# The Governor and Company of the Bank of Ireland

## Annual Report 2017

Bank of Ireland Group

# The Governor and Company of the Bank of Ireland

## Annual Report

for the year ended 31 December 2017

# Forward-looking statement

This document contains forward-looking statements with respect to certain of The Governor and Company of the Bank of Ireland (the 'Bank') and its subsidiaries' (collectively the 'Group') plans and its current goals and expectations relating to its future financial condition and performance, the markets in which it operates and its future capital requirements. These forward-looking statements often can be identified by the fact that they do not relate only to historical or current facts. Generally, but not always, words such as 'may,' 'could,' 'should,' 'will,' 'expect,' 'intend,' 'estimate,' 'anticipate,' 'assume,' 'believe,' 'plan,' 'seek,' 'continue,' 'target,' 'goal,' 'would,' or their negative variations or similar expressions identify forward-looking statements, but their absence does not mean that a statement is not forward-looking.

Examples of forward-looking statements include, among others: statements regarding the Group's near term and longer term future capital requirements and ratios, loan to deposit ratios, expected impairment charges, the level of the Group's assets, the Group's financial position, future income, business strategy, projected costs, margins, macroeconomic conditions, the implementation of changes in respect of certain of the Group's pension schemes, estimates of capital expenditures, discussions with Irish, United Kingdom, European and other regulators and plans and objectives for future operations. Such forward-looking statements are inherently subject to risks and uncertainties, and hence actual results may differ materially from those expressed or implied by such forward-looking statements.

Such risks and uncertainties include, but are not limited to, those as set out in the 'Principal Risks and Uncertainties' (see pages 10 to 15).

Nothing in this document should be considered to be a forecast of future profitability or financial position and none of the information in this document is or is intended to be a profit forecast or profit estimate. Any forward-looking statement speaks only as at the date it is made. The Group does not undertake to release publicly any revision to these forward-looking statements to reflect events, circumstances or unanticipated events occurring after the date hereof.

# Contents



These are the consolidated results of The Governor and Company of the Bank of Ireland (the 'Bank') and its subsidiaries.

In July 2017, a corporate reorganisation was completed whereby the Bank became a wholly owned subsidiary of Bank of Ireland Group plc ('BOIG plc'), the new holding company of the Bank. BOIG plc's ordinary shares have a primary listing on the Irish Stock Exchange and a premium listing on the London Stock Exchange. The Annual Report for 2017 of BOIG plc was published on 26 February 2018 and is available on the Group's website at www.bankofireland.com.

**View this report online**
*This Annual Report and other information relating to Bank of Ireland is available at:*
*www.bankofireland.com*

# Operating and financial review

## Basis of presentation

This operating and financial review is presented on an underlying basis. For an explanation of underlying see page 5.

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

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

## Group income statement

### Summary consolidated income statement on an underlying[1] basis

| | Table | 2017 €m | Restated[2] 2016 €m | Change % |
|---|---|---|---|---|
| Net interest income (before ELG fees) | | 2,248 | 2,298 | (2%) |
| Eligible Liabilities Guarantee (ELG) fees[3] | | - | (20) | n/m |
| Net other income | | 801 | 848 | (6%) |
| **Operating income (net of insurance claims)** | | **3,049** | **3,126** | **(2%)** |
| Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) | | (1,789) | (1,741) | (3%) |
| Core Banking Platforms Investment charge | | (111) | (41) | n/m |
| Levies and regulatory charges | | (99) | (109) | 9% |
| **Operating profit before impairment charges on financial assets** | | **1,050** | **1,235** | **(15%)** |
| Impairment charges on loans and advances to customers | | (15) | (176) | 91% |
| Impairment charges on available for sale (AFS) financial assets | | - | (2) | n/m |
| Share of results of associates and joint ventures (after tax) | | 43 | 41 | 5% |
| **Underlying[1] profit before tax** | | **1,078** | **1,098** | **(2%)** |
| Non-core items | 1 | (226) | (63) | n/m |
| **Profit before tax** | | **852** | **1,035** | **(18%)** |
| Tax charge | | (160) | (236) | 32% |
| **Profit for the year** | | **692** | **799** | **(13%)** |
| Profit attributable to stockholders | | 691 | 799 | (14%) |
| Profit attributable to non-controlling interests | | 1 | - | 100% |
| **Profit for the year** | | **692** | **799** | **(13%)** |
| Return on assets (bps) | | 56 | 65 | |

For further information on measures referred to in the operating and financial review see page 169.

**Profit before tax** of €852 million in 2017, was €183 million or 18% lower than 2016. Underlying profit before tax of €1,078 million in 2017 was €20 million or 2% lower than 2016.

Operating income has decreased by €77 million compared to the previous year primarily due to:

- lower net interest income of €2,248 million compared to €2,298 million in 2016 primarily reflecting lower lending volumes, the impacts of the ongoing low interest rate environment and the translation effects of weaker sterling (c.€50 million), partially offset by lower funding costs; and
- lower net other income of €801 million compared to €848 million in 2016, a decrease of €47 million, primarily relating to a prior year gain of €95 million on the sale of shares in VISA Europe, partially offset by higher business income during 2017.

Operating expenses (before Core Banking Platforms Investment and levies and regulatory charges) of €1,789 million in 2017 were €48 million or 3% higher than 2016, reflecting further investment in our people, compliance with the growing regulatory environment, investment in technology and business growth, partially offset by other efficiencies. Our Core Banking Platforms programme is making progress and we invested a further €195 million in this programme in 2017, with an income statement charge of €111 million (2016: €41 million).

The Group has incurred levies and regulatory charges of €99 million in 2017, a decrease of €10 million compared to the previous year, primarily due to a lower charge for the Irish bank levy.

Net impairment charges on loans and advances to customers of €15 million were €161 million lower than 2016. This reduction reflects the strong performance of the Group's loan portfolios, the ongoing

*[1] Underlying excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 5 for further information.*

*[2] Comparative figures have been restated to reflect the impact of: (i) the voluntary change in the Group's accounting policy for Life assurance operations (see note 61 on page 164 for further detail) which on an underlying basis has resulted in an increase of €6 million in 2016 Other income (net) and a €3 million increase in the net charge from non-core items and (ii) the Group's decision to classify the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core which has resulted in an increase of €15 million in 2016 Net interest income (before ELG fees) and a decrease of €6 million in 2016 Operating expenses (before Core Banking Platforms investment and levies and regulatory charges) with a corresponding increase of €21 million in the 2016 net charge from non-core items. These restatements have resulted in a 1 basis point increase to the 2016 return on assets.*

*[3] A fee was payable in respect of each liability guaranteed under the Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme) until the maturity of the guaranteed deposit or term funding. As the Group has had no eligible liabilities for the purpose of the ELG Scheme since October 2016, no ELG fees accrued in the current year.*

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

reductions in non-performing exposures and a continued positive economic environment during the year in the countries in which the Group operates.

Income from associates and joint ventures, which primarily relates to the Group's FX joint venture with the UK Post Office, was €43 million in 2017 (2016: €41 million).

Non-core items were a net charge of €226 million in 2017 compared to a net charge of €63 million for 2016.

The Group continues to closely monitor any Brexit related impacts from the UK decision to trigger Article 50 and leave the EU, including foreign exchange (FX) rates and interest rates. The risks and uncertainties arising from the UK decision to trigger Article 50 are included in the Principal Risks and Uncertainties section on pages 10 to 15.

Principal rates of exchange used in the preparation of the consolidated financial statements are set out on page 43.

## Non-core items

**Table: 1**

| **Non-core items** | **2017 €m** | Restated[1] 2016 €m | Change % |
|---|---|---|---|
| Tracker Mortgage Examination charges | (170) | (21) | n/m |
| Cost of restructuring programme | (48) | (35) | (37%) |
| Gross-up for policyholder tax in the Life business | 10 | 12 | (17%) |
| Cost of corporate reorganisation and establishment of a new holding company | (7) | - | (100%) |
| (Charge) / gain arising on the movement in the Group's credit spreads | (5) | 5 | n/m |
| Loss on disposal / liquidation of business activities | (5) | (7) | 29% |
| Investment return on treasury shares held for policyholders | (1) | 2 | n/m |
| Loss on liability management exercises | - | (19) | n/m |
| **Total non-core items** | **(226)** | **(63)** | **n/m** |

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

**Charges relating to the Tracker Mortgage Examination**
The Group continues to progress the work associated with the Tracker Mortgage Examination being undertaken by the Central Bank of Ireland. Under the examination, the Group has identified c.6,000 accounts where a right to, or the option of, a tracker rate was not appropriately provided to the customer. The Group has also identified a small rate differential (average 0.15%) on c.3,300 tracker mortgages which was not the appropriate rate specified in the loan documentation. As a consequence, the Group has incurred a charge of €170 million during 2017 (€96 million in net interest income and €74 million in operating expenses) primarily in respect of redress and compensation associated with these accounts. During 2016, the Group incurred a charge of €21 million relating to this examination process (€15 million in net interest income and €6 million in operating expenses).

**Cost of restructuring programme**
In 2017, the Group recognised a charge of €48 million in relation to its restructuring programme, primarily related to changes in employee numbers (2016: €35 million).

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

**Cost of corporate reorganisation and establishment of a new holding company**
The Group has implemented a corporate reorganisation which resulted in Bank of Ireland Group plc ('BOIG plc') being introduced as the listed holding company of the Group on 7 July 2017. In 2017, the Group recognised a charge of €7 million in relation to the reorganisation. See note 47 on page 131 for further details.

**(Charge) / gain arising on the movement in the Group's credit spreads**
A charge of €5 million was recognised in the year ended 31 December 2017 compared to a gain of €5 million for the previous year. This charge relates to Group liabilities (consisting of certain structured senior and covered debt and tracker deposits) that are accounted for at 'fair value through profit or loss'. The charge in 2017 arises primarily due to the tightening of the Group's credit spreads and is partly offset by the 'pull to par' effect of cumulative losses reversing over time on the Group's structured deposits. This charge does not impact the Group's regulatory capital.

**Loss on disposal / liquidation of business activities**
A loss of €5 million was recognised during the year relating to profit on disposal of business interests, offset by the recycling of cumulative unrealised FX gains and losses through the income statement following the liquidation of subsidiaries.

**Investment return on treasury shares held for policyholders**
Under accounting standards, the Group income statement excludes the impact of the change in value of Bank of Ireland Group plc shares held by Bank of Ireland Life for policyholders. In 2017, there was a loss of €1 million (2016: €2 million gain). At 31 December 2017 there were 4 million shares (2016: 0.9 million units of stock[2]) held by Bank of Ireland Life for policyholders.

**Loss on liability management exercises**
In 2016, a loss of €19 million on liability management exercises was recognised, primarily reflecting the repurchase of €0.6 billion nominal value of the Group's senior unsecured debt securities. There was no such gain or loss in 2017.

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of the change in the Group's accounting policy for Life Assurance Operations and the reclassification of the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core.*
[2] *The 2016 figure has been restated to reflect the share consolidation implemented in July 2017.*

## Group balance sheet

The following tables show the composition of the Group's balance sheet including the key sources of the Group's funding and liquidity.

### Summary consolidated balance sheet

| Summary consolidated balance sheet | **2017 €bn** | Restated[1] 2016 €bn | Change % |
|---|---|---|---|
| Loans and advances to customers (after impairment provisions) | 76 | 78 | (3%) |
| Liquid assets | 24 | 21 | 14% |
| Bank of Ireland Life assets | 17 | 17 | - |
| Other assets | 6 | 7 | (14%) |
| **Total assets** | **123** | **123** | **-** |
| Customer deposits | 76 | 75 | 1% |
| Wholesale funding | 13 | 14 | (7%) |
| Bank of Ireland Life liabilities | 17 | 17 | - |
| Other liabilities | 6 | 6 | - |
| Subordinated liabilities | 2 | 1 | 100% |
| **Total liabilities** | **114** | **113** | **1%** |
| Stockholders' equity | 8 | 9 | (11%) |
| Other equity instruments | 1 | 1 | - |
| **Total liabilities and stockholders' equity** | **123** | **123** | **-** |
| Impaired loan volumes[2] (€bn) | 4.0 | 6.2 | |
| Non-performing exposures[2] (€bn) | 6.5 | 9.4 | |
| Liquidity coverage ratio[3] | 136% | 113% | |
| Net stable funding ratio[4] | 127% | 122% | |
| Loan to deposit ratio | 100% | 104% | |

The Group's **loans and advances to customers (after impairment provisions)** of €76.1 billion were €2.4 billion lower than in 2016, with gross new lending of €14.2 billion, being offset by redemptions and repayments of €15.0 billion as well as currency translation effects of €1.5 billion.

Asset quality continues to improve with a reduction in impaired loans of €2.2 billion or 35% to €4.0 billion and in non-performing exposures by €2.9 billion to €6.5 billion.

The Group's portfolio of **liquid assets** at 31 December 2017 of €23.6 billion has increased by c.€3 billion since 31 December 2016, primarily reflecting higher cash balances. All outstanding NAMA senior bonds (2016: €0.5 billion) were redeemed during 2017.

At 31 December 2017, **Group customer deposits** (including current accounts with credit balances) have increased by €0.9 billion to €76.1 billion since 31 December 2016. This comprises of an increase in Retail Ireland Division of €3.3 billion, offset by a decrease in Corporate and Treasury division of €1.0 billion (of which €0.4 billion relates to the translation effect of a weaker dollar) and a decrease in Retail UK Division of €1.4 billion (of which €0.8 billion relates to the translation effect of a weaker sterling). On a constant currency basis, Group customer deposits increased by €1.9 billion.

The Group's **wholesale funding** of €12.7 billion at 31 December 2017 has decreased by €1.7 billion since 31 December 2016, primarily due to scheduled senior debt and covered bond redemptions (c.€2.3 billion) and lower bank deposits c.€0.9 billion, partially offset by an increase in Monetary Authority borrowings (c.€1.6 billion) consisting of drawings from the ECB and BoE of €1 billion and €0.6 billion respectively.

**Other assets** of €5.7 billion (2016: €6.6 billion) includes derivative financial instruments with a positive fair value of €2.3 billion (2016: €3.7 billion) and net deferred tax asset of €1.2 billion (2016: €1.2 billion). **Other liabilities** of €6.0 billion (2016: €6.2 billion) includes derivative financial instruments with a negative fair value of €2.0 billion (2016: €2.9 billion), pension deficit of €0.5 billion (2016: €0.4 billion), notes in circulation of €1.2 billion (2016: €1.2 billion) and a dividend payable to the parent of €0.8 billion (2016: €nil). The movement in the value of derivative assets and derivative liabilities is due to the maturity of transactions during the year as well as changes in fair values caused by the impact of the movements in FX rates (particularly the euro / sterling exchange rate) and in interest rates during 2017.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change in the Group's accounting policy for Life assurance operations which has resulted in an increase of €0.46 billion in 2016 Bank of Ireland Life assets and a corresponding increase of €0.46 billion in 2016 Bank of Ireland Life liabilities (see note 61 on page 164 for further detail).*

[2] *As set out on pages 84 and 85, the Group has revised its asset quality reporting methodology and (i) now reports non-performing exposures and (ii) has modified its definition of impaired loans. For an analysis of non-performing exposures see page 85.*

[3] *The Liquidity Coverage Ratio (LCR) is calculated under the prudential scope of consolidation of the BOIG plc Group and based on the Commission Delegated Regulation (EU) 2015/61 which came into force on 1 October 2015.*

[4] *The Group's Net Stable Funding Ratio (NSFR) is calculated under the prudential scope of consolidation of the BOIG plc Group and based on the Group's interpretation of the Basel Committee on Banking Supervision October 2014 document.*

## Summary consolidated balance sheet (continued)

**Subordinated liabilities** increased from €1,425 million at 31 December 2016 to €2,110 million at 31 December 2017.

The remaining €32 million of outstanding Bank of Ireland UK Holdings plc 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities were redeemed and cancelled in June 2017.

On 19 September 2017, the Bank completed a dual tranche issuance of Stg£300 million and US$500 million ten year (callable at the end of year five) Tier 2 capital instruments to BOIG plc, the Bank's parent. The sterling bond has a coupon of 3.425% and the US dollar bond has a coupon of 4.425%.

**Stockholders' equity** decreased from €8,678 million at 31 December 2016 to €7,958 million with profit attributable to stockholders of €691 million being more than offset by a dividend to the parent of €1,000 million, the remeasurement of the net defined pension liability of €113 million, Additional tier 1 coupon payment and other reserve movements.

## Capital

| CRD IV - 2016[1] | | | CRD IV - 2017[2,3] | |
|---|---|---|---|---|
| Regulatory % | Fully loaded % | | Regulatory % | Fully loaded % |
| | | **Capital ratios** | | |
| 14.2% | 12.3% | Common equity tier 1 | 15.8% | 13.8% |
| 15.7% | 13.7% | Tier 1 | 17.0% | 14.9% |
| 18.5% | 16.4% | Total capital | 20.2% | 17.9% |
| 7.3% | 6.4% | Leverage ratio | 7.0% | 6.2% |

**Fully loaded ratio[2]**
BOIG plc Group's fully loaded CET 1 ratio is estimated at 13.8% at 31 December 2017 (2016: 12.3%).

**Leverage ratio[2]**
BOIG plc Group's leverage ratio at 31 December 2017 is 7.0% on a CRD IV regulatory basis (2016: 7.3%) and 6.2% on a pro-forma fully loaded basis (2016: 6.4%).

**Distributable items**
As at 31 December 2017, the Bank had profits available for distribution in excess of €2.5 billion. The reduction in profits available for distribution of €0.5 billion during the year primarily relates to the impact of the dividend to the parent that was partially offset by profits recorded by the Bank.

**Individual Consolidation**
The regulatory CET 1 ratio of The Governor and Company of the Bank of Ireland calculated on an individual consolidated basis as referred to in Article 9 of the CRR is 15.3% at 31 December 2017 (2016: 16.2%).

*[1] As outlined on page 4, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. For capital comparatives, December 2016 total equity figures have not been restated and are as per BOIG plc Group's regulatory submission to the ECB.*
*[2] The capital and leverage ratios are calculated under the prudential scope of consolidation of the BOIG plc Group.*
*[3] Further details on the capital position of BOIG plc Group and The Governor and Company of the Bank of Ireland can be found in BOIG plc's Pillar III disclosures for the year ended 31 December 2017, available on the Group's website.*

# Income statement - Operating segments

| 2017 | Net interest income €m | Net insurance premium income €m | Other income €m | **Total operating income €m** | Insurance contract liabilities and claims paid €m | **Total operating income net of insurance claims €m** | Operating expenses €m | **Operating profit / (loss) before impairment charges on financial assets €m** | Impairment (charge) / reversal on loans and advances to customers €m | Impairment charge on AFS financial assets €m | Share of results of associates and joint ventures (after tax) €m | Loss on disposal / liquidation of business activities €m | **Profit / (loss) before taxation €m** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Retail Ireland | 1,065 | - | 317 | 1,382 | - | 1,382 | (822) | 560 | 148 | - | 4 | - | 712 |
| BIL | 12 | 1,338 | 513 | 1,863 | (1,643) | 220 | (114) | 106 | - | - | - | - | 106 |
| Retail UK | 579 | - | 9 | 588 | - | 588 | (409) | 179 | (115) | - | 39 | - | 103 |
| Corporate and Treasury | 575 | - | 231 | 806 | - | 806 | (205) | 601 | (48) | - | - | - | 553 |
| Group Centre | 20 | 6 | 21 | 47 | (2) | 45 | (450) | (405) | - | - | - | - | (405) |
| Other reconciling items | (3) | - | 11 | 8 | - | 8 | 1 | 9 | - | - | - | - | 9 |
| **Group - underlying[1]** | **2,248** | **1,344** | **1,102** | **4,694** | **(1,645)** | **3,049** | **(1,999)** | **1,050** | **(15)** | **-** | **43** | **-** | **1,078** |
| **Total non-core items** | | | | | | | | | | | | | |
| - Tracker Mortgage Examination charges | (96) | - | - | (96) | - | (96) | (74) | (170) | - | - | - | - | (170) |
| - Cost of Restructuring Programme | - | - | - | - | - | - | (48) | (48) | - | - | - | - | (48) |
| - Gross-up for policyholder tax in the Life business | - | - | 10 | 10 | - | 10 | - | 10 | - | - | - | - | 10 |
| - Cost of corporate reorganisation and establishment of a new holding company | - | - | - | - | - | - | (7) | (7) | - | - | - | - | (7) |
| - Loss on disposal / liquidation of business activities | - | - | - | - | - | - | - | - | - | - | - | (5) | (5) |
| - Charge arising on movement in the Group's credit spreads | - | - | (4) | (4) | (1) | (5) | - | (5) | - | - | - | - | (5) |
| - Investment return on treasury shares held for policyholders | - | - | (1) | (1) | - | (1) | - | (1) | - | - | - | - | (1) |
| - Operating profit attributable to BOIG plc | - | - | - | - | - | - | - | - | - | - | - | - | - |
| **Group total** | **2,152** | **1,344** | **1,107** | **4,603** | **(1,646)** | **2,957** | **(2,128)** | **829** | **(15)** | **-** | **43** | **(5)** | **852** |

[1] *Underlying performance excludes the impact of non-core items (see page 5).*

# Income statement - Operating segments (continued)

| Restated[1] 2016 | Net interest income €m | Net insurance premium income €m | Other income €m | Total operating income €m | Insurance contract liabilities and claims paid €m | Total operating income net of insurance claims €m | Operating expenses €m | Operating profit / (loss) before impairment charges on financial assets €m | Impairment charge on loans and advances to customers €m | Impairment charge on AFS financial assets €m | Share of results of associates and joint ventures (after tax) €m | Loss on disposal / liquidation of business activities €m | Profit / (loss) before taxation €m |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Retail Ireland | 1,047 | - | 407 | 1,454 | - | 1,454 | (813) | 641 | (2) | - | (3) | - | 636 |
| BIL | 31 | 1,220 | 542 | 1,793 | (1,566) | 227 | (100) | 127 | - | - | - | - | 127 |
| Retail UK | 609 | - | (9) | 600 | - | 600 | (412) | 188 | (99) | - | 44 | - | 133 |
| Corporate and Treasury | 576 | - | 238 | 814 | - | 814 | (206) | 608 | (75) | (2) | - | - | 531 |
| Group Centre | 15 | 6 | (9) | 12 | (13) | (1) | (360) | (361) | - | - | - | - | (361) |
| Other reconciling items | - | - | 32 | 32 | - | 32 | - | 32 | - | - | - | - | 32 |
| Group - underlying[2] | 2,278 | 1,226 | 1,201 | 4,705 | (1,579) | 3,126 | (1,891) | 1,235 | (176) | (2) | 41 | - | 1,098 |
| Total non-core items | | | | | | | | | | | | | |
| - Cost of Restructuring Programme | - | - | - | - | - | - | (35) | (35) | - | - | - | - | (35) |
| - Loss on liability management exercises | - | - | (19) | (19) | - | (19) | - | (19) | - | - | - | - | (19) |
| - Tracker Mortgage Examination charges | (15) | - | - | (15) | - | (15) | (6) | (21) | - | - | - | - | (21) |
| - Gross-up for policyholder tax in the Life business | - | - | 12 | 12 | - | 12 | - | 12 | - | - | - | - | 12 |
| - Loss on disposal / liquidation of business activities | - | - | - | - | - | - | - | - | - | - | - | (7) | (7) |
| - Gain arising on movement in the Group's credit spreads | - | - | 3 | 3 | 2 | 5 | - | 5 | - | - | - | - | 5 |
| - Investment return on treasury shares held for policyholders | - | - | 2 | 2 | - | 2 | - | 2 | - | - | - | - | 2 |
| Group total | 2,263 | 1,226 | 1,199 | 4,688 | (1,577) | 3,111 | (1,932) | 1,179 | (176) | (2) | 41 | (7) | 1,035 |

[1] *As outlined on page 4, comparative figures have been restated to reflect the impact of (i) the voluntary change in the Group's accounting policy for Life assurance operations and (ii) the Group's decision to classify the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core.*

[2] *Underlying performance excludes the impact of non-core items (see page 5).*

## Principal Risks and Uncertainties

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

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

Further details on risk management is set out in the Financial risk management note on pages 79 to 108.

| Key risks | Key mitigating considerations |
|---|---|
| **Credit risk** (see page 79)<br>Credit risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Group in respect of loans or other financial transactions. This risk includes, but is not limited to, default risk, concentration risk, country risk, migration risk and collateral risk.<br><br>Credit risk arises from loans and advances to customers. It also arises from the financial transactions the Group enters into with financial institutions, sovereigns and state institutions. | • Board approved Group Credit Policy and Risk Appetite limits, including credit category limits together with a framework cascading to businesses and portfolios.<br>• Exposure limits for credit concentration risk.<br>• Defined credit processes and controls, including credit policies, independent credit risk assessment and defined authority levels for sanctioning lending.<br>• Processes to monitor compliance with policies and limits.<br>• Dedicated workout structures focused on the management and reduction of non-performing exposures. |
| **Funding and liquidity risk** (see page 101)<br>Funding and liquidity risk may arise from a sudden and significant withdrawal of customer deposits, disruption to the access of funding from wholesale markets, or a deterioration in either the Group's or the Irish sovereign credit ratings which could adversely impact the Group's funding and liquidity position.<br><br>Liquidity risk arises from differences in timing between cash inflows and outflows. Cash inflows are driven by, amongst other things, the maturity structure of loans and investments held by the Group, while cash outflows are driven by items such as the term maturity of debt issued by the Group and outflows from customer deposit accounts. | • Court approved Risk Appetite limits.<br>• Group funding and liquidity policies, systems and controls.<br>• Comprehensive liquidity monitoring framework.<br>• Annual forward looking Internal Liquidity Adequacy Assessment Process (ILAAP).<br>• Strategic plan articulating and quantifying deposit projections, wholesale funding and lending capacity for all divisions.<br>• Contingency Funding Plan and Recovery Plan.<br>• Maintenance of liquid assets and contingent liquidity available for use with market counterparties and / or in liquidity operations offered by Monetary Authorities. |
| **Market risk** (see page 106)<br>Market risk is the risk of loss arising from movements in interest rates, FX rates or other market prices.<br><br>Market risk arises from the structure of the balance sheet, the Group's business mix and discretionary risk-taking. Market risk arises through the conduct of customer business, particularly in fixed-rate lending and the execution of derivatives and FX business.<br><br>Within limits and policy, the Group seeks to generate income from leaving some customer-originated or intra-Group originated risk unhedged or through assuming risk proactively in the market.<br><br>Structural market risk arises from the presence of non-interest bearing liabilities (equity and current accounts) on the balance sheet, the multi-currency nature of the Group's balance sheet and changes in the floating interest rates to which the Group's assets and liabilities are linked (basis risk). | • Court approved Risk Appetite limits.<br>• Group Market Risk Policy.<br>• Comprehensive framework for monitoring compliance with the Court's market risk appetite limits, more granular market risk limits and other controls.<br>• The Group substantially reduces its market risk through hedging in external markets.<br>• Value at Risk (VaR) and extensive stress testing of market risks. |

## Principal Risks and Uncertainties (continued)

| Key risks | Key mitigating considerations |
|---|---|
| **Life insurance risk** (see page 107)<br>Life insurance risk is the result of unexpected variation in the amount and timing of claims associated with insurance benefits. This variation, arising from changing customer mortality, life expectancy, health or behavioural characteristics, may be short or long term in nature.<br><br>Life insurance risk arises from the Group's life insurance subsidiary, New Ireland Assurance Company plc (NIAC) selling life assurance products in the Irish market. | • Court approved Risk Appetite limits.<br>• Underwriting standards and limits are in place and apply throughout the policy lifecycle from risk acceptance to claim settlement.<br>• Reinsurance is used to manage the volatility from both individual claims and aggregate risk exposures. Coverage is placed with a diversified list of approved counterparties.<br>• The sensitivity of the Group's exposure to life insurance risk is assessed regularly and appropriate levels of capital are held to meet ongoing capital adequacy requirements.<br>• Management undertakes a rigorous analysis of claims and persistency experience on a regular basis and monitors these against the assumptions in its valuation and pricing bases so that these can be adjusted to reflect experience. Management undertakes pro-active operational initiatives in order to manage persistency risk. |
| **Conduct risk**<br>Conduct risk is the risk that the Group and / or its staff conduct business in an inappropriate or negligent manner that leads to adverse customer outcomes. Examples of conduct risk include the risk of staff misconduct whether through corruption or negligence and risk of customer detriment due to improper / inappropriate advice.<br><br>Conduct risk arises from day-to-day execution of business processes, provision of sales and services, management of key stakeholder expectations and the various activities performed by staff, contractors and third party suppliers. | • Court approved Risk Appetite limits.<br>• A robust, structured and methodical approach for the management of conduct risk is in place across the Group including clearly defined expected standards of behaviour.<br>• Guidance and training to assist the implementation and understanding of the Conduct Risk Management Framework (CRMF).<br>• Customer-centered initiatives. |
| **Regulatory risk**<br>Regulatory risk is the risk of failure by the Group to meet new or existing regulatory and / or legislative requirements and deadlines or to embed regulatory requirements into processes.<br><br>The Group is exposed to regulatory risk as a direct and indirect consequence of its normal business activities. These risks may materialise from failures to comply with regulatory requirements or expectations in the day-to-day conduct of its business, as an outcome of risk events in other key risk categories and / or from changes in external market expectations or conditions. | • Court approved Risk Appetite limits.<br>• Policies and policy standards in place for regulatory compliance risk, regulatory change risk and financial crime risk.<br>• Specific group-wide processes in place to identify, assess, plan, develop and implement key compliance requirements.<br>• Regular status updates and monitoring at key levels in the Group including reporting to the Court Risk Committee (CRC) and Court.<br>• Processes in place to identify, assess, manage, monitor and report financial crime risks as well as controls to mitigate those risks.<br>• Processes in place to support the reporting, investigation, resolution and remediation of incidents of non-compliance.<br>• Group-wide education and training in place. |

## Principal Risks and Uncertainties (continued)

| Key risks | Key mitigating considerations |
| --- | --- |
| **Operational risk**<br>Operational risks are risks which may result in financial loss, disruption of services to customers, and damage to our reputation and include the availability, resilience and security of our core IT systems and the potential for failings in our customer processes.<br><br>Operational risk arises as a direct or indirect consequence of the Group's normal business activities through the day-to-day execution of business processes, the functioning of its technologies and in the various activities performed by its staff, contractors and third party suppliers. This also includes the failure to deliver on the Group's multi-year investment programme to replace the Core Banking Platforms and associated risks.<br><br>*Cyber*<br>It also arises from the risk of cybersecurity attacks which target financial institutions and corporates as well as governments and other institutions. The risk of these attacks remains material as their frequency, sophistication and severity continue to develop in an increasingly digital world. | • The Group Risk Appetite Statement (RAS) incorporates operational risk appetite statements and limits approved by the Court.<br>• The Group utilises a number of strategies in controlling its exposure to operational risk, with the primary strategy being the maintenance of an effective control environment, coupled with appropriate management actions.<br>• The risk management framework (the 'Framework'), consisting of processes and policy standards, aims to embed adequate and effective risk management practices within business units throughout the Group.<br>• Processes to identify, assess, manage, monitor and report operational risks as well as controls to mitigate those risks.<br>• Processes to support the reporting, investigation, resolution and remediation of incidents.<br>• An integrated long term IT strategy and plan developed and being implemented.<br>• An integrated Programme Office with Group level risk governance in place to identify, monitor and report to executive management.<br>• Clear contracts and accountability in place for third party partners for the 'Integrated Plan'.<br>• Regular internal and external audits and testing carried out to ensure adequacy of controls. |
| **Business and strategic risk**<br>Business and strategic risk assesses; (1) the Group's current business model on the basis of its ability to generate acceptable returns, given its quantitative performance, key success drivers and dependencies, and business environment and; (2) the sustainability of the Group's strategy on the basis of its ability to generate acceptable returns, based on its strategic plans and financial forecasts, and an assessment of the business environment.<br><br>Business and strategic risk arises from changes in the competitive environment, new market entrants, new products, inflexibility in the cost base or failure to develop and execute an appropriate strategy or anticipate or mitigate a related risk. | • Business divisional strategy is developed within the boundaries of the Group's strategy as well as the Group's RAS. These strategies are developed within the divisions and challenged, endorsed, supported and monitored by Group functions. The Court receives regular deep dive presentations on key aspects of the Group's strategy.<br>• The Court receives comprehensive reports setting out the current financial performance against budget, multi-year financial projections, capital plans, the monitoring of risks, updates on the economies in which the Group operates, together with developments in the Group's franchises, operations, people, and other business activities.<br>• An independent Court Risk Report is produced quarterly and reviewed by the Group Risk Policy Committee (GRPC), the CRC and the Court. The content of the report includes an analysis of, and commentary on, the key existing and emerging risk types and also addresses governance, control issues and compliance with risk appetite. |
| *Digital*<br>Banking models are evolving, for both consumers and businesses in Ireland and internationally, most notably with the rise of fintech and neo-banks. Rapidly shifting consumer behaviours and available technologies are changing how customers consume products and services.<br><br>These developments affect the manner in which customers manage their day to day financial affairs and supporting products. Money transmission and data driven integrated services are also forecast to rapidly evolve in the coming years, underpinned by regulatory developments including the revised Directive on Payment Services (PSD2) and the General Data Protection Regulation (GDPR). These developments could restrict the Group's ability to realise its market strategies and financial plans, dilute customer propositions and cause reputational damage. | • In the context of the overall business strategy, the Group assesses and develops its complementary technology strategy to support and mitigate these risks.<br>• Given the significant developments in digital demands on technology as well as increased regulatory requirements, an overarching 'Integrated Plan', which includes the Core Banking Transformation Programme, is in place to ensure these demands are managed within risk, capacity and financial constraints.<br>• The Group's policies, standards, governance and control models undergo ongoing review to reference the Group's digital strategy and solutions. |

