2019

Bank of Ireland (UK) plc
Annual Report

Bank of Ireland UK

Contents

Business Review **2**

2019 key performance highlights 2
Chairman's review 3
Chief Executive's review 4
Strategic report 6

Risk Management **30**

Risk management framework 31
Management of key risks 36
Capital management 55

Governance **58**

Directors and other information 58
Report of the Directors 66

Financial Statements **67**

Statement of Directors' Responsibilities 67
Independent Auditors' report 68
Financial statements 76

Other Information **165**

Principal business units and addresses 165
Pillar 3 disclosures 165
Performance measures 166
Abbreviations 167

Bank of Ireland (UK) plc (the 'Bank'), together with its subsidiary undertakings (which together comprise the 'Group') is the principal United Kingdom retail and commercial banking business of the Governor and Company of the Bank of Ireland (the 'Parent').

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

Business Review

2019 key performance highlights

Financial Performance

£155m
(2018: £173m)

Statutory profit before tax

- £166 million underlying profit before tax[1] (2018: £183 million)
- Statutory net interest margin 1.93% (2018: 2.11%)
- £100 million dividend paid to Parent in 2019
- Deferred tax charge of £44 million in 2019 including one-off charge of £40 million

Growth

£1.5bn
(2018: £0.2bn)

Net lending growth

- Net lending growth £1.5 billion (2018: £0.2 billion)
- New gross lending £5.9 billion (2018: £5.1 billion)
- Supported c.17,000 new customers in 2019 to buy their own homes

Transformation

£34m

Reduction in total operating expenses

- 3% reduction in cost income ratio on a statutory basis
- Disposal of consumer credit card portfolio
- Inaugural wholesale funding transaction for £350 million

Capital

14.5%
(31 December 2018: 15.0%)

CET 1 ratio

- Maintained strong CET 1 ratio 14.5% (2018: 15%)
- Total capital ratio 19.9% (2018: 20.6%)
- Internal MREL - £300 million issued in December 2019

[1] *Underlying profit before taxation excludes non-core items which the Group believes obscure the underlying performance trends in the business. See page 8 for further details.*

Chairman's review

The Group has continued to make tangible progress against its business objectives, in a challenging UK financial services sector

Robert Sharpe
Chairman

Strategy & Purpose
Our purpose in the UK is to enable our customers, colleagues and communities to thrive, with a strategic focus on increasing overall returns. This is achieved through the distribution of consumer products via partnerships with the Post Office (PO), the Automobile Association (AA), a full service bank in Northern Ireland, and strong niche businesses in attractive customer segments including car finance in Northridge Finance, intermediary mortgages and currency exchange in First Rate Exchange Services Limited (FRES).

We previously set out three clear business objectives which were to:

- invest in businesses generating sustainable returns;
- improve the performance of existing businesses with potential for increased returns; and
- reposition those businesses which do not meet expected returns.

During 2019, we have made some progress across all three objectives, demonstrating our strong execution focus and capability, whilst acknowledging we have more to do. This progress includes the extension of our financial services partnership with the Post Office, the sale of our consumer credit card portfolio and repositioning our ATM and Post Office current account offerings.

The UK financial services sector faces a number of challenges. The market is highly competitive, economic growth has slowed and Brexit uncertainty remained throughout 2019. Against this backdrop, the Bank of Ireland Group remains committed to the UK, as a large, attractive and adjacent market, offering growth and diversification opportunities.

Although our financial results reflect the impact of the very competitive UK retail banking market and the ongoing low base rate environment, I am pleased to report that 2019 has been a solid year for the business, with reported statutory profit before tax of £155 million for 2019.

Board
We review the Board's composition and diversity regularly and are committed to ensuring we have the right balance of skills and experience on the Board.

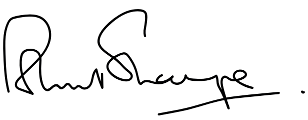
During 2019, Des Crowley retired as Chief Executive Officer, having held the position since 2012. I would like to personally thank Des for his exceptional contribution, dedication, professionalism and counsel.

I would like to thank Neil Fuller for supporting us so well during the period he was interim Chief Executive Officer and would like to welcome Ian McLaughlin, our new Chief Executive Officer. Ian joins the business at an exciting time, as we continue to focus on delivering our business objectives. The Board and I look forward to working with Ian to deliver against our strategic and financial ambitions.

In addition to Des Crowley retiring as an Executive Director of the Board, two of our Non-Executive Directors, Donal Collins and John Maltby, resigned in 2019. I would like to thank them for their support, commitment and direction as Board members. I welcome Mark Spain as Non-Executive Director and look forward to working with all our Directors in 2020.

Outlook
The Group operates in a highly competitive and challenging market, and we expect historically low base rates will continue to impact on our business in the near term. However, against this backdrop, we will continue to place emphasis on generating efficiencies, managing growth and pricing to ensure we improve returns, maintain the quality of our lending, and deliver improvements to our customers' experience with the Bank.

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



Robert Sharpe
Chairman

2 March 2020

Chief Executive's review

The Group continues to deliver on our strategic ambition during 2019

Ian McLaughlin
Chief Executive Officer
and Executive Director

Bank of Ireland (UK) plc has a unique heritage and I am honoured to join as CEO and to lead the next phase in the growth and development of our business. Since joining the Group in December 2019, I have engaged with each of our businesses in the UK and met with many of my colleagues, our customers, our partners and our wider stakeholders. What has been very clear to me from the outset are the strengths that exist across our customer franchises and the commitment, loyalty and dedication of our people.

Strategy
Today, Bank of Ireland (UK) plc serves c. 2.5 million customers. Our strategy is focused on investing, improving or repositioning our business portfolios to increase performance and returns. This focus will continue and intensify in 2020 and beyond.

In 2019 we made tangible progress so in my first set of results as CEO, I am pleased to be able to report the Group has

- extended its long term financial services partnership with the Post Office;
- invested in new mortgage customer propositions;
- optimised its cost of funding;
- restructured the cost base and; and
- sold its existing consumer credit card portfolio.

Despite a highly competitive external environment, these improvements meant we delivered a solid financial performance in 2019.

Financial Performance
Our statutory profit before tax of £155 million was £18 million lower than our 2018 reported profit of £173 million. Underlying profit before tax of £166 million was £17 million lower than 2018 and underlying net interest margin decreased by 13 basis points. Our CET1 ratio remains strong at 14.5% (2018: 15.0 %).

The Group's total operating expenses reduced from £351 million to £317 million reflecting the significant work undertaken in the credit cards and ATM portfolios. Underlying operating expenses remained largely in line with 2018 as we focused on cost efficiencies, while investing in our transformation programme and customer product journey. The Group delivered a cost income ratio of 61% in 2019 (64% on a statutory basis).

Reducing our operating expenses will remain a key focus for the business in 2020. Activity is underway to ensure the business remains efficient and streamlined, improving our processes and our systems.

The Group's loan book increased in 2019 by 8% to £21.2 billion, as the business delivered new lending volumes of £5.9 billion. Our growth areas included supporting our customers to buy their own homes, including new mortgage products for professionals. The mortgage business operates in a highly competitive market and is developing customer value propositions which place less focus on the mainstream re-mortgage market. We are focused on customer service and increased retention with redemptions for 2019 being £0.8 billion lower than 2018.

Personal lending and car finance volumes grew in line with our strategic plan expectations, while we optimised commercial returns and took action to manage risk outcomes in a dynamic market.

Repositioning
In June 2019, following a strategic review, we announced the sale of our existing consumer credit card portfolio, to Jaja Finance. The sale will generate an improvement to the Group's RoTE and CET1 ratio. Separately the Group has entered a long term agreement with Jaja to become the Bank's issuer of credit cards for the AA and Bank of Ireland consumer credit cards.

In addition the Group has further simplified its product offering and no longer provides Post Office branded current accounts. Following a review of our ATM business, the Group has exited over 200 machines supplied to the Post Office which were out of contract.

Investing and improving
Given the importance of our Post Office partnership to our business I'm pleased we have agreed renewed contractual arrangements where we can work together to better serve our customers and grow our business.

Acknowledging the challenges within the car industry, we continued to invest in our car finance business, Northridge Finance. The business recorded gross new lending of c. £1.3 billion (+26% year on year) in a highly competitive market. Northridge Finance also secured its first original equipment manufacturer (OEM) scheme with SsangYong Motors UK.

We have also invested in our unsecured personal lending business, where our personal lending book across Post Office, AA and Bank of Ireland brands delivered gross new lending of £0.8 billion, an increase of 40% on 2018.

Our Northern Ireland (NI) franchise has performed well against a backdrop of regional Brexit uncertainty. We look forward to supporting our customers and the NI economy through our Retail and Commercial propositions in 2020, and in helping those customers manage the post Brexit period of transition uncertainty.

Deposits margins and funding costs have been broadly maintained during 2019, against the backdrop of a lower for longer interest rate environment. In June 2019, the Group successfully completed its first external wholesale term funding transaction, raising £350 million, for which it has been nominated for a prestigious industry award.

Serving our customers brilliantly
Our customers are key to us achieving our strategic objectives.
In February 2019, and in response to customers' feedback, we increased the

number of colleagues in our Northern Ireland branches, so that we could remain open for longer. We continue to support and empower our colleagues to exceed customer expectations and have expanded SMS and email updates to customers for various product applications.

During 2019 we launched our new Bereavement Unit, a dedicated team to support those who are recently bereaved, with a desired outcome that customers will only have to 'tell us once'. We continue to drive reductions in complaint volumes and to increase first point of contact resolution.

Enhancements have been made to our digital capabilities, including:

- quicker payments for our personal customers in Northern Ireland;
- online loans distribution; and
- a new mortgage customer site, allowing existing customers to switch and manage their mortgage online.

Enabling our colleagues and our communities to thrive

I am encouraged to see ongoing improvement in our overall employee engagement scores, as measured through our Open View engagement survey. We are seeing improving trends in colleagues' awareness, understanding, belief and demonstration of our purpose and values. Senior management acknowledge that there is always more that can be done, and are ensuring our focus remains on improving our culture, which is critical to the success of our business.

As we bring to a close our relationship with our flagship charity, Alzheimer's Society, I'm delighted that our three year partnership has provided the equivalent of c.1,500 days of the Charity's "Side by Side" programme. We will carry on supporting the communities we serve and will be launching our new approach to community investment in 2020.

Outlook

I am excited about the future potential for our business, as we continue to focus on our strategic priorities to serve our customers brilliantly, transform the Bank and grow sustainable profits.

We are mindful of the ongoing challenges and uncertainties within the global and UK economy, however we are committed to making further progress in the year ahead.

The relationships we build and develop with new and existing customers are fundamental to our future success, and I am committed to ensuring we exceed our customers' expectations of us.

Ian McLaughlin
Chief Executive Officer

2 March 2020

Strategic report

Index	Page
Basis of presentation	7
Group income statement	7
Group balance sheet	9
Capital	11
Income statement - by business unit	11
Our purpose and values	12
Our strategy	12
UK economic and market environment	15
Corporate social responsibility	16
Non-financial information statement	19
Governance structure	20
Stakeholder engagement	21
Principal risks and uncertainties	23

Basis of presentation

The strategic report has been presented on a consolidated basis for the years ended 31 December 2019 and 31 December 2018.

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

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

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

Further details on the Group structure are shown in note 44.

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

Group income statement

2019		**Non-Core items**		
Summary consolidated income statement	**Underlying basis[1] £m**	**Strategic portfolio divestments £m**	**Restructuring costs £m**	**Statutory basis £m**
Net interest income	468	13	-	481
Net other income	(11)	31	-	20
Total operating income	**457**	**44**	**-**	**501**
Operating expenses	(280)	(37)	-	(317)
Operating profit before net impairment gains/(losses) on financial instruments	**177**	**7**	**-**	**184**
Net impairment (losses)/gains on financial instruments	(41)	1	-	(40)
Share of profit after tax of joint venture	30		-	30
Loss on disposal of business activities	-	(19)	-	(19)
Profit before taxation	166	(11)	**-**	**155**
Taxation charge				(58)
Profit for the period				**97**
Net interest margin	1.92%			1.93%
Average interest earning assets (£m)[2]	24,356			24,907
Cost income ratio	61%			64%

2018		Non-Core items		
Summary consolidated income statement	Underlying basis[1] £m	Strategic portfolio divestments £m	Restructuring costs £m	Statutory basis £m
Net interest income	483	25	-	508
Net other income	(22)	39	-	17
Total operating income	461	64	-	525
Operating expenses	(281)	(53)	(17)	(351)
Operating profit before net impairment gains/(losses) on financial instruments	180	11	(17)	174
Net impairment (losses)/gains on financial instruments	(30)	(4)	-	(34)
Share of profit after tax of joint venture	33	-	-	33
Loss on disposal of business activities	-	-	-	-
Profit before taxation	183	7	(17)	173
Taxation charge				(22)
Profit for the period				151
Net interest margin	2.05%			2.11%
Average interest earning assets (£m)[2]	23,519			24,111
Cost income ratio	61%			67%

[1] *Underlying profit before taxation excludes non-core items which the Group believes obscure the underlying performance trends in the business. Refer to page 8 for further details.*

[2] *Average interest earning assets are calculated on a twelve month average as defined on page 166.*

Group income statement *(continued)*

For further information on performance measures referred to in the strategic report see page 166.

The Group income statement on page 7 provides a reconciliation between the statutory profit before tax of £155 million (2018: £173 million) and the underlying profit before tax of £166 million (2018: £183 million).

Underlying performance excludes **non-core items**, which are those items that the Group believes obscure the underlying performance trends of the business. Where the Group has made a strategic decision to exit an area of the business the related income and expenses are treated as non-core. The Group has treated the following items as **non-core** in the year ended 31 December 2019:

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

As a result, £44 million of operating income, £37 million of operating expenses and a £1 million impairment gain have been recognised as **non-core** for the year ended 31 December 2019.

At December 2018, the Group treated the following items as non-core:

Restructuring Costs
- £9 million of costs relating to the strategic review of the ATM business; and
- £8 million of costs for the planned disposal of the consumer credit cards portfolio, which completed in 2019.

For comparative purposes, the 2018 income statement is presented in a consistent manner, to exclude the performance of the non-core portfolios described above. This allows a review of the underlying business activities year on year.

For further details on the disposal of the consumer credit cards refer to note 13 and note 21.

Statutory profit before tax of £155 million in 2019 was £18 million, or 10% lower than 2018.

Underlying profit before tax of £166 million in 2019 was £17 million or 9% lower than 2018.

The **statutory net interest margin** decreased by 18 basis points to 1.93% due to ongoing competitive market pressures, back book deleveraging and margin pressures, which were particularly evident in the UK mortgage market.

The **underlying net interest margin** was calculated by excluding the interest income from the consumer credit card portfolio and by adjusting the average interest earning assets accordingly. The **underlying net interest margin** decreased by 13 basis points to 1.92% for 2019.

Statutory net interest income decreased by £27 million or 5% compared to the previous year. £12 million of this decrease was attributable to the disposal during 2019 of the non-core consumer credit portfolio. The remaining £15 million decrease was due to the impact of competitive mortgage customer pricing and lower margins and changing customer behaviours, combined with ongoing backbook deleveraging. This was partially offset by the impact of selected volume growth in the Group's other consumer lending portfolios. Funding costs remained relatively unchanged year on year.

Statutory net other income of £20 million, increased by £3 million in 2019. However, excluding the non-core income related to credit cards and ATMs, underlying net other income increased by £11 million, primarily due lower fee and commission expenses.

On a statutory basis total **operating expenses** reduced by £34 million, with staff costs decreasing by £1 million while administration expenses decreased by £33 million. This was primarily due to lower costs incurred in the consumer credit card portfolio, due to its sale in July 2019.

Underlying operating expenses of £280 million were largely in line with the previous year, as the Group positioned itself for the future, improving efficiencies and supporting investment in technology and customer offerings. The majority of the Group's cost base relates to outsourced services, being the costs of distribution, product manufacture and support provided by the Parent under various contractual arrangements.

Net impairment losses on financial instruments for the year ended 31 December 2019 were £40 million, an increase of £6 million on the previous year. Excluding the net impairment losses related to the consumer credit card portfolio, **underlying net impairment losses** increased by £11 million. The level of impairment losses primarily reflects volume growth, particularly in the personal lending portfolio along with ongoing resolution of non-performing exposures

Income from the joint venture relates to the Group's foreign exchange joint venture with the Post Office, First Rate Exchange Services Holdings Limited (FRESH). Income reduced in 2019 reflecting wider economic uncertainty and the corresponding impact on the UK travel and foreign exchange market. For further information refer to note 22.

Loss on disposal of business activities relates to the loss on the sale of the consumer credit card portfolio, which was classified as held for sale at 31 December 2018. Refer to note 13 for further details.

The **taxation charge** for the Group was £58 million compared to £22 million for 2018. Excluding:
- the tax charge of £40 million arising from the reassessment of the value of tax losses carried forward (refer to note 14); and
- £30 million (2018: £33 million) of income from the Group's joint venture;

the effective tax rate for the year ended 31 December 2019 was 15% (year ended 31December 2018: 16%). For further information on the taxation charge refer to note 14.

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

Group balance sheet

Summary consolidated balance sheet	2019 £m	2018 £m	Change %
Cash and balance with central banks	2,134	2,567	(17%)
Loans and advances to banks	2,158	2,348	(8%)
Loans and advances to customers	21,200	19,703	8%
Debt securities at amortised cost	846	915	(8%)
Assets classified as held for sale	-	539	n/m
Total other assets	596	628	(5%)
Total assets	**26,934**	**26,700**	**1%**
Deposits from banks	3,500	3,152	11%
Customer accounts	19,075	19,769	(4%)
Subordinated liabilities	290	290	n/m
Debt securities in issue	607	-	n/m
Total other liabilities	1,482	1,485	n/m
Total liabilities	**24,954**	**24,696**	**1%**
Equity attributable to owners of the parent	1,980	2,004	(1%)
Total equity and liabilities	**26,934**	**26,700**	**1%**
Statutory return on tangible equity	5.0%	8.4%	
Return on assets[1]	0.36%	0.57%	
Loan to deposit ratio[2]	111%	102%	
Liquidity coverage ratio (LCR)	147%	158%	
Net stable funding ratio (NSFR)	133%	134%	

	2019		2018	
Loans and advances to customers	**£m**	**% of book**	£m	% of book
Residential mortgages	16,610	78%	15,880	80%
Non-property SME and corporate	1,327	6%	1,320	7%
Commercial property and construction	412	2%	502	2%
Consumer	2,997	14%	2,133	11%
Loans and advances to customers (before impairment provisions)	**21,346**	**100%**	**19,835**	**100%**
Impairment provisions	(146)		(132)	
Loans and advances to customers (after impairment provisions)	**21,200**		**19,703**	

The Group's **cash and balances with central banks,** which is cash placed with Bank of England, decreased by £0.4 billion at 31 December 2019.

The Group's **loans and advances to banks** of £2.2 billion decreased by £0.2 billion since 31 December 2018, primarily due to reduction in amounts due from the Parent.

Loans and advances to customers of £21.2 billion increased by £1.5 billion being gross new lending of £5.9 billion offset by repayments £4.4 billion.

New residential mortgages originated during 2019 were £3.6 billion, offset by repayments and redemptions on the existing portfolio of £2.9 billion, resulting in a net increase in the mortgage portfolio of £0.7 billion.

In line with the Group's selective growth strategy the consumer lending portfolios have grown by £0.9 billion during 2019, of which Northridge Finance net lending volumes increased by £0.4 billion in the year, with new lending of £1.3 billion, up 26% on 2018.

New personal lending through the Group's partners, the Post Office and the AA, was £0.8 billion, an increase of 40% on 2018 which contributed c. £0.5 billion to the overall net loan book growth.

Gross new commercial lending was £0.2 billion in 2019, but was offset by repayments and the continued deleverage of the GB Business Banking portfolio, with a net decrease of £0.1 billion.

The impairment provision on loans and advances to customers of £146 million has decreased by £3 million compared to 31 December 2018. Further details are included in note 19.

The consumer credit card portfolio was defined as **assets held for sale** at 31 December 2018, with the sale completing during July 2019. See note 21 for more details.

[1] *Return on assets is calculated on a statutory profit basis.*
[2] *Loan to deposit ratio includes the credit card assets classified as held for sale at 31 December 2018.*

Group balance sheet *(continued)*

Debt securities at amortised cost of £0.8 billion comprises £0.2 billion of UK Government treasury bills, £0.4 billion of Multilateral Development Bank bonds and £0.2 billion of covered bonds at 31 December 2019.

Customer accounts decreased by £0.7 billion to £19.1 billion at 31 December 2019 reflecting the Group's strategy to optimise its funding mix. This decrease in customer deposits resulted in the LCR decreasing to 147% at December 2019 (31 December 2018: 158%).

Deposits from banks of £3.5 billion at 31 December 2019 increased by £0.3 billion reflecting an increase in amounts due to the Parent, refer to note 27.

Debt securities in issue were £607 million at 31 December 2019 (2018:£nil). In June 2019 the group raised £350 million of term funding through a successful securitisation of prime UK residential mortgages via Bowbells No.2 plc. For further details refer to note 29.

In December 2019 the Group issued £300 million of senior non-preferred notes to the Parent, improving its capital and funding position ahead of full MREL requirements which are due in January 2022.

The Group's **equity** of £2.0 billion is £24 million lower than 2018. During 2019 the Group restructured its equity by reducing share capital by £596 million and cancelling the capital redemption reserve of £300 million, which increased retained earnings by £896 million. Further information is included on page 57 in the Capital Management section and in note 37. Other movements in retained earnings include a dividend payment of £100 million, AT1 coupons of £24 million and profit after tax of £97 million.

Customer accounts	2019 £m	2018 £m
Bank of Ireland deposits and current accounts	4,849	4,826
Post Office deposits	13,462	14,237
AA deposits	764	706
Total customer accounts	**19,075**	**19,769**

Statutory return on tangible equity (ROTE) is calculated as being profit attributable to shareholders (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Underlying return on tangible equity is calculated by adjusting the statutory ROTE to exclude non-core items (net of tax) and the impact of the reassessment of tax losses carried forward.

Return on tangible equity	Statutory basis 2019 £m	Underlying basis 2019 £m	Statutory basis 2018 £m	Underlying basis 2018 £m
Profit for the period attributable to shareholders	97	97	151	151
Coupon on AT1 securities, net of tax	(18)	(18)	(18)	(18)
Amortisation of intangible assets, net of tax	5	5	5	5
Reassessment of tax losses carried forward (see note 14)	-	40	-	-
Non-core items, net of tax (see page 7)	-	9	-	8
Adjusted underlying profit after tax	**84**	**133**	**138**	**146**
Shareholders' equity, excluding AT1 capital	1,680	1,680	1,704	1,704
Intangible assets and goodwill	(48)	(48)	(54)	(54)
Shareholders' tangible equity	**1,632**	**1,632**	**1,650**	**1,650**
Average shareholders' tangible equity	**1,695**	**1,695**	**1,645**	**1,645**
Return on tangible equity	**5.0%**	**7.9%**	**8.4%**	**8.9%**

Capital

31 December 2018 Regulatory[1] %	31 December 2018 Fully loaded[2] %		31 December 2019 Regulatory[1] %	31 December 2019 Fully loaded[2] %
		Capital ratios[3]		
15.0%	14.5%	Common equity tier 1	14.5%	14.2%
17.8%	17.2%	Tier 1	17.2%	16.9%
20.6%	20.2%	Total capital	19.9%	19.5%
6.9%	6.7%	Leverage ratio	6.9%	6.8%

The Group is strongly capitalised with a total capital ratio on a regulatory basis of 19.9% (2018: 20.6%). The decrease in the total capital ratio reflects an increase in regulatory capital resources of £7 million offset by growth in Risk Weighted Assets (RWA) of c.£0.4 billion.

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

Further details on the capital position of the Group are shown on pages 55 to 57 in the Capital Management section and in the Bank of Ireland (UK) plc Pillar III disclosure report for the year end 31 December 2019, available on the Group's website, www.bankofirelanduk.com.

Income statement - by business unit

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

2018 Consolidated income statement - underlying profit / (loss) before taxation	GB consumer banking £m	Northern Ireland £m	GB business banking £m	Group centre £m	Total £m
Operating income	285	135	13	28	461
Operating expenses	(132)	(79)	(3)	(67)	(281)
Operating profit / (loss) before net impairment gains / (losses) on financial instruments	153	56	10	(39)	180
Net impairment (losses) / gains on financial instruments	(37)	7	-	-	(30)
Share of profit of joint venture	33	-	-	-	33
Underlying profit / (loss) before taxation	149	63	10	(39)	183
Non-core items					(10)
Profit before taxation					173

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

Income statement - by business unit *(continued)*

The business units are defined on page 13 in the business operations section.

Great Britain Consumer Banking
The underlying profit of Great Britain Consumer Banking increased by £7 million compared to 2018. This is primarily due to:

- new business growth in 2019 in the mortgages, personal lending and Northridge Finance portfolios in line with the Group's agreed strategy; and
- lower commission expenses; partially offset by
- reduced mortgage income given product mix, customer behaviours and margin impacts;
- reduced fees and commission income; and
- higher impairment charges primarily due to increased new personal lending balances.

Northern Ireland
The underlying profit of the Northern Ireland business decreased by £6 million, 10% compared to 2018 primarily reflecting the impact of ongoing commercial deleveraging, lower fee income and reduced funding income given the low base rate environment. A modest impairment charge was realised in 2019, compared to an impairment gain in 2018.

GB Business Banking
The underlying profit in the GB Business Banking portfolio increased by £6 million due to impairment gains primarily as the Group continues its strategy to deleverage this legacy business.

Group Centre
The Group Centre underlying loss has increased by £24 million, 61% compared to 2018, primarily due to costs incurred as part of the strategic transformation programme and increased regulatory costs.

Our purpose and values

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

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 such as our regulators and partners.

The Group has four key values, which support our purpose and guide us in everything we 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 open, trusting and supportive environment and faster 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 customers.

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

Our strategy

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

In conjunction with its Parent, the Group has embarked on a multi-year programme to transform the culture, systems and business model to enable customers, colleagues and communities to thrive.

Transform the bank
A strong internal culture improves employee engagement and creates great customer outcomes, long-term customer relationships, a reduced cost of risk and growth in sustainable revenue. The Group continues to invest in transforming systems to improve the customer experience and simplify its processes. Agile ways of working have been embedded throughout the business, enabling colleagues with greater flexibility on where and when they work. The Group has reviewed its current business model and as a result, exited from the consumer credit card business and reassessed the ATM fleet strategy during 2019.

Serve customers brilliantly
The Group in committed to building a customer focused organisation, which listens to customers and responds to their feedback. The way customers bank and the services they expect are evolving faster than ever, with an expectation for 24/7 banking. Along with its Parent the Group continue to invest in improving the digital experience for customers.

Grow sustainable profits
The Group is focused on investing in the profitable parts of the business to support further growth and improving returns by reducing costs of funding, customer origination and servicing.

Our strategic priorities

The Group's three strategic priorities are summarised as:

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

Execution of these strategic objectives will enable the Group to:

- generate an improved and sustainable return;
- reduce the cost income ratio;
- continue to effectively manage the cost of funds; and
- grow the loan book selectively to meet our customer needs.

Our business operations

The Group manages the business operations under four units:

- **GB Consumer Banking** – offering consumer banking products through strategic partnerships with the Post Office, the AA and other intermediaries and the asset finance and leasing business of Northridge Finance and Marshall Leasing;
- **Northern Ireland** - a full service retail bank operating through a distribution network of 28 branches and 6 business centres and via direct channels (telephone, mobile and on-line). The Bank is also one of four banks authorised to issue bank notes in Northern Ireland;
- **GB Business Banking** – legacy commercial lending business which is undergoing a continued programme of deleveraging; and
- **Group Centre** – centralised management of risk and control functions and the Group's funding, liquidity and capital positions.

Strategic partnerships

The Group's financial services partnership with the Post Office has been extended to 2026. This extension of the longstanding partnership has further enhanced the alignment of both parties to drive mutual benefits, in line with the Group's strategy to improve returns in the UK business.

Together we offer a range of consumer products including savings, mortgages and personal loans online and through the network of Post Office branches.

The Group's partnership with the AA commenced in July 2015 with a minimum period of ten years. The AA is regarded as one of the best known and trusted brands in the UK and the largest provider of roadside assistance in the UK breakdown market. Under the AA brand the Group offers savings and personal lending products to customers.

Investing

During 2019 the Group launched its revised mortgage strategy of focusing on areas which align with areas of expertise and which produces better margins while also seeking to optimise returns and volumes in mainstream mortgages, all in a very competitive market environment. This has been achieved whilst maintaining risk standards and positioning for further improvement in 2020. The Group delivered new mortgage lending of £3.6 billion, compared to £3.3 billion in 2018. The ongoing investment in the mortgage platform to advance the digital process for brokers and customers, in particular around switching and extending terms, has contributed to customer retention increasing significantly by c. 50%.

The investment in the customer experience has once again been acknowledged at the 2019 MoneyAge Mortgage awards, with four nominations and success in winning both the First Time Buyer Lender of the year and Overall Bank Lender of the year categories.

Northridge Finance has experienced another year of strong volume growth in line with risk appetite and won the Best Independent Lender (Bank Owned) at the Car Finance Awards in June 2019.

Against this success the Group acknowledges that the motor finance market is undergoing a period of uncertainty as climate change initiatives impact upon consumer sentiment and result in a change in demand towards carbon efficient vehicles, as well as the risk associated with the residual values of leased vehicles. The Group's strategy and risk assessment consider both these factors.

In October 2018 the FCA published its consultation paper CP 19/28 on Motor Finance Commission models and commission disclosure and the Group is committed to ensuring compliance with the regulations when they are introduced.

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

Improving

During 2019, the financial services partnership with the Post Office was renewed and extended. This agreement enables the Group to continue to plan for the long term and refine consumer banking offerings. The partnership will continue to focus on providing an exclusive Post Office-branded range of leading consumer savings, mortgages and personal loans with Post Office customers in the UK.

First Rate Exchange Services, the Group's joint venture with the Post Office, continues to be the market leader for FX travel money with a market share of 24%.

Our strategy *(continued)*

Improving *(continued)*

The Group managed its cost of funds effectively during 2019, by optimising its funding mix, careful management of deposit pricing and by successfully raising £350 million of term funding through the completion of its inaugural wholesale funding transaction via the securitisation of prime, UK residential mortgage loans.

The Group remains focused on reducing its core operational costs whilst investing in strategic initiatives, technology and regulatory compliance.

Repositioning

The Group continues to reposition the less favourable parts of the business and in July 2019 completed the sale of the consumer credit card portfolio. At 31 December 2018 the net book value of £539 million was classified as assets held for sale. Further details on the disposal of the credit card portfolio are provided in note 13.

Following a strategic review in 2018, the Group's plan to reposition the ATM business is progressing with c. 2,100 ATM machines remaining at 31 December 2019.
During 2019 the Group removed over 200 ATMs which had completed their contract terms.

Capital

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

In addition to the £100 million dividend paid to the Parent in October 2019, the Group obtained approval from the Board in November 2019 and the Parent in December 2019 to repurchase 195 million shares for £195 million, subject to obtaining regulatory approval. On 24 February, the Group was granted approval from the PRA to complete the repurchase of shares and it plans to execute the transaction in March 2020. This will result in a reduction of the Group's CET1 ratio by c. 1.8%.

The Group maintained a strong capital position during 2019 with a regulatory CET 1 ratio of 14.5% at 31 December 2019 (31 December 2018: 15.0%). For further details on capital refer to the Capital Management section on page 55.

Liquidity

At 31 December 2019, the Group continues to maintain a strong liquidity and funding position and is fully compliant with all liquidity and funding obligations. At 31 December 2019 the Group had a loan to deposit ratio of 111% (2018: 102%) and an LCR of 147% (2018: 158%).

During 2019 the Group sought to diversify its funding base by raising £350 million of term funding through the completion of its inaugural wholesale funding transaction via the securitisation of prime, UK residential mortgage loans. This provides cost efficient and longer term funding to the Group and demonstrates progress in transforming its business and delivering against its priority of improving returns.

The Group has £1.3 billion of borrowings under the Bank of England Term Funding Scheme (TFS) which will mature during 2020, and £200 million of funding from the Bank of England Indexed Long Term Repo scheme.

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

For further details on liquidity and funding risk refer to page 47 and note 39.

UK economic and market environment

Key points:

- 2019 was a year of heightened political risks, prolonged Brexit-related uncertainties and an economy with momentum impacted by domestic and global strains. After a decade of largely consumer-led growth, the UK also reflected some features of a recovery that appeared to be maturing.
- The general election outcome in December provided a measure of much-needed clarity, but uncertainties remain regarding the UK's future relationship with the EU.
- The Group continues to execute its business and customer strategy, including targeted growth in key lending segments aimed at achieving an improved return on capital while remaining vigilant to ongoing macro risks, most notably relating to Brexit uncertainties.
- The very competitive backdrop for UK retail banking remained in 2019 and significantly, 2019 also brought a shift in views about the likely path for interest rates.

Review

While the UK economy continued to expand in 2019, a technical recession was only narrowly avoided in Q3 with the pace of GDP growth slowing to its weakest rate in a decade. This reflected a significant decline in business investment and evidence that the UK's productivity performance has yet to recover to historic trends.

The consumer economy proved relatively resilient during 2019, supported by near record employment levels and a recovery in real incomes. Average pay growth hit an 11 year high of 3.9% in the summer while the inflation drifted below the official 2.0% target.

The pace of consumer lending growth remained steady at the more sustainable rates of between 4.0% and 5.0% in 2019, reflecting a more resilient performance of the household sector although by Q4 2019 there were signs of greater caution on discretionary purchases. New car sales declined again in 2019 with the demand for diesel vehicles falling sharply, while in contrast, the used car market, where the Northridge Finance business focuses, held up relatively well despite the macro uncertainties and the structural changes across the auto industry.

The positive performance of the UK labour market during 2019, allied to the low interest rate environment for borrowers helped underpin credit quality trends on consumer lending books, including personal lending.

Turnover in the UK housing market remained relatively stable at the lower "new norm" levels of around 100,000 transactions per month. Brexit-related uncertainties cast a shadow and with affordability still stretched in some areas, it was a year when average prices across the UK broadly remained flat. However, significant regional variations were again evident with average prices moving lower in London and the South-East but with continued low single-digit percentage growth in other local markets, including Northern Ireland.

Gross mortgage lending in the UK rose with strong competition for new loan origination, supported by surplus liquidity. Coupled with a downward shift in the interest rate yield curve, this had a significant impact on net interest margins across the industry.

Competition in the retail funding markets remained, although pricing strategies varied between lenders, in part a reflection of size and scale, differences in balance sheet mix and varying requirements to refinance the Bank of England Term Funding Scheme.

Northern Ireland

The franchise business in Northern Ireland had a solid 2019, despite ongoing political uncertainties in the absence of a devolved Assembly and regional-specific concerns relating to possible Brexit outcomes. Both factors appeared to slow momentum in the economy as the year developed, with some investment plans being postponed and reduced demand for credit in the second half of 2019. In a sign of a more cautious approach many businesses retained higher credit balances and deposits, awaiting greater clarity on future trading relationships.

The region's labour and housing markets have remained relatively positive despite the wider macro and political uncertainties and remain key drivers of activity.

While the Withdrawal Agreement prepared the way for the UK to leave the EU at the end of January 2020, the details of future East- West and North-South trading relationships have yet to be defined and may present both challenges and opportunities for some of our customers. The encouraging return of the devolved institutions in early 2020 came with the challenge of delivering long-term structural and economic reform.

A relentless focus on cost-efficient delivery for customers, allied to vigilance and monitoring of the risks from an evolving economic and political landscape will be supportive of the Group's overall performance.

Corporate social responsibility

The Group's corporate responsibility is fully aligned to its purpose, with the focus on the three core pillars of its business, **Customers**, **Colleagues** and **Communities**.

Customers

As well as the investment in technology and new propositions to meet the needs of our customers, the Group has invested in a number of initiatives to support its strategy to **serve customers brilliantly**.

UK Customer Board
The UK Customer Board is the principal executive committee responsible for the oversight and delivery of the UK Customer Plan. The Board is chaired by the UK Chief Executive Officer and includes senior executives and business heads.

The UK Customer Board is responsible for the delivery of the UK Customer Plan. There is a particular focus on;
- enhancing customer experience;
- complaint management and resolution;
- delivery and embedding of the UK Vulnerable Customer Programme; and
- insight from customer sentiment surveys.

Customer satisfaction
The Group continues to enhance the insights being received from customers, with a new surveying tool being rolled out. Whilst Customer Effort Scoring has been improving, management recognises the need for continual improvement to meet the changing needs of our customers and to act on the feedback received.

Following the first CMA survey in August 2018, the business increased the number of colleagues in branches in Northern Ireland. As a result our CMA survey personal satisfaction scores for "branch opening hours" increased 11% between February and August 2019.

In 2020, the Group will continue to focus on becoming 'easier' to do business with, working to improve processes, communication and digital capability and ensuring we respond to and action against the feedback from our customers.

Customer vulnerability
Recognising the diversity of brands, products and service providers who support the Group's overall business, to date, the UK business has progressed customer vulnerability under a programme based approach. Working to empower colleagues with the skills, knowledge and confidence to support the needs of customers is fundamental to this approach. Today we have a network of 100 vulnerability Champions across our business.

A new centralised Bereavement Notification 'Tell us Once' team is now live, providing a dedicated team focused on supporting bereaved customers and relatives. The Group has aligned probate limits across its products and brands.

The Northern Ireland business was awarded 'JAM Card Friendly' status. The JAM Card Initiative, allows people with learning difficulties, autism or communication barriers to tell others they need 'Just A Minute' discreetly and easily.

Complaint management
An additional focus of the UK Customer Board is on complaint management and resolution, namely:
- Complaint Volume Reporting – reviewing the Management Information on complaint volumes, key complaint categories and service level achievement to ensure trends and issues are identified and addressed and that complaints are being managed promptly and effectively.
- Complaint Handling Quality – reviewing reports from various functions on the results of complaint handling quality assessments.
- Complaint Root Cause Analysis (RCA) – reviewing the RCA undertaken by the product and distribution business and ensure appropriate action is taken to learn from complaints and put in place appropriate actions to prevent recurrence.

Supporting our customers during Brexit
The Group's focus is on how to assist customers through the uncertainty of Brexit, the transition period and plan for the future. Along with our Parent, the Group developed a Brexit Portal on its website to bring together insights, practical information and useful tools to help businesses prepare appropriately.

Our Parent established a £1.75 billion All-Ireland Brexit Fund to enhance our capacity to meet the needs of customers and support cross border and international trade. The fund strengthens the Northern Ireland enterprise programme which launched a partnership with the Centre of Competitiveness, delivering seminars urging businesses to look beyond Brexit.

Colleagues

The second part of the Group's purpose is to '**enable our colleagues to thrive**'. The Group strives to ensure that colleagues are engaged and have the skills and capabilities to serve customers brilliantly and help communities to thrive.

The current and future success of the Group in achieving its strategic priorities depends on having a continuous focus on:
- talent and capability development;
- engaging its workforce;
- managing business change; and
- supporting the regulatory agenda.

The Group is committed to investing in its people to ensure they can effectively support customers, deliver the Group's strategic priorities and develop their individual careers.

Responsible behaviour
The Group's Code of Conduct outlines the standards of behaviour which are expected and reflects the four values, set out on page 12, which are embedded throughout the Group.

The Group Speak Up policy sets out the standards and obligations in support of colleagues who are highlighting concerns of wrong doing or potential wrong doing. It outlines the open, transparent environment which is fully endorsed at the highest levels of Bank of Ireland Group, and the key message is that it is always

Colleagues *(continued)*

safe and acceptable to speak up.

The Group's Anti-Bribery and Corruption policy standard sets out the expectation that all employees act with integrity and honesty at all times in their dealings with customers and partners. The policy reiterates the Group's ethical and regulatory obligations to effectively manage bribery and corruption risks. All employees complete mandatory online training to help them understand their obligations.

Colleague wellbeing
Supporting colleague wellbeing, the Group is committed to the adoption of modern ways of working; enabling colleagues to work remotely, increasing flexibility of hours and all colleagues have been encouraged to sign a Team Wellbeing Pledge.

Career development
The Group's career development programme supports colleagues to take ownership of their professional wellbeing, through awareness, support and recognition. Access to the Group's online Career Portal provides colleagues with a wide range of resources to help them take ownership of their career development by planning their career journey, accessing courses, articles and tutorials. In 2019, over 25,000 training hours were completed by UK employees via web based and classroom courses.

In 2019 our Parent launched a revised People Strategy, ensuring ongoing development of all staff. This includes a programme specifically for People Managers, 'You as a Manager', and colleagues participating in a pilot Female Leadership Programme, 'Rise'. The Graduate programme continues to attract high quality candidates from a variety of backgrounds.

Inclusion and diversity
The Group is committed to creating an inclusive and diverse place to work where colleagues can be themselves and perform to their full potential. The Group wants to attract, promote and retain diverse talent at all levels, to create a more innovative and high-performing business that can enable customers, colleagues and communities to thrive. The inclusion and diversity strategy, 'Many Voices: One Bank', focuses on valuing and celebrating diversity within the workforce, reflecting the communities in which we operate, an inclusive culture, which values diverse talents and recognises the unique needs of colleagues, and an organisation that meets the needs of all customers.

Employee engagement
The Bank of Ireland groupwide employee engagement survey 'Openview' is held annually. The results show increased levels of employee engagement, along with heightened awareness, understanding and demonstration of the Group's values. Management will continue to address feedback received, with a number of initiatives already in place. Further opportunities to take part in 'Openview' will be available in 2020. The Group also participates in the externally benchmarked Banking Standard Board Survey annually, which had 29 participating UK banks and building societies in 2019.

Gender equality
The Group remains committed to creating better gender balance within the management and leadership population. In March 2018, the Group signed up to the Women in Finance Charter and made a commitment to have 38% of management positions being held by women and that 50% of management appointments will be female by 31 December 2021. At end 2019, the Group has a 58:42 female to male ratio overall and the management and leadership population is 36.3% female. The Group's Gender Pay Gap report is published on its website at www.bankofirelanduk.com.

