policies providing investment but with a level of insurance risk deemed to be significant (principally mortality and market risk).

Insurance contract liabilities, which consist of both unit linked and non-unit linked liabilities, are calculated based on recognised actuarial methods with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

Unit linked liabilities reflect the value of the underlying funds in which the policyholder is invested. Non-unit linked liabilities are calculated using a gross premium method of valuation.

The key assumptions used in the valuation of insurance contract liabilities are:

*Interest rate:*
The interest rates used are based on risk free rates published by EIOPA in line with the Solvency II Directive.

*Mortality and morbidity:*
The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data.

*Maintenance expenses:*
Allowance is made for future policy costs and expense inflation explicitly.

**Options and guarantees**
The Group has a very limited range of options and guarantees in its business portfolio as the bulk of the business is unit linked without investment guarantees. Where investment guarantees do exist they are either hedged with an outside party or matched through appropriate investment assets.

| Investment contract liabilities | 2018 €m | 2017 €m |
|---|---|---|
| **Liabilities to customers under investment contracts, at fair value** | **5,239** | **5,766** |

*The movement in gross life insurance contact liabilities can be analysed as follows:*

| Insurance contract liabilities | 2018 €m | 2017 €m |
|---|---|---|
| At beginning of year | 10,878 | 10,458 |
| New business | 1,496 | 1,338 |
| Changes in existing business | (1,371) | (918) |
| **At end of year** | **11,003** | **10,878** |

**Uncertainties associated with insurance contract cash flows and risk management activities**
For life assurance contracts where death is the insured risk, the most significant factors that could adversely affect the frequency and severity of claims are the incidence of disease and general changes in lifestyle. Where the insured risk is longevity, advances in medical care is the key factor that increases longevity. The Group manages its exposures to insurance risks through a combination of applying strict underwriting criteria, asset and liability matching, transferring risk to reinsurers and the establishment of insurance contract liabilities.

**Credit risk**
Reinsurance programmes are in place to restrict the amount of exposure on any single life. The Group uses a panel of highly rated reinsurance companies to diversify credit risk.

**Capital management and available resources**
The Solvency II framework came into full effect from 1 January 2016 and introduced new capital, risk management, governance and reporting requirements for all European insurance entities. Under Solvency II, insurance entities are required to hold technical provisions to meet liabilities to policyholders using best estimate assumptions plus a risk margin. In addition, entities are required to hold a risk based Solvency Capital Requirement (SCR) which is calculated by considering the capital required to withstand a number of shock scenarios.

As part of the disclosure requirements, the Group's life assurance entity, NIAC, annually publishes a public document called the Solvency and Financial Condition Report setting out more detail on its solvency and capital management.

# 44 Other liabilities

| | 2018 €m | 2017 €m |
|---|---|---|
| Notes in circulation | 1,278 | 1,222 |
| Sundry creditors | 285 | 282 |
| Accrued interest payable | 228 | 204 |
| Accruals and deferred income | 33 | 151 |
| Short position in trading securities | 16 | - |
| Finance lease obligations | 4 | 7 |
| Other | 616 | 616 |
| **Other liabilities** | **2,460** | **2,482** |
| | | |
| Other liabilities are analysed as follows: | | |
| Within 1 year | 2,417 | 2,369 |
| After 1 year | 43 | 113 |
| | **2,460** | **2,482** |

# 45 Provisions

| | Restructuring €m | Onerous contracts €m | Legal and other €m | Total €m |
|---|---|---|---|---|
| As at 1 January 2018 | 20 | 2 | 183 | 205 |
| Exchange adjustment | - | - | - | - |
| Charge to income statement | 64 | - | 30 | 94 |
| Utilised during the year | (62) | - | (131) | (193) |
| Unused amounts reversed during the year | (2) | - | (20) | (22) |
| **As at 31 December 2018** | **20** | **2** | **62** | **84** |

*Of the €20 million closing provision for restructuring, €14 million relates to staff exits and €6 million relates to property and other costs.*

| **Expected utilisation** | Restructuring €m | Onerous contracts €m | Legal and other €m | Total €m |
|---|---|---|---|---|
| Less than 1 year | 15 | - | 57 | 72 |
| 1 to 2 years | 1 | 1 | 2 | 4 |
| 2 to 5 years | 3 | 1 | 2 | 6 |
| 5 to 10 years | 1 | - | 1 | 2 |
| **Total** | **20** | **2** | **62** | **84** |

The Group has recognised provisions in relation to restructuring costs, onerous contracts, legal and other. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date.

At 31 December 2017, the Group held a provision of €158 million in relation to the ongoing industry wide Tracker Mortgage Examination.

During 2018, the Group made considerable progress in contacting and remediating the majority of the remaining impacted customers.

In 2018, the Group also reviewed a number of accounts previously remediated in 2011 (prior to the Tracker Mortgage Examination) to ensure that customers had been treated

## 45 Provisions *(continued)*

consistently. Following this review, the Group found that some customers should have been offered the option of a tracker rate at an earlier date. These customers have now been offered redress and compensation to reflect the fact that they should have been on a tracker rate earlier (€9 million in 2018). The additional redress and compensation is covered within the existing Tracker Mortgage Examination provision. Whilst there was no increase in the provision in 2018, €12 million of the provision charge was reallocated to interest income (note 5) from other operating expenses (note 14) during the year.

The Group utilised €116 million of the provision during 2018 covering redress, compensation and related costs. The Group expects that the majority of the remaining €42 million provision will be fully utilised within 12 months of the balance sheet date.

While the redress and compensation element of the provision is largely known, there are still a number of uncertainties as to the eventual total cost of the examination and the administrative sanctions proceedings. Management has therefore exercised judgement to determine the appropriate provision in respect of certain key items in addition to the core elements of the redress and compensation to be paid to customers. These key judgemental items principally comprise the following:

- **appeals:** customers can pursue certain other options in respect of the determination as to whether they are impacted and the quantum of redress and compensation offered by the Group including lodging appeals to an independent appeals panel in the 12 months after receiving their letter offering redress and compensation. In arriving at the provision, management has made estimates of the level of appeals and the associated costs of processing and settling such appeals;
- **programme costs:** in determining the provision in respect of the examination, management has had to consider a range of costs associated with bringing the examination to an ultimate conclusion. This includes costs associated with the running of the appeals panel, tax liabilities that the Group will settle on behalf of customers, data system costs, tracing agents and various oversight and governance processes, including any potential fine relating to the conclusion of the ongoing CBI administrative sanctions proceedings.

## 46 Loss allowance provision on loan commitments and financial guarantees

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Amount €m** | **Loss allowance €m** | **Amount €m** | **Loss allowance €m** |
| Loan commitments (note 64) | 15,151 | 28 | 15,863 | - |
| Guarantees and irrevocable letters of credit (note 64) | 354 | 1 | 445 | - |
| | **15,505** | **29** | **16,308** | **-** |

From 1 January 2018 loan commitments and guarantees and irrevocable letters of credit have been classified and measured in accordance with IFRS 9. This involves measuring the loss allowance provision for loan commitments and financial guarantees and irrevocable letters of credit on a 12 month or lifetime ECL approach.

The loss allowance on loan commitments are presented as a provision in the balance sheet (i.e. as a liability under IFRS 9) and separate from the impairment loss allowance. To the extent a facility includes both a loan and an undrawn commitment; it is only the impairment attributable to the undrawn commitment that is presented in this table. The impairment loss allowance attributable to the loan is shown as part of the financial asset to which the loan commitment relates.

The loss allowance provision on loan commitments and guarantees and irrevocable letters of credit is now presented as those subject to 12 month and lifetime ECL measurement following the adoption of IFRS 9, with no comparative restatement of 31 December 2017 positions.

At 31 December 2018, the Group held an impairment loss allowance of €29 million on loan commitments and financial guarantees, of which €18 million are classified as Stage 1, €9 million as Stage 2 and €2 million as Stage 3.

Prior to the adoption of IFRS 9, provision in respect of loan commitments and guarantees and irrevocable letters of credit were measured in accordance with IAS 37. Prior year comparative figures have not been restated.

The following table summarises the asset quality of loan commitments and financial guarantees by IFRS 9 twelve month PD grade which are not credit-impaired. Credit-impaired loan commitments are €61 million while credit-impaired guarantees and irrevocable letters of credit are €8 million for the year ended 31 December 2018.

## 46 Loss allowance provision on loan commitments and financial guarantees *(continued)*

| 2018 | Loan commitments | | | | | | Guarantees and irrevocable letters of credit | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Loan commitments and financial guarantees - Contract amount | Stage 1 | | Stage 2 | | Total | | Stage 1 | | Stage 2 | | Total | |
| | €m | % | €m | % | €m | % | €m | % | €m | % | €m | % |
| **PD Grade** | | | | | | | | | | | | |
| 1-4 | 7,034 | 48% | 187 | 42% | 7,221 | 48% | 81 | 27% | 19 | 44% | 100 | 29% |
| 5-7 | 5,539 | 38% | 39 | 9% | 5,578 | 37% | 198 | 65% | 3 | 7% | 201 | 58% |
| 8-9 | 1,888 | 13% | 122 | 27% | 2,010 | 13% | 19 | 6% | 4 | 9% | 23 | 7% |
| 10-11 | 184 | 1% | 97 | 22% | 281 | 2% | 5 | 2% | 17 | 40% | 22 | 6% |
| **Total** | **14,645** | **100%** | **445** | **100%** | **15,090** | **100%** | **303** | **100%** | **43** | **100%** | **346** | **100%** |

## 47 Retirement benefit obligations

The Group sponsors a number of DB and DC schemes in Ireland and overseas. The DB schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement, the Group has been advised by independent actuaries, which in the case of the majority of the Group's schemes is Willis Towers Watson.

The most significant DB scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 75% of the total liabilities across all Group sponsored DB schemes at 31 December 2018. The BSPF and all of the Group's other RoI and UK DB schemes were closed to new members during 2007, and a new hybrid scheme (which included elements of DB and DC) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in late 2014 and a new DC scheme, RetireWell, was introduced for new entrants to the Group from that date.

Retirement benefits under the BSPF and a majority of the other DB plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

**Regulatory Framework**

The Group operates the DB plans under broadly similar regulatory frameworks. Benefits under the BSPF are paid to members from a fund administered by Trustees, who are responsible for ensuring compliance with the Pensions Act 1990 and other relevant legislation. These responsibilities include ensuring that contributions are received, investing the scheme assets and making arrangements to pay the benefits. Plan assets are held in trusts and are governed by local regulations and practice in each country.

In order to assess the level of contributions required, triennial valuations are carried out with plan obligations generally measured using prudent assumptions and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

The BSPF is also subject to an annual valuation under the Irish Pensions Authority Minimum Funding Standard (MFS). The MFS valuation is designed to assess whether the scheme has

| BSPF plan details at last valuation date (31 December 2015) | Number of members | Proportion of funding liability |
|---|---|---|
| Active members | 5,961 | 35.9% |
| Deferred members | 8,087 | 27.1% |
| Pensioner members | 3,793 | 37.0% |
| **Total** | **17,841** | **100.0%** |

sufficient funds to provide a minimum level of benefits in a wind-up scenario. If the MFS valuation indicates a funding level of below 100%, action would be required. This generally takes the form of agreeing a 'Funding Proposal' with the Trustees with the aim of meeting the MFS by a specified future point in time. The responsibilities of the Trustees, and the regulatory

*The significant financial assumptions used in measuring the Group's DB pension liability under IAS 19 are set out in the table below.*

| Financial assumptions | 2018 % p.a. | 2017 % p.a. |
|---|---|---|
| **Irish schemes** | | |
| Discount rate | 2.00 | 2.10 |
| Inflation rate | 1.35 | 1.65 |
| Rate of general increase in salaries[1] | 1.85 | 2.15 |
| Rate of increase in pensions in payment[1] | 0.78 | 0.98 |
| Rate of increase to deferred pensions | 1.30 | 1.60 |
| **UK schemes** | | |
| Discount rate | 2.95 | 2.75 |
| Consumer Price Inflation | 2.20 | 2.20 |
| Retail Price Inflation | 3.20 | 3.20 |
| Rate of general increase in salaries[1] | 3.70 | 3.70 |
| Rate of increase in pensions in payment[1] | 2.16 | 2.16 |
| Rate of increase to deferred pensions | 2.20 | 2.20 |

[1] *Weighted average increase across all Group schemes.*

## 47 Retirement benefit obligations *(continued)*

framework, are broadly similar for the Group's other DB schemes and take account of pension regulations in each specific jurisdiction. The Group works closely with the Trustees of each scheme to manage the plans.

The nature of the relationship between the Group and the Trustees is governed by local regulations and practice in each country and by the respective legal documents underpinning each plan.

### Actuarial Valuation of the BSPF

The last formal triennial valuation of the BSPF was carried out as at 31 December 2015.

The triennial valuation disclosed that the fair value of scheme assets represented 97% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions.

In respect of future service, the actuary recommended a joint employer / employee future service contribution rate, using the Attained Age method, of 23.4% (increased from 19.8% at the previous triennial valuation).

In addition to the future service contributions, the Group continues to make additional deficit-reducing contributions to the BSPF arising from the 2013 Group Pensions Review. During 2018, the Group accelerated the payment of €82 million of these additional contributions. Future deficit-reducing contributions arising from the 2013 Group Pensions Review in the form of cash or other suitable assets are estimated to be €58 million for the BSPF and are payable between 2019 and 2020.

The next formal triennial valuation of the BSPF will be carried out during 2019 based on the position at 31 December 2018.

The actuarial valuations are available for inspection by members but are not available for public inspection.

### Plan details

The table on page 247 sets out details of the membership of the BSPF.

### Guaranteed Minimum Pensions (GMP)

Included in past service cost is an amount of €4 million related to GMP equalisation which impacts certain of the Group's UK pension schemes.

### Financial and Demographic assumptions

The assumptions used in calculating the accounting costs and obligations of the Group's DB pension plans, as detailed below, are set by the Directors after consultation with independent actuaries.

Discount rates are determined in consultation with the Group's independent actuary, with reference to market yields at the reporting date on high quality corporate bonds (AA rated or equivalent) with a term corresponding to the term of the benefit payments.

The assumption for RoI price inflation is informed by reference to the ECB inflation target for eurozone countries, which is to maintain inflation at close to but below 2% per annum, and to the long-term expectation for eurozone inflation as implied by the difference between eurozone fixed interest and indexed linked bonds. The assumptions for UK price inflation are determined with reference to the Group's independent actuary's standard cash flow matching inflation assumption methodology, except for UK Consumer Price Index (CPI) inflation, which is set by reference to retail price index (RPI) inflation, with an adjustment applied, as there are insufficient CPI-linked bonds from which to derive an assumption.

The salary assumption takes into account inflation, promotion and current employment markets relevant to the Group. Other financial assumptions are reviewed in line with changing market conditions to determine best estimate assumptions. Demographic assumptions are reviewed periodically in line with the actual experience of the Group's schemes.

### Mortality assumptions

The mortality assumptions adopted for Irish pension arrangements reflect both a base table and projected table developed from various Society of Actuaries in Ireland mortality investigations that are considered a best fit for the Group's expected future mortality experience.

| Mortality assumptions | 2018 years | 2017 years |
|---|---|---|
| **Longevity at age 70 for current pensioners** | | |
| Males | 17.8 | 17.7 |
| Females | 19.3 | 19.2 |
| **Longevity at age 60 for active members currently aged 60 years** | | |
| Males | 27.3 | 27.2 |
| Females | 29.1 | 29.0 |
| **Longevity at age 60 for active members currently aged 40 years** | | |
| Males | 29.7 | 29.6 |
| Females | 31.2 | 31.1 |

# 47 Retirement benefit obligations *(continued)*

**Amounts recognised in financial statements**
The table below outlines where the Group's DB plans are recognised in the financial statements:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Irish Pension Plans €m | UK Pension Plans[1] €m | Total €m | Irish Pension Plans €m | UK Pension Plans[1] €m | Total €m |
| **Income statement credit / (charge)** | | | | | | |
| Other operating expenses | (99) | (21) | (120) | (99) | (26) | (125) |
| Cost of restructuring programme | 1 | 1 | 2 | 1 | 2 | 3 |
| **Statement of OCI** | | | | | | |
| Impact of remeasurement | 155 | 1 | 156 | (203) | 76 | (127) |
| **Balance sheet obligations** | **(252)** | **24** | **(228)** | **(481)** | **3** | **(478)** |
| This is shown on the balance sheet as: | | | | | | |
| Retirement benefit obligation | | | (274) | | | (536) |
| Retirement benefit asset | | | 46 | | | 58 |
| **Total net liability** | | | **(228)** | | | **(478)** |

[1] *The UK Pension Plans include a portion of the BSPF which relates to UK members.*

# 47 Retirement benefit obligations *(continued)*

The movement in the net DB obligation over the year in respect of the Group's DB plans is as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Present value of obligation €m | Fair value of plan assets €m | Surplus/ (deficit) of plans €m | Present value of obligation €m | Fair value of plan assets €m | Surplus/ (deficit) of plans €m |
| **At 1 January** | **(7,726)** | **7,248** | **(478)** | **(7,738)** | **7,292** | **(446)** |
| Cost of restructuring programme | | | | | | |
| - Negative past service cost | 2 | - | 2 | 3 | - | 3 |
| Other operating expenses | (277) | 157 | (120) | (198) | 73 | (125) |
| *- Current service cost* | *(109)* | *-* | *(109)* | *(117)* | *-* | *(117)* |
| *- Past service cost* | *(4)* | *-* | *(4)* | *-* | *-* | *-* |
| *- Interest (expense) / income* | *(164)* | *157* | *(7)* | *(170)* | *162* | *(8)* |
| *- Impact of settlements* | *-* | *-* | *-* | *89* | *(89)* | *-* |
| Return on plan assets not included in income statement | - | (101) | (101) | - | (39) | (39) |
| Change in demographic assumptions | - | - | - | 15 | - | 15 |
| Change in financial assumptions | 202 | - | 202 | (103) | - | (103) |
| Experience gains / (losses) | 53 | - | 53 | (5) | - | (5) |
| Employer contributions | - | 212 | 212 | - | 217 | 217 |
| *- Deficit reducing*[1] | *-* | *117* | *117* | *-* | *124* | *124* |
| *- Other* | *-* | *95* | *95* | *-* | *93* | *93* |
| Employee contributions | (10) | 10 | - | (11) | 11 | - |
| Benefit payments | 271 | (271) | - | 252 | (252) | - |
| Changes in exchange rates | 10 | (8) | 2 | 59 | (54) | 5 |
| **At 31 December** | **(7,475)** | **7,247** | **(228)** | **(7,726)** | **7,248** | **(478)** |
| *The above amounts are recognised in the financial statements as follows: (charge) / credit* | | | | | | |
| Other operating expenses | (277) | 157 | (120) | (198) | 73 | (125) |
| Cost of restructuring programme | 2 | - | 2 | 3 | - | 3 |
| **Total amount recognised in income statement** | **(275)** | **157** | **(118)** | **(195)** | **73** | **(122)** |
| Changes in financial assumptions | 202 | - | 202 | (103) | - | (103) |
| Return on plan assets not included in income statement | - | (101) | (101) | - | (39) | (39) |
| Change in demographic assumptions | - | - | - | 15 | - | 15 |
| Changes in exchange rates | 10 | (8) | 2 | 59 | (54) | 5 |
| Experience gains / (losses) | 53 | - | 53 | (5) | - | (5) |
| **Total remeasurements in OCI** | **265** | **(109)** | **156** | **(34)** | **(93)** | **(127)** |
| **Total past service cost comprises** | | | | | | |
| Impact of restructuring programme | 2 | - | 2 | 3 | - | 3 |
| Other operating expenses | (4) | - | (4) | - | - | - |
| **Total** | **(2)** | **-** | **(2)** | **3** | **-** | **3** |

[1] *Deficit-reducing contributions consist principally of additional contributions related to the Group's Pensions Reviews.*

## 47 Retirement benefit obligations *(continued)*

The retirement benefit schemes' assets include BOIG plc shares amounting to €5 million (2017: €7 million) and one property occupied by Group companies to the value of €41 million (2017: €38 million).

**Sensitivity of defined benefit obligation to key assumptions**
This table sets out how the DB obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible.

While the DB obligation sensitivity table shows the estimated impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

Some of the reasonably possible changes in DB obligation assumptions may have an impact on the value of the schemes' investment holdings. For example, the plans hold a proportion of their assets in corporate bonds. A fall in the discount rate as a result of lower corporate bond yields would be expected to lead to an increase in the value of these assets, thus partly offsetting the increase in the DB obligation. The extent to which these sensitivities are managed is discussed further below.

The table on the following page sets out the estimated sensitivity of plan assets to changes in equity markets, interest rates and inflation rates.

The sensitivity analysis is prepared by the independent actuaries calculating the DB obligation under the alternative assumptions and the fair value of plan assets using alternative asset prices.

**Future cash flows**
The plans' liabilities represent a long-term obligation and most of the payments due under the plans will occur several decades into the future.

The duration or average term to payment for the benefits due, weighted by liability, is c.20 years for the Irish plans and c.20 years for the UK plans.

Expected employer contributions for 2019 are €120 million. This excludes any additional contributions arising from the 2013 Group Pensions Review. Future deficit-reducing contributions arising from the 2013 Group Pensions Review in the form of cash or other suitable assets are estimated to be €58 million for the BSPF and are payable between 2019 and 2020.

Expected employee contributions for 2019 are €9 million.

**Risks and risk management**
The Group's DB pension plans have a number of areas of risk.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

Changes in bond yields, interest rate and inflation risks, along with equity risk, are the DB schemes' largest risks. From an accounting liability perspective, the schemes are also exposed to movements in corporate bond spreads. As part of its risk management, the largest Group sponsored pension scheme, the BSPF has invested 37% of its assets in a Liability Driven Investment (LDI) approach to help manage its interest rate and inflation risk.

| Asset breakdown | 2018 €m | 2017 € |
|---|---|---|
| Liability Driven Investment (unquoted) | 2,280 | 2,272 |
| Cash and other (quoted) | 1,016 | 382 |
| Equities (quoted) | 896 | 1,706 |
| Property (unquoted) | 724 | 648 |
| Corporate bonds (quoted) | 457 | 463 |
| Private equities (unquoted) | 357 | 296 |
| Government bonds (quoted) | 354 | 329 |
| Property and infrastructure (quoted) | 331 | 432 |
| Senior secured loans (unquoted) | 292 | 285 |
| Hedge funds (unquoted) | 279 | 181 |
| Reinsurance (unquoted) | 261 | 254 |
| **Total fair value of assets** | **7,247** | **7,248** |

| Impact on defined benefit obligations | Increase / (decrease) 2018 €m | Increase / (decrease) 2017 €m |
|---|---|---|
| **RoI schemes** | | |
| Discount rate | | |
| - Increase of 0.25% | (288) | (304) |
| - Decrease of 0.25% | 310 | 328 |
| | | |
| Inflation rate | | |
| - Increase of 0.10% | 80 | 85 |
| - Decrease of 0.10% | (70) | (83) |
| | | |
| Salary growth | | |
| - Increase of 0.10% | 27 | 29 |
| - Decrease of 0.10% | (26) | (28) |
| | | |
| Life expectancy | | |
| - Increase of 1 year | 183 | 185 |
| - Decrease of 1 year | (182) | (184) |
| | | |
| **UK schemes** | | |
| Discount rate | | |
| - Increase of 0.25% | (67) | (71) |
| - Decrease of 0.25% | 72 | 77 |
| | | |
| RPI inflation | | |
| - Increase of 0.10% | 19 | 21 |
| - Decrease of 0.10% | (17) | (18) |
| | | |
| Salary growth | | |
| - Increase of 0.10% | 3 | 3 |
| - Decrease of 0.10% | (5) | (3) |
| | | |
| Life expectancy | | |
| - Increase of 1 year | 42 | 44 |
| - Decrease of 1 year | (42) | (44) |

## 47 Retirement benefit obligations *(continued)*

| Impact on plan assets | Increase / (decrease) 2018 €m | Increase / (decrease) 2017 €m |
|---|---|---|
| **All schemes** | | |
| Sensitivity of plan assets to a movement in global equity markets with allowance for other correlated diversified asset classes | | |
| - Increase of 5.00% | 90 | 128 |
| - Decrease of 5.00% | (90) | (128) |
| Sensitivity of liability-matching assets to a 25bps movement in interest rates | | |
| - Increase of 0.25% | (264) | (271) |
| - Decrease of 0.25% | 280 | 287 |
| Sensitivity of liability-matching assets to a 10bps movement in inflation rates | | |
| - Increase of 0.10% | 71 | 74 |
| - Decrease of 0.10% | (70) | (73) |

The key areas of risk, and the ways in which the Group has sought to manage them, are set out below:

*Asset volatility*
The DB pension plans hold a proportion of their assets in equities and other return-seeking assets. The returns on such assets tend to be volatile. For the purposes of the triennial valuation, the DB liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio.

For measurement of the obligation in the financial statements under IAS 19, however, the DB obligation is calculated using a discount rate set with reference to high-quality corporate bond yields.

The movement in the asset portfolio is not fully correlated with the movement in the two liability measures and this means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net DB deficit recorded on the balance sheet.

In order to limit the volatility in asset returns, the schemes' assets are well-diversified by investing in a range of asset classes, including listed equity, private equity, hedge funds, infrastructure, reinsurance, property, government bonds and corporate bonds. During 2017, the level of both euro and sterling interest rate and inflation hedging was increased in the BSPF LDI portfolio to 75% of assets and a similar increase to 75% was executed for the Bank Affiliated Pension Fund. These changes have reduced asset volatility and provide a better match to the fund's liabilities.

The investment in bonds is discussed further below.

*Changes in bond yields*
The LDI approach invests in cash, government bonds, interest rate and inflation swaps, and other financial derivatives to create a portfolio which is both inflation-linked and of significantly longer duration than possible in the physical bond market. It also provides a closer match to the expected timing of cash flow / pension payments. The portfolio broadly hedges against movements in long-term interest rates although it only hedges a portion of the BSPF's interest rate risks. Furthermore, the portfolio does not hedge against changes in the credit spread on corporate bonds used to derive the accounting liabilities.

However, the investment in corporate and government bonds offers a further degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is further reduced.

*Inflation risk*
The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although, in most cases, caps on the level of inflationary increases are in place to protect the plans against high inflation and the 2013 Group Pensions Review changes have further limited this exposure. The LDI portfolio broadly hedges against movements in inflation expectations although it only hedges a portion of the BSPF's inflation risks.

Furthermore, the portfolio does not protect against differences between expectations for eurozone average inflation and the fund's Irish inflation exposure.

*Life expectancy*
The majority of the plans' obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plans' liabilities.

Investment decisions are the responsibility of the Trustees and the Group supports the efficient management of risk including through the appointment of a Group Pensions Chief Investment Officer. The role of Group Pensions Chief Investment Officer is to advise and support the Trustees of the Group sponsored pension schemes in the design, implementation and management of investment strategy to meet the various scheme liabilities. The duties include, but are not limited to, the identification and management of risks such as the risk of insufficient asset returns, changing interest rates, inflation, FX risk, counterparty exposures, geographical risk, asset concentration risk, liquidity risk, regulatory risk, manager risk and longevity risk.

## 48 Subordinated liabilities

| | | 2018 €m | 2017 €m |
|---|---|---|---|
| **Undated loan capital** | | | |
| *The Governor and Company of Bank of Ireland* | | | |
| Stg£75 million 13⅜% Perpetual Subordinated Bonds | (a) | 85 | 85 |
| *Bristol & West plc* | | | |
| Stg£32.6 million 8⅛% Non-Cumulative Preference Shares | (b) | 36 | 37 |
| | | **121** | **122** |
| **Dated loan capital** | | | |
| *The Governor and Company of Bank of Ireland* | | | |
| €1,002 million 10% Fixed Rate Subordinated Notes 2020 | (c) | 214 | 222 |
| Stg£197 million 10% Fixed Rate Subordinated Notes 2020 | | 2 | 2 |
| €250 million 10% Fixed Rate Subordinated Notes 2022 | (d) | 264 | 264 |
| €750 million 4.25% Fixed Rate Subordinated Notes 2024 | (e) | 753 | 759 |
| *Bank of Ireland Group plc* | | | |
| Stg£300 million 3.125% Fixed Rate Reset Callable Subordinated Notes 2027 | (f) | 328 | 332 |
| US$500 million 4.125% Fixed Rate Reset Callable Subordinated Notes 2027 | (f) | 422 | 406 |
| | | **1,983** | **1,985** |
| **Total subordinated liabilities** | | **2,104** | **2,107** |

**Subordinated liabilities in issue at 31 December 2018**

*Undated loan capital*
The principal terms and conditions of the subordinated liabilities which were in issue by the Group at 31 December 2018 are set out below.

*(a)* The 13³/8% Perpetual Subordinated Bonds were revalued as part of the fair value adjustments on the acquisition by Bristol & West plc of the business of Bristol & West Building Society in July 1997. The Bank became the issuer of these bonds in 2007 in connection with the transfer of the business of Bristol & West plc to the Bank.

*(b)* These preference shares, which are non-redeemable, non-equity shares, rank equally amongst themselves as regards participation in profits and in priority to the ordinary shares of Bristol & West plc.

Holders of the preference shares are entitled to receive, in priority to the holders of any other class of shares in Bristol & West plc, a non-cumulative preference dividend at a fixed rate per annum payable in equal half yearly instalments in arrears on 15 May and 15 November each year. This preference dividend will only be payable to the extent that payment can be made out of profits available for distribution as at each dividend payment date in accordance with the provisions of the UK Companies Acts.