## Principal Risks and Uncertainties (continued)

| Key risks | Key mitigating considerations |
| --- | --- |
| **Business and strategic risk (continued)**<br><br>*Brexit*<br>Ongoing uncertainty following the UK vote to exit the EU, relating to the nature and impact of withdrawal, could impact the markets in which the Group operates including pricing, partner appetite, customer confidence and credit demand, collateral values and customers' ability to meet their financial obligations and consequently the Group's financial performance, balance sheet, capital and dividend capacity. Other effects may include changes in official interest rate policy in both the UK and Eurozone, which can impact the Group's revenues and also the Group's IAS 19 DB pension deficit, and FX rate volatility, which can impact the translation of the Group's UK net assets and profits. | • Bank of Ireland (UK) plc is a separately regulated, capitalised and self-funded business.<br>• The Group's business in the UK is primarily conducted through key partnerships, which reduces the Group's investment in infrastructure and other items of a fixed cost nature.<br>• The Group manages its exposure to interest rate risk, including sterling risk, through the hedging of its fixed-rate customer and wholesale portfolios, the investment of its non-interest bearing liabilities (free funds) and the setting of conservative limits on the assumption of discretionary interest rate risk.<br>• To minimise the sensitivity of the Group's capital ratios to changes in FX rates, the Group maintains reserves in sterling, ensuring that the currency composition of capital is broadly similar to the currency composition of risk weighted assets. |
| *People risk*<br>Includes the continuing impact of remuneration restrictions on the Group in a recovering labour market, which may be further exacerbated post Brexit with increasing competition for skilled resources and / or restricted mobility between jurisdictions. It also includes people management, recruitment and retention risks in relation to the Group's transformation and digitalisation of banking products and services, as the Group adapts to the changing needs and preferences of our customer base. | • The Group has a Court approved human resources strategy providing it with a range of strategies to enable the Group to retain appropriate numbers and / or calibre of staff having regard to remuneration restrictions imposed by government, tax or regulatory authorities. These include Court Talent Reviews including succession planning, the Group's Performance Management Framework, and the Career and Reward Framework as aligned to our purpose and values. |
| **Pension risk**<br>The principal Group sponsored defined benefit (DB) pension schemes are currently in deficit under the IAS 19 accounting definition, requiring the Group to set aside capital to mitigate these risks.<br><br>The DB pension schemes are subject to market fluctuations and these movements impact on the Group's capital position, particularly the Group's Common equity tier 1 capital ratio, which amongst other things, could impact on the Group's dividend capacity. See note 45 Retirement benefit obligations on page 122. | • Court approved Risk Appetite limits.<br>• To help manage pension risk, DB schemes were closed to new entrants in 2007 and a new hybrid scheme (which included elements of DB and defined contribution) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in 2014 and a new defined contribution scheme was introduced for new entrants to the Group from that date.<br>• In addition, the Group implemented two Pension Review programmes in 2010 and 2013 resulting in significant restructuring of DB scheme benefits which were accepted by unions and by staff through individual staff member consent.<br>• In return for the deficit reduction achieved through these programmes, the Group also agreed to increase its support for the schemes, above existing arrangements, so as to broadly match the IAS 19 deficit reduction arising from the benefit changes, and to facilitate a number of de-risking initiatives.<br>• The Group monitors on an ongoing basis the opportunities at an appropriate cost to increase the correlation between the assets and liabilities of the scheme. |

## Principal Risks and Uncertainties (continued)

| Key risks | Key mitigating considerations |
|---|---|
| **Reputation risk**<br>Reputation risk is the risk to earnings or franchise value arising from an adverse perception of the Group's image on the part of customers, suppliers, counterparties, shareholders, investors, staff, legislators, regulators or partners.<br><br>Reputation risk arises as a direct or indirect consequence of the Group's operations and business activities. | • Court approved Group Communications strategy.<br>• Potential impact on reputation is considered in the decision making process.<br>• All media, government, political and administrative stakeholder engagement is actively managed by Group Communications.<br>• Print, broadcast and social media coverage is monitored on an ongoing basis.<br>• Group Corporate Social Responsibility programme in place.<br>• Group Responsible Business Report published annually.<br>• Strong focus on internal communications to ensure that staff are kept informed on relevant issues and developments.<br>• Staff are required to comply with the Group Code of Conduct.<br>• Group purpose statement that is supported by four key values and communicated to all colleagues. |
| **Capital adequacy**<br>Capital adequacy risk is the risk that the Group breaches or may breach regulatory capital ratios and internal targets. The Group's business and financial condition would be negatively affected if the Group was, or was considered to be, insufficiently capitalised.<br><br>While all material risks impact on the Group's capital adequacy to some extent, capital adequacy is primarily impacted by significant increases in credit risk or risk weighted assets, materially worse than expected financial performance and changes to minimum regulatory requirements as part of the annual Supervisory Review and Evaluation Process (SREP) review conducted by the Single Supervisory Mechanism (SSM). | • The Group closely monitors capital and leverage ratios to ensure all regulatory requirements and internal targets are met. In addition, these metrics are monitored against the Court approved RAS and suite of Recovery Indicators.<br>• Comprehensive stress tests / forward-looking Internal Capital Adequacy Assessment Process (ICAAP) financial projections are prepared, reviewed and challenged by the Court to assess the adequacy of the Group's capital, liquidity and leverage positions.<br>• The Group has a contingency capital plan which sets out the framework and reporting process for identifying the emergence of capital concerns including potential options to remediate same. |

| Other significant and emerging risks | Key mitigating considerations |
|---|---|
| **Macroeconomic conditions**<br>The Group's businesses may be affected by adverse economic conditions in countries where we have exposures, particularly in Ireland and the UK, unfavourable exchange rate movements, changes in interest rates, with a potential increase in global protectionism and changes in the international tax environment posing additional risks. | • The Group monitors the risks and impact of changing current and forecast macroeconomic conditions on the likely achievement of the Group's strategy and objectives.<br>• The Group manages its exposures in accordance with key risk policies including maximum single counterparty limits and defined country limits.<br>• The Group has in place a comprehensive stress and scenario testing process. |
| **Geopolitical uncertainty**<br>Geopolitical uncertainties could impact economic conditions in countries where the Group has exposures, market risk pricing and asset price valuations; potentially reducing returns. | • The Group ensures exposures are managed according to approved risk policies which include maximum single counterparty limits and country limits.<br>• The Group is diversified in terms of asset class, industry and funding source. |
| **Litigation and regulatory proceedings**<br>Uncertainty surrounding the outcome of disputes, legal proceedings and regulatory investigations (e.g. the Tracker Mortgage Examination), as well as potential adverse judgements in litigation or regulatory proceedings remains a risk. | • The Group has processes in place to seek to ensure the Group's compliance with legal and regulatory obligations, together with clear controls in respect of the management and mitigation of such disputes, proceedings and investigations as may be instigated against the Group from time to time. |

## Principal Risks and Uncertainties (continued)

| Other significant and emerging risks | Key mitigating considerations |
|---|---|
| **Risk in relation to Irish Government Shareholding**<br>The risk that the Irish Government, which has a c.14% discretionary shareholding in the Bank's parent, BOIG plc via the Ireland Strategic Investment Fund, uses its voting rights in a way that might not be in the best interests of BOIG plc's private sector shareholders. | • The Minister for Finance and the Bank entered into a Relationship Framework Agreement dated 30 March 2012, the terms of which were prepared in the context of EU and Irish competition law and to accommodate considerations and commitments made in connection with the EU / IMF Programme for Financial Support for Ireland.<br>• The Framework Agreement provides, inter-alia, that the Minister will ensure that the investment in the Group is managed on a commercial basis and will engage with the Group in accordance with best institutional shareholder practice in a manner proportionate to the shareholding interest of the State in the BOIG plc. In March 2017, as part of the corporate reorganisation, BOIG plc agreed to be bound by and comply with certain provisions of the relationship framework in relation to the Ministerial consent, consultation process and BOIG plc Group's business plan. |
| **Resolution risk**<br>Arising from the implementation of the Bank Recovery and Resolution Directive (BRRD) and Single Resolution Mechanism (SRM) Regulation in Ireland and the UK, the relevant authorities have wide powers to impose resolution measures on the Group which could materially adversely affect the Group, as well as the shareholders and unsecured creditors of the Group. The Single Resolution Board (SRB) has the authority to exercise specific resolution powers pursuant to the SRM Regulation similar to those of the competent authorities under the BRRD, including in relation to resolution planning and the assessment of resolvability. | • The SRB advised the Group that its preferred resolution strategy consisted of a single point of entry bail-in strategy, through a group holding company. Pursuant to this strategy and following receipt of shareholder approval, the Group implemented a holding company, BOIG plc during 2017, which became the new holding company of the Bank. The structure of the Group is otherwise unchanged.<br>• The Group continues to engage constructively with its resolution authorities, including the SRB, in order to meet regulatory expectations in respect of resolvability.<br>• Scenario planning and strategic planning tools are used to identify impacts. |
| **Tax rates, legislation and practice**<br>The Group's financial position and outlook are exposed to the risks associated with a change in tax laws, tax rates, regulations or practice and the risks associated with non-compliance with existing requirements. The Group is also exposed to the risk that tax authorities may take a different view to the Group on the treatment of certain items. Furthermore, failure to demonstrate that it is probable that future taxable profits will be available, or changes in government policy or tax legislation (e.g. a restriction on the ability to use Irish tax losses carried forward against 100% of current year taxable profits) may reduce the recoverable amount of the deferred tax assets currently recognised in the financial statements. | • The Group has clearly defined tax compliance procedures to identify, assess, manage, monitor and report tax risks and to ensure controls mitigating those risks are in place and operate effectively.<br>• The Group monitors the expected recovery period for DTAs.<br>• The Group monitors potential changes to tax legislation or government policy and considers any appropriate remedial actions. |
| **Impact of accounting standards** (see page 55)<br>IFRS 9 is an accounting standard which became effective on 1 January 2018. Its forward-looking expected credit losses (ECL) approach resulted in higher impairment provisions on transition to IFRS 9 and may lead to more volatile impairment charges with a consequent impact on earnings and capital ratios. The 2018 EU wide stress test is based on a specific methodology and macroeconomic scenarios which differ from those which will be used by the Group in measuring impairment loss allowances under IFRS 9. The Group's projected capital ratios under the stress test are not yet known and may result in regulatory requirements under the SREP process. | • The estimated initial impact of IFRS 9 on capital has been incorporated into the Group's financial planning. The Group retains sufficient buffers in excess of regulatory capital requirements.<br>• The Group is availing of the transitional arrangements for mitigating the impact of IFRS 9 on regulatory capital. These arrangements include relief for a proportion of any increase in stage 1 and 2 impairment loss allowances between transition and the relevant reporting date, subject to certain adjustments.<br>• Capital ratios under the stress test will be produced both including and excluding the transitional arrangements.<br>• Further detail, including mitigants to credit risk factors, is set out in the credit risk section in the BOIG plc Group Annual Report. |

# Report of the Directors

**Group Structure**
In July 2017, a corporate reorganisation was completed whereby Bank of Ireland Group plc ('BOIG plc') became the new holding company of the Bank. BOIG plc became the new listed company on both the Irish and London stock exchanges. All ordinary shareholdings in the Bank were cancelled by way of a scheme of arrangement and replaced by shareholdings in BOIG plc, on the basis of the exchange ratio of one BOIG plc share for each individual holding of 30 units of ordinary stock in the Bank (which included a rounding up mechanism). See note 47 on page 131 for further information. The Annual Report for 2017 of BOIG plc was published on 26 February 2018 and is available on the Group's website.

**Results**
In 2017, the Group made a profit before tax of €852 million and an after tax profit of €692 million. Profit of €1 million is attributable to non-controlling interests, and a €691 million profit is attributable to the stockholder.

**Dividends**
In December 2017, upon receipt of approval from the ECB, the Bank declared and approved a €1 billion interim dividend payable to BOIG plc. The Bank paid €200 million of this dividend in December 2017. As the dividend became a legally binding liability of the Bank upon its declaration and approval, the full amount of the dividend has been recognised by the Bank.

**Group activities**
The Group provides a range of banking and other financial services. The Operating and Financial Review (pages 4 to 9) contains a review of the results and operations of the Group, of most recent events, and of likely future developments.

In relation to the Group's business, no contracts of significance to the Group within the meaning of LR 6.8.1(10) of the Irish Stock Exchange (ISE) Listing Rules existed at any time during the year ended 31 December 2017.

**Principal Risks and Uncertainties**
Information concerning the Principal Risks and Uncertainties facing the Group is set out on pages 10 to 15.

**Financial risk management objectives and policies**
Information regarding the financial risk management objectives and policies of the Group, in relation to the use of financial instruments, is given in note 28 on page 79. The Group's approach to risk management, including risk policies, risk appetite, measurement bases and sensitivities, in particular for credit risk, liquidity risk, market risk and life insurance risk, is aligned to that of BOIG plc, the Bank's immediate and ultimate parent. Further information can be found in the BOIG plc annual report.

**Capital stock**
At 31 December 2017, the Group had 32,363,275,074 units of issued ordinary stock of €0.05 each. Further detail on the structure of the Bank's capital is set out in the Schedule to the Report of the Directors.

**Takeover Bids Regulations**
The disclosures required by the European Communities (Takeover Bids (Directive 2004/25/EC)) Regulations 2006 are set out in the Schedule to the Report of the Directors on pages 19 to 21.

**Directors and Secretary**
At the Annual General Court (AGC) held on 28 April 2017, all Directors (with the exception of Tom Considine) retired and all Directors (with the exception of Brad Martin who retired as a Director of the Bank) were re-elected. The names of the persons who were Directors of the Bank at any time during the year ended 31 December 2017 and up to the date of the approval of the financial statements are set out in Table 1. Except where indicated, they served as directors for the entire period.

**Substantial stockholdings**
All ordinary stock of the Bank was held by its parent company, BOIG plc, at 31 December 2017. There were no other interests disclosed to the Company in accordance with the Market Abuse Regulation and Part 5 of the Transparency Regulations and the related transparency rules during the period from 31 December 2017 to 16 February 2018.

**Corporate Governance**
As permitted under section 1373(3) of the Companies Act 2014, a corporate governance statement has been made available on the Bank of Ireland website (www.bankofireland.com) and this statement is incorporated by reference into this annual report. The information contained in this corporate governance statement includes information regarding the Bank's compliance with the CBI Corporate Governance Requirements for Credit Institutions 2015 and additional requirements of Appendix 1 and Appendix 2 of the Irish Code for High Impact Designated Institutions, and Credit Institutions which are deemed 'Significant' Institutions (for the purposes of the Capital Requirements Directive (CRD IV)).

**Table 1:**

*Directors*

**Archie G Kane**
Governor

**Kent Atkinson**
Independent Non-executive Director

**Richie Boucher**
Group Chief Executive Officer
*(Resigned 1 October 2017)*

**Pat Butler**
Independent Non-executive Director
*(Resigned 31 December 2017)*

**Tom Considine**
Non-executive Director
*(Resigned 31 December 2017)*

**Richard Goulding**
Independent Non-executive Director
*(Appointed 20 July 2017)*

**Patrick Haren**
Independent Non-executive Director

**Andrew Keating**
Group Chief Financial Officer

**Patrick Kennedy**
Deputy Governor
Independent Non-executive Director

**Davida Marston**
Independent Non-executive Director

**Brad Martin**
Non-executive Director
*(Resigned 28 April 2017)*

**Francesca McDonagh**
Group Chief Executive Officer
*(Appointed 2 October 2017)*

**Fiona Muldoon**
Independent Non-executive Director

**Patrick Mulvihill**
Independent Non-executive Director

# Report of the Directors (continued)

**Directors' Compliance Statement**
As required by section 225 of the Companies Act 2014, as amended, the Directors acknowledge that they are responsible for securing the Bank's compliance with its 'relevant obligations' (as defined in that legislation). The Directors further confirm that a compliance policy statement has been drawn up, and that appropriate arrangements and structures have been put in place that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations.

A review of those arrangements and structures has been conducted in the financial year to which this report relates.

**Environment**
The Group's environmental policy is accessible at www.bankofireland.com and details of its environmental activities are outlined in the Group's 'Responsible Business Report' which is available on the Group's website.

**Political donations**
Political donations are required to be disclosed under the Electoral Acts 1992 to 2012. The Directors, on enquiry, have satisfied themselves that there were no political donations made during 2017.

**Branches outside the State**
The Bank has established branches in the UK, France, Germany and the US.

**Going concern**
The Directors have considered the appropriateness of the going concern basis in preparing the financial statements for 2017 on page 43 which forms part of the Report of the Directors.

**Viability statement**
In accordance with the requirements of the 2016 revision of the UK Corporate Governance Code, the Directors have assessed the viability of the Group, taking account of the Group's current position and the potential impact of the principal risks facing the Group.

The Directors have selected a three-year period for this assessment, reflecting the time horizon that they consider fits with the various risk and planning frameworks taken into account in arriving at the viability statement.

The Directors have assessed the prospects of the Group through a number of frameworks, including the ICAAP, the ILAAP, the monitoring of key risks identified under the Group's risk identification process by the GRPC, the CRC and the Court (see page 53 of the BOIG plc Group Annual Report) and the assessment of Principal Risk and Uncertainties (see pages 10 to 15). Within those Principal Risks and Uncertainties, the Directors consider Credit risk, Funding and Liquidity risk and Capital adequacy to be the most relevant to the viability assessment.

The ICAAP process facilitates the Court and senior management in adequately identifying, measuring and monitoring the Group's risks and ensures that the Group holds adequate capital to support its risk profile. ICAAP is subject to review by the Group's prudential regulator, the ECB SSM. Underpinning the ICAAP process, the Group prepares detailed financial projections under both a base case and a stress case. Base case projections are prepared using consensus macroeconomic forecasts together with Group-specific assumptions, and the stress case is prepared based on a severe but plausible stress economic scenario. 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 Court approved Risk Appetite and Strategy, and to meet its CRD IV regulatory capital, leverage and liquidity requirements.

The Group's ILAAP analysis demonstrates that the volume and capacity of liquidity resources available to the Group are adequate to support its business model, to achieve its strategic objectives under both business as usual and severe but plausible stress scenarios and to meet regulatory requirements including the Liquidity Coverage and Net Stable Funding Ratios.

The Directors confirm that their assessment of the principal risks facing the Group, through the processes set out above, was robust. Based upon this assessment, and their assessment of the Group's prospects, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2020.

**Accounting records**
The Directors ensure that adequate accounting records are kept at the Bank's registered office, through the appointment of suitably qualified competent personnel, the implementation of appropriate computerised systems and the use of financial and other controls over the systems and the data.

**Auditors**
Having considered the impact of the updated EU regulatory framework on statutory audits and the relevant recommendation of the UK Corporate Governance Code, and to ensure the continuing quality and effectiveness of the external audit service, the Group had previously announced its intention to conduct an external audit tender in 2017. Following a transparent and competitive tender process, including presentations from candidate firms and discussions with management, the Group Audit Committee recommended to the Court of Directors that KPMG be appointed to replace PwC as the external auditor of the Bank commencing with the 2018 financial year. On 19 May 2017, the Court agreed to appoint KPMG as statutory auditor to the Group for financial year end 2018. This appointment will be the subject of an advisory shareholder resolution at BOIG plc's 2018 AGM.

As resigning auditor, PwC has confirmed an intention to resign on completion of the 2017 audit.

**Relevant audit information**
The Directors in office at the date of this report have each confirmed that as far as they are aware, there is no relevant audit information of which the Group's auditor is unaware; and they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

**Post balance sheet events**
These are described in note 63 to the financial statements.

## Report of the Directors (continued)

**Directors' and Secretary's interests in stock**

The beneficial interests of the Directors and Secretary in shares issued by the Group as disclosed to the Group are detailed below in accordance with ISE Listing Rule LR6.8.3(1). As part of the corporate reorganisation described in note 47, on 7 July 2017 holders of ordinary stock in the Bank (including Directors and the Group Secretary) were issued with BOIG plc shares on the basis of the exchange ratio of one BOIG plc share for each individual holding of 30 units of ordinary stock in the Bank.

| | BOIG plc | Bank | | |
|---|---|---|---|---|
| | Number of €1.00 ordinary shares at 31 December 2017 | Units of €0.05 ordinary stock at 31 December 2017 | Units of €0.05 ordinary stock at 7 July 2017 or at date of appointment | Units of €0.05 ordinary stock at 1 January 2017 or at date of appointment |
| **Directors** | | | | |
| K Atkinson | 67 | n/a[1] | 2,000 | 2,000 |
| P Butler | 3,084 | n/a[1] | 92,519 | 92,519 |
| T Considine | 1,917 | n/a[1] | 57,500 | 57,500 |
| R Goulding *(appointed 20 July 2017)* | 2,000 | n/a[1,2] | - | - |
| P Haren | 1,334 | n/a[1] | 40,000 | 40,000 |
| A G Kane | 7,036 | n/a[1] | 211,074 | 211,074 |
| A Keating | 10,961 | n/a[1] | 328,805 | 328,805 |
| P Kennedy | 75,156 | n/a[1] | 2,254,642 | 2,254,642 |
| D Marston | 3,333 | n/a[1] | 100,000 | 100,000 |
| F McDonagh *(appointed 2 October 2017)* | 2,000 | n/a[1,2] | - | - |
| F Muldoon | 2,866 | n/a[1] | 85,979 | 85,979 |
| P Mulvihill | 167 | n/a[1] | 5,000 | 5,000 |
| **Secretary** | | | | |
| H Nolan | 2,669 | n/a[1] | 80,043 | 80,043 |

The Directors and Secretary had no interests in the stock / securities of the Bank or its Group undertakings at 31 December 2017 and no change to this provision has been disclosed to the Bank under the provisions of article 19 of the Market Abuse Regulation occurring between the end of the period under review and 16 February 2018.

**Archie G Kane**
Governor

**Patrick Kennedy**
Deputy Governor

Bank of Ireland
Registered Office
40 Mespil Road,
Dublin 4

23 February 2018

[1] *On effectiveness of the corporate reorganisation, all of the ordinary stock with nominal value €0.05 of the Bank in issue before the effective date of the reorganisation was cancelled and extinguished. On effectiveness of the scheme, each holder of ordinary stock in the Bank as appearing in the register of members of the Bank at 18:00 on 7 July 2017 received one BOIG plc ordinary share with a nominal value of €6.00 for each individual holding of 30 units of the Bank ordinary stock, with fractional entitlements being rounded up to the nearest whole BOIG plc ordinary share.*

[2] *No interest in ordinary stock / shares at date of appointment.*

# Schedule to the Report of the Directors

**Information required under the European Communities (Takeover Bids (Directive 2004/ 25/EC)) Regulations 2006.**

As required by these Regulations, the information contained below represents the position as at 31 December 2017.

**1. Structure of the Bank's capital**

The capital of the Bank is divided into ordinary stock, non-cumulative dollar preference stock, non-cumulative sterling preference stock, non-cumulative euro preference stock, undesignated dollar, euro and sterling preference stock, the undesignated preference stock collectively being '2005 preference stock' and deferred stock.

As at 31 December 2017, there was no non-cumulative dollar preference stock in issue. As at 31 December 2017, there were in issue 1,876,090 units of non-cumulative sterling preference stock and 3,026,598 units of non-cumulative euro preference stock. As at 31 December 2017, there was no 2005 preference stock in issue. As at 31 December 2017, there was no deferred stock in issue.

Further detail on the structure of the Bank's capital is set out in note 48 to the consolidated financial statements.

**(i) Rights and Obligations attaching to the classes of stock**

***Ordinary stock***

*Dividend rights*

Under Irish law and under the Bye-Laws of the Bank, dividends are payable on the ordinary stock of the Bank only out of profits available for distribution. Holders of the ordinary stock of the Bank are entitled to receive such dividends as may be declared by the stockholders in General Court, provided that the dividend cannot exceed the amount recommended by the Directors. The Bank may pay stockholders such interim dividends as appear to the Directors to be justified by the profits of the Bank. No dividend on the ordinary stock may be declared unless the dividend on the non-cumulative dollar preference stock, the non-cumulative sterling preference stock, the non-cumulative euro preference stock and the 2005 Preference Stock most recently payable prior to the relevant General Court shall have been paid in cash. Any dividend which has remained unclaimed for twelve years from the date of its declaration may be forfeited and cease to remain owing by the Bank.

*Voting rights*

Voting at any General Court is by a show of hands or by poll. On a show of hands, every stockholder who is present in person or by proxy has one vote regardless of the number of units of stock held by him or her. On a poll, every stockholder who is present in person or by proxy has one vote for every unit of ordinary stock of €0.05 each. Notwithstanding any provision to the contrary in the Companies Act or the Bye-Laws of the Bank, a resolution in writing signed by all the members of the Bank entitled to attend and vote on such resolution at a General Court is as valid and effective for all purposes as if the resolution had been passed at a General Court duly convened and held (a 'unanimous written resolution'). A unanimous written resolution is deemed to have been passed at a meeting held on the date on which it was signed by the last member to sign. A unanimous written resolution is ineffective to remove a Director or the Auditors.

At any time that the number of members entitled to attend and vote at a General court is one, the necessary quorum for a General Court is one person present in person or by proxy and entitled to vote. All business is considered to be special business if it is transacted at an Extraordinary General Court as is all business transacted at an Annual General Court other than the declaration of a dividend, the consideration of the financial statements, the balance sheet and reports of the Directors and Auditors, the election of Directors in the place of those retiring, the reappointment of the retiring Auditors, and the determination of the remuneration of the Auditors, all of which is deemed ordinary business. Special business is dealt with by way of an ordinary resolution save where a special resolution is expressly required by the Bye-Laws or the Companies Act 2014 in so far as it applies to the Bank from time to time (the 'Companies Act'). A special resolution must be passed by not less than three fourths of the votes cast by such members as being entitled so to do, vote in person or, where proxies are allowed, by proxy at a General Court at which not less than twenty one days' notice specifying the text or substance of the proposed resolution has been duly given.

Ordinary business is dealt with by way of an ordinary resolution which requires a simple majority of the votes cast by the members voting in person or by proxy at a General Court. Where an equal number of votes have been cast on any resolution the Chairman of the meeting is entitled to a second or casting vote.

An Extraordinary General Court (other than an Extraordinary General Court called for the passing of a special resolution) may be called on fourteen days' notice in writing, at least, where:

(i) the Bank offers the facility for stockholders to vote by electronic means accessible to all stockholders; and

(ii) a special resolution reducing the period of notice to 14 days has been passed at the immediately preceding Annual General Court or at an Extraordinary General Court held since the immediately preceding Annual General Court.

*Liquidation rights*

In the event of any surplus arising on the occasion of the liquidation of the Bank, the ordinary stockholders would be entitled to a share in that surplus pro rata to their holdings of ordinary stock.

*Acquisition and cancellation of deferred stock*

On 7 July 2017, as permitted under the Bye-Laws, the Bank acquired for no consideration and immediately cancelled 90,682,081,918 units of deferred stock and cancelled 1,298,512,710 units of deferred stock held in treasury resulting in the cancellation of 91,980,594,628 deferred stock of nominal value €0.01 each in total, with the result that as at 31 December 2017, there was no deferred stock in issue. It was considered appropriate in the context of the cancellation of the Bank's ordinary stock as part of the corporate reorganisation that the Bank exercise its entitlement to acquire the deferred stock for no consideration and cancel it on acquisition. Refer to note 48 for further information on the acquisition and cancellation of the deferred stock.

## Schedule to the Report of the Directors (continued)

*Treasury Stock*
There were 22,008,690 units of ordinary stock with nominal value of €0.05 each held by the Bank in treasury as at 1 January 2017. Immediately upon the effectiveness of the Scheme, the Bank cancelled all 22,008,690 units of ordinary stock held in treasury in accordance with section 109(6)(a) of the Companies Act, with the result that as at 31 December 2017, the Bank held no treasury stock. Own stock issued by the Bank and held by New Ireland Assurance Company plc for the benefit of life assurance policyholders was cancelled and replaced by shares in BOIG plc as described in note 48. Refer to note 48 for further information on the cancellation of the treasury stock.

*Preference stock*
Any non-cumulative dollar preference stock issued will rank equivalently to the existing euro or sterling preference stock as regards entitlements to dividends.

The holders of non-cumulative sterling and euro preference stock are entitled to a fixed annual dividend, at the discretion of the Bank, in accordance with the terms and conditions relating to the issue of the particular class of preference stock. Any dividend which has remained unclaimed for twelve years from the date of its declaration may be forfeited and cease to remain owing by the Bank.

The non-cumulative sterling preference stock and the non-cumulative euro preference stock rank pari passu inter se and the right to a fixed dividend is in priority to the dividend rights of ordinary stock in the capital of the Bank. On a winding-up or other return of capital by the Bank, the non-cumulative sterling preference stockholders and the non-cumulative euro preference stockholders are entitled to receive, out of the surplus assets available for distribution to the Bank's members, an amount equal to the amount paid up on their preference stock including any preference dividend outstanding at the date of the commencement of the winding-up or other return of capital. Otherwise the preference stockholders are not entitled to any further or other right of participation in the assets of the Bank.

Bye-Law 7 enables the Directors to issue and allot new preference stock (2005 preference stock) which can be either redeemable or nonredeemable, and can be denominated in dollars, in euro or in sterling. Unless otherwise determined by the Directors prior to their allotment, any preference stock issued under Bye-Law 7 will rank equivalently to the existing euro and sterling preference stock as regards entitlements to dividends. Bye-Law 7 permits the substitution of all of the outstanding preferred securities in the event of the occurrence of a trigger event.

A trigger event will occur when the capital adequacy requirements of the Central Bank of Ireland have been, or are expected to be, breached.

**(ii) Variation of class rights**
The rights attached to the ordinary stock of the Bank may be varied or abrogated, either while the Bank is a going concern or during or in contemplation of a winding up, with the sanction of a resolution passed at a class meeting of the holders of the ordinary stock. Similarly, the rights, privileges, limitations or restrictions attached to the euro preference stock and the sterling preference stock may be varied, altered or abrogated, either while the Bank is a going concern or during or in contemplation of a winding up, with the written consent of the holders of not less than 75% of such class of stock or with the sanction of a resolution passed at a class meeting at which the holders of 75% in nominal value of those in attendance vote in favour of the resolution.

**(iii) Percentage of the Bank's capital represented by class of stock**
The ordinary stock represents 61.7% of the authorised capital stock and 99.6% of the issued capital stock. The preference stock represents 7.1% of the authorised capital stock and 0.4% of the issued capital stock. The deferred stock reflects 31.25% of the authorised capital stock and 0% of the issued capital stock. Refer to note 48 for further information on the acquisition and cancellation of the deferred stock.

**2. Restrictions on the transfer of stock in the Bank**
There are no restrictions imposed by the Bank on the transfer of stock (other than the deferred stock (of which there are no units in issue as at 31 December 2017), the transfer of which requires the prior written consent of the Directors), nor are there any requirements to obtain the approval of the Bank or other stockholders for a transfer of stock, save in certain limited circumstances set out in the Bye-Laws. A copy of the Bye-Laws may be obtained on request from the Group Secretary.

**3. Persons with a significant direct or indirect holding of stock in the Bank.**
Details of significant stockholdings may be found on page 16.

**4. Special rights with regard to the control of the Bank**
There are no special rights with regard to control of the Bank.

**5. Restrictions on voting rights**
There are no unusual restrictions on voting rights.

**6. Agreements between stockholders that are known to the Bank and may result in restrictions on the transfer of securities or voting rights.**
There are no arrangements between stockholders, known to the Bank, which may result in restrictions on the transfer of securities or voting rights.

**7. Rules of the Bank concerning the:**

***(a) appointment and replacement of Directors***
With the exception of any Director(s) nominated by the Minister for Finance under the terms of the Credit Institutions (Financial Support) Act 2008, all Directors nominated between Annual General Courts are submitted to stockholders for election at the first Annual General Court following their co-option. All Directors other than those nominated by the Minister for Finance, retire by rotation every year and, if eligible, may offer themselves for re-election, subject to satisfactory performance evaluation. Directors nominated by the Minister for Finance are not subject to retirement by rotation but may not serve as a Director of the Bank for a period longer than nine years after the date of his or her appointment.

## Schedule to the Report of the Directors (continued)

*(b)* ***amendment of the Bank's Bye-Laws***
The Bank's Bye-Laws may be amended by special resolution passed at an Annual General Court or Extraordinary General Court or by unanimous written resolution. An Annual General Court and an Extraordinary General Court called for the passing of a special resolution shall be called on twenty one days' notice in writing at the least. Special resolutions must be approved by not less than 75 per cent of the votes cast by stockholders entitled to vote in person or by proxy. No business may be transacted at any General Court unless a quorum of members is present at the time when the Court proceeds to business. At any time that the number of members entitled to attend and vote at a General court is one, one person present in person or by proxy and entitled to vote shall constitute a quorum.

**8. Powers of the Bank's Directors, including powers in relation to issuing or buying back by the Bank of its stock**

Under its Bye-Laws, the business of the Bank is managed by the Directors, who exercise all powers of the Bank as are not, by the Charter, the Bank of Ireland Act 1929 (as amended) or the Bye-Laws, required to be exercised by the Bank in General Court. The Directors may exercise all the borrowing powers of the Bank and may give security in connection therewith. These borrowing powers may be amended or restricted only by the stockholders in General Court. The members of the Bank in General Court may at any time and from time to time by resolution enlarge the capital stock of the Bank by such amount as they think proper. Whenever the capital stock of the Bank is so enlarged, the Directors may, subject to various provisions of the Bye-Laws, issue stock to such amount not exceeding the amount of such enlargement as they think proper. All ordinary stock so issued shall rank in equal priority with existing ordinary stock.
Subject to provisions of the Companies Act, to any rights conferred on any class of stock in the Bank and to the Bye-Laws, the Bank may purchase any of its stock of any class (including any redeemable stock) and may cancel any stock so purchased. The Bank may hold such stock as treasury stock, in accordance with Section 109 of the Companies Act 2014 (the 'treasury stock') with liberty to re-issue any such treasury stock on such terms and conditions and in such manner as the Directors may from time to time determine. The Bank shall not make market purchases of its own stock unless such purchases shall have been authorised by a special resolution passed by the members of the Bank at a General Court, or by unanimous written resolution.

**9. Significant agreements to which the Bank is a party that take effect, alter or terminate upon a change of control of the Bank following a bid and the effects of any such agreements.**

Certain Group agreements may be altered or terminated upon a change of control of the Bank following a takeover. Those that may be deemed to be significant in terms of their potential impact on the business of the Group as a whole are the joint ventures between the Bank and Post Office Limited in the UK (in respect of FX and Post Office branded retail financial service products) and the agreement between Bank of Ireland (UK) plc, AA plc and AA Financial Services Limited in the UK (in respect of AA branded financial services products).

**10. Agreements between the Bank and its Directors or employees providing for compensation for loss of office or employment that occurs because of a bid.**

There are no agreements between the Bank and its Executive Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occur because of a bid.

The service contracts for Non-executive Directors do not make provision for benefits on termination in the event of a bid.

# Financial Statements

## Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Independent Auditors' Report set out on pages 23 to 33, is made with a view to distinguishing for stockholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are responsible for preparing the Annual Report and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU) and with those parts of the Companies Act 2014 applicable to companies reporting under IFRS, the European Union (Credit Institutions: Financial Statements) Regulations, 2015 and, in respect of the consolidated financial statements, Article 4 of the IAS Regulation.

The directors are responsible for preparing the Bank financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 '*Reduced disclosure framework*', and promulgated by the Institute of Chartered Accountants in Ireland and Irish law).

Under Irish law the Directors shall not approve the Group's and Bank's financial statements unless they are satisfied that they give a true and fair view of the Group's and the Bank's assets, liabilities and financial position as at the end of the financial year and of the profit or loss of the Group for the financial year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the consolidated financial statements have been prepared in accordance with IFRS adopted by the EU, and the Bank financial statements have been prepared in accordance with FRS 101, and ensure that they contain the additional information required by the Companies Act 2014; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Bank will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain the transactions of the Bank;
- enable, at any time, the assets, liabilities, financial position and profit or loss of the Bank to be determined with reasonable accuracy; and
- enable the Directors to ensure that the financial statements comply with the Companies Act 2014, and as regards the Group financial statements, Article 4 of the IAS Regulation and enable the financial statements to be audited.

The Directors are also responsible for safeguarding the assets of the Group and the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and the requirements of the Listing Rules issued by the Irish and London Stock Exchanges, the Directors are also responsible for preparing a Directors' Report and a report relating to corporate governance. The Directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 and the Transparency Rules to include a management report containing a fair review of the business and a description of the Principal Risks and Uncertainties facing the Group.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website.

Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that, to the best of each Director's knowledge and belief:

- they have complied with the above requirements in preparing the financial statements;
- the consolidated financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities and financial position of the Group and of the profit of the Group;
- the Bank financial statements, prepared in accordance with FRS 101, give a true and fair view of the assets, liabilities and financial position of the Bank;
- the management report contained in the Business Review includes a fair review of the development and performance of the business and the position of the Group and the Bank, together with a description of the Principal Risks and Uncertainties that they face; and
- the Annual Report and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Signed on behalf of the Court by
23 February 2018

| **Archie G Kane** | **Patrick Kennedy** | **Francesca McDonagh** |
|---|---|---|
| *Governor* | *Deputy Governor* | *Group Chief Executive* |

# Independent Auditors' Report

## to the members of The Governor and Company of the Bank of Ireland

### Report on the audit of the financial statements

**Opinion**

*In our opinion:*

- The Governor and Company of the Bank of Ireland's Consolidated financial statements and Bank financial statements (the 'financial statements') give a true and fair view of the Group's and the Bank's assets, liabilities and financial position as at 31 December 2017 and of the Group's profit and cash flows for the year then ended;
- the Consolidated financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Bank financial statements have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101 'Reduced Disclosure Framework' and promulgated by the Institute of Chartered Accountants in Ireland and Irish law); and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2014 and, as regards the Consolidated financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report, which comprise:

- the balance sheets of the Group and Bank as at 31 December 2017;
- the Consolidated income statement and Consolidated statement of comprehensive income for the year then ended;
- the Consolidated cash flow statement for the year then ended;
- the Group and Bank statements of changes in equity for the year then ended; and
- the Notes to the consolidated and Bank financial statements, which include a description of the significant accounting policies.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

Our opinion is consistent with our reporting to the Court Audit Committee.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (Ireland) ('ISAs (Ireland)') and applicable law. Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the Bank of Ireland Group (the 'Group') in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes the Irish Auditing and Accounting Standards Authority's ('IAASA') Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

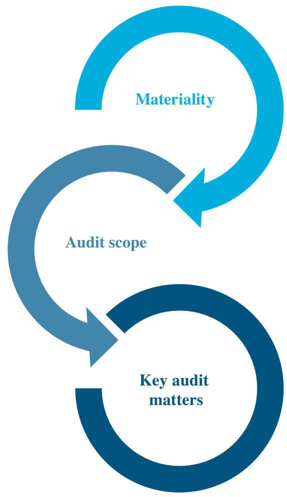
To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the Group or the Bank.

Other than those disclosed in note 14 to the Consolidated financial statements, we have provided no non-audit services to the Group or the Bank in the period from 1 January 2017 to 31 December 2017.

## Our audit approach

**Overview**

*Materiality*
- Overall Group materiality: €45 million which represents 5% of the weighted average of the Group's profit before tax for the years ended 31 December 2017, 31 December 2016 and 31 December 2015. (2016: €50 million).
- Overall Bank materiality: €45 million which represents 0.6% of total equity. (2016: €50 million).




*Audit scope*
- Our audit work addressed each of the Group's five operating segments which are headquartered in Ireland and the UK: Retail Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury and Group Centre.
- We performed full scope audits of the complete financial information of the Bank of Ireland Life and Retail UK operating segments and of the two individually financially significant business units within the Retail Ireland and Corporate and Treasury operating segments.
- Audits of or specified audit procedures on selected account balances, classes of transactions or disclosures were performed at other business units within the Retail Ireland, Corporate and Treasury and Group Centre operating segments.
- Audit coverage for individual line items within the Consolidated income statement and Consolidated balance sheet falls in the range 60% to 100%; most line items have audit coverage above 90%.
- See pages 30 and 31 for further details.

*Key audit matters*
- Impairment provision on loans and advances to customers including IFRS 9 transition.
- Recoverability of deferred tax assets.
- Retirement benefit obligation - determination of the pension liability.
- Provision for Tracker Mortgage Examination.
- Valuation of the insurance contract liabilities and the Value of In Force business (ViF) asset.
- IT risk.

**The scope of our audit**
As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

**Key audit matters**
Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

## Our audit approach (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment provision on loans and advances to customers including IFRS 9 transition***<br>Refer to pages 15 and 16 of The Governor and Company of the Bank of Ireland Corporate Governance Statement for the year ended 31 December 2017 which was approved on 23 February 2018 (the 'Corporate Governance Statement') published on the Bank of Ireland website www.bankofireland.com, pages 49, 50 and 55 (Group accounting policies), pages 56 and 57 (Critical accounting estimates and judgements), pages 69 and 78 to 108 (notes 15, 27 and 28 of the Notes to the consolidated and Bank financial statements).<br><br>The determination of impairment provisions requires a significant amount of management judgement and the calculations are reliant upon available reliable data, particularly the impairment provisions for certain secured lending portfolios.<br><br>We focused in particular on the assumptions underlying the calculation of modelled provisions relating to Residential mortgages (Ireland & UK) and the discounted cash flow assessments in the secured lending portfolios of the Business Banking Ireland, Business Banking UK and Corporate Banking business units as these assumptions are often complex. Given the scale of these portfolios, these assumptions create a risk of material misstatement in the financial statements.<br><br>IAS 8 requires the Group to disclose the impact of the adoption of IFRS 9 (which is effective for accounting periods beginning on or after 1 January 2018). We consider this to be a key audit matter because new models have been developed to calculate IFRS 9 impairment losses and judgement is required in a number of significant areas especially in relation to the calculation of Expected Credit Loss. | Provisions for Residential mortgages (Ireland & UK) are determined using internally generated models. Historical experience and management judgement are incorporated into the model assumptions. We assessed and tested the design and operating effectiveness of the controls over source data and calculations. This included controls over the identification of loans and advances classified as impaired and the calculation of the resulting impairment provision. We also tested the completeness and accuracy of underlying data from the Group's source systems. Where changes were made to the model parameters and assumptions, we understood the rationale and considered the appropriateness of such changes. We used specialists from our Data Services team and Actuarial practice in the evaluation of the operation of the models. We also challenged key assumptions by comparison to externally available information.<br><br>Provisions for loans identified as impaired in the secured lending portfolios are determined by means of discounted cash flows. We assessed and tested the design and operating effectiveness of the controls over lending, including those relating to the appropriateness of loan grading and the robustness of internal reviews of loan grading. Our testing incorporated the selection of samples of individual loans. We critically assessed, by reference to the underlying documentation and through discussion with management, whether the trigger for an impairment had occurred. We challenged the reasonableness of management's judgement in this regard. For impaired loans, we examined the forecasts of future cash flows prepared by management to support the calculation of the impairment provision. We challenged the assumptions and compared estimates to external support where available. Where appropriate, this work involved considering third party valuations of collateral, internal valuation guidelines derived from benchmark data and / or externally prepared reports to determine whether appropriate valuation methodologies were employed.<br><br>We critically assessed the Group's rationalisation of the overall provision levels to consider in particular whether all relevant risks are reflected in the provisions. We also assessed the reasonableness of the total provisions having regard to available external data.<br><br>Based on the procedures performed and evidence obtained, we concluded that:<br>• we could place reliance for the purposes of our audit on the key controls over the Group's processes for determining impairment provisions; and that<br>• management's assumptions, models and methodologies produced impairment provisions which fall within a range of reasonable best estimates.<br><br>In respect of the disclosure of the impact of IFRS 9, we obtained an understanding of and evaluated management's process for the calculation of the transition adjustment including governance over the determination of key judgements. These included probability weighted macroeconomic scenarios, staging criteria and forward looking information. We read key technical papers prepared by management during the transition project as part of our assessment of the effectiveness of the implementation.<br><br>We tested the controls developed by management for the purpose of generating the transition adjustment for both Impairment and Classification & Measurement. |

## Our audit approach (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Impairment provision on loans and advances to customers including IFRS 9 transition (continued)*** | With the assistance of PwC actuarial and risk specialists, we tested key IFRS 9 models developed by management where these were relevant to the calculation of the transition adjustment. We challenged the reasonableness and appropriateness of key assumptions and judgements made by management, We also considered the output of management's Classification & Measurement workstream for consistency with our understanding of the Group's business models.<br><br>Finally, we considered management's rationalisation of the overall calculated impact of IFRS 9 on the Balance Sheet position at 1 January 2018.<br><br>We concluded that the Group's process for estimating the transition adjustment including the selection of assumptions and evaluation of model outputs was reasonable. We consider that the disclosures reflect the circumstances of the Group and the requirements of IAS 8. |
| ***Recoverability of deferred tax assets***<br>Refer to page 15 (Corporate Governance Statement), page 52 (Group accounting policies), page 57 (Critical accounting estimates and judgements) and pages 115 and 116 (note 36 of the Notes to the consolidated and Bank financial statements).<br><br>The Group has deferred tax assets (net of offsettable deferred tax liabilities) of €1,184 million as at 31 December 2017. Tax losses carried forward from prior years account for the major part of the gross deferred tax asset. The Group has been profitable for a number of years.<br><br>As set out in note 2 to the Consolidated financial statements 'Critical accounting estimates and judgements', 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.<br><br>The recognition of a deferred tax asset relies on management's judgements surrounding the probability, timing and sufficiency of future taxable profits, which in turn is based on assumptions concerning future economic conditions and business performance and legislation governing the use of historical trading losses carried forward.<br><br>Under UK and Irish tax legislation, there is no time limit on the utilisation of the Group's tax losses. However, in the UK the amount of a bank's annual profits that can be sheltered with trading losses carried forward is restricted to 25%.<br><br>We regard this area as a key audit matter because of the judgements required as to the probability of the availability of taxable profits for many years into the future. | As set out on page 15 of the Corporate Governance Statement, detailed projections of future taxable profits for a five year period are prepared by the Group. The projections for the final year are then extrapolated at estimated annual long term growth rates for the Irish and UK economies for the purposes of projecting future taxable profits beyond five years.<br><br>We evaluated and tested key controls over the determination and approval of the forecast taxable profits used to support the recognition of the deferred tax assets. We also assessed management's basis for allocating forecast profits between legal entities by testing the allocation methodology, challenging significant assumptions and using our experience of the Group's activities.<br><br>We considered whether the combination of the Group's current profitability and the Directors' projections provide appropriate evidence that sufficient taxable profits will be available to utilise unused tax losses. As part of our audit work, we evaluated the relevant macroeconomic assumptions and growth assumptions underlying the projections in the context of economic consensus forecasts.<br><br>We assessed the basis for management's conclusion that the recovery period for trading losses carried forward in the Bank's UK branch should be restricted to ten years being the period over which the Directors can conclude that it is probable that future taxable profits will be available in the UK branch.<br><br>On the basis of the work performed, we concluded that the Group's net deferred tax asset met the criteria for recognition under IAS 12 and that its carrying value was therefore reasonable. |

## Our audit approach (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Retirement benefit obligation - determination of the pension liability***<br>Refer to page 15 (Corporate Governance Statement), page 51 (Group accounting policies), pages 57 and 58 (critical accounting estimates and judgements), and pages 122 to 129 (note 45 of the Notes to the consolidated and Bank financial statements).<br><br>The Group operates a number of defined benefit pension schemes and has an aggregate IAS 19 defined benefit pension deficit of €477 million.<br><br>As disclosed on page 123, during 2017, the Group, with the support of its external actuarial advisers, refined its approach to the determination of the discount rate used to value Sterling denominated liabilities on an IAS 19 basis. The effect of the refinement was to reduce the Group's IAS 19 pension deficit by €110 million.<br><br>We regard the determination of the Group's defined benefit pension liability as a key audit matter because its valuation is complex and requires judgement in choosing appropriate actuarial assumptions. These assumptions can have a material impact on the calculation of the liability. | We considered the reasonableness of the key actuarial assumptions (principally the discount rates, inflation rates and demographic assumptions) used to determine the pension liability.<br><br>We used PwC actuarial experts to assist the audit team to challenge management in relation to the assumptions and methodology applied including benchmarking to external data as appropriate.<br><br>With the assistance of our actuarial experts, we considered the changes which the Group made to its approach to the determination of the discount rate for its Sterling schemes and we assessed their reasonableness in the circumstances of those Sterling pension schemes and their consistency with the requirements of IAS 19. Because the changes relied to a significant extent on the advice of the Group's external actuarial experts, we considered their independence, read reports prepared by them for management and subsequently, met with them to discuss and challenge their work.<br><br>We concluded that the assumptions and methodologies adopted by management to calculate the Group's defined benefit pension liabilities were reasonable. We read and assessed the disclosures made by management in the financial statements including those explaining and quantifying the effect of the changes made to the determination of the discount rate for the Sterling schemes and found them to be appropriate and consistent with the requirements of IFRS. |
| ***Provision for Tracker Mortgage Examination***<br>Refer to page 15 (Corporate Governance Statement), page 51 (Group accounting policies), page 58 (Critical accounting estimates and judgements) and page 121 (note 44 of the Notes to the consolidated and Bank financial statements).<br><br>In December 2015, the Central Bank of Ireland requested that the Group conduct an examination of its Irish mortgage loan book to assess compliance with both the Group's legal obligations and the applicable regulatory frameworks. Prior years' financial statements included provisions and contingent liabilities arising from the output of the examination at the time.<br><br>In November 2017 and following intervention by the Central Bank and internal review, the Group announced that it had decided to include 5,400 additional accounts within the scope of its examination.<br><br>The financial statements reflect an incremental charge of €170 million which includes the impact of the additional accounts and other matters.<br><br>We consider this to be a key audit matter because of its materiality to the financial statements and the significant uncertainties and judgements inherent in its estimation. | We understood and tested the key controls and management's processes for the calculation and review of the Tracker Mortgage Examination charge and provision including governance processes and approvals of model assumptions and outputs.<br><br>We found that the key controls were implemented and operated effectively and therefore, we determined that we could place reliance on these key controls for the purposes of our audit.<br><br>In addition:<br>• We read the 2017 correspondence between the Central Bank of Ireland and the Group in relation to the Tracker Mortgage Examination and discussed the principal matters arising with senior management and, where necessary, with those charged with governance.<br>• We read the minutes of key governance meetings including those of the Court, and of various management committees, as well as attending Group and subsidiary Audit Committee meetings.<br>• We updated our understanding and challenged the provisioning methodologies and underlying assumptions used by management. For example, we challenged the basis that management used for forecasting the number of appeals that will be received in the future. We also independently performed sensitivity analysis on the key assumptions.<br><br>In discussions with management, we challenged the judgements made in the calculation of the charge and provision for other matters. |

## Our audit approach (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Provision for Tracker Mortgage Examination (continued)*** | Given the inherent uncertainty in the calculation, we considered the residual risks and uncertainties relating to the determination of management's estimate of the total ultimate cost of the examination and the adequacy of disclosures within the financial statements.<br><br>We concluded that:<br>• the estimate of the additional charge recognised in the 2017 financial statements was reasonable given the information currently available.<br>• the related disclosures in the financial statements including the description of the residual risks and uncertainties were reasonable. |
| ***Valuation of the insurance contract liabilities and the Value of in Force business (ViF) asset***<br>Refer to page 16 (Corporate Governance Statement), pages 44, 52 and 53 (Group accounting policies), page 58 (critical accounting estimates and judgements), and pages 117, 119, 120, 164 and 165 (notes 38, 42 and 61 of the Notes to the consolidated and Bank financial statements).<br><br>As described on page 44, the Group voluntarily changed its accounting policy for the valuation of its life assurance operations during the year to align it to the new basis for determining the valuation of liabilities on a regulatory (Solvency II) basis and ViF on a market consistent basis. The change in accounting policy has been accounted for retrospectively as required by IAS 8 and comparative periods have been restated to reflect this change. Further information of the impact of the restatement is provided at page 164.<br><br>We consider the calculation of insurance contract liabilities and the ViF asset to be a key audit matter because the estimation of the insurance contracts liabilities and the valuation of the ViF asset (being the discounted future margins on insurance contracts are complex calculations and involve the use of detailed methodologies, multiple assumptions and significant judgements. The voluntary change in accounting policy has resulted in some changes in methodologies and assumptions. | We considered the appropriateness of the change in methodology as a change in accounting policy (rather than a change in estimate) and the appropriateness of the change of policy as being more relevant and no less reliable than the previous policy as required by IFRS. In addition, we assessed the appropriateness of the related disclosure in the financial statements. No matters arose from our audit procedures.<br><br>We evaluated, with the assistance of our actuarial specialists, the processes and controls surrounding the selection and determination of the methodologies applied, assumptions used and judgements reached.<br><br>We assessed and challenged the bases used to set the underlying assumptions (the key assumptions being the discount rate, unit growth rate, persistency, mortality, morbidity and expenses) by reference to guidance issued by the European Insurance and Occupational Pensions Authority, Group experience, published mortality tables and wider market practice.<br><br>We assessed the design and operating effectiveness of controls operated by management to ensure that authorised changes to the actuarial models used to value insurance contract liabilities and the ViF asset (to reflect in particular the voluntary change in accounting policy) had been properly applied to them and that other than these changes, the models were consistent with those used in prior years.<br><br>We assessed the calculations underpinning the insurance contract liabilities and ViF asset which are performed on management's actuarial models by:<br>• checking that the data and the assumptions input into the actuarial model were in agreement with those that we had evaluated;<br>• assessing management's controls over the output of the calculations including comparison and understanding of how that output compares to management's detailed estimations of the sources of profit within the principal classes of insurance and investment products; and<br>• reading the report of the Group's external actuarial experts retained to undertake an independent examination of management's methodologies, judgements and assumptions.<br><br>We concluded that the insurance contract liabilities and the ViF asset were appropriately calculated. No matters arose from our assessment and testing of the underlying processes, controls and models. |

## Our audit approach (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***IT risk***<br>Refer to page 16 (Corporate Governance Statement).<br><br>The Group has a complex IT environment and operates a large number of IT applications to support its business activities. A significant number of these applications (whether developed by management or purchased from third party vendors) have been in place for many years. There is a mix of automated and manual interfaces between applications. The Group's IT control framework over financial reporting includes standardised IT general controls most of which relate to a number of applications, designed to prevent or detect material misstatements in the Group's recording, processing and reporting of financial information.<br><br>The Group is executing a multi-year investment programme to replace its core banking IT platform and to upgrade its payments applications. This programme operates alongside existing initiatives to maintain the operating effectiveness of the Group's IT systems as well as managing other matters including increased expectations from regulators and customers. Each of these elements has been brought together in an Integrated IT Plan which, inter alia, establishes priorities and identifies resource needs.<br><br>Group Internal Audit (GIA) examines and reports on IT internal control and operational risk matters.<br><br>Management has an ongoing risk management programme in place to identify, rate, mitigate and report on risk including IT and Operational risk considerations.<br><br>We regard this area as a key audit matter because the Group's business is highly IT dependent, the IT environment is complex and the design and operating effectiveness of IT controls and of IT risk mitigants supports the financial reporting process. | Using IT audit specialists, we updated our understanding of the Group's IT environment and identified changes made to it during 2017. In particular, we considered the progress of management's Integrated IT Plan, the outputs from management's IT risk management process and the findings of internal audit examinations conducted by GIA. We assessed the impact of these matters on the assessed risks of material misstatement to the financial statements in determining our audit approach.<br><br>We considered those IT risks and significant GIA IT audit findings that management and we assessed as relevant to financial reporting and tested and challenged management's documented assessment of the mitigation of these risks relevant to financial reporting.<br><br>We also considered management's documentation and testing of the design and operating effectiveness of the IT controls within the Group's Internal Control Framework over financial reporting and tested the design and operating effectiveness of those controls upon which we wished to rely. Where relevant, we considered whether compensating controls acted as effective mitigants of design or operating deficiencies identified by management or us. In the absence of sufficient compensating controls, we examined, tested and challenged management's documented assessments of the risk which control deficiencies posed to the financial reporting process.<br><br>We concluded following completion of our audit procedures that management's assessments of the impact of IT risk matters on the financial reporting process were reasonable and that we could place reliance on the operation of in-scope IT systems and reports generated from them. |

## Our audit approach (continued)

**How we tailored the audit scope**
We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along five operating segments being Retail Ireland, Bank of Ireland Life, Retail UK, Corporate and Treasury and Group Centre. Each operating segment comprises a number of business units. The Group financial statements are a consolidation of the business units.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each operating segment and business unit by us, as the Group engagement team, or by component PwC auditors operating under our instructions ('component auditors'). Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the Consolidated financial statements as a whole.

We performed a full scope audit of the complete financial information of the Bank of Ireland Life and Retail UK operating segments due to their size, location and risk characteristics. We also performed full scope audits of the complete financial information of the two individually financially significant business units within the Retail Ireland and Corporate and Treasury operating segments.

In order to achieve the desired level of audit evidence on each account balance in the Consolidated and Bank financial statements, audits of or specified audit procedures on selected account balances, classes of transactions or disclosures were performed at other business units within the Retail Ireland, Corporate and Treasury and Group Centre operating segments. The nature and extent of audit procedures was determined by our risk assessment.

Together with additional procedures performed at the Group level, this gave us the evidence we needed for our opinion on the financial statements as a whole.

Audit coverage for individual line items within the Consolidated income statement and Consolidated balance sheet falls in the range of 60% to 100%; most line items have coverage above 90%.

The overwhelming majority of Group activity outside Ireland is in the UK and PwC UK was engaged to perform full scope audit procedures on the Retail UK operating segment. No other PwC network firm was engaged for the Group audit. In relation to audit procedures that were performed by PwC UK, we arranged joint planning meetings, regular physical and telephone meetings throughout the audit and reviewed extracts from PwC UK's audit file to corroborate that our audit plan was appropriately executed. In addition, the Group Engagement Leader attended the Bank of Ireland UK plc Audit Committee meeting in November 2017.

**Materiality**
The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| Group financial statements | Bank financial statements |
|---|---|
| *Overall materiality*<br>€45 million (2016: €50 million). | *Overall materiality*<br>€45 million (2016: €50 million). |
| *How we determined it*<br>5% of weighted average three year profit before tax | *How we determined it*<br>0.6% of total equity |
| *Rationale for benchmark applied*<br>The Group is profit oriented and profit before tax is one of the key metrics used to assess its performance. Given the profitability of the Group in recent years, this benchmark continues to be appropriate. A weighted three year average has been used for 2017 to remove the distortion caused by the 2017 Mortgage Tracker Examination charge of €170 million. The weighting reflects the greater significance of more recent years. | *Rationale for benchmark applied*<br>Capital resources is a key metric used internally and externally for the Bank. Total equity is a proxy for Capital Resources and is included in the audited financial statements. |

## Our audit approach (continued)

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was €10 million to €36 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above €2.25 million (Group and Bank audit) (2016: €2.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

**Going concern**
In accordance with ISAs (Ireland) we report as follows:

| Reporting obligation | Outcome |
|---|---|
| We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's or the Bank's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. | We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's or the Bank's ability to continue as a going concern. |
| We are required to report if the Directors' statement, set out on pages 17 and 43, relating to going concern in accordance with Rule 6.8.3(3) of the Listing Rules for the Main Securities Market of the Irish Stock Exchange is materially inconsistent with our knowledge obtained in the audit. | We have nothing to report. |

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors, we also considered whether the disclosures required by the Companies Act 2014 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland), the Companies Act 2014 (CA14) and the Listing Rules applicable to the Bank ('Listing Rules') require us to also report certain opinions and matters as described below (required by ISAs (Ireland) unless otherwise stated).

**Report of the Directors**

- In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Directors for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with the applicable legal requirements. (CA14).
- Based on our knowledge and understanding of the Group and Bank and their environment obtained in the course of the audit, we did not identify any material misstatements in the Report of the Directors. (CA14).

## Reporting on other information (continued)

**Corporate governance statement**

- In our opinion, based on the work undertaken in the course of the audit of the financial statements,
  - the description of the main features of the internal control and risk management systems in relation to the financial reporting process included in the Corporate Governance Statement; and
  - the information required by Section 1373(2)(d) of the Companies Act 2014 included on pages 19 to 21;

  is consistent with the financial statements and has been prepared in accordance with section 1373(2) of the Companies Act 2014. (CA14)
- Based on our knowledge and understanding of the Bank and its environment obtained in the course of the audit of the financial statements, we have not identified material misstatements in the description of the main features of the internal control and risk management systems in relation to the financial reporting process and the information required by section 1373(2)(d) of the Companies Act 2014 included in the Corporate Governance Statement. (CA14)
- In our opinion, based on the work undertaken during the course of the audit of the financial statements, the information required by section 1373(2)(a),(b),(e) and (f) is contained in the Corporate Governance Statement. (CA14)

**The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group**

As a result of the Directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the 'Code'), under ISAs (Ireland) we are required to report to you if we have anything material to add or to draw attention to regarding:

- The Directors' confirmation on page 16 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 17 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and the Directors' statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and the Bank and their environment obtained in the course of the audit. (Listing Rules).

**Other code provisions**

As a result of the Directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the Directors on page 22 that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for the members to assess the Group's and Bank's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Bank obtained in the course of performing our audit.
- Pages 14 to 17 of the Corporate Governance Statement describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of these responsibilities.

## Responsibilities for the financial statements and the audit

**Responsibilities of the Directors for the financial statements**

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The Directors are also 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.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Bank or to cease operations, or have no realistic alternative but to do so.

## Reporting on other information (continued)

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

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

**Use of this report**
This report, including the opinions, has been prepared for and only for the Bank's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Other required reporting

## Companies Act 2014 opinions on other matters

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the Bank were sufficient to permit the Bank financial statements to be readily and properly audited.
- The Bank balance sheet is in agreement with the accounting records.

## Companies Act 2014 exception reporting

**Directors' remuneration and transactions**
Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

## Appointment

We were appointed Sole Auditor by the members on 10 July 1990 to audit the financial statements for the year ended 31 March 1991 having been joint auditor previously. The period of total uninterrupted engagement as Sole Auditor is 27 years, covering the years ended 31 March 1991 to 31 December 2017.

**Kevin Egan**
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

23 February 2018

# Consolidated and Bank financial statements

## Consolidated income statement *(for the year ended 31 December 2017)*

| | Note | **2017 €m** | Restated[1] 2016 €m |
|---|---|---|---|
| Interest income | 4 | 2,546 | 2,861 |
| Interest expense | 5 | (394) | (598) |
| **Net interest income** | | **2,152** | **2,263** |
| Net insurance premium income | 6 | 1,344 | 1,226 |
| Fee and commission income | 7 | 543 | 559 |
| Fee and commission expense | 7 | (217) | (222) |
| Net trading income | 8 | 161 | 113 |
| Life assurance investment income, gains and losses | 9 | 450 | 446 |
| Other operating income | 10 | 170 | 303 |
| **Total operating income** | | **4,603** | **4,688** |
| Insurance contract liabilities and claims paid | 11 | (1,646) | (1,577) |
| **Total operating income, net of insurance claims** | | **2,957** | **3,111** |
| Other operating expenses | 12 | (2,080) | (1,897) |
| Cost of restructuring programme | 13 | (48) | (35) |
| **Operating profit before impairment charges on financial assets** | | **829** | **1,179** |
| Impairment charges on financial assets | 15 | (15) | (178) |
| **Operating profit** | | **814** | **1,001** |
| Share of results of associates and joint ventures (after tax) | 16 | 43 | 41 |
| Loss on disposal / liquidation of business activities | 17 | (5) | (7) |
| **Profit before tax** | | **852** | **1,035** |
| Taxation charge | 18 | (160) | (236) |
| **Profit for the year** | | **692** | **799** |
| | | | |
| Attributable to stockholders | | 691 | 799 |
| Attributable to non-controlling interests | | 1 | - |
| **Profit for the year** | | **692** | **799** |

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## Consolidated statement of comprehensive income *(for the year ended 31 December 2017)*

| | Note | 2017 €m | Restated[1] 2016 €m |
|---|---|---|---|
| **Profit for the year** | | **692** | **799** |
| **Other comprehensive income, net of tax:** | | | |
| **Items that may be reclassified to profit or loss in subsequent years:** | | | |
| *Available for sale reserve, net of tax:* | | | |
| Gain on reclassification from held to maturity portfolio | | 45 | - |
| Changes in fair value | | 22 | (20) |
| Transfer to income statement | | | |
| - Asset disposal | | (60) | (134) |
| - Amortisation | | (16) | (15) |
| **Net change in available for sale reserve** | | **(9)** | **(169)** |
| *Cash flow hedge reserve, net of tax:* | | | |
| Changes in fair value | | 179 | 1,337 |
| Transfer to income statement | | (294) | (1,341) |
| **Net change in cash flow hedge reserve** | | **(115)** | **(4)** |
| *Foreign exchange reserve:* | | | |
| Foreign exchange translation losses | | (158) | (423) |
| Transfer to income statement on liquidation of non-trading entities | 17 | 11 | 4 |
| **Net change in foreign exchange reserve** | | **(147)** | **(419)** |
| **Total items that may be reclassified to profit or loss in subsequent years** | | **(271)** | **(592)** |
| **Items that will not be reclassified to profit or loss in subsequent years:** | | | |
| Remeasurement of the net defined benefit pension liability, net of tax | | (113) | 167 |
| Revaluation of property, net of tax | | 15 | 3 |
| **Total items that will not be reclassified to profit or loss in subsequent years** | | **(98)** | **170** |
| **Other comprehensive expense for the year, net of tax** | | **(369)** | **(422)** |
| **Total comprehensive income for the year, net of tax** | | **323** | **377** |
| Total comprehensive income attributable to equity stockholders | | 322 | 377 |
| Total comprehensive income attributable to non-controlling interests | | 1 | - |
| **Total comprehensive income for the year, net of tax** | | **323** | **377** |

The effect of tax on these items is shown in note 18.

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## Balance sheet *(as at 31 December 2017)*

| | | Group | | | Bank | |
|---|---|---|---|---|---|---|
| | Note | **31 Dec 2017 €m** | Restated[1] 31 Dec 2016 €m | Restated[1] 1 Jan 2016[2] €m | **31 Dec 2017 €m** | 31 Dec 2016 €m |
| **Assets** | | | | | | |
| Cash and balances at central banks | | 7,379 | 5,192 | 6,603 | 5,310 | 3,822 |
| Items in the course of collection from other banks | | 307 | 242 | 294 | 92 | 90 |
| Trading securities | | 68 | 18 | 3 | 68 | 18 |
| Derivative financial instruments | 19 | 2,348 | 3,709 | 3,064 | 2,354 | 3,674 |
| Other financial assets at fair value through profit or loss | 20 | 14,454 | 13,249 | 12,280 | 45 | 32 |
| Loans and advances to banks | 21 | 3,061 | 3,349 | 4,578 | 12,129 | 15,093 |
| Available for sale financial assets | 22 | 13,223 | 10,794 | 10,128 | 11,985 | 9,330 |
| Held to maturity financial assets | 23 | - | 1,872 | 1,922 | - | 1,872 |
| NAMA senior bonds | 24 | - | 451 | 1,414 | - | 451 |
| Other debt securities | 25 | - | - | - | 2,195 | 2,195 |
| Loans and advances to customers | 26 | 76,128 | 78,477 | 84,689 | 39,018 | 37,691 |
| Shares in Group undertakings | 29 | - | - | - | 4,177 | 4,060 |
| Interest in associates | 30 | 59 | 56 | 56 | - | - |
| Interest in joint ventures | 31 | 69 | 71 | 83 | - | - |
| Intangible assets and goodwill | 33 | 779 | 635 | 526 | 700 | 586 |
| Investment properties | 34 | 912 | 864 | 841 | - | - |
| Property, plant and equipment | 35 | 434 | 353 | 334 | 313 | 324 |
| Assets classified as held for sale | | 28 | - | 20 | - | - |
| Current tax assets | | 50 | 4 | 13 | 26 | - |
| Deferred tax assets | 36 | 1,237 | 1,298 | 1,453 | 1,143 | 1,143 |
| Other assets | 37 | 1,993 | 2,025 | 2,081 | 403 | 436 |
| Retirement benefit assets | 45 | 58 | 8 | 19 | 46 | 6 |
| **Total assets** | | **122,587** | **122,667** | **130,401** | **80,004** | **80,823** |
| **Equity and liabilities** | | | | | | |
| Deposits from banks | 39 | 4,339 | 3,662 | 952 | 6,121 | 7,036 |
| Customer accounts | 40 | 76,066 | 75,167 | 80,164 | 57,839 | 56,515 |
| Items in the course of transmission to other banks | | 263 | 223 | 239 | 142 | 123 |
| Derivative financial instruments | 19 | 1,987 | 2,873 | 3,619 | 2,076 | 3,017 |
| Debt securities in issue | 41 | 8,390 | 10,697 | 13,243 | 2,476 | 3,693 |
| Liabilities to customers under investment contracts | 42 | 5,766 | 5,647 | 5,729 | - | - |
| Insurance contract liabilities | 42 | 10,878 | 10,458 | 9,833 | - | - |
| Other liabilities | 43 | 3,282 | 2,465 | 4,103 | 1,362 | 561 |
| Current tax liabilities | | 12 | 19 | 35 | - | 8 |
| Provisions | 44 | 205 | 96 | 97 | 70 | 64 |
| Deferred tax liabilities | 36 | 53 | 62 | 68 | - | - |
| Retirement benefit obligations | 45 | 536 | 454 | 755 | 442 | 356 |
| Subordinated liabilities | 46 | 2,110 | 1,425 | 2,440 | 2,073 | 1,355 |
| **Total liabilities** | | **113,887** | **113,248** | **121,277** | **72,601** | **72,728** |

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*
[2] *Opening balance sheet as at 1 January 2016 reflects the Group's restated closing balance at 31 December 2015.*

## Balance sheet *(as at 31 December 2017) (continued)*

| | | Group | | | Bank | |
|---|---|---|---|---|---|---|
| | Note | **31 Dec 2017 €m** | Restated[1] 31 Dec 2016 €m | Restated[1] 1 Jan 2016[2] €m | **31 Dec 2017 €m** | 31 Dec 2016 €m |
| **Equity** | | | | | | |
| Capital stock | 48 | 1,625 | 2,545 | 2,558 | 1,625 | 2,545 |
| Stock premium account | | 571 | 571 | 1,135 | 561 | 561 |
| Retained earnings | | 4,778 | 5,214 | 4,950 | 3,523 | 4,018 |
| Other reserves | | 984 | 359 | (249) | 954 | 231 |
| Own stock held for the benefit of life assurance policyholders | | - | (11) | (11) | - | - |
| **Stockholders' equity** | | **7,958** | **8,678** | **8,383** | **6,663** | **7,355** |
| Other equity instruments | 49 | 740 | 740 | 740 | 740 | 740 |
| **Total equity excluding non-controlling interests** | | **8,698** | **9,418** | **9,123** | **7,403** | **8,095** |
| Non-controlling interests | | 2 | 1 | 1 | - | - |
| **Total equity** | | **8,700** | **9,419** | **9,124** | **7,403** | **8,095** |
| **Total equity and liabilities** | | **122,587** | **122,667** | **130,401** | **80,004** | **80,823** |

The Bank recorded a profit after tax of €696 million for the year ended 31 December 2017 (2016: €624 million).