Communities

The Group wants to make a tangible and visible commitment to the communities where it operates, so they can flourish, prosper and progress. The Group's community focus in 2019 has sought to bring its purpose to life, underpinned by a number of important commitments and initiatives.

Responsible and sustainable business
The Group was included for the first time within the successful accreditation for the Business Working Responsibly Mark. This Mark, which covers indicators across Community, Workplace, Marketplace, Environment and Governance, is an independently audited standard for Corporate Social Responsibility and Sustainability.

UN Principles for responsible banking
In October 2019, our Parent signed the United Nations Environment Programme – Finance Initiative (UNEP FI) Principles for Responsible Banking. The UN Principles help to align the banking sector with the objectives of the UN Sustainable Development Goals and the 2015 Paris Climate Agreement. Signing the principles is a key step in Bank of Ireland's Responsible and Sustainable Business journey, signifying its commitment to be part of the global drive for more responsible banking operations.

Our environmental impact
Bank of Ireland Group achieved re-certification and transition to the latest version of the environmental and energy standards ISO 14001 and ISO 50001. The achievement of these international certifications is part of a broader environmental programme, which has led to the Group's inclusion within our Parent's commitment to reduce carbon emissions intensity by 50% by 2030. A number of initiatives have been put in place during 2019 to reduce the Group's energy consumption and the impact on the environment. These initiatives include:

- Reduced office footprint in both London and Bristol;
- Implementation of 'no travel weeks',
- Installation of electric vehicle charging points in our Temple Quay Bristol site; and
- Introduction of Keep Cups, resulting in a c.59% reduction in disposable cups.

Climate Risk
The Group recognises that climate change presents both risks and opportunities to its business model and strategy. These risks and opportunities will emerge through two channels:
- physical, such as increased severity/frequency of extreme weather events; and
- transitional, due to emerging regulation and technology to support market preferences for green solutions.

The Group is integrating climate risk into

Communities *(continued)*

its risk framework and policies and expects that it will be most relevant in credit risk, operational risk and reputation risk. As such it is being integrated to leverage existing risk management governance frameworks, policies and processes. In addition changes in government policy, regulation and public response in an effort to reduce emissions and support the greening of the economy, may have an impact on the Group's business model and strategy which remains under constant assessment.

In line with the recommendations of the Taskforce for Climate Related Financial Disclosures (TCFD), the Group is identifying activities and assets exposed to climate risks and assessing related financial impacts. The Group acknowledges that performance measures and ongoing monitoring and reporting of climate change risk needs to developed and expects to see further industry guidance in this area in 2020.

For further information on the Group's progress in 2019 refer to page 28.

New community strategy
In 2019 our Parent undertook a comprehensive review of its community activities to understand what was working well, where it was having an impact, and how it could increase and deepen this impact.

This review revealed that Bank of Ireland Group has a strong heritage of giving and supporting community investment. Over the years, colleagues have shown their support for a wide range of causes and this is a source of great pride. However, while the Group invests significantly in communities the impact is often fragmented across a wide range of different causes. The Group wants to be more purposeful in its approach, supporting communities where it believes it can have the greatest impact.

In 2020, the Group will roll out a new approach to community investment in the UK, "Bank of Ireland Begin Together", an annual investment programme that supports community wellbeing and enterprise. Begin Together comprises three distinct, yet complementary elements:

- The Begin Together Fund will provide valuable investment for community initiatives across Northern Ireland. It will support financial, mental and physical wellbeing projects and will be supported by our volunteers and guided by expert partners.
- The Begin Together Awards will recognise and honour the great work by those striving to lead their communities forward and empowering local economies in Northern Ireland. This annual competition will run in partnership with local authorities and councils.
- Begin Together Colleagues will enable all colleagues in the UK to deliver practical, hands-on support through a fund to support local financial, physical and mental wellbeing initiatives suggested by them. It will also support and encourage volunteering activities, while the long-established payroll giving schemes will continue.

The UK Community Giving Fund will continue to provide grants to local community organisations and charities which support the provision of financial, physical and mental wellbeing projects which sustain and enrich local communities in Great Britain and Northern Ireland. In 2019, the total grants provided was c. £80,000.

Charity support
2019 saw the Group bring to a close its relationship with its flagship UK charity, Alzheimer's Society. The three year partnership has seen tangible outcomes for the Charity within the communities where we work, including:

- Over £310,000 funds raised by colleagues and customers, providing the equivalent of over 1,494 days of the Charity's life-changing Side by Side Programme, which helps people with dementia to keep doing the things they love for longer; and
- Initiatives which have drawn on the skills and capabilities of our colleagues, including a pro-active 'thank you' calling programme, on behalf of Alzheimer's Society, to c. 850 fundraisers, who then went on to donate an additional £41,430 to the Charity.

Community support
The Group supported a wide range of activities in 2019 to enable communities to thrive.

In Northern Ireland, the Group proudly supports community-based, business and sporting activities, including:

- Bank of Ireland Money Smarts Challenge, a new secondary school competition that will see students learn essential financial skills; and
- Sponsorship of Invent 2019, an annual competition run by Catalyst Inc, which attracts more than 100 entrepreneurs and inventors from across Northern Ireland.

In Bristol, the Group's long standing relationship with Merchants Academy was strengthened, with the launch in July of a 3-year programme of Personal Finance Days to help prepare students for the future. The Group runs school assemblies to raise awareness of work experience, CVs, job applications and mock interviews and sponsors The Bank of Ireland Innovation and Creativity Award. In addition, the Bank has invited more than 320 pupils into its Temple Quay office to learn about the wide range of roles and understand the qualifications needed.

In London, we support a number of local community and charity initiatives, including the Lord Mayor's City Giving Day.

Modern Slavery and Human Trafficking
The Group strives to ensure that modern slavery or human trafficking does not support its supply chain or its businesses. This objective is explicit in its relevant policies and the approach to human rights. In accordance with relevant UK legislation, the Group has published its statement on Modern Slavery and Human Trafficking for 2019. The Statement sets out the steps and measures the Group has taken to seek to ensure that modern slavery and human trafficking does not occur within its supply chain or in its business operations. A copy of the statement is published on our Parent website www.bankofireland.com.

Non-financial information statement

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

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

Reporting Requirement	Policies	Risk and Management *Bank of Ireland (UK) plc*	Risk and Management *Bank of Ireland Group Annual report*
Environmental matters	• Group Environment policy (ISO 14001)[1] • Group Energy policy (ISO 50001)[1]	• Communities (page 17) • Financial risks from climate change (page 28)	• Environment and Energy (page 26)
Social and employee matters	• Inclusion and Diversity policy • Group Code of Conduct[1] • Equal opportunities policy • Group Health and Safety policy • Employee Data Privacy • Group Vulnerable Customers policy • Group Learning policy	• Customers (page 16) • Colleagues (page 16) • Communities (page 17) • Conduct risk (page 54) • Business and strategy risk (page 53)	• Vulnerable customers (page 29) • Inclusion and diversity (page 31) • Learning (page 31) • Wellbeing (page 30) • Communities (page 32) • People risk (page 112)
Respect for human rights	• Modern slavery and human trafficking statement[1] • Group procurement policy • Group data protection and privacy policy	• Operational Risk (page 52)	• Information security (page 29) • Operational risk (page 39) • Human trafficking (page 25)
Bribery and corruption	• Group Code of Conduct[1] • Speak Up policy • Group Anti-Money Laundering policy (AML) • Group Anti-bribery and Corruption policy	• Colleagues (page 16) • Conduct risk (page 54)	• Code of conduct (page 25) • Anti-bribery and corruption (page 25) • Anti-Money Laundering (page 25) • Conduct risk (page 150)
Diversity report	• Board Diversity policy[1]	• Corportate governance arrangements (page 63)	• Corporate Governance Statement (page 59)
Business model		• Business operations (page 13)	• Divisional Review (page 18)
Policies followed, due diligence and outcome		• Risk management framework (page 31)	• Risk management framework (page 121)
Description of principal risks and impact of business activity		• Principal risks and uncertainties (page 23)	• Key risk types (page 39) • Principal risks and uncertainties (page 111)
Non-financial key performance indicators		• Key highlights (page 2)	• Key highlights (page 3)

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

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 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. During 2019, the Board met 10 times. Further details are included in the Governance section on page 58.

Robert Sharpe (A) (N) (RE) (RI)
Chair,
Non-Executive Director

Ian McLaughlin
Chief Executive Officer,
Executive Director

Neil Fuller
Chief Risk Officer,
Executive Director

Thomas McAreavey
Chief Financial Officer,
Executive Director

Mark Spain
Non-Executive Director

Jackie Noakes
Non-Executive Director

Mimi Kung (N) (RE) (RI)
Non-Executive Director

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

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

Ian Buchanan (RI)
Non-Executive Director

The Board is supported by a number of Committees:

Nomination Committee
Robert Sharpe *Chair*

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

Remuneration Committee
Philip Moore *Chair*

Holds delegated responsibility for setting remuneration strategy and policy for Executive Directors and senior management. The Committee meets at least twice a year.

Audit Committee
John Baines *Chair*

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

Board Risk Committee (BRC)
John Baines *Interim Chair*

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

The Board Risk Committee is supported by the Executive Risk Committee (ERC), which is chaired by the Chief Risk Officer. The ERC membership comprises members of the Executive Committee and senior executives. Further details on the governance structure are included on page 31 of the Risk Management Report.

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

Stakeholder engagement

The Board complies with section 172(1) of the Companies Act 2006 in a number of ways through engagement with its various stakeholders, and has appointed accountable executives who are responsible for each of its key stakeholders.

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

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

Principal Stakeholders and how we engage

Shareholder
The Group is focused on delivering sustainable returns for its shareholder. The Board regularly receives updates and reports from the Bank of Ireland Group Chief Executive Officer and has Bank of Ireland Group nominated NEDs to ensure that the shareholder's views and expectations are understood and considered. At the same time, the Group's focus on costs and efficiency will continue.
Customers
The Group seeks to behave responsibly towards its customers, treating them fairly and equally so that they too may benefit from the successful delivery of the Group's strategy. This core Bank of Ireland Group value of being customer focused supports this objective. The Board consistently reviews its customer strategy, receives updates on implementation and reviews progress. The Board's understanding of customer perspectives is informed by deep dives on customer themes, customer complaints and visits by Directors to customer call centres and branches to hear customer voices at first hand.
Communities
The Group seeks to enable communities to thrive, through a tangible and visible commitment that brings its purpose to life. The Bank of Ireland Group supports the wider community through charity and community activities and by playing an active role in society. Employees are actively involved in fundraising and volunteering in charitable events across the UK for the Group's flagship charity, the Alzheimer's Society and a range of other local charities and community projects. Give Together is the Bank of Ireland Group's charity and community initiative, through which employees lend their support to their nominated charities by fundraising, volunteering and making donations.
People
The Group's people are fundamental to the delivery of its strategy. The Group aims to be a responsible employer and is committed to enabling its people to thrive, ensuring they are engaged and have the skills and capabilities to serve customers brilliantly. The Board receives regular updates on the progress of the Culture Programme; receives regular People Updates; reviews the outputs from the Group's OpenView employee survey; and receives updates on progress in implementing actions in response to employee feedback. In 2019, a Group Talent proposition was launched to develop sustainable, agile talent flows at all levels. The Board's understanding of employee perspectives is informed by individual director visits to Group locations throughout the UK.
Regulators
The Chairman and Chairs of Board committees regularly meet with regulators including the PRA, FCA and the Joint Supervisory Team. Core themes of discussion include regulation and supervision, risk governance and oversight, the future of the banking industry, strategic challenges and culture. Key focus areas include Vulnerable Customers, Lending Responsibly, and Operational Resilience. Further detail on each of these areas is set out in the Corporate Social Responsibility (page 16), Principal Risks and Uncertainties (page 23), Credit Risk (page 37), Conduct Risk (page 54) and Regulatory Risk (page 52) sections.
Suppliers
The Group assesses its suppliers across a number of key risk areas, at the on-boarding stage for all suppliers and annually thereafter for suppliers providing services of high criticality and dependency to the Group. The Board requires the Group to seek assurances (where appropriate) from its suppliers that they are complying with applicable laws and regulations including laws relating to minimum wages, working conditions, overtime, child labour and other applicable labour and environmental laws. This ensures the Group selects only those suppliers who adhere to appropriate standards. The Group has adopted a risk based approach to review its supply chains that fall within industries that carry a high risk of modern day slavery. For further details, the BOI Group's Modern Slavery Statement is available on the BOI Group's website (https://www.bankofireland.com/about-bank-of-ireland/corporate-governance/modern-slavery-human-trafficking-statement/).

Stakeholder engagement *(continued)*

Shareholder (continued)
Partners
Bank of Ireland (UK) plc is a partnership bank. Its strategy has been designed to enable its customers, colleagues and communities to thrive, with a strategic focus on increasing overall returns. This is achieved through the distribution of simple, flexible, financial services to UK customers both directly and through partnerships with well-known UK brands. These include an exclusive financial services relationship and foreign exchange joint venture with the Post Office; a long-term financial services partnership with the Automobile Association (AA); a successful UK intermediary mortgage business; a full service retail and commercial bank in Northern Ireland; a growing car and asset finance business throughout the UK, under the Northridge Finance brand and First Rate Exchange Services Limited (FRES).
Environment
The Group takes seriously its responsibility to manage its impact on the environment and to reduce that impact. In 2018, the Bank of Ireland Group signed up to the Low Carbon Pledge devised by the Business in the Community Corporate Social Network to reduce participant organisation's Scope 1 and Scope 2 carbon emissions intensity by 50% by 2030. The baseline year from which the reduction will be measured for Bank of Ireland Group is 2011. An independent assessment of the Bank of Ireland Group's performance to 2019 shows a 40% reduction in energy used. The Bank of Ireland Group is certified to ISO50001 Energy Management Standard across all sites and this drives continuous improvement while also ensuring regulatory compliance. Furthermore, in order to address the Bank of England's Supervisory Statement SS 3/19 issued in April 2019, the Group has established a working group to ensure that the risks in relation to climate change are considered and appropriately managed. The Board considers the risks of climate change seriously in setting the long term sustainable strategy for the Group, and has delegated responsibility to the Board Risk Committee to oversee the plan for managing the financial risks from climate change in relation to its overall business strategy and risk appetite, through regular risk reporting and other related exercises.

Ethics and values
It is the intention of the Board, to behave responsibly and ensure that management operates the Company in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as the Group. The Group values - customer focused; one group one team; accountable and agile - aim to support this culture.

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

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

For further details on stakeholder relationships and engagement, refer to Principle 6 of Corporate Governance arrangements, included in the Report of the Directors.

Principal risks and uncertainties

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

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

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

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

Principal risks	Potential risk impact	Key controls and mitigating factors
Credit risk The risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. Credit risk includes default risk, recovery risk, counterparty risk, country risk, credit concentration risk, settlement risk and residual value risk.	Should commercial or consumer customers or banking / foreign counterparties be unable to meet their obligations in relation to borrowings from the Group, the Group may suffer increased losses and this would have an adverse impact on the Group's financial position.	• Board approved Risk Appetite limits; • A Risk Appetite Framework is in place and aligned with the Group's overall strategy; • Lending policies are fully aligned to risk appetite with formal governance to monitor and ensure compliance with policies and limits; • Active credit management to maximise recoveries from impaired assets seeking the best outcome in accordance with the Group's Customer Charter; • Responsible lending practices and active portfolio management applied within clearly defined Board approved risk appetite limits; • Active management of credit risk concentrations through risk appetite; • Regular monitoring of lending portfolios by senior management and the Credit Risk Portfolio Committee (CRPC); • Reporting to the Executive Risk Committee (ERC), Board Risk Committee (BRC) and the Board; • Minimum annual reviews of all individual commercial cases to monitor case specific risk; • Dedicated work-out teams focused on the management and reduction of non-performing exposures; • External Mortgage Indemnity Guarantee for loans >90% LTV, providing protection against future loss occurrence; and • Prudent residual value limits.
Liquidity and funding risk Liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds. Funding risk is the risk that the Group does not have sufficiently stable and diverse sources of funding or has an inefficient funding structure.	A loss of confidence in the Group's business specifically, the financial services industry, the Post Office brand, the AA brand or the Group or the Parent specifically, or as a result of a systemic shock could result in unexpectedly high levels of customer deposit withdrawals or lead to a reduction in the Group's ability to access funding on appropriate terms. This in turn would have a materially adverse effect on the Group's results, financial condition and liquidity position.	• Board approved Risk Appetite limits; • A Liquidity and Funding Risk Management Framework (RMF), which is reviewed annually, is in place. The Liquidity and Funding Risk Policy which governs management and monitoring, forms part of this framework; • Daily monitoring and management of the liquidity position includes, but is not limited to, regulatory and internal liquidity stress testing, early warning signals, risk appetite metrics and a defined escalation process; • Active management of the funding position to determine the amount of ongoing new retail deposit acquisition and retention and wholesale funding required to fund the Group's asset base as well as forward analysis including stress testing; • Regular reporting to the Asset and Liability Committee (ALCO), the ERC, the BRC and the Board; • Significant contingent liquidity collateral which is capable of being pledged against borrowings from central banks or other external market participants; • Comprehensive Internal Liquidity Adequacy Assessment Process (ILAAP) undertaken annually which sets out how the Group assesses, quantifies and manages key liquidity and funding risks; and • Recovery Plan in place, which specifies a range of processes and potential actions that can be enacted, in the event of any unexpected shortfall in liquidity and / or funding.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors
Market risk The risk of loss arising from movements in interest rates, FX rates or other market prices. Market risk arises from the structure of the balance sheet, the Group's business mix and discretionary risk taking. Additionally, market risk arises through the conduct of customer business, particularly in respect of fixed-rate lending. Structural market risk arises from the presence of non-interest bearing liabilities (equity and current accounts) on the balance sheet and changes in the floating interest rates to which the Group's assets and liabilities are linked (basis risk).	The effective management of market risk is essential to the maintenance of stable earnings, the preservation of capital resources and the achievement of the Group's strategic objectives. Ineffective management could have an adverse impact on the Group's net interest margin and profitability.	• Board approved Risk Appetite limits; • A Market Risk Management Framework, which is reviewed annually, is in place and aligned with the Group's overall strategy to have no risk appetite for discretionary market risk and minimise its exposure to market risks in relation to Interest Rate Risk in the Banking Book (IRRBB) and FX. The Market Risk Policy, which governs market risk management and monitoring, forms part of this framework; • Daily hedging with the Parent, using derivatives or cash hedging deals; • Regular reporting to ALCO, the ERC, the BRC and the Board; • Daily monitoring and management of the market risk position including daily market risk stress tests across all aspects of market risk (yield curve and repricing risk, basis risk, repayment risk, pipeline risk etc.); • Extreme stress scenarios are produced and monitored in line with regulatory guidance and are reported to ALCO; and • A product approval process incorporates review of product terms and conditions from a market risk perspective, to ensure compliance with existing risk appetite, policy and process.
Regulatory risk The risk of failure to meet new or existing regulatory and / or legislative requirements and deadlines or to embed requirements into processes. The Group is exposed to regulatory risk as a direct and indirect consequence of its normal business activities. These risks may materialise from failures to comply with regulatory requirements or exceptions 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.	Non compliance with legislative and regulatory obligations may result in financial penalties, directions from statutory authorities, regulatory sanction and reputational risk to the Group.	• The Group has no appetite for failure to comply with its regulatory or legislative obligations; • Regular and open communication with the FCA, PRA, European Central Bank (ECB) and Competition and Markets Authority on all aspects of the Group's activities; • Regular reporting to senior management, the Regulatory and Operational Risk Committee (R&ORC), the ERC, the BRC and the Board; • Regular monitoring, assessment and reporting of regulatory change (current and proposed) to ensure timely and appropriate response to regulatory change requirements at both a UK and EU level; • Risk-based regulatory and compliance monitoring performed by an independent compliance monitoring team; and • Embedding of risk culture through the Risk Management Framework (RMF).

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors
Operational risk and financial crime Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The key sub-classes of operational risk are defined as follows: Technology (including transformation risk), Information Security and Cyber Security, Sourcing, Payments, Business Continuity, Financial Crime (incorporating the risk of facilitating money laundering, terrorist financing, sanction violation and fraud), People, Legal and Contractual, Model, Unauthorised Trading, Insurable, Disclosure, Regulatory Reporting and Data Quality and Reliability Risk.	Risks to availability, resilience, stability and security of Group's IT systems; security of Group's sensitive and customer information; continuity of the Group's operations and services; and risks arising from the Group's outsourcing arrangements could impact the Group's operational resilience and lead to disruption to the provision of services to customers, financial loss and / or reputational damage. Non-compliance with legislative and regulatory obligations may result in financial penalties, regulatory sanction and reputational risk to the Group. People stretch and potential loss of key staff could have a detrimental impact on the Group's ability to achieve its strategic objectives. Litigation proceedings with adverse judgements could result in material impact on the Group's reputation.	• Board approved Risk Appetite limits; • A operational risk management framework (ORMF) which defines the Group's approach to identifying, assessing, managing, monitoring and reporting on operational risks. The ORMF consists of processes and standards aimed at embedding adequate and effective risk management practices within business units throughout the Group; • Operation of a number of available 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; • Specific policies and risk mitigation measures for material operational risks; • Enhancement and investment in its risk management processes including the identification of and controls for potentially elevated / emerging risks such as, Information Technology, Information Security and Cyber Security, Business Disruption, Financial Crime and Fraud; • Security programmes to protect the integrity and availability of the Group's systems and mitigate the frequency and impacts of cyber-attacks. A staff education programme has been implemented on information protection and cyber security; • Continued focus on and regular review of User Access Management to ensure user access privileges are appropriately aligned to role requirements; • A comprehensive Model Risk Management Framework to ensure existing or emerging model risks are identified and mitigated effectively and efficiently. Quarterly MI updates are submitted to the ERC and the BRC; • A robust AML risk management framework which includes automation of customer due diligence is in place; • Outsourced arrangements with the Parent and third parties are managed through service level agreements, service descriptions and KPIs, with a Sourcing Risk Policy Standard and UK governance fora in place; • Business Continuity and Critical Incident frameworks ensure adequate planning is in place for any incidents impacting continuity of services. Processes were tested within the year; • Processes in place to ensure its compliance with its legal 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; • A Board approved people strategy 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 Talent Board Reviews including succession planning, a Performance Management Framework, and a Career and Reward Framework; • Regular monitoring and reporting to the R&ORC, the ERC, the BRC and the Board; • UK Board review and approval of proposed IT change initiatives to ensure alignment with agreed business strategy; and • UK Change team ongoing planning, prioritisation and monitoring of change initiatives ensures that the aggregate plan is feasible from a customer and colleague perspective.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors
Business and Strategic risk The risk of volatility to the Group's projected outcomes, including the Income Statement and Balance Sheet impact and / or damage to its franchise including that of the Group's joint ventures. It includes volatilities caused by (1) changes in the macro and competitive environment, new market entrants, arrears levels etc and (2) failure/delays in executing the Group's strategy for new product/customer offerings, cost reduction delivery, or to anticipate or mitigate a related risk. Failure to demonstrate that it is probable that future taxable profits will be available, or changes in government policy or tax legislation may reduce the recoverable amount of the deferred tax asset currently recognised in the financial statements. **Brexit** Ongoing uncertainty surrounding the UK's departure from the European Union (EU) continues to affect the markets in which the Group operates including pricing, partner appetite, consumer confidence and credit demand, collateral values and customers' ability to meet their contractual 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 the UK.	Adverse change in the Group's revenues and / or costs resulting in reduced profitability.	• A clearly defined strategic plan is developed within the boundaries of the Board approved risk appetite and risk identity, ensuring balanced growth in consumer lending and deposits with a stable funding profile that is appropriate for the asset mix; • Monitoring of impact, risks and opportunities of changing current and forecast macroeconomic conditions on the likely achievement of its strategy and objectives, including the challenges and uncertainty associated with the ongoing negotiations regarding the nature and impact of the UK's withdrawal from the EU; • Review and monitoring ofthe Group's competitive environment to identify market developments, using external research and economic updates as required; • In the context of its Board approved strategy, the Group assesses and develops its complementary technology strategy which is reviewed and monitored on an ongoing basis; • Clearly defined and regularly monitored KPIs are reviewed at both Executive and Board committee level through regular reporting of business and strategic risks to ERC, BRC and Board; • A balanced scorecard is monitored, which considers key elements in the delivery and successful execution of the Group's strategic plan, including enhancing product returns, customer services levels, and the achievement of cost and efficiency targets, all within risk appetite parameters; • The Group is strongly capitalised and self-funded predominantly through retail deposits and utilises low levels of wholesale funding from the Parent and market. The Group also has significant liquidity collateral which is capable of being pledged against borrowings from central banks or other external market participants; • Clearly defined tax compliance procedures to identify, assess, manage, monitor and report tax risks and to ensure controls mitigating those risks are in place and operate effectively; • Monitoring of the expected recovery period for deferred tax assets; • Potential changes to tax legislation or government policy and considers any appropriate remedial action; • The Group has a longstanding Brexit programme to identify, monitor and mitigate risks associated with various outcomes of Brexit. The Board and senior managment receives regular updates on the progress of risk mitigation in this area; • The Group's distribution in the UK is largely through partner brands which reduces investment in infrastructure and other fixed cost items; and • Services received from the Group's Parent company in Ireland are hedged to mitigate the risk of sterling/euro volatility in a hard Brexit scenario.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors
LIBOR reform Following the financial crisis, the reform and replacement of benchmark interest rates to alternative or nearly risk-free rates has become a priority for global regulators. The Group's exposures to benchmark interest rates will be replaced or reformed as part of this market-wide initiative. Transition efforts in connection with these reforms are complex, with significant risks and challenges.		• A formal Group-wide Benchmark Reform Programme has been mobilised since early 2018 to manage the orderly transition to new regulatory compliant benchmarks; • The Group Assets and Liabilities Committee provides oversight to the programme and updates are provided to the Board Risk Committee ensuring close monitoring and management of specific risks and challenges associated with same; and • The Group has begun to transition to new Risk Free Rates where market liquidity allows.
Reputation risk The risk to earnings or franchise value arising from adverse perception of the Group's image on the part of customers, suppliers, counterparties, shareholders, staff, partners, legislators or regulators. This risk typically manifests through a loss of business in the areas affected. Reputation risk arises as a direct or indirect consequence of the Group's operations and business activities.	Adverse public or industry opinion, resulting from the actual or perceived manner in which the Group conducts its business activities or from actual or perceived practices in the banking industry (such as mis-selling financial products or money laundering), may adversely impact the Group's ability to have a positive relationship with key stakeholders and / or strategic partners and / or keep and attract customers. Ultimately this may result in an adverse impact on the Group's business, financial condition and prospects.	• Policies and procedures in place to minimise reputational risk; • The embedding and management of a positive customer conduct culture to ensure the interests of consumers remain at the heart of the Group's operation. Management decision making aims to deliver an accurate, open and positive external view of the Group to customers, regulators and the wider public and community; • Active management of all internal and external communications including social media and media monitoring which leads to escalation and, where required, management actions; • Regular reporting to the ERC, the BRC and the Board; and • Regular and open dialogue with key stakeholders, partners, regulators and industry bodies.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors
Financial Risks from Climate Change (FRCC) Financial risks to the firm's business model, strategy and the overall risk profile arising from risks related to physical impacts of climate change (acute or chronic extreme weather events) and transition to lower-carbon economy (changes in government policy, low-carbon technologies and market preferences towards greener solutions).	Climate change-related risks could manifest themselves through crystallisation of a number of principal risks such as credit, operational, or reputational risk as well as having an impact on the Group's strategy and business model. Credit Risk: Increased costs associated with physical and transition risks may impact financial soundness of households and businesses reducing their ability to service debt and impairing asset values, resulting in financial loss to the firm through higher probability of default and higher losses given default. Operational Risk: physical risks could impact continuity of the Group's operations or operations of its material suppliers resulting in sustained disruption of the supply chain and ultimately our ability to service customers. Reputational Risk: customer, community and regulatory expectations of the Group's contribution to support transition to lower-carbon economy resulting in loss of business.	• In 2019, Bank of Ireland Group signed UN Principles for Responsible Banking as part of its ongoing responsible and sustainable business strategy; • The Board, BRC and executive committees (ERC, CRPC and R&ORC) terms of reference outline their respective responsibilities in managing FRCC; • An inaugural materiality and risk impact assessment of FRCC has been undertaken; • A risk appetite statement specific to FRCC has been adopted whereby the Group has, in the medium to longer term, committed to reducing financing of carbon-intensive assets or assets susceptible to physical risks, supporting customers and businesses in their move to environmentally sustainable solutions; strengthening its operational resilience and that of material suppliers; and reducing its own climate change impact; • FRCC forms part of product and strategy reviews; • FRCC is considered as part of the ICAAP and Reverse Stress Testing process; and • Regulatory, governmental or industry developments in relation to new climate change risk related standards are being monitored on an ongoing basis.

Principal risks and uncertainties *(continued)*

Principal risks	Potential risk impact	Key controls and mitigating factors
Conduct Risk Conduct risk is the risk of failure to deliver a product or service in a manner promised or reasonably expected by customers or to treat them fairly.	Conduct risk and / or poor outcomes for customers could lead to customer remediation, loss of business, adverse media coverage, financial penalties and / or other regulatory sanction.	• Board approved Risk Appetite limits; • A Group Conduct Risk Framework is in place which is reviewed annually and which sets out the approach to conduct risk management; • Specific conduct risk policies are in place which set out the approach to management of conduct risk across the Group; • Regular reporting, complaints oversight and root cause analysis reviewed at the R&ORC, Customer Board, BRC and Board; • The Product & Services Approvals & Governance Committee (PSAGC) reviews, assesses and approves material new products and services prior to introduction or withdrawal or material change to an existing product or service. It also reviews the performance of existing products and services to ensure these remain appropriate; and • A dedicated Customer Board to oversee the customer experience.
Capital adequacy risk The risk that the Group holds insufficient capital to absorb extreme and unexpected losses, which could eventually result in insolvency.	The Group's capital ratios would deteriorate relative to regulatory requirements as a result of materially worse than expected financial performance or unexpected increase in risk weighted assets.	• Board approved Risk Appetite limits; • A capital management framework which is reviewed annually, is in place for the effective management of capital adequacy risk and its capital position. The capital management policy, which governs capital management and monitoring, forms part of this framework; • Capital adequacy risk appetite is central to the strategic planning process. The Group's appetite is to hold sufficient capital to achieve its strategic objectives, as well as to absorb extreme losses in a stress scenario; • Comprehensive Internal Capital Adequacy Assessment Process (ICAAP) undertaken annually, assessing the Group's capital adequacy and capital quality under plausible stress scenarios; • Regular reporting to the ALCO, the ERC, the BRC and the Board; • Detailed capital plan continuously monitored and reviewed on a monthly basis, which informs the capital position for the Group; and • Recovery plan in place which specifies a range of processes and potential actions that can be enacted in the event of any unexpected shortfall in capital resources.

The Strategic report on pages 7 to 29 is approved by the Board of Directors and signed on its behalf by:

Thomas McAreavey
Director

2 March 2020

Company number: 07022885

Risk Management

Index

Index		Page
1	**Risk management framework**	**31**
	1.1 Risk governance framework	31
	1.2 Risk culture, strategy and principles	34
	1.3 Risk identity and risk appetite	34
	1.4 Risk identification, measurement and reporting	35
2	**Management of key risks**	**36**
	2.1 Credit risk	37
	2.2 Liquidity and funding risk	47
	2.3 Market risk	51
	2.4 Regulatory risk	52
	2.5 Operational risk	52
	2.6 Business and strategic risk	53
	2.7 Reputation risk	54
	2.8 Conduct risk	54
3	**Capital management**	55

The information below in sections or paragraphs denoted as audited in sections 2 and 3 and all the tables (except those denoted unaudited) in the Risk Management Report form an integral part of the audited financial statements as described in the Basis of Preparation on page 82.

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

1 Risk management framework

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

Key components of Group Risk Framework

Key risks

Credit	Liquidity & Funding	Market	Regulatory	Operational & Financial Crime	Business & Strategic	Reputation	Conduct	Capital Adequacy

Risk Management Process

Risk strategy and appetite

Risk identification and materiality assessment

Risk analysis and measurement

Risk monitoring and reporting

Risk governance	**Risk culture**

1.1 Risk governance framework

1.1.1 Risk governance

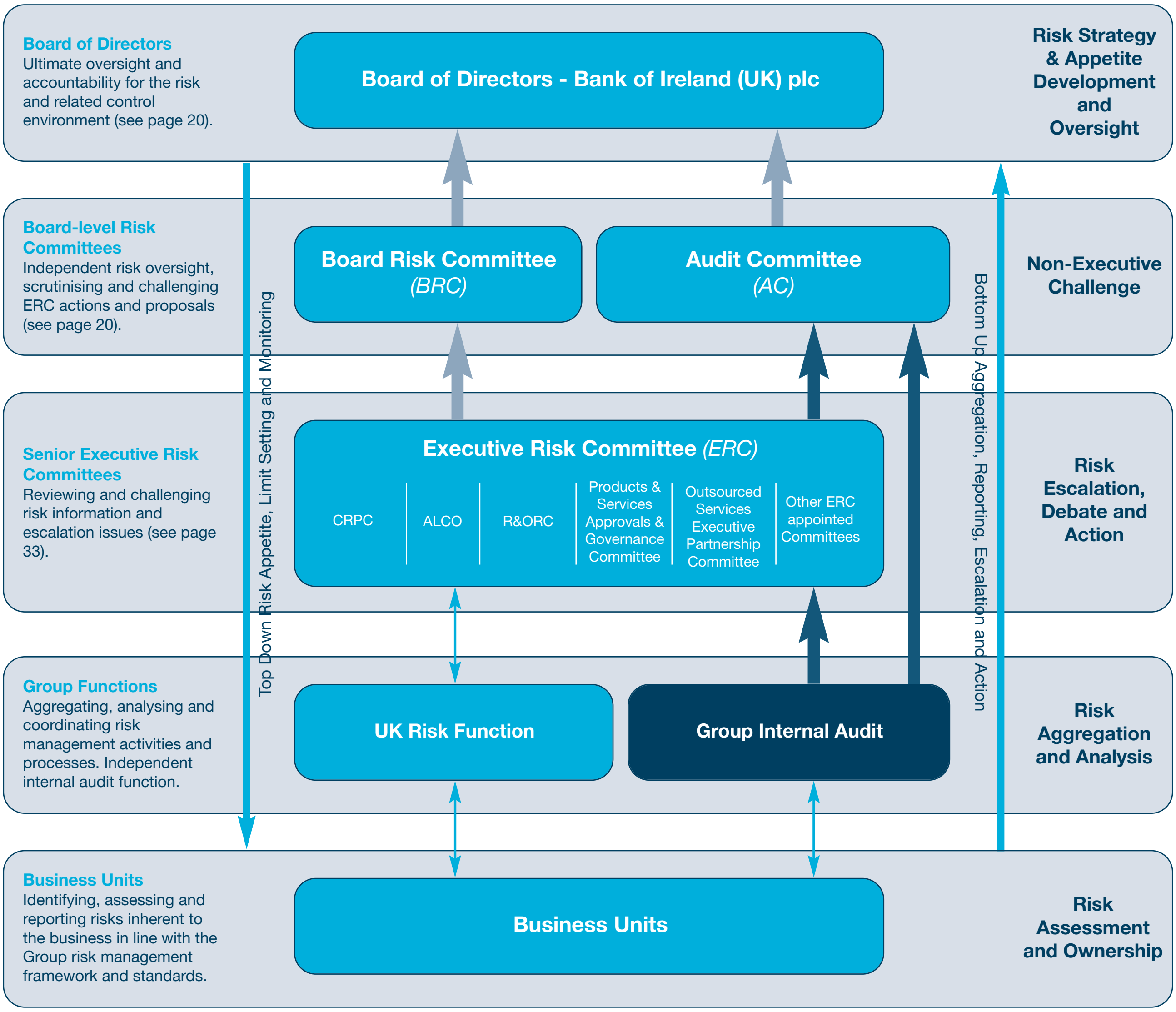
The identification, assessment and reporting of risk in the Group is controlled within the Risk Governance Framework which incorporates the Board, Risk Committees appointed by the Board (e.g. Board Risk Committee (BRC) and Audit Committee (AC)), the Executive Risk Committee (ERC) and its appointed committees (e.g. Regulatory & Operational Risk Committee (R&ORC), Credit Risk Portfolio Committee (CRPC), and Asset & Liability Committee (ALCO)).

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 **AC**) has detailed terms of reference, approved by the Board or their parent committee, setting out their respective roles and responsibilities.

Further details outlining the key responsibilities of the Group's Board Level risk committees can be found on page 20 within the Corporate Governance Arrangements.

1 Risk management framework *(continued)*

1.1.1 Risk governance *(continued)*



The **Executive Risk Committee (ERC)** is the most senior management Risk Committee and reports to the BRC. It is chaired by the UK CRO and its membership comprises members of the Executive Committee (ExCo) and control function executives. It met 15 times during 2019.

The ERC is responsible for managing all risk types (including the financial risks of climate change) 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 ERC reviews and makes recommendations on risk matters where the Board and the BRC has reserved authority. The BRC oversees the decisions of the ERC through a review of the ERC minutes and reports from the Committee Chairman. The ERC 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.

1 Risk management framework *(continued)*

1.1.1 Risk governance *(continued)*

Committee	Delegated responsibility
Asset & Liability Committee	ongoing review and monitoring of balance sheet, liquidity, funding, market risk and capital positions to ensure compliance with relevant Group RAS limits, ALCO owned metrics, regulatory requirements and industry best practice.
Credit Risk Portfolio Committee	overseeing the Group's development, deployment and management of the Credit Risk framework and corresponding risk appetite across all asset classes[1].
Regulatory & Operational Risk Committee	end-to-end management and oversight of Regulatory, Operational, Financial Crime and Conduct Risks within the Group[1].
Products & Services Approvals & Governance Committee	reviews, assesses and approves significant and material new products and services across the UK prior to introduction, the withdrawal or material changes, to an existing product / service; considers the performance of existing products and services to ensure they remain fit for purpose[1].
Outsourced Services Executive Partnership Forum	ensures alignment, resolves issues, acts as the top level of escalation and maintains an overall view of the Intra-Group outsourcing arrangement.

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

First line of defence – Primary responsibility and accountability for risk management lies with line management across the business and front-line functions. They are responsible for the identification and management of risk against risk appetite at a business unit level including the implementation of appropriate controls and the reporting of all major risk events. Business units are accountable for the risks arising in their businesses / functions, and are the first line of defence for the Group in managing these. This applies irrespective of whether or not activities are outsourced to the Parent or to external third parties including strategic partners such as the Post Office and the AA.

In addition, the Group's treasury function is responsible for liquidity planning and management, transfer pricing, balance sheet management, cash and market risk management and as part of the Group's Recovery Plan, contingent capital and funding management actions. The UK Treasurer reports directly to the CFO.

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

Second line of defence – The Second Line Risk Function is responsible for maintaining independent risk oversight and ensuring a risk control framework is in place.

In order for the BRC, the ERC, and other risk committees to fulfil their delegated risk governance responsibilities, they are supported by the Risk Function which is responsible for establishing the RMF and designing risk policies and communicating these to all business units. The Risk Function also provides independent oversight, monitoring, measurement, analysis and reporting of key risks. This includes the monitoring and credit underwriting of individually significant credit exposures in the commercial loan book.

Third line of defence – The Internal Audit function (GIA) provides independent and 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 outsourced service providers), 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. The Group Credit Review (GCR) function, an independent function within Internal Audit, is responsible for reviewing the quality and management of credit risk assets across the Group.

[1] *Including the financial risks of Climate change, as applicable.*

1.2 Risk culture, strategy and principles

Risk culture
A strong risk culture is fundamental to the Group's management, with the Group's Risk Culture Statement being approved by the Board. The Group promotes a risk culture that is open and risk aware. Considerations about risk inform the Board, day-to-day management decision-making and product development. Clearly defined roles and responsibilities ensure risk is owned and controlled effectively across the organisation. A Speak Up policy protects employees who wish to raise concerns under whistleblowing arrangements.

The Board Risk Committee assesses a Risk Culture Review annually. The latest review concluded that further progress had been made in the establishment and embedding of frameworks and day-to-day working practices to support a strong risk culture. There were a number of indicators that demonstrated appropriate risk awareness and good risk management behaviours and decisions which are supported by the Risk Management Framework and Risk Governance. Whilst there were specific areas which require further action, it was recognised that embedding a strong risk culture was an ongoing and iterative process, which will always require continued positive nurturing, enhancement and reinforcement.

Risk strategy
The Group's Risk Strategy is to protect its balance sheet, customers and reputation as well as those of its strategic partners, and help the business to build profitability. The Group seeks to accomplish this by:

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

Risk principles
Risk owners seeking to accept a risk at transaction, portfolio and Group level must operate in accordance with risk frameworks and policies including bringing this to the attention of the ERC where required.

In general, risks may be accepted if:

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

1.3 Risk identity and risk appetite

Risk Identity
The Group's purpose is to enable its customers, colleagues and communities to thrive by being the leading Partnership Bank.

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

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

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

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

The Group strives to ensure it operates within its risk appetite and therefore its risk appetite and risk profile must be aligned. Where the Group has a risk profile that is in excess of its risk appetite, it will take action to realign the risk profile through increased risk mitigation activities and risk reduction. The key risk mitigating activities are set out on pages 23 to 29 within the Strategic report.

1.4 Risk identification, measurement and reporting

Risk identification
Risks facing the Group are identified and assessed through the Group's risk identification process. Risks that are considered material are included in the Group's RMF, owners are identified, appropriate policies are put in place, and a formalised measurement and management process is defined and implemented. The Group periodically reviews the RMF and risk management policies and systems to reflect changes in markets, products and best market practice. The Group has identified risk types that it believes could have a material impact on earnings, capital adequacy, liquidity and on its ability to trade in the future and these are covered in the principal risks and uncertainties that are set out on pages 23 to 29 of the Strategic report.