On 1 October 2007 in connection with the transfer of the business of Bristol & West plc to the Bank, the Bank entered into a Guarantee and Capital Maintenance Commitment (the Guarantee) with respect to the preference shares. Under the terms of the Guarantee, the liability of Bristol & West plc in relation to the ongoing payment of dividends and any repayment of capital in relation to the preference shares that remained following the transfer of business would be protected. Under the Guarantee, the Bank agreed, subject to certain conditions, to (i) contribute capital to Bristol & West plc to the extent required to ensure that Bristol & West plc has sufficient distributable reserves to pay the dividends on the preference shares and to the extent required, repay the preference share capital and (ii) guarantee Bristol & West plc's obligations to make repayment of the dividends and preference share capital.

The Guarantee contains provisions to the effect that the rights of the Bank's creditors under the Guarantee are subordinated to (i) unsubordinated creditors and debtors of the Bank and (ii) subordinated creditors of the Bank other than those whose claims rank, or are expressed to rank, pari passu or junior to the payments under the Guarantee.

*Dated loan capital*
Dated loan capital, which includes bonds and notes, constitute unsecured obligations of the Bank subordinated in right of payments to the claims of depositors and other unsubordinated creditors of the Bank and rank pari passu without any preference among themselves.

The table above provides a description of the dated loan capital, including:
- the currency of the issue;
- if the issue is fixed, floating or a combination of both; and
- maturity.

All of the dated notes in issue in 2018 were issued under the Group's Euro Note Programme.

*(c)* ***€1,002 million 10% Fixed Rate Subordinated Notes 2020***
On 12 February 2010, the Bank issued 10 year fixed rate subordinated notes with a coupon rate of 10% and a maturity date of February 2020. The notes rank pari passu with all other dated subordinated debt.

*(d)* ***€250 million 10% Subordinated Debt 2022***
On 18 December 2012, the Bank issued 10 year fixed rate loan notes with a coupon rate of 10% and a maturity date of December 2022. The notes rank pari passu with all other dated subordinated debt.

## 48 Subordinated liabilities *(continued)*

**(e) *Fixed Rate Subordinated Notes 2024***
On 11 June 2014, the Bank issued a €750 million 10 year (callable at the end of year five) Tier 2 capital instrument. The bond carries a coupon of 4.25%. Following the implementation in Ireland of the EU (Bank Recovery and Resolution) Regulations 2015, the instrument is loss absorbing at the point of non-viability. Redemption in whole but not in part is at the option of the Bank upon (i) Regulatory reasons (capital event), or (ii) Tax reasons (additional amounts payable on the Notes). Any redemption before the Maturity Date is subject to such approval by the Competent Authority as may be required by the Capital Requirements Regulation (CRR) and / or such other laws and regulations which are applicable to the Issuer.

**(f) *Sterling and US Dollar Subordinated fixed rate notes***
On 19 September 2017, the Company completed a dual tranche issuance of Stg£300 million and US$500 million 10 year (callable at the end of year five) Tier 2 capital instruments. The sterling bond has a coupon of 3.125% and the US dollar bond has a coupon of 4.125%. Following the implementation in Ireland of the EU (Bank Recovery and Resolution) Regulations 2015, the instrument is loss absorbing at the point of non-viability and Noteholders acknowledge that the notes may be subject to the exercise of Irish statutory loss absorption powers by the relevant resolution authority. Redemption in whole but not in part is at the option of the Company upon (i) regulatory reasons (capital event), or (ii) tax reasons (additional amounts payable on the notes). Any redemption before the maturity date is subject to such approval by the Competent Authority as may be required by the CRR and / or such other laws and regulations which are applicable to the Issuer.

## 49 Corporate reorganisation and capital reduction

*The following table shows the impact of the corporate reorganisation at 7 July 2017 and the capital reduction approved by the High Court on 27 July 2017*

| | Share capital €m | Share premium €m | Capital reserve €m | Other equity instru-ments €m | Merger reserve €m | Retained earnings €m | Total equity excluding non-controlling interests €m | Non-controlling interests €m | Total equity €m |
|---|---|---|---|---|---|---|---|---|---|
| Redemption and cancellation of Bank deferred stock | (920) | - | 920 | - | - | - | - | - | - |
| Cancellation of Bank treasury stock | (2) | - | 2 | - | - | - | - | - | - |
| Elimination of equity components of the Bank | (1,616) | (512) | (977) | - | 17 | (3,947) | (7,035) | - | (7,035) |
| Issue of share capital of Bank of Ireland Group plc | 6,473 | - | - | - | 562 | - | 7,035 | - | 7,035 |
| Transfer to non-controlling interests | (7) | (59) | - | (740) | - | - | (806) | 806 | - |
| Transfer to capital reserve on renominalisation of share capital / capitalisation of merger reserve | (5,394) | 562 | 5,394 | - | (562) | - | - | - | - |
| Transfer to retained earnings on capital reduction | - | (106) | (5,394) | - | - | 5,500 | - | - | - |
| **Total** | **(1,466)** | **(115)** | **(55)** | **(740)** | **17** | **1,553** | **(806)** | **806** | **-** |

### Establishment of new holding company, Bank of Ireland Group plc

The Group announced in February 2017 that it had been notified by the Single Resolution Board (SRB) that the resolution authorities (being the SRB and the BoE working together within the Resolution College) had reached a joint decision on the resolution plan for the Group, being a single point of entry bail-in strategy at a holding company level.

On 28 April 2017, the ordinary stockholders of the Bank approved the resolutions necessary to implement the corporate reorganisation. The reorganisation was implemented by a scheme of arrangement under the Companies Act 2014, approved by the High Court on 23 June 2017 (the ‘Scheme’).

The Scheme became effective on 7 July 2017 and, as a result, BOIG plc became the new parent entity of the Bank on that date.

### Corporate reorganisation

Pursuant to the corporate reorganisation, with the exception of a single unit all remaining units of ordinary stock in the Bank with a nominal value of €0.05 each were cancelled and extinguished without reducing the authorised capital stock of the Bank. Both the capital reserve arising in the Bank as a result of this cancellation and the entire amount standing to the credit of the Bank’s stock premium account as at 18.00 on 7 July 2017 (the ‘Scheme Record Time’) were used in their entirety to issue 32,363,275,073 new units of ordinary stock with a nominal value

## 49 Corporate reorganisation and capital reduction *(continued)*

of €0.05 each. These units of ordinary stock were allotted and issued as fully paid as to par and at an aggregate premium equivalent to the entire amount standing to the credit of the Bank's stock premium account as at the Scheme Record Time to BOIG plc. All units of ordinary stock with nominal value of €0.05 each in the Bank are held by BOIG plc.

Holders of ordinary stock in the Bank immediately prior to the Scheme becoming effective were issued with ordinary shares in BOIG plc on the basis of one BOIG plc share for each individual holding of 30 units of ordinary stock in the Bank. Following this, a total of 1,078,822,872 ordinary shares with a nominal value of €1.00 each in BOIG plc were in issue and represent the entire issued ordinary share capital of BOIG plc. These shares were listed on the Irish Stock Exchange and the London Stock Exchange on 10 July 2017.

Immediately upon the effectiveness of the Scheme, the Bank cancelled all 22,008,690 units of ordinary stock with nominal value of €0.05 each held in treasury in accordance with section 109(6)(a) of the Companies Act. In addition, 91,860,116 units of own stock issued by the Bank and held for the benefit of life assurance policyholders were cancelled and replaced by shares in BOIG plc.

Immediately upon the effectiveness of the Scheme, the Bank acquired all of the 90,682,081,918 units of deferred stock with a nominal value of €0.01 each in issue which were not held by the Bank in treasury, for no consideration and immediately cancelled all units of stock in issue in accordance with the Bye-Laws of the Bank. The Bank held a further 1,298,512,710 units of deferred stock in treasury as at the effective date of the Scheme which were cancelled based on Court resolutions passed on 29 June 2017.

From the date of the corporate reorganisation, the preference stock issued by the Bank is not attributable to owners of the parent, BOIG plc, and has been reclassified to non-controlling interests.

Predecessor accounting has been applied to the Scheme, such that the consolidated financial statements of the BOIG plc Group incorporate the assets and liabilities of the pre-existing group at their existing consolidated carrying values as at the date of the Scheme, and include the full year's results of the pre-existing group for 2017. The net assets of the BOIG plc Group immediately after implementation of the Scheme did not differ from the net assets of the pre-existing group immediately before the Scheme.

The merger reserve represents the difference between the carrying value of BOIG plc's initial investment in the Bank arising from the corporate reorganisation and the nominal value of the shares issued as part of that reorganisation, less amounts capitalised as share premium. In the consolidated financial statements, it is used to eliminate the value of the reserves in the equity of the Bank as they related to assets and liabilities of the Bank at the date of the corporate reorganisation. These reserves of the Bank related to the values of the AFS reserve, cash flow hedge reserve, FX reserve and the revaluation reserve of the Bank at the date of the corporate reorganisation.

**BOIG plc capital reduction**

On 10 July 2017, BOIG plc applied to the High Court for approval of a capital reduction to create distributable reserves (within the meaning of Section 117 of the Companies Act 2014). A capital reduction is a legal procedure and does not reduce regulatory capital. The capital reduction was approved by the High Court on 27 July 2017 and distributable reserves of €5.5 billion were created in BOIG plc once the relevant filings were registered with the Companies Registration Office.

# 50 Share capital

As outlined in note 49, the Group undertook a corporate reorganisation during 2017 whereby BOIG plc became the ultimate parent company of the Group. Further to this corporate reorganisation 1,078,822,872 ordinary shares of €1.00 each in BOIG plc, representing its entire issued ordinary share capital, were listed on the Irish Stock Exchange and the London Stock Exchange on 10 July 2017.

**Ordinary shares**
All ordinary shares carry the same voting rights.

There were no outstanding options on ordinary shares under employee schemes as at 31 December 2018 or 2017.

As at 31 December 2018, New Ireland Assurance Company plc held 3,307,259 ordinary shares of BOIG plc as 'own shares' (2017: 4,203,581).

| Authorised | 2018 €m | 2017 €m |
|---|---|---|
| **Bank of Ireland Group plc** | | |
| 10 billion ordinary shares of €1.00 each | 10,000 | 10,000 |
| 100 million preference shares of €0.10 each | 10 | 10 |

| Allotted and fully paid | 2018 €m | 2017 €m |
|---|---|---|
| **Bank of Ireland Group plc** | | |
| 1.075 billion ordinary shares of €1.00 each | 1,076 | 1,075 |
| 3.307 million treasury shares of €1.00 each (2017: 4.203 million units) | 3 | 4 |
| | **1,079** | **1,079** |

| | 2018 | | 2017 | |
|---|---|---|---|---|
| **Movement in ordinary and treasury shares** | **Ordinary shares** | **Treasury shares** | **Ordinary shares** | **Treasury shares** |
| At the beginning of the year | 1,074,619,291 | 4,203,581 | - | - |
| Issued up to date of corporate reorganisation | - | - | 2 | - |
| Impact of corporate reorganisation | - | - | 1,075,760,866 | 3,062,004 |
| Change in shares held for the benefit of life assurance policyholders | 896,322 | (896,322) | (1,141,577) | 1,141,577 |
| **At end of year** | **1,075,515,613** | **3,307,259** | **1,074,619,291** | **4,203,581** |

# 51 Non-controlling interests

**Additional tier 1 (AT1) securities**
Following the corporate reorganisation in 2017 the AT1 securities issued by the Bank are no longer attributable to the owners of the parent BOIG plc and are classified as non-controlling interests. The AT1 securities were issued by the Bank in June 2015 with a par value of €750 million at an issue price of 99.874%.

In 2018, the Group paid €55 million relating to the coupons on its AT1 securities and recognised a deferred tax credit of €7 million in respect of this payment, resulting in a net reduction in equity of €48 million. The net reduction in equity of €24 million occurring prior to the effectiveness of the corporate reorganisation was recognised directly in shareholders' equity, while the net reduction in equity of €24 million occurring after the effectiveness of the Scheme was recognised directly in non-controlling interests.

| | 2018 €m | 2017 €m |
|---|---|---|
| Balance at the beginning of the year | 808 | 1 |
| Non-controlling interest share of net profit | 55 | 28 |
| Distribution to non-controlling interests - AT1 | (48) | (24) |
| Dividends paid to non-controlling interests - preference stock | (7) | (3) |
| Reclassification of AT1 securities from other equity instruments | - | 740 |
| Transfer from share premium related to preference stock | - | 59 |
| Reclassification of preference stock from share capital | - | 7 |
| **Balance at the end of the year** | **808** | **808** |

The principal terms of the AT1 securities are as follows:
- the securities constitute direct, unsecured and subordinated obligations of the Bank, rank behind Tier 2 instruments, pari passu with preference shareholders and in priority to ordinary shareholders;
- the securities bear a fixed rate of interest of 7.375% until the first call date (on 18 June 2020). After the initial call date, in the event that they are not redeemed, the AT1 securities will bear interest at rates fixed periodically in advance for five-year periods based on market rates at that time;
- the Bank may elect at its sole and full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any interest payment date;
- the securities have no fixed redemption date, and the security holders will have no right to require the Bank to redeem or purchase the securities at any time;
- the Bank may, in its sole and full discretion but subject to the satisfaction of certain conditions elect to redeem all (but not some only) of the securities on the initial call date or semi-annually on any interest payment date thereafter. In addition, the AT1 securities are repayable, at the option of the Bank, due to certain regulatory or tax reasons. Any repayments require the prior consent of the regulatory authorities;
- the securities will be written down together with any accrued

## 51 Non-controlling interests *(continued)*

but unpaid interest if the Group's Common equity tier 1 (CET 1) ratio or the Bank's CET 1 ratio (calculated on an individual consolidated basis) falls below 5.125%; and

- subsequent to any write-down event the Bank may, at its sole discretion, write-up some or all of the written-down principal amount of the AT1 instrument provided regulatory capital requirements and certain conditions are met.

**Preference stock**
Following the corporate reorganisation in 2017 the preference stock and related stock premium of the Bank are classified as non-controlling interests, as they are not attributable to the owners of the parent BOIG plc.

As at 31 December 2018 and 2017, 1,876,090 units of sterling preference stock and 3,026,598 units of euro preference stock were in issue.

The preference stock is non-redeemable. The holders of preference stock are entitled to receive at the discretion of the Bank a non-cumulative preferential dividend, which in the case of the sterling preference stock is payable in sterling, in a gross amount of Stg£1.2625 per unit per annum and in the case of euro preference stock is payable in euro in a gross amount of €1.523686 per unit per annum, in equal semi-annual instalments, in arrears, on 20 February and 20 August in each year.

On a winding up of, or other return of capital, by the Bank (other than on a redemption of stock of any class in the capital of the Bank) the holders of preference stock will be entitled to receive an amount equal to the amount paid up or credited as paid up on each unit of the preference stock held (including the premium) out of the surplus assets available for distribution to the Bank's members. Subject to the Bank's Bye-Laws, the preference stockholders may also be entitled to receive a sum in respect of dividends payable.

The preference stockholders are not entitled to vote at any General Court except in certain exceptional circumstances. Such circumstances did not arise during 2018 and consequently the preference stockholders were not entitled to vote at the Annual General Court (AGC) held on 20 April 2018.

## 52 Cash and cash equivalents

From 1 January 2018 cash and cash equivalents to banks have been classified and measured in accordance with IFRS 9. This involved reclassifying cash and cash equivalents from loans and receivables to amortised cost financial assets, and measuring the impairment loss allowance on cash and cash equivalents at amortised cost on a 12 month or lifetime ECL approach as appropriate. The comparative figures for the prior period have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.

Cash and cash equivalents comprise cash in hand and balances with central banks and banks which can be withdrawn on demand. It also comprises balances with an original maturity of less than three months.

There was no significant movement in ECL during the year.

Cash and cash equivalents for the Group in 2018 reduced by €1,850 million during the year including a decrease of €27 million due to the effect of foreign currency exchange translation (2017: increase of €1,902 million despite a decrease of €159 million due to the effect of foreign currency translation).

*For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:*

| | 2018 €m | 2017 €m |
|---|---|---|
| Cash and balances at central banks | 6,035 | 7,379 |
| Loans and advances to banks (with an original maturity of less than 3 months) | 2,316 | 2,822 |
| **Cash and cash equivalents** | **8,351** | **10,201** |
| Less impairment loss allowance on cash and balances at central banks | (2) | - |
| **Cash and cash equivalents at amortised cost** | **8,349** | **10,201** |

*Cash and balances at central banks is made up as follows:*

| | 2018 €m | 2017 €m |
|---|---|---|
| United Kingdom (Bank of England) | 2,872 | 2,190 |
| Republic of Ireland (Central Bank of Ireland) | 2,582 | 4,137 |
| United States (Federal Reserve) | 143 | 668 |
| Other (cash holdings) | 436 | 384 |
| **Total** | **6,033** | **7,379** |

## 53 Changes in liabilities arising from financing activities

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Subordinated liabilities €m | Interest on subordinated liabilities €m | Subordinated liabilities €m | Interest on subordinated liabilities €m |
| At beginning of year | 2,107 | 49 | 1,425 | 39 |
| Cash flows | | | | |
| - Proceeds from issue of subordinated liabilities | - | - | 750 | - |
| - Repayment of subordinated liabilities | - | - | (32) | - |
| - Interest paid on subordinated liabilities | - | (115) | - | (88) |
| Non-cash changes | | | | |
| - Charge to income statement | - | 119 | - | 98 |
| - Fair value hedge adjustments | (21) | - | (20) | - |
| - Exchange adjustments | 18 | - | (19) | - |
| - Other movements | - | - | 3 | - |
| **At end of year** | **2,104** | **53** | **2,107** | **49** |

This table sets out the changes in liabilities arising from financing activities between cash and non-cash items. For more information on subordinated liabilities, see note 48. Interest accrued on subordinated liabilities is included within other liabilities.

## 54 Related party transactions

A number of banking transactions are entered into between the Company and its subsidiaries in the normal course of business. These include extending secured and unsecured loans, investing in debt securities issued by subsidiaries, taking of deposits and undertaking foreign currency transactions.

*(a) Associates, joint ventures and joint operations*

The Group provides to and receives from its associates, joint ventures and joint operations certain banking and financial services, which are not material to the Group, on similar terms to third party transactions. These include loans, deposits and foreign currency transactions. The amounts outstanding during 2018 are set out in notes 32 and 33.

*(b) Pension funds*

The Group provides a range of normal banking and financial services, which are not material to the Group, to various pension funds operated by the Group for the benefit of its employees (principally to the BSPF), which are conducted on similar terms to third party transactions. Details on the Group's contributions to the pension funds are set out in note 47.

The Group occupies one property owned by the Group's pension schemes. At 31 December 2018, the value of this property was €41 million (2017: €38 million). In 2018, the rental income paid to the Group's pension schemes was €2 million (2017: €2 million).

The Group UK Pension Scheme has a charge over a portfolio of Group assets with a value of €nil in 2018 (2017: €9 million). At 31 December 2018, the Group's pension schemes assets included BOIG plc shares amounting to €5 million (2017: €7 million).

*(c) Transactions with the State*

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

Details of individually or collectively significant transactions with the State and entities under its control or joint control are set out in note 55.

*(d) Transactions with Directors and Key Management Personnel*

*(i) Loans to Directors*

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Acts disclosures, Directors means the Board of Directors and any past Directors who were Directors during the relevant period.

Directors' emoluments are set out in the Remuneration Report on page 153.

Where no amount is shown in the tables below, this indicates either a credit balance, a balance of €nil, or a balance of less than €500. The value of arrangements at the beginning and end of the financial year as stated below in accordance with Section 307 of the Companies Act 2014, expressed as a percentage of the net assets of the Group at the beginning and end of the financial year is less than 1%.

## 54 Related party transactions *(continued)*

| **Companies Acts disclosure**<br><br>**Loans** | **Balance as at 1 January 2018[1] €'000** | **Balance as at 31 December 2018[1] €'000** | **Aggregate maximum amount outstanding during the year ended 31 December 2018[2] €'000** | **Repayments during the year ended 31 December 2018[3] €'000** |
|---|---|---|---|---|
| **Directors at 31 December 2018** | | | | |
| **E Bourke** | | | | |
| Credit card total | 2 | 3 | 6 | - |
| Current account total | - | - | - | - |
| **Total** | **2** | **3** | **6** | **-** |
| **A Keating** | | | | |
| Credit card total[4] | - | 2 | 6 | - |
| **Total** | **-** | **2** | **6** | **-** |
| **P Kennedy** | | | | |
| Mortgages total | 2,981 | - | 2,980 | 2,988 |
| Credit card total | 1 | 2 | 14 | - |
| Current account total | - | - | - | - |
| **Total** | **2,982** | **2** | **2,994** | **2,988** |
| **F McDonagh** | | | | |
| Mortgage total | - | 981 | 986 | 14 |
| **Total** | **-** | **981** | **986** | **14** |
| **F Muldoon** | | | | |
| Mortgage total | 135 | 103 | 134 | 36 |
| Credit card total | 9 | 4 | 15 | - |
| **Total** | **144** | **107** | **149** | **36** |
| **P Mulvihill** | | | | |
| Credit card total | - | - | - | - |
| Current account total | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** |

K Atkinson, I Buchanan, R Goulding, A Kane (resigned 31 July 2018), P Haren, D Marston (resigned 30 September 2018) and S Pateman had no loans from the Group in 2018. No advances were made during the year. No amounts were waived during 2018.

None of the loans were credit impaired as at 31 December 2018 or at 31 December 2017. There is no interest which having fallen due on the above loans has not been paid in 2018 (2017: €nil).

All Directors have other transactions with the Bank. The nature of these transactions includes investments, pension funds, deposits, general insurance, life assurance and current accounts with credit balances. The relevant balances on these accounts are included in the aggregate figure for deposits on page 262.

Other than as indicated, all loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons unconnected with the Group and of similar financial standing and do not involve more than normal risk of collectability.

[1] *Balances include principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid only.*
[3] *Repayments include principal and interest; revolving credit facilities are not included.*
[4] *On terms, including interest rates and collateral, similar to those available to staff generally.*

# 54 Related party transactions *(continued)*

| Companies Acts disclosure<br><br>Loans | Balance as at 1 January 2017[1] €'000 | Balance as at 31 December 2017[1] €'000 | Aggregate maximum amount outstanding during the year ended 31 December 2017[2] €'000 | Repayments during the year ended 31 December 2017[3] €'000 |
|---|---|---|---|---|
| **Directors at 31 December 2017** | | | | |
| A Keating | | | | |
| Credit card total[4] | 1 | - | 5 | - |
| **Total** | **1** | **-** | **5** | **-** |
| P Kennedy | | | | |
| Mortgages total | 2,991 | 2,981 | 2,991 | 29 |
| Credit card total | 4 | 1 | 14 | - |
| Current account total | - | - | 1 | - |
| **Total** | **2,995** | **2,982** | **3,006** | **29** |
| F Muldoon | | | | |
| Mortgage total | 165 | 135 | 165 | 36 |
| Credit card total | 6 | 9 | 11 | - |
| **Total** | **171** | **144** | **176** | **36** |
| P Mulvihill | | | | |
| Credit card total | - | - | - | - |
| Current account total | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** |
| **Directors no longer in office at 31 December 2017** | | | | |
| R Boucher | | | | |
| Mortgage total | 16 | - | 16 | 16 |
| Credit card total | 1 | - | 4 | - |
| **Total** | **17** | **-** | **20** | **16** |
| T Considine<br>*(resigned 31 December 2017)* | | | | |
| Credit card total | 2 | 1 | 4 | - |
| **Total** | **2** | **1** | **4** | **-** |

## *(ii) Loans to connected persons on favourable terms*

| 2018<br>Loans to connected persons[5] on favourable terms[4] | Balance as at 31 December 2018[1] €'000 | Maximum amounts outstanding during 2018[2] €'000 | Number of persons as at 31 December 2018 | Maximum number of persons during 2018 |
|---|---|---|---|---|
| E Bourke | 1 | 4 | 2 | 2 |

[1] *Balances include principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid only.*
[3] *Repayments include principal and interest; revolving credit facilities are not included.*
[4] *On terms, including interest rates and collateral, similar to those available to staff generally.*
[5] *Connected persons of Directors are defined by Section 220 of the Companies Act 2014.*

## 54 Related party transactions *(continued)*

| 2017<br>Loans to connected persons[1] on favourable terms[2] | Balance as at 31 December 2017[3] €'000 | Maximum amounts outstanding during 2017[4] €'000 | Number of persons as at 31 December 2017 | Maximum number of persons during 2017 |
|---|---|---|---|---|
| Directors no longer in office at 31 December 2017 | | | | |
| R Boucher | - | 1 | 1 | 1 |

*(iii) Loans to connected persons - Central Bank licence condition disclosures*

Under its banking licence, the Bank is required to disclose in its annual audited financial statements details of:

- the aggregate amount of lending to all connected persons, as defined in Section 220 of the Companies Act 2014; and
- the aggregate maximum amount outstanding during the year for which those financial statements are being prepared.

Disclosure is subject to certain de minimis exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million.

The following information is presented in accordance with this licence condition.

| 2018<br>Connected persons[1] of the following Directors | Balance as at 31 December 2018[3] €'000 | Maximum amounts outstanding during 2018[4] €'000 | Number of persons as at 31 December 2018 | Maximum number of persons during 2018 |
|---|---|---|---|---|
| Persons connected to P Kennedy | 1,574 | 1,656 | 1 | 1 |
| Persons connected to F Muldoon[5] | - | - | - | - |
| Persons connected to E Bourke | 508 | 594 | 2 | 2 |

| 2017<br>Connected persons[1] of the following Directors | Balance as at 31 December 2017[3] €'000 | Maximum amounts outstanding during 2017[4] €'000 | Number of persons as at 31 December 2017 | Maximum number of persons during 2017 |
|---|---|---|---|---|
| Persons connected to P Butler | 184 | 404 | 1 | 1 |
| Persons connected to P Kennedy | 1,651 | 1,733 | 1 | 1 |
| Persons connected to F Muldoon | 444 | 754 | 1 | 1 |

*(iv) Key management personnel (KMP) - loans and deposits (IAS 24)*

For the purposes of IAS 24 'Related party disclosures', the Group has 28 KMPs (2017: 25) which comprise the Directors[6], the members of the Group Executive Committee (GEC), the Group Secretary and any past KMP who was a KMP during the relevant period. In addition to Executive Directors, the GEC comprises the Head of Group Strategy Development, Chief Executive Markets and Treasury, Chief Executive, Retail (UK), Chief Executive, Retail Ireland, Chief Operating Officer, Group Chief Risk Officer, Interim Head of Group Human Resources, Chief Executive, Corporate Banking and the Head of Group Marketing. Key management personnel, including Directors, hold products with Group companies in the ordinary course of business.

Other than as indicated, all loans to Non-Executive Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons, and do not involve more than the normal risk of collectability. Loans to key management personnel other than Non-Executive Directors are made on terms similar to those available to staff generally and / or in the ordinary course of business on normal commercial terms.

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions between the Bank and its KMP, as defined above, together with members of their close families and entities influenced by them are shown in the following table.

1 *Connected persons of Directors are defined by Section 220 of the Companies Act 2014.*
2 *Terms similar to those available to staff generally.*
3 *Balance includes principal and interest.*
4 *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*
5 *All loans to persons connected to F Muldoon requiring disclosure have been repaid.*
6 *The Directors of the Bank up to the date of the corporate reorganisation, 7 July 2017, and the Directors of the Company thereafter.*

# 54 Related party transactions *(continued)*

| IAS 24 Disclosures<br>2018<br>Key management personnel | Balance as at 1 January 2018[1,2] €'000 | Balance as at 31 December 2018[1] €'000 | Maximum amounts outstanding during 2018[3] €'000 | Total number of relevant KMP as at 1 January 2018 | Total number of relevant KMP as at 31 December 2018 |
|---|---|---|---|---|---|
| Loans | 6,031 | 4,635 | 8,076 | 16 | 21 |
| Deposits | 6,421 | 11,479 | 19,956 | 23 | 28 |

| 2017<br>Key management personnel | Balance as at 1 January 2017[1,2] €'000 | Balance as at 31 December 2017[1] €'000 | Maximum amounts outstanding during 2017[3] €'000 | Total number of relevant KMP as at 1 January 2017 | Total number of relevant KMP as at 31 December 2017 |
|---|---|---|---|---|---|
| Loans | 6,092 | 6,031 | 6,655 | 16 | 16 |
| Deposits | 4,743 | 6,421 | 14,281 | 21 | 23 |

KMP have other protection products with the Bank. The nature of these products includes mortgage protection, life assurance and critical illness cover. It also includes general insurance products which are underwritten by a number of external insurance companies and for which the Bank acts as an intermediary only. None of these products has any encashment value at 31 December 2018 or 31 December 2017.

Included in the above IAS 24 loan disclosure figures are loans to KMP and close family members of KMP on preferential staff rates, amounting to €47,785 (2017: €31,847).

None of the loans were credit impaired as at 31 December 2018 or at 31 December 2017. There is no interest which having fallen due on the above loans has not been paid in 2018 (2017: €nil).

There are no guarantees entered into by the Bank in favour of KMP of the Bank and no guarantees in favour of the Bank have been entered into by the KMP of the Bank.

*(v) Compensation of KMP*

Details of compensation paid to KMP are provided below:

| Remuneration | 2018 €'000 | 2017 €'000 |
|---|---|---|
| Salaries and other short-term benefits[4] | 8,936 | 8,372 |
| Post employment benefits[5] | 767 | 886 |
| Termination benefits[6] | 1,065 | 401 |
| **Total** | **10,768** | **9,659** |
| | | |
| Number of KMP | 28 | 25 |

*[1] Balance includes principal and interest.*

*[2] The opening balance includes balances and transactions with KMP who retired during 2017 and are not related parties during 2018. Therefore these KMPs are not included in the maximum amounts outstanding.*

*[3] These figures include credit card exposures at the maximum statement balance. In all cases KMP have not exceeded their approved limits. The maximum approved credit limit on any credit card held by key management personnel is €30,000. The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability for any member of KMP, close family and entities influenced by them did not exceed €2.9 million during 2018 (2017: €3.1 million). In some cases with investment type products (i.e. funds based products, life assurance and other policies) the maximum balance amounts were not available, in which case the greater of the balance at the start of the year and the balance at the end of the year has been included as the maximum balance amount. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*

*[4] Comprises gross salary, Employer Pay Related Social Insurance contributions, fees, cash in lieu of pension, car allowance and other short-term benefits paid in the year.*

*[5] This comprises Employer contributions paid to pension funds.*

*[6] These include, inter alia, contractual payments due in lieu of notice periods.*

# 55 Summary of relations with the State

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

A relationship framework between the Minister for Finance and the Bank has been in place since 30 March 2012. The purpose of this framework is to provide the basis on which the relationship shall be governed. This framework is available on the Department of Finance website. In March 2017, as part of the corporate reorganisation detailed in note 49, the Company agreed to be bound by and comply with certain provisions of the relationship framework in relation to the Ministerial consent and consultation process and the Group's business plan.