| | | | |
|---|---|---|---|
| ***Archie G Kane*** | ***Patrick Kennedy*** | ***Francesca McDonagh*** | ***Helen Nolan*** |
| *Governor* | *Deputy Governor* | *Group Chief Executive* | *Group Secretary* |

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

[2] *Opening balance sheet as at 1 January 2016 reflects the Group's restated closing balance at 31 December 2015.*

## Statement of changes in equity *(for the year ended 31 December 2017)*

| | Note | Group 2017 €m | Group Restated[1] 2016 €m | Bank 2017 €m | Bank 2016 €m |
|---|---|---|---|---|---|
| **Capital stock** | | | | | |
| Balance at the beginning of the year | | 2,545 | 2,558 | 2,545 | 2,558 |
| Impact of corporate reorganisation | 47,48 | (920) | - | (920) | - |
| *- Cancellation of deferred stock* | | *(920)* | - | *(920)* | - |
| *- Cancellation of capital stock* | | *(1,616)* | - | *(1,617)* | - |
| *- Cancellation of treasury stock* | | *(2)* | - | *(1)* | - |
| *- Issue of capital stock to Bank of Ireland Group plc* | | *1,618* | - | *1,618* | - |
| Redemption of 2009 Preference Stock | | - | (13) | - | (13) |
| **Balance at the end of the year** | 47,48 | **1,625** | **2,545** | **1,625** | **2,545** |
| **Stock premium account** | | | | | |
| Balance at the beginning of the year | | 571 | 1,135 | 561 | 1,125 |
| Impact of corporate reorganisation | 47 | - | - | - | - |
| *- Stock premium on cancelled capital stock* | | *(502)* | - | *(502)* | - |
| *- Stock premium on issue of capital stock to Bank of Ireland Group plc* | | *502* | - | *502* | - |
| Redemption of 2009 Preference Stock | | - | (564) | - | (564) |
| **Balance at the end of the year** | | **571** | **571** | **561** | **561** |
| **Retained earnings** | | | | | |
| Balance at the beginning of the year | | 5,214 | 4,950 | 4,018 | 3,954 |
| Profit retained | | 636 | 718 | 641 | 543 |
| *- Profit for year attributable to stockholders* | | *691* | *799* | *696* | *624* |
| *- Dividends on preference equity interests paid in cash* | | *(7)* | *(8)* | *(7)* | *(8)* |
| *- Distribution on other equity instruments - Additional tier 1 coupon, net of tax* | 49 | *(48)* | *(73)* | *(48)* | *(73)* |
| Dividends on ordinary capital stock | 43 | (1,000) | - | (1,000) | - |
| Redemption of 2009 Preference Stock | | - | (727) | - | (727) |
| Transfer from capital contribution | | - | 116 | - | 116 |
| Transfer from / (to) capital reserve | | 41 | (9) | - | - |
| Remeasurement of the net defined benefit pension liability | 18 | (113) | 167 | (129) | 131 |
| Other movements | | - | (1) | (7) | 1 |
| **Balance at the end of the year** | | **4,778** | **5,214** | **3,523** | **4,018** |
| **Other reserves:** | | | | | |
| **Available for sale reserve** | | | | | |
| Balance at the beginning of the year | | 350 | 519 | 329 | 482 |
| Gain on reclassification from held to maturity portfolio | | 52 | - | 52 | - |
| Net changes in fair value | | 24 | (19) | 9 | (26) |
| Transfer to income statement (pre tax) | | | | | |
| - Asset disposal | 10 | (69) | (174) | (46) | (152) |
| - Amortisation | 4 | (18) | (17) | (18) | (17) |
| Deferred tax on reserve movements | | 2 | 41 | - | 42 |
| **Balance at the end of the year** | | **341** | **350** | **326** | **329** |
| **Cash flow hedge reserve** | | | | | |
| Balance at the beginning of the year | | 156 | 160 | 145 | 158 |
| Changes in fair value | | 203 | 1,525 | 202 | 1,506 |
| Transfer to income statement (pre tax) | | | | | |
| - Net trading expense (foreign exchange and amortisations) | | (336) | (1,517) | (328) | (1,519) |
| - Net interest income | 4 | 2 | (9) | 8 | - |
| Deferred tax on reserve movements | | 16 | (3) | 13 | - |
| **Balance at the end of the year** | | **41** | **156** | **40** | **145** |

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## Statement of changes in equity *(for the year ended 31 December 2017) (continued)*

| | Note | Group 2017 €m | Group Restated[1] 2016 €m | Bank 2017 €m | Bank 2016 €m |
|---|---|---|---|---|---|
| **Foreign exchange reserve** | | | | | |
| Balance at the beginning of the year | | (696) | (277) | (317) | (93) |
| Exchange adjustments during the year | | (158) | (423) | (99) | (224) |
| Transfer to income statement on liquidation of non-trading entities | 17 | 11 | 4 | - | - |
| **Balance at the end of the year** | | **(843)** | **(696)** | **(416)** | **(317)** |
| **Capital contribution** | | | | | |
| Balance at the beginning of the year | | - | 116 | - | 116 |
| Transfer to retained earnings | | - | (116) | - | (116) |
| **Balance at the end of the year** | | **-** | **-** | **-** | **-** |
| **Capital reserve** | | | | | |
| Balance at the beginning of the year (prior to restatement) | | 512 | 502 | 55 | 48 |
| Effect of change in accounting policy[1] | | 17 | 11 | - | - |
| Balance at the beginning of the year (restated) | | 529 | 513 | 55 | 48 |
| Impact of corporate reorganisation | 47,48 | 922 | - | 921 | - |
| *- Cancellation of deferred stock* | | *920* | - | *920* | - |
| *- Cancellation of treasury stock* | | *2* | - | *1* | - |
| Transfer (to) / from retained earnings | | (41) | 9 | - | - |
| Redemption of 2009 Preference Stock | | - | 7 | - | 7 |
| **Balance at the end of the year** | | **1,410** | **529** | **976** | **55** |
| **Revaluation reserve** | | | | | |
| Balance at the beginning of the year | | 20 | 17 | 19 | 17 |
| Revaluation of property | | 16 | 4 | 7 | 3 |
| Deferred tax on reserve movements | | (1) | (1) | (1) | (1) |
| Disposal of property | | - | - | (3) | - |
| Other movements | | - | - | 6 | - |
| **Balance at the end of the year** | | **35** | **20** | **28** | **19** |
| **Reserve for 2009 Preference Stock to be redeemed** | | | | | |
| Balance at the beginning of the year | | - | (1,297) | - | (1,297) |
| Redemption of 2009 Preference Stock | | - | 1,297 | - | 1,297 |
| **Balance at the end of the year** | | **-** | **-** | **-** | **-** |
| **Total other reserves** | | **984** | **359** | **954** | **231** |
| **Own stock held for the benefit of life assurance policyholders** | | | | | |
| Balance at the beginning of the year | | (11) | (11) | - | - |
| Impact of corporate reorganisation | | 11 | - | - | - |
| **Balance at the end of the year** | | **-** | **(11)** | **-** | **-** |
| **Total stockholders' equity excluding other equity instruments and non-controlling interests** | | **7,958** | **8,678** | **6,663** | **7,355** |
| **Other equity instruments** | | | | | |
| Balance at the beginning of the year | | 740 | 740 | 740 | 740 |
| Issue of other equity instruments | | - | - | - | - |
| **Balance at the end of the year** | 49 | **740** | **740** | **740** | **740** |
| **Non-controlling interests** | | | | | |
| Balance at the beginning of the year | | 1 | 1 | - | - |
| Share of net profit | | 1 | - | - | - |
| **Balance at the end of the year** | | **2** | **1** | **-** | **-** |
| **Total equity** | | **8,700** | **9,419** | **7,403** | **8,095** |

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## Consolidated cash flow statement *(for the year ended 31 December 2017)*

| | Note | 2017 €m | Restated[1] 2016 €m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | 852 | 1,035 |
| Share of results of associates and joint ventures | 16 | (43) | (41) |
| Loss on disposal / liquidation of business activities | 17 | 5 | 7 |
| Depreciation and amortisation | 12 | 169 | 132 |
| Impairment charges on financial assets | 15 | 15 | 178 |
| Reversal of impairment on property | 12 | (4) | (5) |
| Revaluation of investment property | 34 | (40) | (14) |
| Interest expense on subordinated liabilities | 51 | 98 | 169 |
| Charge for pension and similar obligations | 45 | 122 | 114 |
| Loss on liability management exercises | 10 | - | 19 |
| Charges / (gains) arising on the movement in credit spreads on the Group's own debt and deposits accounted for at 'fair value through profit or loss' | 8 | 5 | (5) |
| Net change in accruals and interest payable | | (43) | (118) |
| Net change in prepayments and interest receivable | | 51 | 25 |
| Charge for provisions | 44 | 224 | 73 |
| Non-cash and other items | | 43 | (56) |
| **Cash flows from operating activities before changes in operating assets and liabilities** | | **1,454** | **1,513** |
| Net change in items in the course of collection from other banks | | (28) | 35 |
| Net change in trading securities | | (50) | (15) |
| Net change in derivative financial instruments | | 494 | (1,346) |
| Net change in other financial assets at fair value through profit or loss | | (1,194) | (969) |
| Net change in loans and advances to banks | | 5 | (36) |
| Net change in loans and advances to customers | | 1,035 | 623 |
| Net change in NAMA senior bonds | | 454 | 967 |
| Net change in other assets | | (23) | 5 |
| Net change in deposits from banks | | 658 | 2,732 |
| Net change in customer accounts | | 1,767 | (708) |
| Net change in debt securities in issue | | (2,292) | (1,782) |
| Net change in liabilities to customers under investment contracts | | 119 | (82) |
| Net change in insurance contract liabilities | | 420 | 625 |
| Net change in other operating liabilities | | (258) | (148) |
| **Net cash flow from operating assets and liabilities** | | **1,107** | **(99)** |
| **Net cash flow from operating activities before tax** | | **2,561** | **1,414** |
| Tax paid | | (105) | (98) |
| **Net cash flow from operating activities** | | **2,456** | **1,316** |
| Investing activities (section a below) | | (1,054) | (1,167) |
| Financing activities (section b below) | | 371 | (3,329) |
| Effect of exchange translation and other adjustments | | 129 | 504 |
| **Net change in cash and cash equivalents** | | **1,902** | **(2,676)** |
| Opening cash and cash equivalents | | 8,299 | 10,975 |
| **Closing cash and cash equivalents** | 50 | **10,201** | **8,299** |

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## Consolidated cash flow statement *(for the year ended 31 December 2017) (continued)*

| | Note | 2017 €m | Restated[1] 2016 €m |
|---|---|---|---|
| **(a) Investing activities** | | | |
| Additions to available for sale financial assets | 22 | (4,763) | (4,082) |
| Disposal / redemption of available for sale financial assets | 22 | 4,001 | 3,194 |
| Additions to property, plant and equipment | 35 | (44) | (61) |
| Disposal of property, plant and equipment | 35 | 4 | 1 |
| Additions to intangible assets | 33 | (235) | (219) |
| Acquisition of subsidiary (net of cash acquired) | 32 | (48) | - |
| Additions to investment property | 34 | (74) | (65) |
| Disposal of investment property | 34 | 57 | 13 |
| Disposal of assets held for sale | | 3 | 17 |
| Dividends received from joint ventures | 31 | 39 | 40 |
| Net change in interest in associates | 30 | - | (2) |
| Net proceeds / (cost) from disposal of business activity | 17 | 6 | (3) |
| **Cash flows from investing activities** | | **(1,054)** | **(1,167)** |
| **(b) Financing activities** | | | |
| Proceeds from the issue of subordinated liabilities | 46 | 753 | - |
| Repayment of subordinated liabilities | 46 | (32) | (1,000) |
| Interest paid on subordinated liabilities | 51 | (88) | (190) |
| Dividend on ordinary stock paid in cash | | (200) | - |
| Dividend paid on 2009 Preference Stock and other preference equity interests | | (7) | (124) |
| Consideration paid in respect of liability management exercises | | - | (632) |
| Distributions paid on other equity instruments - Additional tier 1 coupon | 49 | (55) | (83) |
| Redemption of 2009 Preference Stock | | - | (1,300) |
| **Cash flows from financing activities** | | **371** | **(3,329)** |

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

# Notes to the consolidated and Bank financial statements

## 1 Group accounting policies

### Basis of preparation

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

The financial statements comprise the Consolidated income statement, the Consolidated statement of 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 statements on pages 42 to 167.

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 2014 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 Section 290 (1) of the Companies Act 2014.

In preparing these financial statements the Bank applies the recognition, measurement and disclosure requirements of IFRS as adopted by the EU (but makes amendments where necessary in order to comply with the Companies Act 2014). The Bank has applied the exemptions available under FRS 101 in respect of the following disclosures:

- statement of Cash Flows;
- disclosures in respect of transactions with wholly-owned subsidiaries;
- certain requirements of IAS 1 'Presentation of financial statements'; and
- the effects of new but not yet effective IFRSs.

Where relevant, equivalent disclosures have been given in the group accounts. Accounting policies that are relevant to the Bank only are set out on pages 53 and 54.

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

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

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

Foreign exchange (FX) rates used during the year are as follows:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Average** | **Closing** | Average | Closing |
| € / Stg£ | 0.8767 | 0.8872 | 0.8195 | 0.8562 |
| € / US$ | 1.1297 | 1.1993 | 1.1069 | 1.0541 |

### 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 2017 is a period of twelve months from the date of approval of these financial statements (the 'period of assessment').

In making this assessment, the Directors considered the Group's business, profitability projections, funding and capital plans, together with a range of other factors such as the outlook for the Irish economy, along with ongoing developments in EU economies.

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

**Capital**

The Group has developed capital plans under base and stress scenarios and the Directors believe that the Group has sufficient capital to meet its regulatory capital requirements throughout the period of assessment.

**Funding and liquidity**

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

**Conclusion**

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

### Adoption of new accounting standards and voluntary changes in accounting policies

The following amendments to standards have been adopted by the Group during the year ended 31 December 2017:

- IAS 7 'Statement of cash flows': Disclosure Initiative narrow-scope amendments
- IAS 12 'Income taxes': Recognition of Deferred Tax Assets for Unrealised Losses narrow-scope amendments

These amendments have had no significant impact on the financial position of the Group.

## 1 Group accounting policies (continued)

**Life assurance operations**
The Group has voluntarily changed its accounting policy for the valuation of insurance contract liabilities and Value of in Force (ViF) asset.

Previously insurance contract liabilities were calculated in accordance with the guidelines as laid down in the European Communities (Life Assurance) Framework Regulations,1994 (the 'Insurance Regulations') and the ViF asset was calculated in accordance with the embedded value achieved profit methodology in the Statement of Recommended Practice issued by the Association of British Insurers.

The 2017 Group financial statements measure insurance contract liabilities using either a gross premium or net premium method of valuation, made on the basis of recognised actuarial methods, with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

The ViF asset is measured by projecting expected future profits using best estimate and market consistent assumptions and a risk free interest rate curve. Further details are outlined in the Life assurance operations accounting policy on pages 52 and 53.

The change in accounting policy has been driven by changes in the regulatory reporting requirements and to align the accounting policy more closely with these requirements.

This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative period has been restated to reflect this change. The effect of this change is explained further in note 61.

**Asset quality reporting**
As part of the revision of its asset quality reporting methodology as set out in more detail on pages 84 and 85, the Group's definition of impaired loans has been modified to remove non-mortgage loans that are greater than 90 days in arrears but where a specific provision is not required, instead these loans are classified as 'past due greater than 90 days but not impaired'. In addition, all exposures that are subject to forbearance and have a specific provision are now reported as both 'forborne' and 'impaired' whereas previously in the non-mortgage portfolios where an exposure carried a specific provision it was reported as 'impaired' and not reported as 'forborne'. These changes do not impact any of the line items in the primary financial statements for the current or prior period, nor do they impact the calculation of basic or diluted earnings per share. The Group's revised policy on forbearance is set out on pages 49 and 50.

### Comparatives
Comparative figures have been adjusted where necessary, to conform with changes in presentation or where additional analysis has been provided in the current period. Any adjustments to comparatives are disclosed in the relevant note as appropriate.

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

A structured entity is an entity designed so that its activities are not governed by way of voting rights. The Group assesses whether it has control over such entities by considering factors such as: the purpose and design of the 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. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree, over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. In addition, FX gains and losses which arise on the retranslation to functional currency of intercompany monetary assets and liabilities are not eliminated.

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

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

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

## 1 Group accounting policies (continued)

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

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

The Group utilises the venture capital exemption for investments where significant influence is present and the business operates as a venture capital business. These investments are designated at initial recognition at fair value through profit or loss.

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 Securitisations**

Certain Group undertakings have entered into securitisation transactions in order to finance specific loans and advances to customers.

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

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

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

### Foreign currency translation

Items included in the financial statements of each entity of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements of the Group and the financial statements of the Bank are presented in euro.

Foreign currency transactions are translated into functional currency at the exchange rates prevailing at the dates of the transactions. FX gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Translation differences on non-monetary items, such as equities held at 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 as available for sale, are recognised in other comprehensive income. Exchange differences arising on translation to presentation currency and on consolidation of overseas net investments, are recognised in other comprehensive income.

Assets, liabilities and equity of all the Group entities that have a functional currency different from the presentation currency ('foreign operations') are translated at the closing rate at the balance sheet date and items of income and expense are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation the amount accumulated in the separate component of equity is reclassified from equity to profit or loss. The Group may dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital, abandonment or through loss of control or significant influence.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense 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 instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. 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.

Once a financial asset or group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purposes of measuring the impairment loss. Where the Group revises its estimates of payments or receipts on a financial instrument measured at amortised cost, the carrying amount of the financial instrument (or group of financial instruments) is adjusted to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by

## 1 Group accounting policies (continued)

computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognised in profit or loss as income or expense.

### Fee and commission income

Fees and commissions which are not an integral part of the effective interest rate of a financial instrument are generally recognised as the related services are provided. Commissions and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts usually on a time apportioned basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time. Loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan once drawn.

### Operating profit / loss

Operating profit / loss includes the Group's earnings from ongoing activities after impairment charges on financial assets, and before share of profit or loss on associates and joint ventures (after tax) and profit / loss on disposal / liquidation of business activities.

### Leases

1 **A Group company is the lessee**

The total payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments.

The corresponding rental obligations, net of finance charges, are included in long-term payables. The interest element of the finance costs is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 **A Group company is the lessor**

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

### Financial assets

1 **Classification, Recognition and Measurement**

The Group categorises its financial assets as: financial assets at fair value through profit or loss; loans and receivables; held to maturity or available for sale financial assets. The Group determines the classification of its financial assets at initial recognition.

(a) ***Financial assets at fair value through profit or loss***

Financial assets at fair value through profit or loss can either be held for trading, if acquired principally for the purpose of selling in the short-term, or designated at fair value through profit or loss at inception.

The principal category of assets designated at fair value through profit or loss are those held by the Group's life assurance business, which are managed on a fair value basis.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognised on trade date: the date on which the Group commits to purchase or sell the asset. Thereafter they are carried on the balance sheet at fair value, with all changes in fair value included in the income statement.

(b) ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans are recorded at fair value plus transaction costs when cash is advanced to the borrowers. They are subsequently accounted for at amortised cost using the effective interest method.

(c) ***Held to Maturity***

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity, other than:

- those that the Group upon initial recognition designates as at fair value though profit or loss;
- those that the Group designates as available for sale; and
- those that meet the definition of loans and receivables.

Purchases and sales of held to maturity investments are recorded on trade date. They are initially recognised at fair value plus transaction costs and are subsequently accounted for at amortised cost using the effective interest method.

A sale or reclassification of a more than insignificant amount of held to maturity investments results in the reclassification of all held to maturity investments to available for sale financial assets. On such reclassification, the difference between their carrying amount and fair value is recognised in other comprehensive income.

(d) ***Available for sale***

Available for sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest

## 1 Group accounting policies (continued)

rates, exchange rates or equity prices.

Purchases and sales of available for sale financial assets are recognised on trade date. They are initially recognised at fair value plus transaction costs. Fair value movements are recognised in other comprehensive income. Interest is calculated using the effective interest method and is recognised in the income statement.

If an available for sale financial asset is derecognised or impaired the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the income statement.

Available for sale financial assets that would have met the definition of loans and receivables may be reclassified to loans and receivables if the Group has the intention and ability to hold the asset for the foreseeable future or until maturity.

Available for sale financial assets may be reclassified to held to maturity if there is a change in intention or ability to hold those assets to maturity.

When a financial asset is reclassified, the fair value of the asset on that date becomes its new amortised cost. Any previous gain or loss on the asset that has been recognised in other comprehensive income is amortised to profit or loss over the remaining life of the asset using the effective interest method. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest method.

**2 Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

### Financial liabilities

The Group categorises financial liabilities as at amortised cost or as at fair value through profit or loss. 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 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.

Preference shares which carry a mandatory coupon are classified as financial liabilities. The dividends on these preference shares are recognised in the income statement as interest expense using the effective interest method.

The Group designates certain financial liabilities at fair value through profit or loss, to eliminate or significantly reduce an accounting mismatch that would otherwise arise or as a result of embedded derivatives contained in the contract that would otherwise require separation. Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expires.

### Valuation of financial instruments

The Group recognises trading securities, other financial assets and liabilities designated at fair value through profit or loss, derivatives and available for sale financial assets 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 (DCF) analysis, option pricing models and other valuation techniques commonly used by market participants. To the extent possible, these valuation techniques use observable market data. Where observable data does not exist, the Group uses estimates based on the best information available.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price in an arm's length transaction, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique which uses only observable market inputs. When such evidence exists, the initial valuation of the instrument may result in the Group recognising a profit on initial recognition. In the absence of such evidence, the instrument is initially valued at the transaction price. Any day one profit is deferred and recognised in the income statement to the extent that it arises from a change in a factor that market participants would consider in setting a price. Straight line amortisation is used where it approximates to that amount. Subsequent changes in fair value are recognised immediately in the income statement without the reversal of deferred day one profits or losses.

Where a transaction price in an arm's length transaction is not available, the fair value of the instrument at initial recognition is measured using a valuation technique.

For liabilities designated at 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.

### Sale and repurchase agreements and lending of assets

Assets sold subject to repurchase agreements ('repos') are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate.
Securities purchased under agreements to resell ('reverse repos') are treated as collateralised loans and recorded as loans and advances to banks or customers, as appropriate.

## 1 Group accounting policies (continued)

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

Securities lent to counterparties are also retained on the balance sheet. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return the securities is recorded at fair value as a trading liability.

### Issued debt and equity securities

The classification of instruments as a financial liability or an equity instrument is dependent upon the substance of the contractual arrangement. Instruments which carry a contractual obligation to deliver cash or another financial asset to another entity are classified as financial liabilities. The coupons on these instruments are recognised in the income statement as interest expense using the effective interest method. Where the Group has absolute discretion in relation to the payment of coupons and repayment of principal, the instrument is classified as equity and any coupon payments are classified as distributions in the period in which they are made.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid is included in other operating income, net of any costs or fees incurred.

### Derivative financial instruments and hedge accounting

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 balance sheet date. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Certain derivatives embedded in other financial instruments are separated from the host contract and accounted for as derivatives, when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

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.

Where a hedging instrument is novated to a clearing counterparty, the Group does not discontinue hedge accounting where the following criteria are met:

- the novation arises due to laws or regulations, or the introduction of laws and regulations;
- the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and
- the novation does not result in changes to the terms of the original instrument except for those changes necessary to effect the change in counterparty.

*(a) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The hedged item in a micro fair value hedge is a single specified item e.g. a fixed rate commercial loan or an AFS bond. If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

The hedged item in a macro fair value hedge is a pool of assets or liabilities with similar risk characteristics and profiles, such as a pool of fixed rate mortgages. Unlike micro fair value hedge accounting, macro fair value hedge accounting is not discontinued if an individual asset or liability within the pool of hedged items is sold, so long as the overall pool of hedged items retains its characteristics as documented at inception of the hedge. In addition, hedge effectiveness testing is performed on a portfolio basis rather than on an individual hedge relationship by hedge relationship basis.

The Group also avails of the relaxed hedge accounting provisions permitted by IAS 39 'Financial instruments: recognition and measurement' as adopted by the EU. Under these provisions, the Group applies portfolio fair value hedge accounting of interest rate risk to its demand deposit book.

If the criteria for hedge accounting cease to be met, no further adjustments are made to the hedged item for fair value changes attributable to the hedged risk. The cumulative adjustment to the carrying amount of a hedged item is amortised to profit or loss over the period to maturity using the effective interest method.

*(b) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in 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.

# 1 Group accounting policies (continued)

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.

## Impairment of financial assets

***Assets carried at amortised cost***

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(i) delinquency in contractual payments of principal or interest;
(ii) cash flow difficulties;
(iii) breach of loan covenants or conditions;
(iv) deterioration of the borrower's competitive position;
(v) deterioration in the value of collateral;
(vi) external rating downgrade below an acceptable level;
(vii) initiation of bankruptcy proceedings; and
(viii) granting a concession to a borrower, for economic or legal reasons relating to the borrower's financial difficulty that would otherwise not be considered.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

When a loan is deemed uncollectable, it is derecognised and the provision for impairment is utilised. Subsequent recoveries decrease the amount of the charge for loan impairment in the income statement.

***Forbearance***

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

Prior to any decision to grant forbearance the Group performs an assessment of a customer's financial circumstances and ability to repay. This assessment includes an individual assessment for impairment of the loan. If the Group determines that no objective evidence of impairment exists for an individually assessed forborne asset, whether significant or not, it includes the asset in a group of loans with similar credit risk characteristics and collectively assesses them for impairment.

Where the forborne loan is considered to be impaired the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the

## 1 Group accounting policies (continued)

asset's original effective interest rate before the modification of terms. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a forborne asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract before the modification of terms. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Assets to which forbearance has been applied continue to be reported as forborne until such time as they satisfy conditions to exit forbearance in line with EBA guidance on non-performing and forborne classifications.

Where the cash flows from a forborne loan are considered to have expired, the original asset is derecognised and a new asset is recognised, initially measured at fair value. Any difference between the carrying value of the original asset and the fair value of the new asset on initial recognition is recognised in the income statement. Interest accrues on the new asset based on the current market rates in place at the time of the renegotiation.

*Non-forbearance renegotiation*
Where a concession or agreed change to a loan is not directly linked to apparent financial stress or distress, these amendments are not considered forbearance. Any changes in expected cash flows are accounted for under IAS 39. If a renegotiated asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. However, where cash flows on the original asset have been considered to have expired, the original asset is derecognised and a new asset is recognised at fair value. Any difference arising between the derecognised asset and the new asset is recognised in the income statement.

*Available for sale financial assets*
The Group assesses at each balance sheet date whether there is objective evidence that an available for sale financial asset is impaired. In addition to the factors set out above, a significant or prolonged decline in the fair value of an investment in an available for sale equity instrument below its cost is considered in determining whether an impairment loss has been incurred. If an impairment loss has been incurred, the cumulative loss that had been recognised in other comprehensive income is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

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

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

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

The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material. Depreciation is calculated on the straight line method to write down the carrying value of other items of property, plant and equipment to their residual values over their estimated useful lives as follows:
- adaptation works on freehold and leasehold property - fifteen years, or the remaining period of the lease; and
- computer and other equipment - maximum of ten years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or its value in use (VIU).

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

### Investment property
Property held for long-term rental yields and capital appreciation is classified as investment property. Investment property comprises freehold and long leasehold land and buildings. It is carried at fair value in the balance sheet based on annual revaluations at open market value and is not depreciated. Changes in fair values are recorded in the income statement. Rental income from investment properties is recognised as it becomes receivable over the term of the lease.

### Intangible assets
*(a) Computer software*
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives, which is normally five years.

Costs associated with research activities or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development, employee costs and an appropriate portion of relevant overheads.

## 1 Group accounting policies (continued)

Computer software development costs recognised as assets are amortised using the straight line method over their useful lives, which is normally between three and ten years.

*(b) Other intangible assets*
Other intangible assets are carried at cost less amortisation and impairment, if any, and are amortised on a straight line basis over their useful lives, which range from five years to twenty years.

Computer software and other intangible assets are 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 and its VIU.

*(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 VIU, where the VIU is the present value of the future cash flows expected to be derived from the CGU.

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

Provision is made for the anticipated costs of restructuring, including related redundancy costs, when an obligation exists. An obligation exists when the Group has a detailed formal plan for restructuring a business and has raised valid expectations in those affected by the restructuring by starting to implement the plan or announcing its main features. A levy payable to a Government is provided for on the occurrence of the event identified by the legislation that triggers the obligation to pay the levy.

Contingent liabilities are not recognised but are disclosed unless the probability of their occurrence is remote.

### Employee benefits
*(a) Pension obligations*
The Group operates both defined contribution and defined benefit (DB) plans. A DB plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.
The asset or liability recognised in the balance sheet in respect of DB pension plans is the present value of the DB obligation at the balance sheet date minus the fair value of plan assets. The DB obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the DB obligation is determined by discounting the estimated future cash outflows using interest rates on high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Service cost and net interest on the net DB liability / (asset) are recognised in profit or loss, within operating expenses.

Remeasurements of the net DB liability / (asset) that are recognised in 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 DB liability / (asset).

A settlement is a transaction that eliminates all further legal and constructive obligations for part or all of the benefits provided under a DB plan, other than a payment of benefits to, or on behalf of, employees that is set out in the terms of the plan and included in the actuarial assumptions.

For defined contribution plans, contributions are recognised as employee benefit expense when they are due.

*(b) Short-term employee benefits*
Short-term employee benefits, such as salaries and other benefits, are accounted for on an accruals basis over the period in which the employees' service is rendered.

*(c) Termination payments*
Termination payments are recognised as an expense at the earlier of:
- when the Group can no longer withdraw the offer of those benefits; and
- when the Group recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits.

For this purpose, in relation to termination benefits for voluntary redundancies, the Group is considered to be no longer able to withdraw the offer on the earlier of the following dates:
- when the employee accepts the offer; and
- when a restriction (e.g. a legal, regulatory or contractual requirement) on the Group's ability to withdraw the offer takes effect.

## 1 Group accounting policies (continued)

### Income taxes

*(a) Current income tax*

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise.

Tax provisions are provided on a transaction by transaction basis using a best estimate approach. In arriving at such estimates, management assesses the relative merits and risks of tax treatments assumed, taking into account statutory, judicial and regulatory guidance and, where appropriate, external advice.

A current tax provision is recognised when the Group has a present obligation as a result of a past event and it is probable that there will be a future outflow of funds to a fiscal authority to settle the obligation.

*(b) Deferred income tax*

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

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

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

Deferred tax on items taken to 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.

### Capital stock and reserves

*1 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.

*2 Dividends on ordinary stock and preference stock*

Dividends on ordinary stock and preference stock are recognised in equity in the period in which they are approved by the Bank's stockholders or the Court of Directors, as appropriate.

*3 Treasury stock*

Where the Bank or its subsidiaries purchase the Bank's equity capital stock, the consideration paid is deducted from total stockholders' equity as treasury stock until they are cancelled. Where such stock is subsequently sold or reissued, any consideration received is included in stockholders' equity. Any changes in the value of treasury stock held are recognised in equity at the time of the disposal and dividends are not recognised as income or distributions.

*4 Capital reserve*

The capital reserve represents transfers from capital stock, retained earnings and other reserves in accordance with relevant legislation. The capital reserve is not distributable.

*5 Foreign exchange reserve*

The foreign exchange (FX) reserve represents the cumulative gains and losses on the translation of the Group's net investment in its foreign operations since 1 April 2004. Gains and losses accumulated in this reserve are reclassified to the income statement when the Group loses control, joint control or significant influence over the foreign operation or on disposal or partial disposal of the operation.

*6 Revaluation reserve*

The revaluation reserve represents the cumulative gains and losses on the revaluation of property occupied by Group businesses, included within property, plant and equipment and non-financial assets classified as held for sale. The revaluation reserve is not distributable.

*7 Available for sale reserve*

The available for sale reserve represents the cumulative change in fair value of available for sale financial assets together with the impact of any fair value hedge accounting adjustments.

*8 Cash flow hedge reserve*

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

*9 Stock premium account*

Where, pursuant to Section 84 of the Companies Act 2014, there has been a reduction of the Bank's capital stock by the cancellation of stock premium, the resulting profits available for distribution, as defined by Section 117 of the Companies Act 2014, are reclassified from the stock premium account to retained earnings.

### Life assurance operations

In accordance with IFRS 4, the Group classifies all life assurance products as either insurance or investment contracts for accounting purposes.

Insurance contracts are those contracts that transfer significant insurance risk. These contracts are accounted for using an embedded value basis.

Investment contracts are accounted for in accordance with IAS 39. All of the Group's investment contracts are unit linked in nature. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair value of the financial assets within the policyholders'

## 1 Group accounting policies (continued)

unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable. The Group recognises an asset for deferred acquisition costs relating to investment contracts. Upfront fees received for investment management services are deferred. These amounts are amortised over the period of the contract.

Non-unit linked insurance liabilities are calculated using either a gross premium or net premium method of valuation. The computation is made on the basis of recognised actuarial methods annually by an actuary, with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

The Group recognises the ViF life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. This represents the present value of expected future cash flows, using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and discounting using the risk free interest rate curve. Thus, the use of best estimate assumptions in the valuation of the ViF asset ensures that the net carrying amount of insurance liabilities less the ViF asset is adequate.

The ViF asset in the consolidated balance sheet and movements in the asset in the income statement are presented on a gross of tax basis. The tax charge comprises both current and deferred tax expense and includes tax attributable to both stockholders and policyholders for the period.

***Premiums and claims***

Premiums receivable in respect of non-unit linked insurance contracts are recognised as revenue when due from policyholders.

Premiums received in respect of unit linked insurance contracts are recognised in the same period in which the related policyholder liabilities are created. Claims are recorded as an expense when they are incurred.

***Reinsurance***

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group are dealt with as insurance contracts, subject to meeting the significant insurance risk test in IFRS 4. Outward reinsurance premiums are accounted for in accordance with the contract terms when due for payment.

### Offsetting financial instruments

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.

### Collateral

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

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

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

### Financial guarantees

Financial guarantees issued are initially recognised in the financial statements at fair value on the date that the guarantee is given. Subsequent to initial recognition, they are measured at the higher of the initial measurement, less cumulative amortisation, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date.

Any increase in the liability relating to guarantees is taken to the income statement and recognised on the balance sheet within provisions for undrawn contractually committed facilities and guarantees.

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

### Operating segments

The Group's reportable operating segments have been identified on the basis that the chief operating decision maker uses information based on these segments to make decisions about assessing performance and allocating resources. The analysis of results by operating segment is based on management accounts information.

### Accounting Policies relevant to the Bank only

***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 Bank, in accordance with IAS 8, uses its judgement in developing and applying an accounting policy that is relevant and reliable. Where the transactions meet the definition of a group reconstruction or achieve 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 Group, as measured under IFRS. The Bank incorporates the results of the acquired businesses only from the date on which the business combination occurs.