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

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

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

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

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

Risk reporting
Risks are measured, reported and monitored by the Group on a daily, weekly, monthly and/or quarterly basis depending on the materiality of the risk. The CEO and CRO Monthly Risk Report submitted to each Board meeting provide an update on key risk issues as well as an update on performance against core risk appetite metrics. Additionally, material risks identified under the Group's RMF are assessed and their status is reported in the CRO/Monthly Risk Report (MRR) in the first instance. This report is submitted to both the ERC and the BRC.

The format of this report is approved by the BRC. The content of the MRR includes analysis of, and commentary on, all material risk types. It also addresses governance and control issues and the Group's capital position. In addition to the MRR, the BRC and the Board consider formal updates on other key risk areas as appropriate.

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

2 Management of key risks

Index		Page
2.1	**Credit risk**	**37**
2.1.1	Definition of credit risk	37
2.1.2	Credit risk management	38
2.1.3	Credit risk mitigation	39
2.1.4	Credit risk reporting and monitoring	39
2.1.5	Management of challenged assets	40
2.1.6	Asset quality - loans and advances to customers	41
2.1.7	Credit risk methodologies (audited)	43

2.1 Credit risk

Key points:

- UK gross lending and property transactions were broadly in line with 2018, resulting from a lack of consumer confidence (largely attributed to Brexit uncertainty). Despite this resulting in muted overall demand for credit, it did not have a material impact on credit quality.
- At all times during the financial year the Group maintained appropriate credit controls reflecting and responding to the changing dynamics of the UK market, in line with regulatory requirements.
- The Group concluded the year within all bank risk appetite measures.
- The Group's loans and advances to customers increased by £0.9 billion to £21.3 million at 31 December 2019 (2018 £20.4 billion), principally driven by sustained growth in the consumer and mortgage portfolios offset by the sale of the £0.5 billion credit card portfolio.
- The Group's overall asset quality trend has continued to improve. Total impaired loans reduced from £348 million to £280 million (20%) reflecting a continued focus on the acquisition of good quality assets and effective management of the portfolio.

2.1.1 Definition of credit risk (audited)

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

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

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

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

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

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

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

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

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

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

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

Loans and advances to banks at 31 December 2019 of £2.2 billion include £0.5 billion due from the Parent, while deposits from banks at 31 December 2019 of £3.5 billion include £2.0 billion due to the Parent. At 31 December 2019, the Group therefore has a net exposure due to the Parent of £1.5 billion (2018: £0.7 billion net exposure due to the Parent).
At 31 December 2019, derivative assets and derivative liabilities include £37 million and £54 million respectively with the Parent and therefore a net exposure due to the Parent of £17 million (2018: £4 million net exposure due to the Parent).

Credit related commitments (audited)
The Group classifies and manages credit related commitments that are not reflected

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

as loans and advances on the balance sheet, as follows:

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

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

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

2.1.2 Credit risk management (audited)

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

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

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

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

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, bespoke credit scoring tools and reference to extensive performance data from credit reference agencies, enables measurement of the relative degree of risk inherent in lending to specific counterparties and is central to the credit risk assessment and ongoing management processes in the Group. Details of these internal credit rating models are outlined in the section on credit risk methodologies on pages 43 to 46.

Counterparty credit risk
The continued weak international financial environment means that the Group continues to be exposed to increased counterparty risk. The Group has a number of measures in place to mitigate this increased risk. These include:

- reduced individual Group exposures across a wider spread of banking institutions;
- strict credit risk management procedures; and
- application of tight credit policy criteria, where required.

The Group's net exposure to the Parent (disclosed gross within loans and advances to banks, deposits from banks, derivative assets and derivative liabilities) is managed through a contractual master netting agreement with the Parent whereby, in the event of a default by either party, all amounts due or payable will be settled immediately on a net basis. In addition, derivatives executed with the Parent are subject to International Swaps and Derivatives Association (ISDA) and Credit Support Annex (CSA) standard documentation and therefore collateral requirements are calculated daily and posted as required. The net exposure to the Parent is measured and monitored on a daily basis and is maintained within the Group's large exposure limits.
The BRC is responsible for establishing an appropriate policy framework for the prudential management of treasury credit risk, including net exposure to the Parent. Credit counterparties are subject to ongoing credit review and exposures are reported and monitored on a daily basis.

Loan impairment
Through its ongoing credit review processes, the Group seeks early identification of deteriorating loans, with a view to taking corrective action to prevent the loan becoming impaired. Typically, loans that are at risk of impairment are

2.1.2 Credit risk management (audited) *(continued)*

managed by dedicated specialist units / debt collection teams focused on working out loans.

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

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

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

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

An analysis of the Group's impairment loss allowances at 31 December 2019 is set out on page 42 and notes 19 and 20.

2.1.3 Credit risk mitigation

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

In addition, the Group mitigates credit risk through both the adoption of preventative measures (e.g. controls and limits) and the development and implementation of strategies to assess and reduce the impact of particular risks, should these materialise. In the commercial portfolio, regular risk reassessments are conducted on larger cases in line with policy.

Collateral
Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures. The nature and level of collateral required depends on a number of factors, including, but not limited to:

- the amount of the exposure;
- the type of facility provided;
- the term of the facility;
- the amount of the borrower's own cash input; and
- an evaluation of the level of risk or probability of default (PD).

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

A variety of types of collateral are accepted, as follows:

- residential and commercial real estate;
- physical assets (motor vehicles, plant and machinery, stock etc.);
- financial assets (lien over deposits, shares etc.); and
- other assets (debentures, debtors, guarantees, insurance etc.).

The Group's requirements around completion, valuation and management of collateral are set out in appropriate Group or business unit policies and procedures. Details of the valuation methodologies are set out in the credit risk methodologies section on page 45.

2.1.4 Credit risk reporting and monitoring (audited)

It is Group policy to ensure that adequate up-to-date credit management information is available to support the credit management of individual account relationships and the overall loan portfolio. Information is produced on a timely basis and at a frequency interval that reflects the purpose of the report. Credit risk information at a product / sector level is reported on a monthly basis to senior management. This monthly reporting includes detailed information on loan book volume, the quality of the loan book, concentrations and loan impairment provisions, including details of any large individual impaired exposures.

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

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

2.1.5 Management of challenged assets

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

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

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

Forbearance strategies

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

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

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

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

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

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

The forbearance strategies adopted by the Group seek to maximise recoveries and minimise losses arising from non repayment of debt, while providing suitable and sustainable restructure options that are supportive of customers in challenged circumstances. The Group has an operating infrastructure in place to assess and, where appropriate, implement such options on a case-by-case basis. Group credit policy outlines the core principles and parameters underpinning the Group's approach to forbearance with individual business unit policies defining in greater detail the forbearance strategies appropriate to each unit.

Forbearance requests are assessed on a case-by-case basis taking due consideration of the individual circumstances and risk profile of the customer to ensure, where possible, the most suitable and sustainable repayment arrangement is put in place (see also on page 16 which further comments on vulnerable customers). 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. Where appropriate, and in accordance with the Group's credit risk management structure, forbearance requests are referred to credit units for independent assessment prior to approval by the relevant approval authority.

Forborne loans are reviewed in line with the Group's credit management processes, which include monitoring borrower compliance with the revised terms and conditions of the forbearance arrangement.

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

2.1.6 Asset quality - loans and advances to customers (audited except where denoted unaudited)

Asset quality methodology

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

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

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

- **Stage 3 – Lifetime ECL (credit-impaired):**
  Credit-impaired financial instruments, other than purchased or originated credit-impaired 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' loans); and / or (ii) the borrower is greater than 90 days past due and the arrears amount is material.

- **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 43 to 46.

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

Forborne loans:
Loans where a forbearance measure has been granted and where the criteria to exit a forborne classification, in line with EBA guidance[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.

Quantitative information about credit risk within financial instruments held by the Group can be found in the credit risk exposures note on page 119 in the financial statements.

[1] *Other/probationary loans, including forborne loans that have yet to satisfy exit criteria in line with EBA guidance to return to performing*

2.1.6 Asset quality - loans and advances to customers *(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 31 December 2019 and at 31 December 2018.

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

31 December 2018 Total loans and advances to customers at amortised cost - Composition and impairment	Advances (pre-impairment loss allowance) £m	Credit impaired loans £m	Credit impaired loans as % of advances %	Impairment loss allowance[1] £m	Impairment loss allowance as % of credit impaired loans %
Residential mortgages	15,880	188	1%	18	10%
Non-property SME and corporate	1,320	41	3%	16	39%
Property and construction	502	79	16%	23	29%
Consumer	2,697	40	1%	29	73%
Total[2]	20,399	348	2%	86	25%

At 31 December 2019, loans and advances to customers (pre-impairment loss allowance) of £21.3 billion were £0.9 billion higher than 1 January 2019, reflecting the combined impacts of net new lending the credit card disposal, utilisation of impairment loss allowance and currency translation.

Credit impaired loans were £0.3 billion or 1% of customer loans at 31 December 2019 compared to £0.3 billion at 31 December 2018.

The stock of impairment loss allowance on credit-impaired loans decreased to £71 million.

Impairment loss allowance as a percentage of credit-impaired loans is 25% (25% at 31 December 2018) with reductions seen across the majority of the Group's loan portfolios in 2019 and reflecting a combination of the reduction in credit-impaired loans, impairment loss allowance utilisation and a net impairment gain during the year.

Unaudited:
Of the £3.0 billion UK Consumer lending at 31 December 2019, £38 million is credit-impaired, representing 1% of the portfolio (1% at 31 December 2018) and a credit-impaired loans impairment loss allowance coverage ratio of 68%. High impairment loss allowance cover reflects the unsecured nature of this lending.

[1] *Impairment loss allowance on credit impaired loans.*
[2] *Including assets classified as held for sale of £nil million (2018: £564 million). See note 21 for further details.*

2.1.7 Credit risk methodologies (*audited*)

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

- Probability of Default (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 form an essential component of the Group's operational and strategic credit risk management and credit pricing practices.

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

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

- 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.

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

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

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

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

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

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

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

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

In general, a loss allowance is recognised for all financial instruments in scope for the impairment requirements of IFRS 9. However this may not be the case for very highly collateralised loans, such as residential mortgages at low loan to value ratios. There have been no significant changes in the quality of collateral or credit enhancements as a result of changes in the Group's collateral policies during the year. The Group's methodologies for valuation of property collateral are set out on page 45, noting further that Forward Looking Information (FLI) (see page 46) is applied to UK property collateral values in measuring impairment loss allowances under IFRS 9. The Group's critical accounting estimates and judgements, including those with respect to impairment of financial instruments, are set out in note 2 to the financial statements.

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

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

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

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 Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (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 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 exposure at default 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 where UK property collateral is held. IFRS 9 LGD may differ from regulatory LGD as conservatism and downward assumptions are generally removed.

Individual discounted cash flow analysis

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

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

Modelled loss rates

For 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 non-performing exposure.

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

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

The effectiveness of the staging criteria is

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

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

The Group applies the low credit risk expedient to 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. 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 £850,000), the lender assessment involves production of an individual discounted cash flow analysis. The events differ by portfolio and include those set out below.

All portfolios:

- a forbearance measure has been requested by a borrower and formally assessed;
- the non-payment of interest (e.g. via interest roll-up, arrears capitalisation etc.) as a result of the terms of modification of loans, including refinancing and renegotiation of facilities where during the renegotiation process, the lender becomes aware that the borrower is under actual or apparent financial distress;
- evidence of fraudulent activity by the borrower or another party connected with the loan;
- 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 loan to value 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 property collateral values is set out in a CRPC-approved Group Property Collateral Valuation Policy, supported by the Group Property Collateral Valuation Guidelines, and is summarised below. The Group's approach to applying Forward Looking Information to those values for the purposes of measuring impairment loss allowance for the year ended 31 December 2019 is set out in the BRC approved Group Impairment Policy and is described below.

Individual valuations are undertaken as part of the initial credit assessment process using either an automated

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

valuation model or through physical inspection of the collateral. 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 professionals or internally assessed valuations. Internally assessed valuations are informed by the most appropriate sources available for the assets in question. This may include property specific information / characteristics, local market knowledge, comparable transactions, professional advice (e.g. asset management reports) or a combination thereof, in line with more detailed guidance and metrics which are approved at least annually by the CRPC. These guidelines and metrics are informed by both internal and externally sourced market data / valuation information, including input from the Group's Real Estate Advisory Unit (REAU).
Internally assessed valuations are subject to review, challenge and, potentially, revision by experienced 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 non-performing exposures with an annual valuation required for non-performing exposures in excess of £250,000. During 2019, the Group completed an exercise to ensure that recent external valuations were held for all non-performing exposures in excess of £250,000.

Forward Looking Information (FLI)
FLI refers to probability-weighted future macroeconomic scenarios approved semi-annually by the ERC and used in the assessment of 'significant increase in credit risk' and in the measurement of impairment loss allowances under IFRS 9.The Group generally uses three UK FLI scenarios, being a central scenario, an upside scenario and a 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 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 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 following table shows the mean average forecast values for some of the key macroeconomic variables under each scenario for the five year forecast period 2019-2023 together with the associated percentiles and probability weightings.

	Downside	Central	Upside
Percentile	85th	50th	15th
Scenario probability weighting	29.5%	39.9%	30.6%
GDP growth	0.9%	1.5%	2.1%
Unemployment rate	5.1%	4.2%	4.0%
Residential property price growth	(2.0%)	0.7%	3.4%
Commercial property price growth	(3.7%)	(0.1%)	2.6%

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.

2.2 Liquidity and funding risk

Key points:

- At all times during the financial year the Group maintained appropriate levels of unencumbered liquid resources and an appropriate liquidity position, in line with regulatory and internally set requirements and limits.
- The Group held liquid assets of £3.1 billion at 31 December 2019 (31 December 2018: £3.7 million) which was in excess of regulatory liquidity requirements and within the Group's internal risk appetite. This represented a prudent liquidity position.
- The Group's loan to deposit ratio increased from 102% at 31 December 2018 to 111% at 31 December 2019, which reflects further diversification of the funding base through increased wholesale funding from the Parent and externally through the securitisation of residential mortgages.
- The Group's LCR at 31 December 2019 was 147% (31 December 2018:158%). The Group's NSFR at 31 December 2019 was 133% (31 December 2018:134%)

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

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

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

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

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

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

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

Liquidity and funding management in the Group consists of two main activities:

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

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

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

Funding risk is measured by applying and monitoring specific metrics that determine the amount and type of ongoing new retail deposit acquisitions / retentions that are required to fund the Group's asset base across various maturity categories, the wholesale funding requirement, the loan to deposit ratio alongside other funding metrics[1].

Bank of England Term Funding Scheme (TFS)
The Group's funding structure also includes the utilisation of the Bank of England TFS. The TFS is designed to reinforce the transmission of bank rate cuts to the Group's lending and deposit interest rates and provide a cost effective source of funding to support additional lending to the real economy. This allows the Group to borrow central bank reserves in exchange for eligible collateral over a four year term. Further details are included in note 27 to the financial statements.

The Group's funding from the TFS was £1.3 billion at 31 December 2019.

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

Customer deposits
The Group's funding strategy is focused, in particular, on maintaining a stable retail deposit base providing an appropriate basis to fund customer lending. £13.5 billion of deposits at 31 December 2019 relates to Post Office branded deposits which decreased by £0.7 billion during the year. The AA deposit portfolio increased by £58 million, as matched funding for the AA unsecured lending growth.

[1] *Funding stress scenarios are also performed regularly across a number of longer term outflow timebands.*

2.2 Liquidity and funding risk *(continued)*

The Group's loan to deposit ratio, as defined on page 166, increased from 102% at 31 December 2018 to 111% at 31 December 2019, as a result of planned management actions.

Liquid assets
The Group maintains an unencumbered liquid asset portfolio, comprising cash placements and securities that can be used to raise liquidity, either by sale or through secured funding transactions. As at 31 December 2019, the portfolio comprised cash balances with the Bank of England, UK Government Gilts, Supranational and Agency bonds, UK covered bonds and interbank placements.

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

Liquidity and funding risk monitoring
The Group's daily, weekly and monthly liquidity and funding reporting (including a comprehensive suite of liquidity early warning signals) is produced for use by the Group's Treasury function, to assess and manage the Group's current and future liquidity and funding risk position. Daily reports, including daily liquidity stress test results, are reported and reviewed by the Treasury, Finance and Risk functions and by the Group's senior management. These reports include a series of limits and triggers which, if triggered, are reported regularly to the ALCO. MI is also reported to the ALCO, the ERC, the BRC and the Board.

Customer accounts *(unaudited)*	**2019 £m**	2018 £m
Bank of Ireland deposits and current accounts	4,849	4,826
Post Office deposits	13,462	14,237
AA deposits	764	706
Total	**19,075**	**19,769**

	Average in year		**Year end**	
Composition of the liquid asset portfolio *(unaudited)*	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Balances with central banks	2,166	2,236	2,097	2,538
Government bonds	345	421	261	415
Other listed securities	592	515	585	500
Interbank placements	169	223	140	200
Total	**3,272**	**3,395**	**3,083**	**3,653**

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

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

At 31 December 2019 and 2018, the Group had the following encumbered assets.

2.2 Liquidity and funding risk *(continued)*

Encumbered and unencumbered assets	2019 Encumbered[1] £m	2019 Unencumbered £m	2019 Total £m	2018 Encumbered[1] £m	2018 Unencumbered £m	2018 Total £m
Cash and balances with central banks	-	2,134	2,134	-	2,567	2,567
Mandatory deposits with central banks	1,281	25	1,306	1,285	25	1,310
Loans and advances to other banks[2]	75	225	300	75	33	108
Loans and advances to banks - related party transactions	15	537	552	2	928	930
Loans and advances to customers	2,556	18,644	21,200	2,989	16,714	19,703
Assets classified as held for sale	-	-	-	-	539	539
Debt securities at amortised cost	59	787	846	-	915	915
Other assets	-	596	596	-	628	628
Total assets	**3,986**	**22,948**	**26,934**	4,351	22,349	26,700
Encumbered cash and balances with central banks:						
Note cover[3]	1,217			1,227		
Cash ratio and other mandatory deposits	64			58		
	1,281			**1,285**		

Contingent liquidity
The Group holds significant contingent liquidity collateral, comprised of raw loans pre-positioned in Bank of England facilities. The securitisation vehicle, Bowbell No 2 plc was established during 2019, with £0.35 billion of notes being issued to external investors and the Group retaining £1.7 billion of notes for use as contingent liquidity collateral. This contingent liquidity collateral can be pledged against borrowings from central banks and other external market participants.

Bank of Ireland UK ratings *(unaudited)*	2019 £m	2018 £m
Moody's	Baa1 stable outlook	Baa2 positive outlook
Fitch	BBB stable outlook	BBB stable outlook

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

[1] *Included in the encumbered assets at 31 December 2019 is £15 million (31 December 2018: £2 million) of collateral placed with the Parent in respect of derivative liabilities.*
[2] *Encumbered assets includes assets that are segregated in order to meet the Financial Resilience requirements of the PRA's Supervisory Statement 9/16 "Operational Continuity in Resolution".*
[3] *Note cover relates to mandatory collateral with the Bank of England in respect of banknotes in circulation in Northern Ireland.*

2.2 Liquidity and funding risk *(continued)*

Maturity analysis of financial assets and liabilities
The following tables summarise the contractual maturity profile of the Group's financial assets and liabilities, at 31 December 2019 and 31 December 2018, based on the contractual discounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity, instead the Group manages liquidity risk by adjusting the contractual cash inflows and outflows of the balance sheet to reflect them on a behavioural basis. This includes the incorporation of the inherent stability evident in the retail deposit book.

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

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

2018 Maturity analysis of financial assets and liabilities (discounted basis) *(unaudited)*	Demand £m	Up to 3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Financial assets						
Cash and balances with central banks	2,567	-	-	-	-	2,567
Derivative financial instruments	-	10	7	12	3	32
Loans and advances to banks	48	1,332	38	-	-	1,418
Loans and advances to banks - related party transactions	367	-	273	281	9	930
Debt securities at amortised cost	-	55	245	615	-	915
Loans and advances to customers (before impairment loss allowance)[1]	445	1,306	1,597	6,559	10,492	20,399
Total assets	3,427	2,703	2,160	7,467	10,504	26,261
Financial liabilities						
Deposits from banks	25	-	200	1,276	-	1,501
Deposits from banks - related party transactions	371	1	1,026	235	18	1,651
Customer accounts	14,503	1,696	2,261	1,309	-	19,769
Derivative financial instruments	1	6	5	23	8	43
Subordinated liabilities	-	-	-	-	290	290
Total liabilities	14,900	1,703	3,492	2,843	316	23,254
Net total assets and liabilities	(11,473)	1,000	(1,332)	4,624	10,188	3,007
Cumulative net assets and liabilities	(11,473)	(10,473)	(11,805)	(7,181)	3,007	3,007

[1] *Including assets classified as held for sale £nil million (2018: £564 million). See note 21 for further details.*

2.3 Market risk

Key points:

- The Group does not engage in speculative trading for the purposes of making profits as a result of anticipation of movements in financial markets. Therefore, no discretionary risk is taken by the Group.
- During 2019, the Group continued to manage interest rate and foreign exchange exposure at acceptable levels, by seeking natural hedge solutions within the balance sheet and by hedging remaining exposures with the Parent as the hedging counterparty.
- Basis risk continued to be hedged through the netting of asset and liability positions and the execution of fixed versus floating term swaps during 2019.
- The Group's structural risk continued to be re-hedged continuously within defined risk limits.

Definition *(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 and the Group's business mix and discretionary risk taking.

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

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

The Group has no risk appetite for the holding of proprietary market risk positions or the running of material open banking book market risk exposures. The Group therefore, hedges open banking book exposure to deminimus levels. However, the Group does have customer derivative foreign exchange forward contracts, which are considered held for trading, as hedge accounting is not applied. These transactions are hedged with the Parent.

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

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

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

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

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

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

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

The impact on the Group's economic value from an immediate and sustained 50 basis points shift, up or down, in the sterling yield curve applied to the banking book at 2019 and 2018, is shown below.

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

(audited)	**2019 £m**	2018 £m
+ 50 basis points	(0.63)	(0.06)
- 50 basis points	0.63	0.06

2.4 Regulatory risk

Key points:

- The Group continues to maintain no appetite for failure to comply with its regulatory or legislative obligations and manages regulatory risk through its Risk Management Framework.
- During the year the FCA introduced a wide range of new measures and reforms which have affected the Group's technology capabilities as it undertakes its significant IT transformation.
- The Group have also been developing a cohesive approach to Operational Resilience in recognition of the risks inherent in complex supply chains and a significant dependence on technology in meeting customer demand for 24/7, 365 banking services.

Definition

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

Risk management and measurement

The Group manages regulatory risk under its Risk Management 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 R&ORC, the ERC, the BRC and Board in line with the overall risk governance structure outlined in section 1.1. The effective management of regulatory risk is primarily the responsibility of business management and oversight is provided by the Compliance & Conduct Risk function. As detailed in its RAS, the Group has no appetite for failure to comply with its regulatory or legislative obligations. However, it acknowledges that instances may occur as a consequence of being in business.

Risk mitigation

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

Risk reporting

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

2.5 Operational risk

Key points:

- The Group seeks to operate an effective framework for the identification, assessment, mitigation and control of operational risk.
- Following delivery of a suite of risk improvement programmes through 2017 and 2018, the Group continues to enhance its operational risk management practices and to further embed the effective use of the operational risk management framework tools, in line with regulatory expectations. Plans are now in place to enhance control and certification testing, business process mapping and forward looking risk management processes.

Definition

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

The key sub-classes of operational risk are defined as follows:
Technology (including transformation risk), Information Security and Cyber Security, Sourcing, Payments, Business Continuity, Financial Crime (incorporating the risk of facilitating money laundering, terrorist financing, sanction violation and fraud), People, Legal and Contractual, Model, Unauthorised Trading, Insurable, Disclosure, Regulatory Reporting and Data Quality and Reliability Risk.

Risk management

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

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

2.5 Operational risk *(continued)*

The Group operates an Operational Risk Management Framework (ORMF) which defines its approach to managing operational risk and consists of, inter alia:

- Group operational risk appetite;
- Group operational risk policies and policy standards which specify the minimum control standards and staff obligations;
- Group's risk identification, assessment and treatment approaches, including minimum requirements for control testing and key indicators;
- Group's incident, event and issue management processes;
- Operational risk oversight, monitoring and independent assurance;
- Operational risk management information and reporting; and
- Operational risk training.

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

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

2.6 Business and strategic risk

Key points:

- On an annual basis the Board reviews the Group’s strategic objectives to confirm that the strategic shape and focus of the Group remains appropriate. Longer term viability is monitored through its ICAAP and 5-year planning processes.
- In 2019, the Group delivered a statutory profit before tax of £97 million.
- While the UK economy continued to grow in 2019, uncertainty over the effects of the UK’s planned departure from the European Union continues to mean 2020 forecasts for the macroeconomic environment are challenging.
- The Competitive environment in the UK banking sector remains intense with increasing pressure on margins affecting banks’ ability to generate profitability. The Group’s current cost base adversely affects its competitiveness and acts as a drag on business performance.

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

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

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

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

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

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

Strategic risk is mitigated through the ICAAP and 3-year plan as well as updates to the Board on industry developments, regular updates on the key macroeconomic environment affecting the Group’s activities and a review of the competitive environment and strategies at both Group and business unit level.

The Group's Annual Strategy and Planning Process includes a review of the Group's business model.

2.7 Reputation risk

Key points:

- The Group's reputation continues to be influenced and shaped by a range of factors including: macroeconomic and political environment, media, public and customer commentary and general sector developments. More specifically, the Group's decisions and actions in pursuit of its strategic and tactical business objectives and its interaction with the external environment will also influence its reputation.
- Throughout 2019, the Group continued to actively manage, measure and report on its reputation risk and to take this into account in its strategic decision making.

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

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

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

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

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

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

2.8 Conduct risk

Key points:

- The Group recognises the importance of fairness and is committed to placing customers at the heart of its strategic and operational decision-making.
- In 2019, the Group continued to embed, develop and enhance its conduct risk management tools and processes, including strengthening its treatment of vulnerable customers.

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

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

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

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

Conduct risk policy
The Group's exposure to conduct risk is governed by a policy approved by the BRC in accordance with the Board approved risk appetite and within the overall Group risk governance structure outlined on pages 31 to 33.

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

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

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

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

3 Capital management

Key points:

- At all times during the financial year the Group maintained appropriate capital resources in line with regulatory requirements.
- CET 1 ratio is 14.5% at 31 December 2019 (31 December 2018: 15.0%) under the transitional basis and 14.2% (31 December 2018: 14.5%) under the fully loaded basis.
- The Group at 31 December 2019 was required to hold CET1 capital requirements of 9.5%.
- Sustained strong capital position enabled the payment of the equity dividend of £100 million to the Parent in October 2019.
- The leverage ratio is 6.9% at 31 December 2019 under the transitional basis and 6.8% under the fully loaded basis.

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

Capital management objectives and policies
The Group manages its capital position to ensure that it has sufficient capital to cover the risks of its business, support its strategy and to comply at all times with regulatory capital requirements.
Capital adequacy and its effective management is critical to the Group's ability to operate its businesses, grow organically and pursue its strategy. The Group's business and financial condition could be adversely affected if it is not able to manage its capital effectively or if the amount or quality of capital held is insufficient. This could arise in the case of a materially worse than expected financial performance (including, for example, reductions in profits and retained earnings as a result of impairment losses or write downs and increases in RWA.

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

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

The Board approved ICAAP Report and supporting documentation is submitted to the PRA and is subject to regulatory review as part of the SREP.

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

- confirm the Group has sufficient capital resources;
- inform the setting of capital risk appetite measures; and
- ensure the alignment between the Group's RMF and senior management decision making.

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

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

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

Capital requirements and capital resources
The Group complied with all its regulatory capital requirements throughout 2019.
The Group manages its capital resources to ensure that the overall amount and quality of resources exceeds the Group's capital requirements. Capital requirements are determined by the CRD IV, the CRR and firm specific requirements imposed by the PRA. The minimum requirements are typically driven by credit risk, market risk and operational risk, and also require stress-absorbing buffers.

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

An additional firm-specific countercyclical buffer is also required, reflecting the countercyclical buffer rates applicable to the exposures held by the Group.
The Group's regulatory requirements are summarised in the table below which shows the minimum CET 1 regulatory requirements of the Group. These requirements do not include the PRA buffer, which is not disclosed in line with regulatory preference.

Group CET 1 Capital Requirement (unaudited) 2019	Set by:	%
Pillar 1	CRR	4.5
Pillar 2A	PRA	1.5
Capital Conservation Buffer	CRD	2.5
UK Countercyclical Buffer	FPC	1.0
Total minimum CET 1 Regulatory Requirement		9.5

3 Capital management *(continued)*

The FPC announced in December 2019 that the countercyclical buffer rate for UK exposures will increase from 1% to 2%. The Group's capital plan, prepared as part of ICAAP, considers proposed changes to the regulatory capital requirements of the Group.

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

CRD IV Developments
CRD IV continues to evolve through amendments to current regulations and the adoption of new technical standards. On 7 June 2019, the amendments to the existing CRD and the Capital Requirements Regulation (CRR), as well as the related EU BRRD and the SRM Regulation were published in the Official Journal of the EU and entered into force on 27 June 2019. The majority of the changes impacting capital contained in the amended CRR (e.g. binding leverage requirement and amended SME supporting factor) will become applicable from 28 June 2021.

In December 2017, the Basel Committee announced revisions to the Basel Framework. The revisions focus on the standardised and internal ratings based (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 the standardised approach.

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

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

In addition to the new Basel rules, there are a number of changes to ECB/EBA regulatory requirements planned for the coming years that will impact the Bank's regulatory capital and RWA. These include new ECB and EBA NPL guidelines and EBA standard and guidelines on definition of default.

Minimum Requirements for Own Funds and Eligible Liabilities (MREL)
MREL is focused on ensuring that banking groups have sufficient liabilities to absorb losses to allow them to return to business as usual following a recovery or resolution event and without recourse to taxpayer funds. The Bank of England issued a statement of Policy on MREL in June 2018 and as a result the Group is subject to an internal MREL requirement on transitional basis from 1 January 2020.

In order to meet indicative MREL requirements, the Group issued £300 million of non preferred senior debt in December 2019.

End-state MREL requirements will be effective from 1 January 2022. The Group considers the impact of MREL as part of the strategic and capital planning process, noting that the Parent as the sole shareholder and provider of capital is also expected to provide any future core MREL requirements.

IFRS 9 Capital Impact
The Group has elected to apply the transitional arrangements which, on a regulatory basis, partially mitigates the initial and future impacts in the period to 2022. This involves a capital add back of a portion of the increase in impairment loss allowance on transition to IFRS 9 and also subsequent increase in the stage 1 and 2 loss allowances at future reporting dates. The transitional addback allowed in 2019 was 85%, reducing to 70%, 50% and 25% in subsequent years.

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

Regulatory capital and key capital and leverage ratios
The Group is strongly capitalised with a total capital ratio on a regulatory basis of 19.9% at 31 December 2019 (2018: 20.6%).

Total regulatory capital resources increased by £7 million during 2019 to £2.2 billion due to:
- profit after tax for 2019 of £96 million[1];
- a reduction in regulatory adjustments of £31 million primarily due to the reduction in the deferred tax asset of £42 million, intangible assets decrease of £5 million offset by the reduction in the IFRS 9 transitional adjustment of £13 million;
- a dividend payment of £100 million paid to the Parent;
- additional tier 1 coupons of £24 million paid to the Parent; and
- an increase in other reserves of £4 million.

RWAs increased from £10.5 billion to £10.9 billion reflecting growth in the consumer portfolios, offset by the disposal of the credit card portfolio.

The Group's leverage ratio on a regulatory basis has increased from 6.6% to 6.9% at 31 December 2019 which is in excess of the Basel Committee minimum leverage requirement of 3% and the FPC minimum requirement of 3.25%. The European Commission has proposed the introduction of a binding leverage requirement of 3% as part of the CRD V package proposals. It will be applicable from 8 June 2021.

[1] *The profit after tax of the BOI UK regulatory groups is £96 million, compared to £97 million for the statutory group.*

3 Capital management *(continued)*

2018 Regulatory £m	2018 Fully loaded £m		2019 Regulatory[1] £m	2019 Fully loaded[2] £m
851	851	Ordinary share capital	255	255
566	566	Capital contribution and capital redemption reserve fund	266	266
208	208	Retained earnings	1,076	1,076
7	7	Other reserves	11	11
1,632	1,632	**Total equity**	**1,608**	**1,608**
(55)	(99)	**Regulatory adjustments**	**(24)**	**(55)**
(72)	*(72)*	*Deferred tax assets relying on future profitability*	*(30)*	*(30)*
(15)	*(15)*	*Intangible assets*	*(10)*	*(10)*
(6)	*(6)*	*Cashflow hedge reserve*	*(7)*	*(7)*
(6)	*(6)*	*Retirement benefit asset*	*(8)*	*(8)*
(-)	*(-)*	*Prudent valuation adjustment*	-	-
44	*(-)*	*IFRS 9 transitional adjustment*	*31*	-
1,577	1,533	**Common equity tier 1 capital**	**1,584**	**1,553**
		Additional tier 1		
300	300	Subordinated perpetual contingent conversion additional tier 1 securities	300	300
1,877	1,833	**Total tier 1 capital**	**1,884**	**1,853**
		Tier 2		
290	290	Dated loan capital	290	290
290	290	**Total tier 2 capital**	**290**	**290**
2,167	2,123	**Total capital**	**2,174**	**2,143**
10,522	10,550	**Total risk weighted assets (unaudited)**	**10,939**	**10,971**
27,335	27,377	**Total leverage ratio exposures (unaudited)**	**27,317**	**27,317**

On 4 June 2019 the UK High Court of Justice approved the Bank's application to reduce its share capital by £596 million from £851 million to £255 million, by means of a reduction in the nominal value of each share from £1 to £0.30, thereby increasing the distribution reserves and to cancel the capital redemption reserve of £300 million. These reductions gave rise to an increase of £896 million in retained earnings.

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

Governance

Directors and other information

Chairman
Mr. Robert Sharpe (RI) (A) (N) (RE)

Non-Executive Directors
Ms. Mimi Kung (RI) (N) (RE)
Mr. Philip Moore (RI) (A) (N) (RE)
Mr. John Baines (RI) (A)
Mr. Ian Buchanan (RI)
Ms. Jacqueline Noakes
Mr. Mark Spain (appointed 3 December 2019)

Executive Directors
Mr. Ian McLaughlin (appointed 2 December 2019)
Mr. Neil Fuller
Mr. Thomas McAreavey

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

Company Secretary
Hill Wilson Secretarial Limited

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

Registered Number
07022885

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

The Board of Directors

Robert Sharpe
Chair and Non-Executive Director

Term of Office:
Appointed in April 2016

Independent:
Yes

External Appointments
Chair and Non-Executive Director of Honeycomb Investment Trust Ltd
Chair and Non-Executive Director of Hampshire Trust Bank plc

Experience
Appointed Chair of Bank of Ireland (UK) plc in April 2016, bringing over 35 years of Senior Executive and Board experience to the role, primarily in Retail Banking.

Robert worked extensively in the Middle East, where he held several Non-Executive Directorships at banks in the UAE, Oman and Turkey. Prior to this, Robert led the transformation and turnaround at West Bromwich Building Society as Chief Executive Officer, having formerly been Chief Executive at the Portman Building Society and Chief Executive of Bank of Ireland's business in the UK. His previous Non-Executive Director roles include Barclays Bank Pension Board, Chair of Vaultex (UK) Ltd, George Wimpey plc, LSL Properties plc, the RIAS Group Ltd, Aldermore Bank plc and Al Rayan Bank plc.

Ian McLaughlin
Chief Executive Officer

Term of Office:
Appointed in December 2019

Independent:
No

External Appointments
None

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

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

Neil Fuller
Chief Risk Officer

Term of Office:
Appointed in October 2015

Independent:
No

External Appointments
None

Experience
Appointed Chief Risk Officer of Bank of Ireland (UK) plc in October 2015. Neil has over 35 years of retail banking experience, including roles as Chief Risk Officer for GE Capital UK and Chief Risk Officer / Risk Director for NatWest / RBS UK Retail Division. He has undertaken senior management roles in NatWest / RBS UK Retail Banking across Credit, Enterprise & Operational Risk and has 20 years' experience in front line retail banking roles. In 2018, he took on Executive responsibility for Culture, Inclusion & Diversity and Agility on behalf of the Group and undertook the role of Interim Chief Executive Officer for Bank of Ireland (UK) plc in 2019.

Neil is also a Director of First Rate Exchange Services Limited, the foreign exchange joint venture with the Post Office.

The Board of Directors *(continued)*

Thomas McAreavey
Chief Financial Officer

Term of Office:
Appointed in March 2017

Independent:
No

External Appointments
None

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

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

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

Term of Office:
Appointed in October 2018

Independent:
No

External Appointments
None

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

Mark Spain
Chief Strategy Officer
- Bank of Ireland Group plc

Term of Office:
Appointed in December 2019

Independent:
No

External Appointments
None

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

The Board of Directors *(continued)*

Mimi Kung
Non-Executive Director

Term of Office:
Appointed in November 2017

Independent:
Yes

External Appointments
Non-Executive Director at Poste Italiane
Non-Executive Director at Prysmian Group

Experience
Appointed to the Board of Bank of Ireland (UK) plc in November 2017 and member of the Nomination, Remuneration and Risk Committees. Mimi attended the Boston University School of Management (1998) and Oxford University (2003). Mimi has held various senior positions at American Express since 1995 including that of Chief Financial Officer of American Express Europe and, most recently, that of Senior Vice-President, Head of the "Card Services Central Europe & International Currency Cards" function, and country manager for Italy.

Philip Moore
Non-Executive Director

Term of Office:
Appointed in April 2018

Independent:
Yes

External Appointments
Trustee and Chair of the Finance Committee of the Royal British Legion
Non-Executive Director of Codan A/S and Codan Forsikring A/S

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

The Board of Directors *(continued)*

John Baines
Non-Executive Director

Term of Office:
Appointed in May 2018

Independent:
Yes

External Appointments
Non-Executive Director at State Bank of India (UK) Ltd
Chair and Non-Executive Director at Distribution Finance Capital Ltd
Non-Executive Director at Interactive Investor Limited (and its subsidiary Alliance Trust Savings Ltd.)

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

Ian Buchanan
Non-Executive Director

Term of Office:
Appointed in September 2018

Independent:
No

External Appointments
Non-Executive Director of Openworks Holdings Ltd.

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

Corporate Governance Arrangements 2019

A. The Board
The Board is responsible for ensuring the business is able to take decisions, operate independently and run in a way that promotes the long term success of the Group, creating and delivering sustainable value. The Group has independent governance arrangements which take account of industry best practice.

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 has established a set of matters reserved for the Board and an annual rolling agenda to ensure control over key decision making. In the course of 2019, the Board reviewed and approved a number of strategic initiatives including an extension to the Group's long term financial services partnership with the UK Post Office, the annual operating plan, capital and liquidity assessments, provided oversight of the culture programme and the customer plan, and played a key role in all material decisions. During 2019 the Board met 10 times.

The Board comprises a mix of Executive Directors; independent Non-Executive Directors; and Non-Executive Directors from the Parent. The Board considers a Board size of 10 Directors appropriate to meet the requirements of the business and allows for a good balance between having the full range of skills necessary on the Board, and to populate its committees and retain a sense of accountability by each Director for Board decisions.

B. Board Committees
The Board is assisted in the discharge of its duties by a number of Board committees, whose purpose it is to consider, in greater depth than would be practicable at Board meetings, matters for which the Board retains responsibility. The Board is supported by the following Committees:

Board Audit Committee
The Committee is comprised of independent Non-Executive Directors, and is chaired by John Baines.

Meetings are attended by management, at the invitation of the Committee Chairman, including the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor and the Group's external auditors.

The principal role and responsibilities of the Committee are set out in its terms of reference. Overall, the Committee monitors the integrity of the financial statements, oversees all relevant matters pertaining to the external auditors and reviews the Group's internal controls, including financial controls, and the effectiveness of the internal audit function. The Committee met five times in 2019. The Terms of Reference for this Committee can be found here (https://www.bankofirelanduk.com/about/corporate-governance/documents/).

Board Nomination Committee
The Committee is comprised of independent Non-Executive Directors, and is chaired by Robert Sharpe.

Meetings are attended by management, at the invitation of the Committee Chairman, including the Chief Executive Officer and Human Resources Director.

The principal role and responsibilities of the Committee are set out in its terms of reference. Responsibility has been delegated by the Board to the Nomination Committee for ensuring an appropriate balance of experience, skills and independence on the Board. Non-Executive Directors are appointed so as to provide strong, effective leadership and appropriate challenge to Executive management. It is responsible for leading the process for Board, Board committee and senior management appointments and renewals. The Committee regularly reviews succession plans for the Board, and the senior management team, and makes appropriate recommendations to the Board. The Committee met five times in 2019. The Terms of Reference for this Committee can be found here (https://www.bankofirelanduk.com/about/corporate-governance/documents/).

Board Remuneration Committee
The Committee is comprised of independent Non-Executive Directors and is chaired by Philip Moore.

Meetings are attended by management, at the invitation of the Committee Chairman, including the Chief Executive Officer and Human Resources Director.

The principal role and responsibilities of the Committee are set out in its terms of reference and include delegated responsibility for setting remuneration strategy and policy for Executive Directors and senior management. The Committee met three times in 2019. The Terms of Reference for this Committee can be found here (https://www.bankofirelanduk.com/about/corporate-governance/documents/).

Board Risk Committee
The Committee is comprised of independent directors (including one from the Parent). Meetings are attended by management, at the invitation of the Committee Chair, including the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Chief Internal Auditor.

The principal role and responsibilities of the Committee are set out in its terms of reference. Overall the Committee monitors risk governance and assists the Board in discharging its responsibilities in ensuring that risks are properly identified, reported, assessed, and controlled and that strategy is cognisant of the Group's risk appetite. The Committee met seven times in 2019. The Terms of Reference for this Committee can be found here (https://www.bankofirelanduk.com/about/corporate-governance/documents/).