***(a) Ordinary shares***

At 31 December 2018, the State held through the Ireland Strategic Investment Fund (ISIF) 13.95% of the ordinary shares of the Company (31 December 2017: 13.95%).

***(b) Guarantee schemes***

*Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme)*

Although the Group no longer has any guaranteed liabilities under the ELG Scheme, the ELG Scheme shall continue to exist until terminated by the Minister for Finance. Pending that termination, the Bank, BoIMB and Bank of Ireland (UK) plc continue to be bound by the terms of the ELG Scheme including the provision of certain covenants and an indemnity for the costs of the ELG Scheme in favour of the Minister pursuant to the Scheme documents of the ELG Scheme. No fees were payable in respect of the year ended 2018 (2017: €nil)

*European Communities (Deposit Guarantee Scheme) Regulations 2015*

Details of the deposits protected by these schemes are set out in note 41.

***(c) National Asset Management Agency Investment DAC (NAMAID)***

The Group, through its wholly-owned subsidiary NIAC, holds 17 million B shares in NAMAID, corresponding to one-third of the 51 million B shares issued by NAMAID, acquired at a cost of €17 million. NAMAID also issued 49 million A shares to NAMA. As a result the Group holds 17% of the total ordinary share capital of NAMAID.

NAMAID is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transferred eligible bank assets and which issued the NAMA senior bonds and NAMA subordinated debt as consideration for those assets. The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAID. As holder of the A shares, NAMA has veto rights in relation to: the declaration of dividends; the appointment or removal of Directors; the exercise of voting rights in respect of any subsidiary of NAMAID and the appointment of a Chairman. A holder of the B shares may not sell the shares without the consent of NAMA.

On a winding-up, the return on B shares is capped at 110% of the capital invested, (€18.7 million in the case of the Group), and the maximum loss that may be suffered is limited to the original amount invested (€17 million in the case of the Group). A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and is limited to the yield on ten year State bonds. A dividend of €0.2 million was received by the Group on 31 March 2018 (31 March 2017: €0.2 million).

***(d) Other transactions with the State and entities under its control or joint control***

In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. This includes transactions with AIB Group plc and subsidiaries (AIB), Permanent TSB Group Holdings plc, Government departments, local authorities, county councils, embassies, NAMA, NAMAID and the National Treasury Management Agency (NTMA) which are all considered to be 'controlled' by the Government. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks. The amounts outstanding at 31 December 2018 and 2017 in respect of these transactions, which are considered individually significant, are set out below.

During 2018, the Group disposed of NAMA subordinated bonds with a nominal value of €211 million which resulted in a gain on disposal reported in net trading income, see note 9.

| | 2018 €m | 2017 €m |
|---|---|---|
| **Assets** | | |
| Unguaranteed senior bonds issued by AIB | 232 | 182 |
| Unguaranteed subordinated bonds issued by AIB | 15 | 32 |
| NAMA subordinated bonds (note 23) | 76 | 293 |
| Bonds issued by the State | 5,472 | 4,762 |
| ***Other financial assets at fair value through the profit and loss*** | | |
| Bonds issued by the State | 245 | 367 |
| ***Loans and advances to banks*** | | |
| AIB | 17 | 13 |
| **Liabilities** | | |
| ***Customer Accounts*** | | |
| State (including agencies & entities under its control or joint control) | 1,070 | 1,485 |
| IBRC (in Special Liquidation) and its associates | - | 28 |
| **Debt securities in issue** | | |
| State (including agencies & entities under its control or joint control) | 134 | 147 |

## 55 Summary of relations with the State *(continued)*

***(e) Irish bank levy***

The Finance Act (No 2) 2013 introduced a bank levy on certain financial institutions, including the Group. An income statement charge is recognised annually on the date on which all of the criteria set out in the legislation are met. The annual levy paid by the Group in October 2018 was €29 million (October 2017: €29 million). The Finance Act 2016, enacted in December 2016, confirmed the revised basis on which the levy would be calculated for the years 2017 to 2021. The revised levy equals 59% of each financial institution's Deposit Interest Retention Tax (DIRT) payment for a particular year with the levy for 2017 and 2018 based on the DIRT payment for 2016. The revised levy for 2019 and 2020 is to be based on the 2017 DIRT payment and the revised levy for 2021 is to be based on the 2019 DIRT payment.

## 56 Principal undertakings

The Parent company of the Group is Bank of Ireland Group plc.

The principal Group undertakings for 2018 were:

| Name | Principal activity | Country of incorporation | Statutory year end |
|---|---|---|---|
| The Governor and Company of the Bank of Ireland[1] | Banking and financial services | Ireland | 31 December |
| Bank of Ireland (UK) plc[2] | Retail financial services | England and Wales | 31 December |
| New Ireland Assurance Company plc | Life assurance business | Ireland | 31 December |
| Bank of Ireland Mortgage Bank[2] | Mortgage lending and mortgage covered securities | Ireland | 31 December |
| First Rate Exchange Services Limited[3] | Foreign exchange | England and Wales | 31 March |
| N.I.I.B. Group Limited | Personal finance and leasing | Northern Ireland | 31 December |

All the Group undertakings are included in the consolidated financial statements. Unless stated otherwise, the Group owns 100% of the equity of the principal Group undertakings and 100% of the voting shares of all these undertakings.

In presenting details of the principal subsidiary undertakings, the exemption permitted by Section 316 of the Companies Act 2014 has been availed of and the Company will annex a full listing of Group undertakings to its annual return to the Companies Registration Office.

**Bank of Ireland Mortgage Bank (BoIMB)**

BoIMB's principal activities are the issuance of Irish Residential mortgages and mortgage covered securities in accordance with the Asset Covered Securities Act 2001 and the Asset Covered Securities (Amendment) Act 2007. BoIMB asset covered securities may be purchased by the Bank and other members of the Group or third parties.

In 2018, the total amount outstanding in respect of mortgage covered securities issued was €8.3 billion (2017: €7.0 billion).

In 2018, the total amount of principal outstanding in the mortgage covered pool including mortgage assets and cash was €12.8 billion (2017: €10.2 billion).

BoIMB issues other debt securities under BoIMB's obligation to the CBI within the terms of the Special Mortgage Backed Promissory Note (SMBPN) programme. At 31 December 2018, BoIMB had no such debt securities in issue (2017: €nil).

[1] *Direct subsidiary of BOIG plc.*

[2] *Direct subsidiary of The Governor and Company of the Bank of Ireland.*

[3] *This entity is a subsidiary of First Rate Exchange Services Holdings Limited (FRESH), a joint venture with the UK Post Office, in which the Group holds 50% of the equity of the business.*

# 57 Interests in other entities

**(a) General**

The Group holds ordinary shares and voting rights in a significant number of entities. Management has assessed its involvement in all such entities in accordance with the definitions and guidance in:

- IFRS 10 'Consolidated financial statements';
- IFRS 11'Joint arrangements';
- IAS 28 'Investments in associates and joint ventures'; and
- IFRS 12 'Disclosure of interests in other entities'.

See Group accounting policies on page 184.

**(b) Significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group**

Regulated banking and insurance subsidiaries are required to maintain minimum regulatory liquidity and solvency ratios and are subject to other regulatory restrictions that may impact on transactions between these subsidiaries and the Company, including on the subsidiaries ability to make distributions.

Certain transactions between Bank of Ireland (UK) plc and the Bank are subject to regulatory limits and approvals agreed with the Prudential Regulation Authority (PRA). Total assets of Bank of Ireland (UK) plc at 31 December 2018 were €29.9 billion (2017: €29.6 billion) and liabilities were €27.6 billion (2017: €27.3 billion).

The activities of BoIMB are subject to the Asset Covered Securities Act 2001 to 2007 which imposes certain restrictions over the assets of BoIMB. Total assets of BoIMB at 31 December 2018 were €19.6 billion (2017: €17.0 billion) and liabilities were €18.0 billion (2017: €15.8 billion).

The Group's life assurance entity, NIAC, is required to hold shareholder equity that exceeds a solvency capital requirement, see note 43 for details. In addition, the Group's Isle of Man insurance entity is required to hold shareholder equity that exceeds the solvency requirements specified by the Isle of Man Financial Services Authority.

Under Section 357 (1)(b) of the Companies Act 2014, the Bank has given an irrevocable guarantee to meet the liabilities, commitments and contingent liabilities entered into by certain Group undertakings. At 31 December 2018, the commitments of these undertakings amounted to €132 million (2017: €176 million).

**(c) Structured entities**

In the case of structured entities, in considering whether it controls the investee, the Group applies judgement around whether it has the ability to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power to affect the amount of its returns. The Group considers it has control over the investee in the following situations:

- securitisation vehicles whose purpose is to finance specific loans and advances to customers; or
- defeasance companies set up to facilitate big-ticket leasing transactions.

In the case of some venture capital investments, in considering whether it controls the investee the Group applies judgement around whether it has the ability to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power to affect the amount of its returns. The Group may hold 50% or more of the voting power of an entity, but has been considered to have significant influence, rather than control of the entity because the Group is not involved in directing the relevant activities of the entity and does not have the right to remove the manager of the entity.

In each case the Group considers that it has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, even though the Group normally owns less than half of the voting rights of those entities.

The Group does not consider it controls an investee when:

- the Group's only involvement in the arrangement is to administer transactions, for which the Group receives a fixed fee, on the basis that the Group is acting as an agent for the investors; or
- an entity is in the process of being liquidated, on the basis that the entity is controlled by the liquidator.

The Group holds interests in a number of structured entities (Brunel Residential Mortgage Securitisation No. 1 plc, Bowbell No. 1 plc), whose purpose is to acquire mortgage loans and other financial assets and issue mortgage backed securities. All of the assets and liabilities of these entities are restricted. Total assets amounted to €1.1 billion (2017: €4.8 billion) and liabilities amounted to €1.0 billion (2017: €2.5 billion).

In 2016, the Group entered into a credit default swap (CDS) transaction transferring a portion of the credit risk on a reference portfolio of performing Irish SME and corporate exposures to Grattan Securities Designated Activity Company (DAC) (Grattan). During 2017, the Group entered into a further CDS transaction transferring a portion of the credit risk on a reference portfolio of performing leveraged acquisition finance exposures to Mespil Securities DAC (Mespil). No assets or liabilities were transferred to Grattan or Mespil as part of the transactions. Grattan and Mespil each cash collateralised their exposure under the respective CDSs through the issue of credit linked notes to third party investors. The reference portfolios can, at the option of the Group, be replenished up to the third anniversary of the dates of issue of the notes. The protection provided by Grattan matures in 2024, while that provided by Mespil matures in 2025.

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support. In 2018 and 2017 the Group did not provide financial or other support, nor does it expect or intend to do so.

All of these entities are consolidated in the Group's financial statements.

**(d) Treatment of changes in control of a subsidiary during the reporting period**

From time to time, the Group may wind up a wholly owned company. During this process, the Group voluntarily appoints a liquidator to manage the winding up of relevant entities. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and accounts for this loss of control as a disposal. In accordance with IAS 21, the Group must reclassify net cumulative FX gains / losses relating to these companies from the FX reserve to the income statement. In 2018, €4 million gain was transferred (2017: €11 million loss) (note 19).

## 57 Interests in other entities *(continued)*

**(e) Joint arrangements**

A joint arrangement is an arrangement of which two or more parties have joint control i.e. contractually agreed sharing of control of an arrangement where decisions about the relevant activities require the unanimous consent of the parties sharing control. These arrangements are identified by reference to the power sharing agreements, ensuring that unanimous consent of all parties is a requirement. Where the arrangement has been structured through a separate vehicle, the Group has accounted for it as a joint venture.

The table below shows the Group's principal joint arrangements for the year ended 31 December 2018.

All joint ventures investments are unquoted and are measured using the equity method of accounting. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for 2018 or cumulatively in respect of these entities. Other than disclosed in note 64, the Group does not have any further commitments or contingent liabilities in respect of these entities other than its investment to date.

**(f) Associates**

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it could be clearly demonstrated that this was not the case. There are no such cases where the Group holds 20% or more of the voting power of an entity, and is not considered to have significant influence over that entity.

The Group holds a number of investments in associates, none of which is individually material. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for 2018 or cumulatively in respect of these entities. The Group does not have any contingent liabilities in respect of these entities other than its investment to date.

**(g) Unconsolidated structured entities**

The Group has incorporated certain entities to provide investment opportunities to clients in international commercial properties. The Group considers that it sponsors these entities where it continues to be involved in the entity or if it is in receipt of income from the entity during the year. At 31 December 2018, there was 1 entity (2017: 1). At 31 December 2018 the total gross asset value of these entities was €32 million (2017: €51 million).

With regard to the remaining unconsolidated structured entity, it is an infrastructure fund manager whose principal activity is managing property investments. In 2018, the Group did not receive asset management fees from this entity.

This structured entity is not consolidated, the associated fee and commission income in relation to this entity was €nil for 2018 (2017: €0.4 million) and is included in the Group's financial statements.

The carrying amount of assets and liabilities in relation to this entity in the Group's financial statements is €nil (2017: €nil).

The Group's maximum exposure to loss in respect of its unconsolidated structured entities is €nil (2017: €nil).

In relation to this entity, there are no contractual arrangements that require the Group to provide financial support.

**(h) Coterminous year end dates**

The Group consolidates certain entities where the entity does not have the same year end reporting date as the Group. This is to ensure the reporting dates of these Group entities are kept consistent with the principal legal agreements used to engage in its core business.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial year.

| Joint arrangement | Holding | Classification | Country of operation | Nature of activities |
|---|---|---|---|---|
| First Rate Exchange Services Holdings Limited | 50% | Joint venture | UK | Sale of financial products through the UK PO relationship |
| Enterprise 2000 Fund | 50% | Joint venture | Ireland | Investment in venture capital companies |

## 58 Liquidity risk and profile

The tables below summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in Bank of Ireland Wealth and Insurance) at 31 December 2018 and 2017 based on contractual undiscounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity. Instead the Group manages liquidity risk based on expected cash flows.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,239 million and €11,003 million respectively (2017: €5,766 million and €10,878 million respectively) are excluded from this analysis as their repayment is limited to the financial assets backing these contracts.

Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the table below.

The balances will not agree directly to the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

| 2018<br>Contractual maturity | Demand<br>€m | Up to 3 months<br>€m | 3-12 months<br>€m | 1-5 years<br>€m | Over 5 years<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|
| Deposits from banks | 78 | 367 | - | - | - | 445 |
| Monetary Authorities secured funding | - | 254 | 234 | 2,197 | - | 2,685 |
| Customer accounts | 65,369 | 6,135 | 4,306 | 2,919 | 215 | 78,944 |
| Debt securities in issue | - | 1,234 | 158 | 5,238 | 2,370 | 9,000 |
| Subordinated liabilities | - | 30 | 88 | 844 | 1,814 | 2,776 |
| Contingent liabilities | 364 | 49 | 70 | 109 | 15 | 607 |
| Commitments | 14,206 | 36 | 852 | 57 | - | 15,151 |
| **Total** | **80,017** | **8,105** | **5,708** | **11,364** | **4,414** | **109,608** |

| 2017<br>Contractual maturity | Demand<br>€m | Up to 3 months<br>€m | 3-12 months<br>€m | 1-5 years<br>€m | Over 5 years<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|
| Deposits from banks | 87 | 699 | - | - | - | 786 |
| Monetary Authorities secured funding | - | 170 | 1,733 | 3,126 | - | 5,029 |
| Customer accounts | 61,131 | 7,505 | 4,915 | 2,434 | 41 | 76,026 |
| Debt securities in issue | - | 586 | 95 | 5,214 | 1,716 | 7,611 |
| Subordinated liabilities | 9 | 42 | 188 | 917 | 1,706 | 2,862 |
| Contingent liabilities | 366 | 100 | 106 | 108 | 18 | 698 |
| Commitments[1] | 14,674 | 22 | 1,113 | 54 | - | 15,863 |
| **Total** | **76,267** | **9,124** | **8,150** | **11,853** | **3,481** | **108,875** |

[1] *Comparative figures have been adjusted to reflect a change in assessment of the maturity dates for certain commitments. Commitments: 1- 5 years has been restated by €2,502 million from €2,556 million to €54 million and demand has been restated by €2,502 million from €12,172 million to €14,674 million with no change to total commitments.*

## 58 Liquidity risk and profile *(continued)*

As set out in note 22, derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered with economic hedging intent to which the Group does not apply hedge accounting. Derivatives held with hedging intent also include all derivatives to which the Group applies hedge accounting.

The following tables summarise the maturity profile of the Group's derivative liabilities. The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

| **2018**<br>**Derivative financial instruments** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| Derivatives held with hedging intent | | | | | | |
| Gross settled derivative liabilities - outflows | - | 124 | 589 | 1,830 | - | 2,543 |
| Gross settled derivative liabilities - inflows | - | (108) | (523) | (1,802) | - | (2,433) |
| **Gross settled derivative liabilities - net flows** | **-** | **16** | **66** | **28** | **-** | **110** |
| Net settled derivative liabilities | - | 113 | 265 | 733 | 121 | 1,232 |
| Total derivatives held with hedging intent | - | 129 | 331 | 761 | 121 | 1,342 |
| | | | | | | |
| Derivative liabilities held with trading intent | 627 | - | - | - | - | 627 |
| **Total derivative cash flows** | **627** | **129** | **331** | **761** | **121** | **1,969** |

| **2017**<br>**Derivative financial instruments** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| Derivatives held with hedging intent | | | | | | |
| Gross settled derivative liabilities - outflows | - | 328 | 162 | 571 | - | 1,061 |
| Gross settled derivative liabilities - inflows | - | (304) | (140) | (528) | - | (972) |
| **Gross settled derivative liabilities - net flows** | **-** | **24** | **22** | **43** | **-** | **89** |
| Net settled derivative liabilities | - | 86 | 213 | 726 | 287 | 1,312 |
| Total derivatives held with hedging intent | - | 110 | 235 | 769 | 287 | 1,401 |
| | | | | | | |
| Derivative liabilities held with trading intent | 631 | - | - | - | - | 631 |
| **Total derivative cash flows** | **631** | **110** | **235** | **769** | **287** | **2,032** |

## 59 Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

| 2018 | At fair value through profit or loss Mandatorily €m | At fair value through profit or loss Designated €m | Debt instruments at fair value through other comprehensive income €m | Held at amortised cost €m | Derivatives designated as hedging instruments €m | Insurance contracts €m | Total €m |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Cash and balances at central banks | - | - | - | 6,033 | - | - | 6,033 |
| Items in the course of collection from other banks | - | - | - | 259 | - | - | 259 |
| Trading securities | 29 | - | - | - | - | - | 29 |
| Derivative financial instruments | 1,268 | - | - | - | 456 | - | 1,724 |
| Other financial assets at fair value through profit or loss | 14,135 | - | - | - | - | - | 14,135 |
| Loans and advances to banks | 318 | - | - | 2,307 | - | - | 2,625 |
| Financial assets at FVOCI | - | - | 12,048 | - | - | - | 12,048 |
| Debt securities at amortised cost | - | - | - | 3,928 | - | - | 3,928 |
| Assets classified as held for sale | - | - | - | 602 | - | - | 602 |
| Loans and advances to customers | 261 | - | - | 76,102 | - | - | 76,363 |
| Interest in associates | - | 53 | - | - | - | - | 53 |
| Other financial assets | - | - | - | 278 | - | - | 278 |
| **Total financial assets** | **16,011** | **53** | **12,048** | **89,509** | **456** | **-** | **118,077** |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | - | - | - | 2,482 | - | - | 2,482 |
| Customer accounts | - | 887 | - | 78,012 | - | - | 78,899 |
| Items in the course of transmission to other banks | - | - | - | 268 | - | - | 268 |
| Derivative financial instruments | 1,486 | - | - | - | 333 | - | 1,819 |
| Debt securities in issue | - | 522 | - | 8,382 | - | - | 8,904 |
| Liabilities to customers under investment contracts | - | 5,239 | - | - | - | - | 5,239 |
| Insurance contract liabilities | - | - | - | - | - | 11,003 | 11,003 |
| Loss allowance provision on loan commitments and financial guarantees | - | - | - | 29 | - | - | 29 |
| Subordinated liabilities | - | - | - | 2,104 | - | - | 2,104 |
| Other financial liabilities | - | - | - | 2,444 | - | - | 2,444 |
| Short positions in trading securities | 16 | - | - | - | - | - | 16 |
| **Total financial liabilities** | **1,502** | **6,648** | **-** | **93,721** | **333** | **11,003** | **113,207** |

# 59 Measurement basis of financial assets and financial liabilities *(continued)*

| 2017 | At fair value through profit or loss: Derivatives designated as fair value hedging instruments €m | At fair value through profit or loss: Held for trading €m | At fair value through profit or loss: Designated upon initial recognition €m | At fair value through other comprehensive income (OCI): Available for sale €m | At fair value through other comprehensive income (OCI): Cash flow hedge derivatives €m | Held at amortised cost €m | Insurance contracts €m | Total €m |
|---|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 7,379 | - | 7,379 |
| Items in the course of collection from other banks | - | - | - | - | - | 307 | - | 307 |
| Trading securities | - | 68 | - | - | - | - | - | 68 |
| Derivative financial instruments | 234 | 1,587 | - | - | 527 | - | - | 2,348 |
| Other financial assets at fair value through profit or loss | - | - | 14,421 | - | - | - | - | 14,421 |
| Loans and advances to banks | - | - | - | - | - | 3,061 | - | 3,061 |
| AFS financial assets | - | - | - | 13,223 | - | - | - | 13,223 |
| Loans and advances to customers | - | - | - | - | - | 76,128 | - | 76,128 |
| Interest in associates | - | - | 59 | - | - | - | - | 59 |
| Other financial assets[1] | - | - | - | - | - | 254 | - | 254 |
| **Total financial assets** | **234** | **1,655** | **14,480** | **13,223** | **527** | **87,129** | **-** | **117,248** |
| **Financial liabilities** | | | | | | | | |
| Deposits from banks | - | - | - | - | - | 4,339 | - | 4,339 |
| Customer accounts | - | - | 1,363 | - | - | 74,506 | - | 75,869 |
| Items in the course of transmission to other banks | - | - | - | - | - | 263 | - | 263 |
| Derivative financial instruments | 300 | 1,659 | - | - | 28 | - | - | 1,987 |
| Debt securities in issue | - | - | 536 | - | - | 7,854 | - | 8,390 |
| Liabilities to customers under investment contracts | - | - | 5,766 | - | - | - | - | 5,766 |
| Insurance contract liabilities | - | - | - | - | - | - | 10,878 | 10,878 |
| Subordinated liabilities | - | - | - | - | - | 2,107 | - | 2,107 |
| Other financial liabilities[1] | - | - | - | - | - | 2,482 | - | 2,482 |
| Short positions in trading securities | - | - | - | - | - | - | - | - |
| **Total financial liabilities** | **300** | **1,659** | **7,665** | **-** | **28** | **91,551** | **10,878** | **112,081** |

The fair value and contractual amount due on maturity of financial liabilities designated at fair value upon initial recognition are shown in the table below.

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Fair values €m | Contractual amount due on maturity €m | Fair values €m | Contractual amount due on maturity €m |
| Customer accounts | 887 | 918 | 1,363 | 1,361 |
| Liabilities to customers under investment contracts | 5,239 | 5,239 | 5,766 | 5,766 |
| Debt securities in issue | 522 | 503 | 536 | 505 |
| **Financial liabilities designated at fair value through profit or loss** | **6,648** | **6,660** | **7,665** | **7,632** |

For financial assets and financial liabilities which are measured at FVTPL or through OCI, a description of the methods and assumptions used to calculate those fair values is set out in note 60.

[1] *Comparative figures have been updated to include other financial assets and other financial liabilities, presented within other assets and other liabilities on the balance sheet.*

# 60 Fair values of assets and liabilities

**Fair value of assets and liabilities**
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include DCF models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or of recent arm's length market transactions. These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

*Level 1*
Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

*Level 2*
Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

*Level 3*
Inputs are unobservable inputs for the asset or liability.

Transfers between different levels are assessed at the end of all reporting periods.

**(a) Financial assets and financial liabilities recognised and subsequently measured at fair value**
All financial instruments are initially recognised at fair value. The Group subsequently measures the following instruments at FVTPL or at FVOCI: trading securities, other financial assets and financial liabilities designated at FVTPL, derivatives, loans and advances to customers held at fair value, loans and advances to banks held at fair value, financial assets held at FVOCI, customer accounts held at fair value and debt securites in issue held at fair value. In 2017, AFS financial assets were measured at fair value in accordance with IAS 39. From 1 January 2018 financial assets which were classified as AFS have been reclassified as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9.

A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below. For fair value measurements categorised within level 3 of the fair value hierarchy, the valuation policies and procedures are developed by the management of the relevant business unit. The valuation process is documented before being reviewed and approved by senior management to ensure that the valuation method is consistent with market practice, that the output is reasonable and that the methodology is consistent both across the Group and compared to prior reporting periods.

*Loans and advances to customers held at fair value*
These consist of assets mandatorily measured at FVTPL, which predominantly relate to 'Life loan mortgage products'. Unlike a standard mortgage product, borrowers do not make any periodic repayments and the outstanding loan balance increases through the life of the loan as interest due is capitalised. The mortgage is typically repaid out of the proceeds of the sale of the property. These assets are valued using DCF models which incorporate unobservable inputs (level 3 inputs).

*Loans and advances to banks held at fair value*
These consist of assets mandatorily measured at FVTPL, and includes assets managed on a fair value basis by the life assurance business and those assets that do not meet the requirements in order to be measured at FVOCI or amortised cost.

The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on DCFs using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

*Financial assets at fair value through other comprehensive income (FVOCI)*
From 1 January 2018 financial assets which were classified as AFS under IAS 39 have been reclassified as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9. Further details are available in the Group accounting policies on pages 176 to 181.

Financial assets at FVOCI predominantly consist of government bonds and listed debt securities. Debt securities at amortised cost consist mainly of government bonds, asset backed securities and other debt securities. For these assets where an active market exists, fair value has been determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

*Financial assets and financial liabilities held for trading*
These instruments are valued using observable market prices (level 1 inputs), directly from a recognised pricing source or an independent broker or investment bank.

*Derivative financial instruments*
The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of DCF and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, FX rates, equity prices and counterparty credit (level 2 inputs).

The fair values of the Group's derivative financial liabilities reflect the impact of changes in own credit spreads derived from observable market data (debit valuation adjustment). The impact of the cost of funding derivative positions is also taken into account in determining the fair value of derivative financial instruments (funding valuation adjustment (FVA)). The funding cost is derived from observable market data; however the model may perform numerical procedures in the

## 60 Fair values of assets and liabilities *(continued)*

pricing such as interpolation when market data input values do not directly correspond to the exact parameters of the trade. Both methodologies are considered to use level 2 inputs.

Certain derivatives are valued using unobservable inputs relating to counterparty credit such as credit grade, which are significant to their valuation. The effect of using reasonably possible alternative assumptions in the valuation of these derivatives would be to increase their fair value by up to €4 million or decrease their fair value by up to €4 million, with a corresponding impact on the income statement. Where the impact of unobservable inputs is material to the valuation of the asset or liability, it is categorised as level 3 on the fair value hierarchy.

In addition a small number of derivative financial instruments are valued using significant unobservable inputs other than counterparty credit (level 3 inputs). However, changing one or more assumptions used in the valuation of these derivatives would not have a significant impact as they are entered into to hedge the exposure arising on certain customer accounts (see below), leaving the Group with no net valuation risk due to the unobservable inputs.

During the year, the Group refined the inputs into the derivative valuation adjustments for bid offer spreads, credit valuation adjustment (CVA) and funding valuation adjustment (FVA). The Group deemed these revisions to be changes in accounting estimates and has applied them prospectively in accordance with IAS8 'Accounting policies, changes in accounting estimates and errors'. The revisions resulted in a net gain of €43 million to the income statement.

***Other financial assets at fair value through profit or loss***
These consist of assets mandatorily at FVTPL, which are predominantly held for the benefit of unit linked policyholders, with any changes in valuation accruing to the policyholders. These assets consist principally of bonds, equities and unit trusts, which are traded on listed exchanges, are actively traded and have readily available prices. Substantially all of these assets are valued using valuation techniques which use observable market data i.e. level 1 or level 2 inputs. A small number of assets have been valued using DCF models, which incorporate unobservable inputs (level 3). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets.

***AFS financial assets***
From 1 January 2018 financial assets which were classified as AFS have been reclassified as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9.

Under IAS 39, for AFS financial assets for which an active market exists, fair value was determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

A small number of assets were valued using vendor prices, which were not considered to represent observable market data, or DCF models which incorporate unobservable inputs (level 3 inputs).

Securities with terms and conditions substantially similar to the NAMA subordinated debt trade in an active market. The quoted price of these securities has been used to value the NAMA subordinated debt (level 2 inputs).

***Interest in associates***
Investments in associates, which are venture capital investments, are accounted for at FVTPL and are valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines'. This requires the use of various inputs such as DCF analysis and comparison with the earnings multiples of listed comparative companies amongst others. Although the valuation of unquoted equity instruments is subjective by nature, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time. Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. As the inputs are unobservable, the valuation is deemed to be based on level 3 inputs.