***Shares in Group undertakings***

The Bank's shares in Group undertakings are stated at cost less any impairment. The Bank reviews its shares in Group

## 1 Group accounting policies (continued)

undertakings for impairment at each reporting date. Impairment testing involves the comparison of the carrying value of the investment with its recoverable amount. The recoverable amount is the higher of the investment's fair value or its VIU. VIU is the present value of expected future cash flows from the investment. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Impairment testing inherently involves a number of judgemental areas: the preparation of cash flow forecasts for periods that are beyond the normal requirements of management reporting; the assessment of the discount rate appropriate to the business; estimation of the fair value of the investment; and the valuation of the separable assets comprising the overall investment in the Group undertaking. The use of reasonably possible alternative assumptions would not materially impact the carrying value of the Bank's shares in Group undertakings. See note 29 for further information.

# 1 Group accounting policies (continued)

## Impact of new accounting standards

The following standards and amendments to standards will be relevant to the Group but were not effective at 31 December 2017 and have not been applied in preparing these financial statements. The Group's current view of the impact of these accounting changes is outlined as follows.

**Pronouncement**
**IFRS 9 'Financial instruments'**

**Nature of change**
IFRS 9 'Financial instruments' has been endorsed by the EU as a replacement for IAS 39. It sets out requirements relating to recognition and derecognition, classification, measurement and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model. Financial assets within its scope are required to be classified as being measured, subsequent to initial recognition, at amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification is dependent on both the overall objective of the business model within which the asset is held and the contractual cash flow characteristics of the asset. Impairment under IFRS 9 is forward-looking and is based on expected rather than incurred losses. For financial liabilities, there is no change to classification and measurement except for recognition of changes in own credit risk in other comprehensive income for certain liabilities designated at fair value through profit or loss. The Group is making the accounting policy choice allowed under IFRS 9 to continue to apply the hedge accounting requirements of IAS 39.

**Effective date**
Financial periods beginning on or after 1 January 2018.

**Impact**
The estimated quantitative impact on initial adoption of IFRS 9 is a reduction in stockholders' equity of approximately €120 million after tax, substantially all of which relates to an increase in the impairment loss allowance on loans and advances to customers.

**Pronouncement**
**IFRS 15 'Revenue from Contracts with Customers'**

**Nature of change**
IFRS 15 specifies how and when revenue will be recognised as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers.

The revised standard was endorsed by the EU on 22 September 2016.

**Effective date**
Financial periods beginning on or after 1 January 2018.

**Impact**
The Group has assessed the nature and extent of the impact of the standard which is not expected to be significant to the financial statements of the Group.

**Pronouncement**
**IFRS 16 'Leases'**

**Nature of change**
IFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that all operating leases will be accounted for on-balance sheet for lessees. The accounting for lessors will not materially change. The standard replaces IAS 17 'Leases' and related interpretations.

The revised standard was endorsed by the EU on 31 October 2017.

**Effective date**
Financial periods beginning on or after 1 January 2019 and earlier application is permitted if IFRS 15 'Revenue from contracts with customers' is applied at the same time.

**Impact**
The Group is currently assessing the nature and extent of the impact of the standard, which is not yet known or reasonably estimable. The Group does not expect to early adopt the standard.

**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**
Financial periods beginning on or after 1 January 2021 with earlier application of the standard permissible.

**Impact**
The Group intends to conduct a business and financial assessment of the impacts of IFRS 17 in 2018. The Group expects that IFRS 17 is likely to have a significant impact on the recognition, measurement and presentation of the insurance business in the financial statements.

## 2 Critical accounting estimates and judgements

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

### *(a) Impairment charges on financial assets*

The Group reviews its loan portfolios for impairment on an ongoing basis. The Group first assesses whether objective evidence of impairment exists. This assessment is performed individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Impairment provisions are also recognised for losses not specifically identified but, which experience and observable data indicate, are present in the portfolio at the date of assessment.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio, when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The use of historical loss experience is supplemented with significant management judgement to assess whether current economic and credit conditions are such that the actual level of impairment losses is likely to differ from those suggested by historical experience. In normal circumstances, historical experience provides objective and relevant information from which to assess incurred loss within each portfolio. In other circumstances, historical loss experience provides less relevant information about the incurred loss in a given portfolio at the balance sheet date, for example, where there have been changes in economic conditions such that the most recent trends in risk factors are not fully reflected in the historical information. In these circumstances, such risk factors are taken into account when calculating the appropriate levels of impairment allowances by adjusting the impairment loss derived solely from historical loss experience. The detailed methodologies, areas of estimation and judgement applied in the calculation of the Group's impairment charge on financial assets are set out in the credit risk methodologies section on pages 97 to 101 of the Financial risk management note.

At 31 December 2017, the Retail Ireland Residential mortgage portfolio before impairment provisions was €24 billion (2016: €24 billion), against which the Group held provisions for impairment of €0.6 billion (2016: €0.9 billion), which comprised of collectively assessed provisions of €0.3 billion and individually assessed provisions of €0.3 billion. A key assumption used in the calculation of the impairment charge for Retail Ireland Residential mortgages is the value of the underlying residential properties securing the loans (i.e. the 'assumed value' for collective provisioning purposes).

As set out on page 99, during 2017, the assumption adopted by the Group in respect of the value of Irish residential properties for collective provisioning (i.e. collective specific and incurred but not reported (IBNR) provisioning) reflected the indexed value of the property, using the Residential Property Price Index (RPPI) published by the Central Statistics Office (CSO), adjusted downwards for forced sale discount and disposal cost assumptions to estimate the assumed value of the underlying residential properties for collective provisioning purposes. The 'Forced sale discount' assumptions, segmented by both region and market segment, estimate the difference between the indexed value of the underlying residential properties securing the loans and the expected sales price, based on the Group's most recent property sales experience. The disposal costs assumptions reflect the estimated costs associated with selling the underlying residential properties.

In addition to containing judgements in relation to the assumed value of residential properties for provisioning, the Retail Ireland Residential mortgage collective mortgage impairment charges contain key assumptions relating to: 'time to sale'; 'loss emergence periods'; 'weighted average cure rates'; and 'weighted average repayment rates'. The assumptions relating to the assumed value of underlying properties securing the loans, together with all other key collective impairment provisioning model factors, continue to be reviewed as part of the Group's year end and half year financial reporting cycle.

The collective impairment provisions on the Retail Ireland mortgage portfolio can be sensitive to movements in any one of these assumptions, or a combination thereof. The sensitivities and estimated impacts set out below are based on movements in each of these individual assumptions in isolation.

- A 1% absolute increase in the 'forced sale discount' assumptions would increase collective impairment provisions by c.€5 million.
- A 1% absolute increase in the 'disposal costs' assumption would increase collective impairment provisions by c.€4 million.
- An increase of three months in the 'time to sale' assumption (being an estimate of the period of time taken from the recognition of the impairment charge to the sale of the underlying residential properties securing the loans) would increase collective impairment provisions by c.€3 million.
- A 1% absolute increase in the 'weighted average cure rate' assumption (which refers to the percentage of loans estimated to return from defaulted to less than 30 days past due and satisfactorily complete a twelve month probation period) would

## 2 Critical accounting estimates and judgements (continued)

reduce collective impairment provisions by c.€1 million.

- A 1% absolute increase in the 'weighted average repayment rate' assumption (which refers to the estimated percentage reduction in non-cured loan balances due to repayments) would reduce collective impairment provisions by c.€2 million.

A further important judgemental area is in relation to the level of impairment provisions applied to the Property and construction portfolio. At 31 December 2017, Property and construction loans before impairment provisions were €8.7 billion (2016: €10.3 billion) including non-performing exposures of €1.7 billion (2016: €3.5 billion), against which the Group held provisions for impairment of €0.7 billion (2016: €1.7 billion).

In the case of the Property and construction portfolio, a collective impairment provision is made for IBNR impairment charges. A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. At 31 December 2017, emergence periods for Property and construction loans range from three to four months. An increase of one month in this emergence period beyond the assumed level would increase impairment provisions by c.€16 million.

In the case of the Non-property SME and corporate portfolio, a collective impairment provision is made for IBNR impairment charges. A key assumption used in calculating this charge is the emergence period between the occurrence and reporting of the loss event. At 31 December 2017, emergence periods for Non-property SME and corporate loans range from three to four months. An increase of one month in this emergence period beyond the assumed level would increase impairment provisions by c.€12 million.

### (b) *Taxation*

The taxation charge accounts for amounts due to fiscal authorities in the various territories in which the Group operates and includes estimates, based on a judgement of the application of law and practice in certain cases, to determine the quantification of any liabilities arising. There is a risk that the final taxation outcome could be different to the amounts currently recorded.

At 31 December 2017, the net DTA was €1,184 million (2016: €1,236 million), of which €1,253 million (2016: €1,270 million) related to trading losses. See note 36.

At 31 December 2017, the total DTA relating to trading losses was c.€1.2 billion, of which c.€1.1 billion related to Irish trading losses and c.€0.1 billion related to the UK trading losses.

The most significant judgement relates to the Group's assessment of the recoverability of the portion of the DTA relating to trading losses.

A DTA is recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences and unutilised tax losses can be utilised. In order for the Group to recognise an asset for unutilised losses, it must be probable that future taxable profits will be available against which the losses can be utilised. The recognition of a DTA relies on management's judgements surrounding the probability and sufficiency of future taxable profits, and the future reversals of existing taxable temporary differences.

To the extent that the recognition of a DTA is dependent on sufficient future profitability, a degree of estimation and the use of assumptions are required. Under current UK and Irish legislation, there is no time limit on the utilisation of these losses. The Group's judgement takes into consideration the impact of both positive and negative evidence, including historical financial performance, projections of future taxable income, the impact of tax legislation and future reversals of existing taxable temporary differences.

Irish tax legislation does not currently contain any restriction on the use of carried forward tax losses. However, there was previously a restriction, between 2009 and 2013, which limited to 50% the amount of current year Irish taxable profits that could be offset by carried forward Irish tax losses.
UK legislation restricts the proportion of a bank's annual taxable profit that can be offset by pre-April 2015 carried forward losses to 25% from 1 April 2016. This restriction significantly lengthens the period over which the Group could use its UK trading losses and has been considered in the context of the measurement and recognition of the DTA at 31 December 2017.

Notwithstanding the absence of any expiry date for trading losses in the UK, the Group has concluded that, for the purpose of valuing its DTA its brought forward trading losses within the Bank's UK branch (the 'UK branch') will be limited by reference to a 10 year period of projected UK branch profits at the prevailing UK tax rates. Any remaining unutilised UK branch carried forward trading losses have been recognised for DTA purposes at the Irish tax rate on the basis that it is expected that these will be utilised against future Bank profits in Ireland as permitted by current tax legislation. This 10 year timescale is the period over which the Group believes it can conclude that it is probable that future taxable profits will be available in the UK branch.

The Group has assessed the probability of future profits within the current business plans of both its Irish operations and Bank of Ireland (UK) plc and concluded that no similar limitation applies.

Based on the Group's projections, the DTA in respect of tax losses is estimated to be recovered in full by the end of 2036 (2016: 2038).

### (c) *Retirement benefits*

The Group sponsors a number of DB pension schemes. In determining the actual pension cost, the actuarial values of the liabilities of the schemes are calculated by external actuaries. This involves modelling their future development and requires management to make assumptions as to discount rates, price inflation, salary and pensions increases, member mortality and other demographic assumptions. There are acceptable ranges in which these estimates can validly fall. The impact on the results

## 2 Critical accounting estimates and judgements (continued)

for the period and financial position could be materially different if alternative assumptions were used. A quantitative analysis of the sensitivity of the DB pension liability to changes in the key assumptions is set out in note 45.

*(d)* ***Life assurance operations***
The Group accounts for the value of the stockholders' interest in its long-term assurance business using Market Consistent Embedded Value (MCEV) Principles and Guidelines. Embedded value is comprised of the net tangible assets of Bank of Ireland Life and the ViF business. The ViF asset represents the expected future profits on insurance contracts and this is calculated using an embedded value approach with market consistent assumptions.

The ViF asset is measured by projecting expected future surpluses using best estimate and market consistent assumptions and a risk free interest rate curve.
Future surpluses will depend on experience in a number of areas such as investment returns, lapse rates, mortality and investment expenses. Surpluses are projected by making assumptions about future experience, having regard to both actual experience and projected long-term economic trends.

Changes to these assumptions may cause the present value of future surpluses to differ from those assumed at the balance sheet date and could significantly affect the value attributed to the in force business. The ViF business could also be affected by changes in the amounts and timing of other net cash flows (principally annual management charges and other fees levied upon the policyholders) or the rate at which the future surpluses and cash flows are discounted. In addition, the extent to which actual experience is different from that assumed will be recognised in the income statement for the period. A quantitative analysis of the sensitivity of profit to changes in the key life assurance assumptions is set out in note 38.

*(e)* ***Tracker Mortgage Examination***
At 31 December 2017, the Group has recognised a provision of €158 million in connection with the ongoing industry wide examination of tracker mortgages. The provision represents the Group's best estimate of the redress and compensation to be paid to impacted customers and the costs to be incurred by the Group in connection with the examination.

The Central Bank of Ireland examination is still ongoing. There are still a number of uncertainties as to the eventual total cost of the examination. Management has therefore exercised judgement to determine appropriate provision assumptions which include estimates of the level of appeals, appeal success rates and the level of administrative costs to be incurred by the Group in concluding the examination.

Given the uncertainties outlined above, it is possible that the eventual outcome may differ from the current estimate with a corresponding impact on profit or loss in future periods.

## 3 Operating segments

The Group has five reportable operating segments which reflect the internal financial and management reporting structure and are organised as follows:

**Retail Ireland**
Retail Ireland is managed through a number of business units namely Distribution Channels, Customer Propositions (including Customer and Wealth Management and Bank of Ireland Mortgage Bank) and Business Banking (including Bank of Ireland Finance).

**Bank of Ireland Life**
Bank of Ireland Life (which includes the Group's life assurance subsidiary New Ireland Assurance Company plc) distributes protection, investment and pension products to the Irish market, through independent financial brokers, its own tied Financial Advisor network and the Group's distribution channels.

**Retail UK**
The Retail UK division incorporates the financial services partnership and foreign exchange joint venture with the UK Post Office, the financial services partnership with the AA, the UK residential mortgage business, the Group's branch network in Northern Ireland (NI), the Group's business banking business in NI and the Northridge Finance motor and asset finance, vehicle leasing and fleet management business. The Group also has a business banking business in Great Britain (GB) which is being run-down. The Retail UK division includes the activities of Bank of Ireland (UK) plc, the Group's wholly owned UK licenced banking subsidiary.

In November 2017, Northridge Finance acquired Marshall Leasing Limited (MLL). MLL is a car and commercial vehicle leasing and fleet management company.

**Corporate and Treasury**
The Corporate and Treasury Division comprises Corporate Banking and Global Markets. It also manages the Group's euro area liquid asset bond portfolio.

**Group Centre**
Group Centre comprises Group Manufacturing, Group Finance, Group Risk, Group Governance and Regulatory and Group Human Resources. These Group central functions, through Group Centre, establish and oversee policies and provide and manage certain processes and delivery platforms for the divisions.

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

**Basis of preparation of segmental information**
The analysis of results by operating segment is based on the information used by the chief operating decision maker to allocate resources and assess performance. The CEO and CFO are considered to be the chief operating decision maker for the Group. The Group's operating segments reflect its organisational and management

## 3 Operating segments (continued)

structures. The CEO and CFO review the Group's internal reporting based around these segments to assess performance and allocate resources. Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

The measures of segmental assets and liabilities provided to the chief operating decision maker are not adjusted for transfer pricing adjustments or revenue sharing agreements as the impact on the measures of segmental assets and liabilities is not significant. They also do not include adjustments for the impact of the assets and liabilities of Bank of Ireland Group plc ('BOIG plc'), the Bank's holding company.

Capital expenditure comprises additions to property, plant and equipment and intangible assets.

On an ongoing basis, the Group reviews the methodology for allocating funding and liquidity costs in order to ensure that the allocations continue to reflect each division's current funding requirement. During 2017, the Group amended the basis of allocating liquid asset income across the divisions which resulted in an increase in net interest income for 2017 in the Retail Ireland division of €24 million and in the Retail UK division of €1 million with a corresponding decrease in net interest income in the Corporate and Treasury division of €25 million, compared to the former basis. In addition, in 2017 €41 million gains on sales from the euro liquid asset portfolio which were previously recognised in Corporate and Treasury division (2016: €63 million), are recognised within Group Centre division.

Gross external revenue comprises interest income, net insurance premium income, fee and commission income, net trading income, life assurance investment income gains and losses, other operating income and share of results of associates and joint ventures.

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is referred to as 'Underlying profit' in its internal management reporting systems. Underlying profit excludes:
- Tracker Mortgage Examination charges;
- cost of restructuring programme;
- gross-up for policyholder tax in the Life business;
- cost of corporate reorganisation and establishment of a new holding company;
- charge arising on the movement in the Group's credit spreads;
- gain / loss on disposal / liquidation of business activities;
- investment return on treasury stock held for policyholders; and
- gains / losses on liability management exercises.

Underlying profit also excludes any operating profit or loss attributable to BOIG plc.

## 3 Operating segments (continued)

| Group<br>2017 | Retail Ireland €m | Bank of Ireland Life €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items[1] €m | Group €m |
|---|---|---|---|---|---|---|---|
| **Net interest income** | **1,065** | **12** | **579** | **575** | **20** | **(3)** | **2,248** |
| Other income, net of insurance claims | 317 | 208 | 9 | 231 | 25 | 11 | 801 |
| **Total operating income, net of insurance claims** | **1,382** | **220** | **588** | **806** | **45** | **8** | **3,049** |
| Other operating expenses | (761) | (109) | (382) | (194) | (389) | 1 | (1,834) |
| *- Other operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)* | *(760)* | *(109)* | *(378)* | *(194)* | *(184)* | *1* | *(1,624)* |
| *- Core Banking Platforms Investment charge* | *-* | *-* | *-* | *-* | *(111)* | *-* | *(111)* |
| *- Levies and regulatory charges* | *(1)* | *-* | *(4)* | *-* | *(94)* | *-* | *(99)* |
| Depreciation and amortisation | (61) | (5) | (27) | (11) | (61) | - | (165) |
| **Total operating expenses** | **(822)** | **(114)** | **(409)** | **(205)** | **(450)** | **1** | **(1,999)** |
| **Underlying operating profit / (loss) before impairment charges on financial assets** | **560** | **106** | **179** | **601** | **(405)** | **9** | **1,050** |
| Impairment (charges) / reversals on financial assets | 148 | - | (115) | (48) | - | - | (15) |
| Share of results of associates and joint ventures | 4 | - | 39 | - | - | - | 43 |
| **Underlying profit / (loss) before tax** | **712** | **106** | **103** | **553** | **(405)** | **9** | **1,078** |

| **Reconciliation of underlying profit before tax to profit before tax** | **Group €m** |
|---|---|
| Underlying profit before tax | 1,078 |
| Tracker Mortgage Examination charges | (170) |
| Cost of restructuring programme | (48) |
| Gross-up for policyholder tax in the Life business | 10 |
| Cost of corporate reorganisation and establishment of a new holding company | (7) |
| Charge arising on the movement in the Group's credit spreads | (5) |
| Loss on disposal / liquidation of business activities | (5) |
| Investment return on treasury shares held for policyholders | (1) |
| Operating profit attributable to BOIG plc | - |
| **Profit before tax** | **852** |

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

## 3 Operating segments (continued)

| Group<br>Restated[1]<br>2016 | Retail Ireland €m | Bank of Ireland Life €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items[2] €m | Group €m |
|---|---|---|---|---|---|---|---|
| Net interest income | 1,047 | 31 | 609 | 576 | 15 | - | 2,278 |
| Other income, net of insurance claims | 407 | 196 | (9) | 238 | (16) | 32 | 848 |
| Total operating income, net of insurance claims | 1,454 | 227 | 600 | 814 | (1) | 32 | 3,126 |
| Other operating expenses | (758) | (95) | (387) | (196) | (323) | - | (1,759) |
| *- Other operating expenses (before Core Banking Platforms Investment and levies and regulatory charges)* | *(757)* | *(94)* | *(384)* | *(196)* | *(178)* | - | *(1,609)* |
| *- Core Banking Platforms Investment charge* | - | - | - | - | *(41)* | - | *(41)* |
| *- Levies and regulatory charges* | *(1)* | *(1)* | *(3)* | - | *(104)* | - | *(109)* |
| Depreciation and amortisation | (55) | (5) | (25) | (10) | (37) | - | (132) |
| Total operating expenses | (813) | (100) | (412) | (206) | (360) | - | (1,891) |
| Underlying operating profit / (loss) before impairment charges on financial assets | 641 | 127 | 188 | 608 | (361) | 32 | 1,235 |
| Impairment (charges) / reversals on financial assets | (2) | - | (99) | (77) | - | - | (178) |
| Share of results of associates and joint ventures | (3) | - | 44 | - | - | - | 41 |
| Underlying profit / (loss) before tax | 636 | 127 | 133 | 531 | (361) | 32 | 1,098 |

| Reconciliation of underlying profit before tax to profit before tax | Group €m |
|---|---|
| Underlying profit before tax | 1,098 |
| Tracker Mortgage Examination charges | (21) |
| Cost of restructuring programme | (35) |
| Loss on liability management exercises | (19) |
| Gross-up for policyholder tax in the Life business | 12 |
| Loss on disposal / liquidation of business activities | (7) |
| Gain arising on the movement in the Group's credit spreads | 5 |
| Investment return on treasury shares held for policyholders | 2 |
| Profit before tax | 1,035 |

*[1] Comparative figures have been restated to reflect the impact of: (i) the voluntary change in the Group's accounting policy for Life assurance operations (see note 61 on page 164 for further detail). On an underlying basis, this has resulted in an increase of €6 million in the 2016 Other income (net) and a €3 million increase in the net charge from non-core items and (ii) the Group's decision to classify the charges relating to the Central Bank of Ireland's Tracker Mortgage Examination as non-core which has resulted in an increase of €15 million in 2016 Net interest income (before ELG fees) and a decrease of €6 million in 2016 Operating expenses (before Core Banking Platforms investment and levies and regulatory charges) with a corresponding increase of €21 million in the 2016 net charge from non-core items.*

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

## 3 Operating segments (continued)

| **Group**<br>**2017**<br>**Analysis by operating segment** | **Retail Ireland €m** | **Bank of Ireland Life €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Group Centre €m** | **Other reconciling items €m** | **Group €m** |
|---|---|---|---|---|---|---|---|
| **Investment in associates and joint ventures** | **59** | **-** | **69** | **-** | **-** | **-** | **128** |
| External assets | 36,082 | 17,307 | 33,884 | 28,530 | 6,754 | (3) | 122,554 |
| Inter segment assets | 60,188 | 824 | 3,034 | 82,723 | 26,503 | (173,272) | - |
| **Total segmental assets** | **96,270** | **18,131** | **36,918** | **111,253** | **33,257** | **(173,275)** | **122,554** |
| Other Bank assets | | | | | | | 33 |
| **Group assets** | | | | | | | **122,587** |
| External liabilities | 51,639 | 17,164 | 25,701 | 14,947 | 3,431 | 5 | 112,887 |
| Inter segment liabilities | 42,641 | 265 | 9,162 | 95,160 | 26,031 | (173,259) | - |
| **Total segmental liabilities** | **94,280** | **17,429** | **34,863** | **110,107** | **29,462** | **(173,254)** | **112,887** |
| Other Bank liabilities | | | | | | | 1,000 |
| **Group liabilities** | | | | | | | **113,887** |

| Restated[1]<br>2016<br>Analysis by operating segment | Retail Ireland €m | Bank of Ireland Life €m | Retail UK €m | Corporate and Treasury €m | Group Centre €m | Other reconciling items €m | Group €m |
|---|---|---|---|---|---|---|---|
| Investment in associates and joint ventures | 56 | - | 71 | - | - | - | 127 |
| External assets | 36,739 | 15,984 | 35,317 | 28,901 | 5,715 | 11 | 122,667 |
| Inter segment assets | 56,530 | 1,555 | 8,717 | 81,500 | 16,245 | (164,547) | - |
| Total assets | 93,269 | 17,539 | 44,034 | 110,401 | 21,960 | (164,536) | 122,667 |
| External liabilities | 48,884 | 16,582 | 26,557 | 18,598 | 2,617 | 10 | 113,248 |
| Inter segment liabilities | 42,750 | 184 | 14,852 | 90,578 | 16,154 | (164,518) | - |
| Total liabilities | 91,634 | 16,766 | 41,409 | 109,176 | 18,771 | (164,508) | 113,248 |

| **Group**<br>**2017**<br>**Gross revenue by operating segments** | **Retail Ireland €m** | **Bank of Ireland Life €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Group Centre €m** | **Other reconciling items €m** | **Group €m** |
|---|---|---|---|---|---|---|---|
| **Gross external revenue** | **1,359** | **1,880** | **1,072** | **880** | **78** | **(12)** | **5,257** |
| Inter segment revenues | 569 | 59 | 41 | 451 | 148 | (1,268) | - |
| **Gross revenue before claims paid** | **1,928** | **1,939** | **1,113** | **1,331** | **226** | **(1,280)** | **5,257** |
| Insurance contract liabilities and claims paid | - | (1,643) | - | - | (3) | - | (1,646) |
| Revenue attributable to BOIG plc | - | - | - | - | - | - | - |
| **Gross revenue** | **1,928** | **296** | **1,113** | **1,331** | **223** | **(1,280)** | **3,611** |
| **Interest expense** | **(109)** | **(1)** | **(178)** | **7** | **(127)** | **14** | **(394)** |
| **Capital expenditure** | **22** | **4** | **49** | **11** | **193** | **-** | **279** |

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 3 Operating segments (continued)

| Group<br>Restated[1]<br>2016<br>Gross revenue by operating segments | Retail Ireland<br>€m | Bank of Ireland Life<br>€m | Retail UK<br>€m | Corporate and Treasury<br>€m | Group Centre<br>€m | Other reconciling items<br>€m | Group<br>€m |
|---|---|---|---|---|---|---|---|
| Gross external revenue | 1,489 | 1,803 | 1,311 | 898 | 75 | (27) | 5,549 |
| Inter segment revenues | 689 | 66 | 30 | 600 | 291 | (1,676) | - |
| Gross revenue | 2,178 | 1,869 | 1,341 | 1,498 | 366 | (1,703) | 5,549 |
| Insurance contract liabilities and claims paid | - | (1,566) | - | - | (11) | - | (1,577) |
| Gross revenue after claims paid | 2,178 | 303 | 1,341 | 1,498 | 355 | (1,703) | 3,972 |
| Interest expense | (138) | (1) | (287) | (4) | (182) | 14 | (598) |
| Capital expenditure | 45 | 7 | 24 | 6 | 198 | - | 280 |

| **Group**<br>**2017**<br>**Geographical analysis** | **Republic of Ireland**<br>**€m** | **United Kingdom**<br>**€m** | **Rest of World**<br>**€m** | **Other reconciling items**<br>**€m** | **Total**<br>**€m** |
|---|---|---|---|---|---|
| Gross external revenue | 3,946 | 1,214 | 109 | (12) | 5,257 |
| Inter segment revenues | 141 | 69 | 16 | (226) | - |
| **Gross revenue before claims paid** | **4,087** | **1,283** | **125** | **(238)** | **5,257** |
| Insurance contract liabilities and claims paid | (1,643) | - | (3) | - | (1,646) |
| **Gross revenue** | **2,444** | **1,283** | **122** | **(238)** | **3,611** |
| **Capital expenditure** | **230** | **49** | **-** | **-** | **279** |
| External assets | 84,566 | 36,009 | 1,979 | - | 122,554 |
| Inter segment assets | 12,555 | 4,718 | 568 | (17,841) | - |
| **Total assets** | **97,121** | **40,727** | **2,547** | **(17,841)** | **122,554** |
| Other Bank assets | | | | | 33 |
| **Group assets** | | | | | **122,587** |
| External liabilities | 86,261 | 26,503 | 123 | - | 112,887 |
| Inter segment liabilities | 3,435 | 12,160 | 2,250 | (17,845) | - |
| **Total liabilities** | **89,696** | **38,663** | **2,373** | **(17,845)** | **112,887** |
| Other Bank liabilities | | | | | 1,000 |
| **Group liabilities** | | | | | **113,887** |

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 3 Operating segments (continued)

| Group<br>Restated[1]<br>2016<br>Geographical analysis | Republic of Ireland<br>€m | United Kingdom<br>€m | Rest of World<br>€m | Other reconciling items<br>€m | Total<br>€m |
|---|---|---|---|---|---|
| Gross external revenue | 4,071 | 1,399 | 106 | (27) | 5,549 |
| Inter segment revenues | 192 | 74 | 15 | (281) | - |
| Gross revenue before claims paid | 4,263 | 1,473 | 121 | (308) | 5,549 |
| Insurance contract liabilities and claims paid | (1,566) | - | (11) | - | (1,577) |
| Gross revenue | 2,697 | 1,473 | 110 | (308) | 3,972 |
| | | | | | |
| Capital expenditure | 253 | 24 | 3 | - | 280 |
| | | | | | |
| External assets | 82,883 | 38,011 | 1,773 | - | 122,667 |
| Inter segment assets | 18,171 | 9,830 | 1,161 | (29,162) | - |
| Total assets | 101,054 | 47,841 | 2,934 | (29,162) | 122,667 |
| | | | | | |
| External liabilities | 85,019 | 27,938 | 291 | - | 113,248 |
| Inter segment liabilities | 9,515 | 17,335 | 2,316 | (29,166) | - |
| Total liabilities | 94,534 | 45,273 | 2,607 | (29,166) | 113,248 |

## 4 Interest income

| **Group** | **2017**<br>**€m** | 2016<br>€m |
|---|---|---|
| Loans and advances to customers | 2,241 | 2,532 |
| Finance leases and hire purchase receivables | 152 | 146 |
| Available for sale financial assets | 95 | 121 |
| Held to maturity financial assets[2] | 29 | 31 |
| Loans and advances to banks | 15 | 22 |
| NAMA senior bonds | 3 | 4 |
| | **2,535** | **2,856** |
| Negative interest on financial liabilities | 11 | 5 |
| **Interest income** | **2,546** | **2,861** |

Interest income on loans and advances to customers is shown net of a charge of €96 million (2016: €15 million charge) related to redress arising from the Central Bank of Ireland Tracker Mortgage Examination. This principally represents interest refunds to customers.

The Group presents interest resulting from negative effective interest rates on financial liabilities as interest income rather than as an offset against interest expense.

***Interest income recognised on loans and advances to customers[2]***

- €74 million (2016: €103 million) of interest was recognised on impaired loans and advances to customers. Of this amount €54 million (2016: €77 million) relates to loans on which specific provisions have been individually assessed and €20 million (2016: €26 million) relates to loans on which specific provisions have been collectively assessed;
- €63 million (2016: €84 million) of interest was recognised on loans and advances to customers classified as non-performing exposures but on which a specific impairment provision has not been recognised at the year end; and
- €74 million (2016: €106 million) of interest was recognised on loans and advances to customers classified as forborne and which are considered performing at the year end.

In 2017, interest recognised on total forborne loans and advances to customers was €154 million (2016: €225 million).

***Interest income received on loans and advances to customers[2]***

- €78 million (2016: €109 million) of interest income was received on impaired loans and advances to customers;
- €61 million (2016: €81 million) of interest income was received on loans and advances to customers classified

*[1] As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*
*[2] Includes €18 million (2016: €17 million) of amortisation transferred from the available for sale reserve in relation to the assets reclassified from available for sale to held to maturity.*
*[3] As described on pages 84 and 85, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. As a result, the 2016 interest income recognised has been restated as follows:*
- *Loans and advances to customers classified as non-performing exposures but on which a specific impairment provision has not been recognised at the year end restated from €51 million to €84 million;*
- *Loans and advances to customers classified as forborne and which are considered performing at the year end restated from €226 million to €106 million;*
- *Loans and advances to customers classified as forborne restated from €261 million to €225 million.*

*In addition the 2016 interest income received has been restated as follows:*
- *Loans and advances to customers classified as non-performing exposures but on which a specific impairment provision has not been recognised at the year end restated from €51 million to €81 million;*
- *Loans and advances to customers classified as forborne and which are considered performing at the year end restated from €224 million to €100 million;*
- *Loans and advances to customers classified as forborne restated from €257 million to €259 million.*

## 4 Interest income (continued)

as non-performing exposures but on which a specific impairment provision has not been recognised at the year end; and

- €69 million (2016: €100 million) of interest income was received on loans and advances to customers classified as forborne and which are considered performing at the year end.

In 2017, interest income received on total forborne loans and advances to customers was €178 million (2016: €259 million).

***Interest income recognised on available for sale financial assets***
Interest income on AFS assets is recognised net of interest expense of €86 million (2016: €89 million) on derivatives which are in a hedge relationship with the relevant asset.

***Transferred from cash flow hedge reserve***
Net interest income also includes a charge of €2 million (2016: €9 million gain) transferred from the cash flow hedge reserve (see page 38).

## 5 Interest expense

| Group | 2017 €m | 2016 €m |
|---|---|---|
| Customer accounts | 201 | 365 |
| Debt securities in issue | 82 | 80 |
| Subordinated liabilities | 77 | 139 |
| Deposits from banks | 20 | 6 |
| | **380** | **590** |
| Negative interest on financial assets | 14 | 8 |
| **Interest expense** | **394** | **598** |

The Group presents interest resulting from negative effective interest rates on financial assets as interest expense rather than as an offset against interest income.

Included within interest expense is an amount of €nil (2016: €20 million) relating to the cost of the Eligible Liabilities Guarantee (ELG) Scheme.

***Interest expense recognised on subordinated liabilities***
Interest expense on subordinated liabilities is recognised net of interest income of €21 million (2016: €30 million) on derivatives which are in a hedge relationship with the relevant liability.

***Interest expense recognised on debt securities in issue***
Interest expense on debt securities in issue is recognised net of interest income of €57 million (2016: €68 million) on derivatives which are in a hedge relationship with the relevant liability.

## 6 Net insurance premium income

| Group | 2017 €m | 2016 €m |
|---|---|---|
| Gross premiums written | 1,431 | 1,306 |
| Ceded reinsurance premiums | (87) | (80) |
| **Net insurance premium income** | **1,344** | **1,226** |

## 7 Fee and commission income and expense

| Group<br>Income | 2017 €m | 2016 €m |
|---|---|---|
| Retail banking customer fees | 431 | 442 |
| Credit related fees | 46 | 46 |
| Insurance commissions | 15 | 19 |
| Asset management fees | 4 | 3 |
| Brokerage fees | 2 | 2 |
| Other | 45 | 47 |
| **Fee and commission income** | **543** | **559** |

**Expense**
Fee and commission expense of €217 million (2016: €222 million) primarily comprises brokerage fees, sales commissions and other fees paid to third parties.