The Board Risk Committee is supported by the Executive Risk Committee (ERC), which is chaired by the Chief Risk Officer. The ERC membership comprises members of the Executive Committee and Senior Executives.

C. Board Governance and Policies
The Board is accountable to its shareholder for the overall direction and control of the Company. It is committed to high standards of governance designed to protect the interests of its shareholder 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 Arrangements 2019 *(continued)*

The Board is provided with various technical and business training sessions during the course of the year.

The Group ensures that individual Directors of the Board have sufficient time to dedicate to their duties, having regard to applicable regulatory limits on the number of directorships held by any individual Director.

D. Board Diversity by Gender and Independence 2019
The Board recognises and embraces the benefits of diversity among its own members, including diversity of skills, experience, background, gender and other qualities and is committed to achieving the most appropriate blend and balance of diversity possible over time. The Board has retained its gender diversity target of 33% of female Directors by the end of 2022.

E. Nomination Procedures
The Board is committed to identifying the people best qualified and available to serve on the Board and is responsible for the appointment of Directors. On the recommendation of the Nomination Committee the Board regularly reviews board composition, tenure and succession planning. In accordance with the Board Diversity Policy, which is available here (https://www.bankofirelanduk.com/about/corporate-governance/documents/), all appointments are made on merit against objective criteria (including the skills and experience the Board as a whole requires to be effective) with due regard for the benefits of diversity on the Board. Upon appointment, each Director receives a detailed and tailored induction, including a briefing on directors' duties.

Prior to the appointment of a Director, the Nomination Committee assesses the time commitment involved and identifies the skills and experience required for the role, having regard to Board succession planning. The recruitment process for Non-Executive Directors is supported by an experienced third party professional search firm which develops an appropriate pool of candidates and provides independent assessments of the candidates. The Nomination Committee then shortlists candidates, conducts interviews and completes comprehensive due diligence. The Nomination Committee then makes a recommendation to the Board.

During 2019, the Nomination Committee reviewed and updated its Director Assessment Policy and Board Diversity Policy.

F. Corporate Governance Arrangements
The Group has adopted the Wates Principles of Corporate Governance for Large Private Companies as its preferred corporate governance code. While the Parent fully complies with the UK Corporate Governance Code 2018 (in addition to a number of other codes of corporate governance), the Wates Principles are complementary to the governance arrangements of the Parent, and compliance with the Wates Principles for large private companies by the Group has been consistent with Bank of Ireland Group good governance practice. In 2019, in order to comply with the Principles, the Group carried out the following activities:

Principle 1: Purpose and leadership
- The Bank of Ireland Group has adopted the following purpose: "Enabling our customers, colleagues and communities to thrive", and requires management to operate within it.
- The Audit Committee leads on the establishment of transparent policies in relation to raising concerns about misconduct and unethical practices (Speak-Up).
- The Board engages with customers and employees using offsite visits to relay the Group's stated purpose and discusses any issues or items of concern directly with them. The NEDs then discuss their views and observations with the rest of the Board. Processes for engagement with customers and employees are kept under review to ensure they remain effective.
- The Board regularly reviews its material suppliers and outsourcing arrangements, and works to ensure compliance with the General Outsourcing Requirements of the FCA Handbook (SYSC 8).
- The Group has adopted the following Bank of Ireland Group wide values:
    - Customer focused: we understand our customers well. We listen to them to ensure they feel valued. We 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.
    - Accountable: we are empowered to take ownership and trusted to do the right thing to support our customers, employees 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.
    - 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.
- The Group's strategic priorities are consistent with those of the Parent:
    - Transform the Bank by improving culture, systems and business model;
    - Serve customers brilliantly; and
    - Grow sustainable profits through growing our revenue and optimising our cost base.
- The Group has deployed a number of ways to communicate its purpose and values including holding values in actions workshops and working to integrate its values into the wider people strategy.

Principle 2: Board composition
- The roles of the Chairman and CEO are separate to ensure a balance of power and effective decision-making.
- A Board Diversity Policy is in place to support appointments to the Board and succession planning. The policy includes targets and aspirations promoted by Government and industry initiatives.
- The Nomination Committee regularly considers the Board size and structure so that it is appropriate to meet the strategic needs and challenges of the Company and enables effective decision-making.

Corporate Governance Arrangements 2019 *(continued)*

- Each year the Board reviews its effectiveness (including committee effectiveness) and seeks to find ways to improve its operation. It is the Board's practice to have an external review every three years.

Principle 3: Director responsibilities
- The Nomination Committee has adopted an internal governance policy which governs the internal affairs of the Company.
- The Board has adopted terms of reference that sets out matters reserved for the Board.
- The Board has adopted a Conflicts of Interest Policy setting out how conflicts should be identified and managed at Board level.
- Board papers and supporting information are accurate, clear, comprehensive and up to date; papers contain a broad range of information sources; a summary of the contents; inform the Directors what is expected of them on each issue; and wherever possible are issued in good time ahead of Board meetings.

Principle 4: Opportunity and risk
- The Board holds Strategy Days for the identification of future opportunities for innovation and entrepreneurship.
- There is a Board approved Risk Appetite Statement.
- The Board has a process for ensuring that new business opportunities of a certain value are considered and approved at Board level.
- 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 the same. For further details on the main features of the internal control and risk management systems, refer to the Risk Governance Report.
- The Board has an agreed approach to reporting, including frequency of reporting and the points at which decisions are made and escalated

Principle 5: Remuneration
- The Remuneration Committee takes a broad view of pay and conditions across the Group during all its deliberations and decision making.
- The Remuneration Committee oversees the annual review of the Group Remuneration Policy.
- Remuneration for all employees and Directors are aligned with performance, behaviours, and the achievement of company purpose, values and strategy.
- The Bank of Ireland Group Remuneration Committee is responsible for the oversight of the 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 Bank of Ireland Group's risk profile.
- The Bank of Ireland Group is currently operating under a number of remuneration restrictions, which cover all Directors, senior management, employees and certain service providers across the Bank of Ireland Group. For further information, refer to the Remuneration Report of the Bank of Ireland Group plc.

Principle 6: Stakeholders relationships and engagement
- The Board notes the accountable executives responsible for each of its main stakeholders. In this respect, the Senior Manager and Certification Regime in the UK has driven greater accountability of responsibilities.
- Senior management teams from each of the strategic partnerships of the Group attend Board meetings regularly to present business updates.
- Talent and visibility sessions for managers in the layers below the Executive Committee are held regularly.
- A Customer Board has been established to identify challenges, opportunities, and to ensure that the Group delivers its customer plan.
- Annual Board site visits are held in key locations and include customer and employee immersion sessions for all Directors.
- Employees have access to a Speak-Up Policy, and are actively encouraged to report any concerns or worries, either internally or externally via confidential, externally facilitated advice line. The Board monitors these reports and follows up actions regularly through the Audit Committee.
- Employees are actively involved in fundraising and volunteering in charitable events across the UK for the flagship charity, the Alzheimer's Society and a range of other local charities and community projects.
- Give Together is the Group's charity and community initiative, through which employees lend their support to their nominated charities by fundraising, volunteering and making donations.
- The Group continues to support a wide range of Northern Ireland based community, business and sporting activities through sponsorship each year.

Report of the Directors

The Directors of the Group present their consolidated audited report and financial statements for the year ended 31 December 2019. The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, in accordance with the provisions of the Companies Act 2006. Directors are listed in the Governance section on pages 59 to 62. The Group's structure is set out in note 44 to the financial statements and the future developments of the Group are incorporated in the strategic report.

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

Financial performance
The Group's profit for the year ended 31 December 2019 was £97 million (2018: £151 million). There was no profit or loss attributable to non-controlling interests for the year ended 31 December 2019 (2018: £nil). An analysis of performance is set out in the strategic report on pages 7 to 12.

Dividends
On 24 October 2019 a dividend payment of £100 million was paid to the Parent.

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

- Myles O'Grady, Non-Executive, 9 July 2019;
- Mark Spain, Non-Executive, 3 December 2019; and
- Ian McLaughlin, Executive, 2 December 2019.

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

- Donal Collins, Non-Executive, 1 May 2019;
- John Maltby, Non-Executive, 30 August 2019;
- Des Crowley, Executive, 31 October 2019; and
- Myles O'Grady, Non-Executive, 17 December 2019.

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

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

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

Risk management
The Group's principal risks and uncertainties are discussed in the strategic report on pages 23 to 29.

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

Employees
For the year ended 31 December 2019, the Group had an average of 277 direct employees (2018: 318 direct employees) and 384 employees (2018: 406 employees) who work under long-term secondment arrangements from the Parent.

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

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

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

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

Political donations
No political donations were made during the year ended 31 December 2019 or in the year ended 31 December 2018.

Voting Rights
Voting at any general meeting is by a show of hands or by poll. The Annual General Meeting of the Group is scheduled to take place on 24 March 2020, and a copy of the Notice of the Meeting will be available on the Group's website when it is issued. The Group is a wholly owned subsidiary of the Governor and Company of the Bank of Ireland. Details of the Parent's shareholding can be found in the Notes to the Accounts in note 36.

Going concern
The Directors have considered the appropriateness of the going concern basis in preparing the financial statements, for the year ended 31 December 2019, on page 82 which forms part of the Report of the Directors.

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

Post balance sheet events
These are described in note 47 to the financial statements.

Financial Statements

Statement of Directors' Responsibilities

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

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

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

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

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

Audit confirmation
In accordance with Section 418 of the Companies Act 2006, the Directors Report shall include a statement in the case of each Director in office at the date the Director's report is approved, that:
(a) So far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
(b) He / she has taken all the steps that he / she ought to have taken as a Director in order to make himself / herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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

Thomas McAreavey
Director
2 March 2020

Company Number: 07022885

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

1. Our opinion is unmodified

We have audited the financial statements of the Bank of Ireland (UK) plc ("the Bank") and its subsidiaries ("the Group") for the year ended 31 December 2019 which comprise the consolidated and Bank balance sheets, consolidated and Bank income statements, consolidated and Bank statements of other comprehensive income, consolidated and Bank statements of changes in equity, consolidated cash flow statement and the related notes, including the accounting policies in note 1.

In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 December 2019 and of the Group's and Bank's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Bank financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

We were first appointed as auditor by the Directors on 1 May 2018. The period of total uninterrupted engagement is for the two financial years ended 31 December 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality Group financial statements as a whole		**£8.0 million (2018: £8.9 million)** 4.8% of profit before tax from continuing operations
Coverage		98% of group profit before tax
Key audit matters		**vs 2018**
Recurring risks	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
	Expected credit losses under IFRS 9 *Financial Instruments* (IFRS 9) on loans and advances to customers	◀▶
	Revenue Recognition – Impact of prepayment estimates on the determination of the effective interest rate on mortgages and fair value unwind on the acquired mortgage portfolio	◀▶
	The impact of IT access controls on the effectiveness of the control environment	◀▶
New risk	Recoverability of deferred tax assets	n/a

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

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

Key audit matter		Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 26 (principal risks) This is relevant to both the Group and Bank financial statements	**The risks** Unprecedented levels of uncertainty All audits assess and challenge the reasonableness of estimates, in particular as described in the expected credit losses under IFRS 9, revenue recognition and the recoverability of the deferred tax asset and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels ofuncertainty of consequences, with the full range of possible effects unknown.	**Our procedures included:** We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. • **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks. • **Sensitivity analysis:** When addressing expected credit losses under IFRS 9, revenue recognition and the recoverability of the deferred tax asset and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted at a rate other than the original effective interest rate, considered adjustments to discount rates for the level of remaining uncertainty. • **Assessing transparency**: As well as assessing individual disclosures as part of our procedures on expected credit loss under IFRS 9, revenue recognition and the recoverability of the deferred tax asset and going concern, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results:** As reported under expected credit losses under IFRS 9, revenue recognition and the recoverability of the deferred tax asset, we found the resulting estimates and related disclosures of the changes in estimate that occurred during the period and the sensitivity disclosures and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Key audit matter		Our response
Expected credit losses under IFRS 9 on loans and advances to customers £146 million and £131 million for Group and Bank respectively (2018: £159 million and £149 million) Refer to pages 86–88 (accounting policy) and pages 97–98 (critical accounting estimates and judgements) and pages 112–132 (financial disclosures) This is relevant to both the Group and Bank financial statements	**The risk** The calculation of the IFRS 9 expected credit loss (ECL) allowance involves a number of complex, judgemental and highly sensitive assumptions. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's and Bank's financial statements are: **Model estimations** The calculation of ECLs uses complex and inherently judgemental modelling techniques, in particular the Probability of Default (PD) models which are key drivers of the Group's and Bank's ECL calculation and therefore one of the most significant judgemental aspects of the impairment allowance on loans and advances to customers. **Economic scenarios and related post model adjustments** Economic scenarios have a direct impact on the proportion of the loans in stage 2, certain stage 3 loans and the resultant ECL (most significant for mortgage loans). In addition, to address known impairment model limitations and/or emerging trends (most significantly Brexit and UK economic uncertainty), management raised a post model adjustment for the mortgage loans modelled ECL and therefore one of the most significant judgemental aspects of the ECL. **Stage 3 loans expected credit loss** The estimation of the ECLs involves the application of significant judgement in the determination of the realisable cash flows from recovery strategies. These are most significant for the Business Banking loans. The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	The Bank of Ireland Group plc (Parent) adopts a centralised approach to modelling ECL, thus our work was performed in conjunction with the auditors of the Parent (Parent auditors). **Our procedures included:** • **Controls testing:** We performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL processes, utilising the work performed by the Parent auditors where the process is centralised. The Parent auditors also tested the general IT controls over key systems used in the process to provide data and calculate the ECL provisions as well as tested relevant IT access and change controls including controls over the model storage applications. Key aspects of our controls testing involved the following: - For the relevant portfolios, testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key data elements into the IFRS 9 impairment models; - Evaluating controls over the modelling process, including model monitoring, validation and approval; - Testing key controls relating to selection and implementation of material economic variables and the controls over the scenario selection and probabilities; and - Evaluating controls over model outputs and authorisation and review of post model adjustments. • **Financial risk modelling expertise:** For the relevant portfolios examined, the Parent auditors involved specialists to assist in evaluating the appropriateness and accuracy of the IFRS 9 models. • **Other tests of details:** Key aspects of testing performed by the Parent auditors and our team involved: - Sample testing over key data elements impacting ECL calculations; - Involving our economic specialists to assess the reasonableness of the economic forecasts and weights applied; - Reperforming key aspects of the Group's SICR calculations and selecting samples of financial instruments to determine whether a SICR was appropriately identified; - Reperforming key elements of model calculations and assessing backtesting results; - Evaluating post model adjustments and management overlays in order to assess the reasonableness of the adjustments by challenging key assumptions and inspecting the calculation; and - For a sample of stage 3 Business Banking loans, where relevant, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment allowance and challenged the assumptions through comparing estimates to external support where available. Where appropriate, this work involved considering third party valuations of collateral, internal valuation guidelines derived from benchmark data and/or externally prepared reports in assessing the valuation methodologies. In respect of both controls and tests of detail performed by Parent auditors, we were involved in the planning of their work, we had regular discussions throughout the audit and have reviewed the work that they have performed. Our review of the Parent auditors work included reviews performed by financial risk modelling and economic specialists. • **Assessing transparency**: We assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the expected credit losses. As a part of this, we assessed the sensitivity analysis that is disclosed. In addition, we assessed whether the disclosure of the key judgements and assumptions made was sufficiently clear. **Our results:** We consider the ECL charge and provision to be acceptable.

Key audit matter		Our response
Revenue Recognition Impact of prepayment estimates on the determination of the effective interest rate on mortgages and fair value unwind on the acquired mortgage portfolio *Effective interest rate adjustment to interest income:* £13 million (2018: £27million) *Fair value unwind:* £26 million (2018: £41 million) *Refer to page 84 (accounting policy), page 100 (critical accounting estimates and judgements) and page 101 financial disclosures)* This is relevant to both the Group and Bank financial statements	**The risk** Interest earned and fees earned and incurred on loans and advances to customers are recognised using the effective interest rate (EIR) method that spreads directly attributable expected income over the expected lives of the loans. This requires management to apply judgement in estimating the expected lives of the mortgage portfolios. This judgement is informed by past customer behaviour of when loans are repaid, with the EIR balance and amount recognised in the Income Statement being highly sensitive to minor changes in assumptions. In recent years, mortgage prepayment trends have varied significantly across the UK mortgage market although the key trend has been towards reducing expected lives. As such, we identified greater levels of management judgement and have placed increased levels of audit focus on these assumptions for the originated mortgage portfolio. These assumptions impact both the acquired mortgage portfolio, as this was acquired at a discount, with any change in the expected life requiring the discount to be adjusted and spread over the remaining expected life, and the portfolio which has been originated since the incorporation of the Bank. The expected life assumptions utilise repayment profiles which represent how customers are expected to repay. The effect of these matters is that, as part of our risk assessment we determined the impact of prepayment estimates has a high degree of estimation uncertainty, with a potential range of reasonable outcomes that could be greater than our materiality in the estimation of the EIR balance and unwinding of the fair value on the acquired mortgage portfolio.	**Our procedures included:** • **Controls testing:** We performed an end to end process walkthrough to identify the key applications and process controls. We tested design, implementation and operating effectiveness of key controls relating to authorisation and review of management assumptions regarding EIR assets and liabilities. **Test of details:** - We critically assessed the expected customer lives and methodology used to make the estimate against our own knowledge of industry experience and trends, as well as independently modelling the redemption curve used by the Bank for originated mortgages only. - We performed sensitivity analysis using parameters determined by us for judgemental assumptions, including expected customer lives, to critically assess which of these the EIR asset is most sensitive to. - We tested the accuracy of the inputs to the EIR model by agreeing back to source systems. - We reviewed the fees included and excluded from the EIR model to ensure compliance with accounting standards. - We engaged our modelling specialists to assess the model methodology. - We also considered the adequacy of the Bank's disclosures about the changes in estimate that occurred during the period and the sensitivity disclosures across the key loan portfolios. **Our results:** We consider the EIR adjustments to be acceptable.
Recoverability of the deferred tax asset Risk of error relating to the recognition and measurement of deferred tax assets £45 million and £40 million for the Group and Bank respectively (2018: £90 million and £83 million) *Refer to pages 94–95 (accounting policy), pages 98–99 (critical accounting estimates and judgements) and pages 138–139 (financial disclosures)* This is relevant to both the Group and Bank financial statements	**The risk** The recoverability of the deferred tax asset (DTA) relies on judgements relating to the probability, timing and sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions, business performance and current legislation governing the use of historical trading losses carried forward. The amount of the Bank's annual taxable profits that can be offset by trading losses carried forward is restricted to 25%. The impact of this legislation is that it increases the period over which the DTA is realised. Given the level of estimation uncertainty from such a period, management has restricted the recoverability of the DTA to 10 years this year. The recoverability of the DTA is most sensitive to the changes in the five year initial planning period. The effect of these matters is that, as part of our risk assessment, we determined that the recoverability of the deferred tax asset has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	**Our procedures included:** • **Controls testing:** We evaluated and tested the design and implementation of key controls over the determination and approval of the forecast taxable profits used to support the recognition of the deferred tax assets. **Test of details:** - We assessed management's ability to estimate future taxable income, considering past performance versus past projections. - We challenged the reasonableness of management's assumptions and compared them against our knowledge of the industry outlook and our understanding of the Group's strategy and the wider economy. - We engaged our tax specialists to assess the accuracy of the deferred tax calculations. - We assessed the adequacy and transparency of the disclosures in relation to the assumptions and judgements around the estimation of forecast cash flows and determination of the deferred tax asset. **Our results:** We consider the recognition and recoverability of the deferred tax asset to be acceptable.

Key audit matter		Our response
The impact of IT access controls on the effectiveness of the control environment This is relevant to both the Group and Bank financial statements	**The risk** 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 common with many UK banks, the Group has been improving its IT user access controls in recent years. The Parent Group has an ongoing risk management programme in place to identify, rate, mitigate and report on risk including user access controls. 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. In particular we consider IT user access management controls to be critical in ensuring that only approved changes to applications and underlying data are authorised and made appropriately. 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.	The Parent adopts a centralised approach to IT access controls, thus our work has been performed in conjunction with the Parent auditors. **Our procedures included:** • **Controls testing:** - 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 evaluated the design and operating effectiveness of the controls over the continued integrity of the IT systems that are relevant to financial reporting. - 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. **Test of details:** - Where IT controls could not be relied upon, we conducted additional tests of detail and where relevant, we determined whether compensating controls were effective mitigates for any design or operating deficiencies. - In respect of both controls and tests of detail performed by Parent auditors, we were involved in the planning of their work, we have had regular discussions throughout the audit and have reviewed the work that they have performed. **Our results:** 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.

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

Materiality for the Group financial statements as a whole was set at £8.0 million (2018: £8.9 million), determined with reference to a benchmark of Group profit before tax from continuing operations, normalised to exclude the effects of strategic portfolio divestments as disclosed in the strategic report on pages 7 and 8 and notes 13 and 21 which are non-recurring (2018: benchmark of profit before tax), of which it represents 4.8% (2018: 5%). Materiality for the Bank financial statements as a whole was set at £7.6 million (2018: £8.3m), determined with reference to a benchmark of profit before tax from continuing operations, normalised to exclude the effects of strategic portfolio divestments as disclosed in the strategic report on pages 7 and 8 and notes 13 and 21 which are non-recurring (2018: benchmark of profit before tax) of which it represents 4.9% (2018: 5%).

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

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

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

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

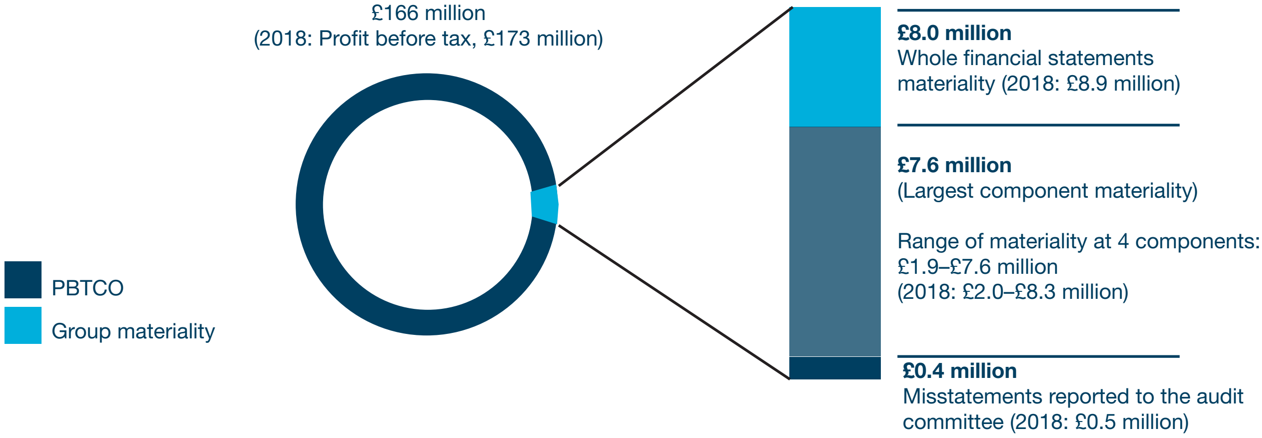
The components for which we performed work other than audits for Group reporting purposes were not individually significant but were included in the scope of our Group reporting work in order to provide further coverage over the group's results.

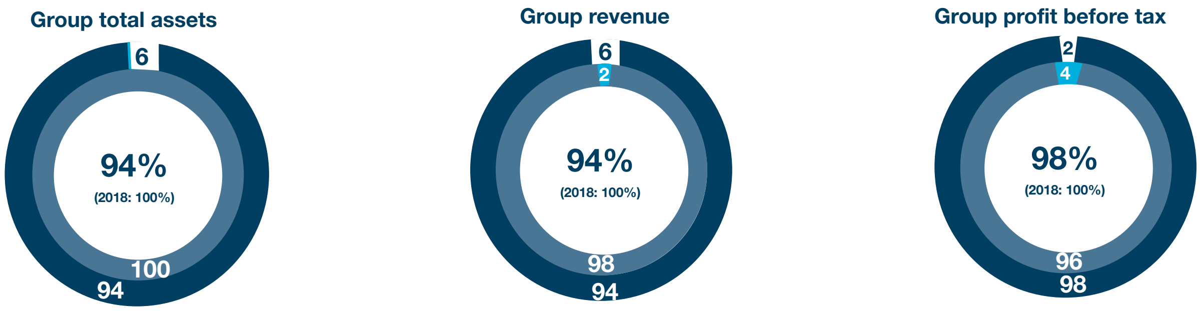
The Group audit team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £1.9 million to £7.6 million, having regard to the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

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

Profit before tax from continuing operations (PBTCO)
£166 million
(2018: Profit before tax, £173 million)

Group Materiality
£8.0 million (2018: £8.9 million)





Full scope for group audit purposes (2019)
Specified risk-focused audit procedures (2019)
Full scope for group audit purposes (2018)
Specified risk-focused audit procedures (2018)
Residual components (in any year)

4. We have nothing to report on going concern

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

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Bank will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Bank's and Group's business model and analysed how those risks might affect the Bank's and Group's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Bank's and Group's available financial resources over this period were:

- availability of funding and liquidity in the event of a market wide stress scenario including the impact of Brexit, and
- impact on regulatory capital requirements in the event of an economic slowdown or recession.

As these were risks that could potentially cast significant doubt on the Bank's and the Group's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Bank's and Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the strategic report and the Directors' report

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

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

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

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

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

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

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 67, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, 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.

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

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the Directors and other management (as required by auditing standards), from inspection of the Group's regulatory and legal correspondences and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

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

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related Group financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Group financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering, sanctions list and financial crime, recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Group financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the Group financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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

J Bingham

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

2 March 2020

Financial Statements

Income statement *(for the year ended 31 December 2019)*

	Note	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Interest income calculated using the effective interest method	3	624	630	653	656
Interest income on finance leases and hire purchase receivables	3	82	65	-	-
Total interest income		**706**	**695**	**653**	**656**
Interest expense	4	(225)	(187)	(223)	(188)
Net interest income		**481**	**508**	**430**	**468**
Other leasing income	5	54	46	-	-
Other leasing expense	5	(46)	(37)	-	-
Net leasing income		**8**	**9**	**-**	**-**
Fee and commission income	6	95	104	95	103
Fee and commission expense	6	(89)	(110)	(89)	(109)
Net trading income / (expense)	7	4	5	4	5
Other operating income	8	2	9	54	72
Total operating income		**501**	**525**	**494**	**539**
Operating expenses	9	(317)	(351)	(298)	(332)
Operating profit before impairment charges on financial assets		**184**	**174**	**196**	**207**
Net impairment losses on financial instruments	11	(40)	(34)	(32)	(32)
Operating profit		**144**	**140**	**164**	**175**
Share of profit after tax of joint venture	12	30	33	-	-
Loss on disposal of business activities	13	(19)	-	(19)	-
Profit before taxation		**155**	**173**	**145**	**175**
Taxation charge	14	(58)	(22)	(51)	(17)
Profit for the year		**97**	**151**	**94**	**158**

Statement of other comprehensive income *(for the year ended 31 December 2019)*

	Note	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Profit for the year		**97**	**151**	**94**	**158**
Items that may be reclassified to profit or loss in subsequent periods					
Net change in cash flow hedge reserve (net of tax)[1]		1	(17)	1	(17)
Total items that may be reclassified to profit or loss in subsequent periods		**1**	**(17)**	**1**	**(17)**
Items that will not be reclassified to profit or loss in subsequent periods					
Net actuarial (loss) / gain on defined benefit schemes[2]	33	1	(1)	-	-
Net change in revaluation reserve, net of tax		1	1	1	1
Total items that will not be reclassified to profit or loss in subsequent periods		**2**	**-**	**1**	**1**
Other comprehensive expense for the year, net of tax		**3**	**(17)**	**2**	**(16)**
Total comprehensive income for the year, net of tax		**100**	**134**	**96**	**142**

[1] *Net of tax charge £0.4 million (2018: credit £6 million).*
[2] *Net of tax £nil million (2018: £0.1 million).*

Balance sheet *(as at 31 December 2019)*

	Note	Group **2019** **£m**	Group 2018 £m	Bank **2019** **£m**	Bank 2018 £m
Assets					
Cash and balances at central banks	15	2,134	2,567	2,134	2,567
Items in the course of collection from other banks		144	168	144	168
Derivative financial instruments	16	41	32	41	32
Loans and advances to banks	17	2,158	2,348	1,935	2,331
Debt securities at amortised cost	18	846	915	846	915
Loans and advances to customers	19	21,200	19,703	21,321	19,860
Assets classified as held for sale	21	-	539	-	539
Investment in subsidiaries		-	-	8	8
Interest in joint venture	22	64	62	2	2
Intangible assets and goodwill	23	48	54	9	14
Property, plant and equipment	24	138	117	41	24
Other assets	25	111	102	107	97
Deferred tax assets	26	41	85	36	80
Retirement benefit asset	33	9	8	-	-
Total assets		**26,934**	**26,700**	**26,624**	**26,637**
Equity and liabilities					
Deposits from banks	27	3,500	3,152	3,496	3,148
Customer accounts	28	19,075	19,769	19,192	19,824
Items in the course of transmission to other banks		95	106	95	106
Derivative financial instruments	16	59	43	59	43
Debt securities in issue	29	607	-	300	-
Current tax liabilities		3	4	1	2
Other liabilities	30	1,272	1,318	1,253	1,298
Lease liabilities	46	20	-	20	-
Provisions	31	30	7	30	6
Loss allowance provision on loan commitments and financial guarantees	32	3	7	3	7
Subordinated liabilities	34	290	290	290	290
Total liabilities		**24,954**	**24,696**	**24,739**	**24,724**
Equity					
Share capital	36	255	851	255	851
Retained earnings		1,149	279	1,054	188
Other reserves		276	574	276	574
Other equity instruments	38	300	300	300	300
Total equity attributable to owners of the Bank		**1,980**	**2,004**	**1,885**	**1,913**
Total equity and liabilities		**26,934**	**26,700**	**26,624**	**26,637**

The financial statements on pages 76 to 164 were approved by the Board on 2 March 2020 and were signed on its behalf by:

Thomas McAreavey

Thomas McAreavey
Director
2 March 2020

Company Number: 07022885

Statement of changes in equity *(for the year ended 31 December 2019)*

		Group		Bank	
	Note	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Share capital					
Balance at 1 January		851	851	851	851
Reduction in share capital transferred to retained earnings	37	(596)	-	(596)	-
Balance at 31 December		**255**	**851**	**255**	**851**
Retained earnings					
Balance at 1 January		279	217	188	118
Profit for the year attributable to equity holders of the Bank		97	151	94	158
Dividend on ordinary shares		(100)	(70)	(100)	(70)
Distribution on other equity instruments - Additional tier 1 coupon[1]		(24)	(18)	(24)	(18)
Transferred from share capital	37	596	-	596	-
Transferred from capital redemption reserve fund	37	300	-	300	-
Remeasurement of the net defined benefit pension liability		1	(1)	-	-
Balance at 31 December		**1,149**	**279**	**1,054**	**188**
Other equity instruments					
Balance at 1 January		300	300	300	300
Balance at 31 December		**300**	**300**	**300**	**300**
Other reserves:					
Revaluation reserve - property					
Balance at 1 January		2	1	2	1
Revaluation of property		1	1	1	1
Balance at 31 December		**3**	**2**	**3**	**2**
Cash flow hedge reserve					
Balance at 1 January		6	23	6	23
Changes in fair value		7	(11)	7	(11)
Transfer to income statement (pre tax)		(6)	(12)	(6)	(12)
Deferred tax on reserve movements[2]		-	6	-	6
Balance at 31 December		**7**	**6**	**7**	**6**
Capital contribution					
Balance at 1 January		266	266	266	266
Balance at 31 December		**266**	**266**	**266**	**266**
Capital redemption reserve fund					
Balance at 1 January		300	300	300	300
Transferred to retained earnings	37	(300)	-	(300)	-
Balance at 31 December		**-**	**300**	**-**	**300**
Total other reserves		**276**	**574**	**276**	**574**
Total equity		**1,980**	**2,004**	**1,885**	**1,913**
Included in the above:					
Total comprehensive income attributable to owners of the Bank		100	134	96	142
Total comprehensive income for the year		**100**	**134**	**96**	**142**

[1] *The Additional tier 1 coupon paid to the Parent was £24 million in 2019 and 2018. The 2019 coupon is presented gross, with the related tax shown in the income statement, while the 2018 coupon is presented in equity net of the related tax of £6 million (comprising £5 million related to current tax and £1 million relating to deferred tax).*

[2] *Deferred tax is £0.4 million for the year ended 31 December 2019.*

Consolidated cash flow statement *(for the year ended 31 December 2019)*

	Note	2019 £m	2018 £m
Cash flows from operating activities			
Profit before taxation		155	173
Interest expense on subordinated liabilities and other capital instruments	4	14	13
Interest expense on lease liabilities	46	1	-
Depreciation and amortisation	9,18, 26	38	31
Loss on disposal of business activities	13	19	-
Net impairment (gains) / losses on financial instruments	11	40	34
Share of results of joint venture	12	(30)	(33)
Net change in prepayments and interest receivable	25	-	10
Net change in accruals and interest payable	30	38	9
Charge for provisions	31	-	5
Other non-cash items		6	10
Cash flows from operating activities before changes in operating assets and liabilities		**281**	**252**
Net change in items in the course of collection to / from banks		13	22
Net change in derivative financial instruments		(9)	(36)
Net change in loans and advances to banks		363	350
Net change in loans and advances to customers including assets classified as held for sale[1]		(1,486)	(327)
Net change in deposits from banks		348	(409)
Net change in customer accounts		(699)	807
Net change in debt securities in issue		607	-
Net change in provisions		(10)	(11)
Net change in retirement benefit obligation		(1)	(2)
Net change in other assets and other liabilities		(91)	70
Net cash flow from operating assets and liabilities		**(965)**	**464**
Net cash flow from operating activities before taxation		**(684)**	**716**
Taxation paid		(14)	(13)
Net cash flow from operating activities		**(698)**	**703**
Investing activities (section (a) - see next page)		582	78
Financing activities (section (b) - see next page)		(143)	(107)
Net change in cash and cash equivalents		**(259)**	**674**
Opening cash and cash equivalents		4,314	3,640
Closing cash and cash equivalents	15	**4,055**	**4,314**

[1] *Exclusive of the net cash proceeds on disposal of the credit cards portfolio which is presented within investing activities.*

Consolidated cash flow statement *(for the year ended 31 December 2019) (continued)*

	Note	2019 £m	2018 £m
(a) Investing activities			
Disposal of business activities		516	-
Additions to debt securities at amortised cost	18	(242)	(156)
Disposal / redemption of debt securities at amortised cost	18	309	232
Dividends received from joint venture	22	28	33
Additions to intangible assets	23	(1)	-
Additions to property, plant and equipment	24	(46)	(43)
Disposal of property, plant and equipment		18	12
Cash flows from investing activities		**582**	**78**
(b) Financing activities			
Dividend paid on ordinary shares	42	(100)	(70)
Additional tier 1 coupon paid	42	(24)	(24)
Interest paid on subordinated liabilities	4	(14)	(13)
Payment of lease liability	46	(5)	-
Cash flows from financing activities		**(143)**	**(107)**

Notes to the Financial Statements

Index		Page
1	Accounting policies	82
2	Critical accounting estimates and judgements	97
3	Interest income	101
4	Interest expense	101
5	Other leasing income and expense	101
6	Fee and commission income and expense	102
7	Net trading income / (expense)	103
8	Other operating income	103
9	Operating expenses	103
10	Auditors' remuneration	104
11	Net impairment losses / (gains) on financial instruments	104
12	Share of profit after tax of joint venture	104
13	Loss on disposal of business activities	104
14	Taxation charge	105
15	Cash and cash equivalents	105
16	Derivative financial instruments	106
17	Loans and advances to banks	111
18	Debt securities at amortised cost	111
19	Loans and advances to customers	112
20	Credit risk exposures	119
21	Assets classified as held for sale	133
22	Interest in joint venture and joint operations	133
23	Intangible assets and goodwill	134
24	Property, plant and equipment	135

Index		Page
25	Other assets	138
26	Deferred tax	138
27	Deposits from banks	139
28	Customer accounts	139
29	Debt securities in issue	140
30	Other liabilities	140
31	Provisions	140
32	Loss allowance provision on loan commitments and financial guarantees	141
33	Retirement benefit obligations	143
34	Subordinated liabilities	147
35	Contingent liabilities and commitments	147
36	Share capital	148
37	Capital restructure	148
38	Other equity instruments	148
39	Liquidity risk	149
40	Measurement basis of financial assets and financial liabilities	150
41	Fair value of assets and liabilities	153
42	Related party transactions	156
43	Offsetting financial assets and liabilities	160
44	Interests in other entities	161
45	Transferred financial assets	162
46	Impact of adopting new accounting standard IFRS 16 'Leases'	163
47	Post balance sheet events	164
48	Approval of financial statements	164

1 Accounting policies

Basis of preparation

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

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

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

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS and with the European Union (Credit Institutions: Financial Statements) Regulations, 2015.

The financial statements of the Bank are prepared under FRS 101 'Reduced disclosure framework' and in accordance with the Companies Act 2006. In preparing these financial statements the Bank applies the recognition, measurement and disclosure requirements of IFRS as adopted by the EU. The Bank has applied the exemptions available under FRS 101 in respect of the following disclosures:

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

The financial statements have been prepared on the going concern basis, in accordance with IFRS and IFRS IC interpretations, as adopted for use in the EU and as applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention, as modified to include the fair valuation of certain financial instruments. The preparation of the financial statements in conformity with IFRS or FRS 101 requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. A description of the critical estimates and judgements is set out on pages 97 to 100.

Going concern

The time period that the Directors have considered in evaluating the appropriateness of the going concern basis in preparing the financial statements for the year ended 31 December 2019 is a period of twelve months from the date of approval of these financial statements ('the period of assessment'). In making this assessment, the Directors considered the Group's business, profitability projections, liquidity, funding and capital plans, under both base and plausible stress scenarios, together with a range of other factors such as the outlook for the UK economy and the impact of Brexit. The Directors also considered the position of the Bank's parent, the Governor and Company of the Bank of Ireland as, in addition to being the Bank's sole shareholder, it is a provider of significant services to the Bank under outsourcing arrangements.
The matters of primary consideration by the Directors are set out below:

Capital

The Group has developed capital plans under both 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, including sufficient collateral for further funding if required from the Bank of England.

The Bank's Parent

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

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

Conclusion

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

Comparatives

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

Adoption of new and amended accounting standards

The following new standards and amendments to standards have been adopted by the Group during the year ended 31 December 2019:

- IFRS 16 'Leases'
- International Financial Reporting Interpretation Committee (IFRIC) 23 'Uncertainty over income tax treatments'
- Amendment to IAS 19 'Plan Amendment, Curtailment or Settlement'
- Amendments to IAS 28 'Investments in associates'
- 'Interest Rate Benchmark Reform (Amendments to IFRS 9 'Financial instruments', IFRS 7 'Financial instruments: Disclosures' and IAS 39 'Financial instruments: Recognition and measurement')
- Annual improvements 2015-2017 -

1 Accounting policies *(continued)*

These amendments include minor changes to the following standards:
- IAS 12 'Income Taxes'
- IFRS 3 'Business combinations'
- IFRS 11 'Joint arrangements'
- IAS 23 'Borrowing costs'

The Group's accounting policies have been updated for the application of the above new and amended accounting standards from 1 January 2019. The updates together with the accounting policies for the comparative year up to 31 December 2018 are detailed below.

IFRS 16 'Leases'
IFRS 16 'Leases' replaces IAS 17 'Leases' and related interpretations. It 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 are accounted for on balance sheet for lessees. The accounting for lessors has not materially changed. 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 has not restated comparative information, instead recognising the cumulative effect of initially applying the standard as an adjustment to retained earnings (£nil effect).

As permitted, the Group has availed of the following exemptions:
- short-term leases (lease term of 12 months or less);
- leases where the lease term ends within 12 months of the date of initial application;
- leases for which the underlying asset is of low value; and
- for certain computer equipment where the Group is lessee, it has elected not to separate the non-lease components and accounts for lease and non-lease components as a single lease.

The Group recognises the lease payments associated with those leases as an expense on a straight line basis over the lease term.

The principal impact on the Group is in relation to property leases that the Group, as the lessee, previously classified as operating leases under IAS 17. These include primary branches and office premises. The commercial leases typically run for an original period of 25 to 35 years (from inception) 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 now recognises a lease liability for the leases measured at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate (IBR). The Group has recognised 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 balance sheet immediately prior to date of initial application.

The effect of adoption of IFRS 16 is explained further in note 46.

International Financial Reporting Interpretation Committee (IFRIC) 23 'Uncertainty over income tax treatments'
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 introduction of IFRIC 23 has no impact on the Group's financial statements. The Group's approach to accounting for uncertain tax positions heretofore has embodied the clarifications outlined in IFRIC 23. In particular, the Group considers uncertain tax positions together or separately depending on which approach better predicts how the uncertainties will be resolved. Where the Group concludes it is not probable that a tax authority will accept its assessment of an uncertain tax position, it reflects the effect of the uncertainty using either the 'most likely amount' method or the 'expected value' method, as appropriate for the particular uncertainty.

Amendment to IAS 19 'Plan Amendment, Curtailment or Settlement'
This amendment requires an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement and recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. The amendment does not have any impact on the Group at 31 December 2019.

Amendments to IAS 28 'Investments in associates'
This narrow scope amendment clarifies that a long term interest in an associate or joint venture to which the equity method is not applied should be accounted for in the first instance under IFRS 9.This has no impact on the Group.

'Interest Rate Benchmark Reform (Amendments to IFRS 9, IFRS 7 and IAS 39)'
The IASB has issued amendments to IFRS 9, IAS 39 and IFRS 7 that provide certain temporary reliefs from applying specific hedge accounting requirements in connection with the ongoing reform of the interbank offered rate (IBOR). The temporary reliefs relate to issues affecting financial reporting in the period before the replacement of an existing IBOR with an alternative interest rate (pre-replacement issues) and have the effect that IBOR reform should not generally cause hedge accounting relationships to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement under both IAS 39 and IFRS 9.