***Customer accounts***
Customer accounts designated at FVTPL consist of deposits which contain an embedded derivative (typically an equity option). These instruments are typically valued using valuation techniques which use observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group or other comparable financial institutions (level 2 inputs).

A small number of customer accounts are valued using additional non-observable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these customer accounts would not have a significant impact as these customer accounts are hedged with offsetting derivatives (see above), leaving the Group with no net valuation risk due to those non-observable inputs.

***Liabilities to customers under insurance and investment contracts***
In line with the accounting policy set out on page 189, the fair value of liabilities to customers under both insurance and investment unit linked contracts is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the reporting date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

***Debt securities in issue***
Debt securities in issue with a fair value of €522 million (2017: €536 million) are measured at FVTPL, in order to reduce an accounting mismatch which would otherwise arise from hedging derivatives. Their fair value is based on valuation techniques incorporating observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to market observable credit spreads of similar instruments issued by the Group or other comparable financial institutions (level 2 inputs).

# 60 Fair values of assets and liabilities *(continued)*

A small number of the debt securities in issue are valued using additional unobservable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these debt securities in issue would not have a significant impact.

**(b) Financial assets and liabilities held at amortised cost**
For financial assets and financial liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

*Loans and advances to banks*
From 1 January 2018 loans and advances to banks have been reclassified from loans and receivables to either financial assets at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9. Further details are available in the Group accounting policies on pages 176 to 181.

The estimated fair value of floating rate placements and overnight placings which are held at amortised cost is their carrying amount. The estimated fair value of fixed interest bearing placements which are held at amortised cost is based on DCFs using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

*Loans and advances to customers held at amortised cost*
From 1 January 2018 loans and advances to customers have been reclassified from loans and receivables to either financial assets at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9. Further details are available in the Group accounting policies on pages 176 to 181.

The fair value of both fixed and variable rate loans and advances to customers held at amortised cost is estimated using valuation techniques which include the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the reporting date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs).

The method used to calculate the fair values of these assets has not changed under IFRS 9.

*Debt securities at amortised cost*
From 1 January 2018 financial assets which were classified as AFS under IAS 39 have been reclassified as financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL in accordance with IFRS 9. Further details are available in the Group accounting policies on pages 176 to 181.

For debt securities at amortised cost for which an active market exists, fair value has been determined directly from observable market process (level 1 inputs).

*Deposits from banks and customer accounts*
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on DCFs using interest rates for new deposits with similar remaining maturity (level 2 inputs).

*Debt securities in issue and subordinated liabilities*
The fair values of these instruments are calculated based on quoted market prices where available (level 1 inputs). For those notes where quoted market prices are not available, a DCF model is used based on a current yield curve appropriate to the Group for the remaining term to maturity. The yield curve used incorporates the effect of changes in the Group's own credit spread (level 2 and level 3 inputs).

**(c) Fair value on offsetting positions**
Where the Group manages certain financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Group applies the exception allowed under paragraph 48 of IFRS 13. That exception permits the Group to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, the Group measures the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

**(d) Fair value of non-financial assets**
***Investment properties***
Investment properties are carried at fair value as determined by external qualified property surveyors appropriate to the properties held. Fair values have been calculated using current trends in the market of property sales and rental yields in the retail, office and industrial property markets (level 2 inputs). Other inputs taken into consideration include occupancy rate forecasts, sales price expectations and letting prospects (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

*Property*
A revaluation of Group property was carried out as at 31 December 2018. All freehold and long leasehold commercial properties were valued by Lisney (or its partner, Sanderson Weatherall) as external valuers, with the exception of some select properties which were valued internally by the Group's qualified surveyors. External valuations were made on the basis of observable inputs such as comparable lettings and sales (level 2 inputs).

Unobservable inputs such as profile, lot size, layout and presentation of accommodation are also used (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

*Assets classified as held for sale*
In 2017, the fair value of the property held for sale was based on a Lisney valuation received in November 2017.

## 60 Fair values of assets and liabilities *(continued)*

The following table sets out the level of the fair value hierarchy for assets and liabilities held at fair value. Information is also given for items carried at amortised cost where the fair value is disclosed.

| | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 €m | Level 2 €m | Level 3 €m | Total €m | Level 1 €m | Level 2 €m | Level 3 €m | Total €m |
| **Financial assets held at fair value** | | | | | | | | |
| Trading securities | 29 | - | - | 29 | 68 | - | - | 68 |
| Derivative financial instruments | 1 | 1,705 | 18 | 1,724 | 3 | 2,301 | 44 | 2,348 |
| Loans and advances to customers | - | - | 261 | 261 | - | - | - | - |
| Loans and advances to banks | - | 318 | - | 318 | - | - | - | - |
| Other financial assets at FVTPL | 13,534 | 478 | 123 | 14,135 | 13,908 | 451 | 62 | 14,421 |
| Financial assets at FVOCI | 11,996 | 52 | - | 12,048 | - | - | - | - |
| AFS financial assets | - | - | - | - | 12,853 | 321 | 49 | 13,223 |
| Interest in associates | - | - | 53 | 53 | - | - | 59 | 59 |
| **Non-financial assets held at fair value** | | | | | | | | |
| Investment property | - | - | 1,037 | 1,037 | - | - | 912 | 912 |
| Property held at fair value | - | - | 170 | 170 | - | - | 155 | 155 |
| Assets classified as held for sale | - | - | - | - | - | - | 28 | 28 |
| | **25,560** | **2,553** | **1,662** | **29,775** | **26,832** | **3,073** | **1,309** | **31,214** |
| **Financial liabilities held at fair value** | | | | | | | | |
| Customer accounts | - | 860 | 27 | 887 | - | 1,360 | 3 | 1,363 |
| Derivative financial instruments | 2 | 1,810 | 7 | 1,819 | 1 | 1,985 | 1 | 1,987 |
| Liabilities to customers under investment contracts | - | 5,239 | - | 5,239 | - | 5,766 | - | 5,766 |
| Insurance contract liabilities | - | 11,003 | - | 11,003 | - | 10,878 | - | 10,878 |
| Debt securities in issue | - | 520 | 2 | 522 | - | 534 | 2 | 536 |
| Short positions in trading securities | 16 | - | - | 16 | - | - | - | - |
| | **18** | **19,432** | **36** | **19,486** | **1** | **20,523** | **6** | **20,530** |
| **Fair value of financial assets held at amortised cost** | | | | | | | | |
| Loans and advances to banks | 5 | 2,302 | - | 2,307 | - | 3,061 | - | 3,061 |
| Loans and advances to customers (including assets held for sale) | - | - | 73,220 | 73,220 | - | - | 73,075 | 73,075 |
| Debt securities at amortised cost | 3,901 | - | 12 | 3,913 | - | - | - | - |
| **Fair value of financial liabilities held at amortised cost** | | | | | | | | |
| Deposits from banks | - | 2,482 | - | 2,482 | - | 4,339 | - | 4,339 |
| Customer accounts | - | 78,017 | - | 78,017 | - | 74,521 | - | 74,521 |
| Debt securities in issue | 5,627 | 2,368 | 351 | 8,346 | 4,492 | 3,051 | 395 | 7,938 |
| Subordinated liabilities | 42 | 2,005 | 102 | 2,149 | 54 | 2,147 | 120 | 2,321 |

## 60 Fair values of assets and liabilities *(continued)*

| Movements in level 3 assets<br>2018 | Loans advances customers €m | Other financial assets at FVTPL €m | Derivative financial instruments €m | Available for sale financial assets €m | Interest in associates €m | Investment property €m | Property held at fair value €m | Assets classified as held for sale €m | Total €m |
|---|---|---|---|---|---|---|---|---|---|
| Opening Balance | - | 62 | 44 | 49 | 59 | 912 | 155 | 28 | 1,309 |
| Impact of adopting IFRS 9 on 1 January 2018 | 269 | 77 | - | (49) | - | - | - | - | 297 |
| **Opening Balance 1 January 2018** | **269** | **139** | **44** | **-** | **59** | **912** | **155** | **28** | **1,606** |
| **Exchange Adjustment** | | | | | | | | | |
| Total gains or losses in: | | | | | | | | | |
| Profit or loss | | | | | | | | | |
| - Net trading income | 14 | 14 | (4) | - | - | - | - | - | 24 |
| - Reversal of impairment charges | - | - | - | - | - | - | 4 | - | 4 |
| - Revaluation | - | - | - | - | - | 29 | - | - | 29 |
| - Impairment gains / (losses) on financial instruments | - | - | - | - | - | - | - | - | - |
| - Share of results of associates | - | - | - | - | 4 | - | - | - | 4 |
| - Life assurance investment income and gains | - | - | - | - | - | - | - | - | - |
| - Other operating income | - | 2 | - | - | - | - | - | - | 2 |
| - Gain on disposal of assets held for sale | - | - | - | - | - | - | - | 7 | 7 |
| Other comprehensive income | - | - | - | - | - | - | 11 | - | 11 |
| Additions | - | 2 | - | - | 5 | 123 | - | - | 130 |
| Disposals | - | (22) | - | - | (15) | (12) | - | (35) | (84) |
| Redemptions | (22) | (12) | - | - | - | - | - | - | (34) |
| Reclassifications | - | - | - | - | - | (15) | - | - | (15) |
| Transfers out of level 3 | | | | | | | | | |
| - from level 3 to level 2 | - | - | (27) | - | - | - | - | - | (27) |
| Transfers into level 3 | | | | | | | | | |
| - from level 2 to level 3 | - | - | 5 | - | - | - | - | - | 5 |
| **Closing balance** | **261** | **123** | **18** | **-** | **53** | **1,037** | **170** | **-** | **1,662** |
| **Other transfers** | | | | | | | | | |
| - from level 1 to level 2 | - | - | - | - | - | - | - | - | - |
| - from level 2 to level 1 | - | - | - | - | - | - | - | - | - |
| **Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year** | | | | | | | | | |
| - Net trading income / (expense) | 15 | 14 | (4) | - | - | - | - | - | 25 |
| - Reversal of impairment charges | - | - | - | - | - | - | 1 | - | 1 |
| - Revaluation | - | - | - | - | - | - | - | - | - |
| - Life assurance investment income and gains | - | - | - | - | - | 29 | - | - | 29 |
| - Other operating income | - | 1 | - | - | - | - | - | - | 1 |
| - Share of results of associates | - | - | - | - | 4 | - | - | - | 4 |

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2018 which were unavailable at 31 December 2017.The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

# 60 Fair values of assets and liabilities *(continued)*

| Movements in level 3 assets<br>2017 | Other financial assets at FVTPL | Derivative financial instruments | Available for sale financial assets | Interest in associates | Investment property | Property held at fair value | Assets classified as held for sale | Total |
|---|---|---|---|---|---|---|---|---|
| Opening Balance | 49 | 54 | 75 | 56 | 864 | 167 | - | 1,265 |
| Exchange Adjustment | - | (2) | - | - | (9) | (1) | - | (12) |
| Total gains or losses in: | | | | | | | | |
| Profit or loss | | | | | | | | |
| - Net trading income / (expense) | 13 | (2) | - | - | - | - | - | 11 |
| - Reversal of impairment charges | - | - | - | - | - | 4 | - | 4 |
| - Revaluation | - | - | - | - | - | 8 | - | 8 |
| - Impairment charge | - | - | - | - | - | - | - | - |
| - Share of results of associates | - | - | - | 3 | - | - | - | 3 |
| - Life assurance investment income and gains | - | - | - | - | 42 | - | - | 42 |
| - Other operating income | - | - | 18 | - | (2) | - | - | 16 |
| Other comprehensive income | - | - | (6) | - | - | 8 | - | 2 |
| Additions | - | - | 5 | 11 | 74 | - | - | 90 |
| Disposals | - | - | (39) | (11) | (57) | - | (3) | (110) |
| Redemptions | - | - | (4) | - | - | - | - | (4) |
| Reclassifications | - | - | - | - | - | (31) | 31 | - |
| Transfers out of level 3 | | | | | | | | |
| - from level 3 to level 2 | - | (8) | - | - | - | - | - | (8) |
| Transfers into level 3 | | | | | | | | |
| - from level 2 to level 3 | - | 2 | - | - | - | - | - | 2 |
| **Closing balance** | **62** | **44** | **49** | **59** | **912** | **155** | **28** | **1,309** |
| **Other transfers** | | | | | | | | |
| - from level 1 to level 2 | - | - | - | - | - | - | - | - |
| - from level 2 to level 1 | - | - | 4 | - | - | - | - | 4 |
| Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year | | | | | | | | |
| - Net trading income / (expense) | 14 | (5) | - | - | - | - | - | 9 |
| - Reversal of impairment charges | - | - | - | - | - | 3 | - | 3 |
| - Revaluation | - | - | - | - | - | 8 | - | 8 |
| - Life assurance investment income and gains | - | - | - | - | 42 | - | - | 42 |
| - Other operating income | - | - | 20 | - | (2) | - | - | 18 |
| - Share of results of associates | - | - | - | 3 | - | - | - | 3 |

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2017 which were unavailable at 31 December 2016.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

The transfer from level 2 to level 1 arose as a result of the availability of level 1 inputs at 31 December 2017 which were unavailable at 31 December 2016.

# 60 Fair values of assets and liabilities *(continued)*

| Movements in level 3 liabilities | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Customer accounts €m | Derivative financial instruments €m | Debt securities in issue €m | Total €m | Customer accounts €m | Derivative financial instruments €m | Debt securities in issue €m | Total €m |
| Opening balance | 3 | 1 | 2 | 6 | 19 | 1 | 660 | 680 |
| Exchange adjustments | - | - | - | - | - | - | - | - |
| Total gains or losses in: | | | | | | | | |
| Profit or loss | | | | | | | | |
| - Net trading (income) | (2) | 9 | - | 7 | 4 | 2 | 2 | 8 |
| - OCI | (1) | - | - | (1) | - | - | - | - |
| Additions | 30 | - | - | 30 | 3 | - | 2 | 5 |
| Disposals | | | | | | | | |
| Redemptions and maturities | - | - | - | - | - | (1) | (128) | (129) |
| Transfers out of level 3 | | | | | | | | |
| - from level 3 to level 2 | (3) | (6) | - | (9) | (23) | (1) | (534) | (558) |
| Transfers into level 3 | | | | | | | | |
| - from level 2 to level 3 | - | 3 | - | 3 | - | - | - | - |
| **Closing balance** | **27** | **7** | **2** | **36** | **3** | **1** | **2** | **6** |
| Total gains / (losses) for the year included in profit or loss for level 3 liabilities at the end of the reporting year | | | | | | | | |
| Net trading income | 1 | (6) | - | (5) | - | (1) | (1) | (2) |

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities.

There were no transfers between levels 1 and 2.

# 60 Fair values of assets and liabilities *(continued)*

**Quantitative information about fair value measurements using significant unobservable inputs (Level 3)**

| Level 3 assets | Valuation technique | Unobservable input | Fair value 2018 €m | Fair value 2017 €m | Range 2018 % | Range 2017 % |
|---|---|---|---|---|---|---|
| Loans and advances to customers | Discounted cash flow | Discount on market rate[1]<br>Collateral charges | 261 | - | 2.75%-4.5%<br>1.50%-7.5% | - |
| Other financial assets at fair value through profit or loss | Discounted cash flow<br>Equity Value less discount | Discount rate[1]<br>Discount | 123 | 62 | Third party pricing<br>0%-50% | Third party pricing<br>0%-50% |
| Derivative financial instruments | Discounted cash flow<br>Option pricing model | Counterparty credit spread[2] | 18 | 44 | 0%-4% | 0%-4%<br>Third party pricing |
| AFS financial assets | Market comparable companies | Discount rate[1]<br>EBITDA multiple[3]<br>Liquidity factor | - | 49 | - | Third party pricing |
| Interest in associates | Market comparable companies | Price of recent investment<br>Earnings multiple[3]<br>Revenue multiple[3] | 53 | 59 | Third party pricing | Third party pricing |
| Investment property | Market comparable property transactions | Property valuation assumptions | 1,037 | 912 | Third party pricing | Third party pricing |
| Property held at fair value | Market comparable property transactions | Property valuation assumptions | 170 | 155 | Third party pricing | Third party pricing |

[1] *The discount rate represents a range of discount rates that market participants would use in valuing these investments.*
[2] *The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.*
[3] *The Group's multiples represent multiples that market participants would use in valuing these investments.*

*Note: 100 basis points = 1%*

# 60 Fair values of assets and liabilities *(continued)*

**Quantitative information about fair value measurements using significant unobservable inputs (Level 3) (continued)**

| Level 3 liabilities | Valuation technique | Unobservable input | Fair value 2018 €m | Fair value 2017 €m | Range 2018 % | Range 2017 % |
|---|---|---|---|---|---|---|
| Customer accounts | Discounted cash flow<br>Option pricing model | Own credit spread[1] | 27 | 3 | 0%-4% | 0%-4% |
| Derivative financial instruments | Discounted cash flow<br>Option pricing model | Counterparty credit spread[1] | 7 | 1 | 0%-4% | 0%-4%<br>Third party pricing |
| Debt securities in issue | Discounted cash flow | Own credit spread[1] | 2 | 2 | 0%-0.5% | 0%-4% |

The carrying amount and the fair value of the Group's financial assets and liabilities which are carried at amortised cost are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

| Non-trading financial instruments | 2018 Carrying amount €m | 2018 Fair values €m | 2017 Carrying amount €m | 2017 Fair values €m |
|---|---|---|---|---|
| **Assets** | | | | |
| Loans and advances to banks | 2,307 | 2,307 | 3,061 | 3,061 |
| Loans and advances to customers (including assets held for sale) | 76,102 | 73,220 | 76,128 | 73,075 |
| Debt securities at amortised cost | 3,928 | 3,913 | - | - |
| **Liabilities** | | | | |
| Deposits from banks | 2,482 | 2,482 | 4,339 | 4,339 |
| Customer accounts | 78,012 | 78,017 | 74,506 | 74,521 |
| Debt securities in issue | 8,382 | 8,346 | 7,854 | 7,938 |
| Subordinated liabilities | 2,104 | 2,149 | 2,107 | 2,321 |

[1] *The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.*

*Note: 100 basis points = 1%*

# 61 Transferred financial assets

| | Carrying amount of transferred assets €m | Carrying amount of associated liabilities[1] €m | Fair value of transferred assets €m | Fair value of associated liabilities[1] €m | Net fair value position €m |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **Securitisation** | | | | | |
| Loans and receivables | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[2] | 531 | 610 | 497 | 595 | (98) |
| **Sale and repurchase / similar products** | | | | | |
| Financial assets at FVOCI | 38 | 39 | - | - | - |
| Debt securities at amortised cost | 28 | 28 | - | - | - |
| **2017** | | | | | |
| **Securitisation** | | | | | |
| Loans and receivables | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[2] | 633 | 748 | 611 | 729 | (118) |
| **Sale and repurchase / similar products** | | | | | |
| AFS financial assets[3] | 147 | 144 | n/a | n/a | n/a |

The Group has transferred certain financial assets that are not derecognised from the Group's balance sheet. Such arrangements are securitisations and sale or repurchase agreements. The Group is exposed to substantially all risks and rewards including credit and market risk associated with the transferred assets.

The Group has not entered into any agreements on the sale of assets that entail the Group's continuing involvement in derecognised financial assets.

*[1] For the purposes of this disclosure, associated liabilities include liabilities issued by securitisation special purpose entity (SPEs), held by other Group entities.*

*[2] For each securitisation the relevant loan book / pool is ring-fenced whereby the cash flows associated with these assets can only be used to repay the related notes holders plus associated issuance fees / costs.*

*[3] Assets sold or transferred subject to repurchase agreements or similar products are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*

*n/a: Not applicable as arrangement has recourse to assets other than the transferred assets.*

## 62 Offsetting financial assets and liabilities

The following tables set out the effect or potential effect of netting arrangements on the Group's financial position. This includes the effect or potential effect of rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

| Assets | Gross amounts of recognised financial assets €m | Gross amounts of recognised financial liabilities set off in the balance sheet €m | Net amounts of financial assets presented in the balance sheet €m | Related amounts not set off in the balance sheet: Financial[1] instruments €m | Related amounts not set off in the balance sheet: Cash[2] collateral received €m | Net amount €m |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Derivative financial assets | 1,723 | - | 1,723 | (1,307) | (169) | 247 |
| Loans and advances to customers | 376 | (376) | - | - | - | - |
| **Total** | **2,099** | **(376)** | **1,723** | **(1,307)** | **(169)** | **247** |
| **2017** | | | | | | |
| Derivative financial assets | 2,057 | - | 2,057 | (1,395) | (583) | 79 |
| Loans and advances to customers | 942 | (942) | - | - | - | - |
| **Total** | **2,999** | **(942)** | **2,057** | **(1,395)** | **(583)** | **79** |

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

| Liabilities | Gross amounts of recognised financial liabilities €m | Gross amounts of recognised financial assets set off in the balance sheet €m | Net amounts of financial liabilities presented in the balance sheet €m | Related amounts not set off in the balance sheet: Financial[3] instruments €m | Related amounts not set off in the balance sheet: Cash[4] collateral pledged €m | Net amount €m |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Derivative financial liabilities | 1,806 | - | 1,806 | (1,307) | (409) | 90 |
| Customer deposits | 376 | (376) | - | - | - | - |
| **Total** | **2,182** | **(376)** | **1,806** | **(1,307)** | **(409)** | **90** |
| **2017** | | | | | | |
| Derivative financial liabilities | 1,914 | - | 1,914 | (1,395) | (465) | 54 |
| Customer deposits | 942 | (942) | - | - | - | - |
| **Total** | **2,856** | **(942)** | **1,914** | **(1,395)** | **(465)** | **54** |

The 'Financial Instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements such as an International Swaps and Derivatives Association (ISDA) Master agreement. The agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities are settled on a gross basis: however each party to the master netting agreement has the option to settle all such amounts on a net basis in the event of default of the other party.

[1] *Amounts of €1,307 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria (2017: €1,395 million).*
[2] *Cash collateral amounts disclosed reflect the maximum collateral available for offset. Cash collateral received is reported within deposits from banks (see note 40).*
[3] *Amounts of €1,307 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria (2017: €1,395 million).*
[4] *Cash collateral amounts disclosed reflect the maximum collateral available for offset.*

## 63 Dividend per ordinary share

On 23 February 2018, the Board recommended a dividend of 11.5 cent per ordinary share, €124 million in total, which was approved at the Annual General Meeting (AGM) on 20 April 2018 and paid on 24 May 2018. This dividend has been accounted for in shareholders' equity as an appropriation of retained earnings for 2018.

| 2018 | Cent per share | €m |
|---|---|---|
| Final dividend paid in respect of the year ended 31 December 2017 | 11.5 | 124 |

## 64 Contingent liabilities and commitments

The table gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

Loss allowance provisions of €29 million recognised on loan commitments and guarantees and irrevocable letters of credit are shown in note 46. Provisions on all other contingent liabilities are shown in note 45.

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

**Guarantees and letters of credit** are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

**Other contingent liabilities** primarily include performance bonds and are generally short-term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is also party to legal, regulatory, taxation and other actions arising out of its normal business operations.

In February 2019, the Group received a letter before claim from investors in Eclipse film finance schemes asserting various claims in connection with the design promotion and operation of such schemes. The Group's involvement in these schemes was limited to the provision of commercial finance. The Group was not the designer, promoter or operator in respect of any of the schemes. The claims asserted are at a very early stage. Based on the facts currently known, it is not practicable to predict the outcome of these claims as alleged, including the timing or possible aggregate impact.

**Documentary credits** commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

**Commitments** to lend are agreements to lend to a customer in the future, subject to certain conditions. Included within total commitments above is an amount of €57 million of unrecognised loan commitments to the Group's joint ventures (2017: €109 million).

| | 2018 €m | 2017 €m |
|---|---|---|
| **Contingent liabilities** | | |
| Guarantees and irrevocable letters of credit | 354 | 445 |
| Acceptances and endorsements | 6 | 5 |
| Other contingent liabilities | 247 | 249 |
| | **607** | **699** |
| **Loan commitments** | | |
| Documentary credits and short-term trade related transactions | 59 | 71 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | |
| - Revocable or irrevocable with original maturity of 1 year or less | 11,569 | 12,618 |
| - Irrevocable with original maturity of over 1 year | 3,523 | 3,174 |
| | **15,151** | **15,863** |

## 65 IAS 39 to IFRS 9 transitional disclosures

The following table shows the original measurement categories in accordance with IAS39 and the new measurement under IFRS 9 for the Group's financial assets and financial liabilities.

| Financial assets<br>IAS 39 balance sheet line item | Note | Classification under IAS 39 | Carrying amount under IAS 39 31 December 2017 €m | Classification under IFRS 9 | Carrying amount under IFRS 9 1 January 2018 €m | IFRS 9 balance sheet line item |
|---|---|---|---|---|---|---|
| Cash and balances at central banks | | Loans and receivables | 7,379 | Amortised cost | 7,377 | Cash and balances at central banks |
| Items in the course of collection from other banks | | Loans and receivables | 307 | Amortised cost | 307 | Items in the course of collection from other banks |
| Trading securities | | FVTPL | 68 | FVTPL (mandatory) | 68 | Trading securities |
| Derivative financial instruments (assets)[1] | 22 | FVTPL | 2,348 | FVTPL (mandatory) | 2,348 | Derivative financial instruments (assets) |
| Other financial assets at FVTPL | 23 | FVTPL | 14,421 | FVTPL (mandatory) | 14,421 | Other financial assets at FVTPL |
| Loans and advances to banks | 24 | Loans and receivables | 3,061 | Amortised cost | 2,551 | Loans and advances to banks at amortised cost |
| | | | | FVTPL (mandatory) | 509 | Loans and advances to banks at FVTPL |
| AFS financial assets | 27 | AFS | 13,223 | FVOCI | 10,118 | Debt instruments at FVOCI |
| | | | | FVTPL (mandatory) | 364 | Other financial assets at FVTPL |
| | | | | Amortised cost | 2,749 | Debt securities at amortised cost |
| Loans and advances to customers | 29 | Loans and receivables | 76,128 | Amortised cost | 75,580 | Loans and advances to customers at amortised cost |
| | | | | Amortised cost | 19 | Debt securities at amortised cost |
| | | | | FVTPL (mandatory) | 269 | Loans and advances to customers at FVTPL |
| | | | | FVTPL (mandatory) | 35 | Other financial assets at FVTPL |
| Interest in associates | 32 | FVTPL | 59 | FVTPL | 59 | Interest in associates |
| Other assets | 38 | Loans and receivables | 254 | Amortised cost | 254 | Other assets |
| **Total** | | | **117,248** | | **117,028** | |

[1] *At 31 December 2017, €527 million of derivative financial instruments carried as assets were cash flow hedge derivatives.*

## 65 IAS 39 to IFRS 9 transitional disclosures *(continued)*

| Financial liabilities<br>IAS 39 balance sheet line item | Note | Classification under IAS 39 | Carrying amount under IAS 39 31 December 2017 €m | Classification under IFRS 9 | Carrying amount under IFRS 9 1 January 2018 €m | IFRS 9 balance sheet line item |
|---|---|---|---|---|---|---|
| Deposits from banks | 40 | Amortised cost | 4,339 | Amortised cost | 4,339 | Deposits from banks |
| Customer accounts | 41 | Amortised cost | 74,506 | Amortised cost | 74,506 | Customer accounts at amortised cost |
| | | FVTPL (designated) | 1,363 | FVTPL (designated) | 1,363 | Customer accounts at FVTPL |
| Items in the course of transmission to other banks | | Amortised cost | 263 | Amortised cost | 263 | Items in the course of transmission to other banks |
| Derivative financial instruments (liabilities)[1] | 22 | FVTPL | 1,987 | FVTPL (mandatory) | 1,987 | Derivative financial instruments (liabilities) |
| Debt securities in issue | 42 | Amortised cost | 7,854 | Amortised cost | 7,854 | Debt securities in issue at amortised cost |
| | | FVTPL (designated) | 536 | FVTPL (designated) | 536 | Debt securities in issue at FVTPL |
| Liabilities to customers under investment contracts | 43 | FVTPL (designated) | 5,766 | FVTPL (designated) | 5,766 | Liabilities to customers under investment contracts |
| Subordinated liabilities | 48 | Amortised cost | 2,107 | Amortised cost | 2,107 | Subordinated liabilities |
| Other liabilities - accruals and deferred income | 44 | Amortised cost | 151 | Amortised cost | 41 | Other liabilities - accruals and deferred income |
| Loss allowance provision on loan commitments and financial guarantees | 46 | Provisions | - | Provisions | 36 | Loss allowance provision on loan commitments and financial guarantees |
| **Total** | | | **98,872** | | **98,798** | |

[1] *At 31 December 2017, €28 million of derivative financial instruments carried as liabilities were cash flow hedge derivatives.*

## 65 IAS 39 to IFRS 9 transitional disclosures *(continued)*

The basis of classification of financial assets under IFRS 9 depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

In order to be accounted for at amortised cost or FVOCI, it is necessary for individual instruments to have contractual cash flows that are solely payments of principal and interest (SPPI).

Within the Wealth and Insurance operating segment, assets which were designated at FVTPL under IAS 39, together with loans and advances to banks which were classified as loans and receivables, have been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

The majority of the Group's AFS debt instruments have been classified as FVOCI or at amortised cost under IFRS 9, depending on the business model in which they are held.

Certain of the Group's AFS debt instruments, principally NAMA subordinated bonds, have been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

AFS equity instruments have also been mandatorily classified at FVTPL under IFRS 9 as they do not have contractual cash flows that are SPPI.

Certain loans and advances to customers have been mandatorily classified at FVTPL under IFRS 9. These loans represent the Life Loan mortgage product. The cash flows of these Life Loans are not considered to consist of SPPI, and as such are classified as FVTPL.