## 8 Net trading income

| Group | 2017 €m | 2016 €m |
|---|---|---|
| Financial assets designated at fair value | 14 | 3 |
| Financial liabilities designated at fair value | (79) | (105) |
| Related derivatives held for trading | 49 | 66 |
| | **(16)** | **(36)** |
| Other financial instruments held for trading | 177 | 149 |
| Net fair value hedge ineffectiveness | - | - |
| **Net trading income** | **161** | **113** |

*The impact on the Group's income statement of the gains arising on the movement in credit spreads on the Group's own debt and deposits:*

| | 2017 €m | 2016 €m |
|---|---|---|
| Recognised in | | |
| - Net trading income | (4) | 3 |
| - Insurance contract liabilities and claims paid | (1) | 2 |
| | **(5)** | **5** |
| Cumulative charges arising on the movement in credit spreads relating to the Group's liabilities designated at fair value through profit or loss | (27) | (22) |

Net trading income includes the gains and losses on financial instruments held for trading and those designated at fair value through profit or loss (other than unit linked life assurance assets and investment contract liabilities). It includes the gains and losses arising on the purchase and sale of these instruments, the interest income receivable and expense payable and the fair value movement on these instruments, together with the funding cost of the trading instruments. It also includes €28 million (2016: €15 million) in relation to net gains arising from FX.

Net fair value hedge ineffectiveness reflects a net gain from hedging instruments of €9 million (2016: net charge of €87 million) offsetting a net charge from hedged items of €9 million (2016: net gain of €87 million).

The total hedging ineffectiveness on cash flow hedges reflected in the income statement in 2017 amounted to €nil (2016: €nil).

## 9 Life assurance investment income, gains and losses

| Group | 2017 €m | 2016 €m |
|---|---|---|
| Gross life assurance investment income, gains and losses | 450 | 446 |
| **Life assurance investment income, gains and losses** | **450** | **446** |

Life assurance investment income, gains and losses comprise the investment return, realised gains and losses and unrealised gains and losses which accrue to the Group on all investment assets held by Bank of Ireland Life, other than those held for the benefit of policyholders whose contracts are considered to be investment contracts.

## 10 Other operating income

| Group | 2017 €m | Restated[1] 2016 €m |
|---|---|---|
| Transfer from available for sale reserve on asset disposal (note 22) | 69 | 174 |
| Other insurance income | 56 | 121 |
| Movement in Value of in Force asset (note 38) | 25 | 9 |
| Dividend income | 20 | 14 |
| Loss on liability management exercises | - | (19) |
| Other income | - | 4 |
| **Other operating income** | **170** | **303** |

Other income includes a loss on investment property disposals and revaluations of €2 million (2016: loss €3 million).

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 11 Insurance contract liabilities and claims paid

| Group | 2017 €m | Restated[1] 2016 €m |
|---|---|---|
| **Claims paid** | | |
| Policy surrenders | 1,001 | 741 |
| Death and critical illness claims | 152 | 152 |
| Annuity payments | 76 | 77 |
| Other claims | 65 | 59 |
| Policy maturities | - | 1 |
| **Gross claims paid** | **1,294** | **1,030** |
| Recovered from reinsurers | (93) | (90) |
| **Net claims paid** | **1,201** | **940** |
| **Change in insurance contract liabilities** | | |
| Change in gross liabilities | 421 | 625 |
| Change in reinsured liabilities | 24 | 12 |
| **Net change in insurance contract liabilities** | **445** | **637** |
| **Insurance contract liabilities and claims paid** | **1,646** | **1,577** |

## 12 Other operating expenses

| Group<br>Administrative expenses and staff costs | 2017 €m | 2016 €m |
|---|---|---|
| Staff costs excluding restructuring and Core Banking Platform Investment staff costs | 904 | 881 |
| Levies and regulatory charges | 99 | 109 |
| *- Irish bank levy* | *29* | *38* |
| *- Other* | *70* | *71* |
| Amortisation of intangible assets (note 33) | 130 | 98 |
| Core Banking Platforms Investment charge | 111 | 41 |
| Depreciation of property, plant and equipment (note 35) | 35 | 34 |
| Reversal of impairment on property | (4) | (5) |
| Other administrative expenses excluding cost of restructuring programme | 805 | 739 |
| **Total** | **2,080** | **1,897** |
| **Total staff costs are analysed as follows:** | | |
| Wages and salaries | 685 | 664 |
| Retirement benefit costs (defined benefit plans) (note 45) | 125 | 118 |
| Social security costs | 76 | 73 |
| Retirement benefit costs (defined contribution plans) | 23 | 17 |
| Other staff expenses | 8 | 12 |
| | **917** | **884** |
| Staff costs capitalised | (13) | (3) |
| **Staff costs excluding restructuring and platforms investment staff costs** | **904** | **881** |
| Additional restructuring and platforms investment staff costs: | | |
| Included in Core Banking Platforms Investment charge | 13 | 6 |
| Included in cost of restructuring programme (note 13) | 48 | 38 |
| **Total staff costs recognised in the income statement** | **965** | **925** |

The Group has incurred levies and regulatory charges of €99 million (2016: €109 million). The charge for 2017 primarily reflects the Group's contribution to the Single Resolution Fund (SRF) and the Deposit Guarantee Scheme (DGS) fund, along with the charges for the FSCS levy and the Irish bank levy.

In 2017, DB retirement costs were €125 million (2016: €118 million, including a negative past service cost of €20 million). Further details are included in note 45.

Core Banking Platforms Investment charge includes €4 million (2016: €nil) amortisation charge relating to intangible assets capitalised previously.

Other administrative expenses include an amount of €59 million (2016: €54 million) relating to operating lease payments.

The Group has incurred a charge of €74 million (2016: €6 million) in other administrative expenses relating to the Central Bank of Ireland Tracker Mortgage Examination, which primarily relates to redress, compensation and costs.

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 12 Other operating expenses (continued)

| Group<br>Average number of staff (full time equivalents) | 2017<br>€m | 2016<br>€m |
|---|---|---|
| Retail Ireland | 4,185 | 4,251 |
| Retail UK | 1,707 | 1,830 |
| Bank of Ireland Life | 900 | 940 |
| Corporate and Treasury | 652 | 646 |
| Group Centre | 3,752 | 3,561 |
| **Total** | **11,196** | **11,228** |

**Staff numbers**
At 31 December 2017, the number of staff (full time equivalents) was 10,892 (2016: 11,208) (Bank 2017: 9,380, 2016: 9,657).

| Bank<br>Staff costs | 2017<br>€m | 2016<br>€m |
|---|---|---|
| **Total staff costs are analysed as follows:** | | |
| Wages and salaries | 579 | 562 |
| Social security costs | 64 | 61 |
| Retirement benefit costs[1] (defined benefit plans) (note 45) | 103 | 110 |
| Retirement benefit costs (defined contribution plans) | 20 | 15 |
| Other staff expenses | 2 | 6 |
| | **768** | **754** |
| Staff costs capitalised | (13) | (3) |
| **Staff costs excluding restructuring and platforms investment staff costs** | **755** | **751** |
| Additional restructuring and platforms investment staff costs: | | |
| Included in Core Banking Platforms Investment charge | 13 | 6 |
| Included in cost of restructuring programme | 48 | 38 |
| **Total staff costs recognised in the income statement** | **816** | **795** |
| Average number of staff (full time equivalents) | 9,696 | 9,646 |

## 13 Cost of restructuring programme

| Group | 2017<br>€m | 2016<br>€m |
|---|---|---|
| Staff costs (note 12) | 48 | 38 |
| Property and other | - | (3) |
| **Total** | **48** | **35** |

[1] *The retirement benefit cost is shown net of recoveries from subsidiaries.*

## 14 Auditors’ remuneration (excluding VAT)

| Group | Note | RoI (i) €m | Overseas (ii) €m | 2017 €m | 2016 €m |
|---|---|---|---|---|---|
| **Audit and assurance services** | | | | | |
| Statutory audit | | 2.6 | 0.9 | 3.5 | 3.6 |
| Assurance services | (iii) | 2.1 | - | 2.1 | 1.0 |
| | | **4.7** | **0.9** | **5.6** | **4.6** |
| **Other services** | | | | | |
| Taxation services | | 0.1 | - | 0.1 | 0.1 |
| Other non-audit services | (iv) | 0.1 | 0.1 | 0.2 | 0.2 |
| **Total auditors’ remuneration** | | **4.9** | **1.0** | **5.9** | **4.9** |

(i) Fees paid to the Statutory Auditor, PwC Ireland;
(ii) Fees to overseas auditors principally consist of fees to PwC LLP in the UK;
(iii) Assurance services consist primarily of fees in connection with the corporate reorganisation undertaken during the year, reporting to regulators including the Central Bank of Ireland, review of the interim financial statements, letters of comfort, review of compliance with the Government Guarantee Schemes, reporting accountants’ work and other accounting matters; and
(iv) Other non-audit services consist primarily of fees for translation services and other assignments.

The figures in the above table relate to fees payable to PricewaterhouseCoopers (PwC). The Group Audit Committee has reviewed the level of fees and is satisfied that it has not affected the independence of the auditors.

## 15 Impairment charges on financial assets

| Group | 2017 €m | 2016 €m |
|---|---|---|
| Loans and advances to customers (note 27) | 15 | 176 |
| Available for sale financial assets (note 22) | - | 2 |
| **Impairment charges on financial assets** | **15** | **178** |

| Group<br>Impairment charges / (reversals) on loans and advances to customers | 2017 €m | 2016 €m |
|---|---|---|
| Residential mortgages | (137) | (142) |
| *- Retail Ireland* | *(131)* | *(141)* |
| *- Retail UK* | *(6)* | *(1)* |
| Non-property SME and corporate | 84 | 113 |
| *- Republic of Ireland SME* | *20* | *44* |
| *- UK SME* | *24* | *2* |
| *- Corporate* | *40* | *67* |
| Property and construction | 60 | 213 |
| *- Investment* | *54* | *143* |
| *- Land and development* | *6* | *70* |
| Consumer | 8 | (8) |
| **Total** | **15** | **176** |

This table provides analysis of impairment charges / reversals on loans and advances to customers by portfolio.

## 16 Share of results of associates and joint ventures (after tax)

| Group | 2017 €m | 2016 €m |
|---|---|---|
| First Rate Exchange Services (note 31) | 40 | 43 |
| Associates (note 30) | 3 | (2) |
| **Share of results of associates and joint ventures (after tax)** | **43** | **41** |

## 17 Loss on disposal / liquidation of business activities

| Group | 2017 €m | 2016 €m |
|---|---|---|
| Transfer of foreign exchange reserve to income statement on liquidation of non-trading entities | (11) | (4) |
| Other disposals | 6 | (3) |
| **Loss on disposal / liquidation of business activities** | **(5)** | **(7)** |

As part of the Group's focus on simplifying its corporate structure, the Group has an ongoing programme of winding up a number of wholly owned, dormant and non-trading companies, a number of which are foreign operations. During 2017, the Group voluntarily appointed a liquidator to manage the winding up of a number foreign operations. Upon appointment of the liquidator, the Group is considered to have lost control of the foreign operations and has accounted for this loss of control as a disposal. In accordance with IAS 21, the Group has reclassified net cumulative FX losses of €11 million relating to these foreign operations from the FX reserve to the income statement during 2017 (2016: losses of €4 million) (see page 39).

## 18 Taxation

| Group | 2017 €m | Restated[1] 2016 €m |
|---|---|---|
| **Current tax** | | |
| Irish Corporation Tax | | |
| - Current year | 16 | 53 |
| - Adjustment in respect of prior year | (19) | (2) |
| Double taxation relief | (2) | (1) |
| Foreign tax | | |
| - Current year | 75 | 68 |
| - Adjustments in respect of prior year | - | (3) |
| | **70** | **115** |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | 53 | 8 |
| Current year profits | 17 | 84 |
| Adjustments in respect of prior year | 12 | 7 |
| Impact of Corporation Tax rate change (note 36) | 10 | 8 |
| Reassessment of the value of tax losses carried forward | (2) | 14 |
| **Taxation charge** | **160** | **236** |

The effective taxation rate on a statutory profit basis for 2017 is 19% (2016: 23%).

Between 2009 and 2011, the Group conducted a series of liability management exercises in order to enhance its equity capital which involved the repurchase or exchange of certain of its external liabilities in the UK at less than par, thus generating gains. The Group determined, with the benefit of opinions from external tax advisors and legal counsel that these gains were not subject to taxation. The Group has proactively engaged with the UK tax authority, HM Revenue & Customs (HMRC), over the last number of years as it considers these transactions. HMRC has concurred with the Group's tax assessment in respect of certain of the gains that arose and its review continues in respect of others. HMRC has now challenged the tax treatment of gains in the amount of £168 million (€189 million) arising in respect of one transaction. The Group continues to believe that all of the gains arising from these transactions are not subject to tax and hence that it is not probable that a liability will arise. No provisions have therefore been made.

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 18 Taxation (continued)

| Group<br>Reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to actual tax charge | 2017<br>€m | Restated[1]<br>2016<br>€m |
|---|---|---|
| **Current tax** | | |
| Profit before tax multiplied by the standard rate of corporation tax in Ireland of 12.5% (2016: 12.5%) | 107 | 129 |
| *Effects of:* | | |
| Foreign earnings subject to different rates of tax | 34 | 37 |
| Bank of Ireland Life companies - different basis of accounting | 21 | 17 |
| Impact of corporation tax rate change on deferred tax | 10 | 8 |
| Adjustments in respect of prior year | (7) | 2 |
| Share of results of associates and joint ventures shown post tax in the income statement | (5) | (5) |
| Reassessment of the value of tax losses carried forward | (2) | 14 |
| Other adjustments for tax purposes | 2 | 34 |
| **Taxation charge** | **160** | **236** |

| Group | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Pre-tax €m** | **Tax €m** | **Net of Tax €m** | Pre-tax €m | Tax €m | Net of Tax €m |
| **Available for sale reserve** | | | | | | |
| Gain on reclassification from held to maturity portfolio | 52 | (7) | 45 | - | - | - |
| Changes in fair value | 24 | (2) | 22 | (19) | (1) | (20) |
| Transfer to income statement | | | | | | |
| - On asset disposal | (69) | 9 | (60) | (174) | 40 | (134) |
| - Amortisation | (18) | 2 | (16) | (17) | 2 | (15) |
| **Net change in reserve** | **(11)** | **2** | **(9)** | **(210)** | **41** | **(169)** |
| **Remeasurement of the net defined benefit pension liability** | **(127)** | **14** | **(113)** | **184** | **(17)** | **167** |
| **Cash flow hedge reserve** | | | | | | |
| Changes in fair value | 203 | (24) | 179 | 1,525 | (188) | 1,337 |
| Transfer to income statement | (334) | 40 | (294) | (1,526) | 185 | (1,341) |
| **Net change in cash flow hedge reserve** | **(131)** | **16** | **(115)** | **(1)** | **(3)** | **(4)** |
| **Net change in foreign exchange reserve** | **(147)** | **-** | **(147)** | **(419)** | **-** | **(419)** |
| **Net change in revaluation reserve** | **16** | **(1)** | **15** | **4** | **(1)** | **3** |
| **Other comprehensive income for the year** | **(400)** | **31** | **(369)** | **(442)** | **20** | **(422)** |

## 19 Derivative financial instruments

The Group's use of, objectives and policies on managing the risks that arise in connection with derivatives, including the policies for hedging, are included in the Financial Risk Management note on pages 106 and 107. The notional amounts of certain types of derivatives do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit risk. The derivative instruments give rise to assets or liabilities as a result of fluctuations in market rates or prices relative to their terms.

The notional amounts and fair values of derivative instruments held by the Group are set out in the table on the following page.

Derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered into with economic hedging intent to which the Group does not apply hedge accounting in the tables below. Derivatives classified

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 19 Derivative financial instruments (continued)

as held for hedging in the table below comprise only those derivatives to which the Group applies hedge accounting.

The Group uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €2.3 billion at 31 December 2017 (2016: €3.7 billion):

- €1.4 billion (2016: €1.9 billion) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities; and
- €0.9 billion (2016: €1.8 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date.

At 31 December 2017, cash collateral of €0.6 billion (2016: €1.1 billion) was held against these assets and is reported within deposits from banks (note 39).

At 31 December 2017, placements with other banks and loans and advances to customers include cash collateral of €0.5 billion (2016: €0.8 billion) placed with derivative counterparties in respect of a net derivative liability position of €0.5 billion (2016: €0.8 billion) and is reported within loans and advances to banks (note 21) and loans and advances to customers (note 26).

| **Group** | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Contract notional amounts €m** | **Fair values Assets €m** | **Fair values Liabilities €m** | Contract notional amounts €m | Fair values Assets €m | Fair values Liabilities €m |
| **Derivatives held for trading** | | | | | | |
| **Foreign exchange derivatives** | | | | | | |
| Currency swaps | 4,954 | 45 | 38 | 4,419 | 100 | 57 |
| Currency forwards | 1,426 | 16 | 14 | 1,583 | 27 | 49 |
| Over the counter currency options | 593 | 6 | 6 | 432 | 6 | 6 |
| **Total foreign exchange derivatives held for trading** | **6,973** | **67** | **58** | **6,434** | **133** | **112** |
| **Interest rate derivatives** | | | | | | |
| Interest rate swaps | 117,575 | 1,161 | 1,432 | 110,819 | 1,625 | 1,978 |
| Cross currency interest rate swaps | 1,145 | 125 | 122 | 2,079 | 275 | 270 |
| Over the counter interest rate options | 8,594 | 16 | 31 | 6,368 | 15 | 30 |
| Interest rate futures | 3,598 | 3 | 1 | 6,504 | 4 | 3 |
| Exchange traded interest rate options | 5 | - | - | 1,771 | - | - |
| Forward rate agreements | 3,759 | 2 | 1 | - | - | - |
| **Total interest rate derivatives held for trading** | **134,676** | **1,307** | **1,587** | **127,541** | **1,919** | **2,281** |
| **Equity contracts, commodity contracts and credit derivatives** | | | | | | |
| Equity index-linked contracts held | 2,112 | 206 | 6 | 3,332 | 203 | 7 |
| Commodity contracts | 68 | 6 | 6 | 98 | 4 | 4 |
| Credit derivatives | 162 | 1 | 2 | 124 | - | - |
| **Total equity contracts and credit derivatives** | **2,342** | **213** | **14** | **3,554** | **207** | **11** |
| **Total derivative assets / liabilities held for trading** | **143,991** | **1,587** | **1,659** | **137,529** | **2,259** | **2,404** |
| **Derivatives held for hedging** | | | | | | |
| **Derivatives designated as fair value hedges** | | | | | | |
| Interest rate swaps | 31,291 | 234 | 300 | 23,128 | 294 | 405 |
| Cross currency interest rate swaps | 11 | - | - | 13 | 1 | - |
| **Total designated as fair value hedges** | **31,302** | **234** | **300** | **23,141** | **295** | **405** |
| **Derivatives designated as cash flow hedges** | | | | | | |
| Cross currency interest rate swaps | 7,474 | 393 | 1 | 8,220 | 853 | - |
| Interest rate swaps | 9,385 | 134 | 27 | 12,500 | 302 | 64 |
| **Total designated as cash flow hedges** | **16,859** | **527** | **28** | **20,720** | **1,155** | **64** |
| **Total derivative assets / liabilities held for hedging** | **48,161** | **761** | **328** | **43,861** | **1,450** | **469** |
| **Total derivative assets / liabilities** | **192,152** | **2,348** | **1,987** | **181,390** | **3,709** | **2,873** |

## 19 Derivative financial instruments (continued)

The Bank uses netting arrangements and collateral agreements to reduce its exposure to credit losses. Of the derivative assets of €2.35 billion at 31 December 2017 (2016: €3.7 billion):

- €1.4 billion (2016: €1.9 billion) are available for offset against derivative liabilities under master netting arrangements. These transactions do not meet the criteria under IAS 32 to enable the assets to be presented net of the liabilities; and
- €0.9 billion (2016: €1.8 billion) are not covered by master netting arrangements or relate to counterparties covered by master netting arrangements with whom a net asset position was held at the balance sheet date.

At 31 December 2017, cash collateral of €0.6 billion (2016: €0.9 billion) was held against these assets and is reported within deposits from banks (note 39).

At 31 December 2017, placements with other banks and loans and advances to customers include cash collateral of €0.8 billion (2016: €1.1 billion) placed with derivative counterparties in respect of a net derivative liability position of €0.6 billion (2016: €0.9 billion) and is reported within loans and advances to banks (note 21) and loans and advances to customers (note 26).

The notional amounts and fair values of derivative instruments held by the Bank are set out in the table below.

| **Bank** | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Contract notional amounts €m** | **Fair values Assets €m** | **Fair values Liabilities €m** | Contract notional amounts €m | Fair values Assets €m | Fair values Liabilities €m |
| **Derivatives held for trading** | | | | | | |
| **Foreign exchange derivatives** | | | | | | |
| Currency swaps | 5,002 | 40 | 36 | 4,424 | 97 | 51 |
| Currency forwards | 1,451 | 21 | 15 | 1,586 | 30 | 55 |
| Over the counter currency options | 593 | 6 | 6 | 432 | 6 | 6 |
| **Total foreign exchange derivatives held for trading** | **7,046** | **67** | **57** | **6,442** | **133** | **112** |
| **Interest rate derivatives** | | | | | | |
| Interest rate swaps | 166,394 | 1,353 | 1,578 | 163,172 | 1,920 | 2,205 |
| Cross currency interest rate swaps | 1,037 | 47 | 122 | 1,822 | 126 | 270 |
| Over the counter interest rate options | 8,584 | 16 | 28 | 6,358 | 15 | 26 |
| Interest rate futures | 3,598 | 3 | 2 | 6,504 | 3 | 3 |
| Exchange traded interest rate options | 5 | - | - | 1,771 | - | - |
| Forward rate agreements | 3,759 | 1 | 1 | - | - | - |
| **Total interest rate derivatives held for trading** | **183,377** | **1,420** | **1,731** | **179,627** | **2,064** | **2,504** |
| **Equity contracts, commodity contracts and credit derivatives** | | | | | | |
| Equity index-linked contracts held | 2,112 | 206 | 6 | 3,332 | 204 | 7 |
| Commodity contracts | 68 | 6 | 6 | 98 | 4 | 4 |
| Credit derivatives | 520 | 4 | 1 | 310 | - | 2 |
| **Total equity contracts and credit derivatives** | **2,700** | **216** | **13** | **3,740** | **208** | **13** |
| **Total derivative assets / liabilities held for trading** | **193,123** | **1,703** | **1,801** | **189,809** | **2,405** | **2,629** |
| **Derivatives held for hedging** | | | | | | |
| **Derivatives designated as fair value hedges** | | | | | | |
| Interest rate swaps | 20,977 | 127 | 263 | 11,388 | 120 | 329 |
| Credit derivatives | - | - | - | 14 | 1 | - |
| Cross currency interest rate swaps | 11 | - | - | - | - | - |
| **Total designated as fair value hedges** | **20,988** | **127** | **263** | **11,402** | **121** | **329** |
| **Derivatives designated as cash flow hedges** | | | | | | |
| Cross currency interest rate swaps | 7,474 | 393 | 1 | 8,219 | 853 | - |
| Interest rate swaps | 6,945 | 131 | 11 | 11,191 | 295 | 59 |
| **Total designated as cash flow hedges** | **14,419** | **524** | **12** | **19,410** | **1,148** | **59** |
| **Total derivative assets / liabilities held for hedging** | **35,407** | **651** | **275** | **30,812** | **1,269** | **388** |
| **Total derivative assets / liabilities** | **228,530** | **2,354** | **2,076** | **220,621** | **3,674** | **3,017** |
| **Amounts include:** | | | | | | |
| Due from / to Group undertakings | **36,664** | **102** | **102** | **39,848** | **121** | **161** |

## 19 Derivative financial instruments (continued)

The Group designates certain derivatives as hedging instruments in either fair value or cash flow hedge relationships.

**Fair value hedges**
Certain interest rate and cross currency interest rate derivatives are designated as hedging instruments. These are primarily used to reduce the interest rate and FX exposure on the Group's fixed rate debt held, fixed rate mortgages and debt issued portfolios.

**Cash flow hedges**
The Group designates certain interest rate and currency derivatives in cash flow hedge relationships in order to hedge the exposure to variability in future cash flows arising from floating rate assets and liabilities and from foreign currency assets. Movements in the cash flow hedge reserve are shown in the Consolidated statement of changes in equity (page 38).

*The hedged cash flows are expected to occur in the following years:*

| | **2017** | | | | | 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Up to 1 year €m** | **1 to 2 years €m** | **2 to 5 years €m** | **Over 5 years €m** | **Total €m** | Up to 1 year €m | 1 to 2 years €m | 2 to 5 years €m | Over 5 years €m | Total €m |
| **Group** | | | | | | | | | | |
| Forecast receivable cash flows | 5,319 | 1,808 | 63 | 28 | 7,218 | 5,037 | 2,374 | 60 | 46 | 7,517 |
| Forecast payable cash flows | (16) | (11) | - | (2) | (29) | (35) | (26) | (31) | (22) | (114) |
| **Bank** | | | | | | | | | | |
| Forecast receivable cash flows | 5,319 | 1,804 | 48 | 15 | 7,186 | 5,031 | 2,366 | 13 | 14 | 7,424 |
| Forecast payable cash flows | (16) | (11) | - | (2) | (29) | (34) | (25) | (29) | (22) | (110) |

*The hedged cash flows are expected to impact the income statement in the following years:*

| | **2017** | | | | | 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Up to 1 year €m** | **1 to 2 years €m** | **2 to 5 years €m** | **Over 5 years €m** | **Total €m** | Up to 1 year €m | 1 to 2 years €m | 2 to 5 years €m | Over 5 years €m | Total €m |
| **Group** | | | | | | | | | | |
| Forecast receivable cash flows | 7,114 | 18 | 64 | 22 | 7,218 | 7,402 | 15 | 62 | 38 | 7,517 |
| Forecast payable cash flows | (19) | (8) | - | (2) | (29) | (38) | (27) | (29) | (20) | (114) |
| **Bank** | | | | | | | | | | |
| Forecast receivable cash flows | 7,114 | 14 | 49 | 9 | 7,186 | 7,396 | 6 | 14 | 8 | 7,424 |
| Forecast payable cash flows | (19) | (8) | - | (2) | (29) | (37) | (26) | (27) | (20) | (110) |

In 2017, there were no forecast transactions to which the Group or Bank had applied hedge accounting which were no longer expected to occur.

## 20 Other financial assets at fair value through profit or loss

| **Group** | **2017 €m** | 2016 €m |
|---|---|---|
| **Assets linked to policyholder liabilities** | | |
| Equity securities | 10,024 | 8,596 |
| Unit trusts | 1,072 | 1,074 |
| Debt securities | 915 | 735 |
| Government bonds | 803 | 1,191 |
| | **12,814** | **11,596** |
| **Other financial assets** | | |
| Government bonds | 1,178 | 1,209 |
| Other | 462 | 444 |
| | **1,640** | **1,653** |
| **Other financial assets at fair value through profit or loss** | **14,454** | **13,249** |

A portion of the Group's life assurance business takes the legal form of investment contracts, under which legal title to the underlying investment is held by the Group, but the inherent risks and rewards in the investments are borne by the policyholders. Due to the nature of these contracts, the carrying value of the assets is always the same as the value of the liabilities due to policyholders and any change in the value of the assets results in an equal change in the value of the amounts due to policyholders. The associated liabilities are included in liabilities to customers under investment contracts and insurance contract liabilities on the balance sheet. At 31 December 2017, such assets were €12,814 million (2016: €11,596 million).

Other financial assets of €1,640 million (2016: €1,653 million) primarily relate to assets held by the Group's life assurance business for solvency margin purposes or as backing for non-linked policyholder liabilities.

## 21 Loans and advances to banks

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| Placements with other banks | 1,473 | 1,899 | 11,919 | 15,020 |
| Mandatory deposits with central banks | 1,369 | 1,378 | 10 | 26 |
| Securities purchased with agreement to resell | 200 | 47 | 200 | 47 |
| Funds placed with the Central Bank of Ireland not on demand | 19 | 25 | - | - |
| **Loans and advances to banks** | **3,061** | **3,349** | **12,129** | **15,093** |
| **Amounts include:** | | | | |
| Due from / to Group undertakings | | | 11,339 | 14,111 |

Placements with other banks includes cash collateral of €0.4 billion (2016: €0.7 billion) placed with derivative counterparties in relation to net derivative liability positions (note 19) (Bank 2017: €0.7 billion, 2016: €1.0 billion).

Mandatory deposits with central banks includes €1,340 million relating to collateral in respect of the Group's issued bank notes in Northern Ireland (2016: €1,334 million).

The Group has entered into transactions to purchase securities with agreement to resell and has accepted collateral that it is permitted to sell or repledge in the absence of default by the owner of the collateral. At 31 December 2017, the fair value of this collateral was €200 million (2016: €48 million) (Bank 2017: €200 million, 2016: €48 million).

Loans and advances to banks includes €446 million (2016: €368 million) of assets held on behalf of Bank of Ireland Life policyholders.

For the purpose of disclosure of credit risk exposures, loans and advances to banks are included within other financial instruments of €24.0 billion (2016: €25.8 billion) in note 28 on page 97 (Bank 2017: €28.9 billion, 2016: €32.9 billion).

## 22 Available for sale financial assets

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| Government bonds | 7,491 | 5,141 | 7,008 | 4,458 |
| Other debt securities | | | | |
| - listed | 5,394 | 5,322 | 4,680 | 4,598 |
| - unlisted | 313 | 294 | 292 | 274 |
| Equity securities | | | | |
| - unlisted | 25 | 37 | 5 | - |
| **Available for sale financial assets** | **13,223** | **10,794** | **11,985** | **9,330** |

## 22 Available for sale financial assets (continued)

| Analysis of movement on available for sale financial assets | Group 2017 €m | Group 2016 €m | Bank 2017 €m | Bank 2016 €m |
|---|---|---|---|---|
| At beginning of year | 10,794 | 10,128 | 9,330 | 10,117 |
| Additions | 4,763 | 4,082 | 4,667 | 4,364 |
| Redemptions | (2,530) | (1,030) | (2,282) | (834) |
| Reclassifications from held to maturity financial assets (note 23) | 1,833 | - | 1,833 | - |
| Disposals | (1,471) | (2,164) | (1,447) | (2,082) |
| Revaluation, exchange and other adjustments | (166) | (220) | (116) | (40) |
| Reclassifications for other debt securities | - | - | - | (2,195) |
| Impairment | - | (2) | - | - |
| **At end of year** | **13,223** | **10,794** | **11,985** | **9,330** |

Included within unlisted debt securities in Group and Bank are subordinated bonds issued by NAMA with a nominal value of €281 million (2016: €281 million) and a fair value of €293 million (2016: €274 million). These bonds represented 5% of the nominal consideration received for assets sold to NAMA in 2010, with the remaining 95% received in the form of NAMA senior bonds. The subordinated bonds are not guaranteed by the State and the payment of interest and repayment of capital is dependent on the performance of NAMA.

At 31 December 2017, available for sale financial assets with a fair value of €0.1 billion (2016: €0.1 billion) had been pledged to third parties in sale and repurchase agreements (Bank 2017: €0.1 billion, 2016: €0.1 billion). The Group and Bank has not derecognised any securities delivered in such sale and repurchase agreements.

At 31 December 2017, available for sale financial assets included €0.2 billion (2016: €0.6 billion) pledged as collateral in respect of customer deposits and debt securities in issue (excluding Monetary Authority secured funding) (Bank 2017: €0.2 billion, 2016: €0.6 billion).

In 2017, the Group sold other available for sale financial assets of €1.5 billion (2016: €2.1 billion) (Bank 2017: €1.5 billion, 2016: €2.2 billion) which resulted in a transfer of €69 million from the available for sale reserve to the income statement (2016: €174 million) (note 10) (Bank 2017: €46 million, 2016: €152 million).

At 31 December 2017, available for sale financial assets included €1.7 billion (2016: €2.0 billion including certain held to maturity financial assets) placed with Monetary Authorities as contingency, to access intraday and other funding facilities, if required (Bank 2017: €1.7 billion, 2016: €3.3 billion including certain held to maturity financial assets and other debt securities).

## 23 Held to maturity financial assets

| | Group 2017 €m | Group 2016 €m | Bank 2017 €m | Bank 2016 €m |
|---|---|---|---|---|
| Irish Government bonds | - | 1,872 | - | 1,872 |
| **Held to maturity financial assets** | **-** | **1,872** | **-** | **1,872** |

During 2017, the Group and the Bank changed its intention to hold the portfolio of Irish Government bonds to maturity and sold a portion of the assets. As a result all held to maturity financial assets have been reclassified as AFS which has resulted in a gain of €45 million (net of tax) in other comprehensive income.

## 24 NAMA senior bonds

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| **NAMA senior bonds** | **-** | **451** | **-** | **451** |

The NAMA senior bonds were repaid in full during the year.

## 25 Other debt securities

| **Bank** | **2017 €m** | 2016 €m |
|---|---|---|
| **Other debt securities** | **2,195** | **2,195** |
| **Amounts include:** | | |
| Other debt securities issued by Group undertakings | 2,195 | 2,195 |

At 31 December 2017, other debt securities held by the Bank included assets with a carrying value and fair value of €2,195 million (2016: carrying value and fair value of €2,195 million) which had been reclassified from available for sale financial assets in previous years. No gain or loss would have been recognised in other comprehensive income had the assets not been reclassified. During 2017, interest income of €4 million was recognised on the assets (2016: €4 million). At the date of the reclassification, the Bank had the intention and ability to hold the assets for the foreseeable future or until maturity.

The reclassified debt securities are accounted for in line with the Group's accounting policy on loans and receivables set out on page 46. See note 1 for further details.

At 31 December 2017, other debt securities included €0.2 billion (2016: €nil) pledged as collateral in respect of debt securities in issue.

## 26 Loans and advances to customers

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| Loans and advances to customers | 75,556 | 79,772 | 39,562 | 39,572 |
| Finance leases and hire purchase receivables (see below) | 2,931 | 2,590 | 1,104 | 942 |
| | 78,487 | 82,362 | 40,666 | 40,514 |
| Less allowance for impairment charges on loans and advances to customers (note 27) | (2,359) | (3,885) | (1,648) | (2,823) |
| **Loans and advances to customers** | **76,128** | **78,477** | **39,018** | **37,691** |
| **Amounts include** | | | | |
| Due from joint ventures and associates | 98 | 151 | n/a | n/a |
| Due from Group undertakings | n/a | n/a | 2,091 | 2,716 |

Loans and advances to customers includes cash collateral of €0.1 billion (2016: €0.1 billion) placed with derivative counterparties in relation to net derivative liability positions (note 19) (Bank 2017: €0.1 billion, 2016: €0.1 billion).

On 27 November 2017, the Bank completed the purchase of a portfolio of Residential mortgages from Bank of Ireland Mortgage Bank, the consideration paid in respect of this transaction was €3,554 million.

## 26 Loans and advances to customers (continued)

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| **Gross investment in finance leases:** | | | | |
| Not later than 1 year | 1,045 | 989 | 404 | 373 |
| Later than 1 year and not later than 5 years | 2,099 | 1,819 | 774 | 656 |
| Later than 5 years | 14 | 9 | 8 | 2 |
| | 3,158 | 2,817 | 1,186 | 1,031 |
| Unearned future finance income on finance leases | (227) | (227) | (82) | (89) |
| **Net investment in finance leases** | **2,931** | **2,590** | **1,104** | **942** |
| **The net investment in finance leases is analysed as follows:** | | | | |
| Not later than 1 year | 970 | 913 | 376 | 343 |
| Later than 1 year and not later than 5 years | 1,948 | 1,669 | 721 | 597 |
| Later than 5 years | 13 | 8 | 7 | 2 |
| | **2,931** | **2,590** | **1,104** | **942** |

**Finance leases and hire purchase receivables**
Loans and advances to customers include finance leases and hire purchase receivables, which are analysed in the table above.