The main exceptions relate to:
- *The highly probable requirement and reclassifying the cumulative gain or loss recognised in other comprehensive income (OCI)*
  Under IFRS 9 and IAS 39, a forecast transaction designated as the hedged item in a cash flow hedge must meet the "highly probable requirement". IFRS 9 and IAS 39 also require amounts accumulated in the cash flow hedge reserve to be reclassified to profit or loss when the hedged future cash flows affect profit or loss.
  The relief provided by the

1 Accounting policies *(continued)*

amendments requires an entity to assume that the existing interest rate benchmark on which the hedged cash flows are based do not change as a result of the IBOR reform.

- *Prospective assessments*
  A hedging relationship qualifies for hedge accounting only if it is expected to be highly effective (IAS 39) or there is an economic relationship between the hedged item and the hedging instrument (IFRS 9).Under the amendments, an entity assumes that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based is not altered by the IBOR reform.

- *Separately identifiable risk components*
  IFRS 9 and IAS 39 allow entities to designate only changes in the cash flows or fair value of an item attributable to a specific risk (i.e. a risk component) if that risk component is separately identifiable and reliably measurable. Under the amendments, entities shall apply the separately identifiable requirement only at the inception of a hedging relationship and are not required to continue this assessment over the life of the hedge.

End of application
The exceptions related to the highly probable requirement, reclassifying the cumulative gain or loss recognised in OCI and prospective assessment will apply for a limited period being the earlier of the date when:
- The uncertainty arising from IBOR reform is no longer present; and
- The hedging relationships to which the exceptions apply are discontinued or, in the case of reclassifying the cumulative gain or loss recognised in OCI, when the entire cumulative gain or loss recognised in OCI with respect to discontinued hedging relationship has been reclassified to profit or loss.

The amendments apply for annual reporting periods beginning on or after 1 January 2020 and earlier application is permitted. The amendments were endorsed by the EU in January 2020. Having made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39, the Group has elected to early adopt the interest rate benchmark reform amendments to IFRS 7 and IAS 39. The adoption of these amendments did not result in any adjustment to the amounts presented in the financial statements.

Annual improvements 2015-2017
These amendments include:
minor changes to the following standards:
- Amendment to IAS 12 'Income Taxes' – this amendment clarifies that the income tax consequences of dividends on a financial instrument classified as equity should be recognised according to where the previous transactions or events that generated distributable profits were recognised. As a result at 31 December 2019, the Group has recognised the income tax effect of the AT1 dividend within the income statement. Comparatives have not been restated, as the impact was not material. Refer to page 78 for further information.
- IFRS 3 'Business combinations' - a company remeasures its previously held interest in a joint operation when it obtains control of the business.
- IFRS 11 'Joint arrangements' - a company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.
- IAS 23 'Borrowing costs' - a company treats as part of general borrowings, any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

Interest income and expense
Interest income and expense are recognised in the income statement using the effective interest method for financial instruments measured at amortised cost and financial assets which are debt instruments measured at fair value through other comprehensive income in accordance with IFRS 9. Interest income and expense from derivative financial instruments designated as hedging instruments are accounted for in net interest income, in line with the underlying hedged asset or liability. Interest in relation to derivatives not designated as hedging instruments 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 expected credit losses (except in accordance with IFRS 9, in the case of purchased or originated credit-impaired financial assets where expected credit losses are included in the calculation of a 'credit-adjusted effective interest rate'). The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

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

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

Modifications
Where the contractual cash flows of a

1 Accounting policies *(continued)*

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

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

Fee and commission income

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

Financial assets

(1) Recognition, classification and measurement:

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

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

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

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

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

(a) Financial assets at amortised cost.

Debt instruments

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

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

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

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

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

Debt instruments

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

- the financial asset has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- the financial asset is held

1 Accounting policies *(continued)*

within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

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

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

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

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

Financial assets mandatorily measured at fair value through profit or loss
Financial assets meeting either of the conditions below are mandatorily measured at fair value through profit or loss (other than in respect of an equity investment designated as at fair value through other comprehensive income):
- financial assets with contractual terms that do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and
- financial assets held within a business model whose objective is achieved neither by collecting contractual cash flows nor both collecting contractual cash flows and selling financial assets. This includes financial assets held within a portfolio that is managed and whose performance is evaluated on a fair value basis. It further includes portfolios of financial assets which are 'held for trading', which includes financial assets acquired principally for the purpose of selling in the near term and financial assets that on initial recognition are part of an identified portfolio where there is evidence of a recent pattern of short-term profit-taking.

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

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

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

(3) Derecognition
A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the Group has transferred substantially all the risks and rewards of ownership. Where a modification results in a substantial change to the contractual cash flows of a financial asset, it may be considered to represent expiry of the contractual cash flows, resulting in derecognition of the original financial asset and recognition of a new financial asset at fair value. The Group reduces the gross carrying amount of a financial asset and the associated impairment loss allowance when it has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

Impairment of financial instruments

Scope
The Group recognises impairment loss allowances for expected credit losses (ECL) on the following categories of financial instruments unless measured at fair value through profit or loss:
- financial assets that are debt instruments;
- loan commitments;
- lease receivables recognised under IFRS 16 'Leases' (IAS 17 'Leases' until 31 December 2018);
- financial guarantee contracts issued and not accounted for under IFRS 4 'Insurance contracts';
- 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

1 Accounting policies *(continued)*

appropriate accounting treatment.

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

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

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

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

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

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

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

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

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

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

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

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

Impairment loss allowances for ECLs are presented in the financial statements as follows:
- Financial assets at amortised cost: as a deduction from the gross carrying amount in the balance sheet.
- Loan commitments and financial guarantee contracts: generally, as a provision in the balance sheet.
- Debt instruments at fair value through other comprehensive income: an amount equal to the allowance is recognised in other comprehensive income as an accumulated impairment amount.

1 Accounting policies *(continued)*

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

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

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

Financial assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with EBA guidance on non-performing and forborne classifications. Forborne financial assets which are not credit-impaired are generally allocated to stage 2.

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 purchased or originated credit-impaired financial asset.

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

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

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

A financial liability may be designated as at fair value through profit or loss only when:
(i) it eliminates or significantly reduces a measurement or recognition inconsistency (an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
(ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with documented risk management or investment strategy; or
(iii) a contract contains one or more embedded derivatives that significantly changes the cash flows of the contract and the separation of the embedded derivative(s) is not prohibited.

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

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

Embedded derivatives
An embedded derivative is a component of a hybrid contract that also includes a non-derivative host, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

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

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

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

The Group's liability under an issued financial guarantee contract is initially

1 Accounting policies *(continued)*

measured at fair value. The liability is subsequently measured at the higher of the initial measurement, less the cumulative amount of income recognised in accordance with the principles of IFRS 15, and the amount of the impairment loss allowance for expected credit losses determined in accordance with the requirements of IFRS 9.

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

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

Offsetting

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

Valuation of financial instruments

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

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

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

Transfers between levels of the fair value hierarchy

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. The Group provides these disclosures in note 41.

Group financial statements

(1) Subsidiaries

Subsidiary undertakings are investees (including structured entities) controlled by the Group. The Group controls an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group reassesses whether it controls an investee when facts and circumstances indicate that there are changes to one or more elements of control. The existence and effect of potential voting rights are considered when assessing whether the Group controls an investee only if the rights are substantive.

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such entities by considering factors such as the purpose and design of the entity; the nature of its relationship with the entity; and the size of its exposure to the variability of returns from the entity.

Assets, liabilities and results of all Group undertakings have been included in the Group financial statements on the basis of financial statements made up to the end of the financial period.

Business combinations

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations other than business combinations involving entities or business under common control. Under the acquisition method of accounting, the consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of

1 Accounting policies *(continued)*

the asset transferred. Foreign exchange gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

Accounting policies of subsidiaries have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(2) Associates and Joint Ventures
Associates are all entities over which the Group has significant influence but not control, over the entity's financial and operating decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights.

A joint arrangement is an arrangement of which two or more parties have joint control.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

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

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in joint operations in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

Accounting policies of associates and joint ventures have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

(3) Common control transactions
A business combination involving entities or businesses under common control is excluded from the scope of IFRS 3: 'Business Combinations'. The exemption is applicable where the combining entities or businesses are controlled by the same party, both before and after the combination. Where such transactions occur, the Group, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. In making this judgement, management considers the requirements of IFRS dealing with similar and related issues and the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the framework. Management also considers the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards, to the extent that these do not conflict with the IFRS Framework or any other IFRS or interpretation. Accordingly, the Group applies the guidance set out in FRS 6: 'Acquisitions and Mergers' as issued by the Accounting Standards Board.

Where a transaction meets the definition of a group reconstruction or achieves a similar result, predecessor accounting is applied. The assets and liabilities of the business transferred are measured in the acquiring entity, upon initial recognition, at their existing book value in the consolidated financial statements of the Bank of Ireland Group, as measured under IFRS. The Group incorporates the results of the acquired businesses only from the date on which the business combination occurs.

Similarly, where the Group acquires an investment in an associate or joint venture from an entity under common control with the Group, the investment is recognised initially at its existing book value in the consolidated financial statements of the Bank of Ireland Group.

(4) Securitisations
Certain Group undertakings enter into securitisation transactions in order to finance specific loans and advances to customers.

All financial assets continue to be held on the Group balance sheet, and a liability recognised for the proceeds of the funding transaction, unless:

- the rights to the cash flows have expired or been transferred;
- substantially all the risks and rewards associated with the financial instruments have been transferred outside the Group, in which case the assets are derecognised in full; or
- a significant portion, but not all, of the risks and rewards have been transferred outside the Group. In this case the asset is derecognised entirely if the transferee has the ability to sell the financial asset. Otherwise the asset continues to be recognised only to the extent of the Group's continuing involvement.

Where the above conditions apply to a fully proportionate share of all or specifically identified cash flows, the relevant accounting treatment is applied to that proportion of the asset.

Foreign currency translation
The consolidated financial statements of the Group and the financial statements of the Bank are presented in Sterling. Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the transaction at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equities, classified at fair value through other comprehensive income, are recognised in other comprehensive income.

Operating profit
Operating profit includes the Group's earnings from ongoing activities after impairment charges and before share of profit or loss on joint ventures (after tax) and loss on disposal of business activities.

Leases
Identifying a lease
Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

1 Accounting policies *(continued)*

Lessee
From 1 January 2019, the Group recognises a Right of Use (RoU) asset and lease liability at the lease commencement date. RoU assets are initially measured at cost, and subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurement of lease liabilities. The recognised RoU assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease term. RoU assets are subject to impairment under IAS 36 'Impairment of assets'.

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

RoU assets, comprised of leases of buildings which do not meet the definition of investment properties are presented in property, plant and equipment. RoU assets which meet the definition of investment properties are presented within investment properties.

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

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

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

Until 31 December 2018, under the requirements of IAS 17, the total payments made under operating leases were charged to the income statement on a straight line basis over the period of the lease.

When an operating lease was terminated before the lease period expired, any payment required to be made to the lessor by way of penalty was recognised as an expense in the period in which the termination took place.

Leases of property, plant and equipment where the Group had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were 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, were included in the long-term payables. The interest element of the finance costs was 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.

Lessor
The accounting policies under IFRS 16 applicable to the Group as a lessor are generally the same as under IAS 17.

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

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

Until 31 December 2018, the Group applied the following accounting policy in respect of leases in accordance with IAS 17.

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 in 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.

A lease that does not transfer substantially all the risks and rewards of ownership are treated as operating leases. The annual rentals are credited to the income statement on a straight-line basis over the term of the lease. Costs incurred, including depreciation, are recognised in line with the normal depreciation policy for similar assets.

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

1 Accounting policies *(continued)*

interest on the remaining balance of the liability for each period.

Sale and repurchase agreements

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

Derivative financial instruments and hedge accounting

The Group has made the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39. Derivatives are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value at each reporting date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Fair value gains or losses on derivatives are normally recognised in the income statement. However where they are designated as hedging instruments, the treatment of the fair value gains and losses depends on the nature of the hedging relationship.

The Group designates certain derivatives as either:

(i) hedges of the exposure to changes in the fair value of recognised assets or liabilities that is attributable to a particular risk (fair value hedge); or
(ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction (cash flow hedge).

Hedge accounting is applied to these derivatives provided certain criteria are met. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Hedge relationships are concluded to be effective if the hedging instruments that are used in hedging transactions offset the changes in fair value or cashflow of the hedged items within a range of 80% to 125%.

(a) Fair value hedge (micro)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The hedged item in a micro fair value hedge is a single specified item e.g. a fixed commercial loan.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The 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) Fair value hedge (macro)

The hedged item in a macro fair value hedge is a pool of assets or liabilities with similar risk characteristics and profiles, such as a pool of fixed rate mortgages. Unlike micro fair value hedge accounting, macro fair value hedge accounting is not discontinued if an individual asset or liability within the pool of hedged items is sold, so long as the overall pool of hedged items retains its characteristics as documented at inception of the hedge. In addition, hedge effectiveness testing is performed on a portfolio basis rather than on an individual hedge relationship by hedge relationship basis.

The Group also avails of the relaxed hedge accounting provisions permitted by IAS 39 'Financial Instruments: recognition and measurement' 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 its macro fair value hedges on a monthly basis.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

(c) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in other comprehensive income are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised in the income statement when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately reclassified to the income statement. The Group resets its macro cash flow hedges on a monthly basis.

Property, plant and equipment

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

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

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

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

1 Accounting policies *(continued)*

income: all other decreases are charged to the income statement.

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

Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:

- Adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease; and
- Computer and other equipment - maximum of ten years.
- Motor vehicles held for leasing - over the lease term.
- The recognised RoU assets are depreciated on a straight-line basis over the earlier of the end of the useful life of the RoU asset or the end of the lease term.

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

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

Intangible assets

(a) Computer software

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

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

(b) Other intangible assets

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

(c) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment or more frequently if there is any indication that it may be impaired, and carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units (CGU) for the purpose of impairment testing. An impairment loss arises if the carrying value of the CGU exceeds the recoverable amount. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use, where the value in use is the present value of the future cash flows expected to be derived from the CGU.

Assets and liabilities classified as held for sale

An asset or a disposal group is classified as held for sale if the following conditions are met:

- its carrying amount will be recovered principally through sale rather than continuing use;
- it is available for immediate sale; and
- the sale is highly probable within the next few months.

When an asset (or disposal group) is initially classified as held for sale, it is measured at the lower of its carrying amount or fair value less costs to sell at the date of classification, except for deferred tax assets, financial assets and assets arising from employee benefits, which are measured in accordance with the accounting policies applied to those assets prior to their classification as held for sale.

Impairment losses on initial classification of an asset (or disposal group) as held for sale, and on subsequent remeasurement of the asset (or disposal group), are recognised in the income statement. Increases in fair value less costs to sell of an asset (or disposal group) that have been classified as held for sale are recognised in the income statement to the extent that the increase is not in excess of any cumulative impairment loss previously recognised in respect of the asset (or disposal group).

Impairment losses are allocated to non-current assets within the measurement scope of IFRS 5 and the amount of impairment losses recognised in the financial statements is limited to the carrying value of those assets. Other assets and liabilities are measured in accordance with applicable IFRSs in both initial and subsequent measurement of the asset (or disposal group) held for sale. As a result, in accordance with IFRS 5 any impairment losses in excess of the carrying value of the non-current assets within the measurement scope of IFRS 5 are not recognised until disposal.

When an asset (or disposal group) is

1 Accounting policies *(continued)*

classified as held for sale, amounts presented in the balance sheet for the prior period are not reclassified.
Where the criteria for the classification of an asset (or disposal group) as held for sale cease to be met, the asset (or disposal group) is reclassified out of held for sale and included in the appropriate balance sheet headings.

Provisions

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

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

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

Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

Employee benefits

(a) Pension obligations

The Group operates one defined benefit scheme, the NIIB Group Limited (1975) Pension Scheme. In addition, certain of the Group's employees are members of other Bank of Ireland Group schemes, and these are accounted for as defined contribution schemes in the Group. The schemes are funded and the assets of the schemes are held in separate trustee administered funds. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date minus the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Where a plan amendment, curtailment or settlement occurs and the net defined benefit liability is remeasured to determine past service cost or the gain or loss on settlement, the current service cost and net interest for the remainder of the period are remeasured using the same assumptions.

Service cost and net interest on the net defined benefit liability / (asset) are recognised in profit or loss in operating expenses.

Remeasurements of the net defined benefit liability / (asset), that are recognised in other comprehensive income include:

- actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions; and
- the return on plan assets, excluding amounts included in net interest on the net defined benefit 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 defined benefit plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

(b) Short term employee benefits

Short term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered.

(c) Termination payments

Termination payments are recognised as an expense at the earlier of:

- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:

- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

Income taxes

(a) Current income tax

Income tax payable on profits is recognised as an expense in the year in which profits arise. Tax provisions are provided on a transaction by transaction basis using either the 'most likely amount' method or the 'expected value' method as appropriate for the particular uncertainty and by management assessing the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that there will be a future outflow of funds to a fiscal authority to settle the obligation.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and tax laws) that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. The rates enacted, or substantively enacted, at the reporting date, are

1 Accounting policies *(continued)*

used to determine deferred income tax. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The tax effects of income tax losses available for carry forward are recognised as deferred tax assets to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised and by reference to the expiry dates (if any) of the relevant unused tax losses or tax credits. Deferred tax assets and liabilities are not discounted. Deferred income tax is provided on temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

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

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

Cash and cash equivalents

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

Share capital and reserves

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

(b) Dividends on ordinary shares
Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Bank's shareholders or the Board of Directors, as appropriate.

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

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

(e) Capital redemption reserve fund
On 1 May 2015, preference stock of £300 million was repurchased. On the same date £300 million was transferred from capital contribution to the capital redemption reserve fund in order to identify these reserves as non-distributable. On 4 June 2019, the UK High Court of Justice approved the Board's application to cancel the capital redemption reserve fund and the balance was transferred to retained earnings. See note 37.

(f) Other equity instruments
Other equity instruments represents Additional tier 1 securities issued by the Group to the Parent. See note 38 for details.

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

Collateral

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

The Group also receives collateral in the form of cash or securities in respect of other credit instruments, such as stock borrowing contracts and derivative contracts, in order to reduce credit risk. Collateral received in the form of cash is recorded on the balance sheet, with a corresponding liability recognised in deposits from banks or deposits from customers. Any interest payable arising is recorded as interest expense.

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

1 Accounting policies *(continued)*

Impact of new accounting standards

The following standards, interpretations and amendments to standards will be relevant to the Group but were not effective at 31 December 2019 and have not been applied in preparing these financial statements. The Group's initial view of the impact of these accounting changes is outlined below.

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 IASB have proposed delaying the mandatory implementation date by one year to 2022. Earlier application of the standard is permissible.

Impact

The Group does not expect that IFRS 17 will have a material impact on 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. Due to the inherent uncertainty involved in estimating the likelihood of future events, actual results could differ from those estimates, which could affect the future reported amounts of assets and liabilities. The estimates and judgements that have had the most significant effect on the amounts recognised in the Group's financial statements are set out below.

(a) Impairment loss allowance on financial assets

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

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

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

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

In the next financial year the Group will, subject to regulatory approval, implement a new definition of default to comply with EBA guidelines that are effective from no later than 1 January 2021. The introduction of a new definition of default policy may result in a change in the Group's classification of stage 3 assets and / or the amount of impairment loss allowances.

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

- determining the period over which to measure ECL for uncommitted revolving credit facilities; and
- determining timeframes to realisation and likely net sale proceeds.

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

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

The Group's approach to measurement of impairment loss allowances and associated methodologies, including the key macroeconomic variables applied at 31 December 2019, is set out in the credit risk methodologies section on pages 43 to 46.

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 2019, excluding Group management adjustments, 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	
	£m impact	% impact	£m impact	% impact
Residential Mortgages	1.0	4.5%	0.9	9.9%
Non-property SME and Corporate	0.1	0.4%	0.1	1.2%
Property & construction	0.2	1.3%	0.2	10.7%
Consumer	1.1	1.4%	1.1	2.0%
Total	**2.4**	**1.6%**	**2.3**	**3.0%**

The following table indicates the approximate extent to which the 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 macro-economic 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 impact	% impact	£m impact	% impact
Residential Mortgages	(7)	(30%)	28	125%
Non-property SME and Corporate	(1)	(5%)	2	6%
Property & construction	(1)	(6%)	1	10%
Consumer	(4)	(6%)	6	8%
Total	**(13)**	**(9%)**	**37**	**25%**

2 Critical accounting estimates and judgements *(continued)*

The following table indicates the approximate extent to which impairment loss allowances for the residential mortgage portfolios, excluding Group management adjustments, would be higher or lower than the application of a central scenario if there was an immediate change in residential property prices:

2019 Impact of an immediate change in residential property prices compared to central scenario impairment loss allowances	**Impairment loss allowance - Central Scenario**	**Residential property price reduction of 10%**		**Residential property price reduction of 5%**		**Residential property price increase of 10%**		**Residential property price increase of 5%**	
		Impact	**Impact**	**Impact**	**Impact**	**Impact**	**Impact**	**Impact**	**Impact**
	£m	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Residential mortgages	21	11	53%	6	30%	(3)	(16%)	(4)	(19%)

The sensitivity of impairment loss allowances to stage allocation is such that a transfer of 1% of stage 1 balances at 31 December 2019 to stage 2 would increase the Group's impairment loss allowance by approximately £3 million.

At 31 December 2019, the impairment loss allowance for residential mortgages of £24 million includes a management adjustment of £2 million.
The £2 million management adjustment for the mortgage portfolio has been applied across all stages in the mortgage portfolio pending further evolution of IFRS 9 impairment model methodology.

The requirement for the application of a management adjustment is reviewed at each financial reporting date to assess if the situation requiring an adjustment in the previous reporting date pertains and whether additional conditions have been identified that may require the application of a new management adjustment. At each financial reporting date, the adequacy of the Group's quantum of impairment loss allowance (including, if required, any Group management adjustment) is reviewed and considered by the Group Audit Committee.

(b) Taxation
The taxation charge accounts for amounts due to UK authorities, 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. 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. At 31 December 2019, the Group had a net deferred tax asset of £41 million (2018: £85 million), of which £30 million (2018: £72 million) related to trading losses. See note 26.

A deferred tax asset 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. The recognition of a deferred tax asset relies on management's estimate of the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

The most significant judgement relates to the Group's assessment of the recoverability of the portion of the deferred tax asset in the Bank relating to trading losses. Under current UK tax legislation there is no time restriction on the utilisation of these losses.

UK legislation restricts the proportion of a bank's annual taxable profit that can be offset by carried forward losses to 25%. This restriction significantly lengthens the period over which the Group could use its UK trading losses and has been considered in the context of the measurement and recognition of the deferred tax asset at 31 December 2019.

Judgements
The Directors believe that the Group will be profitable for the foreseeable future but acknowledge external challenges which are outlined in the Strategic Report facing the banking industry. In particular, during 2019, the economic environment in which the Bank operates has become more challenging, with residual Brexit uncertainty, forecast continuation of a lower-for-longer interest rate environment and accelerated transformation of banking business models. The risk and implications of these issues have heightened significantly in 2019.

Therefore, notwithstanding the absence of any expiry date for trading losses in the UK, but acknowledging the economic and industry-wide headwinds have worsened during 2019 and profit forecasts have become increasingly uncertain as the forecast period extends into the future, the Directors have determined that for the purpose of valuing its deferred tax asset, the brought forward trading losses of the Bank will be limited by reference to a 10 year period of projected profits from 2019.

This 10 year timescale is supported by forecast taxable profits, takes into account the Group's long-term financial and strategic plans and reflects the period over which the Group believes it can conclude that it is probable that future taxable profits will be available in the Bank. As a consequence, the carrying value of deferred tax assets relating to trading losses of the Bank has been reduced by £40 million in the year ended 31 December 2019 (31 December 2018: £nil).

There is a risk that the final taxation outcome could be different to the amounts currently recorded. If future profits or subsequent forecasts differ from current forecasts, a further adjustment may be required to the deferred tax asset.

Sources of estimation uncertainty
To the extent that the recognition of a deferred tax asset is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required to support the conclusion that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

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

The Group's assessment of deferred tax

2 Critical accounting estimates and judgements *(continued)*

recoverability for the Bank is based on forecasts covering its five year initial planning period. The forecast for year five onwards is based on the projections within that fifth year of the initial planning period. The deferred tax recoverability is most sensitive to the forecasts in the initial planning period. These forecasts assume a sustainable UK market return on equity in the high single digits over the long term for future profitability levels and a UK GDP growth of 1.5%. The Group's profitability projections are based on its agreed strategic priorities of "Invest, Improve and Reposition", where the focus will be to increase overall returns, improve cost efficiencies and grow sustainable profits.

The Bank expects to recover over 50% of the deferred tax asset within six years of the balance sheet date.

(c) Impairment review of goodwill and intangible assets

Goodwill of £30 million and other intangible assets of £10 million arose on the acquisition of Marshall Leasing Limited ("MLL") on 24 November 2017, as set out in note 23. Goodwill is not amortised as it is deemed to have an indefinite useful life.

The Group's carrying value of MLL (including goodwill and other intangible assets) has been reviewed for impairment for the purpose of December 2019 reporting and no impairment was identified as a result of this review.

The Group's impairment reviews normally estimate the recoverable amount of the relevant cash generating unit using projections based on the Group's most recent forecasts covering an initial five year period with a terminal growth rate of 0% thereafter. However, for the MLL subsidiary, given current market uncertainty around the motor finance market, the impairment review has been prepared using an initial three year period for the MLL cash generating unit (which is linked to the average term of the leases) with a terminal growth rate of 0% thereafter. These cash flows are then discounted at a post tax discount rate of 10%.

The Group's strategic plan comprises forecasts of revenue, staff costs and overheads based on current and anticipated market conditions. Whilst the Group operates a robust forecasting process, it is acknowledged that the revenue projections contain an element of uncertainty.

The impairment review is most sensitive to the forecast in the initial 3 year period which assumes growth in the period driven by planned fleet increases and continued fleet disposal profits at historic levels. The Group's profitability projections are based on its agreed strategic priorities of "Invest, Improve and Reposition", where the focus will be to increase overall returns, improve cost efficiencies and grow sustainable profits.

For year-end reporting the recoverable amount was calculated as 123% of the carrying value of MLL. The table below includes reasonably possible changes in assumptions upon which the recoverable amount is estimated, which would lead to the following changes in the net present value of MLL:

Change in assumption	Decrease in recoverable amount %
Decrease in forecast profitability (3 year planning period) by 5%	2%
Increase in discount rate by 1%	7%
Decrease in growth rate 1% (post 3 years planning period)	5%

As part of the impairment review of goodwill, management have also carried out a breakeven sensitivity analysis which assumes a negative 4% growth rate after the intial three year period.

2 Critical accounting estimates and judgements *(continued)*

(d) Unwind of fair value adjustments on acquired mortgages

Between 2012 and 2014 the Group acquired a number of tranches of mortgages from the Parent at fair value. These assets were initially recognised on the balance sheet at fair value plus transaction costs. The differential between the initial carrying value of the assets and the principal balances is considered to be a ‘fair value adjustment’. This fair value adjustment is amortised to the income statement, as part of the effective interest rate of the assets, over their remaining expected lives. At 31 December 2019, the impact of the fair value adjustment was to reduce the carrying amount of loans and advances to customers by £184 million (2018: £210 million). In 2019, there was a benefit of £26 million (2018: £41 million) to the income statement from the unwind of, and revisions to, the fair value adjustment.

The most significant judgement relating to the fair value adjustment relates to the timing of the unwind. This requires significant management judgement in relation to customer repayment assumptions which determines the expected lives of the relevant loans, and therefore impacts on the amount of interest income recognised in each financial year. In arriving at the expected lives and hence the amount of the unwind, a sensitivity analysis is carried out which considers the impact of various scenarios, as follows:

- a reduction in the rate of repayments, resulting in the expected life of the buy to let mortgage portfolio increasing by 3 months, would give rise to a reduction in interest income of £9 million being recognised in 2019; and
- an increase in the rate of repayments, resulting in the expected life of the buy to let mortgage portfolio shortening by 3 months, would give rise to an increase in interest income of £9 million being recognised in 2019.

(e) Effective interest rate

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

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

For secured mortgage lending management model future expected cash flows for each tranche of lending. In determining the future cash flows management use judgement to estimate the average life curve of each lending tranche. Management estimate expected future payments of interest and capital based on expected interest rates and redemption profiles of customers based on previous customer behaviour, incorporating estimates of the proportion of borrowers expected to incur early redemption charges. In particular, a key assumption in the effective interest rate models relates to the length of time which borrowers remain on a reversionary rate after the end of the fixed rate period.

Management considers the estimated life curve to be the most significant estimate, the accuracy of which could be impacted by customer repayment behaviour being different to expectations. Sensitivity analysis shows that a one month reduction in the weighted average expected life of buy to let mortgages would give rise to an additional income statement charge of £5 million and a reduction of 0.5 months in the weighted average expected life of standard mortgages would give rise to an additional income statement charge of £11 million.

During the year, following the reassessment of the expected lives of loans and advances to customers, a charge of £14 million was recognised through interest income.

3 Interest income

Group	2019 £m	2018 £m
Financial assets measured at amortised cost		
Loans and advances to customers	590	599
Loans and advances to banks	9	14
Debt securities at amortised cost	15	15
Interest on hedging derivatives	(11)	(15)
Cash and balances with central banks	21	17
Interest income on financial assets measured at amortised cost	**624**	**630**
Interest income calculated using the effective interest method	**624**	**630**
Interest income on finance leases and hire purchase receivables	82	65
Interest income	**706**	**695**

Included in interest income for the year ended 31 December 2019 is £9 million in respect of income earned by the Group on loans and advances to banks, relating to amounts placed with the Parent (2018: £14 million) offset by interest on hedging derivatives of £11 million which are also held with the Parent (2018: £15 million). Group share of joint operation interest income for the year ended 31 December 2019 is £38 million (2018: £27 million). Refer to note 22.

In 2019, £8 million of interest income was recognised on credit-impaired loans and advances to customers (2018: £11 million).

In 2019, £10 million of interest income was received on credit-impaired loans and advances to customers (2018: £12 million).

Interest income also includes £26 million relating to the unwind of, and revisions to, fair value adjustments associated with mortgages acquired from the Parent in prior years (2018: £41 million).

For the year ended 31 December 2019 interest recognised on total forborne loans and advances to customers was £7 million (2018: £5 million).

Finance lease and hire purchase receivables interest income arises from the Northridge Finance business.

4 Interest expense

Group Interest expense	2019 £m	2018 £m
Customer accounts	174	148
Deposits from banks	33	26
Subordinated liabilities	14	13
Debt securities in issue	3	-
Lease liabilities	1	-
Interest expense	**225**	**187**

Included in interest expense for the year ended 31 December 2019 is £32 million in respect of interest paid to the Parent on deposits and subordinated liabilities (2018: £26 million).

Group share of joint operation interest expense for the year ended 31 December 2019 is £9 million (2018: £7 million). Refer to note 22.

5 Other leasing income and expense

Group	2019 £m	2018 £m
Other leasing income	54	46
Other leasing expense	(46)	(37)
Net leasing income	**8**	**9**

Other leasing income and expense relate to the business activities of Marshall Leasing Limited (MLL). MLL is a car and commercial leasing and fleet management company based in the UK. Other leasing expense includes depreciation of £25 million related to vehicles leased under operating leases (2018: £21 million). See note 24.

Business Review | Risk Management | Governance | Financial Statements | Other Information

6 Fee and commission income and expense

Group 2019 **Fee and commission income**	**GB Consumer Banking[1] £m**	**NI and GB Business Banking[2] £m**	**Total £m**
Retail banking customer fees	48	29	77
ATM fees	46	-	46
Other fees	2	29	31
Other fees received	13	5	18
Total	**61**	**34**	**95**

Group 2018 Fee and commission income	GB Consumer Banking[1] £m	NI and GB Business Banking[2] £m	Total £m
Retail banking customer fees	60	33	93
ATM fees	56	-	56
Other fees	4	33	37
Other fees received	7	4	11
Total	67	37	104

Amounts include:	**2019 £m**	2018 £m
Group share of joint operation (note 22)	**2**	**1**

No impairment losses were recognised in relation to the Group's receivables arising from contracts with customers in 2019 and 2018.

Fee and commission expense	**2019 £m**	2018 £m
Fee and commission expense - external	81	102
Fees paid to the Parent	8	8
Fee and commission expense	**89**	**110**
Amounts include:		
Group share of joint operation (note 22)	3	2

[1] Great Britain (GB) Consumer Banking: offers consumer banking products through strategic partnerships with the Post Office, the AA and intermediaries.

[2] Northern Ireland (NI): the business includes the results of the Northern Ireland Bank of Ireland UK branch network and business centres, personal lending, together with the credit card and mortgage portfolio and the note issuing activity in Northern Ireland. Great Britain (GB) Business Banking: includes commercial lending and retail deposits. The commercial lending business is undergoing a continued programme of deleveraging.

7 Net trading income / (expense)

Group Net trading income / (expense)	2019 £m	2018 £m
Financial instruments held for trading	4	5
Net trading income / (expense)	**4**	**5**
Amounts include:		
Net trading income / (expense) from the Parent	(22)	33

Net trading income / (expense) from the Parent primarily comprises fair value movements on derivatives with the Parent which are in fair value hedge relationships.

8 Other operating income

Group	2019 £m	2018 £m
Other operating income	1	3
Net gains on derecognition of financial assets measured at amortised cost	1	6
Total other operating income	**2**	**9**

9 Operating expenses

Group Operating expenses	2019 £m	2018 £m
Administrative expenses		
Staff costs[1] (a)		
- Wages and salaries	39	39
- Social security costs	5	5
- Other pension costs[2]	7	8
Total staff costs	**51**	**52**
- Other administrative expenses	83	73
- Other administrative expenses – related parties (b)	173	219
Amortisation and depreciation	10	7
Total operating expenses	**317**	**351**
Amounts include:		
Group share of joint operation (note 22)	10	16

(a) Staff costs
Staff costs of £51 million (2018: £52 million) include all gross salaries, related social security costs, and pension contributions attributable to those employees directly employed by the Group. Gross salaries also include those costs associated with staff seconded to the Group from the Parent under a secondment agreement. The monthly average number of staff (direct and seconded full time equivalents) was 661 (2018: 724), of which 500 related to the Bank (2018: 568). Refer to note 42 for details of compensation paid to key management personnel (KMP).

(b) Other administrative expenses – related parties
Other administrative expenses are the costs incurred by the Group in relation to services provided by the Parent under a number of service level agreements. These comprise of services across a number of different activities and areas including, but not restricted to, product design, manufacture, distribution and management, customer service, and IT. Included in this management charge is the cost of a number of employees who carry out services for the Group on behalf of the Parent. These employees' employment contracts are with the Parent and their remuneration is included in the Parent's financial statements. Due to the nature of the services provided it is neither possible to ascertain separately the element of the management charge that reflects the employee staff charge, nor disclose separately employee numbers relevant to the Group's activities.

[1] Staff costs include amounts of £32 million (2018: £33 million) for wages and salaries, £4 million (2018: £4 million) for social security costs and £5 million (2018: £6 million) for other pension costs recorded in the Bank financial statements.
[2] Other pension costs include £1 million (2018: £1.2 million) in relation to the NIIB scheme which is accounted for as a defined benefit scheme (see note 33) with the balance relating to other schemes which are accounted for on a defined contribution basis.

Business Review
Risk Management
Governance
Financial Statements
Other Information

10 Auditors' remuneration

The Group's Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors. Audit related assurance services consist of fees in connection with accounting matters and regulatory compliance based work. It is the Group's policy to subject all major assignments to a competitive tender process.

Group	2019 £000's	2018 £000's
Fees payable for the audit of the Bank and Group financial statements	498	504
Audit of the Bank's subsidiaries pursuant to legislation	144	140
Audit related assurance services	80	15
Other assurance services	39	51
Auditors' remuneration	**761**	710

11 Net impairment losses / (gains) on financial instruments

Group	2019 £m	2018 £m
Loans and advances to customers (note 19)	41	37
- Cash recoveries	*(13)*	*(9)*
- Movement in impairment (gains) / losses	54	*46*
Loans and advances to banks	(1)	(1)
Loan commitments (note 32)	-	(2)
Guarantees and irrevocable letters of credit (note 32)	-	-
Net impairment losses / (gains) on financial instruments	**40**	**34**

Loans and advances to customers at amortised cost

Net impairment losses / (gains)
The Group's net impairment losses / (gains) on loans and advances to customers at amortised cost is set out in this table.

Group	2019 £m	2018 £m
Residential mortgages	(3)	7
Non-property SME and corporate	(2)	-
Property and construction	(2)	(6)
Consumer	48	36
Total	**41**	**37**

12 Share of profit after tax of joint venture

This represents the Group's 50% share of profit after tax of its joint venture in FRESH with Post Office Limited. It is accounted for using the equity method of accounting. See note 22 for further information.

Group	2019 £m	2018 £m
First Rate Exchange Services Holdings Limited	30	33
Share of profit after tax of joint venture	**30**	**33**

13 Loss on disposal of business activities

The loss on disposal of business activities reflects the sale of the Group's consumer credit cards portfolio. The assets were classified as Assets held for sale up to the date of disposal (see note 21). In July 2019, the portfolio was sold for total consideration of £521 million resulting in a net loss on disposal of £19 million. On the date of disposal, the assets had a gross carrying value of £528 million (gross of ECL allowance) and a net book value of £505 million (net of ECL allowance).

The net loss on disposal also includes a provision of £34 million related to the costs of migration and other costs associated with the disposal.

14 Taxation charge

The effective tax rate for the year is a charge of 37% (2018: charge of 13%). This rate is higher than the standard rate of 19% largely due to the impact of the re-assessment of the value of tax losses carried forward (see note 26), partly offset by the impact of the treatment of the acquired mortgage portfolio and the results of the joint venture FRESH.

Group	2019 £m	2018 £m
Current tax		
Current year charge	13	19
Adjustment in respect of prior year	1	(2)
Total current taxation charge	**14**	**17**
Deferred tax		
Current year charge	3	5
Adjustment in respect of prior year	1	-
Re-assessment of the value of tax losses carried forward	40	
Total deferred taxation charge	**44**	**5**
Taxation charge	**58**	**22**

This table shows a reconciliation of tax on the profit before taxation, at the standard UK corporation tax rate, to the Group's actual tax charge for the years ended 31 December 2019 and 31 December 2018.

Group	2019 £m	2018 £m
Profit before taxation	**155**	**173**
Multiplied by the standard rate of Corporation tax in UK of 19% (2018: 19%)	29	33
Effects of:		
Non-allowable expenses	-	-
Share of results of joint venture after tax in the income statement	(6)	(6)
Impact of UK banking surcharge	1	4
Non-taxable income on the unwind of fair value adjustments on acquired mortgages (see page 100)	(5)	(8)
Adjustment in respect of prior year	2	(2)
Tax credit on AT1 coupon	(5)	-
Other	2	1
Re-assessment of the value of tax losses carried forward (see note 26)	40	-
Taxation charge	**58**	**22**

15 Cash and cash equivalents

Cash and cash equivalents	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Cash	37	29	37	29
Balances at central banks	2,097	2,538	2,097	2,538
Less impairment loss allowance on cash and balances at central banks	-	-	-	-
Total cash balances included in cash and cash equivalents	**2,134**	**2,567**	**2,134**	**2,567**
Loans and advances to banks	2,158	2,348	1,935	2,331
Less: amounts with a maturity of three months or more	(237)	(601)	(237)	(601)
Total loans and advances to banks included in cash and cash equivalents	**1,921**	**1,747**	**1,698**	**1,730**
Total cash and cash equivalents	**4,055**	**4,314**	**3,832**	**4,297**
Due from the Parent	353	367	345	359

The impairment loss allowance for Group and Bank of £0.3 million (2018: £0.3 million) is related to 12 month ECL not credit-impaired.

16 Derivative financial instruments

The Group's utilisation of objectives and policies in relation to managing the risks that arise in connection with derivatives, are included in the Risk Management section, on pages 30 to 57. The notional amounts of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments become assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The Group holds certain derivatives with the Parent principally for interest rate risk management. The Group has applied hedge accounting to the majority of these derivatives, which are classified as held for hedging in the table below.

The Group also holds certain derivatives to which hedge accounting is not applied and these are considered to be held for trading in the table above. These primarily include foreign exchange forward contracts with customers, with a corresponding foreign exchange contract to hedge foreign exchange risk with the Parent.

As set out in the risk management policy on page 38, the Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of £41 million at 31 December 2019 (2018: £32 million):

- £37 million (2018: £31 million) are available for offset against derivative liabilities under CSA and ISDA standard documentation. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities. At 31 December 2019 cash collateral of £15 million (2018: £2 million) was placed against these liabilities and is reported in Loans and advances to banks (note 17); and
- £4 million (2018: £1 million) are not covered under CSA and ISDA standard documentation.