The following table provides a reconciliation of the Group's balance sheet by measurement category from IAS 39 to IFRS 9 at 1 January 2018.

| Assets | Carrying amount under IAS 39 31 December 2017 €m | Reclassification €m | Remeasurement €m | Carrying amount under IFRS 9 1 January 2018 €m |
|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | |
| **Cash and balances at central banks** | | | | |
| Opening balance | 7,379 | - | - | 7,379 |
| Increase in impairment loss allowance | - | - | (2) | (2) |
| **Total cash and balances at central banks** | **7,379** | **-** | **(2)** | **7,377** |
| | | | | |
| **Loans and advances to banks** | | | | |
| Opening balance | 3,061 | - | - | 3,061 |
| To loans and advances to banks at fair value through profit or loss[1] | - | (509) | - | (509) |
| Increase in impairment loss allowance | - | - | (1) | (1) |
| **Total loans and advances to banks** | **3,061** | **(509)** | **(1)** | **2,551** |
| | | | | |
| **Debt securities at amortised cost** | | | | |
| Opening balance | - | - | - | - |
| From AFS financial assets | - | 2,766 | - | 2,766 |
| From loans and advances to customers | - | 19 | - | 19 |
| Release of AFS reserve | - | - | (16) | (16) |
| Increase in impairment loss allowance | - | - | (1) | (1) |
| **Total debt securities at amortised cost** | **-** | **2,785** | **(17)** | **2,768** |
| | | | | |
| **Loans and advances to customers** | | | | |
| Opening balance | 76,128 | - | - | 76,128 |
| To loans and advances to customers at fair value through profit or loss[2] | - | (281) | - | (281) |
| To debt securities at amortised cost | - | (19) | - | (19) |
| To other financial assets at fair value through profit or loss | - | (41) | - | (41) |
| From other liabilities - accruals and deferred income | - | (110) | - | (110) |
| From AFS reserve | - | - | 8 | 8 |
| Increase in impairment loss allowance | - | - | (113) | (113) |
| Other remeasurements | - | - | 8 | 8 |
| **Total loans and advances to customers** | **76,128** | **(451)** | **(97)** | **75,580** |
| | | | | |
| **Other assets** | **254** | **-** | **-** | **254** |
| **Items in the course of collection from other banks** | **307** | **-** | **-** | **307** |
| **Total financial assets at amortised cost** | **87,129** | **1,825** | **(117)** | **88,837** |

[1] *The carrying amount of loans and advances to customers reclassified to financial assets at FVTPL had an impairment provision under IAS 39. Financial assets at FVTPL are not subject to impairment under IFRS 9.*

[2] *Loans and advances to customers that fail the solely payment of principal and interest (SPPI) test are mandatorily measured at FVTPL. These amounts will continue to be included within the loans and advances to customers line item on the balance sheet with a split out in note 29 to the financial statements. For the purpose of the transitional disclosures, these amounts have been split in order to show the amount that will be remeasured from amortised cost to FVTPL.*

# 65 IAS 39 to IFRS 9 transitional disclosures *(continued)*

| **Assets** *(continued)* | **Carrying amount under IAS 39 31 December 2017 €m** | **Reclassification €m** | **Remeasurement €m** | **Carrying amount under IFRS 9 1 January 2018 €m** |
|---|---|---|---|---|
| **Financial assets measured at FVOCI** | | | | |
| **Debt instruments at FVOCI** | | | | |
| Opening balance | - | - | - | - |
| From AFS financial assets | - | 10,118 | - | 10,118 |
| **Total debt instruments at FVOCI** | **-** | **10,118** | **-** | **10,118** |
| **Financial assets measured at fair value through profit or loss** | | | | |
| **Trading securities** | **68** | **-** | **-** | **68** |
| **Derivative financial instruments** | **2,348** | **-** | **-** | **2,348** |
| **Loans and advances to customers mandatorily at fair value through profit or loss** | | | | |
| Opening balance | - | - | - | - |
| From loans and advances to customers at amortised cost | - | 281 | - | 281 |
| Reversal in impairment loss allowance (IAS 39)[1] | - | - | 14 | 14 |
| Adjustment to fair value | - | - | (26) | (26) |
| **Total loans and advances to customers** | **-** | **281** | **(12)** | **269** |
| **Loans and advances to banks mandatorily at fair value through profit or loss** | | | | |
| Opening balance | - | - | - | - |
| From loans and advances to banks at amortised cost | - | 509 | - | 509 |
| **Total loans and advances to banks** | **-** | **509** | **-** | **509** |
| **Other financial assets at fair value through profit or loss** | | | | |
| Opening balance | 14,421 | - | - | 14,421 |
| From AFS financial assets | - | 339 | - | 339 |
| From loans and advances to customers | - | 41 | - | 41 |
| Reversal in impairment loss allowance (IAS 39)[1] | - | - | 10 | 10 |
| Adjustment to fair value | - | - | 9 | 9 |
| **Other financial assets at fair value through profit or loss** | **14,421** | **380** | **19** | **14,820** |
| **Interest in associates** | **59** | **-** | **-** | **59** |
| **Total financial assets at fair value through profit or loss** | **16,896** | **1,170** | **7** | **18,073** |
| **AFS financial assets** | | | | |
| Opening balance | 13,223 | - | - | 13,223 |
| To debt securities at amortised cost | - | (2,766) | - | (2,766) |
| To debt instruments at FVOCI | - | (10,118) | - | (10,118) |
| To other financial assets at fair value through profit or loss | - | (339) | - | (339) |
| **Total AFS financial assets** | **13,223** | **(13,223)** | **-** | **-** |
| **Total exclusive of net deferred tax** | **117,248** | **(110)** | **(110)** | **117,028** |
| **Net deferred tax asset / liability** | | | | |
| Net opening balance | 1,184 | - | - | 1,184 |
| Tax on impairment loss allowance - remeasurement | - | - | 32 | 32 |
| Other changes | - | - | 1 | 1 |
| **Total net deferred tax** | **1,184** | **-** | **33** | **1,217** |
| **Total inclusive of net deferred tax** | **118,432** | **(110)** | **(77)** | **118,245** |

[1] *The carrying amount of loans and advances to customers reclassified to financial assets at FVTPL had an impairment provision under IAS 39. Financial assets at FVTPL are not subject to impairment under IFRS 9.*

## 65 IAS 39 to IFRS 9 transitional disclosures *(continued)*

| Liabilities | Carrying amount under IAS 39 31 December 2017 €m | Reclassification €m | Remeasurement €m | Carrying amount under IFRS 9 1 January 2018 €m |
|---|---|---|---|---|
| **Financial liabilities at amortised cost** | | | | |
| Deposits from banks | 4,339 | - | - | 4,339 |
| Customer accounts | 74,506 | - | - | 74,506 |
| Items in the course of transmission to other banks | 263 | - | - | 263 |
| Debt securities in issue | 7,854 | - | - | 7,854 |
| Subordinated liabilities | 2,107 | - | - | 2,107 |
| Other liabilities - accruals and deferred income | 151 | (110) | - | 41 |
| **Total financial liabilities at amortised cost** | **89,220** | **(110)** | **-** | **89,110** |
| **Loss allowance provision on loan commitments and financial guarantees** | | | | |
| Opening balance | - | - | - | - |
| Increase in loss allowance provision | - | - | 36 | 36 |
| **Total loss allowance provision on loan commitments and financial guarantees** | **-** | **-** | **36** | **36** |
| **Financial liabilities at fair value through profit or loss** | | | | |
| Customer accounts | 1,363 | - | - | 1,363 |
| Derivative financial instruments | 1,987 | - | - | 1,987 |
| Debt securities in issue | 536 | - | - | 536 |
| Liabilities to customers under investment contracts | 5,766 | - | - | 5,766 |
| **Total financial liabilities at fair value through profit or loss** | **9,652** | **-** | **-** | **9,652** |
| **Total** | **98,872** | **(110)** | **36** | **98,798** |

This table provides a summary of the impact of remeasurement on the assets, liabilities and shareholders' equity of the Group on the adoption of IFRS 9 at 1 January 2018:

| Impact of adopting IFRS 9 on 1 January 2018 | €m |
|---|---|
| Assets | (77) |
| Liabilities | (36) |
| **Total impact on assets and liabilities** | **(113)** |
| **Impact on equity** | **(113)** |

# 65 IAS 39 to IFRS 9 transitional disclosures *(continued)*

| Equity | Carrying amount under IAS 39 31 December 2017 €m | Reclassification €m | Remeasurement €m | Carrying amount under IFRS 9 1 January 2018 €m |
|---|---|---|---|---|
| **Liability credit reserve** | | | | |
| Opening balance | - | - | - | - |
| From retained earnings | - | (13) | - | (13) |
| **Total liability credit reserve** | **-** | **(13)** | **-** | **(13)** |
| **AFS** | | | | |
| Opening balance | 341 | - | - | 341 |
| To debt instruments at FVOCI | - | (269) | - | (269) |
| To retained earnings | - | (65) | - | (65) |
| Reduction in AFS related to assets at amortised cost | - | - | (7) | (7) |
| **Total AFS reserve** | **341** | **(334)** | **(7)** | **-** |
| **Debt Instruments at FVOCI reserve** | | | | |
| Opening balance | - | - | - | - |
| From AFS reserve | - | 269 | - | 269 |
| Increase in impairment loss allowance | - | - | 3 | 3 |
| **Total debt instruments at FVOCI reserve** | **-** | **269** | **3** | **272** |
| **Retained earnings** | | | | |
| Opening balance | 7,333 | - | - | 7,333 |
| Impairment loss allowance - remeasurement | - | - | (156) | (156) |
| From AFS reserve | - | 65 | - | 65 |
| To liability credit reserve | - | 13 | - | 13 |
| Other remeasurements | - | - | 15 | 15 |
| Deferred tax on remeasurement | - | - | 32 | 32 |
| **Total impact on retained earnings** | **7,333** | **78** | **(109)** | **7,302** |
| **Total impact on equity** | **7,674** | **-** | **(113)** | **7,561** |

## 65 IAS 39 to IFRS 9 transitional disclosures *(continued)*

The following table provides the reconciliation of the Group's closing impairment provision in accordance with IAS 39 and provisions in accordance with IAS 37 to the opening loss allowance determined in accordance with IFRS 9.

| Impairment loss allowance | Carrying amount under IAS 39 31 December 2017 €m | Reclassification €m | Remeasurement €m | Carrying amount under IFRS 9 1 January 2018 €m |
|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | |
| Opening balance | 2,359 | - | - | 2,359 |
| To financial assets at fair value through profit or loss | - | (8) | - | (8) |
| To loans and advances to customers at fair value through profit or loss | - | (14) | - | (14) |
| Increase in impairment loss allowance | - | - | 117 | 117 |
| **Total assets at amortised cost** | **2,359** | **(22)** | **117** | **2,454** |
| **Financial assets measured at FVOCI reserve** | | | | |
| Opening balance | - | - | - | - |
| Increase in impairment loss allowance | - | - | 3 | 3 |
| **Total financial assets measured at FVOCI** | **-** | **-** | **3** | **3** |
| **Fair value through profit or loss** | | | | |
| **Loans and advances to customers mandatorily at fair value through profit or loss** | | | | |
| Opening balance | - | - | - | - |
| From financial assets at amortised cost – loans and advances to customers | - | 14 | - | 14 |
| Reversal in impairment loss allowance (IAS 39)[1] | - | - | (14) | (14) |
| **Total loans and advances to customers mandatorily at fair value through profit or loss** | **-** | **14** | **(14)** | **-** |
| **Other financial assets at fair value through profit or loss** | | | | |
| Opening balance | - | - | - | - |
| From financial assets at amortised cost – loans and advances to customers | - | 8 | - | 8 |
| From AFS financial assets | - | 2 | - | 2 |
| Reversal in impairment loss allowance (IAS 39)[1] | - | - | (10) | (10) |
| **Total other financial assets at fair value through profit or loss** | **-** | **10** | **(10)** | **-** |
| **Total financial assets at fair value through profit or loss** | **-** | **24** | **(24)** | **-** |
| **AFS financial assets** | | | | |
| Opening balance | 2 | - | - | 2 |
| To other financial assets at fair value through profit or loss | - | (2) | - | (2) |
| **Total AFS financial assets** | **2** | **(2)** | **-** | **-** |
| **Total impairment loss allowance** | **2,361** | **-** | **96** | **2,457** |

[1] *The carrying amount of loans and advances to customers reclassified to financial assets at FVTPL had an impairment provision under IAS 39. Financial assets at fair value through profit or loss are not subject to impairment under IFRS 9.*

## 65 IAS 39 to IFRS 9 transitional disclosures *(continued)*

| Loss allowance provision | Carrying amount under IAS 39 31 December 2017 €m | Reclassification €m | Remeasurement €m | Carrying amount under IFRS 9 1 January 2018 €m |
|---|---|---|---|---|
| **Provision on loan commitments and financial guarantees** | | | | |
| Opening balance | - | - | - | - |
| Increase in loss allowance provision in loan commitments, guarantees and irrevocable letters of credit | - | - | 36 | 36 |
| **Total loss allowance provision on loan commitments and financial guarantees** | **-** | **-** | **36** | **36** |

The following table shows the effects of the reclassification of AFS financial assets under IAS 39 to amortised cost under IFRS 9.

| | 2018 €m |
|---|---|
| From AFS financial assets under IAS 39 | 2,470 |
| Fair value gain / (loss) that would have been recognised in 2018 in other comprehensive income if the financial assets had not been reclassified | 6 |

## 66 Post balance sheet events

On 22 February 2019, the Board recommended a dividend of 16 cent per ordinary share, €173 million in total, to be paid on 10 June 2019 to those ordinary shareholders who appear on the Company's register on 10 May 2019, the record date for the dividend, subject to ordinary shareholder approval.

## 67 Approval of financial statements

The Board of Directors approved the consolidated and Company financial statements on 22 February 2019.

Index Page

## **Company balance sheet** *(for the year ended 31 December 2018)*

| | Note | 2018 €m | 2017 €m |
|---|---|---|---|
| **Assets** | | | |
| Loans and advances to banks | b | 2,022 | 948 |
| Shares in Group undertakings | c | 7,035 | 7,035 |
| Other assets | d | 820 | 808 |
| **Total assets** | | **9,877** | **8,791** |
| | | | |
| **Equity and liabilities** | | | |
| Debt securities in issue | f | 1,182 | - |
| Subordinated liabilities | e | 766 | 748 |
| Other liabilities | g | 18 | 8 |
| **Total liabilities** | | **1,966** | **756** |
| | | | |
| **Equity** | | | |
| Share capital | i | 1,079 | 1,079 |
| Share premium account | | 456 | 456 |
| Retained earnings | | 6,376 | 6,500 |
| Other reserves | | - | - |
| **Total equity** | | **7,911** | **8,035** |
| | | | |
| **Total equity and liabilities** | | **9,877** | **8,791** |

The Company recorded a profit after tax of €1 million for the year ended 31 December 2018 (2017: €1,000 million).

| **Patrick Kennedy** | **Patrick Haren** | **Francesca McDonagh** | **Helen Nolan** |
|---|---|---|---|
| *Chairman* | *Deputy Chairman* | *Group Chief Executive* | *Group Secretary* |

# Company statement of changes in equity *(for the year ended 31 December 2018)*

| | Note | 2018 €m | 2017 €m |
|---|---|---|---|
| **Share capital** | | | |
| Balance at the beginning of the year | | 1,079 | - |
| Issue of ordinary shares on the investment in The Governor and Company of the Bank of Ireland | | - | 6,473 |
| Transfer to capital reserve on renominalisation of share capital | | - | (5,394) |
| **Balance at the end of the year** | i | **1,079** | **1,079** |
| **Share premium account** | | | |
| Balance at the beginning of the year | | 456 | - |
| Capitalisation of merger reserve | | - | 562 |
| Transfer to retained earnings | | - | (106) |
| **Balance at the end of the year** | | **456** | **456** |
| **Retained earnings** | | | |
| Balance at the beginning of the year | | 6,500 | - |
| Impact of adopting IFRS 9 at 1 January 2018 | | (1) | - |
| Court authorised capital reduction and creation of distributable reserves | j | - | 5,500 |
| *- Transfer from capital reserve* | | - | *5,394* |
| *- Transfer from share premium* | | - | *106* |
| Profit for the year | | 1 | 1,000 |
| Dividends on ordinary shares | | (124) | - |
| **Balance at the end of the year** | | **6,376** | **6,500** |
| **Other reserves:** | | | |
| Capital reserve | | | |
| Balance at the beginning of the year | | - | - |
| Transfer from share capital - renominalisation of share capital | | - | 5,394 |
| Transfer to retained earnings | | - | (5,394) |
| **Balance at the end of the year** | | **-** | **-** |
| Merger reserve | | | |
| Balance at the beginning of the year | | - | - |
| Investment in The Governor and Company of the Bank of Ireland | | - | 562 |
| Capitalisation of merger reserve to share premium | | - | (562) |
| **Balance at the end of the year** | | **-** | **-** |
| **Total other reserves** | | **-** | **-** |
| **Total equity** | | **7,911** | **8,035** |

## a Accounting policies and critical accounting estimates and judgements

The Company financial statements have been prepared in accordance with FRS 101 'Reduced disclosure framework' and in accordance with Section 290 (1) of the Companies Act 2014.

These financial statements are financial statements of the Company only and do not consolidate the results of any subsidiaries.

In preparing these financial statements the Company applies the recognition, measurement and disclosure requirements of IFRS as adopted by the EU (but makes amendments where necessary in order to comply with the Companies Act 2014). The Company has applied the exemptions available under FRS 101 in respect of the following disclosures:
- statement of Cash Flows;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- certain requirements of IAS 1 'Presentation of financial statements';
- disclosures required by IFRS 7 'Financial Instruments: disclosures';
- disclosures required by IFRS 13 'Fair value measurement'; and
- the effects of new but not yet effective IFRSs.

The financial statements are presented in euro millions except where otherwise indicated. They have been prepared under the historical cost convention. The accounting policies of the Company are the same as those of the Group which are set out in the Group accounting policies section of the Annual Report on pages 175 to 191, where applicable. The Company's investment in its subsidiary is stated at cost less any impairment.

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

**Shares in Group undertakings**

*Cost*

The cost of the Company's investment in the ordinary stock of its subsidiary undertaking, the Bank, was measured at the Company's share of the carrying value of the equity items reflected in the separate financial statements of the Bank at 7 July 2017, the date on which the Company became the Parent entity of the Bank. The Company's share of these equity items, as holder of 100% of the ordinary stock of the Bank, was assessed in accordance with the rights attaching to other equity instruments, comprising preference stock and an AT1 instrument, and measured on a relative fair value basis.

*Impairment review*

The Company carries its investment in its subsidiary undertaking at cost and reviews for impairment at each reporting date. Impairment testing involves the comparison of the carrying value of the investment with its recoverable amount. The recoverable amount is the higher of the investment's fair value or its VIU.

VIU is the present value of expected future cash flows from the investment. 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. Impairment testing inherently involves a number of judgemental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of the investment; and the valuation of the separable assets comprising the overall investment in the Group undertaking. The use of reasonably possible alternative assumptions would not materially impact the carrying value of the Company's investment in its subsidiary undertaking. See note c for further information.

## b Loans and advances to banks

From 1 January 2018 loans and advances to banks have been classified and measured in accordance with IFRS 9. This involved reclassifying loans and advances to banks from loans and receivables to financial assets at amortised cost and measuring the associated impairment loss allowance on loans and advances to banks on a 12 month and lifetime ECL approach. The comparatives for the prior year have not been restated, with impairment provisions reflecting an IAS 39 incurred loss measurement basis.

The impairment loss allowance on loans and advances to banks is all held against Stage 1 (not credit impaired assets) with a PD 1-4.

| | 2018 €m | 2017 €m |
|---|---|---|
| Placements with banks | 2,024 | 948 |
| Less impairment loss allowance on loans and advances to banks | (2) | - |
| **Loans and advances to banks at amortised cost** | **2,022** | **948** |
| *Amounts include:* | | |
| Due from Group undertakings | 2,022 | 948 |

## c Shares in Group undertakings

The Company's investment in the Bank is reviewed for impairment if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of the investment to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount. No impairment charge was recognised in 2018.

The recoverable amount of the investment is the higher of its fair value less costs to sell and its VIU, where the VIU is the present value of the future cash flows expected to be derived from the investment, based upon a VIU calculation that discounts expected pre-tax cash flows at a discount rate appropriate to the investment. The determination of both requires the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance. The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement.

The recoverable amount calculation performed is sensitive to changes in the following key assumptions:

**Cash flow forecasts**
Cash flow forecasts are based on internal management information for a period of up to five years, after which a long-term growth rate appropriate for the business is applied (see below). The next five years' cash flows are consistent with approved plans for each business.

**Growth rates**
Growth rates beyond five years are determined by reference to long-term economic growth rates.

**Discount rate**
The discount rate applied is the pre-tax weighted average cost of capital for the Company increased to include a risk premium to reflect the specific risk profile of the investment to the extent that such risk is not already reflected in the forecast cash flows.

The forecast cash flows reflect management's view of future business prospects. The impact of changes in these cash flows, growth rate and discount rate assumptions has been assessed in the review.

| | **2018 €m** | **2017 €m** |
|---|---|---|
| At beginning of year | 7,035 | - |
| Investment in the Bank | - | 7,035 |
| **At end of year** | **7,035** | **7,035** |
| *Group undertakings of which:* | | |
| Credit Institutions | 7,035 | 7,035 |

## d Other assets

In 2017, the Bank declared and approved a €1 billion dividend payment to BOIG plc. The Bank paid €200 million of this dividend in December 2017, the balance remains outstanding. As the declaration and approval of the dividend is an irrevocable commitment by the Bank, the full amount of the dividend has been accounted for by the Company.

| | **2018 €m** | **2017 €m** |
|---|---|---|
| Dividend receivable from the Bank[1] | 800 | 800 |
| Other assets | 20 | 8 |
| **Total** | **820** | **808** |
| *Amounts include:* | | |
| Due from Group undertakings | 820 | 808 |
| *Other assets are analysed as follows:* | | |
| Within 1 year | 820 | 808 |

[1] *Dividend receivable is subject to 12-month ECL impairment loss allowance of €71,000 at 31 December 2018.*

## e Subordinated liabilities

| | 2018 €m | 2017 €m |
|---|---|---|
| **Dated loan capital** | | |
| Stg£300 million 3.125% Fixed Rate Reset Callable Subordinated Notes 2027 | 333 | 335 |
| US$500 million 4.125% Fixed Rate Reset Callable Subordinated Notes 2027 | 433 | 413 |
| **Total subordinated liabilities** | **766** | **748** |

Further details on subordinated liabilities are contained in note 48 to the consolidated financial statements.

## f Debt securities in issue

| | 2018 €m | 2017 €m |
|---|---|---|
| Bonds and medium term notes | 1,182 | - |
| Other debt securities in issue | - | - |
| **Debt securities in issue at amortised cost** | **1,182** | **-** |

*The movement on debt securities in issue is analysed as follows:*

| | 2018 €m | 2017 €m |
|---|---|---|
| Opening balance | - | - |
| Issued during the year | 1,177 | - |
| Other movements | 5 | - |
| **Closing balance** | **1,182** | **-** |

## g Other liabilities

| | 2018 €m | 2017 €m |
|---|---|---|
| Accrued interest payable | 18 | 8 |
| **Other liabilities** | **18** | **8** |
| *Other liabilities are analysed as follows:* | | |
| Within 1 year | 18 | 8 |
| After 1 year | - | - |
| | **18** | **8** |

## h IAS 39 to IFRS 9 transitional disclosures

The following table shows the original measurement categories in accordance with IAS39 and the new measurement under IFRS 9 for the Company's financial assets and financial liabilities.

| **Financial assets**<br>**IAS 39 balance sheet line item** | **Note** | **Classification under IAS 39** | **Carrying amount under IAS 39 31 December 2017 €m** | **Classification under IFRS 9** | **Carrying amount under IFRS 9 1 January 2018 €m** | **IFRS 9 balance sheet line item** |
|---|---|---|---|---|---|---|
| Loans and advances to banks | b | Loans and receivables | 948 | Amortised cost | 947 | Loans and advances to banks at amortised cost |
| Other assets | d | Loans and receivables | 800 | Amortised cost | 800 | Other assets |
| **Total** | | | **1,748** | | **1,747** | |

| **Financial liabilities**<br>**IAS 39 balance sheet line item** | **Note** | **Classification under IAS 39** | **Carrying amount under IAS 39 31 December 2017 €m** | **Classification under IFRS 9** | **Carrying amount under IFRS 9 1 January 2018 €m** | **IFRS 9 balance sheet line item** |
|---|---|---|---|---|---|---|
| Subordinated liabilities | e | Amortised cost | 748 | Amortised cost | 748 | Subordinated liabilities |
| **Total** | | | **748** | | **748** | |

## h IAS 39 to IFRS 9 transitional disclosures *(continued)*

| Assets | Carrying amount under IAS 39 31 December 2017 €m | Reclassification €m | Remeasurement €m | Carrying amount under IFRS 9 1 January 2018 €m |
|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | |
| **Loans and advances to banks** | | | | |
| Opening balance | 948 | - | - | 948 |
| Increase in impairment loss allowance | - | - | (1) | (1) |
| **Total loans and advances to banks** | **948** | **-** | **(1)** | **947** |
| **Other assets** | **800** | **-** | **-** | **800** |
| **Total** | **1,748** | **-** | **(1)** | **1,747** |

| Liabilities | Carrying amount under IAS 39 31 December 2017 €m | Reclassification €m | Remeasurement €m | Carrying amount under IFRS 9 1 January 2018 €m |
|---|---|---|---|---|
| **Financial liabilities at amortised cost** | | | | |
| Subordinated liabilities | 748 | - | - | 748 |
| **Total financial liabilities at amortised cost** | **748** | **-** | **-** | **748** |

| Equity | Carrying amount under IAS 39 31 December 2017 €m | Reclassification €m | Remeasurement €m | Carrying amount under IFRS 9 1 January 2018 €m |
|---|---|---|---|---|
| **Retained earnings** | | | | |
| Opening balance | 6,500 | - | - | 6,500 |
| Impairment loss allowance - remeasurement | - | - | (1) | (1) |
| **Total impact on retained earnings** | **6,500** | **-** | **(1)** | **6,499** |
| | | | | |
| **Total impact on equity** | **6,500** | **-** | **(1)** | **6,499** |

The following table provides the reconciliation of the Group's closing impairment provision in accordance with IAS 39 and provisions in accordance with IAS 37 to the opening loss allowance determined in accordance with IFRS 9.

| Impairment loss allowance | Carrying amount under IAS 39 31 December 2017 €m | Reclassification €m | Remeasurement €m | Carrying amount under IFRS 9 1 January 2018 €m |
|---|---|---|---|---|
| **Financial assets at amortised cost** | | | | |
| Opening balance | - | - | - | - |
| Increase in impairment loss allowance | - | - | 1 | 1 |
| **Total assets at amortised cost** | **-** | **-** | **1** | **1** |
| | | | | |
| **Total impairment loss allowance** | **-** | **-** | **1** | **1** |

## i Share capital

As outlined in note 49, the Group undertook a corporate reorganisation during 2017 whereby BOIG plc became the ultimate parent company of the Group. Further to this corporate reorganisation 1,078,822,872 ordinary shares of €1.00 each in BOIG plc, representing its entire issued ordinary share capital, were listed on the Irish Stock Exchange and the London Stock Exchange on 10 July 2017.

**Ordinary shares**
All ordinary shares carry the same voting rights.

There were no outstanding options on ordinary shares under employee schemes as at 31 December 2018 or 2017.

| Authorised | 2018 €m | 2017 €m |
|---|---|---|
| 10 billion ordinary shares of €1.00 each | 10,000 | 10,000 |
| 100 million preference shares of €0.10 each | 10 | 10 |
| **Total** | **10,010** | **10,010** |

| Allotted and fully paid | 2018 €m | 2017 €m |
|---|---|---|
| **1.079 billion ordinary shares of €1.00 each** | **1,079** | **1,079** |

| Movements in number of ordinary and deferred shares | 2018 | | Period 28 November 2016 to 31 December 2017 | |
|---|---|---|---|---|
| | Ordinary shares | Deferred ordinary shares | Ordinary shares | Deferred ordinary shares |
| At the beginning of the year / period | 1,078,822,872 | - | - | - |
| Issued at incorporation (28 November 2016) | - | - | 2 | 25,000 |
| Issue of deferred ordinary shares | - | - | - | 2,800 |
| Impact of corporate reorganisation | - | - | 1,078,822,870 | (27,800) |
| **Balance at end of year / period** | **1,078,822,872** | **-** | **1,078,822,872** | **-** |

## j Capital reduction

On 10 July 2017, BOIG plc applied to the High Court for approval of a capital reduction to create distributable reserves (within the meaning of Section 117 of the Companies Act 2014). A capital reduction is a legal procedure and does not reduce regulatory capital. The capital reduction was approved by the High Court on 27 July 2017 and distributable reserves of €5.5 billion were created in BOIG plc once the relevant filings were registered with the Companies Registration Office.

## k Dividend per ordinary share

On 23 February 2018, the Board recommended a dividend of 11.5 cent per ordinary share, €124 million in total, which was approved at the AGM on 20 April 2018 and paid on 24 May 2018. This dividend has been accounted for in shareholders' equity as an appropriation of retained earnings for 2018.

| 2018 | Cent per share | €m |
|---|---|---|
| Final dividend paid in respect of the year ended 31 December 2017 | 11.5c | 124 |

## l Other

(i) BOIG plc is incorporated in Ireland as a public limited company with registration number 593672. Its registered office is situated at 40 Mespil Road, Dublin 4.

(ii) The Company is domiciled in Ireland.

(iii) Company income statement:
In accordance with Section 304 of the Companies Act, the Company is availing of the exemption to not present its individual income statement to the AGM and from filing it with the Registrar of Companies. The Company's profit after tax for the year ended 31 December 2018 determined in accordance with FRS 101 is €1 million (period from incorporation on 26 November 2016 to 31 December 2017: €1,000 million)

(iv) Information in relation to the Company's principal subsidiaries is contained in note 56 to the consolidated financial statements.