The Group's material leasing arrangements include the provision of instalment credit and leasing finance for both consumer and business customers. At 31 December 2017, the accumulated allowance for minimum lease payments receivable was €nil (2016: €nil).

**Securitisations**
Loans and advances to customers include balances that have been securitised but not derecognised, comprising both residential mortgages and commercial loans. In general, the assets, or interests in the assets, are transferred to structured entities, which then issue securities to third party investors or to other entities within the Group. All of the Group's securitisation structured entities are consolidated. See note 55 for further details.

## 27 Impairment provisions

The following tables show the movement in the impairment provisions on total loans and advances to customers during 2017 and 2016.

| **Group**<br>**2017** | **Residential mortgages €m** | **Non-Property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total impairment provisions €m** |
|---|---|---|---|---|---|
| Provision at 1 January | 988 | 1,082 | 1,717 | 98 | 3,885 |
| Exchange adjustments | (3) | (15) | (12) | (1) | (31) |
| Charge / (reversal) in income statement | (137) | 84 | 60 | 8 | 15 |
| Provisions utilised | (160) | (465) | (952) | (37) | (1,614) |
| Other movements | 18 | 140 | (74) | 20 | 104 |
| **Provision at 31 December** | **706** | **826** | **739** | **88** | **2,359** |
| 2016 | | | | | |
| Provision at 1 January | 1,297 | 1,445 | 3,001 | 143 | 5,886 |
| Exchange adjustments | (12) | (15) | (108) | (7) | (142) |
| Charge / (reversal) in income statement | (142) | 113 | 213 | (8) | 176 |
| Provisions utilised | (173) | (433) | (1,477) | (54) | (2,137) |
| Other movements | 18 | (28) | 88 | 24 | 102 |
| Provision at 31 December | 988 | 1,082 | 1,717 | 98 | 3,885 |

## 27 Impairment provisions (continued)

| Bank<br>2017 | Residential mortgages €m | Non-Property SME and corporate €m | Property and construction €m | Consumer €m | Total impairment provisions €m |
|---|---|---|---|---|---|
| Provision at 1 January | 282 | 942 | 1,535 | 64 | 2,823 |
| Exchange adjustments | (1) | (14) | (8) | - | (23) |
| Charge / (reversal) in income statement | (41) | 85 | 51 | (9) | 86 |
| Provisions utilised | (40) | (419) | (831) | (19) | (1,309) |
| Other movements | 9 | 131 | (83) | 14 | 71 |
| **Provision at 31 December** | **209** | **725** | **664** | **50** | **1,648** |
| 2016 | | | | | |
| Provision at 1 January | 365 | 1,187 | 2,613 | 91 | 4,256 |
| Exchange adjustments | (7) | 3 | (73) | - | (77) |
| Charge / (reversal) in income statement | (41) | 104 | 198 | (13) | 248 |
| Provisions utilised | (45) | (320) | (1,283) | (30) | (1,678) |
| Other movements | 10 | (32) | 80 | 16 | 74 |
| Provision at 31 December | 282 | 942 | 1,535 | 64 | 2,823 |

Impairment provisions include specific and IBNR provisions. IBNR provisions are recognised on all categories of loans for incurred losses not specifically identified but which, experience and observable data indicate, are present in the portfolio at the date of assessment.

Provisions utilised reflect impairment provisions which have been utilised against the related loan balance; the utilisation of a provision does not, of itself, alter a customer's obligations nor does it impact on the Group's rights to take relevant enforcement action.

## 28 Financial risk management

Financial instruments are fundamental to the Group's activities and, as a consequence, the risks associated with financial instruments represent a significant component of the risks faced by the Group.

The primary risks affecting the Group and Bank through the use of financial instruments are: credit risk, liquidity risk and market risk. The Group is also exposed to life insurance risk. Information about the Group and Bank's management of these risks is given below.

The Group's approach to risk management including risk policies, risk appetite, measurement bases and sensitivities, in particular for credit risk, market risk and liquidity risk, is aligned to that of BOIG plc, the Bank's immediate and ultimate parent. Further information can be found in the BOIG plc Group Annual Report.

The Group's approach to managing capital is also included in this note on pages 107 and 108.

The Group's disclosures under the Central Bank of Ireland Impairment Provisioning and Disclosure Guidelines (May 2013) are identical to those of BOIG plc Group which are disclosed in the BOIG plc Group Annual Report on pages 242 to 277.

### Credit risk

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

Credit risk arises from loans and advances to customers. It also arises from financial transactions the Group enters into with financial institutions, sovereigns and state institutions.

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

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

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

## 28 Financial risk management (continued)

- environmental factors that impact on the credit quality of the counterparty.

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

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

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

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

*Credit risk statement*
The Group actively seeks opportunities to provide appropriately remunerated credit facilities to borrowers who are assessed as having the capacity to service and discharge their obligations and to allow growth in the volume of loan assets in line with the Group's risk appetite and to provide a solid foundation for sustained growth in earnings and shareholder value. The Group's credit strategy is to underwrite credit risk within a clearly defined Court-approved risk appetite and risk governance framework through the extension of credit to customers and financial counterparties in a manner that results in an appropriate return for the risks taken and on the capital deployed while operating within prudent Court-approved risk parameters, and to maximise recoveries on loans that become distressed.

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

The Group Risk function has responsibility for the independent oversight of credit risks, and for overall risk reporting to the Group Risk Policy Committee (GRPC), the CRC and the Court on developments in these risks and compliance with specific risk limits. It is led by the Group Chief Risk Officer who reports directly to the Group Chief Executive. The function provides independent oversight and management of the Group's credit risk strategy, credit risk management information and credit risk underwriting as well as strategic oversight and management of certain challenged portfolios.

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

*Lending authorisation*
The Group's credit risk management systems operate through a hierarchy of lending authorities which are related to internal loan ratings. All exposures above certain levels require approval by the Group Credit Committee (GCC). Other exposures are approved according to a system of tiered individual authorities which reflect credit competence, proven judgement and experience. Material lending proposals are referred to credit units for independent assessment / approval or formulation of a recommendation for subsequent adjudication by the applicable approval authority.

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

The Group's RAS and regulatory requirements set out maximum exposure limits to a customer or a group of connected customers. Long-term limits are defined by the Court for each credit category. In addition, monetary risk limits are set by the GRPC or its appointed committees and, where necessary, approved by the Court.

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

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

*Loan loss provisioning*
All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of 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. Where such evidence of impairment exists, the exposure is measured for an impairment provision. Typically, loans that are at risk of impairment are managed by dedicated specialist units / debt collection teams focused on working-out loans.
The identification of loans for assessment as impaired is driven by the Group's credit risk rating systems. Details of these internal credit rating models are outlined in the section on credit risk methodologies on pages 97 to 101. It is the Group's policy to provide for impairment promptly and consistently across the loan book. For

## 28 Financial risk management (continued)

those loans that become impaired, the focus is to minimise the loss that the Group will incur from such impairment. This may involve implementing forbearance solutions, entering into restructuring arrangements or action to enforce security.

Whilst provisioning is an ongoing process, all business units formally review and confirm the appropriateness of their provisioning methodologies and the adequacy of their impairment provisions on a half yearly basis. Their conclusions are reviewed by the Group Risk function and the GRPC.

Under delegated authority from the Court, the Group's provisioning methodology is approved by the GRPC on a half yearly basis, On an annual basis, the CRC provides observations on the Group's asset quality management and profile to the GAC as an input into the GAC's assessment of year end impairment provisions. The quantum of the Group's impairment charge, non-performing exposures and impairment provisions are also reviewed by the GRPC in advance of providing a recommendation to the GAC.

An analysis of the Group's impairment provisions at 31 December 2017 is set out in note 27.

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

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

***Collateral***
Credit risk mitigation includes the requirement to obtain collateral, depending on the nature of the product and local market practice, as set out in the Group's policies and procedures. The Group takes collateral as a secondary source, which can be called upon if the borrower is unable or unwilling to service and repay debt as originally assessed.

Various types of collateral are accepted, including property, securities, cash, guarantees and insurance.

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

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

***Counterparty credit risk arising from derivatives***
The Group has executed standard internationally recognised documents such as International Swaps and Derivative Association (ISDA) agreements and Credit Support Annexes (CSAs) with its principal interbank derivative counterparties. The purpose of a CSA is to limit the potential cost of replacing derivative contracts at market prices in the event of default by the counterparty. A very high proportion of the Group's interbank derivatives book is covered by CSAs and is hence collateralised, primarily through cash.

| **Group 2017 Loan to value (LTV) ratio of total Retail Ireland mortgages** | **Owner occupied €m** | **Owner occupied %** | **Buy to let €m** | **Buy to let %** | **Total €m** | **Total %** |
|---|---|---|---|---|---|---|
| Less than 50% | 6,480 | 32% | 986 | 25% | 7,466 | 31% |
| 51% to 70% | 6,542 | 32% | 885 | 23% | 7,427 | 31% |
| 71% to 80% | 2,931 | 15% | 501 | 13% | 3,432 | 14% |
| 81% to 90% | 2,081 | 10% | 676 | 17% | 2,757 | 11% |
| 91% to 100% | 1,133 | 6% | 320 | 8% | 1,453 | 6% |
| **Subtotal** | **19,167** | **95%** | **3,368** | **86%** | **22,535** | **93%** |
| 101% to 120% | 816 | 4% | 307 | 8% | 1,123 | 5% |
| 121% to 150% | 133 | 1% | 113 | 3% | 246 | 1% |
| Greater than 150% | 44 | - | 121 | 3% | 165 | 1% |
| **Subtotal** | **993** | **5%** | **541** | **14%** | **1,534** | **7%** |
| **Total** | **20,160** | **100%** | **3,909** | **100%** | **24,069** | **100%** |
| **Weighted average LTV[1]:** | | | | | | |
| Stock of Retail Ireland mortgages at year end | | 61% | | 73% | | 63% |
| New Retail Ireland mortgages during the year | | 69% | | 52% | | 69% |

[1] *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

## 28 Financial risk management (continued)

| Group<br>2016<br>Loan to value (LTV) ratio of total<br>Retail Ireland mortgages | Owner occupied<br>€m | <br>% | Buy to let<br>€m | <br>% | Total<br>€m | <br>% |
|---|---|---|---|---|---|---|
| Less than 50% | 4,987 | 25% | 789 | 17% | 5,776 | 24% |
| 51% to 70% | 5,520 | 28% | 755 | 17% | 6,275 | 26% |
| 71% to 80% | 2,897 | 15% | 445 | 10% | 3,342 | 14% |
| 81% to 90% | 2,195 | 11% | 755 | 17% | 2,950 | 12% |
| 91% to 100% | 1,449 | 7% | 542 | 12% | 1,991 | 8% |
| Subtotal | 17,048 | 86% | 3,286 | 73% | 20,334 | 84% |
| 101% to 120% | 2,106 | 11% | 698 | 16% | 2,804 | 11% |
| 121% to 150% | 599 | 3% | 306 | 7% | 905 | 4% |
| Greater than 150% | 86 | - | 200 | 4% | 286 | 1% |
| Subtotal | 2,791 | 14% | 1,204 | 27% | 3,995 | 16% |
| Total | 19,839 | 100% | 4,490 | 100% | 24,329 | 100% |
| | | | | | | |
| Weighted average LTV[1]: | | | | | | |
| Stock of Retail Ireland mortgages at year end | | 69% | | 84% | | 72% |
| New Retail Ireland mortgages during the year | | 68% | | 52% | | 67% |

The tables above set out the weighted average indexed LTV for the total Retail Ireland mortgage loan book.

Point in time property values are determined by reference to the original or latest property valuations held, indexed to the RPPI CSO. The indexed LTV profile of the Retail Ireland mortgage loan book contained in the tables above is based on the CSO RPPI at November 2017.

| **Group<br>2017<br>Loan to value (LTV) ratio of total<br>Retail UK mortgages** | **Standard<br>£m** | **<br>%** | **Buy to let<br>£m** | **<br>%** | **Self certified<br>£m** | **<br>%** | **Total Retail UK mortgage portfolio<br>£m** | **<br>%** |
|---|---|---|---|---|---|---|---|---|
| Less than 50% | 2,384 | 22% | 2,250 | 30% | 613 | 31% | 5,247 | 26% |
| 51% to 70% | 3,596 | 34% | 3,309 | 45% | 802 | 40% | 7,707 | 38% |
| 71% to 80% | 1,882 | 18% | 1,141 | 15% | 288 | 14% | 3,311 | 17% |
| 81% to 90% | 1,976 | 19% | 602 | 8% | 182 | 9% | 2,760 | 14% |
| 91% to 100% | 589 | 5% | 101 | 1% | 73 | 4% | 763 | 4% |
| **Subtotal** | **10,427** | **98%** | **7,403** | **99%** | **1,958** | **98%** | **19,788** | **99%** |
| 101% to 120% | 69 | 1% | 16 | - | 11 | 1% | 96 | - |
| 121% to 150% | 25 | - | 4 | - | 8 | - | 37 | - |
| Greater than 150% | 78 | 1% | 34 | 1% | 10 | 1% | 122 | 1% |
| **Subtotal** | **172** | **2%** | **54** | **1%** | **29** | **2%** | **255** | **1%** |
| **Total** | **10,599** | **100%** | **7,457** | **100%** | **1,987** | **100%** | **20,043** | **100%** |
| | | | | | | | | |
| **Weighted average LTV[1]:** | | | | | | | | |
| Stock of Retail UK mortgages at year end[1] | | 64% | | 58% | | 59% | | 62% |
| New Retail UK mortgages during year[1] | | 74% | | 60% | | n/a | | 72% |

[1] *Weighted average LTVs are calculated at a property level and reflect the average property value in proportion to the outstanding mortgage.*

## 28 Financial risk management (continued)

| Group<br>2016<br>Loan to value (LTV) ratio of total Retail UK mortgages | Standard £m | Standard % | Buy to let £m | Buy to let % | Self certified £m | Self certified % | Total Retail UK mortgage portfolio £m | Total Retail UK mortgage portfolio % |
|---|---|---|---|---|---|---|---|---|
| Less than 50% | 2,484 | 23% | 2,226 | 30% | 643 | 29% | 5,353 | 26% |
| 51% to 70% | 3,837 | 36% | 3,042 | 41% | 858 | 39% | 7,737 | 38% |
| 71% to 80% | 2,105 | 20% | 1,192 | 16% | 349 | 15% | 3,646 | 18% |
| 81% to 90% | 1,527 | 14% | 732 | 10% | 251 | 11% | 2,510 | 12% |
| 91% to 100% | 573 | 5% | 187 | 3% | 122 | 5% | 882 | 4% |
| Subtotal | 10,526 | 98% | 7,379 | 100% | 2,223 | 99% | 20,128 | 98% |
| 101% to 120% | 134 | 1% | 18 | - | 13 | 1% | 165 | 1% |
| 121% to 150% | 29 | - | 5 | - | 8 | - | 42 | - |
| Greater than 150% | 68 | 1% | 31 | - | 10 | - | 109 | 1% |
| Subtotal | 231 | 2% | 54 | - | 31 | 1% | 316 | 2% |
| Total | 10,757 | 100% | 7,433 | 100% | 2,254 | 100% | 20,444 | 100% |
| Weighted average LTV[1]: | | | | | | | | |
| Stock of Retail UK mortgages at year end[1] | | 64% | | 59% | | 61% | | 62% |
| New Retail UK mortgages during year[1] | | 73% | | 62% | | n/a | | 71% |

The tables above set out the weighted average indexed LTV for the total Retail UK mortgage loan book.

Property values are determined by reference to the original or latest property valuations held, indexed to the published 'Nationwide UK House Price Index'.

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

The Group allocates significant resources to ensure ongoing monitoring and compliance with approved risk limits. Credit risk, including compliance with key credit risk limits, is reported monthly in the Court Risk Report. This report is presented to and discussed by the GRPC and the Court. The quarterly Court Risk Report is also presented to and discussed by the CRC. A report on exceptions to credit policy is presented to and reviewed by the GRPC, CRC and the Court on a quarterly basis.

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

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

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

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

**Group forbearance strategies**
Forbearance occurs when a borrower is granted a concession or agreed change to a loan ('forbearance measure') for reasons relating to the actual or apparent financial stress or distress of that borrower. If the concession or agreed change to a loan granted to a borrower is not related to the actual or apparent financial stress or distress of that borrower, forbearance has not occurred. The range of forbearance strategies used are set out in the supplementary asset quality and forbearance disclosures included in the BOIG plc Annual Report.

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. Forbearance requests are assessed on a case by case basis, taking due consideration of the individual circumstances and risk profile of the borrower.

A request for forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment. This assessment may result in a deterioration in the credit grade assigned to the loan, potentially impacting how frequently the loan must be formally reviewed; and, where impairment is deemed to have occurred will result in a specific provision.

The Group Credit Policy and Group Credit Framework outlines the core principles

[1] *Weighted average LTVs are calculated at a property level and reflect the average of property values in proportion to the outstanding mortgage.*

## 28 Financial risk management (continued)

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

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

Analysis of the Group's risk profile of loans and advances to customers between 'forborne' and 'non-forborne' can be found on pages 91 to 94.

**Asset Quality - Loans and advances to customers**
Details of the credit risk methodologies are set out on pages 97 to 101.

The Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications[1].

The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

Previously the Group did not apply a set time period after which the forborne classification on a performing loan was discontinued. Exit criteria are now applied in line with EBA guidance.

An exposure continues to be classified as forborne until such time as it satisfies conditions to exit forbearance in line with EBA guidance. Loans that have never been forborne or loans that no longer require to be reported as 'forborne' are classified as 'non-forborne loans'.

All exposures that are subject to forbearance and have a specific provision are reported as both forborne and impaired whereas previously in the non-mortgage portfolios where an exposure carried a specific provision it was reported as 'impaired' and not reported as 'forborne'.

The Group's definition of impaired loans has been modified to remove non-mortgage loans that are greater than 90 days in arrears but where a specific provision is not required, instead these loans are now classified as 'past due greater than 90 days but not impaired'.

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

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

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

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

[1] *In particular the EBA's 'Implementing Technical Standards on supervisory reporting on forbearance and non-performing exposures'.*

## 28 Financial risk management (continued)

below. In addition, lower quality ratings apply to certain mortgage forbearance arrangements where the customer is making less than full interest payments.

**'Non-performing exposures' (NPEs) consist of:**
- Impaired loans;
- Loans past due greater than 90 days but not impaired;
- Forborne Collateral Realisation loans (FCRs); and
- Other / probationary loans that have yet to satisfy exit criteria in line with EBA guidance to return to performing.

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

**'Forborne collateral realisation'** loans (FCRs) that are not greater than 90 days past due and / or impaired consist of loans (primarily residential mortgages) where forbearance is in place and where future reliance on the realisation of collateral is expected, for the repayment in full of the relevant borrower loan. Such arrangements include Split Mortgages and certain 'Interest Only' / 'Interest Only plus' arrangements.

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

**Non-performing exposures**
As described on the previous page, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

The table below provide an analysis of loans and advances to customers that are non-performing by asset classification.

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

| Group<br><br>2016<br>Risk profile of loans and advances to customers - non-performing exposures | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| Impaired | 1,634 | 1,829 | 2,669 | 104 | 6,236 |
| Past due greater than 90 days but not impaired | 385 | 130 | 159 | - | 674 |
| Neither impaired nor past due greater than 90 days | 1,633 | 240 | 646 | 1 | 2,520 |
| Total | 3,652 | 2,199 | 3,474 | 105 | 9,430 |

In addition to the non-performing exposures on loans and advances to customers shown above, the Group has total non-performing off-balance sheet exposures amounting to €0.1 billion (2016: €0.2 billion).

## 28 Financial risk management (continued)

| **Bank**<br>**2017**<br>**Risk profile of loans and advances to customers - non-performing exposures** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| Impaired | 437 | 1,159 | 1,148 | 60 | 2,804 |
| Past due greater than 90 days but not impaired | 124 | 68 | 48 | - | 240 |
| Neither impaired nor past due greater than 90 days | 550 | 223 | 250 | 1 | 1,024 |
| **Total** | **1,111** | **1,450** | **1,446** | **61** | **4,068** |

| Bank<br>2016<br>Risk profile of loans and advances to customers - non-performing exposures | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| Impaired | 509 | 1,588 | 2,356 | 79 | 4,532 |
| Past due greater than 90 days but not impaired | 157 | 106 | 134 | - | 397 |
| Neither impaired nor past due greater than 90 days | 609 | 211 | 505 | 1 | 1,326 |
| Total | 1,275 | 1,905 | 2,995 | 80 | 6,255 |

In addition to the non-performing exposures on loans and advances to customers shown above, the Bank has total non-performing off-balance sheet exposures amounting to €0.1 billion (2016: €0.1 billion).

**Risk profile of loans and advances to customers**

The tables and analysis below summarise the Group's loans and advances to customers over the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired'. Exposures are before provisions for impairment.

| **Group**<br>**2017**<br>**Risk profile of loans and advances to customers (before impairment provisions)** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total loans and advances to customers €m** | **Total loans and advances to customers %** |
|---|---|---|---|---|---|---|
| **Total loans and advances to customers** | | | | | | |
| High quality | 41,823 | 6,157 | 3,829 | 3,921 | 55,730 | 71% |
| Satisfactory quality | 789 | 8,627 | 1,617 | 230 | 11,263 | 14% |
| Acceptable quality | 1,380 | 1,712 | 1,238 | 14 | 4,344 | 6% |
| Lower quality but neither past due nor impaired | 78 | 735 | 620 | - | 1,433 | 2% |
| **Neither past due nor impaired** | **44,070** | **17,231** | **7,304** | **4,165** | **72,770** | **93%** |
| Past due but not impaired | 1,275 | 193 | 142 | 64 | 1,674 | 2% |
| Impaired | 1,314 | 1,339 | 1,301 | 89 | 4,043 | 5% |
| **Total** | **46,659** | **18,763** | **8,747** | **4,318** | **78,487** | **100%** |

## 28 Financial risk management (continued)

| Group<br>2016<br>Risk profile of loans and advances to customers (before impairment provisions) | Residential mortgages[1]<br>€m | Non-property SME and corporate<br>€m | Property and construction<br>€m | Consumer<br>€m | Total loans and advances to customers<br>€m | Total loans and advances to customers<br>% |
|---|---|---|---|---|---|---|
| Total loans and advances to customers | | | | | | |
| High quality | 42,414 | 5,821 | 2,847 | 3,402 | 54,484 | 66% |
| Satisfactory quality | 1,025 | 9,294 | 1,863 | 224 | 12,406 | 15% |
| Acceptable quality | 1,607 | 1,820 | 1,412 | 22 | 4,861 | 6% |
| Lower quality but neither past due nor impaired | 82 | 980 | 1,181 | - | 2,243 | 3% |
| Neither past due nor impaired | 45,128 | 17,915 | 7,303 | 3,648 | 73,994 | 90% |
| Past due but not impaired[2] | 1,445 | 256 | 372 | 59 | 2,132 | 3% |
| Impaired[2] | 1,634 | 1,829 | 2,669 | 104 | 6,236 | 7% |
| Total | 48,207 | 20,000 | 10,344 | 3,811 | 82,362 | 100% |

| **Bank**<br>**2017**<br>**Risk profile of loans and advances to customers (before impairment provisions)** | **Residential mortgages**<br>**€m** | **Non-property SME and corporate**<br>**€m** | **Property and construction**<br>**€m** | **Consumer**<br>**€m** | **Total loans and advances to customers**<br>**€m** | **Total loans and advances to customers**<br>**%** |
|---|---|---|---|---|---|---|
| **Total loans and advances to customers** | | | | | | |
| High quality | 10,696 | 5,265 | 3,699 | 1,506 | 21,166 | 52% |
| Satisfactory quality | 242 | 9,719 | 1,413 | 230 | 11,604 | 28% |
| Acceptable quality | 512 | 1,435 | 1,132 | 14 | 3,093 | 8% |
| Lower quality but neither past due nor impaired | 18 | 638 | 522 | - | 1,178 | 3% |
| **Neither past due nor impaired** | **11,468** | **17,057** | **6,766** | **1,750** | **37,041** | **91%** |
| Past due but not impaired | 537 | 149 | 99 | 38 | 823 | 2% |
| Impaired | 437 | 1,159 | 1,148 | 60 | 2,804 | 7% |
| **Total** | **12,442** | **18,365** | **8,013** | **1,848** | **40,668** | **100%** |

*[1] As described on pages 84 and 85, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans. As a result, the Group has amended the risk profile of Residential mortgages which are 'neither past due nor impaired' to reflect this change in classification and comparative figures have been restated resulting in an increase in the 'high quality' by €611 million from €41,803 million and 'acceptable quality' by €302 million from €1,305 million with offsetting decreases in 'satisfactory quality' by €587 million from €1,612 million and lower quality by €326 million from €408 million, with no change to the overall total of 'neither past due nor impaired' loans.*

*[2] As described on pages 84 and 85, the Group has modified its definition of impaired loans with a corresponding impact on amounts classified as 'past due greater than 90 days but not impaired'. As a result comparative figures have been restated as follows: impaired 'Non-property SME and corporate' have reduced by €130 million (from €1,959 million to €1,829 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €126 million to €256 million) and impaired 'Property and construction' loans have reduced by €159 million (from €2,828 million to €2,669 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €213 million to €372 million).*

## 28 Financial risk management (continued)

| Bank<br>2016<br>Risk profile of loans and advances to customers (before impairment provisions) | Residential mortgages[1]<br>€m | Non-property SME and corporate<br>€m | Property and construction<br>€m | Consumer<br>€m | Total loans and advances to customers<br>€m | Total loans and advances to customers<br>% |
|---|---|---|---|---|---|---|
| Total loans and advances to customers | | | | | | |
| High quality | 8,016 | 4,707 | 2,719 | 1,354 | 16,796 | 41% |
| Satisfactory quality | 308 | 10,741 | 1,604 | 224 | 12,877 | 32% |
| Acceptable quality | 579 | 1,456 | 1,252 | 22 | 3,309 | 8% |
| Lower quality but neither past due nor impaired | 17 | 820 | 977 | - | 1,814 | 5% |
| Neither past due nor impaired | 8,920 | 17,724 | 6,552 | 1,600 | 34,796 | 86% |
| | | | | | | |
| Past due but not impaired[2] | 622 | 214 | 314 | 36 | 1,186 | 3% |
| Impaired[2] | 509 | 1,588 | 2,356 | 79 | 4,532 | 11% |
| Total | 10,051 | 19,526 | 9,222 | 1,715 | 40,514 | 100% |

*'Past due and / or impaired'*

The tables below provide an aged analysis of loans and advances to customers 'past due and / or impaired' by asset classification. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded.

| **Group<br>2017<br>Risk profile of loans and advances to customers - past due and / or impaired** | **Residential mortgages<br>€m** | **Non-property SME and corporate<br>€m** | **Property and construction<br>€m** | **Consumer<br>€m** | **Total<br>€m** |
|---|---|---|---|---|---|
| **Total loans and advances to customers** | | | | | |
| Past due up to 30 days | 469 | 61 | 32 | 38 | 600 |
| Past due 31 - 60 days | 389 | 27 | 37 | 20 | 473 |
| Past due 61 - 90 days | 113 | 11 | 7 | 6 | 137 |
| Past due greater than 90 days but not impaired | 304 | 94 | 66 | - | 464 |
| **Past due but not impaired** | **1,275** | **193** | **142** | **64** | **1,674** |
| Impaired | 1,314 | 1,339 | 1,301 | 89 | 4,043 |
| **Total** | **2,589** | **1,532** | **1,443** | **153** | **5,717** |

| Group<br>2016<br>Risk profile of loans and advances to customers - past due and / or impaired | Residential mortgages<br>€m | Non-property SME and corporate<br>€m | Property and construction<br>€m | Consumer<br>€m | Total<br>€m |
|---|---|---|---|---|---|
| Total loans and advances to customers | | | | | |
| Past due up to 30 days | 453 | 90 | 29 | 35 | 607 |
| Past due 31 - 60 days | 455 | 15 | 95 | 18 | 583 |
| Past due 61 - 90 days | 152 | 21 | 89 | 6 | 268 |
| Past due greater than 90 days but not impaired[3] | 385 | 130 | 159 | - | 674 |
| Past due but not impaired | 1,445 | 256 | 372 | 59 | 2,132 |
| Impaired[3] | 1,634 | 1,829 | 2,669 | 104 | 6,236 |
| Total | 3,079 | 2,085 | 3,041 | 163 | 8,368 |

[1] *As described on pages 84 and 85, the Bank has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Bank now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans. As a result, the Bank has amended the risk profile of Residential mortgages which are 'neither past due nor impaired' to reflect this change in classification and comparative figures have been restated resulting in an increase in the 'high quality' by €254 million from €7,762 million and 'acceptable quality' by €80 million from €499 million with offsetting decreases in 'satisfactory quality' by €201 million from €509 million and lower quality by €133 million from €150 million, with no change to the overall total of 'neither past due nor impaired' loans.*

[2] *As described on pages 84 and 85, the Group has modified its definition of impaired loans with a corresponding impact on amounts classified as 'past due greater than 90 days but not impaired'. As a result comparative figures have been restated as follows: impaired 'Non-property SME and corporate' have reduced by €106 million (from €1,694 million to €1,588 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €108 million to €214 million) and impaired 'Property and construction' loans have reduced by €134 million (from €2,490 million to €2,356 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €180 million to €314 million).*

[3] *Comparative figures have been restated as set out on page 87.*

## 28 Financial risk management (continued)

| **Bank**<br><br>**2017**<br>**Risk profile of loans and advances to customers - past due and / or impaired** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| **Total loans and advances to customers** | | | | | |
| Past due up to 30 days | 187 | 54 | 32 | 24 | 297 |
| Past due 31 - 60 days | 176 | 19 | 13 | 10 | 218 |
| Past due 61 - 90 days | 50 | 8 | 6 | 4 | 68 |
| Past due greater than 90 days but not impaired | 124 | 68 | 48 | - | 240 |
| **Past due but not impaired** | **537** | **149** | **99** | **38** | **823** |
| Impaired | 437 | 1,159 | 1,148 | 60 | 2,804 |
| **Total** | **974** | **1,308** | **1,247** | **98** | **3,627** |

| Bank<br><br>2016<br>Risk profile of loans and advances to customers - past due and / or impaired | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| Total loans and advances to customers | | | | | |
| Past due up to 30 days | 182 | 82 | 27 | 23 | 314 |
| Past due 31 - 60 days | 208 | 10 | 74 | 9 | 301 |
| Past due 61 - 90 days | 75 | 16 | 79 | 4 | 174 |
| Past due greater than 90 days but not impaired[1] | 157 | 106 | 134 | - | 397 |
| Past due but not impaired | 622 | 214 | 314 | 36 | 1,186 |
| Impaired[1] | 509 | 1,588 | 2,356 | 79 | 4,532 |
| Total | 1,131 | 1,802 | 2,670 | 115 | 5,718 |

### *Segmental analysis*

The table below provides an analysis of the Group's loans and advances to customers over the following the following categories: 'neither past due nor impaired', 'past due but not impaired' and 'impaired' by division.

| **Group** | **2017** | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **Risk profile of loans and advances to customers (before impairment provisions)** | **Retail Ireland €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Total Group €m** | Retail Ireland[2] €m | Retail UK[2] €m | Corporate and Treasury €m | Total Group €m |
| High quality | 24,049 | 24,534 | 7,147 | 55,730 | 23,139 | 25,512 | 5,833 | 54,484 |
| Satisfactory quality | 5,501 | 1,054 | 4,708 | 11,263 | 5,963 | 1,169 | 5,274 | 12,406 |
| Acceptable quality | 2,700 | 942 | 702 | 4,344 | 2,999 | 947 | 915 | 4,861 |
| Lower quality but neither past due nor impaired | 864 | 261 | 308 | 1,433 | 1,008 | 823 | 412 | 2,243 |
| **Neither past due nor impaired** | **33,114** | **26,791** | **12,865** | **72,770** | **33,109** | **28,451** | **12,434** | **73,994** |
| Past due but not impaired[3] | 802 | 864 | 8 | 1,674 | 940 | 1,095 | 97 | 2,132 |
| Impaired[3] | 3,089 | 675 | 279 | 4,043 | 4,876 | 997 | 363 | 6,236 |
| **Total** | **37,005** | **28,330** | **13,152** | **78,487** | **38,925** | **30,543** | **12,894** | **82,362** |

[1] *Comparative figures have been restated as set out on page 88.*

[2] *As described on pages 84 and 85, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans. As a result, the Group has amended the risk profile of Residential mortgages which are 'neither past due nor impaired' to reflect this change in classification and comparative figures have been restated resulting in changes to the segmental disclosures as follows: for Retail Ireland, an increase in 'high quality' by €476 million from €22,663 million and 'acceptable quality' by €386 million from €2,613 million with offsetting decreases in 'satisfactory quality' by €576 million from €6,539 million and lower quality by €286 million from €1,294 million, for Retail UK an increase in 'high quality' by €135 million from €25,377 million with offsetting decreases in 'satisfactory quality' by €11 million from €1,180 million, 'acceptable quality' by €84 million from €1,031 million and lower quality by €40 million from €863 million. There has been no change to the overall total of 'neither past due nor impaired' loans.*

[3] *As described on pages 84 and 85, the Group has modified its definition of impaired loans with a corresponding impact on amounts classified as 'past due greater than 90 days but not impaired'. As a result comparative figures have been restated as follows: impaired Retail Ireland loans have reduced by €177 million (from €5,053 million to €4,876 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €763 million to €940 million) and impaired Retail UK loans have reduced by €112 million (from €1,109 million to €997 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €983 million to €1,095 million).*

## 28 Financial risk management (continued)

The table below provides an aged analysis of loans and advances to customers 'past due and / or impaired' by division:

| Group<br>**Loans and advances to customers - past due and / or impaired (before impairment provisions)** | 2017<br>**Retail Ireland €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Total Group €m** | 2016<br>Retail Ireland €m | Retail UK €m | Corporate and Treasury €m | Total Group €m |
|---|---|---|---|---|---|---|---|---|
| Past due up to 30 days | 326 | 272 | 2 | 600 | 336 | 260 | 11 | 607 |
| Past due 31 - 60 days | 114 | 353 | 6 | 473 | 135 | 430 | 18 | 583 |
| Past due 61 - 90 days | 63 | 74 | - | 137 | 73 | 127 | 68 | 268 |
| Past due greater than 90 days but not impaired[1] | 299 | 165 | - | 464 | 396 | 278 | - | 674 |
| **Past due but not impaired** | **802** | **864** | **8** | **1,674** | **940** | **1,095** | **97** | **2,132** |
| Impaired[1] | 3,089 | 675 | 279 | 4,043 | 4,876 | 997 | 363 | 6,236 |
| **Total** | **3,891** | **1,539** | **287** | **5,717** | **5,816** | **2,092** | **460** | **8,368** |

The table below provides an analysis of non-performing exposures by division:

| Group<br>**Risk profile of loans and advances to customers - non-performing exposures[2]** | 2017<br>**Retail Ireland €m** | **Retail UK €m** | **Corporate and Treasury €m** | **Total Group €m** | 2016<br>Retail Ireland €m | Retail UK €m | Corporate and Treasury €m | Total Group €m |
|---|---|---|---|---|---|---|---|---|
| Impaired | 3,089 | 675 | 279 | 4,043 | 4,876 | 997 | 363 | 6,236 |
| Past due greater than 90 days but not impaired | 299 | 165 | - | 464 | 396 | 278 | - | 674 |
| Neither impaired nor past due greater than 90 days | 1,761 | 242 | 11 | 2,014 | 1,861 | 601 | 58 | 2,520 |
| **Total** | **5,149** | **1,082** | **290** | **6,521** | **7,133** | **1,876** | **421** | **9,430** |

*Geographic analysis*

The following table provides a geographical and industry breakdown of total loans (before impairment provisions).

| Group<br>**Geographical / industry analysis[3]** | 2017<br>**RoI €m** | **UK €m** | **RoW €m** | **Total €m** | 2016<br>RoI €m | UK €m | RoW €m | Total €m |
|---|---|---|---|---|---|---|---|---|
| Personal | 26,036 | 24,941 | - | 50,977 | 26,144 | 25,874 | - | 52,018 |
| *- Residential mortgages* | *24,069* | *22,590* | - | *46,659* | *24,329* | *23,878* | - | *48,207* |
| *- Other consumer lending* | *1,967* | *2,351* | - | *4,318* | *1,815* | *1,996* | - | *3,811* |
| Property and construction | 6,593 | 2,154 | - | 8,747 | 7,076 | 3,268 | - | 10,344 |
| *- Investment* | *6,220* | *2,057* | - | *8,277* | *6,335* | *2,986* | - | *9,321* |
| *- Land and development* | *373* | *97* | - | *470* | *741* | *282* | - | *1,023* |
| Business and other services | 5,964 | 1,628 | 484 | 8,076 | 6,069 | 2,031 | 544 | 8,644 |
| Manufacturing | 2,804 | 625 | 547 | 3,976 | 2,785 | 567 | 589 | 3,941 |
| Distribution | 2,190 | 153 | 27 | 2,370 | 2,501 | 172 | 65 | 2,738 |
| Agriculture | 1,581 | 293 | - | 1,874 | 1,536 | 320 | - | 1,856 |
| Transport | 997 | 125 | 66 | 1,188 | 1,264 | 141 | 72 | 1,477 |
| Financial | 617 | 39 | 50 | 706 | 707 | 67 | 30 | 804 |
| Energy | 499 | 59 | 15 | 573 | 463 | 60 | 17 | 540 |
| **Total** | **47,281** | **30,017** | **1,189** | **78,487** | **48,545** | **32,500** | **1,317** | **82,362** |

[1] *As described on pages 84 and 85, the Group has modified its definition of impaired loans with a corresponding impact on amounts classified as 'past due greater than 90 days but not impaired'. As a result comparative figures have been restated as follows; impaired Retail Ireland loans have reduced by €177 million (from €5,053 million to €4,876 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €763 million to €940 million) and impaired Retail UK loans have reduced by €112 million (from €1,109 million to €997 million) with a corresponding increase in amounts classified as 'past due but not impaired' (from €983 million to €1,095 million).*

[2] *As described on pages 84 and 85, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.*

[3] *The geographical breakdown is primarily based on the location of the business unit where the asset is booked.*

## 28 Financial risk management (continued)

*Repossessed collateral*

In 2017, the Group had collateral held as security, as set out in the table below. Repossessed collateral is sold as soon as practicable, with the proceeds applied against outstanding indebtedness.

| Repossessed collateral | Group 2017 €m | Group 2016 €m | Bank 2017 €m | Bank 2016 €m |
|---|---|---|---|---|
| **Residential properties** | | | | |
| Ireland | 20 | 20 | 4 | 6 |
| UK and other | 8 | 9 | 4 | 4 |
| | **28** | **29** | **8** | **10** |
| Other | 1 | - | - | - |
| **Total** | **29** | **29** | **8** | **10** |

**Group forbearance disclosures**

*Risk profile of forborne loans and advances to customers*

The Group's total risk profile of loans and advances to customers at 31 December 2017 of €78.5 billion is available on page 86. Exposures are before provisions for impairment.