Group and Bank	**2019**			2018		
	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 forwards	103	1	2	198	1	5
Currency forwards – with the Parent	103	2	1	198	5	1
Currency swaps	168	3	3	219	-	3
Currency swaps - with the Parent	168	3	3	219	3	-
Total foreign exchange derivatives held for trading	**542**	**9**	**9**	**834**	**9**	**9**
Interest rate derivatives						
Interest rate swaps - with the Parent	3,669	11	5	4,079	9	2
Cross currency interest rate swaps - with the Parent	194	-	-	123	-	-
Total interest rate derivatives held for trading	**3,863**	**11**	**5**	**4,202**	**9**	**2**
Total derivatives held for trading	**4,405**	**20**	**14**	**5,036**	**18**	**11**
Derivatives held as fair value hedges						
Interest rate swaps - with the Parent	4,000	5	35	3,325	10	22
Derivatives held as cash flow hedges						
Interest rate swaps - with the Parent	4,242	16	10	3,557	4	10
Total derivative assets / liabilities held for hedging	**8,242**	**21**	**45**	**6,882**	**14**	**32**
Total derivative assets / liabilities	**12,647**	**41**	**59**	**11,918**	**32**	**43**

16 Derivative financial instruments *(continued)*

Hedge accounting
In applying hedge accounting, the Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

The timing of the nominal amounts (excluding those subject to a dynamic macro-hedging process) and the applicable average rates were as follows:

Group and Bank **2019** **Hedging Strategy**	**Risk Category**	**Hedging Instrument**	**Up to 1 year £m**	**1-2 years £m**	**2-5 years £m**	**>5 years £m**
Fair Value Hedge	Interest Rate Risk	Interest rate swap	83	272	225	-
		Average fixed interest rate	1.10	1.95	1.38	0.60
Cash Flow Hedge	Interest Rate Risk	Interest rate swap	633	1,760	893	956
		Average fixed interest rate	1.01	0.77	0.61	1.02

Group and Bank 2018 Hedging Strategy	Risk Category	Hedging Instrument	Up to 1 year £m	1-2 years £m	2-5 years £m	>5 years £m
Fair Value Hedge	Interest Rate Risk	Interest rate swap	238	72	382	-
		Average fixed interest rate	1.80	1.11	1.84	0.60
Cash Flow Hedge	Interest Rate Risk	Interest rate swap	853	1,499	259	946
		Average fixed interest rate	0.69	0.99	1.11	1.19

Interest rate benchmark reform
At 31 December 2019, GBP LIBOR represented the most significant IBOR interest rate benchmarks to which the Group's fair value and cash flow hedge relationships of interest rate risk are exposed. It is currently expected that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR.

The Group also has a small exposure to EURIBOR. As EURIBOR has been reformed and complies with the EU Benchmarks Regulation (BMR) under a new hybrid methodology, the Group expects EURIBOR to continue as a benchmark interest rate for the foreseeable future and, therefore, does not consider interest rate hedge relationships of EURIBOR to be directly affected by IBOR reform as at 31 December 2019.

The process being used by the Group to manage the transition to alternative benchmark rates is included in the Risk Management report on pages 30 to 57.

The Group has applied judgement in relation to market expectations when determining the fair value of the hedging instrument and the present value of the estimated cash flows of the hedged item. The key judgement is that the cash flows for contracts currently indexing IBOR are expected to be broadly equivalent to the cash flows when those contracts transition to IBOR replacement rates. However, as the date of the transition gets closer, this might no longer be the case. Hedge accounting relationships impacted by IBOR reform may experience increased ineffectiveness due to the following reasons:

- Market participants' expectations for when the transition from the existing IBOR benchmark rate to an alternative benchmark interest rate may occur. This could give rise to hedge ineffectiveness in the prospective assessment, in particular where the replacement of the benchmark rate is expected to occur at different times in the hedged item and the hedging instrument.
- Modification to the terms of the existing IBOR contracts that results in the derecognition of a hedged item or the hedging instrument. If a modification is deemed to be substantial, the hedging instrument and/or hedged item will be required to be derecognised, which would imply discontinuation of the corresponding hedge accounting relationship. Any subsequent re-designation of such hedge relationships may increase hedge ineffectiveness.

16 Derivative financial instruments *(continued)*

Fair value hedges
Certain interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate exposure on the Group's fixed rate financial assets and liabilities.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year are shown in the table below:

Group and Bank
2019

Risk Category	Hedging Instrument[1]	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument Assets £m	Carrying amount of the hedging instrument Liabilities £m	Changes in value used for calculating hedge ineffectiveness[2,3] £m	Ineffectiveness recognised in profit or loss[2,3] £m	Nominal amount of the hedging instruments affected by IBOR reform £m
Interest rate risk	Interest rate swaps	4,000	5	(35)	(19)	-	3,257
Total		**4,000**	**5**	**(35)**	**(19)**	**-**	**3,257**

Group and Bank
2018

Risk Category	Hedging Instrument[1]	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument Assets £m	Carrying amount of the hedging instrument Liabilities £m	Changes in value used for calculating hedge ineffectiveness[2,3] £m	Ineffectiveness recognised in profit or loss[2,3] £m
Interest rate risk	Interest rate swaps	3,325	10	(22)	(18)	-
Total		3,325	10	(22)	(18)	-

Group and Bank

2019

Risk Category	Line item on the balance sheet in which the hedged item is included	Carrying amount of the hedged item Assets £m	Carrying amount of the hedged item Liabilities £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Assets £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item Liabilities £m	Changes in value used for calculating hedge ineffectiveness £m	Remaining adjustments for discontinued hedges £m
Interest rate risk	Debt securities at amortised cost	555	-	10	-	(1)	-
	Loans and advances to customers	3,443	-	10	-	(17)	-
	Customer accounts	-	70	-	(1)	(1)	(6)
Total		**3,998**	**70**	**20**	**(1)**	**(19)**	**(6)**

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within net trading income / (expense) on the income statement.*
[3] *There are no material causes of ineffectiveness in the Group's fair value hedges.*

16 Derivative financial instruments *(continued)*

Group and Bank

2018

Risk Category	Line item on the balance sheet in which the hedged item is included	Carrying amount of the hedged item: Assets £m	Carrying amount of the hedged item: Liabilities £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item: Assets £m	Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item: Liabilities £m	Changes in value used for calculating hedge ineffectiveness £m	Remaining adjustments for discontinued hedges £m
Interest rate risk	Debt securities at amortised cost	624	-	9	-	9	-
	Loans and advances to customers	2,500	-	(5)	-	9	-
	Customer accounts	-	235	-	(1)	-	-
Total		**3,124**	**235**	**4**	**(1)**	**18**	**-**

Cash flow hedges
The Group designates certain interest rate derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets.

The amounts relating to items designated as hedging instruments and hedge ineffectiveness for the year are as follows.

Group and Bank

2019

Risk Category	**Hedging Instruments[1]**	**Nominal amount of the hedging instrument £m**	**Carrying amount of the hedging instrument: Assets £m**	**Carrying amount of the hedging instrument: Liabilities £m**	**Changes in value used for calculating hedge in-effectiveness £m**	**Changes in the value of the hedging instrument recognised in other comprehensive income £m**	**In-effectiveness recognised in profit or loss[2,3] £m**	**Amount reclassified from the cash flow hedge reserve to profit or loss[3,4] £m**	**Nominal amount of the hedging instruments affected by IBOR reform £m**
Interest rate risk	Interest rate swaps	4,242	16	10	(12)	11	(1)	(5)	3,660

Group and Bank

2018

Risk Category	Hedging Instruments[1]	Nominal amount of the hedging instrument £m	Carrying amount of the hedging instrument: Assets £m	Carrying amount of the hedging instrument: Liabilities £m	Changes in value used for calculating hedge ineffectiveness £m	Changes in the value of the hedging instrument recognised in other comprehensive income £m	Ineffectiveness recognised in 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	3,557	4	10	(3)	4	1	(12)

[1] *All hedging instruments are included within derivative financial instruments on the balance sheet.*
[2] *Ineffectiveness is included within trading income / (expense) on the income statement.*
[3] *There are no material causes of ineffectiveness in the Group's cash flow hedges.*
[4] *£nil relates to amounts transferred to profit or loss for which hedge accounting was previously applied but for which hedged future cash flows are not expected to occur.*

16 Derivative financial instruments *(continued)*

The amounts relating to items designated as hedged items for the period are as follows.

Group and Bank	2019			2018		
	Changes in the hedged risk used for calculating hedge ineffectiveness £m	**Cash flow hedge reserve £m**	**Remaining adjustments for discontinued hedges £m**	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	11	(7)	(3)	4	4	(12)
Foreign exchange risk	-	-	-	-	-	-
Total	**11**	**(7)**	**(3)**	**4**	**4**	**(12)**

This table below shows a reconciliation of the movements in the cash flow hedge reserve for 2019 and 2018.

Group and Bank Cash flow hedge reserve	**2019 £m**	2018 £m
Changes in fair value		
- Interest rate risk	7	(11)
Transfer to income statement		
Interest income		
- Interest rate risk	-	(2)
Net trading income / (expense)[3]		
- Interest rate risk	(6)	(10)
Deferred tax on reserve movements	-	6
Net change in cash flow hedge reserve	**1**	**(17)**

In 2019 and 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 (see page 78).

17 Loans and advances to banks

Loans and advances to banks are classified as financial assets at amortised cost. The associated impairment loss allowance on loans and advances to banks is measured on a 12 month and lifetime ECL approach.

	Group		Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Placements with other banks	853	1,039	630	1,022
Mandatory deposits with central banks	1,306	1,310	1,306	1,310
	2,159	**2,349**	**1,936**	**2,332**
Less impairment loss allowance on loans and advances to banks	(1)	(1)	(1)	(1)
Loans and advances to banks at amortised cost	**2,158**	**2,348**	**1,935**	**2,331**
Loans and advances to banks at fair value through profit or loss	-	-		-
Total loans and advances to banks	**2,158**	**2,348**	**1,935**	**2,331**
Amounts include:				
Due from the Parent	552	930	544	923

Amounts due from the Parent, which are included within placements with other banks in the above table, arise from transactions with the Parent, which primarily relates to the management of the Group's interest rate risk position. Amounts due to the Parent are also disclosed in note 27. From a counterparty credit risk perspective, while these two amounts are disclosed on a gross basis, the Group has in place a contractual Master Netting Agreement with the Parent, whereby, in the event of default of either party, all amounts due or payable will be settled immediately on a net basis.

Represented in mandatory deposits with central banks is:

- an amount of £1,242 million relating to collateral with the Bank of England in respect of notes in circulation (2018: £1,252 million). £689 million of this relates to non-interest bearing collateral (2018: £726 million); and
- an amount of £64 million in relation to mandatory cash ratio deposits, which are non-interest bearing deposits placed with the Bank of England under the provisions of the Bank of England Act 1998 (2018: £58 million).

All loans and advances to banks for Group and Bank are stage 1.

18 Debt securities at amortised cost

The following table details the significant categories of debt securities at amortised cost.

	Group		Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Government bonds	261	415	261	415
Other debt securities at amortised cost	585	500	585	500
Less impairment loss allowance	-	-	-	-
Debt securities at amortised cost	**846**	915	**846**	915

The following table shows the movement in debt securities at amortised cost for the year ended 31 December 2019. All debt securities at amortised cost were stage 1 (12 month ECL not credit-impaired) throughout the year ended 31 December 2019.

Group and Bank	
2019	
Gross carrying amount (before impairment loss allowance)	**Total £m**
Closing balance 31 December 2018	915
Additions	242
Redemptions, repayments and disposals	(309)
Measurement reclassification and other movements	(2)
Gross carrying amount at 31 December 2019	**846**

19 Loans and advances to customers

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Loans and advances to customers at amortised cost	19,101	18,079	21,452	19,982
Finance leases and hire purchase receivables (see below)	2,245	1,756	-	-
Less impairment loss allowance on loans and advances to customers	(146)	(132)	(131)	(122)
Total loans and advances to customers[1]	**21,200**	**19,703**	**21,321**	**19,860**
Amounts include:				
Share of joint operation (note 22)	632	526	632	526
Due from subsidiaries	-	-	2,443	1,963
Due from entities controlled by the Parent	6	6	6	6
Finance leases and hire purchase receivables[2]				
Gross investment in finance leases:				
Not later than 1 year	695	574	-	-
Later than 1 year and not later than 5 years	1,733	1,321	-	-
Later than 5 years	7	6	-	-
	2,435	**1,901**	**-**	**-**
Unearned future finance income on finance leases	(190)	(145)	-	-
Net investment in finance leases	**2,245**	**1,756**	**-**	**-**
Not later than 1 year	641	531	-	-
Later than 1 year and not later than 5 years	1,598	1,220	-	-
Later than 5 years	6	5	-	-
	2,245	**1,756**	**-**	**-**

The Group's and the Bank's portfolios of loans and advances to customers were classified as follows at 31 December:

Group **2019**	**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	21,346	(146)	21,200
Loans and advances to customers classified as held for sale (note 21)	-	-	-
Total	**21,346**	**(146)**	**21,200**

Group 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	19,835	(132)	19,703
Loans and advances to customers classified as held for sale (note 21)	564	(27)	537
Total	**20,399**	**(159)**	**20,240**

[1] *At 31 December 2019, loans and advances to customers included £1,857 million (2018: £nil) of residential mortgage balances that had been securitised but not derecognised. Refer to note 44.*

[2] *The Group's material finance leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers. At 31 December 2019, the accumulated allowance for uncollectable minimum lease payments receivable was £nil (2018: £nil).*

19 Loans and advances to customers *(continued)*

Bank **2019**	**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	21,452	(131)	21,321
Loans and advances to customers classified as held for sale (note 21)	-	-	-
Total	**21,452**	**(131)**	**21,321**

Bank 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	19,982	(122)	19,860
Loans and advances to customers classified as held for sale (note 21)	564	(27)	537
Total	**20,546**	**(149)**	**20,397**

The following tables show the gross carrying amount, the movement in the gross carrying amount, impairment loss allowances and movement in impairment loss allowances subject to 12 months and lifetime ECL on loans and advances to customers at amortised cost (including assets classified as held for sale).

Group

31 December 2019 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	16,178	1,157	287	2,875	20,497
Stage 2 - Lifetime ECL (not credit impaired)	267	130	88	84	569
Stage 3 - Lifetime ECL (credit impaired)	165	39	37	38	279
Purchased / originated credit-impaired	-	1	-	-	1
Gross carrying amount at 31 December 2019	**16,610**	**1,327**	**412**	**2,997**	**21,346**

31 December 2018 Gross carrying amount at amortised cost (before impairment loss allowance)	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	15,397	1,112	327	2,521	19,357
Stage 2 - Lifetime ECL (not credit impaired)	295	167	96	136	694
Stage 3 - Lifetime ECL (credit impaired)	188	41	79	40	348
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2018	15,880	1,320	502	2,697	20,399

19 Loans and advances to customers *(continued)*

Group

2019 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total gross carrying amount £m**
Opening balance 1 January 2019	**19,357**	**694**	**348**	**-**	**20,399**
Total net transfers	(121)	(17)	138	-	-
- to 12-month ECL not credit-impaired	*798*	*(792)*	*(6)*	-	-
- to lifetime ECL not credit-impaired	*(849)*	*984*	*(135)*	-	-
- to lifetime ECL credit-impaired	*(70)*	*(209)*	*279*	-	-
Net changes in exposure	1,693	(59)	(150)	1	1,485
Impairment loss allowances utilised[1]	-	-	(42)	-	(42)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	(432)	(49)	(15)	-	(496)
Gross carrying amount at 31 December 2019	**20,497**	**569**	**279**	**1**	**21,346**

Group

2018 Gross carrying amount at amortised cost (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total gross carrying amount £m
Opening balance 1 January 2018	18,875	835	442	-	20,152
Total net transfers	(182)	23	159	-	-
- to 12-month ECL not credit-impaired	900	(896)	(4)	-	-
- to lifetime ECL not credit-impaired	(1,010)	1,126	(116)	-	-
- to lifetime ECL credit-impaired	(72)	(207)	279	-	-
Net changes in exposure	644	(166)	(171)	-	307
Impairment loss allowances utilised[1]	-	-	(83)	-	(83)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	20	2	1	-	23
Gross carrying amount at 31 December 2018	19,357	694	348	-	20,399

The impact of the disposal of the consumer credit cards portfolio during the year, which was previously classified as assets held for sale, is included in "measurement reclassification and other movements" and has resulted in a reduction in gross carrying amount of £528 million and impairment loss allowance of £23 million.

[1] *Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2019 includes £18 million of contractual amounts outstanding that are still subject to enforcement activity.*

19 Loans and advances to customers *(continued)*

Group

31 December 2019 **Impairment loss allowance**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	5	3	-	40	48
Stage 2 - Lifetime ECL not credit impaired	5	3	2	17	27
Stage 3 - Lifetime ECL credit impaired	14	19	12	26	71
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2019	**24**	**25**	**14**	**83**	**146**

31 December 2018 Impairment loss allowance	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	5	3	-	34	42
Stage 2 - Lifetime ECL (not credit impaired)	6	5	1	19	31
Stage 3 - Lifetime ECL (credit impaired)	18	16	23	29	86
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2018	29	24	24	82	159

Group

2019 **Impairment loss allowance**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total impairment loss allowance £m**
Opening balance 1 January 2019	**42**	**31**	**86**	**-**	**159**
Total net transfers	8	(14)	6	-	-
- to 12-month ECL not credit-impaired	*19*	*(17)*	*(2)*	-	-
- to lifetime ECL not credit-impaired	*(4)*	*15*	*(11)*	-	-
- to lifetime ECL credit-impaired	*(7)*	*(12)*	*19*	-	-
Net impairment (losses) / gains in income statement	2	18	34	-	54
- Re-measurement	*(7)*	*14*	*74*	-	*81*
- Net changes in exposure	*11*	*3*	*(44)*	-	*(30)*
- ECL model parameter and / or methodology changes	*(2)*	*1*	*4*	-	*3*
Impairment loss allowances utilised	-	-	(42)	-	(42)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	(4)	(8)	(13)	-	(25)
Impairment loss allowance at 31 December 2019	**48**	**27**	**71**	**-**	**146**

19 Loans and advances to customers *(continued)*

Group

2018 Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total impairment loss allowance £m
Opening balance 1 January 2018	34	32	127	-	193
Total net transfers	(18)	18	-	-	-
- to 12-month ECL not credit-impaired	12	(10)	(2)	-	-
- to lifetime ECL not credit-impaired	(28)	37	(9)	-	-
- to lifetime ECL credit-impaired	(2)	(9)	11	-	-
Net impairment (losses) / gains in income statement	26	(18)	38	-	46
- Re-measurement	27	(8)	56	-	75
- Net changes in exposure	9	(7)	(16)	-	(14)
- ECL model parameter and / or methodology changes	(10)	(3)	(2)	-	(15)
Impairment loss allowances utilised	-	-	(84)	-	(84)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	-	(1)	5	-	4
Impairment loss allowance at 31 December 2018	42	31	86	-	159

Bank

31 December 2019 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	16,178	3,164	287	1,048	20,677
Stage 2 - Lifetime ECL (not credit impaired)	267	125	88	34	514
Stage 3 - Lifetime ECL (credit impaired)	165	37	37	21	260
Purchased / originated credit-impaired	-	1	-	-	1
Gross carrying amount at 31 December 2019	**16,610**	**3,327**	**412**	**1,103**	**21,452**

31 December 2018 Gross carrying amount at amortised cost (before impairment loss allowance)	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	15,397	2,719	327	1,119	19,562
Stage 2 - Lifetime ECL (not credit impaired)	295	160	96	99	650
Stage 3 - Lifetime ECL (credit impaired)	188	40	79	27	334
Purchased / originated credit-impaired	-	-	-	-	-
Gross carrying amount at 31 December 2018	15,880	2,919	502	1,245	20,546

19 Loans and advances to customers *(continued)*

Bank

2019 **Gross carrying amount at amortised cost (before impairment loss allowance)**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total gross carrying amount £m**
Opening balance 1 January 2019	**19,562**	**650**	**334**	**-**	**20,546**
Total net transfers	(102)	(28)	130	-	-
- to 12-month ECL not credit-impaired	*778*	*(778)*	*-*	-	-
- to lifetime ECL not credit-impaired	*(821)*	*955*	*(134)*	-	-
- to lifetime ECL credit-impaired	*(59)*	*(205)*	*264*	-	-
Net changes in exposure	1,646	(59)	(150)	1	1,438
Impairment loss allowances utilised[1]	-	-	(39)	-	(39)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	(429)	(49)	(15)	-	(493)
Gross carrying amount at 31 December 2019	**20,677**	**514**	**260**	**1**	**21,452**

Bank

2018 Gross carrying amount at amortised cost (before impairment loss allowance)	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total gross carrying amount £m
Opening balance 1 January 2018	19,210	793	430	-	20,433
Total net transfers	(171)	17	154	-	-
- to 12-month ECL not credit-impaired	888	(886)	(2)	-	-
- to lifetime ECL not credit-impaired	(993)	1,107	(114)	-	-
- to lifetime ECL credit-impaired	(66)	(204)	270	-	-
Net changes in exposure	503	(162)	(170)	-	171
Impairment loss allowances utilised[1]	-	-	(81)	-	(81)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	20	2	1	-	23
Gross carrying amount at 31 December 2018	19,562	650	334	-	20,546

[1] *Impairment loss allowances utilised on loans and advances to customers at amortised cost during 2019 includes £15 million of contractual amounts outstanding that are still subject to enforcement activity.*

19 Loans and advances to customers *(continued)*

Bank

31 December 2019 **Impairment loss allowance**	**Residential mortgages £m**	**Non-property SME and corporate £m**	**Commercial property and construction £m**	**Consumer £m**	**Total £m**
Stage 1 - 12 month ECL (not credit impaired)	5	5	-	35	45
Stage 2 - Lifetime ECL not credit impaired	5	3	2	14	24
Stage 3 - Lifetime ECL credit impaired	14	18	12	18	62
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2019	**24**	**26**	**14**	**67**	**131**

31 December 2018 Impairment loss allowance	Residential mortgages £m	Non-property SME and corporate £m	Commercial property and construction £m	Consumer £m	Total £m
Stage 1 - 12 month ECL (not credit impaired)	5	4	-	32	41
Stage 2 - Lifetime ECL (not credit impaired)	6	5	1	17	29
Stage 3 - Lifetime ECL (credit impaired)	18	15	23	23	79
Purchased / originated credit-impaired	-	-	-	-	-
Impairment loss allowance at 31 December 2018	29	24	24	72	149

Bank

2019 **Impairment loss allowance**	**Stage 1 - 12 month ECL (not credit-impaired) £m**	**Stage 2 - Lifetime ECL (not credit-impaired) £m**	**Stage 3 - Lifetime ECL (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total impairment loss allowance £m**
Opening balance 1 January 2019	**41**	**29**	**79**	**-**	**149**
Total net transfers	6	(14)	8	-	-
- to 12-month ECL not credit-impaired	*16*	*(16)*	-	-	-
- to lifetime ECL not credit-impaired	*(4)*	*15*	*(11)*	-	-
- to lifetime ECL credit-impaired	*(6)*	*(13)*	*19*	-	-
Net impairment (losses) / gains in income statement	3	16	27	-	46
- Re-measurement	*(2)*	*12*	*67*	-	*77*
- Net changes in exposure	*7*	*3*	*(44)*	-	*(34)*
- ECL model parameter and / or methodology changes	*(2)*	*1*	*4*	-	*3*
Impairment loss allowances utilised	-	-	(38)	-	(38)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements[1]	(5)	(7)	(14)	-	(26)
Impairment loss allowance at 31 December 2019	**45**	**24**	**62**	**-**	**131**

[1] *Includes the disposal of credit cards in July 2019.*

19 Loans and advances to customers *(continued)*

Bank

2018 Impairment loss allowance	Stage 1 - 12 month ECL (not credit-impaired) £m	Stage 2 - Lifetime ECL (not credit-impaired) £m	Stage 3 - Lifetime ECL (credit-impaired) £m	Purchased / originated credit-impaired £m	Total impairment loss allowance £m
Opening balance 1 January 2018	32	30	121	-	183
Total net transfers	(19)	18	1	-	-
- to 12-month ECL not credit-impaired	10	(10)	-	-	-
- to lifetime ECL not credit-impaired	(28)	37	(9)	-	-
- to lifetime ECL credit-impaired	(1)	(9)	10	-	-
Net impairment (losses) / gains in income statement	28	(18)	33	-	43
- Re-measurement	29	(10)	52	-	71
- Net changes in exposure	8	(5)	(17)	-	(14)
- ECL model parameter and / or methodology changes	(9)	(3)	(2)	-	(14)
Impairment loss allowances utilised	-	-	(81)	-	(81)
Exchange adjustments	-	-	-	-	-
Measurement reclassification and other movements	-	(1)	5	-	4
Impairment loss allowance at 31 December 2018	**41**	**29**	**79**	**-**	**149**

Modified financial assets
The following table provides analysis of financial assets for which the contractual cash flows have been modified while they had an impairment loss allowance measured at an amount equal to lifetime expected credit loss, and where the modification did not result in derecognition.

There were no modification gains or losses recognised during the year.

	2019 £m	2018 £m
Financial assets modified during the period		
- Amortised cost before modification	27	46
Financial assets modified since initial recognition		
- Gross carrying amount of financial assets for which ILA has changed from lifetime to 12 month ECL during the year as at 31 December	40	28

20 Credit risk exposures

The following disclosures provide quantitative information about credit risk within financial instruments held by the Group. Details of the credit risk methodologies are set out on pages 43 to 46.

All disclosures for loans and advances to customers in this note also incorporate assets classified as held for sale (note 21).

In addition to credit risk, the primary risks affecting the Group through its use of financial instruments are: liquidity and funding risk and market risk. The Group's approach to the management of these risks, together with its approach to capital management, are set out in the Risk Management Report included on pages 30 to 57.

The table below illustrates the relationship between the Group's internal credit risk rating grades as used for credit risk management purposes and Probability of Default (PD) percentages, and further illustrates the indicative relationship with credit risk ratings used by external rating agencies.

Internal credit risk ratings

PD Grade	**PD %**	**Indicative 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

20 Credit risk exposures *(continued)*

Financial assets

Composition and risk profile

The table below summarises the composition and risk profile of the Group's financial assets subject to impairment.

Group

2019 **Financial asset exposure by stage** **(before impairment loss allowance)**	**Stage 1 - (not credit-impaired)** **£m**	**Stage 2 - (not credit-impaired)** **£m**	**Stage 3 - (credit-impaired)** **£m**	**Purchased or originated credit-impaired** **£m**	**Total** **£m**
Financial assets measured at amortised cost					
Loans and advances to customers	20,497	569	279	1	21,346
Loans and advances to banks	2,159	-	-	-	2,159
Debt securities	846	-	-	-	846
Other financial assets[1]	2,278	-	-	-	2,278
Total financial assets measured at amortised cost	**25,780**	**569**	**279**	**1**	**26,629**
Total	**25,780**	**569**	**279**	**1**	**26,629**

Group

2018 Financial asset exposure by stage (before impairment loss allowance)	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	19,357	694	348	-	20,399
Loans and advances to banks	2,349	-	-	-	2,349
Debt securities	915	-	-	-	915
Other financial assets[1]	2,736	-	-	-	2,736
Total financial assets measured at amortised cost	25,357	694	348	-	26,399
Total	**25,357**	**694**	**348**	**-**	**26,399**

[1] *At 31 December 2019, other financial assets includes cash and balances at central banks and items in the course of collection from other banks.*

20 Credit risk exposures *(continued)*

Bank

2019 Financial asset exposure by stage (before impairment loss allowance)	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	20,677	514	260	1	21,452
Loans and advances to banks	1,936	-	-	-	1,936
Debt securities	846	-	-	-	846
Other financial assets[1]	2,278	-	-	-	2,278
Total financial assets measured at amortised cost	**25,737**	**514**	**260**	**1**	**26,512**
Total	**25,737**	**514**	**260**	**1**	**26,512**

Bank

2018 Financial asset exposure by stage (before impairment loss allowance)	Stage 1 - (not credit-impaired) £m	Stage 2 - (not credit-impaired) £m	Stage 3 - (credit-impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	19,562	650	334	-	20,546
Loans and advances to banks	2,332	-	-	-	2,332
Debt securities	915	-	-	-	915
Other financial assets[1]	2,736	-	-	-	2,736
Total financial assets measured at amortised cost	25,545	650	334	-	26,529
Total	**25,545**	**650**	**334**	**-**	**26,529**

Impairment loss allowance

The impairment loss allowance on financial assets is set out in the tables below.

Group

2019 Impairment loss allowance on financial assets	**Stage 1 - (not credit-impaired) £m**	**Stage 2 - (not credit-impaired) £m**	**Stage 3 - (credit-impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	48	27	71	-	146
Loans and advances to banks	1	-	-	-	1
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total financial assets measured at amortised cost	**49**	**27**	**71**	**-**	**147**
Total net impairment loss allowance on financial assets	**49**	**27**	**71**	**-**	**147**

[1] *At 31 December 2019, other financial assets includes cash and balances at central banks and items in the course of collection from other banks.*

20 Credit risk exposures *(continued)*

Group

2018 Impairment loss allowance on financial assets	Stage 1 - (not credit- impaired) £m	Stage 2 - (not credit- impaired) £m	Stage 3 - (credit- impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	42	31	86	-	159
Loans and advances to banks	1	-	-	-	1
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total financial assets measured at amortised cost	43	31	86	-	160
Total net impairment loss allowance on financial assets	**43**	**31**	**86**	**-**	**160**

Bank

2019 Impairment loss allowance on financial assets	**Stage 1 - (not credit- impaired) £m**	**Stage 2 - (not credit- impaired) £m**	**Stage 3 - (credit- impaired) £m**	**Purchased or originated credit-impaired £m**	**Total £m**
Financial assets measured at amortised cost					
Loans and advances to customers	45	24	62	-	131
Loans and advances to banks	1	-	-	-	1
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total financial assets measured at amortised cost	**46**	**24**	**62**	**-**	**132**
Total net impairment loss allowance on financial assets	**46**	**24**	**62**	**-**	**132**

Bank

2018 Impairment loss allowance on financial assets	Stage 1 - (not credit- impaired) £m	Stage 2 - (not credit- impaired) £m	Stage 3 - (credit- impaired) £m	Purchased or originated credit-impaired £m	Total £m
Financial assets measured at amortised cost					
Loans and advances to customers	41	29	79	-	149
Loans and advances to banks	1	-	-	-	1
Debt securities	-	-	-	-	-
Other financial assets	-	-	-	-	-
Total financial assets measured at amortised cost	42	29	79	-	150
Total net impairment loss allowance on financial assets	**42**	**29**	**79**	**-**	**150**

20 Credit risk exposures *(continued)*

Loans and advances to customers at amortised cost

Composition and risk profile

The table below summarises the composition and risk profile of the Group's loans and advances to customers at amortised cost. In the tables for the Bank, balances with its subsidiaries, primarily Northridge Finance and Marshall Leasing, are included within the non-property SME and corporate portfolio.

Group

2019 Loans and advances to customers Composition and risk profile (before impairment loss allowance)	**Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**	**%**
Residential mortgages	16,445	165	16,610	78%
Non-property SME and corporate	1,287	40	1,327	6%
Commercial property and construction	375	37	412	2%
Consumer	2,959	38	2,997	14%
Total	**21,066**	**280**	**21,346**	**100%**
Impairment loss allowance on loans and advances to customers	**75**	**71**	**146**	**100%**

Group

2018 Loans and advances to customers Composition and risk profile (before impairment loss allowance)	Not credit-impaired £m	Credit-impaired £m	Total £m	%
Residential mortgages	15,692	188	15,880	78%
Non-property SME and corporate	1,279	41	1,320	7%
Commercial property and construction	423	79	502	2%
Consumer	2,657	40	2,697	13%
Total	20,051	348	20,399	100%
Impairment loss allowance on loans and advances to customers	73	86	159	100%

Bank

2019 Loans and advances to customers Composition and risk profile (before impairment loss allowance)	**Not credit-impaired £m**	**Credit-impaired £m**	**Total £m**	**%**
Residential mortgages	16,445	165	16,610	77%
Non-property SME and corporate	3,289	38	3,327	16%
Commercial property and construction	375	37	412	2%
Consumer	1,082	21	1,103	5%
Total	**21,191**	**261**	**21,452**	**100%**
Impairment loss allowance on loans and advances to customers	**69**	**62**	**131**	**100%**

20 Credit risk exposures *(continued)*

Bank 2018 Loans and advances to customers Composition and risk profile (before impairment loss allowance)	Not credit-impaired £m	Credit-impaired £m	Total £m	Total %
Residential mortgages	15,692	188	15,880	77%
Non-property SME and corporate	2,879	40	2,919	14%
Commercial property and construction	423	79	502	3%
Consumer	1,218	27	1,245	6%
Total	20,212	334	20,546	100%
Impairment loss allowance on loans and advances to customers	70	79	149	100%

Asset quality - not credit-impaired

The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers that are not credit-impaired.

Group 2019	**Stage 1**				**Stage 2**			
Not credit-impaired loans and advances to customers Composition and impairment loss allowance	**Loans £m**	**Loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of loans %**	**Loans £m**	**Loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of loans %**
Residential mortgages	16,178	76%	5	0.03%	267	1%	5	1.87%
Non-property SME and corporate	1,157	5%	3	0.26%	130	1%	3	2.31%
Commercial property and construction	287	1%	-	-	88	-	2	2.27%
Consumer	2,875	14%	40	1.39%	84	-	17	20.24%
Total	**20,497**	**96%**	**48**	**0.23%**	**569**	**2%**	**27**	**4.75%**

Group 2018	Stage 1				Stage 2			
Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Loans £m	Loans as % of total advances %	Impairment loss allowance £m	Impairment loss allowance as % of loans %	Loans £m	Loans as % of total advances %	Impairment loss allowance £m	Impairment loss allowance as % of loans %
Residential mortgages	15,397	75%	5	0.03%	295	1%	6	2.03%
Non-property SME and corporate	1,112	5%	3	0.27%	167	1%	5	2.99%
Commercial property and construction	327	2%	-	-	96	-	1	1.04%
Consumer	2,521	12%	34	1.35%	136	1%	19	13.97%
Total	19,357	94%	42	0.22%	694	3%	31	4.47%

20 Credit risk exposures *(continued)*

Bank 2019	**Stage 1**				**Stage 2**			
Not credit-impaired loans and advances to customers Composition and impairment loss allowance	**Loans £m**	**Loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of loans %**	**Loans £m**	**Loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of loans %**
Residential mortgages	16,178	75%	5	0.03%	267	1%	5	1.87%
Non-property SME and corporate	3,164	15%	5	0.16%	125	1%	3	2.40%
Commercial property and construction	287	1%	-	-	88	-	2	2.27%
Consumer	1,048	5%	35	3.34%	34	-	14	41.18%
Total	**20,677**	**96%**	**45**	**0.22%**	**514**	**2%**	**24**	**4.67%**

Bank 2018	Stage 1				Stage 2			
Not credit-impaired loans and advances to customers Composition and impairment loss allowance	Loans £m	Loans as % of total advances %	Impairment loss allowance £m	Impairment loss allowance as % of loans %	Loans £m	Loans as % of total advances %	Impairment loss allowance £m	Impairment loss allowance as % of loans %
Residential mortgages	15,397	75%	5	0.03%	295	1%	6	2.03%
Non-property SME and corporate	2,719	13%	4	0.15%	160	1%	5	3.13%
Commercial property and construction	327	2%	-	-	96	-	1	1.04%
Consumer	1,119	5%	32	2.86%	99	1%	17	17.17%
Total	19,562	95%	41	0.21%	650	3%	29	4.46%

20 Credit risk exposures *(continued)*

The table below provides analysis of the asset quality of loans and advances to customers at amortised cost that are not credit-impaired based on mapping the IFRS 9 twelve month probability of default (PD) of each loan to a PD grade based on the table provided on page 119.

Group 2019	**Residential mortgages**		**Non-property SME and corporate**		**Commercial property and construction**		**Consumer**		**Total**	
Not credit-impaired loans and advances to customers Asset quality - PD grade	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Stage 1										
1-4	7,081	43%	278	22%	115	31%	8	-	7,482	35%
5-7	8,365	51%	383	30%	158	42%	-	-	8,906	42%
8-9	519	3%	484	37%	14	4%	1,818	61%	2,835	14%
10-11	213	1%	12	1%	-	-	1,049	36%	1,274	6%
Total Stage 1	**16,178**	**98%**	**1,157**	**90%**	**287**	**77%**	**2,875**	**97%**	**20,497**	**97%**
Stage 2										
1-4	14	-	4	-	4	1%	-	-	22	-
5-7	40	-	60	5%	36	10%	-	-	136	1%
8-9	18	-	27	2%	19	5%	-	-	64	-
10-11	195	2%	39	3%	29	7%	84	3%	347	2%
Total Stage 2	**267**	**2%**	**130**	**10%**	**88**	**23%**	**84**	**3%**	**569**	**3%**
Not credit-impaired										
1-4	7,095	43%	282	22%	119	32%	8	-	7,504	35%
5-7	8,405	51%	443	35%	194	52%	-	-	9,042	43%
8-9	537	3%	511	39%	33	9%	1,818	61%	2,899	14%
10-11	408	3%	51	4%	29	7%	1,133	39%	1,621	8%
Total not credit-impaired	**16,445**	**100%**	**1,287**	**100%**	**375**	**100%**	**2,959**	**100%**	**21,066**	**100%**

Group 2018	Residential mortgages		Non-property SME and corporate		Commercial property and construction		Consumer		Total	
Not credit-impaired loans and advances to customers Asset quality - PD grade	£m	%	£m	%	£m	%	£m	%	£m	%
Stage 1										
1-4	6,572	42%	269	21%	185	44%	61	2%	7,087	35%
5-7	8,146	52%	409	32%	120	28%	1,422	54%	10,097	50%
8-9	471	3%	427	33%	22	5%	317	12%	1,237	6%
10-11	208	1%	7	1%	-	-	721	27%	936	5%
Total Stage 1	15,397	98%	1,112	87%	327	77%	2,521	95%	19,357	96%
Stage 2										
1-4	12	-	56	4%	13	3%	-	-	81	1%
5-7	36	-	35	3%	42	10%	1	-	114	1%
8-9	15	-	25	2%	20	5%	7	-	67	-
10-11	232	2%	51	4%	21	5%	128	5%	432	2%
Total Stage 2	295	2%	167	13%	96	23%	136	5%	694	4%
Not credit-impaired										
1-4	6,584	42%	325	25%	198	47%	61	2%	7,168	36%
5-7	8,182	52%	444	35%	162	38%	1,423	54%	10,211	51%
8-9	486	3%	452	35%	42	10%	324	12%	1,304	6%
10-11	440	3%	58	5%	21	5%	849	32%	1,368	7%
Total not credit-impaired	15,692	100%	1,279	100%	423	100%	2,657	100%	20,051	100%

20 Credit risk exposures *(continued)*

Bank 2019 Not credit-impaired loans and advances to customers Asset quality - PD grade	**Residential mortgages** £m	%	**Non-property SME and corporate** £m	%	**Commercial property and construction** £m	%	**Consumer** £m	%	**Total** £m	%
Stage 1										
1-4	7,081	43%	240	7%	115	31%	-	-	7,436	35%
5-7	8,365	51%	2,832	86%	158	42%	-	-	11,355	54%
8-9	519	3%	80	3%	14	4%	-	-	613	3%
10-11	213	1%	12	-	-	-	1,048	97%	1,273	6%
Total Stage 1	**16,178**	**98%**	**3,164**	**96%**	**287**	**77%**	**1,048**	**97%**	**20,677**	**98%**
Stage 2										
1-4	14	-	4	-	4	1%	-	-	22	-
5-7	40	-	60	2%	36	10%	-	-	136	1%
8-9	18	-	27	1%	19	5%	-	-	64	-
10-11	195	2%	34	1%	29	7%	34	3%	292	1%
Total Stage 2	**267**	**2%**	**125**	**4%**	**88**	**23%**	**34**	**3%**	**514**	**2%**
Not credit-impaired										
1-4	7,095	43%	244	7%	119	32%	-	-	7,458	35%
5-7	8,405	51%	2,892	88%	194	52%	-	-	11,491	55%
8-9	537	3%	107	4%	33	9%	-	-	677	3%
10-11	408	3%	46	1%	29	7%	1,082	100%	1,565	7%
Total not credit-impaired	**16,445**	**100%**	**3,289**	**100%**	**375**	**100%**	**1,082**	**100%**	**21,191**	**100%**

Bank 2018 Not credit-impaired loans and advances to customers Asset quality - PD grade	Residential mortgages £m	%	Non-property SME and corporate £m	%	Commercial property and construction £m	%	Consumer £m	%	Total £m	%
Stage 1										
1-4	6,572	42%	2,233	77%	185	44%	55	5%	9,045	45%
5-7	8,146	52%	401	14%	120	28%	221	18%	8,888	44%
8-9	471	3%	78	3%	22	5%	122	10%	693	3%
10-11	208	1%	7	-	-	-	721	59%	936	5%
Total Stage 1	15,397	98%	2,719	94%	327	77%	1,119	92%	19,562	97%
Stage 21										
1-4	12	-	56	2%	13	3%	-	-	81	-
5-7	36	-	36	1%	42	10%	-	-	114	1%
8-9	15	-	24	1%	20	5%	8	1%	67	-
10-11	232	2%	44	2%	21	5%	91	7%	388	2%
Total Stage 2	295	2%	160	6%	96	23%	99	8%	650	3%
Not credit-impaired										
1-4	6,584	42%	2,289	79%	198	47%	55	5%	9,126	45%
5-7	8,182	52%	437	15%	162	38%	221	18%	9,002	45%
8-9	486	3%	102	4%	42	10%	130	11%	760	3%
10-11	440	3%	51	2%	21	5%	812	66%	1,324	7%
Total not credit-impaired	15,692	100%	2,879	100%	423	100%	1,218	100%	20,212	100%

20 Credit risk exposures *(continued)*

The table below summarises the composition and impairment loss allowance of the Group's loans and advances to customers at amortised cost that are credit-impaired (i.e. stage 3).

All loans and advances to customers that are greater than 90 days past due are classified as being credit-impaired. All credit-impaired loans and advances to customers are risk rated PD grade 12.