(v) Auditor's Remuneration:
In accordance with Section 322 of the Companies Act, the fees paid in the year to the statutory Auditor for work engaged by the Company comprised audit fees of €nil (period from incorporation on 26 November 2016 to 31 December 2017, fee to former Auditor, PwC: €0.1 million) and other assurance services of €nil (period from incorporation on 26 November 2017 to 31 December 2017, fee to former Auditor, PwC: €nil).

(vi) BOIG plc had no employees at any time during the year (period from incorporation on 26 November 2016 to 31 December 2017: no employees).

(vii) Post balance sheet events are shown in note 66 to the consolidated financial statements.

## m Directors and secretary

**Directors**
Archie G Kane *(resigned 31 July 2018)*
Kent Atkinson
Patrick Haren
Andrew Keating
Patrick Kennedy
Davida Marston *(resigned 31 July 2018)*
Francesca McDonagh
Fiona Muldoon
Patrick Mulvihill
Richard Goulding
Steve Pateman *(appointed 10 September 2018)*
Evelyn Bourke *(appointed 17 May 2018)*
Ian Buchanan *(appointed 17 May 2018)*

**Company Secretary**
Helen Nolan

The names of the persons who were Directors or Company Secretary of the Company at any time during the year ended 31 December 2018 and up to the date of the approval of the financial statements are set out in this note.

# Other Information

# Group exposures to selected countries

*The information in Group exposures to selected countries forms an integral part of the audited financial statements as described in the Basis of preparation on page 175.*

Set out in the tables below is a summary of the Group's exposure to sovereign debt and other country exposures for selected balance sheet line items at 31 December 2018. These include exposures to Ireland, the UK, the US and those other countries that have a Standard & Poor's credit rating of AA or below where the Group has an exposure of over €470 million.

From 1 January 2018 AFS financial assets have been classified and measured in accordance with IFRS 9. This involved reclassifying these securities as either financial assets at FVOCI, debt securities at amortised cost or financial assets mandatorily at FVTPL. Details of the IFRS 9 impact, reclassifications and re-measurement as at 1 January 2018 are set out in note 65.

| 2018<br>Assets | Ireland<br>€m | United Kingdom<br>€m | United States<br>€m | Spain<br>€m | France<br>€m | Belgium<br>€m | Other[1]<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | 2,582 | 2,905 | 143 | - | - | - | 403 | 6,033 |
| Trading securities | - | 6 | - | - | - | - | 23 | 29 |
| Derivative financial instruments[2] (net) | 25 | 193 | 13 | 5 | 20 | 6 | 105 | 367 |
| Other financial assets at fair value through profit or loss[3] | 659 | 143 | 261 | 19 | 368 | 118 | 514 | 2,082 |
| Loans and advances to banks[3] | 25 | 1,875 | 45 | - | 307 | - | 160 | 2,412 |
| AFS financial assets | - | - | - | - | - | - | - | - |
| Financial assets at fair value through OCI | 2,866 | 392 | 1 | 931 | 1,977 | 897 | 4,984 | 12,048 |
| Debt securities at amortised cost | 2,848 | 745 | 8 | 18 | - | - | 309 | 3,928 |
| **Total** | **9,055** | **6,259** | **471** | **973** | **2,672** | **1,021** | **6,498** | **26,899** |

| 2017<br>Assets | Ireland<br>€m | United Kingdom<br>€m | United States<br>€m | Spain<br>€m | France<br>€m | Belgium<br>€m | Other[4]<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|---|---|
| Cash and balances at central banks | 4,136 | 2,224 | 668 | - | - | - | 351 | 7,379 |
| Trading securities | - | 10 | 10 | 16 | - | - | 32 | 68 |
| Derivative financial instruments[2] (net) | 82 | 231 | 14 | 5 | 1 | - | 37 | 370 |
| Other financial assets at fair value through profit or loss[3] | 401 | 51 | 132 | 7 | 518 | 112 | 386 | 1,607 |
| Loans and advances to banks[3] | 34 | 1,990 | 8 | 1 | 366 | - | 216 | 2,615 |
| AFS financial assets | 5,274 | 1,174 | 40 | 646 | 1,455 | 612 | 4,022 | 13,223 |
| Financial assets at fair value through OCI | - | - | - | - | - | - | - | - |
| Debt securities at amortised cost | - | - | - | - | - | - | - | - |
| **Total** | **9,927** | **5,680** | **872** | **675** | **2,340** | **724** | **5,044** | **25,262** |

[1] *In 2018, other is primarily made up of exposures to the following countries: Sweden: €0.8 billion, Netherlands: €0.5 billion, Germany: €0.4 billion, Portugal: €0.4 billion, Canada: €0.3 billion, Norway: €0.3 billion, Austria: €0.3 billion, Denmark: €0.2 billion, Finland: €0.1 billion, Turkey €nil, Italy €0.5 billion, Rest of world: €1.0 billion and Supranational institutions: €1.7 billion. Also included in other is the Group's euro cash holding in branches.*

[2] *Net Derivative exposure is calculated after the application of master netting arrangements and associated cash collateral received.*

[3] *This excludes those assets held by the Group's life assurance business which are linked to policyholder liabilities and includes Wealth and Insurance loans.*

[4] *In 2017, other is primarily made up of exposures to the following countries: Sweden: €0.7 billion, Netherlands: €0.4 billion, Germany: €0.2 billion, Portugal: €0.1 billion, Canada: €0.3 billion, Norway: €0.3 billion, Austria: €0.3 billion, Denmark: €0.2 billion, Finland: €0.2 billion, Turkey €0.1 billion, Italy €0.1 billion, Rest of world: €0.5 billion and Supranational institutions: €1.6 billion. Also included in other is the Group's euro cash holding in branches.*

Set out in the following tables is more detailed analysis of the Group's exposures at 31 December 2018 by asset class.

| **2018** **Derivative financial instruments** | **Ireland €m** | **United Kingdom €m** | **United States €m** | **Spain €m** | **France €m** | **Belgium €m** | **Other[1] €m** | **Total €m** |
|---|---|---|---|---|---|---|---|---|
| Gross derivative assets | | | | | | | | |
| Financial institutions | 1 | 317 | 17 | 6 | 172 | 6 | 194 | 713 |
| Corporate | 80 | 877 | 33 | 3 | 1 | - | 17 | 1,011 |
| **Total** | **81** | **1,194** | **50** | **9** | **173** | **6** | **211** | **1,724** |
| **Net Derivative Assets[2]** | | | | | | | | |
| Financial institutions | 1 | 14 | - | 2 | 20 | 6 | 89 | 132 |
| Corporate | 24 | 179 | 13 | 3 | - | - | 16 | 235 |
| **Total** | **25** | **193** | **13** | **5** | **20** | **6** | **105** | **367** |

| **2017** **Derivative financial instruments** | **Ireland €m** | **United Kingdom €m** | **United States €m** | **Spain €m** | **France €m** | **Belgium €m** | **Other[3] €m** | **Total €m** |
|---|---|---|---|---|---|---|---|---|
| Gross derivative assets | | | | | | | | |
| Financial institutions | 1 | 717 | 128 | 4 | 457 | 7 | 383 | 1,697 |
| Corporate | 83 | 506 | 38 | 5 | - | - | 19 | 651 |
| **Total** | **84** | **1,223** | **166** | **9** | **457** | **7** | **402** | **2,348** |
| **Net Derivative Assets[2]** | | | | | | | | |
| Financial institutions | - | 7 | 1 | - | 1 | - | 18 | 27 |
| Corporate | 82 | 224 | 13 | 5 | - | - | 19 | 343 |
| **Total** | **82** | **231** | **14** | **5** | **1** | **-** | **37** | **370** |

| **2018** **Financial assets at fair value through FVOCI** | **Ireland €m** | **United Kingdom €m** | **United States €m** | **Spain €m** | **France €m** | **Belgium €m** | **Other[4] €m€m** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Government bonds | 2,619 | - | 1 | 851 | 794 | 726 | 1,082 | 6,073 |
| Other | 247 | 392 | - | 80 | 1,183 | 171 | 3,902 | 5,975 |
| **Total** | **2,866** | **392** | **1** | **931** | **1,977** | **897** | **4,984** | **12,048** |

[1] *In 2018, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €16 million, Finland €5 million, Germany: €80 million, Luxembourg: €1 million, Austria: €nil and Netherlands: €1 million.*

[2] *Net Derivative Assets exposure is calculated after the application of master netting arrangements and associated cash collateral received.*

[3] *In 2017, other Net Derivative Assets exposure is primarily made up of exposures to the following countries: Canada: €17 million, Finland: €nil, Germany: €16 million, Luxembourg: €1 million, Austria: €1 million and Netherlands: €1 million.*

[4] *At 31 December 2018, Other financial assets at FVOCI is primarily made up of exposures to the following countries: Sweden: €0.8 billion, Netherlands: €0.4 billion, Canada: €0.3 billion, Portugal: €0.4 billion, Italy: €0.4 billion and Rest of world: €2.7 billion.*

Set out in the following tables is more detailed analysis of the Group's exposures at 31 December 2018 by asset class.

| 2018<br>Debt securities at amortised cost | Ireland<br>€m | United Kingdom<br>€m | United States<br>€m | Spain<br>€m | France<br>€m | Belgium<br>€m | Other[1]<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|---|---|
| Government bonds | 2,848 | 464 | - | - | - | - | - | 3,312 |
| Asset backed securities | - | 30 | 8 | 18 | - | - | 1 | 57 |
| Other | - | 251 | - | - | - | - | 308 | 559 |
| **Total** | **2,848** | **745** | **8** | **18** | **-** | **-** | **309** | **3,928** |

| 2017<br>AFS financial assets | Ireland<br>€m | United Kingdom<br>€m | United States<br>€m | Spain<br>€m | France<br>€m | Belgium<br>€m | Other[2]<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|---|---|
| Government bonds | 4,762 | 483 | 1 | 534 | 803 | 532 | 376 | 7,491 |
| Senior bank debt and other senior debt | - | 4 | 21 | 3 | 257 | - | 1,854 | 2,139 |
| Covered bonds | 182 | 637 | - | 74 | 392 | 79 | 1,771 | 3,135 |
| Subordinated debt | 325[3] | - | - | 7 | 2 | - | 18 | 352 |
| Asset backed securities and other | 5 | 50 | 18 | 29 | 1 | - | 3 | 106 |
| **Total** | **5,274** | **1,174** | **40** | **647** | **1,455** | **611** | **4,022** | **13,223** |

[1] *At 31 December 2018, other is primarily made up of exposures to the Rest of world: €0.3 billion.*

[2] *At 31 December 2017, other is primarily made up of exposures to the following countries: Sweden: €0.7 billion, Netherlands: €0.4 billion, Canada: €0.3 billion, Norway: €0.3 billion, Rest of world: €0.7 billion and Supranational institutions €1.6 billion.*

[3] *NAMA subordinated debt of €76 million at 31 December 2017: €293 million was classified as an AFS debt instrument (note 27).*

# Supplementary asset quality and forbearance disclosures

*The tables below (except where denoted unaudited) in the Supplementary asset quality and forbearance disclosures form an integral part of the audited financial statements as described in the Basis of preparation on page 175. All other information in the Supplementary asset quality and forbearance disclosures is additional information and does not form part of the audited financial statements.*

## Retail Ireland mortgages

The following disclosures relate to the Retail Ireland mortgage loan book and provide additional detail and analysis on the composition and quality of this loan book.

The Group has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process including evidence of key borrower information such as independent valuations of relevant security property.

Retail Ireland mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan while the creditworthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

Lending criteria for the Retail Ireland mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value (LTV) limits;
- loan to income (LTI) limits;
- mortgage term duration; and
- loan specific terms and conditions.

## Book composition

### Loan volumes

The table below summarises the composition and risk profile of the Retail Ireland mortgage loan book. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

Excluded from the following tables are €0.3 billion of loans mandatorily held at FVTPL at 31 December 2018 which are not subject to impairment under IFRS 9 (see note 29). The following tables reflect the Retail Ireland mortgages at amortised cost at 31 December 2018.

| **Table: 1a** | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| **Retail Ireland mortgages - Volumes (before impairment loss allowance) by product type[1]** | **Stage 1 (not credit-impaired) €m** | **Stage 2 (not credit-impaired) €m** | **Subtotal (not credit-impaired) €m** | **Stage 3 (credit-impaired) €m** | **Purchased or originated credit-impaired[2] €m** | **Total[3] €m** | **Total €m** |
| Owner occupied mortgages | 18,277 | 1,005 | 19,282 | 1,015 | 2 | 20,299 | 20,160 |
| Buy to let mortgages | 2,126 | 280 | 2,406 | 1,010 | 1 | 3,417 | 3,909 |
| **Total Retail Ireland mortgages** | **20,403** | **1,285** | **21,688** | **2,025** | **3** | **23,716** | **24,069** |

| **Table: 1b** | 2018 | | 2017 | |
|---|---|---|---|---|
| **Retail Ireland mortgages - Volumes (before impairment loss allowance) by interest rate type[1]** | **€m** | **%** | **€m** | **%** |
| Tracker | 9,829 | 42% | 10,942 | 46% |
| Variable rates | 4,355 | 18% | 5,813 | 24% |
| Fixed rates | 9,532 | 40% | 7,314 | 30% |
| **Total Retail Ireland mortgages** | **23,716** | **100%** | **24,069** | **100%** |

[1] *The above table excludes undrawn loan commitments relating to Retail Ireland mortgages of €774 million at 31 December 2018 that are subject to impairment under IFRS 9.*
[2] *At 31 December 2018, purchased or originated credit-impaired loans included €1.8 million of loans which, while credit-impaired upon purchase or origination, were no longer credit-impaired at the reporting date due to improvement in credit risk. These loans will remain classified as purchased or originated credit-impaired loans until derecognition.*
[3] *Excluded from the above tables at 31 December 2018 are €0.3 billion of loans mandatorily held at FVTPL which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 29 on page 218). These loans are included in the 31 December 2017 position.*

# Book composition *(continued)*

## Loan volumes *(continued)*

At 31 December 2018, Retail Ireland mortgages were €23.7 billion (2017: €24.1 billion), a decrease of €0.4 billion or 1.7%, of which €0.3 billion relates to excluded loans under IFRS 9[1]. There was a €1.1 billion decrease in the tracker portfolio, a €1.5 billion decrease in the variable rate portfolio and an increase of €2.2 billion in the fixed rate portfolio. This increase in the fixed rate portfolio reflects the strong take up of fixed interest rate mortgages by both existing and new customers. The movement in the book size reflects a combination of factors including new mortgage lending, principal repayments and resolution activity.

The proportion of the Retail Ireland mortgage portfolio on a 'full principal and interest'[2] repayment basis at 31 December 2018 was 95% (2017: 94%) with the balance of 5% on an 'interest only'[3] repayment basis (2017: 6%). Of the Owner occupied mortgages of €20.3 billion, 97% were on a 'full principal and interest' repayment basis (2017: 97%), while 79% of the Buy to let (BTL) mortgages of €3.4 billion were on a 'full principal and interest' repayment basis (2017: 78%). It is the Group's policy to revert all loans to a 'full principal and interest' basis on expiry of the 'interest only' period.

## Origination profile

| Table: 2 | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Retail Ireland mortgage loan book | | Non-performing exposures | | Total Retail Ireland mortgage loan book | | Non-performing exposures | |
| Origination[4] of Retail Ireland mortgage loan book[1] (before impairment loss allowance) | Balance €m | Number of accounts[5] | Balance €m | Number of accounts[5] | Balance €m | Number of accounts[5] | Balance €m | Number of accounts[5] |
| 2000 and before | 188 | 7,903 | 28 | 675 | 245 | 9,912 | 33 | 786 |
| 2001 | 156 | 3,978 | 18 | 290 | 226 | 4,549 | 24 | 344 |
| 2002 | 327 | 5,837 | 47 | 444 | 414 | 6,498 | 59 | 547 |
| 2003 | 638 | 8,728 | 94 | 828 | 782 | 10,109 | 114 | 938 |
| 2004 | 1,172 | 13,070 | 170 | 1,242 | 1,367 | 14,125 | 207 | 1,454 |
| 2005 | 1,999 | 17,483 | 326 | 1,788 | 2,303 | 18,769 | 391 | 2,036 |
| 2006 | 3,140 | 22,547 | 615 | 3,017 | 3,552 | 24,046 | 721 | 3,358 |
| 2007 | 2,798 | 18,942 | 543 | 2,490 | 3,110 | 19,932 | 622 | 2,766 |
| 2008 | 1,943 | 13,612 | 289 | 1,459 | 2,168 | 14,676 | 341 | 1,649 |
| 2009 | 1,024 | 8,298 | 72 | 529 | 1,154 | 8,914 | 87 | 599 |
| 2010 | 747 | 5,666 | 16 | 126 | 837 | 6,102 | 23 | 155 |
| 2011 | 661 | 5,111 | 8 | 55 | 728 | 5,425 | 8 | 55 |
| 2012 | 587 | 4,617 | 3 | 19 | 644 | 4,888 | 4 | 22 |
| 2013 | 550 | 4,079 | 3 | 20 | 608 | 4,347 | 2 | 15 |
| 2014 | 886 | 5,832 | 1 | 9 | 979 | 6,200 | 2 | 12 |
| 2015 | 1,261 | 10,152 | 4 | 66 | 1,403 | 10,908 | 4 | 69 |
| 2016 | 1,427 | 9,004 | 10 | 74 | 1,543 | 9,460 | 7 | 47 |
| 2017 | 1,960 | 9,434 | 2 | 18 | 2,006 | 9,625 | 1 | 6 |
| 2018 | 2,252 | 10,213[6] | - | 1 | - | - | - | - |
| **Total** | **23,716** | **184,506** | **2,249** | **13,150** | **24,069** | **188,485** | **2,650** | **14,858** |

The table above illustrates that at 31 December 2018, €4.4 billion or 19% of the Retail Ireland mortgage loan book originated before 2006, €7.9 billion or 33% between 2006 and 2008 and €11.4 billion or 48% in the years since 2008. At 31 December 2018, total non-performing exposures were €2.3 billion (2017: €2.7 billion) or 9% of the Retail Ireland mortgage loan book, of which €1.4 billion originated between 2006 and 2008. There has been a decrease in total NPEs in 2018 reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis and mortgage resolution activity, supported by improving economic conditions.

[1] *Excluded from the above tables at 31 December 2018 are €0.3 billion of loans mandatorily held at FVTPL which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 29 on page 218). These loans are included in the 31 December 2017 position.*
[2] *'Full principal and interest' repayment basis mortgages consist of mortgages that are contracted to be repaid over the agreed term on an amortising basis. The typical term at origination for these mortgages was between 20 to 30 years.*
[3] *'Interest only' mortgages typically consist of mortgages where the repayment consists of the full interest element (or greater) for an agreed period at the end of which the mortgage repayment basis becomes 'full principal and interest' contracted to be repaid over the agreed term. Interest only periods on Retail Ireland mortgages typically range between three and five years.*
[4] *The lending originated in each year is net of related redemptions. For phased drawdowns, the year of the initial drawdown is classified as the year of origination.*
[5] *The number of accounts does not equate to either the number of customers or the number of properties.*
[6] *The total number of accounts originated in 2018 does not include any accounts which were acquired during the year (2017: 552).*

# Book composition *(continued)*

## Risk profile

The table below provides an analysis of the Retail Ireland mortgages at amortised cost by IFRS 9 twelve month PD grade.

| **Table: 3a**<br><br>**2018**<br>**Risk profile of Retail Ireland mortgage loan book (before impairment loss allowance) - PD Grade[1,2]** | **Owner occupied**<br>**Performing €m** | <br>**Non-performing €m** | **Buy to let**<br>**Performing €m** | <br>**Non-performing €m** | **Total**<br>**Performing €m** | <br>**Non-performing €m** |
|---|---|---|---|---|---|---|
| **Not credit-impaired** | | | | | | |
| **Stage 1** | | | | | | |
| 1-4 | 13,976 | - | 336 | - | 14,312 | - |
| 5-7 | 3,632 | - | 1,468 | - | 5,100 | - |
| 8-9 | 467 | - | 188 | - | 655 | - |
| 10-11 | 202 | - | 134 | - | 336 | - |
| **Total Stage 1** | **18,277** | **-** | **2,126** | **-** | **20,403** | **-** |
| | | | | | | |
| **Stage 2** | | | | | | |
| 1-4 | 77 | 2 | - | - | 77 | 2 |
| 5-7 | 117 | 5 | 22 | 4 | 139 | 9 |
| 8-9 | 267 | 49 | 35 | 2 | 302 | 51 |
| 10-11 | 392 | 96 | 151 | 66 | 543 | 162 |
| **Total Stage 2** | **853** | **152** | **208** | **72** | **1,061** | **224** |
| | | | | | | |
| **Not credit-impaired (Stage 1 & Stage 2)** | | | | | | |
| 1-4 | 14,053 | 2 | 336 | - | 14,389 | 2 |
| 5-7 | 3,749 | 5 | 1,490 | 4 | 5,239 | 9 |
| 8-9 | 734 | 49 | 223 | 2 | 957 | 51 |
| 10-11 | 594 | 96 | 285 | 66 | 879 | 162 |
| **Subtotal - not credit-impaired** | **19,130** | **152** | **2,334** | **72** | **21,464** | **224** |
| | | | | | | |
| **Credit-impaired (Stage 3)** | | | | | | |
| 12 | - | 1,015 | - | 1,010 | - | 2,025 |
| **Subtotal - credit-impaired** | **-** | **1,015** | **-** | **1,010** | **-** | **2,025** |
| | | | | | | |
| **Total** | **19,130** | **1,167** | **2,334** | **1,082** | **21,464** | **2,249** |

[1] *Excluded from the above table are purchased or originated credit-impaired loans of €2.8 million, €1.8 million of which were no longer credit-impaired at 31 December 2018 due to improvement in credit risk since purchase of origination. These loans will remain classified as purchased or originated credit-impaired loans until derecognition.*

[2] *Excluded from the above tables are €0.3 billion of loans mandatorily held at FVTPL at 31 December 2018 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 29).*

# Book composition *(continued)*

## Arrears profile

**Table: 3b** *(unaudited)*

| Mortgage arrears Greater than 90 days past due | December 2018 % | September 2018 % | June 2018 % | December 2017 % |
|---|---|---|---|---|
| **Number of accounts** | | | | |
| Retail Ireland[1] Owner occupied mortgages | 2.1% | 2.1% | 2.2% | 2.3% |
| Industry[2] Owner occupied (number of accounts) | n/a | 7.4% | 7.5% | 8.0% |
| Retail Ireland[1] Buy to let mortgages | 4.9% | 4.9% | 4.9% | 5.1% |
| Industry[2] Buy to let (number of accounts) | n/a | 17.4% | 17.4% | 18.3% |
| **Value** | | | | |
| Retail Ireland[1] Owner occupied mortgages | 2.7% | 2.9% | 3.1% | 3.3% |
| Industry[2] Owner occupied (value) | n/a | 11.1% | 11.4% | 12.1% |
| Retail Ireland[1] Buy to let mortgages | 10.9% | 11.0% | 10.8% | 10.8% |
| Industry[2] Buy to let (value) | n/a | 25.2% | 24.9% | 26.5% |

**Table: 3b-(i)** *(unaudited)*

| Mortgage arrears 720 days past due | December 2018 % | September 2018 % | June 2018 % | December 2017 % |
|---|---|---|---|---|
| **Number of accounts** | | | | |
| Retail Ireland[1] Owner occupied mortgages | 1.1% | 1.1% | 1.2% | 1.3% |
| Industry[2] Owner occupied (number of accounts) | n/a | 4.6% | 4.7% | 4.9% |
| Retail Ireland[1] Buy to let mortgages | 2.4% | 2.6% | 2.6% | 2.8% |
| Industry[2] Buy to let (number of accounts) | n/a | 13.0% | 13.0% | 13.5% |
| **Value** | | | | |
| Retail Ireland[1] Owner occupied mortgages | 1.7% | 1.8% | 1.9% | 2.0% |
| Industry[2] Owner occupied (value) | n/a | 7.8% | 7.9% | 8.2% |
| Retail Ireland[1] Buy to let mortgages | 5.8% | 5.9% | 5.8% | 6.1% |
| Industry[2] Buy to let (value) | n/a | 20.0% | 19.9% | 21.2% |

The latest information published by the CBI is for the quarter ended 30 September 2018.

This information indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in arrears (greater than 90 days past due) consistently remains significantly below the industry average for both Owner occupied (28% of industry average) and BTL (28% of industry average) mortgages. At 30 September 2018, 2.1% and 4.9% of Bank of Ireland's Retail Ireland Owner occupied and BTL mortgages respectively (by number of accounts) were greater than '90 days past due' compared to 7.4%[2] and 17.4%[2] respectively for the industry.

This information also indicates that the proportion (by number of accounts) of the Retail Ireland mortgage book in arrears greater than 720 days past due consistently remains significantly below the industry average for both Owner occupied (24% of industry average) and BTL (20% of industry average) mortgages. At 30 September 2018, 1.1% and 2.6% of Bank of Ireland's Retail Ireland Owner occupied and BTL mortgages respectively (by number of accounts) were greater than 720 days past due compared to 4.6%[2] and 13%[2] respectively for the industry.

[1] *The table above includes €0.3 billion of loans mandatorily held at fair value through the profit or loss at 31 December 2018 which are not subject to impairment under IFRS 9.*
[2] *Industry source: CBI Mortgage Arrears Statistics Report, September 2018 - adjusted to exclude Bank of Ireland.*

# Book composition *(continued)*

## Loan to value profiles - total loans

| Table: 3c | Owner occupied | | | Buy to let | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| **2018** <br> **Loan to value (LTV) ratio of total Retail Ireland mortgages[1,2]** | **Not credit-impaired €m** | **Credit-impaired €m** | **Total €m** | **Not credit-impaired €m** | **Credit-impaired €m** | **Total €m** | **Not credit-impaired €m** | **Credit-impaired €m** | **Total €m** |
| Less than 50% | 7,165 | 154 | 7,319 | 1,016 | 54 | 1,070 | 8,181 | 208 | 8,389 |
| 51% to 70% | 6,660 | 168 | 6,828 | 797 | 86 | 883 | 7,457 | 254 | 7,711 |
| 71% to 80% | 2,761 | 100 | 2,861 | 229 | 71 | 300 | 2,990 | 171 | 3,161 |
| 81% to 90% | 1,986 | 105 | 2,091 | 205 | 195 | 400 | 2,191 | 300 | 2,491 |
| 91% to 100% | 550 | 102 | 652 | 60 | 96 | 156 | 610 | 198 | 808 |
| **Subtotal** | **19,122** | **629** | **19,751** | **2,307** | **502** | **2,809** | **21,429** | **1,131** | **22,560** |
| 101% to 120% | 108 | 143 | 251 | 47 | 138 | 185 | 155 | 281 | 436 |
| 121% to 150% | 30 | 100 | 130 | 20 | 107 | 127 | 50 | 207 | 257 |
| Greater than 151% | 22 | 143 | 165 | 32 | 263 | 295 | 54 | 406 | 460 |
| **Subtotal** | **160** | **386** | **546** | **99** | **508** | **607** | **259** | **894** | **1,153** |
| **Total** | **19,282** | **1,015** | **20,297** | **2,406** | **1,010** | **3,416** | **21,688** | **2,025** | **23,713** |
| Weighted average LTV[3]: | | | | | | | | | |
| Stock of Retail Ireland mortgages at year end | | | 59% | | | 76% | | | 61% |
| New Retail Ireland mortgages during the year | | | 72% | | | 51% | | | 71% |

The table above sets out the weighted average indexed LTV for the total Retail Ireland mortgage loan book which showed positive movements during 2018 and was, on average, 61% at 31 December 2018, 59% for Owner occupied mortgages and 76% for BTL mortgages. The weighted average indexed LTV for new Residential mortgages written during 2018 was 71%, being 72% for Owner occupied mortgages and 51% for BTL mortgages.

Property values are determined by reference to the property valuations held[4], indexed to the RPPI CSO. The indexed LTV profile of the Retail Ireland mortgage loan book contained in table 3c is based on the CSO RPPI at October 2018.

The RPPI for October 2018 reported that average national residential property prices were 17.6% below peak (December 2017: 22.9% below peak), with Dublin residential prices and outside of Dublin residential prices 20.1% and 22.7% below peak respectively (December 2017: 24.4% and 28.4% below peak respectively). In the 10 months to October 2018, residential property prices at a national level increased by 7%.

At 31 December 2018, €23 billion or 95% of Retail Ireland mortgages were classified as being in positive equity, 97% for Owner occupied mortgages and 82% for BTL mortgages.

1 *Excluded from the above table are purchased or originated credit-impaired loans of €2.8 million, €1.8 million of which were no longer credit-impaired at 31 December 2018 due to improvement in credit risk since purchase of origination. These loans will remain classified as purchased or originated credit-impaired loans until derecognition.*
2 *Excluded from the above tables are €0.3 billion of loans mandatorily held at FVTPL at 31 December 2018 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 29).*
3 *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*
4 *Loan to value profile was previously based solely on the indexation of original valuations obtained prior to loan drawdown. During 2018, the Group completed an exercise to ensure that recent valuations from external professionals were held for all NPEs in excess of €300,000 and these valuations, indexed as appropriate, have been reflected in the above table where available.*

# Asset quality

## Composition and impairment

The table below summarises the composition of NPEs and impairment loss allowance for the Retail Ireland mortgage portfolio.

| Table: 4<br>2018<br>Retail Ireland mortgages[1,2] | Advances (before impairment loss allowance) €m | Non-performing exposures €m | Non-performing exposures as % of advances % | Impairment loss allowance €m | Impairment loss allowance as % of non-performing exposures % | Impairment loss allowance as % of advances % |
|---|---|---|---|---|---|---|
| **Stage 1 not credit-impaired** | | | | | | |
| Owner occupied mortgages | 18,277 | - | - | 3 | - | - |
| Buy to let mortgages | 2,126 | - | - | 2 | - | - |
| **Total** | **20,403** | **-** | **-** | **5** | **-** | **-** |
| **Stage 2 not credit-impaired** | | | | | | |
| Owner occupied mortgages | 1,005 | 152 | 15% | 9 | 6% | 1% |
| Buy to let mortgages | 280 | 72 | 26% | 6 | 8% | 2% |
| **Total** | **1,285** | **224** | **17%** | **15** | **7%** | **1%** |
| **Stage 3 credit-impaired** | | | | | | |
| Owner occupied mortgages | 1,015 | 1,015 | 100% | 186 | 18% | 18% |
| Buy to let mortgages | 1,010 | 1,010 | 100% | 258 | 26% | 26% |
| **Total** | **2,025** | **2,025** | **100%** | **444** | **22%** | **22%** |
| **Total** | | | | | | |
| Owner occupied mortgages | 20,297 | 1,167 | 6% | 198 | 17% | 1% |
| Buy to let mortgages | 3,416 | 1,082 | 32% | 266 | 25% | 8% |
| **Total** | **23,713** | **2,249** | **9%** | **464** | **21%** | **2%** |

Total NPEs of €2.3 billion were €0.4 billion lower than at 31 December 2017, reflecting the effectiveness of the Group's operating infrastructure, restructure of customer mortgages on a sustainable basis, mortgage resolution activity and improving economic conditions.

Owner occupied NPEs of €1.2 billion were €0.2 billion lower than at 31 December 2017. This reduction further reflects the ongoing progress the Group is making in effecting its mortgage arrears resolution strategies.

This progress is also evident in the reduction of NPEs in relation to BTL mortgages, decreasing to €1.1 billion at 31 December 2018 from €1.3 billion at 31 December 2017. This reduction reflects the progress made by the Group in the ongoing restructure of customer mortgages and resolution activity, supported by improved rental market conditions, particularly evident in primary urban areas.

[1] *Excluded from the above table are purchased or originated credit-impaired loans of €2.8 million, €1.8 million of which were no longer credit-impaired at 31 December 2018 due to improvement in credit risk since purchase of origination. These loans will remain classified as purchased or originated credit-impaired loans until derecognition.*

[2] *Excluded from the above tables are €0.3 billion of loans mandatorily held at FVTPL at 31 December 2018 which are not subject to impairment under IFRS 9 and are thereby excluded from impairment related tables (see note 29).*

## Retail UK mortgages

The following disclosures relate to the Retail UK mortgage loan book. These provide additional detail and analysis on the composition and quality of this loan book.

The Group has an established infrastructure for the origination, underwriting and management of its mortgage portfolio. The processes of underwriting through to account management are centralised and no delegated discretions are in operation outside the centralised units. The mortgage process is a comprehensively documented process with documentary evidence of key borrower information including independent valuations of relevant security property.

Retail UK mortgage origination lending policy and guidelines are subject to annual governance. Each applicant is primarily assessed based on their ability and capacity to repay the loan. In addition to the above, the credit worthiness of the applicant, value of the property and the individual circumstances of the applicant are key factors in the underwriting decision.

In 2018, lending criteria for the Retail UK mortgage portfolio include:
- repayment capacity of the borrower;
- loan to value (LTV) limits;
- loan to income (LTI) limits;
- mortgage term duration; and
- loan specific terms and conditions.

## Book composition

### Loan volumes

The table below summarises the composition and risk profile of the Retail UK mortgage loan book. Comparative figures have not been restated and are presented on an IAS 39 classification and measurement basis.

| Table: 1a | 2018 | | | | | | 2017 |
|---|---|---|---|---|---|---|---|
| **Retail UK mortgages - Volumes (before impairment loss allowance) by product type[1]** | **Stage 1 (not credit-impaired) £m** | **Stage 2 (not credit-impaired) £m** | **Subtotal (not credit-impaired) £m** | **Stage 3 (credit-impaired) £m** | **Purchased or originated credit-impaired £m** | **Total £m** | **Total £m** |
| Standard mortgages | 9,908 | 181 | 10,089 | 136 | - | 10,225 | 10,599 |
| Buy to let mortgages | 7,142 | 214 | 7,356 | 110 | - | 7,466 | 7,457 |
| Self certified mortgages | 1,462 | 132 | 1,594 | 149 | - | 1,743 | 1,987 |
| **Total Retail UK mortgages** | **18,512** | **527** | **19,039** | **395** | **-** | **19,434** | **20,043** |

| Table: 1b | 2018 | | 2017 | |
|---|---|---|---|---|
| **Retail UK mortgages - Volumes (before impairment loss allowance) by interest rate type[1]** | **£m** | **%** | **£m** | **%** |
| Tracker | 6,271 | 32% | 7,147 | 36% |
| Variable rates | 2,711 | 14% | 3,256 | 16% |
| Fixed rates | 10,452 | 54% | 9,640 | 48% |
| **Total Retail UK mortgages** | **19,434** | **100%** | **20,043** | **100%** |

[1] *The above table excludes loan commitments relating to Retail UK mortgages of £763 million at 31 December 2018 that are subject to impairment.*

## Book composition *(continued)*

### Loan volumes *(continued)*

At 31 December 2018, Retail UK mortgages were £19.4 billion (2017: £20.0 billion). The decrease of £609 million or 3% reflects new business generation offset by redemptions in the book.

New mortgage business continues to be sourced through the Group's relationship with the UK Post Office, through distribution arrangements with other selected strategic partners and the Group's branch network in NI.

Tracker mortgages were £6.3 billion or 32% of the Retail UK mortgages compared to £7.1 billion or 36% at 31 December 2017, a decrease of £0.8 billion. Variable rate mortgages were £2.7 billion or 14% of the Retail UK mortgages compared to £3.3 billion or 16% at 31 December 2017, a decrease of £0.6 billion.

Fixed rate mortgages were £10.5 billion or 54% of the Retail UK mortgages compared to £9.6 billion or 48% at 31 December 2017, an increase of £0.9 billion.

### Origination profile

| Table: 2 | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total Retail UK mortgage loan book | | Non-performing exposures | | Total Retail UK mortgage loan book | | Non-performing exposures | |
| Origination of Retail UK mortgage loan book (before impairment loss allowance) | Balance £m | Number of accounts[1] | Balance £m | Number of accounts[1] | Balance £m | Number of accounts[1] | Balance £m | Number of accounts[1] |
| 2000 and before | 131 | 4,079 | 9 | 211 | 175 | 5,227 | 11 | 280 |
| 2001 | 97 | 1,656 | 4 | 43 | 113 | 1,875 | 4 | 40 |
| 2002 | 126 | 1,902 | 4 | 36 | 149 | 2,188 | 4 | 41 |
| 2003 | 286 | 3,592 | 15 | 141 | 338 | 4,227 | 16 | 127 |
| 2004 | 350 | 4,236 | 18 | 149 | 402 | 4,762 | 19 | 162 |
| 2005 | 998 | 9,827 | 44 | 366 | 1,127 | 10,902 | 42 | 337 |
| 2006 | 1,467 | 13,906 | 69 | 501 | 1,645 | 15,364 | 66 | 490 |
| 2007 | 2,300 | 20,825 | 99 | 772 | 2,612 | 23,232 | 95 | 744 |
| 2008 | 3,142 | 27,492 | 150 | 1,132 | 3,569 | 30,775 | 110 | 823 |
| 2009 | 323 | 3,326 | 8 | 81 | 396 | 3,910 | 8 | 78 |
| 2010 | 230 | 2,214 | 4 | 29 | 292 | 2,642 | 3 | 18 |
| 2011 | 154 | 1,463 | 2 | 16 | 205 | 1,816 | 1 | 8 |
| 2012 | 156 | 1,355 | - | 4 | 212 | 1,685 | - | 4 |
| 2013 | 215 | 1,680 | 1 | 7 | 461 | 2,963 | 2 | 10 |
| 2014 | 659 | 4,603 | 2 | 13 | 815 | 5,437 | 2 | 12 |
| 2015 | 1,240 | 8,439 | 3 | 25 | 1,809 | 11,392 | 2 | 15 |
| 2016 | 1,380 | 9,503 | 2 | 14 | 2,566 | 15,749 | 1 | 5 |
| 2017 | 2,947 | 20,425 | 2 | 17 | 3,157 | 21,186 | - | 3 |
| 2018 | 3,233 | 22,956 | 1 | 6 | - | - | - | - |
| **Total** | **19,434** | **163,479** | **437** | **3,563** | **20,043** | **165,332** | **386** | **3,197** |

The table above illustrates that at 31 December 2018, £2.0 billion or 10% of the Retail UK mortgage loan book originated before 2006, £6.9 billion or 36% between 2006 and 2008 and £10.5 billion or 54% in the years since.

Non-performing Retail UK mortgages were £0.4 billion or 2.3% (2017: £0.4 billion or 1.9%) of the Retail UK mortgage loan book in 2018, of which £0.3 billion or 1.6% were originated between 2006 and 2008 (2017: £0.3 billion or 1.3%).Through the adoption of IFRS 9 accounting in January 2018, there was a business requirement to flag bankruptcy and IVA cases as NPEs. This has led to a rise in NPE stock during 2018 as cases were flagged for bankruptcy in H1 2018 and for IVA during H2 2018.

[1] *The number of accounts does not equate to the number of customers or the number of properties.*

# Book composition *(continued)*

## Risk profile

The table below provides an analysis of the Retail UK mortgages at amortised cost by IFRS 9 twelve month PD grade.

**Table: 3a**

| 2018 Risk profile of Retail UK mortgage loan book (before impairment loss allowance) PD Grade | Standard | | Buy to let | | Self certified | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Performing £m | Non-performing £m | Performing £m | Non-performing £m | Performing £m | Non-performing £m | Performing £m | Non-performing £m |
| **Not credit-impaired** | | | | | | | | |
| **Stage 1** | | | | | | | | |
| 1-4 | 4,571 | - | 2,750 | - | 13 | - | 7,334 | - |
| 5-7 | 5,186 | - | 3,674 | - | 1,158 | - | 10,018 | - |
| 8-9 | 59 | - | 556 | - | 171 | - | 786 | - |
| 10-11 | 92 | - | 162 | - | 120 | - | 374 | - |
| **Total Stage 1** | **9,908** | **-** | **7,142** | **-** | **1,462** | **-** | **18,512** | **-** |
| **Stage 2** | | | | | | | | |
| 1-4 | 10 | 1 | 3 | 1 | - | - | 13 | 2 |
| 5-7 | 26 | 5 | 19 | 3 | 15 | 7 | 60 | 15 |
| 8-9 | 10 | - | 6 | 1 | 3 | 2 | 19 | 3 |
| 10-11 | 124 | 5 | 172 | 9 | 97 | 8 | 393 | 22 |
| **Total Stage 2** | **170** | **11** | **200** | **14** | **115** | **17** | **485** | **42** |
| **Not credit-impaired (Stage 1 & Stage 2)** | | | | | | | | |
| 1-4 | 4,581 | 1 | 2,753 | 1 | 13 | - | 7,347 | 2 |
| 5-7 | 5,212 | 5 | 3,693 | 3 | 1,173 | 7 | 10,078 | 15 |
| 8-9 | 69 | - | 562 | 1 | 174 | 2 | 805 | 3 |
| 10-11 | 216 | 5 | 334 | 9 | 217 | 8 | 767 | 22 |
| **Subtotal - not credit-impaired** | **10,078** | **11** | **7,342** | **14** | **1,577** | **17** | **18,997** | **42** |
| **Credit-impaired (Stage 3)** | | | | | | | | |
| 12 | - | 136 | - | 110 | - | 149 | - | 395 |
| **Subtotal - credit-impaired** | **-** | **136** | **-** | **110** | **-** | **149** | **-** | **395** |
| **Total** | **10,078** | **147** | **7,342** | **124** | **1,577** | **166** | **18,997** | **437** |

# Book composition *(continued)*

## Arrears profile

| **Table: 3b** *(unaudited)*<br>**Mortgage arrears Greater than 90 days past due** | **December 2018 %** | **June 2018 %** | **December 2017 %** |
|---|---|---|---|
| **Number of accounts** | | | |
| Standard mortgages | 0.78% | 0.84% | 0.78% |
| Buy to let mortgages | 0.82% | 0.82% | 0.72% |
| Self certified mortgages | 3.88% | 3.72% | 3.39% |
| **Value** | | | |
| Standard mortgages | 0.69% | 0.77% | 0.69% |
| Buy to let mortgages | 0.83% | 0.83% | 0.72% |
| Self certified mortgages | 4.86% | 4.83% | 4.32% |

Data published by the Council of Mortgage Lenders (CML) for September 2018 indicates that the proportion of the Retail UK mortgage book in default (defined for CML purposes as greater than 90 days past due but excluding possessions and receivership cases) is above the UK industry average.

## Loan to value profiles - total loans

| **Table: 3c**<br>**2018** | **Standard** | | **Buy to let** | | **Self certified** | | **Total** | | |
|---|---|---|---|---|---|---|---|---|---|
| **Loan to value (LTV) ratio of total Retail UK mortgages** | **Not credit-impaired £m** | **Credit-impaired £m** | **Not credit-impaired £m** | **Credit-impaired £m** | **Not credit-impaired £m** | **Credit-impaired £m** | **Not credit-impaired £m** | **Credit-impaired £m** | **Total £m** |
| Less than 50% | 2,125 | 33 | 2,192 | 24 | 525 | 30 | 4,842 | 87 | 4,929 |
| 51% to 70% | 3,210 | 44 | 3,464 | 38 | 677 | 56 | 7,351 | 138 | 7,489 |
| 71% to 80% | 1,896 | 21 | 1,174 | 20 | 221 | 29 | 3,291 | 70 | 3,361 |
| 81% to 90% | 2,096 | 14 | 456 | 19 | 128 | 19 | 2,680 | 52 | 2,732 |
| 91% to 100% | 698 | 14 | 59 | 6 | 29 | 8 | 786 | 28 | 814 |
| **Subtotal** | **10,025** | **126** | **7,345** | **107** | **1,580** | **142** | **18,950** | **375** | **19,325** |
| 101% to 120% | 39 | 5 | 9 | 2 | 7 | 5 | 55 | 12 | 67 |
| 121% to 150% | 20 | 2 | 2 | - | 6 | 1 | 28 | 3 | 31 |
| Greater than 150% | 5 | 3 | - | 1 | 1 | 1 | 6 | 5 | 11 |
| **Subtotal** | **64** | **10** | **11** | **3** | **14** | **7** | **89** | **20** | **109** |
| **Total** | **10,089** | **136** | **7,356** | **110** | **1,594** | **149** | **19,039** | **395** | **19,434** |
| Weighted average LTV[1]: | | | | | | | | | |
| Stock of Retail UK mortgages at year end[1] | 66% | 67% | 58% | 66% | 58% | 67% | 62% | 67% | 62% |
| New Retail UK mortgages during year[1] | 76% | - | 60% | - | n/a | - | 72% | - | 72% |

The table above sets out the weighted average indexed LTV for the total Retail UK mortgage loan book, which was 62% at 31 December 2018. The weighted average LTV for new Residential mortgages written during 2018 was 72%, 76% for Standard mortgages and 60% for BTL mortgages.

At 31 December 2018, £19.3 billion or 99% of the Retail UK mortgage book was in positive equity (2017: £19.8 billion or 99%), comprising £10.2 billion or 99% of Standard mortgages (2017: £10.4 billion or 98%), £7.5 billion or 99.8% of BTL mortgages (2017: £7.4 billion or 99%) and £1.7 billion or 99% of Self certified mortgages (2017: £2.0 billion or 98%).

This improvement reflects the upward movement in house prices in the year with house prices increasing by 0.5% on average across the UK, with significant regional variances, together with capital reductions and principal repayments.

[1] *Weighted average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

# Asset quality

## Composition and impairment

The table below summarises the composition of NPEs and impairment loss allowance for the Retail UK mortgage portfolio.

| Table: 4<br>2018<br>Retail UK mortgages | Advances (before impairment loss allowance) £m | Non-performing exposures £m | Non-performing exposures as % of advances % | Impairment loss allowance £m | Impairment loss allowance as % of non-performing exposures % | Impairment loss allowance as % of advances % |
|---|---|---|---|---|---|---|
| **Stage 1 not credit-impaired** | | | | | | |
| Standard mortgages | 9,908 | - | - | 3 | n/a | - |
| Buy to let mortgages | 7,142 | - | - | 4 | n/a | - |
| Self certified mortgages | 1,462 | - | - | 1 | n/a | - |
| **Total** | **18,512** | **-** | **-** | **8** | **n/a** | **-** |
| **Stage 2 not credit-impaired** | | | | | | |
| Standard mortgages | 181 | 11 | 6.1% | 3 | 27% | 2% |
| Buy to let mortgages | 214 | 14 | 6.5% | 9 | 64% | 4% |
| Self certified mortgages | 132 | 17 | 12.9% | 2 | 12% | 2% |
| **Total** | **527** | **42** | **8.0%** | **14** | **33%** | **3%** |
| **Stage 3 credit-impaired** | | | | | | |
| Standard mortgages | 136 | 136 | 100% | 14 | 10% | 10% |
| Buy to let mortgages | 110 | 110 | 100% | 19 | 17% | 17% |
| Self certified mortgages | 149 | 149 | 100% | 9 | 6% | 6% |
| **Total** | **395** | **395** | **100%** | **42** | **11%** | **11%** |
| **Total** | | | | | | |
| Standard mortgages | 10,225 | 147 | 1.4% | 20 | 14% | - |
| Buy to let mortgages | 7,466 | 124 | 1.7% | 32 | 26% | - |
| Self certified mortgages | 1,743 | 166 | 9.5% | 12 | 7% | 1% |
| **Total** | **19,434** | **437** | **2.2%** | **64** | **15%** | **-** |

Total NPEs of £437 million were £51 million higher than at 31 December 2017, primarily reflecting an increase in greater than 90 days past due and past contractual maturity balances.

Owner occupied NPEs of £313 million were £29 million higher than at 31 December 2017.

BTL NPEs of £124 million were £22 million higher than at 31 December 2017.

# Group forbearance disclosures

## Risk profile of forborne loans and advances to customers

The Group's total risk profile of loans and advances to customers at amortised cost at 31 December 2018 of €78.4 billion is available in note 30 on page 226. Exposures are before impairment loss allowance.

**Table: 1**

| **2018**<br>**Loans and advances to customers at amortised cost - Composition** | **Stage 1 (not credit-impaired) €m** | **Stage 2 (not credit-impaired) €m** | **Stage 3 (credit-impaired) €m** | **Purchased / originated credit-impaired[1] €m** | **Total €m** |
|---|---|---|---|---|---|
| **Non-forborne loans and advances to customers** | | | | | |
| Residential mortgages | 41,088 | 828 | 675 | 1 | 42,592 |
| *- Retail Ireland* | *20,396* | *363* | *336* | *1* | *21,096* |
| *- Retail UK* | *20,692* | *465* | *339* | *-* | *21,496* |
| Non-property SME and corporate | 16,543 | 975 | 296 | 1 | 17,815 |
| *- Republic of Ireland SME* | *5,886* | *517* | *208* | *1* | *6,612* |
| *- UK SME* | *1,232* | *203* | *20* | *-* | *1,455* |
| *- Corporate* | *9,425* | *255* | *68* | *-* | *9,748* |
| Property and construction | 6,330 | 239 | 45 | 66 | 6,680 |
| *- Investment* | *5,808* | *236* | *26* | *66* | *6,136* |
| *- Land and development* | *522* | *3* | *19* | *-* | *544* |
| Consumer | 4,816 | 244 | 89 | - | 5,149 |
| **Total non-forborne loans and advances to customers** | **68,777** | **2,286** | **1,105** | **68** | **72,236** |
| | | | | | |
| **Forborne loans and advances to customers** | | | | | |
| Residential mortgages | 8 | 1,045 | 1,790 | 2 | 2,845 |
| *- Retail Ireland* | *7* | *922* | *1,689* | *2* | *2,620* |
| *- Retail UK* | 1 | 123 | 101 | - | 225 |
| Non-property SME and corporate | 4 | 875 | 771 | - | 1,650 |
| *- Republic of Ireland SME* | *4* | *464* | *521* | *-* | *989* |
| *- UK SME* | *-* | *56* | *59* | *-* | *115* |
| *- Corporate* | *-* | *355* | *191* | *-* | *546* |
| Property and construction | 13 | 863 | 798 | - | 1,674 |
| *- Investment* | *12* | *836* | *734* | *-* | *1,582* |
| *- Land and development* | *1* | 27 | 64 | - | 92 |
| Consumer | - | 6 | 19 | - | 25 |
| **Total forborne loans and advances to customers** | **25** | **2,789** | **3,378** | **2** | **6,194** |

**Table: 2**

| **2018**<br>**Risk profile of loans and advances to customers at amortised cost - non-performing exposures** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| **Non-forborne loans and advances to customers** | | | | | |
| Credit-impaired | 676 | 297 | 45 | 89 | 1,107 |
| Not credit-impaired | 28 | 16 | 13 | 3 | 60 |
| **Total non-forborne loans and advances to customers** | **704** | **313** | **58** | **92** | **1,167** |
| | | | | | |
| **Forborne loans and advances to customers** | | | | | |
| Credit-impaired | 1,790 | 771 | 798 | 19 | 3,378 |
| Not credit-impaired | 249 | 128 | 62 | - | 439 |
| **Total forborne loans and advances to customers** | **2,039** | **899** | **860** | **19** | **3,817** |

[1] *At 31 December 2018, forborne purchased or originated credit-impaired loans included €2 million of loans which, while credit-impaired upon purchase or origination, were no longer credit-impaired at the reporting date due to improvement in credit risk. These loans will remain classified as purchased or originated credit-impaired loans until derecognition.*

# IAS 39 Comparatives

## Retail Ireland mortgages - IAS 39 comparative disclosures

**Table: 3**

| **2017**<br>**Risk profile of Retail Ireland mortgage loan book (before impairment provisions)** | **Owner occupied** €m | % | **Buy to let** €m | % | **Total** €m | % |
|---|---|---|---|---|---|---|
| Neither past due nor impaired | 19,129 | 95% | 3,285 | 84% | 22,414 | 93% |
| 1-90 days past due but not impaired | 257 | 1% | 91 | 2% | 348 | 1% |
| Past due greater than 90 days but not impaired | 142 | 1% | 40 | 1% | 182 | 1% |
| Impaired | 632 | 3% | 493 | 13% | 1,125 | 5% |
| **Total** | **20,160** | **100%** | **3,909** | **100%** | **24,069** | **100%** |
| **Non-performing exposures** | | | | | | |
| Impaired | 632 | 46% | 493 | 39% | 1,125 | 42% |
| Past due greater than 90 days but not impaired | 142 | 10% | 40 | 3% | 182 | 7% |
| Neither impaired nor past due greater than 90 days | 604 | 44% | 739 | 58% | 1,343 | 51% |
| **Total** | **1,378** | **100%** | **1,272** | **100%** | **2,650** | **100%** |

**Table: 3c**

| **2017**<br>**Loan to value (LTV) ratio of total Retail Ireland mortgages** | **Owner occupied** €m | % | **Buy to let** €m | % | **Total** €m | % |
|---|---|---|---|---|---|---|
| Less than 50% | 6,480 | 32% | 986 | 25% | 7,466 | 31% |
| 51% to 70% | 6,542 | 32% | 885 | 23% | 7,427 | 31% |
| 71% to 80% | 2,931 | 15% | 501 | 13% | 3,432 | 14% |
| 81% to 90% | 2,081 | 10% | 676 | 17% | 2,757 | 11% |
| 91% to 100% | 1,133 | 6% | 320 | 8% | 1,453 | 6% |
| **Subtotal** | **19,167** | **95%** | **3,368** | **86%** | **22,535** | **93%** |
| 101% to 120% | 816 | 4% | 307 | 8% | 1,123 | 5% |
| 121% to 150% | 133 | 1% | 113 | 3% | 246 | 1% |
| Greater than 150% | 44 | - | 121 | 3% | 165 | 1% |
| **Subtotal** | **993** | **5%** | **541** | **14%** | **1,534** | **7%** |
| **Total** | **20,160** | **100%** | **3,909** | **100%** | **24,069** | **100%** |
| Weighted average LTV[1]: | | | | | | |
| Stock of Retail Ireland mortgages at year end | | 61% | | 73% | | 63% |
| New Retail Ireland mortgages during the year | | 69% | | 52% | | 69% |

**Table: 4**

| **2017**<br>**Retail Ireland mortgages** | **Advances (pre-impairment)** €m | **Non-performing exposures** €m | **Non-performing exposures as % of advances** % | **Impaired loans** €m | **Total provisions** €m | **Total provisions as % of non-performing exposures** % | **Specific provisions as % of Impaired loans** % |
|---|---|---|---|---|---|---|---|
| **Total Retail Ireland mortgages** | | | | | | | |
| Owner occupied mortgages | 20,160 | 1,378 | 7% | 632 | 310 | 22% | 35% |
| Buy to let mortgages | 3,909 | 1,272 | 33% | 493 | 333 | 26% | 51% |
| **Total** | **24,069** | **2,650** | **11%** | **1,125** | **643** | **24%** | **42%** |

[1] *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

# Retail UK mortgages - IAS 39 comparative disclosures

**Table: 3a**

| **2017 Risk profile of Retail UK mortgage loan book (before impairment provisions)** | **Standard £m** | **Standard %** | **Buy to let £m** | **Buy to let %** | **Self certified £m** | **Self certified %** | **Total £m** | **Total %** |
|---|---|---|---|---|---|---|---|---|
| Neither past due nor impaired | 10,315 | 97% | 7,236 | 97% | 1,664 | 84% | 19,215 | 96% |
| 1-90 days past due but not impaired | 192 | 2% | 144 | 2% | 216 | 11% | 552 | 3% |
| Past due greater than 90 days but not impaired | 36 | - | 27 | - | 45 | 2% | 108 | - |
| Impaired | 56 | 1% | 50 | 1% | 62 | 3% | 168 | 1% |
| **Total** | **10,599** | **100%** | **7,457** | **100%** | **1,987** | **100%** | **20,043** | **100%** |
| **Non-performing exposures** | | | | | | | | |
| Impaired | 56 | 41% | 50 | 49% | 62 | 42% | 168 | 44% |
| Past due greater than 90 days but not impaired | 36 | 26% | 27 | 26% | 45 | 31% | 108 | 28% |
| Neither impaired nor past due greater than 90 days | 45 | 33% | 25 | 25% | 40 | 27% | 110 | 28% |
| **Total** | **137** | **100%** | **102** | **100%** | **147** | **100%** | **386** | **100%** |

**Table: 3c**

| **2017 Loan to value (LTV) ratio of total Retail UK mortgages** | **Standard £m** | **Standard %** | **Buy to let £m** | **Buy to let %** | **Self certified £m** | **Self certified %** | **Total Retail UK mortgage portfolio £m** | **Total Retail UK mortgage portfolio %** |
|---|---|---|---|---|---|---|---|---|
| Less than 50% | 2,384 | 22% | 2,250 | 30% | 613 | 31% | 5,247 | 26% |
| 51% to 70% | 3,596 | 34% | 3,309 | 45% | 802 | 40% | 7,707 | 38% |
| 71% to 80% | 1,882 | 18% | 1,141 | 15% | 288 | 14% | 3,311 | 17% |
| 81% to 90% | 1,976 | 19% | 602 | 8% | 182 | 9% | 2,760 | 14% |
| 91% to 100% | 589 | 5% | 101 | 1% | 73 | 4% | 763 | 4% |
| **Subtotal** | **10,427** | **98%** | **7,403** | **99%** | **1,958** | **98%** | **19,788** | **99%** |
| 101% to 120% | 69 | 1% | 16 | - | 11 | 1% | 96 | - |
| 121% to 150% | 25 | - | 4 | - | 8 | - | 37 | - |
| Greater than 150% | 78 | 1% | 34 | 1% | 10 | 1% | 122 | 1% |
| **Subtotal** | **172** | **2%** | **54** | **1%** | **29** | **2%** | **255** | **1%** |
| **Total** | **10,599** | **100%** | **7,457** | **100%** | **1,987** | **100%** | **20,043** | **100%** |
| Weighted average LTV[1]: | | | | | | | | |
| Stock of Retail UK mortgages at year end | | 64% | | 58% | | 59% | | 62% |
| New Retail UK mortgages during year | | 74% | | 60% | | n/a | | 72% |

**Table: 4**

| **2017 Retail UK mortgages** | **Advances (pre-impairment) €m** | **Non-performing exposures €m** | **Non-performing exposures as % of advances %** | **Impaired loans €m** | **Total provisions €m** | **Total provisions as % of non-performing exposures %** | **Specific provisions as % of Impaired loans %** |
|---|---|---|---|---|---|---|---|
| **Total Retail UK mortgages** | | | | | | | |
| Standard mortgages | 10,599 | 137 | 1.3% | 56 | 25 | 18% | 8% |
| Buy to let mortgages | 7,457 | 102 | 1.4% | 50 | 16 | 16% | 17% |
| Self certified mortgages | 1,987 | 147 | 7.4% | 62 | 15 | 10% | 9% |
| **Total** | **20,043** | **386** | **1.9%** | **168** | **56** | **15%** | **11%** |

[1] *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

# Group forbearance disclosures - IAS 39 comparatives

**Table: 1**

| 2017 Risk profile of loans and advances to customers (before impairment provisions) | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total loans and advances to customers €m | Total loans and advances to customers % |
|---|---|---|---|---|---|---|
| **Non-forborne loans and advances to customers** | | | | | | |
| High quality | 41,823 | 6,138 | 3,789 | 3,920 | 55,670 | 79% |
| Satisfactory quality | - | 8,504 | 1,463 | 226 | 10,193 | 14% |
| Acceptable quality | - | 1,290 | 962 | 10 | 2,262 | 3% |
| Lower quality but neither past due or impaired | - | 389 | 210 | - | 599 | 1% |
| **Neither past due nor impaired** | **41,823** | **16,321** | **6,424** | **4,156** | **68,724** | **97%** |
| Past due but not impaired | 897 | 118 | 66 | 63 | 1,144 | 2% |
| Impaired | 539 | 238 | 187 | 62 | 1,026 | 1% |
| **Total non-forborne loans and advances to customers** | **43,259** | **16,677** | **6,677** | **4,281** | **70,894** | **100%** |
| **Forborne loans and advances to customers** | | | | | | |
| High quality | - | 19 | 40 | 1 | 60 | 1% |
| Satisfactory quality | 789 | 123 | 154 | 4 | 1,070 | 14% |
| Acceptable quality | 1,380 | 422 | 276 | 4 | 2,082 | 27% |
| Lower quality but neither past due or impaired | 78 | 346 | 410 | - | 834 | 11% |
| **Neither past due nor impaired** | **2,247** | **910** | **880** | **9** | **4,046** | **53%** |
| Past due but not impaired | 378 | 75 | 76 | 1 | 530 | 7% |
| Impaired | 775 | 1,101 | 1,114 | 27 | 3,017 | 40% |
| **Total forborne loans and advances to customers** | **3,400** | **2,086** | **2,070** | **37** | **7,593** | **100%** |

**Table: 2**

| 2017 Risk profile of loans and advances to customers - past due and / or impaired | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| **Non-forborne loans and advances to customers** | | | | | |
| Past due up to 30 days | 338 | 45 | 22 | 38 | 443 |
| Past due 31 - 60 days | 319 | 16 | 16 | 19 | 370 |
| Past due 61 - 90 days | 80 | 6 | 4 | 6 | 96 |
| Past due greater than 90 days but not impaired | 160 | 51 | 24 | - | 235 |
| **Past due but not impaired** | **897** | **118** | **66** | **63** | **1,144** |
| Impaired | 539 | 238 | 187 | 62 | 1,026 |
| **Total non-forborne loans and advances to customers - past due and / or impaired** | **1,436** | **356** | **253** | **125** | **2,170** |
| Forborne loans and advances to customers | | | | | |
| Past due up to 30 days | 131 | 16 | 10 | - | 157 |
| Past due 31 - 60 days | 70 | 11 | 21 | 1 | 103 |
| Past due 61 - 90 days | 33 | 5 | 3 | - | 41 |
| Past due greater than 90 days but not impaired | 144 | 43 | 42 | - | 229 |
| **Past due but not impaired** | **378** | **75** | **76** | **1** | **530** |
| Impaired | 775 | 1,101 | 1,114 | 27 | 3,017 |
| **Total forborne loans and advances to customers - past due and / or impaired[1]** | **1,153** | **1,176** | **1,190** | **28** | **3,547** |

[1] *The 'past due' classification includes both accounts which were classified as 'past due' prior to the forbearance measure being put in place and also those loans which have moved to 'past due' loans during the year. The 'past due' classification does not indicate that the terms of the forbearance measure are not being met.*

## Group forbearance disclosures - IAS 39 comparatives *(continued)*

| Table: 3<br>2017<br>Risk profile of loans and advances to customers - non-performing exposures | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| **Non-forborne loans and advances to customers** | | | | | |
| Impaired | 539 | 238 | 187 | 62 | 1,026 |
| Past due greater than 90 days but not impaired | 161 | 52 | 24 | - | 237 |
| Neither impaired nor past due greater than 90 days | 118 | 2 | - | - | 120 |
| **Total non-forborne loans and advances to customers** | **818** | **292** | **211** | **62** | **1,383** |
| **Forborne loans and advances to customers** | | | | | |
| Impaired | 775 | 1,101 | 1,114 | 27 | 3,017 |
| Past due greater than 90 days but not impaired | 143 | 42 | 42 | - | 227 |
| Neither impaired nor past due greater than 90 days | 1,349 | 242 | 302 | 1 | 1,894 |
| **Total** | **2,267** | **1,385** | **1,458** | **28** | **5,138** |

# Consolidated average balance sheet and interest rates

The following tables show the average balances and interest rates of interest earning assets and interest bearing liabilities for 2018 and 2017. The calculations of average balances can be based on daily, weekly or monthly averages, depending on the reporting unit. The average balances used are considered to be representative of the operations of the Group. The Group's operating divisions are managed on a product margin basis, with funding and interest exposure managed centrally. The explanation of the underlying business trends in the Group's net interest margin (NIM), after adjusting for the impact of IFRS income classifications, is outlined on page 33.