Group 2019 **Credit-impaired loans and advances to customers Composition and impairment loss allowance**	**Credit-impaired loans £m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of credit-impaired loans %**
Residential mortgages	165	1%	14	8%
Non-property SME and corporate	40	-	19	48%
Commercial property and construction	37	-	12	32%
Consumer	38	-	26	68%
Total credit-impaired	**280**	**1%**	**71**	**25%**

Group 2018 Credit-impaired loans and advances to customers Composition and impairment loss allowance	Credit-impaired loans £m	Credit-impaired loans as % of total advances %	Impairment loss allowance £m	Impairment loss allowance as % of credit-impaired loans %
Residential mortgages	188	1%	18	10%
Non-property SME and corporate	41	-	16	39%
Commercial property and construction	79	1%	23	29%
Consumer	40	-	29	73%
Total credit-impaired	**348**	**2%**	**86**	**25%**

Bank 2019 **Credit-impaired loans and advances to customers Composition and impairment loss allowance**	**Credit-impaired loans £m**	**Credit-impaired loans as % of total advances %**	**Impairment loss allowance £m**	**Impairment loss allowance as % of credit-impaired loans %**
Residential mortgages	165	1%	14	8%
Non-property SME and corporate	38	-	18	47%
Commercial property and construction	37	-	12	32%
Consumer	21	-	18	86%
Total credit-impaired	**261**	**1%**	**62**	**24%**

20 Credit risk exposures *(continued)*

Bank
2018

Credit-impaired loans and advances to customers Composition and impairment loss allowance	Credit-impaired loans £m	Credit-impaired loans as % of total advances %	Impairment loss allowance £m	Impairment loss allowance as % of credit-impaired loans %
Residential mortgages	188	1%	18	10%
Non-property SME and corporate	40	-	15	38%
Commercial property and construction	79	1%	23	29%
Consumer	27	-	23	85%
Total credit-impaired	334	2%	79	24%

Risk profile of forborne and non-forborne loans and advances to customers

Group

2019 **Loans and advances to customers at amortised cost - Composition**	**Stage 1 (not credit-impaired) £m**	**Stage 2 (not credit-impaired) £m**	**Stage 3 (credit-impaired) £m**	**Purchased / originated credit-impaired £m**	**Total £m**
Non-forborne loans and advances to customers					
Residential mortgages	16,177	204	129	-	16,510
Non-property SME and corporate	1,157	104	6	1	1,268
Commercial property and construction	287	60	1	-	348
- Investment	*255*	*52*	*1*	-	*308*
- Land and development	*32*	*8*	-	-	*40*
Consumer	2,875	84	38	-	2,997
Total non-forborne loans and advances to customers	**20,496**	**452**	**174**	**1**	**21,123**
Forborne loans and advances to customers					
Residential mortgages	1	63	36	-	100
Non-property SME and corporate	-	26	33	-	59
Commercial property and construction	-	28	36	-	64
- Investment	-	*24*	*27*	-	*51*
- Land and development	-	*4*	*9*	-	*13*
Consumer	-	-	-	-	-
Total forborne loans and advances to customers	**1**	**117**	**105**	**-**	**223**

20 Credit risk exposures *(continued)*

Group 2018 (Restated)[1] 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 £m	Total £m
Non-forborne loans and advances to customers					
Residential mortgages	15,396	237	149	-	15,782
Non-property SME and corporate[1]	1,112	126	13	-	1,251
Commercial property and construction[1]	327	43	10	-	380
- Investment[1]	*300*	40	10	-	350
- Land and development	*27*	3	-	-	30
Consumer[1]	2,521	136	40	-	2,697
Total non-forborne loans and advances to customers	19,356	542	212	-	20,110
Forborne loans and advances to customers					
Residential mortgages	1	58	39	-	98
Non-property SME and corporate	-	41	28	-	69
Commercial property and construction	-	53	69	-	122
- Investment	-	49	57	-	106
- Land and development	-	4	12	-	16
Consumer	-	-	-	-	-
Total forborne loans and advances to customers	1	152	136	-	289

The Group mitigates its credit risk by taking collateral, which may take a variety of forms as set out in section 2.1.3 of the risk management report. The most material type of secured lending is residential mortgages, for which collateral information is given in the table below.

Group	**Standard**		**Buy to let**		**Self certified**		**Total**		
2019 **Loan to value (LTV) ratio of total 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%	1,985	18	1,743	11	279	12	4,007	41	4,048
51% to 70%	2,901	25	2,854	19	253	17	6,008	61	6,069
71% to 80%	1,976	11	912	10	73	8	2,961	29	2,990
81% to 90%	2,492	8	153	5	42	7	2,687	20	2,707
91% to 100%	739	6	12	2	7	2	758	10	768
Subtotal	**10,093**	**68**	**5,674**	**47**	**654**	**46**	**16,421**	**161**	**16,582**
101% to 120%	10	1	3	1	3	-	16	2	18
121% to 150%	5	1	1	-	2	-	8	1	9
Adjusted Greater than 150%	1	-	-	-	-	-	1	-	1
Subtotal	**16**	**2**	**4**	**1**	**5**	**-**	**25**	**3**	**28**
Total	**10,109**	**70**	**5,678**	**48**	**659**	**46**	**16,446**	**164**	**16,610**
Weighted average LTV[2]:									
Stock of mortgages at period end	67%	64%	57%	63%	53%	63%	63%	64%	63%
New mortgages during year	76%	87%	61%	53%	58%	65%	73%	68%	73%

[1] *The table above has been restated so that it reconciles to the Group's credit risk data.*
[2] *Weighted average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

20 Credit risk exposures *(continued)*

Group	Standard		Buy to let		Self certified		Total		
2018 Loan to value (LTV) ratio of total 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%	1,968	21	1,770	13	300	14	4,038	48	4,086
51% to 70%	3,081	24	2,721	21	285	20	6,087	65	6,152
71% to 80%	1,802	13	788	11	82	10	2,672	34	2,706
81% to 90%	1,998	8	181	7	47	6	2,226	21	2,247
91% to 100%	603	7	25	3	12	4	640	14	654
Subtotal	9,452	73	5,485	55	726	54	15,663	182	15,845
101% to 120%	14	2	2	1	2	2	18	5	23
121% to 150%	6	1	1	-	2	-	9	1	10
Adjusted Greater than 150%	2	-	-	-	-	-	2	-	2
Subtotal	22	3	3	1	4	2	29	6	35
Total	9,474	76	5,488	56	730	56	15,692	188	15,880
Weighted average LTV[1]:									
Stock of mortgages at period end	65%	64%	56%	64%	54%	65%	62%	64%	62%
New mortgages during year	76%	69%	60%	75%	53%	-	72%	70%	72%

Repossessed collateral on residential mortgages
At 31 December 2019 and 31 December 2018 the Group held collateral as security on residential mortgages as detailed in the table.

Repossessed properties are sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

Group	**2019**		2018	
Repossessed collateral	**Number of repossessions as at balance sheet date**	**Balance outstanding £m**	Number of repossessions as at balance sheet date	Balance outstanding £m
Residential properties				
Owner occupier	20	2	8	1
Buy to let	18	2	24	2
Self certified	6	1	3	-
Total	**44**	**5**	**35**	**3**

Industry analysis of loans and advances to customers
The following table provides an industry breakdown of total loans (before impairment loss allowances).

Group **Total loans - by industry analysis**	**2019 £m**	2018 £m
Residential mortgages	16,610	15,880
Finance leases and hire purchase	2,245	1,756
Credit cards	-	564
Personal loans	1,103	681
Commercial property and construction	412	502
Business and other services	632	714
Manufacturing and distribution	344	289
Other	-	13
Total	**21,346**	**20,399**

[1] *Weighted average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

20 Credit risk exposures *(continued)*

Debt securities at amortised cost - asset quality

For Group and Bank all debt securities were PD grade 1-4 and stage 1 at 31 December 2019 and 31 December 2018. The impairment loss allowance at 31 December 2019 was £0.1 million (2018: £0.2 million).

Loans and advances to banks at amortised cost - asset quality

For Group and Bank all loans and advances to banks were PD grade 1-4 and stage 1 at 31 December 2019 and 31 December 2018. The impairment loss allowance at 31 December 2019 was £1 million (2018: £1 million).

Other financial instruments - asset quality

Other financial instruments as set out in the table below include instruments that are not within the scope of IFRS 9 or are not subject to impairment under IFRS 9. These include derivative financial instruments. The table summarises the asset quality of these financial instruments by equivalent external risk ratings.

	Group		Bank	
Other financial instruments with ratings equivalent to:	**2019 £m**	2018 £m	**2019 £m**	2018 £m
Aaa to Aa3	-	-	-	-
A1 to A3	41	32	41	32
Baa1 to Baa3	-	-	-	-
Total	**41**	**32**	**41**	**32**

Exposures by country
The following tables provide an analysis of the Group's exposure to sovereign debt and other country exposures (primarily financial institution exposure), by selected balance sheet line item, as at 31 December 2019 and 31 December 2018. In addition, for these line items, further information is included on the Group's exposures to selected countries and their associated credit ratings from Moody's.

Group
2019

Asset quality: exposures by country	**Credit rating[1]**	**Cash and balances[2] £m**	**Loans and advances to banks[3] £m**	**Debt securities at amortised cost[4] £m**	**Derivative financial instruments £m**	**Total £m**
Ireland	A2	-	759	-	36	795
United Kingdom	Aa2	2,134	1,389	484	5	4,012
Other	-	-	10	362	-	372
Total	**-**	**2,134**	**2,158**	**846**	**41**	**5,179**

2018

Asset quality: exposures by country	Credit rating[1]	Cash and balances[2] £m	Loans and advances to banks[3] £m	Debt securities at amortised cost[4] £m	Derivative financial instruments £m	Total £m
Ireland	A2	-	931	-	31	962
United Kingdom	Aa2	2,567	1,406	639	1	4,613
Other	-	-	11	276	-	287
Total	-	2,567	2,348	915	32	5,862

[1] *Based on credit ratings from Moody's.*
[2] *Cash and balances in the United Kingdom primarily consist of amounts placed with the Bank of England.*
[3] *Loans and advances to banks in Ireland consist primarily of balances with the Parent and balances in the United Kingdom consist primarily of the Bank of England required collateral for notes in circulation.*
[4] *Debt securities at amortised cost consist of UK Government gilts, Supranational bonds and UK covered bonds.*

21 Assets classified as held for sale

Assets classified as held for sale in 2018 represented the gross carrying value of the UK consumer credit cards portfolio net of related impairment loss allowance together with related accrued interest receivable. This portfolio continued to be classified as such in 2019 up to its disposal in July 2019. See note 13 for further details.

Group and Bank	2019 £m	2018 £m
Gross carrying amount	-	564
Impairment loss allowance	-	(27)
Accrued interest	-	2
Total assets held for sale	**-**	**539**

22 Interest in joint venture and joint operations

Joint arrangement	Holding	Classification	Country of operation	Nature of activities
First Rate Exchange Services Holdings Limited (FRESH)	50%	Joint venture	UK	Sale of foreign exchange products through the UK Post Office network
AA Financial Services	n/a	Joint operation	UK	Sale of AA branded personal loans, savings, mortgages and credit cards[1]

Joint venture
The Group owns 50% of the shares in FRESH, a company incorporated in the United Kingdom which provides foreign exchange services.

The following table shows the movement in the Group's interest in FRESH during the years ended 31 December 2019 and 31 December 2018.

The investment in FRESH is unquoted and is measured using the equity method of accounting. There are no significant restrictions on the ability of this entity to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group, nor is there any unrecognised share of losses either for the year ended 31 December 2019 or cumulatively in respect of this entity. The Group does not have any further commitments or contingent liabilities in respect of this entity other than its investment to date.

There are no significant risks associated with the joint venture that have been identified which require disclosure.

	2019 £m	2018 £m
At 1 January	62	61
Share of profit after taxation (note 12)	30	33
Dividends received	(28)	(33)
Other	-	1
At 31 December	**64**	**62**

The following amounts represent the Group's 50% share of the revenue, expenses, assets and liabilities of FRESH for the year ended 31 December 2019 and the year ended 31 December 2018.

	2019 £m	2018 £m
Revenue	66	69
Expenses	(29)	(28)
Profit before taxation	**37**	**41**
Taxation charge	(7)	(8)
Profit after taxation	**30**	**33**
Non-current assets	8	7
Current assets	232	237
Total assets	**240**	**244**
Current liabilities	(176)	(182)
Total liabilities	**(176)**	**(182)**
Net assets	**64**	**62**

Joint operation – AA Financial Services
In July 2015, the Group entered into a strategic partnership with AA Financial Services for the sale of AA branded personal loans, savings, mortgages and credit cards[1].

The above joint arrangement has been accounted for as a joint operation, on the basis that it is not a separate legal entity.

The Group combines its share of the joint operation in individual income and expenses, assets and liabilities and cash flows on a line-by-line basis.

[1] *AA branded credit cards were sold as part of the UK consumer credit cards portfolio on 11 July 2019. See note 13 for further details.*

23 Intangible assets and goodwill

Group	2019				2018			
	Goodwill £m	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m	Goodwill £m	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m
Cost								
At 1 January	30	35	87	152	30	35	87	152
Acquisitions	-	-	-	-	-	-	-	-
Additions	-	1	-	1	-	-	-	-
At 31 December	**30**	**36**	**87**	**153**	**30**	**35**	**87**	**152**
Accumulated amortisation								
At 1 January	-	(34)	(64)	(98)	-	(34)	(57)	(91)
Charge to the income statement (note 9)	-	-	(7)	(7)	-	-	(7)	(7)
At 31 December	**-**	**(34)**	**(71)**	**(105)**	**-**	**(34)**	**(64)**	**(98)**
Net book value at 31 December	**30**	**2**	**16**	**48**	**30**	**1**	**23**	**54**

Bank	2019				2018			
	Goodwill £m	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m	Goodwill £m	Computer software internally generated £m	Other externally purchased intangible assets £m	Total £m
Cost								
At 1 January	-	34	76	110	-	34	76	110
Acquisitions	-	-	-	-	-	-	-	-
Additions	-	1	-	1	-	-	-	-
At 31 December	**-**	**35**	**76**	**111**	**-**	**34**	**76**	**110**
Accumulated amortisation								
At 1 January	-	(34)	(62)	(96)	-	(34)	(57)	(91)
Charge to the income statement	-	-	(6)	(6)	-	-	(5)	(5)
At 31 December	**-**	**(34)**	**(68)**	**(102)**	**-**	**(34)**	**(62)**	**(96)**
Net book value at 31 December	**-**	**1**	**8**	**9**	**-**	**-**	**14**	**14**

Goodwill of £30 million (2018: £30 million) relates to Marshall Leasing Limited. The Group also has intangible assets of £8 million (2018: £10 million) relating to Marshall Leasing Limited.

Goodwill is not amortised as it is deemed to have an indefinite useful life. The Group's investment in Marshall Leasing Limited has been reviewed for impairment.

Other intangible assets have also been reviewed for any indication that impairment may have occurred. No impairment of either goodwill or intangible assets was identified in the year ended 31 December 2019 or 31 December 2018.

Further detail on the impairment review, including assumptions and sensitivities, is set out in the critical accounting estimates and judgements on page 99.

24 Property, plant and equipment

The historical cost of property, plant and equipment held at fair value at 31 December 2019 was £22 million (2018: £22 million). No depreciation is charged on freehold land and buildings and long leaseholds, as these are revalued annually.

Group

2019	**Computer and other equipment[1] £m**	**Freehold land and buildings and long leaseholds (held at fair value) £m**	**Vehicles leased under operating leases £m**	**Right of use asset - Buildings £m**	**Total £m**
Cost or valuation at 31 December 2018	1	24	113	-	138
Impact of adopting IFRS 16 at 1 January 2019 (note 46)	-	-	-	22	22
Opening balance at 1 January 2019	**1**	**24**	**113**	**22**	**160**
Acquisitions	-	-	-	-	-
Additions	1	-	45	-	46
Disposals/ write offs	(1)	-	(34)	-	(35)
Revaluation recognised in OCI	-	1	-	-	1
Other movements	-	-	-	(3)	(3)
As at 31 December 2019	**1**	**25**	**124**	**19**	**169**
Accumulated depreciation at 31 December 2018	**-**	**-**	**(21)**	**-**	**(21)**
Impact of adopting IFRS 16 at 1 January 2019 (note 46)	-	-	-	-	-
Accumulated depreciation at 1 January 2019	**-**	**-**	**(21)**	**-**	**(21)**
Disposals / write offs	-	-	18	-	18
Charge for the year[3]	-	-	(25)	(3)	(28)
As at 31 December 2019	**-**	**-**	**(28)**	**(3)**	**(31)**
Net book value at 31 December 2019	**1**	**25[2]**	**96**	**16**	**138**

Group

2018	Computer and other equipment £m	Freehold land and buildings and long leaseholds (held at fair value) £m	Vehicles leased under operating leases £m	Total £m
Cost or valuation				
At 1 January	1	23	82	106
Acquisition of subsidiary undertakings	-	-	-	-
Revaluation adjustments	-	1	-	1
Additions	-	-	43	43
Disposals / write offs	-	-	(12)	(12)
At 31 December	1	24	113	138
Accumulated depreciation				
At 1 January	-	-	(2)	(2)
Disposals / write offs	-	-	2	2
Charge for the year	-	-	(21)	(21)
At 31 December	-	-	(21)	(21)
Net book value at 31 December	1	24	92	117

[1] *All of which is related to own-use.*
[2] *Includes £4 million of which is subject to operating leases.*
[3] *Depreciation on vehicles leased under operating leases is included in other leasing expense (note 5).*

24 Property, plant and equipment *(continued)*

Bank

2019	**Freehold land and buildings and long leaseholds (held at fair value) £m**	**Right of use asset - Buildings £m**	**Total £m**
Cost or valuation at 31 December 2018	24	-	24
Impact of adopting IFRS 16 at 1 January 2019 (note 46)	-	22	22
Opening balance at 1 January 2019	**24**	**22**	**46**
Revaluation recognised in OCI	1	-	1
Other movements	-	(3)	(3)
As at 31 December 2019	**25**	**19**	**44**
Accumulated depreciation at 31 December 2018	**-**	**-**	**-**
Impact of adopting IFRS 16 at 1 January 2019 (note 46)	-	-	-
Accumulated depreciation at 1 January 2019	**-**	**-**	**-**
Charge for the year	-	(3)	(3)
As at 31 December 2019	**-**	**(3)**	**(3)**
Net book value at 31 December 2019	**25[1]**	**16**	**41**

Bank

Freehold land and buildings and long leaseholds (held at fair value)	2018 £m
Cost or valuation	
At 1 January	23
Revaluation adjustments	1
Additions	-
At 31 December	24
Accumulated depreciation	
At 1 January	-
Charge for the year	-
At 31 December	-
Net book value at 31 December	24

[1] *Includes £4 million of which is subject to operating leases.*

24 Property, plant and equipment *(continued)*

For vehicles leased under operating leases, the annual depreciation charge is calculated using residual values which represent the estimated net sales proceeds expected from the sale of the assets at the end of the operating lease period. Due to the inherent uncertainty associated with such valuation methodology and in particular the volatility of prices of second hand vehicles, the carrying value of the residual values may differ from their realisable value.

Management is careful to ensure that exposure to residual value risk is effectively managed to minimise the company's exposure to residual value risk. The residual values used mirror those utilised in the creation of the original client contract. Management benchmark internal residual values for the existing fleet of vehicles against industry standard valuation tools by third party providers. The residual values for the entire portfolio are reassessed using an independent valuation tool on a monthly basis throughout the life of the underlying contracts, with adjustments being made if required. The process of realising asset values is effectively managed to maximise net sale proceeds.

Depreciation on vehicles leased under operating leases is presented within net leasing income. See note 5.

The following residual values are included in the calculation of the net book value of fixed assets held for use in operating leases:

Group	2019 £m	2018 £m
Within 1 year	26	23
1 – 2 years	14	18
Greater than 2 years	17	14
Total	**57**	**55**

At 31 December 2019 and 31 December 2018 there was no future capital expenditure authorised by the Directors but not contracted for, or contracted for but not provided for.

In 2018, under IAS 17, the Group had commitments on future rentals under non-cancellable operating leases as follows:

Operating leases	Group 2018 £m	Bank 2018 £m
Not later than 1 year	4	4
Later than 1 year and not later than 5 years	16	16
Later than 5 years	19	19
	39	**39**

The Group has the following amounts of minimum lease receivables under non-cancellable operating leases as follows:

Operating lease receivables	Group		Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Not later than 1 year	23	23	1	-
Later than 1 year and not later than 5 years	26	24	2	3
Later than 5 years	-	-	-	-
	49	**47**	**3**	**3**

25 Other assets

Other assets	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
Sundry and other receivables	66	55	62	51
Accounts receivable and prepayments	28	26	27	24
Interest receivable	14	16	15	17
Trade receivables	3	5	3	5
Other assets	**111**	**102**	**107**	**97**
Amounts include:				
Due from the Parent	-	-	-	-
Maturity profile of other assets				
Amounts receivable within 1 year	102	89	98	85
Amounts receivable after 1 year	9	13	9	12
Total	**111**	**102**	**107**	**97**

26 Deferred tax

	Group 2019 £m	Group 2018 £m	Bank 2019 £m	Bank 2018 £m
The movement on the deferred tax account is as follows:				
At 1 January	85	71	80	65
Impact of adopting IFRS 9 at 1 January 2018	-	13	-	12
Income statement charge for the year (note 14)	(44)	(5)	(43)	(5)
Cash flow hedges - credit / (charge) to other comprehensive income	-	6	-	6
Additional tier 1 - credit to equity	-	1	-	1
Other movements	-	(1)	(1)	1
At 31 December	**41**	**85**	**36**	**80**
Deferred tax assets and liabilities are attributable to the following items:				
Deferred tax assets				
Unutilised tax losses	30	72	30	72
Fixed / leased assets	6	7	1	1
IFRS 9 transitional adjustment	9	11	9	10
Total deferred tax assets	**45**	**90**	**40**	**83**
Deferred tax liabilities				
Cash flow hedges	(2)	(2)	(2)	(2)
Deferred tax on property held at fair value	(1)	(1)	(1)	(1)
Other	(1)	(2)	(1)	-
Total deferred tax liabilities	**(4)**	**(5)**	**(4)**	**(3)**
Represented on the balance sheet as follows:				
Deferred tax assets	41	85	36	80
Total deferred tax	**41**	**85**	**36**	**80**

In accordance with IAS 12, when presenting the deferred tax balances, the Group offsets deferred tax assets and deferred tax liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

The deferred tax asset includes an amount of £30 million (2018: £72 million) in respect of operating losses which are available to shelter future profits from tax.

The recognition of a deferred tax asset in respect of tax losses carried forward requires the Directors to be satisfied that it is probable that the Group will have

26 Deferred tax *(continued)*

sufficient future taxable profits against which the losses can be utilised. In that regard, the Group estimates the period over which it will utilise its tax losses carried forward. These estimates are based on the Group's profitability projections which cover a 5 year planning period. These profitability projections are based on its agreed strategic priorities where the focus will be to increase overall returns, improve cost efficiencies and grow sustainable profits and incorporate 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. For the purposes of estimating when its tax losses will be utilised, the Group does not assume any annual growth in profits after the Group's five year planning period.

As set out on page 98, the Group believe that the Bank will continue to be profitable for the foreseeable future but acknowledge the external challenges facing the banking industry including the continued low interest rate environment and the uncertainty around the impact of Brexit on the UK economy. Therefore, notwithstanding the absence of any expiry date for trading losses in the UK, but acknowledging that profits forecasts become increasingly uncertain as the forecast period extends into the future, the Group have determined that, at 31 December 2019, the recognition of deferred tax assets in respect of tax losses of the Bank will be limited by reference to the amount of losses that are expected to be utilised within a 10 year period of projected profits. This 10 year timescale is supported by forecast taxable profits and takes into account the Group's long-term financial and strategic plans and reflects the period over which the Group believes it can conclude that it is probable that future taxable profits will be available in the Bank.

As a consequence, the carrying value of the deferred tax asset relating to trading losses of the Bank has been reduced by £40 million in the year ended 31 December 2019 (31 December 2018: £nil).

27 Deposits from banks

	Group		Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Deposits from banks	**3,500**	**3,152**	**3,496**	**3,148**
Amounts include:				
Due to the Parent	1,980	1,651	1,977	1,646

Deposits from banks includes £1,278 million (2018: £1,278 million) of borrowings under the Bank of England Term Funding Scheme, which is secured primarily with mortgage loans and partly with notes issued by Bowbell 2 plc, and £200 million (2018: £200 million) borrowed under the Bank of England Indexed Long - Term Repo scheme, which is collateralised with notes issued by Bowbell 2 plc. Drawings under the Term Funding Scheme will be repaid within four years from the date of drawdown. The interest charged is based on the quantum of net lending by the Bank and by the Parent's UK branch to UK resident households, private non-financial corporations and certain non-bank credit providers from June 2016 to December 2017.

Amounts due to the Parent relates to borrowings in place to fund and manage interest rate risk on the Group's assets. Refer to note 17 for details of amounts due from the Parent, and note 42 in respect of changes in these balances during 2019.

28 Customer accounts

	Group		Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Term deposits	7,018	6,985	7,029	7,028
Demand deposits	9,101	9,854	9,207	9,866
Non-interest bearing current accounts	2,788	2,661	2,788	2,661
Interest bearing current accounts	168	269	168	269
Customer accounts	**19,075**	**19,769**	**19,192**	**19,824**
Amounts include:				
Share of joint operation (note 22)	764	706	764	706
Due to entities controlled by the Parent	9	8	9	8
Due to subsidiaries	-	-	115	55

29 Debt securities in issue

	Group		Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Residential mortgage backed securities	307	-	-	-
Floating rate senior non preferred notes	300	-	300	-
Total debt securities in issue	**607**	**-**	**300**	**-**

The residential mortgage backed securities were issued in June 2019 by the Group's securitisation entity, Bowbell 2 plc. For further information refer to note 44.

The floating rate senior non preferred notes were issued to the Parent on 11 December 2019, in order to meet the Group's indicative internal requirements for Minimum Requirement for Eligible Liabilities (MREL).

30 Other liabilities

	Group		Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Notes in circulation	1,073	1,143	1,073	1,143
Accrued interest payable	82	68	81	68
Sundry payables	85	99	67	79
Accruals and deferred income	32	8	32	8
Other liabilities	**1,272**	**1,318**	**1,253**	**1,298**
Amounts include:				
Due to the Parent	4	3	4	3
Share of joint operation (note 22)	9	7	9	7
Maturity profile of other liabilities				
Amounts payable within 1 year	1,272	1,318	1,253	1,298
Amounts payable after 1 year	-	-	-	-

The Bank is authorised to issue banknotes in Northern Ireland under the Bank of Ireland (UK) plc Act 2012.

31 Provisions

As at 31 December 2019, the Group has provisions of £29 million remaining relating to various costs associated with the disposal of the consumer credit card portfolio (see note 13) and the associated migration costs. The initial provision was £33 million of which £4 million was utilised by 31 December 2019. The provision is based upon management's current estimates of the length of the migration period and the related costs.

In addition the Group has provisions of £1 million relating to potential payments to customers in relation to various compliance matters.

2019	**Group £m**	**Bank £m**
Closing balance 31 December 2018	7	6
Net charge to the income statement	33	33
Utilised during the year	(10)	(9)
At 31 December	**30**	**30**
Expected utilisation period		
Used within 1 year	30	30
Used after 1 year	-	-

32 Loss allowance provision on loan commitments and financial guarantees

Loan commitments and guarantees and irrevocable letters of credit have been classified and measured in accordance with IFRS 9. This involves measuring the loss allowance provision for loan commitments and financial guarantees and irrevocable letters of credit on a 12 month or lifetime ECL approach.

At 31 December 2019, the Group held an impairment loss allowance of £3 million (2018: £7 million) on loan commitments and financial guarantees, of which £1 million are classified as stage 1 (2018: £7 million), £nil as stage 2 (2018: £nil) and £2 million as stage 3 (2018: £nil).

Group	2019		2018	
2019	Amount £m	Loss allowance £m	Amount £m	Loss allowance £m
Loan commitments (note 35)	1,537	3	3,792	7
Guarantees and irrevocable letters of credit (note 35)	20	-	11	-
	1,557	3	3,803	7

Bank	2019		2018	
2019	Amount £m	Loss allowance £m	Amount £m	Loss allowance £m
Loan commitments (note 35)	1,497	3	3,760	7
Guarantees and irrevocable letters of credit (note 35)	20	-	11	-
	1,517	3	3,771	7

Group 2019	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	160	11%	1	3%	161	11%	18	90%	-	-	18	90%
5-7	1,110	74%	24	75%	1,134	74%	2	10%	-	-	2	10%
8-9	216	14%	3	9%	219	14%	-	-	-	-	-	-
10-11	7	1%	4	13%	11	1%	-	-	-	-	-	-
Total	1,493	100%	32	100%	1,525	100%	20	100%	-	-	20	100%

Group 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	2,051	55%	20	25%	2,071	55%	7	70%	-	-	7	70%
5-7	1,470	40%	12	15%	1,482	39%	2	20%	-	-	2	20%
8-9	150	4%	10	13%	160	4%	1	10%	-	-	1	10%
10-11	35	1%	38	47%	73	2%	-	-	-	-	-	-
Total	3,706	100%	80	100%	3,786	100%	10	100%	-	-	10	100%

32 Loss allowance provision on loan commitments and financial guarantees *(continued)*

Bank 2019	**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	120	8%	1	3%	121	8%	18	90%	-	-	18	90%
5-7	1,110	76%	24	75%	1,134	76%	2	10%	-	-	2	10%
8-9	216	15%	3	9%	219	15%	-	-	-	-	-	-
10-11	7	1%	4	13%	11	1%	-	-	-	-	-	-
Total	**1,453**	**100%**	**32**	**100%**	**1,485**	**100%**	**20**	**100%**	**-**	**-**	**20**	**100%**

Bank 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	2,019	55%	20	25%	2,039	54%	7	70%	-	-	7	70%
5-7	1,470	40%	12	15%	1,482	40%	2	20%	-	-	2	20%
8-9	150	4%	10	13%	160	4%	1	10%	-	-	1	10%
10-11	35	1%	38	47%	73	2%	-	-	-	-	-	-
Total	**3,674**	**100%**	**80**	**100%**	**3,754**	**100%**	**10**	**100%**	**-**	**-**	**10**	**100%**

The tables above for Group and Bank show the loan commitments and guarantees and irrevocable letters of credit by PD grade for stage 1 and stage 2. The remaining balances for Group and Bank of £12 million (2018: £6 million) on loan commitments and £0.2 million (2018: £1 million) on guarantees and irrevocable letters of credit are stage 3.

33 Retirement benefit obligations

The Group's employees' membership of a particular pension scheme is dependent on their specific employment contract. Where an employee is seconded directly to the Group, the Group only incurs the cost of the future service contribution to those particular schemes. The Group does not have any liability for payment in respect of increases to pension contributions arising from any historic or future shortfall in the pension assets relative to the pension liabilities of the BOI Group operated schemes. Consequently, the schemes have been accounted for as defined contribution schemes in these financial statements and where applicable will be included in the disclosures for defined benefit schemes in the financial statements of BOI Group.

NIIB Group Limited (1975) Pension Scheme (the 'NIIB scheme')
The NIIB defined benefit scheme is based on final pensionable salary and operates for eligible employees of NIIB Group Limited and its subsidiaries. Contributions by the company and the employees are invested in a trustee-administered fund. As the scheme's underlying assets and liabilities are identifiable as those of the Group the scheme has been accounted for as a defined benefit scheme (as set out in the accounting policy for pension obligations) and the disclosures set out in the remainder of this note relate to this scheme.

In determining the level of contributions required to be made to the scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, Willis Towers Watson.

The scheme has been closed to new members since late 2006.

Regulatory framework
The NIIB scheme operates under the UK pension regulatory framework. Benefits are paid to members from a trustee-administered fund. The trustees are responsible for ensuring that the plan is sufficiently funded to meet current and future benefit payments. If the plan experience is worse than expected, the Group's obligations are increased.

Plan details at last valuation date (1 May 2019)	By number	By % of scheme liability
Scheme members		
Active	66	41
Deferred	116	26
Pensioners / dependants	71	33

Under UK pensions legislation, the trustees must agree a funding plan with the Group such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level of contributions required, triennial valuations are carried out with the scheme's obligations measured using prudent assumptions (relative to those used to measure accounting liabilities) and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

The trustees' other duties include managing the investment of the plan assets, administration of the plan benefits, ensuring contributions are received, compliance with relevant legislation and exercising of discretionary powers. The Group works closely with the trustees, who manage the plan.

Actuarial valuation of the NIIB scheme
A formal valuation of the NIIB scheme was carried out as at 1 May 2016. The funding method used measures liabilities taking account of the projected future levels of pensionable earnings at the time of commencement of benefits i.e. at normal retirement date. Discussions in relation to the valuation were completed in 2017 and a schedule of contributions and recovery plan, setting out how the shortfall in the scheme will be met, was agreed between the trustees and the Group and submitted to, and signed off by, the Pensions Regulator.

Under the schedule of contributions the Group agreed to make contributions of £1.31 million by 1 August 2017 plus £1.095 million by 1 April 2018, to meet the shortfall in the scheme of £3.0 million as at the date of the triennial valuation, in addition to the cost of future benefit accrual. The formal valuation at 1 May 2019 of the NIIB scheme is currently underway.

Plan details
The above table sets out details of the membership of the NIIB scheme as at 1 May 2019.

Financial and demographic assumptions
The assumptions used in calculating the costs and obligations of the NIIB scheme, as detailed below, were set after consultation with Willis Towers Watson.

The discount rate used to determine the present value of the obligations is set by reference to market yields on corporate bonds. The methodology was updated at the end of 2017, primarily to remove a number of bonds that did not obviously meet the criteria of 'corporate bonds' from the universe considered.

The methodology used to determine the assumption for retail price inflation uses an inflation curve derived by Willis Towers Watson using market data which reflects the characteristics of the Bank's liabilities with an appropriate adjustment to reflect distortions due to supply and demand. The assumption for consumer price inflation is set by reference to retail price inflation, with an adjustment applied, as no consumer price inflation linked bonds exist.

The salary assumption takes into account inflation, seniority, promotion and current employment market relevant to the Group.

33 Retirement benefit obligations *(continued)*

Financial assumptions

The financial assumptions used in measuring the Group's defined benefit asset / liability under IAS 19 are set out in the table below.

Financial assumptions	2019 % p.a.	2018 % p.a.
Consumer price inflation	1.95	2.20
Retail price inflation	2.95	3.20
Discount rate	2.10	2.95
Rate of general increase in salaries	3.45	3.70
Rate of increase in pensions in payment	3.00	3.00
Rate of increase in deferred pensions	1.95	2.20

Mortality assumptions

The mortality assumptions adopted are outlined in the table below.

Post retirement mortality assumptions	2019 Years	2018 Years
Longevity at age 70 for current pensioners		
Men	18.0	18.6
Women	19.4	20.0
Longevity at age 60 for active members currently aged 60 years		
Men	27.1	27.8
Women	28.8	29.4
Longevity at age 60 for active members currently aged 40 years		
Men	28.6	29.4
Women	30.4	31.0

Amounts recognised in financial statements

The table below outlines where the Group's defined benefit plans are recognised in the financial statements.

	2019 £m	2018 £m
Total charge in operating expenses	**(1)**	**(1)**
Total gain in remeasurements[1]	**1**	**(1)**
Total asset in the balance sheet	**9**	**8**

A pension asset is recognised on the basis that the Group has an unconditional right to a refund.

[1] *Shown before deferred tax.*

33 Retirement benefit obligations *(continued)*

The movement in the net defined benefit asset / obligation is as follows:

	2019			2018		
	Present value of obligation £m	**Fair value of plan assets £m**	**Surplus / (deficit) of plan £m**	Present value of obligation £m	Fair value of plan assets £m	Surplus / (deficit) of plan £m
At 1 January	**(37)**	**45**	**8**	**(38)**	**46**	**8**
Current service cost	(1)	-	(1)	(1)	-	(1)
Interest (expense) / income	(1)	1	-	(1)	1	-
Total amount in recognised income statement	**(2)**	**1**	**(1)**	**(2)**	**1**	**(1)**
Return on plan assets not included in income statement	-	7	7	-	(3)	(3)
Change in demographic assumptions	1	-	1	-	-	-
Change in financial assumptions	(6)	-	(6)	2	-	2
Experience losses	(1)	-	(1)	-	-	-
Total remeasurements in other comprehensive income	**(6)**	**7**	**1**	**2**	**(3)**	**(1)**
Benefit payments	1	(1)	-	1	(1)	-
Employer contributions	-	1	1	-	2	2
Other	-	-	-	-	-	-
Other movements	**1**	**0**	**1**	**1**	**1**	**2**
At 31 December	**(44)**	**53**	**9**	**(37)**	**45**	**8**

Asset breakdown	**2019 £m**	2018 £m
Equities (quoted)[1]	17	27
Corporate bonds	11	-
Liability Driven Investment (LDI)	8	-
Indexed linked government bonds (quoted)[1]	-	18
Cash	17	-
Total fair value of assets	**53**	**45**

Sensitivity of defined benefit obligation to key assumptions
The table sets out how the defined benefit obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible at 31 December 2019.

Some of the changes in assumptions may have an impact on the value of the scheme's investment holdings. For example, the plan holds a proportion of its assets in Liability Driven Investments (LDI). A fall in the rate of inflation would be expected to lead to a reduction in the value of these assets, thus partly offsetting the reduction in the defined benefit obligation. The extent to which these sensitivities are managed is discussed further below.

Impact on defined benefit obligation	**Change in assumptions (%)**	**Increase in assumptions £m**	**Decrease in assumptions £m**
Discount rate	0.25%	(2.3)	2.5
Inflation[2]	0.10%	0.5	(0.5)
Salary growth	0.10%	0.2	(0.2)
Life expectancy	1 year	1.5	(1.5)

[1] *These are held indirectly against managed funds.*
[2] *Including other inflation-linked assumptions (consumer price inflation, pension increases, salary growth).*

33 Retirement benefit obligations *(continued)*

Future cash flows
The plan's liabilities represent a long-term obligation and most of the payments due under the plan will occur several decades into the future. The duration, or average term to payment for the benefits due, weighted by liability, is 22 years.

Expected employer contributions for the year ended 31 December 2020 are £0.6 million. Expected employee contributions for the year ended 31 December 2020 are £57,000.

Years	Benefit payments from plan assets £m
2020 - 2029	(12)
2030 - 2039	(17)
2040 - 2049	(20)
2050 - 2059	(18)
2060 - 2069	(10)
2070 - 2079	(4)
2080 - 2089	(1)
2090 - 2099	-
Total	**(82)**

Risks and risk management
The NIIB scheme has a number of areas of risk. The key areas of risk, and the ways in which the Group has sought to manage them, are set out in the table below.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

Risk	Description
Asset volatility	The funding liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio. The defined benefit obligation in the Group's financial statements is calculated using a discount rate set with reference to high quality corporate bond yields. The plan holds a proportion of its assets in equities. The returns on such assets tend to be volatile and are not correlated to government bonds. This means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net defined benefit liability recorded on the balance sheet.
Changes in bond yields	Interest rate and inflation risks, along with equity risk, are the scheme's largest risks. From an accounting liability perspective, the scheme is also exposed to movements in corporate bond spreads. The scheme uses investment Liability Driven Investments (LDI) to assist in managing its interest rate and inflation risk. This portfolio is used to broadly hedge against movements in long-term interest rates and inflation expectations. The portfolio does not completely eliminate risk and addresses only a portion of the scheme's interest rate and inflation risks. Furthermore, it does not hedge against changes in the credit spread available on corporate bonds used to derive the accounting liabilities. The investment in LDI offers a degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is reduced.
Inflation risk	A significant proportion of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plan against inflation.
Life expectancy	The majority of the plan's obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plan's liabilities.

34 Subordinated liabilities

	Group		Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
£200 million subordinated floating rate notes 2025[1]	200	200	200	200
£90 million subordinated floating rate notes 2027[2]	90	90	90	90
Subordinated liabilities	**290**	**290**	**290**	**290**

	Group		Bank	
Movement on subordinated liabilities	**2019 £m**	2018 £m	**2019 £m**	2018 £m
At 1 January	290	290	290	290
Issued during the year	-	-	-	-
Repurchased	-	-	-	-
At 31 December	**290**	**290**	**290**	**290**

These liabilities constitute unsecured obligations of the Group to its Parent, subordinated in right of payments to the claim of depositors, and other unsubordinated creditors of the Group. The subordinated liabilities meet the definition of a financial liability as the Group does not have an unconditional right to avoid the repayment of the principal or interest. Therefore, the liabilities are recognised on the balance sheet at amortised cost, using the effective interest method.

All of the current notes are redeemable in whole but not in part, subject to the prior approval of the PRA, on the fifth anniversary of their drawdown date. In the event of a wind up of the Group, the loans will become immediately due and payable without demand, together with all interest accrued thereon.

35 Contingent liabilities and commitments

	Group		Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Contingent liabilities				
Guarantees and irrevocable letters of credit	20	11	20	11
Other contingent liabilities	9	4	9	4
Total contingent liabilities	**29**	**15**	**29**	**15**
Loan commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend				
- revocable or irrevocable with original maturity of 1 year or less	1,477	3,741	1,437	3,709
- irrevocable with original maturity of over 1 year	60	51	60	51
Total commitments	**1,537**	**3,792**	**1,497**	**3,760**

The table sets out the contractual amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral, or security prove worthless. Loss allowance provisions of £3 million (2018: £7 million) recognised on loan commitments and guarantees and irrevocable letters of credit are shown in note 32. Provisions on all other contingent liabilities and commitments are shown in note 31 (where applicable).

Guarantees and letters of credit are given as security to support the performance of a customer to third parties. As the Group will be required to meet these obligations only in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

[1] *Initial call date 26 November 2020. If not repaid at this point, they are due in full on their final maturity date of 26 November 2025. They bear interest at a floating rate of 4.225% per annum above the sterling LIBOR three month rate.*

[2] *Initial call date 19 December 2022. If not repaid at this point, they are due in full on their maturity date of 19 December 2027. They bear interest at a floating rate of 2.72% per annum above the sterling LIBOR three month rate.*

35 Contingent liabilities and commitments *(continued)*

Other contingent liabilities primarily include performance bonds and are generally short term commitments to third parties which are not directly dependent on the customer's credit worthiness. Other contingent liabilities also include documentary credits which commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

In February 2019, the Group received a letter before claim from investors in Eclipse film finance schemes asserting various claims in connection with the design, promotion and operation of such schemes. The Group's involvement in these schemes was limited to the provision of commercial finance. The Group was not the designer, promoter or operator in respect of any of the schemes.

Commitments to lend are agreements to lend to a customer in the future, subject to certain conditions.

36 Share capital

	Group		Bank	
Ordinary shares	**2019 £m**	2018 £m	**2019 £m**	2018 £m
At 1 January	851	851	851	851
Capital reduction during the year (note 37)	(596)	-	(596)	-
At 31 December	**255**	**851**	**255**	**851**

At 31 December 2019 and at 31 December 2018, the Bank had 851 million shares in issue, all of which were held by the Parent and were fully paid. The Bank's authorised share captial at 31 December 2019 and 31 December 2018 was £2.5 billion.