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Average Balance €m | Interest[1] €m | Rate % | Average Balance €m | Interest[1] €m | Rate % |
| **Assets** | | | | | | |
| Loans and advances to banks[2] | 7,802 | 16 | 0.21% | 7,647 | 2 | 0.02% |
| Loans and advances to customers at amortised cost including loans and advances to customers held for sale[2,3] | 76,184 | 2,464 | 3.23% | 76,856 | 2,488[4,5] | 3.24% |
| Debt securities at amortised cost and financial assets at FVOCI | 14,582 | 57 | 0.39% | - | - | - |
| AFS financial assets and NAMA senior bonds | - | - | - | 12,147 | 98 | 0.80% |
| Held to maturity financial assets | - | - | - | 1,543 | 29 | 1.88% |
| **Total interest earning assets** | **98,568** | **2,537** | **2.57%** | **98,193** | **2,617** | **2.66%** |
| Non interest earning assets | 23,288 | - | - | 22,978 | - | - |
| **Total assets** | **121,856** | **2,537** | **2.08%** | **121,171** | **2,617** | **2.16%** |
| Liabilities and shareholders' equity | | | | | | |
| Deposits from banks[6] | 3,900 | 7 | 0.18% | 4,760 | 17 | 0.36% |
| Customer accounts[6,7] | 44,214 | 203 | 0.46% | 44,919 | 197[4] | 0.44% |
| Debt securities in issue | 7,736 | 86 | 1.11% | 8,547 | 82 | 0.96% |
| Subordinated liabilities | 2,077 | 100 | 4.81% | 1,559 | 77 | 4.94% |
| **Total interest bearing liabilities** | **57,927** | **396** | **0.68%** | **59,785** | **373** | **0.62%** |
| Current accounts | 31,637 | (5) | (0.02%) | 28,174 | (4) | (0.01%) |
| **Total interest bearing liabilities and current accounts** | **89,564** | **391** | **0.44%** | **87,959** | **369** | **0.42%** |
| Non interest bearing liabilities[8] | 22,456 | - | - | 23,807 | - | - |
| Shareholders' equity and non-controlling interests | 9,836 | - | - | 9,405 | - | - |
| **Total liabilities and shareholders' equity** | **121,856** | **391** | **0.32%** | **121,171** | **369** | **0.30%** |
| Euro and sterling reference rates (average) | | | | | | |
| ECB base rate | | | 0.00% | | | (0.00%) |
| 3 month Euribor rate | | | (0.32%) | | | (0.33%) |
| Bank of England base rate | | | 0.60% | | | 0.29% |
| 3 month Libor rate | | | 0.72% | | | 0.36% |

Loans and advances to banks includes cash and balances at central banks.

[1] *Represents underlying interest income or underlying interest expense recognised on interest bearing items net of interest on derivatives which are in a hedge relationship with the relevant asset or liability.*
[2] *Interest expense of €12 million (2017: €14 million) arising from assets subject to negative interest rates has been reclassified to interest income, whereas in the consolidated income statement it is presented as interest expense.*
[3] *Average loans and advances to customers volumes are presented net of stage 3 impairment loss allowances, for the comparative year they are presented net of specific impairment provisions.*
[4] *Commencing in 2017, the Group has availed of the relaxed hedge accounting provisions permitted by IAS 39 'Financial Instruments: recognition and measurement' as adopted by the EU. In order that yields on products are presented on a consistent basis year on year and are not impacted by the resulting change in hedge accounting designations, net interest flows of €46 million on all derivatives designated as fair value hedges of current accounts continue to be presented together with gross interest income on 'Loans and advances to customers' and is not included in 'Customer accounts'.*
[5] *Interest income on loans and advances to customers is shown on an underlying basis. Therefore a charge of €12 million (2017: €96 million charge) related to redress arising from the CBI Tracker Mortgage Examination is excluded.*
[6] *Excludes deposits carried at FVTPL.*
[7] *Interest income of €19 million (2017: €11 million) arising from liabilities subject to negative interest rates has been reclassified to interest expense, whereas in the consolidated income statement it is presented as interest income.*
[8] *Includes liabilities carried at FVTPL.*

# Shareholder information
## Holders of ordinary shares

**Listings**
BOIG plc is a public limited company incorporated in Ireland in 2016. Its ordinary shares, of nominal value €1.00 per share, have a primary listing on the Irish Stock Exchange t/a Euronext Dublin and a premium listing on the London Stock Exchange.

**Registrar**
The Company's Registrar is:
Computershare Investor Services (Ireland) Limited, P.O. Box 954, Sandyford Industrial Estate, Dublin 18.
Telephone: + 353 1 247 5414
Facsimile: + 353 1 447 5571
or
Contact via website: www.computershare.com/ie/contact-us

Please note that from the 25 March 2019 onwards the Registrar's address will be: 311 Lake Drive, Citywest Business Campus, Dublin 24.

Shareholders may view their shareholding on Computershare's website at: www.investorcentre.com/ie by registering their details with Computershare. Once registered, shareholders will be sent a Computershare activation code and will then be able to view and amend their account details using the above link.

**Amalgamating your shareholdings**
If you receive more than one copy of a shareholder mailing with similar details on your accounts, it may be because the Company has more than one record of shareholdings in your name. To ensure that you do not receive duplicate mailings in future and to reduce the cost and waste associated with this, please have all your shareholdings amalgamated into one account by contacting the Company's Registrar (joint accounts cannot be merged with sole accounts or vice versa).

| Shareholder profile | 2018 % by value | 2017 % by value |
|---|---|---|
| Ireland | 16% | 16% |
| UK | 23% | 22% |
| North America | 37% | 35% |
| Europe / other | 11% | 13% |
| Retail | 13% | 14% |
| **Total** | **100%** | **100%** |

**Shareholder enquiries**
All enquiries concerning shareholdings should be addressed to the Company's Registrar.

**Communication**
It is the policy of the Company to communicate with shareholders by electronic means or through the www.bankofireland.com website in the interest of protecting the environment. Those shareholders who do not wish to receive documents or information by electronic means may request to receive the relevant information in paper form.

**Bank of Ireland website**
Further information about the Bank of Ireland Group can be obtained from the internet at www.bankofireland.com

| | 2018 | | | | 2017[1] | | | |
|---|---|---|---|---|---|---|---|---|
| Shareholding range - units of stock | Number of shareholders | % of total holders | Shares held units | % of total shares | Number of shareholders | % of total holders | Shares held units | % of total shares |
| Up to 500 | 78,589 | 78.53% | 8,479,156 | 0.79% | 80,020 | 78.17% | 8,744,970 | 0.81% |
| 501 to 1,000 | 8,448 | 8.44% | 6,108,860 | 0.57% | 8,763 | 8.56% | 6,339,267 | 0.59% |
| 1,001 to 5,000 | 9,889 | 9.88% | 21,257,261 | 1.98% | 10,338 | 10.10% | 22,144,673 | 2.06% |
| 5,001 to 10,000 | 1,425 | 1.42% | 10,184,353 | 0.95% | 1,446 | 1.41% | 10,299,583 | 0.96% |
| 10,001 to 50,000 | 1,050 | 1.05% | 21,924,270 | 2.04% | 1,132 | 1.11% | 23,523,282 | 2.19% |
| 50,001 to 100,000 | 180 | 0.18% | 12,787,614 | 1.19% | 182 | 0.18% | 13,116,450 | 1.22% |
| 100,001 to 500,000 | 299 | 0.30% | 66,872,266 | 6.22% | 282 | 0.27% | 61,778,625 | 5.75% |
| Over 500,000[1] | 197 | 0.20% | 927,901,833 | 86.28% | 201 | 0.20% | 928,672,441 | 86.42% |
| **Total** | **100,077** | **100.00%** | **1,075,515,613** | **100.00%** | **102,364** | **100.00%** | **1,074,619,291** | **100.00%** |

[1] *Excludes shareholdings held by NIAC.*

# Forward looking statement

This document contains forward-looking statements with respect to certain of the Bank of Ireland Group plc (the 'Company' or 'BOIG plc') and its subsidiaries' (collectively the 'Group' or 'BOIG plc Group') plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates and its future capital requirements. These forward-looking statements often can be identified by the fact that they do not relate only to historical or current facts. Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would,' or their negative variations or similar expressions identify forward-looking statements, but their absence does not mean that a statement is not forward-looking.

Examples of forward-looking statements include, among others: statements regarding the Group's near term and longer term future capital requirements and ratios, level of ownership by the Irish Government, loan to deposit ratios (LDRs), expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, future payment of dividends, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, UK, European and other regulators and plans and objectives for future operations. Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements.

Such risks and uncertainties include, but are not limited to, those as set out in the Risk Management Report. Investors should read 'Principal Risks and Uncertainties' in this document beginning on page 61.

Nothing in this document should be considered to be a forecast of future profitability or financial position of the Group and none of the information in this document is or is intended to be a profit forecast or profit estimate. Any forward-looking statement speaks only as at the date it is made. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.

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# Other disclosures

## TARGET 2

1. On 15 February 2008 a first floating charge (the Floating Charge) was placed in favour of the CBI over all The Governor and Company of the Bank of Ireland's right, title, interest and benefit, present and future, in and to (i) the balances now or at any time standing to the credit of The Governor and Company of the Bank of Ireland's account held as a TARGET 2 participant with the CBI; and (ii) certain segregated securities listed in an Eligible Securities Schedule kept by The Governor and Company of the Bank of Ireland for purposes of participating in TARGET 2 ((i) and (ii) together the Charged Property) where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

   This Floating Charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, The Governor and Company of the Bank of Ireland shall:

   (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the Charged Property or any part thereof; or

   (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

   On 14 September 2018, The Governor and Company of the Bank of Ireland entered into an Agreement in respect of Continued Participation in Target 2 Ireland with the CBI to restate and modify the terms and conditions applicable to The Governor and Company of the Bank of Ireland's existing participation in TARGET 2 with effect from 14 September 2018. This Agreement provided that The Governor and Company of the Bank of Ireland would continue to participate in TARGET 2 in accordance with the Agreement and the TARGET 2 Ireland terms and conditions as published on the CBI's website and that the Floating Charge would continue in full force and effect with respect to such continued and amended participation in TARGET 2.

# Other disclosures *(continued)*

## Return on Tangible Equity

| | Reported | | Adjusted | |
|---|---|---|---|---|
| | 2018 €m | 2017[1] €m | 2018 €m | 2017[1] €m |
| Profit for the year attributable to shareholders | 620 | 664 | 620 | 664 |
| Non-core items, net of tax (see page 37) | 78 | 208 | 78 | 208 |
| Preference dividends paid | - | (4) | - | (4) |
| Coupon on AT1 securities | - | (27) | - | (27) |
| Other gains and other valuation items, net of tax (see page 34) | - | - | 38 | (124) |
| Adjustment for current year impairment gain, net of tax | - | - | (34) | 12 |
| Normalised impairment charge, net of tax | - | - | (127) | (187) |
| **Adjusted profit after tax** | **698** | **841** | **575** | **542** |
| | | | | |
| **Shareholders' equity** | **9,243** | **8,859** | **9,243** | **8,859** |
| Intangible assets and goodwill | (802) | (779) | (802) | (779) |
| **Shareholders' tangible equity** | **8,441** | **8,080** | **8,441** | **8,080** |
| | | | | |
| **Average shareholders' tangible equity** | **8,229** | **7,892** | **8,229** | **7,892** |
| Adjustment for CET 1 ratio at 13.0% | - | - | (296) | - |
| **Adjusted Average shareholders tangible equity** | **8,229** | **7,892** | **7,933** | **7,892** |
| | | | | |
| **Return on Tangible Equity** | **8.5%** | **10.6%** | **7.2%** | **6.9%** |

[1] *AT1 coupons and dividends on other preference equity interests paid after the date of the corporate reorganisation of 7 July 2017 (as described in note 51) are deducted in arriving at profit attributable to shareholders, as those components of equity were reclassified to non-controlling interests on that date.*

# Alternative performance measures

**Further information related to certain measures referred to in the Strategic Report and summary of Group results**

**Average cost of funds** represents the underlying interest expense recognised on interest bearing liabilities, net of interest on derivatives which are in a hedge relationship with the relevant liability. See page 33 for further information.

**Business income** is net other income after IFRS income classifications before other gains and other valuation items. See page 34 for further details.

**Constant currency:** To enable a better understanding of performance, certain variances are calculated on a constant currency basis by adjusting for the impact of movements in exchange rates during the year as follows:

- for balance sheet items, by reference to the closing rate at the end of the current and prior year ends; and
- for items relating to the income statement, by reference to the current and prior year average rates.

**'Forborne collateral realisation' loans (FCRs):** Loans (primarily residential mortgages) which meet both of the following criteria: (i) not greater than 90 days past due; and (ii) forbearance is in place and future reliance on the realisation of collateral is expected for the repayment in full of the loan when such reliance was not originally envisaged. Such loans are considered credit-impaired and include Split Mortgages and certain 'Interest Only' / 'Interest Only plus' arrangements.

**Gross new lending volumes** represent loans and advances to customers drawn down during the year and portfolio acquisitions.

**Gross yield** represents the underlying interest income recognised on interest earning assets, net of interest on derivatives which are in a hedge relationship with the relevant asset. See page 33 for further information.

**Liquid asset spread** is calculated as gross yield on interest bearing liquid assets less the average cost of funds. See page 33 for further detail.

**Loan asset spread** is calculated as gross yield on loans and advances to customers less the average cost of funds. See page 33 for further detail.

**Loan to deposit ratio** is calculated as being net loans and advances to customers divided by customer deposits.

**Net interest margin (NIM)** is stated on an underlying basis after adjusting for IFRS income classifications. See page 33 for further details.

**PE ratio** is calculated as NPEs on loans and advances to customers as a percentage of the gross carrying value of loans and advances to customers.

**Organic capital generation** consists of attributable profit and movements in regulatory deductions, including the reduction in DTAs deduction (DTAs that rely on future profitability) and movements in the Expected Loss deduction.

**Return on assets** is calculated as being statutory net profit (being profit after tax) divided by total assets, in line with the requirement in the EU (Capital Requirements) Regulations 2014.

**Return on Tangible Equity (ROTE)** is calculated as being profit attributable to ordinary shareholders less non-core items (net of tax) divided by average shareholders' equity less average intangible assets and goodwill. See below and page 325 for further information.

**Tangible Net Asset Value (TNAV)** per share is calculated as shareholder equity less intangible assets and goodwill divided by the number of ordinary shares in issue and adjusted for own shares held for the benefit of life assurance policyholders.

**Underlying** excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 37 for further information.

**Wholesale funding** is comprised of deposits by banks (including collateral received) and debt securities in issue.

**The following measures have been amended since 31 December 2017:**

**Cost income ratio**

The Group has revised its approach to the calculation of the cost income ratio by excluding other gains and other valuation items. This revised definition is seen as a more appropriate measure of the Group's operating efficiency and is aligned with the Group's recently announced financial targets.

**Cost income ratio** is calculated on an underlying basis (excluding non-core items), as operating expenses excluding levies and regulatory charges divided by operating income (net of insurance claims), excluding other gains and other valuation items.

**ROTE**

The Group has revised its approach to the calculation of ROTE by adjusting equity to reflect the targeted CET 1 ratio of 13%. This adjustment is calculated as the average targeted (13%) CET 1 capital less the Group's average CET 1 on a fully loaded basis. This revised definition is seen as more appropriate as it reflects the internal measurement for the deployment of capital. As the targeted capital remains consistent, it will enable a more stable measurement for the return on capital.

**Return on Tangible Equity (adjusted)** is calculated by adjusting the ROTE to exclude other gains and other valuation items (net of tax) and to adjust the impairment gain or loss on financial instruments (net of tax) to a more 'normalised' impairment level of impairment loss, net of tax. The average shareholders tangible equity is adjusted to a maximum CET 1 ratio of 13%, reflecting the Group target CET 1 ratio. See page 325 for further information.

# Alternative performance measures *(continued)*

**The following measures have changed due to the impact of IFRS 9:**

**Liquid assets** are comprised of cash and balances at central banks, loans and advances to banks, debt securities at amortised cost, financial assets at FVOCI and certain financial assets at FVTPL (excluding balances in Wealth and Insurance). See page 40 for further details.

**'Non-performing exposures' (NPEs):** These are:

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

**(ii)** **other / probationary loans** that have yet to satisfy exit criteria in line with EBA guidance to return to performing.

**Net Impairment losses / gains on loans and advances to customers at amortised cost (bps)** is the net impairment loss / gain on loans and advances to customers at amortised cost divided by average gross loans and advances to customers at amortised cost.

# Abbreviations

| | |
|---|---|
| **AA** | Automobile Association |
| **AFS** | Available for sale |
| **AGC** | Annual General Court |
| **AGM** | Annual General Meeting |
| **AIB** | AIB Group plc and subsidiaries |
| **ALCO** | Group Asset & Liability Committee |
| **AML** | Anti Money Laundering |
| **APE** | Annual Premium Equivalent |
| **AT1** | Additional tier 1 |
| **ATM** | Automated Teller Machine |
| **Bank** | The Governor and Company of the Bank of Ireland |
| **BBA** | British Banking Association |
| **BCBS** | Basel Committee on Banking Supervision |
| **BITCI** | Business In The Community Ireland |
| **BoE** | Bank of England |
| **BOIG plc** | Bank of Ireland Group plc |
| **BoIGM** | Bank of Ireland Global Markets |
| **BoIMB** | Bank of Ireland Mortgage Bank |
| **BPFI** | Banking & Payments Federation Ireland |
| **bps** | Basis points |
| **BRC** | Board Risk Committee |
| **BRRD** | Bank Recovery and Resolution Directive |
| **BSA** | Balance Sheet Assessment |
| **BSPF** | Bank of Ireland Staff Pensions Fund |
| **BTL** | Buy to let |
| **CBI** | Central Bank of Ireland |
| **CCB** | Capital Conservation Buffer |
| **CCyB** | Countercyclical capital buffer |
| **CDEAs** | Cleared Derivatives Execution Agreements |
| **CDS** | Credit default swap |
| **CEO** | Chief Executive Officer |
| **CET 1** | Common equity tier 1 |
| **CFO** | Chief Financial Officer |
| **CGU** | Cash generating units |
| **CLS** | Customer Loans Solutions |
| **CML** | Council of Mortgage Lenders |
| **CPI** | Consumer Price Index |
| **CRD** | Capital Requirements Directive (EU) |
| **CRMF** | Conduct Risk Management Framework |
| **CRR** | Capital Requirements Regulation |
| **CSAs** | Credit Support Annexes |
| **CSR** | Corporate social responsibility |
| **CSO** | Central Statistics Office |
| **CVA** | Credit Valuation Adjustment |
| **C&T** | Corporate and Treasury |
| **DAC** | Designated Activity Company |
| **DB** | Defined benefit |
| **DC** | Defined contribution |
| **DCF** | Discounted Cash Flow |
| **DGS** | Deposit Guarantee Scheme |
| **DIRT** | Deposit Interest Retention Tax |
| **DTA** | Deferred tax asset |
| **DVA** | Debit Valuation Adjustment |
| **EAD** | Exposure at Default |
| **EBA** | European Banking Authority |
| **EBITDA** | Earnings before interest, tax, depreciation and amortisation |
| **EC** | European Commission |
| **ECB** | European Central Bank |
| **ECL** | Expected credit losses |
| **EDIS** | European Deposit Insurance Scheme |
| **EGM** | Extraordinary General Meeting |
| **EIOPA** | European Insurance and Occupational Pensions Authority |
| **ELG** | Eligible Liabilities Guarantee |
| **EMIR** | European Market Infrastructure Regulation |
| **ESB** | Electricity Supply Board |
| **ESRI** | Economic & Social Research Institute |
| **EU** | European Union |
| **Euribor** | Euro Inter Bank Offered Rate |
| **EWMA** | Exponentially weighted moving average |
| **FCR** | Forborne collateral realisation |
| **FLI** | Forward looking information |
| **FPC** | Financial Policy Committee |
| **FRES** | First Rate Exchange Services Limited |
| **FRESH** | First Rate Exchange Services Holdings Limited |
| **FSCS** | Financial Services Compensation Scheme |
| **FVA** | Funding Valuation Adjustment |
| **FVOCI** | Fair Value through Other Comprehensive Income |
| **FVTPL** | Fair Value Through Profit or Loss |
| **FX** | Foreign exchange |
| **GAC** | Group Audit Committee |
| **GB** | Great Britain |
| **GCC** | Group Credit Committee |
| **GCR** | Group Credit Review |
| **GCRO** | Group Chief Risk Officer |
| **GDPR** | General Data Protection Regulation |
| **GEC** | Group Executive Committee |
| **GIA** | Group Internal Audit |
| **GN&GC** | Group Nomination and Governance Committee |
| **GM&LR** | Group Market and Liquidity Risk |
| **GORC** | Group Operational Risk Committee |
| **GRC** | Group Remuneration Committee |
| **GRCRC** | Group Regulatory and Conduct Risk Committee |
| **GRPC** | Group Risk Policy Committee |
| **GTOC** | Group Transformation Oversight Committee |
| **HMRC** | HM Revenue & Customs |
| **IAS** | International Accounting Standard |
| **IAASA** | Irish Auditing Accounting Standards Authority |
| **IBNR** | Incurred but not Reported |

## Abbreviations *(continued)*

| | |
|---|---|
| **IBRC** | Irish Banking Resolution Corporation |
| **ICAAP** | Internal Capital Adequacy Assessment Process |
| **IFRS** | International Financial Reporting Standard |
| **ILAAP** | Internal Liquidity Adequacy Assessment Process |
| **ILTR** | Index Long Term Repo |
| **IMF** | International Monetary Fund |
| **IPO** | Initial Public Offering |
| **IRB** | Internal Rating Based |
| **IRRBB** | Interest Rate Risk in the Banking Book |
| **ISDA** | International Swaps and Derivative Association |
| **ISIF** | Ireland Strategic Investment Fund |
| **ITC** | Information Technology Centre |
| **ITSCM** | IT Service Continuity Management |
| **IVU** | Independent Valuation Unit |
| **KMP** | Key management personnel |
| **LBG** | London Benchmarking Group |
| **LCR** | Liquidity Coverage Ratio |
| **LDI** | Liability Driven Investment |
| **LDR** | Loan to deposit ratio |
| **LGD** | Loss Given Default |
| **Libor** | London Inter Bank Offered Rate |
| **LTI** | Loan to income |
| **LTV** | Loan to Value |
| **MCEV** | Market Consistent Embedded Value |
| **MFS** | Minimum Funding Standard |
| **MLL** | Marshall Leasing Limited |
| **MREL** | Minimum Requirement for own Funds and Eligible Liabilities |
| **NAMA** | National Asset Management Agency |
| **NAMAID** | National Asset Management Agency Investment DAC |
| **NED** | Non-Executive Director |
| **NETA** | National Enterprise Town Awards |
| **NGOs** | Non-Governmental Organisations |
| **NI** | Northern Ireland |
| **NIAC** | New Ireland Assurance Company plc |
| **NIE** | Northern Ireland Electricity |
| **NIM** | Net interest margin |
| **NLI** | National Library of Ireland |
| **NPEs** | Non-performing exposures |
| **NPS** | Net Promoter Score |
| **NSFR** | Net Stable Funding Ratio |
| **NTMA** | National Treasury Management Agency |
| **OCI** | Other Comprehensive Income |
| **ORSA** | Own Risk and Solvency Assessment |
| **O-SII** | Other Systemically Important Institutions |
| **OTC** | Over the Counter |
| **PAW** | Positive Aging Week |
| **P2G** | Pillar 2 Guidance |
| **P2R** | Pillar 2 Requirement |
| **PD** | Probability of Default |
| **POCI** | Purchased or originated credit-impaired financial asset |
| **PRA** | Prudential Regulation Authority |
| **PRC** | Portfolio Review Committee |
| **PSD2** | Payment Services Directive |
| **PwC** | PricewaterhouseCoopers |
| **RAROC** | Risk Adjusted Return on Capital |
| **RCF** | Revolving Credit Facility |
| **RCSA** | Risk and Control Self Assessment |
| **REAU** | Real Estate Advisory Unit |
| **RMC** | Risk Measurement Committee |
| **RoI** | Republic of Ireland |
| **ROTE** | Return on Tangible Equity |
| **RoW** | Rest of World |
| **RPI** | Retail Price Index |
| **RPPI** | Residential Property Price Index |
| **RWAs** | Risk weighted assets |
| **SEAI** | Sustainable Energy Authority of Ireland |
| **SID** | Senior Independent Director |
| **SIP** | Stock Incentive Plan |
| **SIPTU** | Services Industrial Professional and Technical Union |
| **SMBPN** | Special Mortgage Backed Promissory Note |
| **SME** | Small and Medium Enterprise |
| **SPE** | Special purpose entity |
| **SREP** | Supervisory Review & Evaluation Process |
| **SRB** | Single Resolution Board |
| **SRF** | Single Resolution Fund |
| **SRM** | Single Resolution Mechanism |
| **SSM** | Single Supervisory Mechanism |
| **S&P** | Standard and Poor's |
| **TFS** | Term Funding Scheme |
| **TLTRO** | Targeted Longer Term Refinancing Operation |
| **TOM** | Target Operational Model |
| **TRIM** | Targeted review of internal models |
| **TSA** | The Standardised Approach |
| **TtC** | Through-the-Cycle |
| **UK** | United Kingdom |
| **US** | United States |
| **VaR** | Value at Risk |
| **VAT** | Value Added Tax |
| **ViF** | Value of in Force |
| **VIU** | Value in Use |

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