37 Capital restructure

On 4 June 2019 the UK High Court of Justice approved the Bank's application to reduce its share capital by £596 million from £851 million to £255 million, by means of a reduction in the nominal value of each share from £1 to £0.30, thereby increasing distributable reserves, and to cancel the capital redemption reserve of £300 million. These reductions gave rise to an increase in retained earnings totalling £896 million.

38 Other equity instruments

	Group		Bank	
	2019 £m	2018 £m	**2019 £m**	2018 £m
At 1 January and 31 December	300	300	300	300

Other equity instruments consist of Additional tier 1 securities held by the Parent:
- £200 million issued on 1 May 2015; and
- £100 million issued on 26 November 2015.

The principal terms of the Additional tier 1 securities are as follows:
- the securities constitute direct, unsecured and subordinated obligations of the Group, rank behind tier 2 instruments and in priority to ordinary shareholders;
- the securities bear a fixed rate of interest (7.9% for the May 2015 issuance; 8.4% for the November 2015 issuance) until the first call date (1 May 2020 and 26 November 2020 respectively). After the initial call date, in the event that they are not redeemed, the Additional tier 1 securities will bear interest at rates fixed periodically in advance for five-year periods based on market rates at that time;
- the Group may elect at its sole and full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any interest payment date;
- the securities have no fixed redemption date, and the security holders will have no right to require the Group to redeem or purchase the securities at any time;
- the Group may, in its sole and full discretion, but subject to the satisfaction of certain conditions, elect to redeem all (but not some only) of the securities on the initial call date or on any interest payment date thereafter. In addition, the Additional tier 1 securities are repayable, at the option of the Group, due to certain regulatory or tax reasons. Any repayments require the prior consent of the regulatory authorities; and
- the securities will convert into ordinary shares if the Group's CET 1 ratio (on a CRD IV full implementation basis) falls below 7%.

39 Liquidity risk

The tables below summarise the maturity profile of the Group's financial liabilities, at 31 December 2019 and at 31 December 2018, based on contractual undiscounted repayment obligations. See also Risk Management section 2.2 for details of the maturity of assets and liabilities on a discounted basis.

The Group does not manage liquidity risk on the basis of contractual maturity. Instead, the Group manages liquidity risk based on expected cash flows. The balances shown below will not agree directly to the consolidated balance sheet because the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

Customer accounts include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in a financial penalty being paid by the customer. For such accounts the portion subject to the potential early access has been classified accordingly in the table below as 'demand'.

Group 2019 Maturity profile of financial liabilities	**Demand £m**	**0-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	267	10	1,837	1,427	11	3,552
Lease liabilities	-	1	2	14	5	22
Customer accounts	13,608	1,719	2,573	1,323	-	19,223
Debt securities in issue	-	29	4	24	717	774
Subordinated liabilities	-	3	10	52	310	375
Contingent liabilities	29	-	-	-	-	29
Commitments	485	40	952	60	-	1,537
Total	**14,389**	**1,802**	**5,378**	**2,900**	**1,043**	**25,512**

2018 Maturity profile of financial liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	396	8	1,244	1,537	20	3,205
Customer accounts	14,541	1,711	2,295	1,362	-	19,909
Subordinated liabilities	-	4	10	57	326	397
Contingent liabilities	15	-	-	-	-	15
Commitments	2,947	32	762	51	-	3,792
Total	17,899	1,755	4,311	3,007	346	27,318

Bank 2019 Maturity profile of financial liabilities	**Demand £m**	**0-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Deposits from banks	264	10	1,837	1,427	11	3,549
Lease liabilities	-	1	2	14	5	22
Customer accounts	13,714	1,722	2,577	1,328	-	19,341
Debt securities in issue	-	-	2	6	300	308
Subordinated liabilities	-	3	10	52	310	375
Contingent liabilities	29	-	-	-	-	29
Commitments	485	-	952	60	-	1,497
Total	**14,492**	**1,736**	**5,380**	**2,887**	**626**	**25,121**

2018 Maturity profile of financial liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Deposits from banks	392	8	1,244	1,537	20	3,201
Customer accounts	14,552	1,722	2,319	1,370	-	19,963
Subordinated liabilities	-	4	10	57	326	397
Contingent liabilities	15	-	-	-	-	15
Commitments	2,947	-	762	51	-	3,760
Total	17,906	1,734	4,335	3,015	346	27,336

39 Liquidity risk *(continued)*

The table below summarises the maturity profile of the Group's derivative liabilities. The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities are classified according to their contractual maturity.

Group and Bank 2019 Maturity profile of derivative liabilities	**Demand £m**	**0-3 months £m**	**3-12 months £m**	**1-5 years £m**	**Over 5 years £m**	**Total £m**
Gross settled derivative liabilities - outflows	(4)	(78)	(96)	(8)	-	(186)
Gross settled derivative liabilities - inflows	3	75	92	7	-	177
Gross settled derivative liabilities - net flows	(1)	(3)	(4)	(1)	-	(9)
Net settled derivative liabilities	-	(7)	(12)	(28)	(2)	(49)
Total derivatives cash flows	**(1)**	**(10)**	**(16)**	**(29)**	**(2)**	**(58)**

2018 Maturity profile of derivative liabilities	Demand £m	0-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Gross settled derivative liabilities - outflows	(2)	(70)	(56)	(12)	-	(140)
Gross settled derivative liabilities - inflows	2	64	53	12	-	131
Gross settled derivative liabilities - net flows	-	(6)	(3)	-	-	(9)
Net settled derivative liabilities	-	(6)	(8)	(18)	-	(32)
Total derivatives cash flows	-	(12)	(11)	(18)	-	(41)

40 Measurement basis of financial assets and financial liabilities

The tables below analyse the carrying amounts of the financial assets and financial liabilities, by accounting treatment and by balance sheet heading.

Group	**At fair value through profit or loss**				
2019	**Mandatorily £m**	**Designated £m**	**Held at amortised cost £m**	**Derivatives designated as hedging instruments £m**	**Total £m**
Financial assets					
Cash and balances with central banks	-	-	2,134	-	2,134
Items in the course of collection from other banks	-	-	144	-	144
Derivative financial instruments	20	-	-	21	41
Loans and advances to banks	-	-	2,158	-	2,158
Debt securities at amortised cost	-	-	846	-	846
Loans and advances to customers	-	-	21,200	-	21,200
Assets classified as held for sale	-	-	-	-	-
Total financial assets	**20**	**-**	**26,482**	**21**	**26,523**
Financial liabilities					
Deposits from banks	-	-	3,500	-	3,500
Customer accounts	-	-	19,075	-	19,075
Items in the course of transmission to other banks	-	-	95	-	95
Derivative financial instruments	14	-	-	45	59
Debt securities in issue	-	-	607	-	607
Lease liabilities	-	-	20	-	20
Loss allowance provision on loan commitments and financial guarantees	-	-	3	-	3
Subordinated liabilities	-	-	290	-	290
Total financial liabilities	**14**	**-**	**23,590**	**45**	**23,649**

40 Measurement basis of financial assets and financial liabilities *(continued)*

Group

2018	At fair value through profit or loss Mandatorily £m	Designated £m	Held at amortised cost £m	Derivatives designated as hedging instruments £m	Total £m
Financial assets					
Cash and balances with central banks	-	-	2,567	-	2,567
Items in the course of collection from other banks	-	-	168	-	168
Derivative financial instruments	18	-	-	14	32
Loans and advances to banks	-	-	2,348	-	2,348
Debt securities at amortised cost	-	-	915	-	915
Loans and advances to customers	-	-	19,703	-	19,703
Assets classified as held for sale	-	-	539	-	539
Total financial assets	18	-	26,240	14	26,272
Financial liabilities					
Deposits from banks	-	-	3,152	-	3,152
Customer accounts	-	-	19,769	-	19,769
Items in the course of transmission to other banks	-	-	106	-	106
Derivative financial instruments	11	-	-	32	43
Loss allowance provision on loan commitments and financial guarantees	-	-	7	-	7
Subordinated liabilities	-	-	290	-	290
Total financial liabilities	11	-	23,324	32	23,367

Bank

2019	**At fair value through profit or loss Mandatorily £m**	**Designated £m**	**Held at amortised cost £m**	**Derivatives designated as hedging instruments £m**	**Total £m**
Financial assets					
Cash and balances with central banks	-	-	2,134	-	2,134
Items in the course of collection from other banks	-	-	144	-	144
Derivative financial instruments	20	-	-	21	41
Loans and advances to banks	-	-	1,935	-	1,935
Debt securities at amortised cost	-	-	846	-	846
Loans and advances to customers	-	-	21,321	-	21,321
Assets classified as held for sale	-	-	-	-	-
Total financial assets	**20**	**-**	**26,380**	**21**	**26,421**
Financial liabilities					
Deposits from banks	-	-	3,496	-	3,496
Customer accounts	-	-	19,192	-	19,192
Items in the course of transmission to other banks	-	-	95	-	95
Derivative financial instruments	14	-	-	45	59
Debt securities in issue	-	-	300	-	300
Lease liabilities	-	-	20	-	20
Loss allowance provision on loan commitments and financial guarantees	-	-	3	-	3
Subordinated liabilities	-	-	290	-	290
Total financial liabilities	**14**	**-**	**23,396**	**45**	**23,455**

Business Review Risk Management Governance Financial Statements Other Information

40 Measurement basis of financial assets and financial liabilities *(continued)*

Bank

2018	At fair value through profit or loss: Mandatorily £m	At fair value through profit or loss: Designated £m	Held at amortised cost £m	Derivatives designated as hedging instruments £m	Total £m
Financial assets					
Cash and balances with central banks	-	-	2,567	-	2,567
Items in the course of collection from other banks	-	-	168	-	168
Derivative financial instruments	18	-	-	14	32
Loans and advances to banks	-	-	2,331	-	2,331
Debt securities at amortised cost	-	-	915	-	915
Loans and advances to customers	-	-	19,860	-	19,860
Assets classified as held for sale	-	-	539	-	539
Total financial assets	18	-	26,380	14	26,412
Financial liabilities					
Deposits from banks	-	-	3,148	-	3,148
Customer accounts	-	-	19,824	-	19,824
Items in the course of transmission to other banks	-	-	106	-	106
Derivative financial instruments	11	-	-	32	43
Loss allowance provision on loan commitments and financial guarantees	-	-	7	-	7
Subordinated liabilities	-	-	290	-	290
Total financial liabilities	11	-	23,375	32	23,418

41 Fair value of assets and liabilities

Fair value of assets and liabilities
Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include DCF models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or recent arm's length market transactions.

These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. Transfers between different levels are assessed at the end of all reporting periods.

(a) Financial assets and liabilities recognised and subsequently measured at fair value
All financial instruments are initially recognised at fair value. The Group subsequently measures derivatives and certain other financial assets and liabilities designated or mandatorily at fair value through profit or loss at fair value in the balance sheet. These instruments are shown as at fair value through profit or loss in note 40 on the measurement basis of financial assets and liabilities. A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below.

Derivative financial instruments
The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of DCF and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, foreign exchange rates, equity prices and counterparty credit (level 2 inputs).

(b) Financial assets and liabilities held at amortised cost
For financial assets and liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

Loans and advances to banks
The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on discounted cash flows, using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

Loans and advances to customers
Loans and advances to customers are carried net of provisions for impairment. The fair value of both fixed and variable rate loans and advances to customers is estimated using valuation techniques, which include:

- recent arm's length transactions in similar assets (level 2 inputs); and
- the discounting of estimated future cash flows at current market rates, incorporating the impact of current credit spreads and margins. The fair value reflects both loan impairments at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans (level 3 inputs).

Debt securities at amortised cost
For these assets where an active market exists, fair value has been determined directly from observable market prices (level 1 inputs) or yields through a recognised pricing source or an independent broker, price-provider or investment bank (level 2 inputs).

Deposits from banks and customer accounts
The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits and other borrowings without quoted market prices is based on discounted cash flows, using interest rates for new deposits with similar remaining maturity (level 2 inputs).

Debt securities in issue
For those instruments where an active market exists, fair value has been determined through an independent broker/investment bank or estimated by benchmarking the yield against similar bonds issued by the Parent, which have similar maturity dates (level 2 inputs).

Subordinated liabilities
As quoted market prices are not available, the fair value is estimated by benchmarking the yield against similar bonds issued by the Parent, which have similar maturity dates (level 2 inputs).

(c) Fair value of non-financial assets
Property
A revaluation of Group property was carried out as at 31 December 2019. All freehold and long leasehold commercial properties were valued by Lisney (or its partner, Sanderson Weatherall) as external valuers. Lisney 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.

41 Fair value of assets and liabilities *(continued)*

Group	2019				2018			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	2,161	-	2,161	-	2,353	-	2,353
Debt securities at amortised cost	847	-	-	847	918	-	-	918
Loans and advances to customers	-	-	20,986	20,986	-	-	20,128[1]	20,128
Total	847	2,161	20,986	23,994	918	2,353	20,128	23,399
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	3,513	-	3,513	-	3,161	-	3,161
Customer accounts	-	19,097	-	19,097	-	19,780	-	19,780
Debt securities in issue	-	609	-	609				
Subordinated liabilities	-	296	-	296	-	282	-	282
Total	-	23,515	-	23,515	-	23,223	-	23,223

Bank	2019				2018			
	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Fair value of financial assets held at amortised cost								
Loans and advances to banks	-	1,939	-	1,939	-	2,336	-	2,336
Debt securities at amortised cost	847	-	-	847	918	-	-	918
Loans and advances to customers	-	-	21,130	21,130	-	-	20,288[1]	20,288
Total	847	1,939	21,130	23,916	918	2,336	20,288	23,542
Fair value of financial liabilities held at amortised cost								
Deposits from banks	-	3,509	-	3,509	-	3,156	-	3,156
Customer accounts	-	19,214	-	19,214	-	19,835	-	19,835
Debt securities in issue	-	300	-	300				
Subordinated liabilities	-	296	-	296	-	282	-	282
Total	-	23,319	-	23,319	-	23,273	-	23,273

[1] *Inclusive of loans and advances to customers which are classified as assets held for sale at 31 December 2018.*

41 Fair value of assets and liabilities *(continued)*

Group and Bank	2019				2018			
	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								
Derivative financial instruments	-	41	-	41	-	32	-	32
Non-financial assets held at fair value								
Property held at fair value	-	-	25	25	-	-	24	24
Total assets held at fair value	**-**	**41**	**25**	**66**	**-**	**32**	**24**	**56**
As a % of fair value assets	**-**	**62%**	**38%**	**100%**	**-**	**57%**	**43%**	**100%**
Financial liabilities held at fair value								
Derivative financial instruments	-	59	-	59	-	43	-	43
Total financial liabilities held at fair value	**-**	**59**	**-**	**59**	**-**	**43**	**-**	**43**
As a % of fair value liabilities	**-**	**100%**	**-**	**100%**	**-**	**100%**	**-**	**100%**

There were no transfers between levels 1, 2 or 3 during the year ended 31 December 2019 or 31 December 2018.

Movements in level 3 assets

	Group		Bank	
Property held at fair value	**2019 £m**	2018 £m	**2019 £m**	2018 £m
At 1 January	24	23	24	23
Additions	-	-	-	-
Revaluation of property	1	1	1	1
At 31 December	**25**	**24**	**25**	**24**

Quantitative information about fair value measurements using significant unobservable inputs (level 3)

Group and Bank			Fair Value		Range	
Level 3 assets	**Valuation technique**	**Unobservable input**	**2019 £m**	2018 £m	**2019 %**	2018 %
Property held at fair value	Market comparable property transactions	Property valuation assumptions	25	24	Third party pricing	Third party pricing

41 Fair value of assets and liabilities *(continued)*

The carrying amount and the fair value of the Group's financial assets and liabilities which are carried at amortised cost are set out in the table below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

	Group				Bank			
	2019		2018		**2019**		2018	
	Carrying amount £m	**Fair values £m**	Carrying amount £m	Fair values £m	**Carrying amount £m**	**Fair values £m**	Carrying amount £m	Fair values £m
Financial Assets								
Loans and advances to banks	2,158	2,161	2,348	2,353	1,935	1,939	2,331	2,336
Debt securities at amortised cost	846	847	915	918	846	847	915	918
Loans and advances to customers[1]	21,200	20,986	20,240	20,128	21,321	21,130	20,397	20,288
Financial Liabilities								
Deposits from banks	3,500	3,513	3,152	3,161	3,496	3,509	3,148	3,156
Customer accounts	19,075	19,097	19,769	19,780	19,192	19,214	19,824	19,835
Debt securities in issue	607	609	-	-	300	300	-	-
Subordinated liabilities	290	296	290	282	290	296	290	282

42 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions or one other party controls both. The definition includes subsidiaries, joint ventures and the Parent, as well as key management personnel.

(a) Parent

The immediate parent and owner of the entire share capital of the Group is The Governor and Company of the Bank of Ireland, a corporation established in Ireland in 1783 under Royal Charter.

Bank of Ireland Group plc is listed as the holding company and ultimate parent of the Bank of Ireland Group and Bank of Ireland (UK) plc. The results of the Group are consolidated in the Bank of Ireland Group plc financial statements, which are available at Bank of Ireland, Head Office, 40 Mespil Road, Dublin 4, Ireland being the registered office of the immediate and ultimate Parent (website: www.bankofireland.com).

The Governor and Company of the Bank of Ireland acts as guarantor for the Bank in its transactions with the Bank of England (including its subsidiary, the Bank of England Asset Purchase Facility Fund Limited). If in any circumstances the Bank fails to make payment of guaranteed amounts to the Bank of England or does not perform any of its other obligations under the relevant agreement, the Governor and Company of the Bank of Ireland may be required to pay the amounts or perform its obligations upon written demand from the Bank of England.

The Group receives a range of services from its Parent and related parties, including loans and deposits, forward exchange, interest rate cover including derivatives and various administrative services. In the course of operating its business, the Group utilises a number of key services from its Parent, which are subject to a number of Service Level Agreements and costs, and these are disclosed in note 9 of the financial statements.

Other transactions with the Parent in 2019 and 2018

(i) On 24 October 2019 a dividend payment of £100 million was paid to the Parent. (2018: £70 million)

(ii) On 1 May 2019 a coupon payment of £16 million was paid to the Parent in relation to the £200 million Additional tier 1 instrument (2018: £16 million) (refer to note 38). On 26 November 2019 a coupon payment of £8 million was paid to the Parent in relation to the £100 million Additional tier 1 instrument (2018: £8 million) (refer to note 38).

(iii) On 4 June 2019 the UK High Court of Justice approved the Bank's application to reduce its share capital, which is all held by the Parent, by £596 million from £851 million to £255 million, by means of a reduction in the nominal value of each share from £1 to £0.30, thereby increasing distributable reserves, and to cancel the capital redemption reserve of £300 million. These reductions gave rise to an increase in retained earnings totalling £896 million.

(iv) On 11 December 2019, £300 million floating rate senior non preferred notes were issued to the Parent, in order to meet the Group's indicative internal requirements for Minimum Requirement for Eligible Liabilities (MREL). These are disclosed as debt securities in issue.

(b) Pension funds

The Group provides a range of normal banking and financial services, which are not material to the Group, to various pension funds operated by the Bank of Ireland Group for the benefit of employees, which are conducted on similar terms to third party transactions.

[1] *Including assets classified as held for sale £nil (2018: £537 million). See note 19.*

42 Related party transactions *(continued)*

Group

Summary - Parent[1]	2019 £m	2018 £m
Income statement		
Interest income (note 3)	(2)	(1)
Interest expense (note 4)	(32)	(26)
Fees and commissions expense (note 6)	(8)	(8)
Net trading (expense) / income (note 7)	(22)	33
Operating expenses paid for services provided (note 9)	(173)	(219)
Total	**(237)**	**(221)**
Assets		
Loans and advances to banks (note 17)	552	930
Loans and advances to customers (note 19)	6	6
Other assets (note 25)	-	-
Derivatives (note 16)	37	31
Total assets	**595**	**967**
Liabilities		
Deposits from banks (note 27)	1,980	1,651
Customer accounts (note 28)	9	8
Debt securities in issue (note 29)	300	-
Other liabilities (note 30)	4	3
Derivatives (note 16)	54	35
Subordinated liabilities (note 34)	290	290
Total liabilities	**2,637**	**1,987**
Net exposure	**(2,042)**	**(1,020)**

At 31 December 2019 and 2018 the Parent also held the AT1 securities of £300 million issued by the Bank which are classified as other equity instruments (see note 38).

[1] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*

42 Related party transactions *(continued)*

Bank	2019			2018		
	Parent[1] £m	**Joint venture £m**	**Total £m**	Parent[1] £m	Joint venture £m	Total £m
Income statement						
Interest income	(2)	-	(2)	(1)	-	(1)
Interest expense	(32)	-	(32)	(26)	-	(26)
Fees and commission expense	(8)	-	(8)	(8)	-	(8)
Net trading expense	(22)	-	(22)	33	-	33
Other operating income	-	30	30	-	33	33
Operating expenses paid for services provided	(169)	-	(169)	(215)	-	(215)
Total income / (expense)	**(233)**	**30**	**(203)**	**(217)**	**33**	**(184)**
Assets						
Loans and advances to banks	544	-	544	923	-	923
Loans and advances to customers	6	-	6	6	-	6
Other assets	-	-	-	-	-	-
Derivatives	37	-	37	31	-	31
Total assets	**587**	**-**	**587**	**960**	**-**	**960**
Liabilities						
Deposits from banks	1,977	-	1,977	1,646	-	1,646
Customer accounts	9	-	9	8	-	8
Debt securities in issue	300	-	300	-	-	-
Other liabilities	4	-	4	3	-	3
Derivatives	54	-	54	35	-	35
Subordinated liabilities	290	-	290	290	-	290
Total liabilities	**2,634**	**-**	**2,634**	**1,982**	**-**	**1,982**
Net exposure	**(2,047)**	**-**	**(2,047)**	**(1,022)**	**-**	**(1,022)**

(c) Transactions with key management personnel

i. Loans to Directors

The following information is presented in accordance with Section 413 of the Companies Act 2006. For the purposes of the Companies Act disclosures, 'Directors' means the Board of Directors and any past Directors who were Directors during the relevant year.

All loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons, unconnected with the Group and of similar financial standing. They do not involve more than the normal risk of collectability.

Group **(i)** **Companies Act disclosures Loans to Directors 2019**	**Balance as at 1 January 2019[2] £'000**	**Balance as at 31 December 2019[3] £'000**	**Aggregate maximum amount outstanding during the year ended 31 December 2019[4] £'000**
Loans to Directors	4	13	21

Companies Act disclosures Loans to Directors 2018	Balance as at 1 January 2018[5] £'000	Balance as at 31 December 2018[3] £'000	Aggregate maximum amount outstanding during the year ended 31 December 2018[4] £'000
Loans to Directors	3	4	17

[1] *This relates to amounts in respect of the Parent and entities controlled by the Parent.*

[2] *The opening balance includes balances and transactions with Directors who have retired during 2018 and are not related parties during the current year. Therefore, these Directors are not included in the maximum amounts outstanding.*

[3] *Balance includes principal and interest.*

[4] *These figures include credit card exposures at the maximum statement balance. In all cases, Directors have not exceeded their approved limits. The maximum approved credit limit on any credit card held by any Director is £14,000.*

[5] *Foreign currency amounts are converted to GBP, using exchange rates at 1 January 2018 and the average exchange rate for the year, as appropriate.*

42 Related party transactions *(continued)*

ii. Key management personnel - loans and deposits

For the purposes of IAS 24 Related Party Disclosures, 'key management personnel' comprise the Directors of the Board, the Chief Executive Officer, Chief Risk Officer, Chief Financial Officer, Partnership Director, HR Director, Strategy and Transformation Director, Operations Director, the Managing Director Northern Ireland and any past KMP, who were a KMP during the relevant year.

KMP, including Directors, hold products with the Group in the ordinary course of business. All loans to Non-executive Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and do not involve more than the normal risk of collectability or present other unfavourable features. Loans to KMP, other than Non-executive Directors, are made on terms similar to those available to staff generally, and / or in the ordinary course of business on normal commercial terms.

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions, between the Group, its KMP (as defined above) and KMP of the Parent, including members of their close families and entities influenced by them are shown in the table.

Group **(ii)** **2019** **Key management personnel**	**Balance as at 1 January 2019[5] £'000**	**Balance as at 31 December 2019[1] £'000**	**Aggregate maximum amounts outstanding during the year ended 31 December 2019[2,3] £'000**	**Total number of KMP as at 1 January 2019**	**Total number of KMP as at 31 December 2019**
Loans	59	1,043	1,115	7	9
Deposits	513	816	1,159	13	8

2018 Key management personnel	Balance as at 1 January 2018[4,5] £'000	Balance as at 31 December 2018[1] £'000	Aggregate maximum amounts outstanding during the year ended 31 December 2018[2,3] £'000	Total number of KMP as at 1 January 2018	Total number of KMP as at 31 December 2018
Loans	65	59	80	7	7
Deposits	109	513	823	11	13

[1] *Balance includes principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. In all cases, KMP have not exceeded their approved limits. The maximum approved credit limit on any credit card held by KMP is £14,000.*
[3] *The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability, during the year ended 31 December 2019 for any member of KMP and their close family did not exceed £1,008,000 (31 December 2018: £79,886). The closing balance includes interest accrued and interest paid; the maximum balance includes interest paid.*
[4] *Foreign currency amounts are converted to GBP, using exchange rates at 1 January 2019 and the average exchange rate for the year, as appropriate.*
[5] *The opening balance includes balances and transactions with KMP who retired during the previous year and are not therefore related parties during the year. Therefore, these KMP's are not included in the maximum amounts outstanding.*

42 Related party transactions *(continued)*

CRD IV Pillar 3 disclosures for the Group also include information on remuneration. This can be found on the website of the Bank of Ireland (UK) plc at www.bankofirelanduk.com.

- Total compensation paid to KMP was £4.1 million for the year ended 31 December 2019 and of this amount £1.9 million was paid to Directors. This compared to £3.3 million and £1.7 million respectively for the year ended 31 December 2018.
- During the year ended 31 December 2019 or the year ended 31 December 2018, there was no remuneration paid to the Executive Directors of the Parent in respect of their services as Non-executive Directors of the Group, or for managing the Group or its subsidiaries;
- The highest total amount paid to any Director for the year ended 31 December 2019 was £531,696 comprising salary and other benefits (2018: £470,650). The total accrued pension and accrued lump sum of this Director at the year ended 31 December 2019 was £nil;
- One Executive Director accrued retirement benefits under a defined benefit and defined contribution Bank of Ireland Group Pension Scheme for year ended 31 December 2019.
- Pension costs were paid by the Parent and the costs incurred recharged on an agreed basis through the service level agreements.
- There were no additional benefits, paid by the Group or any other party, in respect of compensation to the Directors for their services for managing the Group or its subsidiaries, either for the year ended 31 December 2019 or the year ended 31 December 2018.

Group (d) Compensation of key management personnel	2019 £000's	2018 £000's
Remuneration		
Salaries and other benefits	3,875	3,016
Pension benefits	245	303
Total	**4,120**	**3,319**

43 Offsetting financial assets and liabilities

The following items have been offset in the balance sheet, in accordance with paragraph 42 of IAS 32.

In addition, as set out in section 2.1.2 of the Risk management report, the Group's net exposure to the Parent is managed through a contractual master netting agreement with the Parent. These amounts do not meet the criteria for offset under paragraph 42 of IAS 32 and are presented gross within loans and advances to banks, derivatives and deposits by banks respectively. Further detail on these amounts is set out in notes 17, 16 and 27 to the financial statements.

Group	2019			2018		
Assets	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities[1] set off in the balance sheet £m	Net amounts of financial assets presented in the balance sheet £m	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities[1] set off in the balance sheet £m	Net amounts of financial assets presented in the balance sheet £m
Loans and advances to customers	165	(165)	-	266	(266)	-

[1] *Loans and advances to customers represent loan agreements entered into by the Group that are fully collateralised by the Parent. Ultimate recourse is to the Parent. These loans are netted on the balance sheet against deposits received from the Parent.*

44 Interests in other entities

Group Names	Principal activity	Country of incorporation	Statutory year end	Percentage of ordinary share capital held %	Percentage of voting rights held %	Registered address
NIIB Group Limited	Personal finance and leasing	Northern Ireland	31 December	100	100	1 Donegall Square South, Belfast, BT1 5LR.
Bank of Ireland Personal Finance Limited	Personal finance	Northern Ireland	31 December	100	100	1 Temple Back East, Temple Quay, Bristol, BS1 6DX.
Bank of Ireland Trustee Company Limited[1]	In-liquidation	Northern Ireland	31 December	100	100	1 Temple Back East, Temple Quay, Bristol, BS1 6DX.
Midasgrange Limited	Dormant	England and Wales	30 September	100	100	Bow Bells House, 1 Bread Street, London, EC4M 9BE.
First Rate Exchange Services Holdings Limited[2]	Foreign exchange	England and Wales	31 March	50	50	Great West House, Great West Road, Brentford, London, TW8 9DF.
First Rate Exchange Services Limited	Foreign exchange	England and Wales	31 December	50	50	Great West House, Great West Road, Brentford, London, TW8 9DF.
Marshall Leasing Limited	Vehicle leasing	England and Wales	31 December	100	100	Bow Bells House, 1 Bread Street, London, EC4M 9BE.
Gates Contract Hire Limited[3]	In-liquidation	England and Wales	31 December	100	100	Bow Bells House, 1 Bread Street, London, EC4M 9BE
Bowbell No.1 plc[4]	Non-trading	England and Wales	31 December	n/a	n/a	6th floor, 65 Gresham Street, London, EC2V 7NQ.
Bowbell No.2 plc	Securitisation	England and Wales	31 December	n/a	n/a	Level 37, 25 Canada Square, London, E14 5LQ.

Copies of the financial statements of these undertakings can be obtained from the relevant addresses listed above.

Management has assessed its involvement in all entities in accordance with the definitions and guidance in:

- IFRS 10: Consolidated Financial Statements;
- IFRS 11: Joint Arrangements;
- IAS 28: Investments in Associates and Joint Ventures; and
- IFRS 12: Disclosure of interests in other entities.

The Group controls an entity when it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Generally, control or significant influence is identified by the level of ownership of ordinary shares and the level of management involvement in the relevant activities of the entity. However, in the case of 'structured entities', management's judgement is required in determining how the investee should be accounted for.

There are no significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group.

1 Bank of Ireland Trustee Company Limited went into members voluntary liquidation on 27 March 2019.
2 This entity is a joint venture with the UK Post Office in which the Group holds 50% of the equity of the company. FRESH holds 100% of the equity in FRES.
3 Gates Contract Hire Limited went into members voluntary liquidation on 18 September 2019.
4 This was previously a securitisation entity. The securitisation was unwound during 2018 and the company is no longer actively trading.

44 Interests in other entities *(continued)*

Structured entities
A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

In assessing whether it has control over such an entity, the Group assesses whether it has power over the relevant activities by considering factors such as who manages the assets of these entities, if the Group has lending to them or has a residual interest in them.

In the case of structured entities, the Group considers it has control over the investee where it is a securitisation vehicle whose purpose is to finance specific loans and advances to customers. In such cases the Group considers that it has power over the entity, is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

In June 2019 the Group transferred mortgage loans into a structured securitisation entity, Bowbell No. 2 plc ('Bowbell 2') and issued £2.3 billion of mortgage backed securities, of which £350 million were issued externally to the Group, with the balance held by the Bank.

During 2018, the Group unwound its previous structured securitisation entity, Bowbell No. 1 plc ('Bowbell 1'). All mortgage loans held by the entity were transferred back to the Bank, and the mortgage backed securities previously issued by Bowbell 1 to the Bank were fully repaid.

Both Bowbell 1 and Bowbell 2 are incorporated in Great Britain, with 100% of their ordinary share capital and voting rights being held by their ultimate holding companies (which are not subsidiaries of the Group), Bowbell No. 1 Holdings Limited and Bowbell No. 2 Holdings Limited respectively. The creditors of Bowbell 2 and Bowbell 1 have no recourse to the Group. During 2019 and 2018 there were no contractual arrangements that required the Group to provide financial support to either of its structured entities.

The assets and liabilities of Bowbell 2 are shown in the table below:

Group		**2019**		2018	
Activity	**Company**	**Loans and advances to customers £m**	**Notes in issue £m**	Loans and advances to customers £m	Notes in issue £m
Acquiring mortgage loans and issuing mortgage backed securities	Bowbell No. 2 plc	1,857	2,020	-	-

45 Transferred financial assets

At 31 December 2019, the following assets were transferred but not derecognised from the balance sheet:

Group **Securitisation 2019**	**Carrying amount of assets £m**	**Carrying amount of associated liabilities £m**	**Fair value of transferred assets £m**	**Fair value of associated liabilities (Fair value of notes in issue) £m**
Residential mortgage book (Bowbell No. 2 plc)[1]	314	307	322	309

Bank **Securitisation 2019**	**Carrying amount of assets £m**	**Carrying amount of associated liabilities £m**	**Fair value of transferred assets £m**	**Fair value of associated liabilities (Fair value of notes in issue) £m**
Residential mortgage book (Bowbell No. 2 plc)[1]	1,857	2,020	1,903	2,024

The Group is exposed substantially to all the risks and rewards including credit and market risk associated with the transferred assets.

At 31 December 2018, neither the Group nor the Bank had transferred any financial assets which were not derecognised from the balance sheet.

Neither the Group nor the Bank is recognising any asset to the extent of its continuing involvment.

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by Bowbell No. 2, held by the Bank.*

46 Impact of adopting new accounting standard IFRS 16 'Leases'

As outlined in the Group accounting policies note on page 83, from 1 January 2019, the Group adopted IFRS 16 'Leases'. On transition to IFRS 16, the Group recognised Right of Use (RoU) assets and lease liabilities by adjusting the opening balances of the relevant assets and liabilities on the balance sheet, with no adjustment required to opening retained earnings. The impact on transition is summarised below:

Group and Bank	**£m**
Operating lease commitments as at 31 December 2018	**39**
Less	
Value added tax included in operating lease commitments as at 31 December 2018	(5)
Operating lease commitments as at 31 December 2018 excluding value added tax	**34**
Weighted average incremental borrowing rate as at 1 January 2019	2.1%
Discounted operating lease commitments as at 1 January 2019 excluding value added tax under IFRS 16	**25**
Add	
Commitments in optional extension periods not recognised as at 31 December 2018	1
Lease liabilities as at 1 January 2019	**26**

Group	**Carrying amount before adoption of IFRS 16 as at 31 December 2018 £m**	**Impact of new accounting standard £m**	**Carrying amount after adoption of IFRS 16 as at 1 January 2019 £m**
Assets			
Property, plant and equipment	117	22	139
Other assets	102	1	103
Liabilities			
Lease liabilities	-	26	26
Other liabilities	1,318	(3)	1,315

Group	**Carrying amount before adoption of IFRS 16 as at 31 December 2018 £m**	**Impact of new accounting standard £m**	**Carrying amount after adoption of IFRS 16 as at 1 January 2019 £m**
Assets			
Property, plant and equipment	24	22	46
Other assets	97	1	98
Liabilities			
Lease liabilities	-	26	26
Other liabilities	1,298	(3)	1,295

46 Impact of adopting new accounting standard IFRS 16 'Leases' *(continued)*

Amounts recognised in the balance sheet and income statement
Set out below are the carrying amounts of the Group's RoU assets and lease liabilities and the movements during the period:

Group and Bank **Balance sheet under IFRS 16**	**Right of use asset - Buildings £m**	**Lease liabilities £m**
As at 1 January 2019	22	26
Payments	-	(5)
Interest expense (note 4)	-	1
Remeasurement of lease liabilities	-	(2)
Other movements	(3)	-
Depreciation expense	(3)	-
As at 31 December 2019	**16**	**20**

The Group recognised rent expense from short-term leases of £nil for the year ended 31 December 2019.

Group and Bank **Summary of amounts recognised in the income statement under IFRS 16 compared to equivalent amounts under IAS 17**	**Year ended 31 December 2019 £m**	Year ended 31 December 2018 £m
Amounts recognised in interest expense		
Interest expense on lease liabilities	1	-
Amounts recognised in other operating expenses		
Depreciation of RoU assets in property, plant and equipment	3	-
Total	**4**	-

47 Post balance sheet events

There are no post balance sheet events that require disclosure in the financial statements.

48 Approval of financial statements

The Board of Directors approved the financial statements on 2 March 2020.

Other Information

Principal business units and addresses[1]

Bank of Ireland (UK) plc
Bow Bells House, 1 Bread Street, London EC4M 9BE
Tel: +44 207 236 2000
Website: www.bankofirelanduk.com

Bank of Ireland Great Britain Consumer Banking
Mortgages, Personal Loans
PO Box 27, One Temple Quay, Bristol BS1 9HY
Tel: + 44 117 979 2222 and + 44 117 909 0900

Bank of Ireland Northern Ireland Business Banking
1 Donegall Square South, Belfast, BT1 5LR
Tel: +44 28 9043 3000

First Rate Exchange Services Limited
Great West House, Great West Road, Brentford, London, TW8 9DF
Tel: + 44 208 577 9393, Fax: + 44 208 814 6685
Website: www.firstrate.co.uk

NIIB Group Limited (trading as Northridge Finance)
1 Donegall Square South, Belfast BT1 5LR
Tel: + 44 844 892 1848
website: www.northridgefinance.com

Marshall Leasing Limited
Bridge House, Orchard Lane, Huntingdon, Cambridgeshire, PE29 3QT
Tel: + 44 148 041 4541

Pillar 3 disclosures

The Group's Pillar 3 document for the year ended 31 December 2019 can be accessed on the Group's website: www.bankofirelanduk.com. The Group's obligations under Article 89 of the CRD IV have been met by consolidation of Group data in the Parent’s country by country reporting which is published on the Bank of Ireland Group website www.bankofireland.com.

[1] *Registered addresses for subsidiary companies are included in note 44.*

Performance measures

Further information related to certain measures referred to in the strategic report.

The Group considers that the alternative performance measures included in the strategic report provide meaningful information to enable a consistent basis for comparing the financial performance between reporting periods.

In arriving at an underlying basis, the effect of certain items that do not promote an understanding of future or historical performance are excluded. Management considers that this presents a more meaningful basis for year on year comparison. These non-core items are set out on page 8.

Alternative performance measures

Average interest earning assets – is defined as the twelve month average of total loans and advances to customers (less ECL stage 3 balances), cash placements, securities balances and net balances owed by the Parent (the Governor and Company of the Bank of Ireland).

Cost income ratio – is calculated on a statutory basis being operating expenses divided by operating income.

Gross new lending volumes – represents loans and advances to customers drawn in the year.

Net interest margin – is defined as net interest income for the year divided by average interest earning assets.

Return on assets – is calculated as statutory profit after tax divided by total assets, in line with the requirement in the European Union (Capital Requirements) Regulations (CRR) 2014.

Statutory return on tangible equity – is calculated as being profit attributable to shareholders (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Underlying return on tangible equity – is calculated as being profit attributable to shareholders less non-core items (net of tax) divided by average shareholders' equity less average intangible assets and goodwill.

Regulatory performance measures

Leverage ratio – is calculated as the tier 1 capital divided by total balance sheet assets and off balance sheet exposures.

Liquidity coverage ratio (LCR) – is calculated as the high quality liquid assets, divided by net cash outflows over the next 30 days, expressed as a percentage.

Loan to deposit ratio – is calculated as net loans and advances to customers including those classified as held for sale expressed as a percentage of customer deposits.

Net stable funding ratio (NSFR) – is defined as the total amount of available stable funding divided by the total amount of required stable funding, expressed as a percentage.

Risk weighted assets (RWAs) – on and off balance sheet assets are risk weighted based on the amount of capital required to support the assets. The Group adopts a standardised approach for calculating RWAs.

Abbreviations

ALCO	Asset and Liability Committee
AML	Anti Money Laundering
ATM	Automatic Teller Machine
BOI	Bank of Ireland
BRC	Board Risk Committee
CCO	Chief Credit Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGU	Cash Generating Unit
CMA	Competition and Markets Authority
CRD	Capital Requirement Directive (EU)
CRO	Chief Risk Officer
CRPC	Credit Risk Portfolio Committee
CRR	Capital Requirements Regulation
CSA	Credit Support Annex
DCF	Discounted Cash Flow
EAD	Exposure at default
EBA	European Banking Authority
ECL	Expected Credit Loss
EIR	Effective Interest Rate
ERC	Executive Risk Committee
EU	European Union
EURIBOR	Euro interbank offered rate
FCA	Financial Conduct Authority
FLI	Forward Looking Information
FPC	Financial Policy Committee
FRES	First Rate Exchange Services Limited
FRESH	First Rate Exchange Services Holdings Limited
GBP	ISO 4217 currency code for Pound Sterling
GCR	Group Credit Review
GIA	Group Internal Audit
GRPC	Group Risk Policy Committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBR	Incremental borrowing rate
IBOR	Interbank offered rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IFRS IC	IFRS Interpretations Committee
ILAAP	Individual Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swaps and Derivatives Association
IT	Information Technology
KMP	Key Management Personnel
KPI	Key Performance Indicator
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LLP	Limited Liability Partnership
LTD	Limited
LTV	Loan to Value
MLL	Marshall Leasing Limited
MRR	Monthly Risk Report
NSFR	Net Stable Funding Ratio
OCI	Other Comprehensive Income
ORMF	Operational Risk Management Framework
PD	Probability of Default
POCI	Purchased or originated credit-impaired financial assets
PRA	Prudential Regulation Authority
PSAGC	Product & Services Approvals & Governance Committee
RAROC	Risk Adjusted Return on Capital
RAS	Risk Appetite Statement
RMF	Risk Management Framework
ROTE	Return on Tangible Equity
ROU	Right of use
R&ORC	Regulatory and Operational Risk Committee
RWA	Risk Weighted Assets
SME	Small / Medium Enterprises
TFS	Term Funding Scheme
£m	Million
’000	Thousands