The tables below provide an analysis of loans that are 'neither past due nor impaired', 'past due but not impaired' and 'impaired' by asset classification over the following categories: 'non-forborne' and 'forborne'.

| **Group**<br>**2017**<br>**Risk profile of loans and advances to customers (before impairment provisions)** | **Residential mortgages €m** | **Non-Property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total loans and advances to customers €m** | **Total loans and advances to customers %** |
|---|---|---|---|---|---|---|
| **Non-forborne loans and advances to customers** | | | | | | |
| High quality | 41,823 | 6,138 | 3,789 | 3,920 | 55,670 | 79% |
| Satisfactory quality | - | 8,504 | 1,463 | 226 | 10,193 | 14% |
| Acceptable quality | - | 1,290 | 962 | 10 | 2,262 | 3% |
| Lower quality but neither past due or impaired | - | 389 | 210 | - | 599 | 1% |
| **Neither past due nor impaired** | **41,823** | **16,321** | **6,424** | **4,156** | **68,724** | **97%** |
| Past due but not impaired | 897 | 118 | 66 | 63 | 1,144 | 2% |
| Impaired | 539 | 238 | 187 | 62 | 1,026 | 1% |
| **Total non-forborne loans and advances to customers** | **43,259** | **16,677** | **6,677** | **4,281** | **70,894** | **100%** |
| **Forborne loans and advances to customers** | | | | | | |
| High quality | - | 19 | 40 | 1 | 60 | 1% |
| Satisfactory quality | 789 | 123 | 154 | 4 | 1,070 | 14% |
| Acceptable quality | 1,380 | 422 | 276 | 4 | 2,082 | 27% |
| Lower quality but neither past due or impaired | 78 | 346 | 410 | - | 834 | 11% |
| **Neither past due nor impaired** | **2,247** | **910** | **880** | **9** | **4,046** | **53%** |
| Past due but not impaired | 378 | 75 | 76 | 1 | 530 | 7% |
| Impaired | 775 | 1,101 | 1,114 | 27 | 3,017 | 40% |
| **Total forborne loans and advances to customers** | **3,400** | **2,086** | **2,070** | **37** | **7,593** | **100%** |

## 28 Financial risk management (continued)

| Group<br>2016<br>Risk profile of loans and advances to customers (before impairment provisions) | Residential mortgages €m | Non-Property SME and corporate €m | Property and construction €m | Consumer €m | Total loans and advances to customers €m | Total loans and advances to customers % |
|---|---|---|---|---|---|---|
| Non-forborne loans and advances to customers | | | | | | |
| High quality | 42,414 | 5,802 | 2,750 | 3,401 | 54,367 | 76% |
| Satisfactory quality | - | 9,132 | 1,718 | 219 | 11,069 | 16% |
| Acceptable quality | - | 1,406 | 850 | 13 | 2,269 | 3% |
| Lower quality but neither past due or impaired | - | 377 | 304 | - | 681 | 1% |
| Neither past due nor impaired | 42,414 | 16,717 | 5,622 | 3,633 | 68,386 | 96% |
| Past due but not impaired[1] | 1,018 | 157 | 164 | 58 | 1,397 | 2% |
| Impaired[1] | 713 | 419 | 214 | 66 | 1,412 | 2% |
| Total non-forborne loans and advances to customers | 44,145 | 17,293 | 6,000 | 3,757 | 71,195 | 100% |
| Forborne loans and advances to customers | | | | | | |
| High quality | - | 19 | 97 | 1 | 117 | 1% |
| Satisfactory quality | 1,025 | 162 | 145 | 5 | 1,337 | 12% |
| Acceptable quality | 1,607 | 414 | 562 | 9 | 2,592 | 23% |
| Lower quality but neither past due or impaired | 82 | 603 | 877 | - | 1,562 | 14% |
| Neither past due nor impaired[1] | 2,714 | 1,198 | 1,681 | 15 | 5,608 | 50% |
| Past due but not impaired | 427 | 99 | 208 | 1 | 735 | 7% |
| Impaired[1] | 921 | 1,410 | 2,455 | 38 | 4,824 | 43% |
| Total forborne loans and advances to customers | 4,062 | 2,707 | 4,344 | 54 | 11,167 | 100% |

[1] *In line with the revised asset reporting methodology as set out on pages 84 and 85, the comparative figures for forborne loans have been restated, resulting in an increase in total forborne loans from €8.4 billion to €11.2 billion primarily due to:*
- *an increase in 'Impaired' loans under the forbearance classification of €4.2 billion from €0.6 billion to €4.8 billion, with 'Residential mortgages' increased by €0.5 billion, 'Non-property SME and corporate' by €1.3 billion and 'Property and construction' by €2.3 billion;*

*partially offset by:*
- *a reduction in 'Neither past due nor impaired' loans under the forbearance classification of €1.7 billion from €7.3 billion to €5.6 billion, with 'Residential mortgages' reduced by €0.4 billion, 'Non-property SME and corporate' by €0.4 billion and 'Property and construction' by €0.9 billion.*

## 28 Financial risk management (continued)

The Group's total risk profile of loans and advances to customers - past due and / or impaired in 2017 of €5.7 billion is available on page 88. Exposures are before provisions for impairment. The tables below provide an aged analysis of loans 'past due and / or impaired' by asset classification over the following categories: 'non-forborne' and 'forborne'. Amounts arising from operational and / or timing issues that are outside the control of customers are generally excluded.

| **Group 2017 Risk profile of loans and advances to customers - past due and / or impaired** | **Residential mortgages €m** | **Non-Property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| **Non-forborne loans and advances to customers** | | | | | |
| Past due up to 30 days | 338 | 45 | 22 | 38 | 443 |
| Past due 31 - 60 days | 319 | 16 | 16 | 19 | 370 |
| Past due 61 - 90 days | 80 | 6 | 4 | 6 | 96 |
| Past due greater than 90 days but not impaired | 160 | 51 | 24 | - | 235 |
| **Past due but not impaired** | **897** | **118** | **66** | **63** | **1,144** |
| Impaired | 539 | 238 | 187 | 62 | 1,026 |
| **Total non-forborne loans and advances to customers - past due and / or impaired** | **1,436** | **356** | **253** | **125** | **2,170** |
| **Forborne loans and advances to customers** | | | | | |
| Past due up to 30 days | 131 | 16 | 10 | - | 157 |
| Past due 31 - 60 days | 70 | 11 | 21 | 1 | 103 |
| Past due 61 - 90 days | 33 | 5 | 3 | - | 41 |
| Past due greater than 90 days but not impaired | 144 | 43 | 42 | - | 229 |
| **Past due but not impaired** | **378** | **75** | **76** | **1** | **530** |
| Impaired | 775 | 1,101 | 1,114 | 27 | 3,017 |
| **Total forborne loans and advances to customers - past due and / or impaired[1]** | **1,153** | **1,176** | **1,190** | **28** | **3,547** |

| Group 2016 Risk profile of loans and advances to customers - past due and / or impaired | Residential mortgages €m | Non-Property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| Non-forborne loans and advances to customers | | | | | |
| Past due up to 30 days | 318 | 82 | 11 | 35 | 446 |
| Past due 31 - 60 days | 377 | 11 | 52 | 17 | 457 |
| Past due 61 - 90 days | 110 | 18 | 82 | 6 | 216 |
| Past due greater than 90 days but not impaired | 213 | 46 | 19 | - | 278 |
| Past due but not impaired | 1,018 | 157 | 164 | 58 | 1,397 |
| Impaired | 713 | 419 | 214 | 66 | 1,412 |
| Total non-forborne loans and advances to customers - past due and / or impaired | 1,731 | 576 | 378 | 124 | 2,809 |
| Forborne loans and advances to customers | | | | | |
| Past due up to 30 days | 135 | 8 | 18 | - | 161 |
| Past due 31 - 60 days | 78 | 4 | 43 | 1 | 126 |
| Past due 61 - 90 days | 42 | 3 | 7 | - | 52 |
| Past due greater than 90 days but not impaired | 172 | 84 | 140 | - | 396 |
| Past due but not impaired | 427 | 99 | 208 | 1 | 735 |
| Impaired | 921 | 1,410 | 2,455 | 38 | 4,824 |
| Total forborne loans and advances to customers - past due and / or impaired[1,2] | 1,348 | 1,509 | 2,663 | 39 | 5,559 |

[1] *The 'past due' classification includes both accounts which were classified as 'past due' prior to the forbearance measure being put in place and also those loans which have moved to 'past due' loans during the year. The 'past due' classification does not indicate that the terms of the forbearance measure are not being met.*

[2] *In line with the revised asset reporting methodology as set out on pages 84 and 85, the comparative figures for forborne loans have been restated, resulting in an increase in total 'Past due and / or impaired' forborne loans from €1.1 billion to €5.6 billion, primarily due to the increase in 'Impaired' loans under the forbearance classification of €4.2 billion from €0.6 billion to €4.8 billion, with 'Residential mortgages' increased by €0.5 billion, 'Non-property SME and corporate' by €1.3 billion and 'Property and construction' by €2.3 billion.*

## 28 Financial risk management (continued)

*Non-performing exposures*

As described on pages 84 and 85, the Group has revised its asset quality reporting methodology to align with EBA guidance on non-performing and forborne classifications. The Group now reports 'non-performing exposures' and 'impaired' loans replacing the previous classification of 'non-performing' loans which comprised 'probationary residential mortgages' and 'defaulted' loans.

| **Group**<br>**2017**<br>**Risk profile of loans and advances to customers - non-performing exposures** | **Residential mortgages €m** | **Non-property SME and corporate €m** | **Property and construction €m** | **Consumer €m** | **Total €m** |
|---|---|---|---|---|---|
| **Non-forborne loans and advances to customers** | | | | | |
| Impaired | 539 | 238 | 187 | 62 | 1,026 |
| Past due greater than 90 days but not impaired | 161 | 52 | 24 | - | 237 |
| Neither impaired nor past due greater than 90 days | 118 | 2 | - | - | 120 |
| **Total non-forborne loans and advances to customers** | **818** | **292** | **211** | **62** | **1,383** |
| **Forborne loans and advances to customers** | | | | | |
| Impaired | 775 | 1,101 | 1,114 | 27 | 3,017 |
| Past due greater than 90 days but not impaired | 143 | 42 | 42 | - | 227 |
| Neither impaired nor past due greater than 90 days | 1,349 | 242 | 302 | 1 | 1,894 |
| **Total** | **2,267** | **1,385** | **1,458** | **28** | **5,138** |

| Group<br>2016<br>Risk profile of loans and advances to customers - non-performing exposures | Residential mortgages €m | Non-property SME and corporate €m | Property and construction €m | Consumer €m | Total €m |
|---|---|---|---|---|---|
| Non-forborne loans and advances to customers | | | | | |
| Impaired | 713 | 419 | 214 | 66 | 1,412 |
| Past due greater than 90 days but not impaired | 213 | 46 | 19 | - | 278 |
| Neither impaired nor past due greater than 90 days | 43 | 12 | 3 | - | 58 |
| Total non-forborne loans and advances to customers | 969 | 477 | 236 | 66 | 1,748 |
| Forborne loans and advances to customers | | | | | |
| Impaired | 921 | 1,410 | 2,455 | 38 | 4,824 |
| Past due greater than 90 days but not impaired | 172 | 84 | 140 | - | 396 |
| Neither impaired nor past due greater than 90 days | 1,590 | 228 | 643 | 1 | 2,462 |
| Total | 2,683 | 1,722 | 3,238 | 39 | 7,682 |

## 28 Financial risk management (continued)

***Impairment charges / (reversals) on forborne loans and advances to customers***

The total impairment charge on loans and advances to customers for 2017 was €15 million (see note 15 on page 69). Of this, the impairment charge (net) on forborne loans amounted to €25 million as set out in the table below.

| **Group**<br><br>**2017**<br>**Impairment charges / (reversals) on forborne loan and advances**<br>**Composition** | **Specific charge individually and collectively assessed**<br>**€m** | **Incurred but not reported**<br>**€m** | **Total impairment charge on forborne loans**<br>**€m** |
|---|---|---|---|
| Residential mortgages | (42) | (55) | (97) |
| *- Retail Ireland* | *(42)* | *(55)* | *(97)* |
| *- Retail UK* | - | - | - |
| Non-property SME and corporate | 101 | (11) | 90 |
| *- Republic of Ireland* | *40* | *(6)* | *34* |
| *- UK SME* | *24* | *(2)* | *22* |
| *- Corporate* | *37* | *(3)* | *34* |
| Property and construction | 56 | (23) | 33 |
| *- Investment* | *45* | *(22)* | *23* |
| *- Land and development* | *11* | *(1)* | *10* |
| Consumer | - | (1) | (1) |
| **Total Impairment charge / (reversal) on forborne loans** | **115** | **(90)** | **25** |

| Group<br><br>2016<br>Impairment charges / (reversals) on forborne loan and advances<br>Composition | Specific charge individually and collectively assessed[1]<br>€m | Incurred but not reported<br>€m | Total impairment charge on forborne loans<br>€m |
|---|---|---|---|
| Residential mortgages | (68) | (35) | (103) |
| *- Retail Ireland* | *(68)* | *(35)* | *(103)* |
| *- Retail UK* | - | - | - |
| Non-property SME and corporate | 110 | (10) | 100 |
| *- Republic of Ireland* | *29* | *(5)* | *24* |
| *- UK SME* | *11* | *(7)* | *4* |
| *- Corporate* | *70* | *2* | *72* |
| Property and construction | 188 | (19) | 169 |
| *- Investment* | *110* | *(16)* | *94* |
| *- Land and development* | *78* | *(3)* | *75* |
| Consumer | - | - | - |
| Total Impairment charge / (reversal) on forborne loans | 230 | (64) | 166 |

[1] *As described on pages 84 and 85, the Group has revised its asset quality reporting methodology. All exposures that are subject to forbearance and have a specific provision are reported as both forborne and impaired whereas previously in the non-mortgage portfolios where an exposure carried a specific provision it was reported as 'impaired' and not reported as 'forborne'. Therefore following this change, all impairment charges / reversals on forborne non-mortgage loans, whether specific or IBNR in nature are now included in the above tables.*

## 28 Financial risk management (continued)

***Impairment provisions on forborne loans and advances to customers***

The total impairment provisions on loans and advances to customers at 31 December 2017 were €2,359 million (2016: €3,885 million) (see note 27 on page 78). Of this, the impairment provisions on forborne loans amounted to €1,745 million (2016: €3,012 million) as set out in the table below.

| **Group**<br><br>**2017**<br>**Impairment provisions on forborne loan and advances**<br>**Composition** | **Specific provisions individually and collectively assessed €m** | **Incurred but not reported €m** | **Total impairment provisions on forborne loans €m** |
|---|---|---|---|
| Residential mortgages | 292 | 150 | 442 |
| *- Retail Ireland* | *292* | *148* | *440* |
| *- Retail UK* | *-* | *2* | *2* |
| Non-property SME and corporate | 655 | 14 | 669 |
| *- Republic of Ireland* | *451* | *8* | *459* |
| *- UK SME* | *45* | *2* | *47* |
| *- Corporate* | *159* | *4* | *163* |
| Property and construction | 608 | 26 | 634 |
| *- Investment* | *517* | *25* | *542* |
| *- Land and development* | *91* | *1* | *92* |
| Consumer | - | - | - |
| **Total impairment provisions on forborne loans** | **1,555** | **190** | **1,745** |

| Group<br><br>2016<br>Impairment provisions on forborne loan and advances<br>Composition | Specific provisions individually and collectively assessed[1] €m | Incurred but not reported €m | Total impairment provisions on forborne loans €m |
|---|---|---|---|
| Residential mortgages | 370 | 205 | 575 |
| *- Retail Ireland* | *370* | *203* | *573* |
| *- Retail UK* | *-* | *2* | *2* |
| Non-property SME and corporate | 829 | 25 | 854 |
| *- Republic of Ireland* | *599* | *14* | *613* |
| *- UK SME* | *54* | *5* | *59* |
| *- Corporate* | *176* | *6* | *182* |
| Property and construction | 1,531 | 51 | 1,582 |
| *- Investment* | *1,036* | *48* | *1,084* |
| *- Land and development* | *495* | *3* | *498* |
| Consumer | - | 1 | 1 |
| Total impairment provisions on forborne loans | 2,730 | 282 | 3,012 |

[1] *As described on pages 84 and 85, the Group has revised its asset quality reporting methodology. All exposures that are subject to forbearance and have a specific provision are reported as both forborne and impaired whereas previously in the non-mortgage portfolios where an exposure carried a specific provision it was reported as 'impaired' and not reported as 'forborne'. Therefore following this change, all impairment provisions on forborne non-mortgage loans, whether specific or IBNR in nature are now included in the above tables. In addition, previously the Group did not apply a set time period after which the forborne classification on a performing loan was discontinued. Exit criteria are now applied in line with EBA guidance.*

## 28 Financial risk management (continued)

***Asset quality: Other financial instruments***
Other financial instruments include trading securities, derivative financial instruments, other financial instruments at fair value through profit or loss (excluding equity instruments), loans and advances to banks, held to maturity financial assets, available for sale financial assets (excluding equity instruments), NAMA senior bonds, interest receivable and any reinsurance assets. The table below sets out the Group and the Bank's exposure to Other financial instruments based on the gross amount before provisions for impairment.

Other financial instruments are rated using external ratings attributed to external agencies or are assigned an internal rating based on the Group's internal models, or a combination of both. Mappings to external ratings agencies in the table below are therefore indicative only.

| | Group | | | | Bank | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | | Restated[1] 2016 | | **2017** | | Restated[2] 2016 | |
| **Other financial instruments with ratings equivalent to:** | **€m** | **%** | €m | % | **€m** | **%** | €m | % |
| AAA to AA- | 12,459 | 52% | 13,548 | 52% | 6,374 | 22% | 6,781 | 21% |
| A+ to A- | 9,119 | 38% | 9,293 | 36% | 9,257 | 32% | 9,329 | 28% |
| BBB+ to BBB- | 1,769 | 7% | 1,977 | 8% | 12,628 | 44% | 15,388 | 47% |
| BB+ to BB- | 281 | 1% | 565 | 2% | 279 | 1% | 947 | 3% |
| B+ to B- | 87 | 1% | 185 | 1% | 84 | - | 184 | - |
| Lower than B- | 320 | 1% | 277 | 1% | 322 | 1% | 276 | 1% |
| **Total** | **24,035** | **100%** | **25,845** | **100%** | **28,944** | **100%** | **32,905** | **100%** |
| **Amounts include:** | | | | | | | | |
| Due from Group undertakings | | | | | 13,629 | | 16,427 | |

### Credit risk methodologies

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

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

**PD calculation**
The Group produces estimates of PD on either or both of the following bases:

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

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

**Retail internal rating systems**
The Group has adopted the Retail IRB approach for the majority of its retail exposures. Under this approach, the Group calculates its own estimates for PD, LGD and credit conversion factors. External ratings do not play a role within

[1] *Comparative figures have been restated to reflect (i) the impact of the voluntary change in the Life assurance operations policy (see note 61) and (ii) to reflect a change in assessment in the current year of the credit rating of certain AFS assets. As a result AAA to AA- has been restated by €1,817 million from €11,731 million to €13,548 million; A+ to A- has been restated by €1,734 million from €11,027 million to €9,293 million; BBB+ to BBB- has been restated by €616 million from €2,593 million to €1,977 million; BB+ to BB- has been restated by €38 million from €527 million to €565 million; B+ to B- has been restated by €31 million from €154 million to €185 million and; lower than B- has been restated by €1 million from €278 million to €277 million.*

[2] *Comparative figures have been adjusted to reflect a change in assessment in the current year of the credit rating of certain available for sale financial assets; AAA to AA- has been restated by €2,126 million from €4,655 million to €6,781 million; A+ to A- has been restated by €1,578 million from €10,907 million to €9,329 million; BBB+ to BBB- has been restated by €616 million from €16,004 million to €15,388 million; BB+ to BB- has been restated by €38 million from €909 million to €947 million; B+ to B- has been restated by €31 million from €153 million to €184 million and; lower than B- has been restated by €1 million from €277 million to €276 million.*

## 28 Financial risk management (continued)

the Group's retail internal rating systems, however, external credit bureau data does play a significant role in assessing UK retail borrowers.

**Other 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:

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

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

**Control mechanisms for rating systems**
The control mechanisms for rating systems are set out in the Group's Credit IRB Model Risk Policy and Standards. The Risk Measurement Committee (RMC) approves all risk rating models, model developments and all associated policies. The Group mitigates model risk for rating models as follows:

- model development standards: the Group adopts centralised standards and methodologies over the operation and development of models. This ensures a common approach to documentation, data quality and management, conservatism and model testing;
- model governance: the Group adopts a uniform approach to the governance of all risk rating model related activities. This ensures the appropriate involvement of stakeholders;
- model performance monitoring: all risk rating models are subject to testing on a quarterly basis. The findings are reported to RMC; and
- independent validation: all risk rating models are subject to in-depth analysis at least annually. This analysis is carried out by a dedicated unit (the Independent Control Unit (ICU)) which is independent of credit origination and management functions.

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

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

**Methodology for loan loss provisioning**
All credit exposures, either individually or collectively, are regularly reviewed for objective evidence of impairment. Where such evidence of impairment exists, the exposure is measured for an impairment provision. The criteria used to determine if there is objective evidence of impairment include:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties;
- breach of loan covenants or conditions;
- granting a concession to a borrower, for economic or legal reasons, relating to the borrower's financial difficulty that would otherwise not be considered;
- deterioration of the borrower's competitive position;
- deterioration in the value of collateral;
- external rating downgrade below an acceptable level; or
- initiation of bankruptcy proceedings.

At 31 December 2017, the following events require the completion of an impairment assessment to determine whether a loss event has occurred at the balance sheet date that may lead to recognition of impairment losses:

- loan asset has fallen 90 days past due;
- a forbearance measure has been requested by a borrower and formally assessed;
- a modification of loan terms resulting in the non-payment of interest, including the refinancing and renegotiation of facilities where there is evidence of a loss event and / or borrower financial distress.

*Portfolio specific events for Residential Mortgages*

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

*Portfolios specific events for 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;
- borrower has ceased trading;
- initiation of bankruptcy / insolvency proceedings;
- 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).

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

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

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

**Methodology for individually assessing impairment**
An individual impairment assessment is performed for any exposure for which there is objective evidence of impairment and where the exposure is above an agreed threshold. For Residential mortgage, non-property SME and

## 28 Financial risk management (continued)

corporate, and Property and construction exposures, a de-minimis total customer exposure level of €1 million applies for the mandatory completion of a DCF analysis for the assessment of impairment. The carrying amount of the exposure net of the estimated recoverable amount (and thus the specific provision required) is calculated using a DCF analysis. This calculates the estimated recoverable amount as the present value of the estimated future cash flows, discounted at the exposure's original effective interest rate (or the current effective interest rate for variable rate exposures). The estimated future cash flows include forecasted principal and interest payments (not necessarily contractual amounts due) including cash flows, if any, from the realisation of collateral / security held, less realisation costs.

**Methodology for collectively assessing impairment**

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

Some of the key parameters at 31 December 2017 used in the Retail Ireland Residential mortgage collective specific provisioning model include assumptions in relation to:

- indexed Residential property valuation[1];
- forced sale discount (23% to 55%);
- workout costs (7%);
- weighted average cure rate (33.43% over three years, with cure assumptions segmented by forbearance classification and region (for relevant cohorts));
- weighted average repayment rate (5.91% over three years); and
- time to sale (3.5 years from the reporting date).

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

The Group's critical accounting estimates and judgements which are set out in note 2 to the consolidated financial statements, include sensitivity analysis disclosure on some of the key judgemental areas, including RoI Residential mortgages, in the estimation of impairment charges.

Where there is objective evidence of impairment on a collective basis, this is reported as a specific provision ('collective specific') in line with individually assessed loans.

**Methodology for establishing incurred but not reported (IBNR) provisions**

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

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

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

The past due greater than 90 days but not impaired IBNR model cure assumptions are segmented as appropriate and updated for recent observed experience. At 31 December 2017 the cure assumptions reflect a weighted average cure rate of 50.84% over a three year period. At 31 December 2017, the weighted average repayment rate applied to the past due greater than 90 days but not impaired IBNR model is 10.05% over a three year period.

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

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

## 28 Financial risk management (continued)

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

While loss emergence rates have been assessed in light of the Group's recent grade migration experience and current PD grades, back testing of emergence periods and LGD factors against current experience in the loan book has not resulted in any material changes in these factors compared to 31 December 2016.

The Group's critical accounting estimates and judgements, which are set out in note 2 to the consolidated financial statements, include sensitivity analysis disclosure on some of the key judgemental areas in the estimation of IBNR provisions.

**Methodology for loan loss provisioning and forbearance**

A request for forbearance will always be a trigger event for the Group to undertake an assessment of the customer's financial circumstances and ability to repay prior to any decision to grant a forbearance treatment.

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

*Individually assessing impairment and forbearance*

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

*Collectively assessing impairment and forbearance*[1]

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

*Provisioning and forbearance*

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

**Impaired loans review**

Irrespective of the valuation methodology applied, it is Group policy to review impaired loans above agreed thresholds semi-annually, with the review including a reassessment of the recovery strategy, the continued appropriateness of the valuation methodology and the adequacy of the impairment provision.

Where information is obtained between reviews that impacts expected cash flows (e.g. evidence of comparable transactions emerging, changes in local market conditions), an immediate review and assessment of the required impairment provision is undertaken.

An impaired loan is restored to unimpaired status when the contractual amount of principal and interest is deemed to be fully collectible.

Typically, a loan is deemed to be fully collectible based on an updated assessment by the Group of the borrower's financial circumstances. The assessment includes a demonstration of the customer's ability to make payments on the original or revised terms and conditions as may be agreed with the Group as part of a sustainable forbearance arrangement.

**Methodologies for valuation of property collateral**

Retail Ireland mortgage loan book property values are determined by reference to the original or latest property valuations held indexed to the Residential Property Price Index published by the CSO. 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.

In relation to commercial property valuations, there is a Board approved policy which sets out the Group's approach to the valuation of commercial property collateral and the key principles applying in respect of the type and frequency of valuation required. This policy is consistent with the CBI regulatory guidance. In line with the policy, 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 GRPC. 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).

For internally assessed valuations, the appropriate valuation methodology applied is informed by a range of factors, including the risk profile of the underlying loan. For challenged assets, the appropriate methodology applied depends in part on the options available to management to maximise recovery which are driven by the particular circumstances of the loan and underlying collateral, e.g. the degree of liquidity and recent transactional evidence in the relevant market segment, the type, size and

[1] *For collective provisioning purposes, the Group applies a definition of forbearance that is aligned with the Central Bank of Ireland's 'Impairment Provisioning & Disclosures Guidelines' 2013*

## 28 Financial risk management (continued)

location of the property asset and its development potential and marketability. In all cases where the valuations for property collateral are used, the initial recommendation of the realisable value and the timeline for realisation are arrived at by specialist work-out units.

These estimated valuations are subject to review, challenge and, potentially, revision by experienced independent credit professionals in underwriting units within the Group Risk function and are ultimately approved in line with delegated authority upon the recommendation of the credit underwriting unit. At all approval levels, the impairment provision and the underlying valuation methodology is reviewed and challenged for appropriateness, adequacy and consistency.

### Liquidity risk

**Definition of funding and liquidity risk**
Funding and liquidity risk is the risk that the Group will experience difficulty in financing its assets and / or meeting its contractual payment obligations as they fall due, or will only be able to do so at substantially above the prevailing market cost of funds. Liquidity risk arises from differences in timing between cash inflows and outflows. Liquidity risk can increase due to the unexpected lengthening of maturities or non-repayment of assets, a sudden withdrawal of deposits or the inability to refinance maturing debt. These factors are often associated with times of distress or adverse events such as a credit rating downgrade(s) or economic or financial turmoil.

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

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

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

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

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

The tables below summarise the maturity profile of the Group's financial assets and liabilities, excluding those arising from insurance and participating investment contracts at 2017 and 2016. These maturity profiles are based on the remaining contractual maturity period at the balance sheet date (discounted). The Group measures liquidity risk by adjusting the contractual cash flows on deposit books to reflect their behavioural stability.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,766 million and €10,878 million respectively (2016: €5,647 million and €10,458 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

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

| Group<br>Customer deposits by division | 2017<br>€bn | 2016<br>€bn |
|---|---|---|
| Retail Ireland | 44 | 41 |
| *- Deposits* | *22* | *22* |
| *- Current account credit balances* | *22* | *19* |
| Retail UK | 22 | 23 |
| Retail UK (Stg£bn equivalent) | 19 | 20 |
| *- UK Post Office* | *14* | *15* |
| *- Other Retail UK* | *5* | *5* |
| Corporate and Treasury | 10 | 11 |
| **Total customer deposits** | **76** | **75** |
| | | |
| **Loan to deposit ratio** | **100%** | **104%** |

## 28 Financial risk management (continued)

| **Group**<br>**2017**<br>**Maturities of financial assets and liabilities** | **Demand**<br>**€m** | **Up to 3 months**<br>**€m** | **3-12 months**<br>**€m** | **1-5 years**<br>**€m** | **Over 5 years**<br>**€m** | **Total**<br>**€m** |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances at central banks | 7,379 | - | - | - | - | 7,379 |
| Trading securities | - | - | - | 38 | 30 | 68 |
| Derivative financial instruments | 155 | 271 | 283 | 823 | 816 | 2,348 |
| Other financial assets at fair value through profit or loss[1] | 1,120 | 30 | 32 | 178 | 3,014 | 4,374 |
| Loans and advances to banks | 555 | 2,267 | 239 | - | - | 3,061 |
| Available for sale financial assets[1] | - | 682 | 1,511 | 6,281 | 4,732 | 13,206 |
| Held to maturity financial assets | - | - | - | - | - | - |
| NAMA senior bonds[2] | - | - | - | - | - | - |
| Loans and advances to customers (before impairment provisions) | 1,663 | 5,099 | 7,122 | 27,400 | 37,203 | 78,487 |
| | **10,872** | **8,349** | **9,187** | **34,720** | **45,795** | **108,923** |
| **Liabilities** | | | | | | |
| Deposits from banks | 87 | 699 | - | - | - | 786 |
| Drawings from Monetary Authorities (gross) | - | 169 | 1,726 | 3,113 | - | 5,008 |
| Customer accounts | 61,190 | 7,586 | 4,871 | 2,379 | 40 | 76,066 |
| Derivative financial instruments | 160 | 45 | 54 | 578 | 1,150 | 1,987 |
| Debt securities in issue | - | 730 | 19 | 4,800 | 1,386 | 6,935 |
| Subordinated liabilities | - | - | - | 488 | 1,622 | 2,110 |
| Dividend payable to parent | 800 | - | - | - | - | 800 |
| **Total** | **62,237** | **9,229** | **6,670** | **11,358** | **4,198** | **93,692** |

| Group<br>2016<br>Maturities of financial assets and liabilities | Demand<br>€m | Up to 3 months<br>€m | 3-12 months<br>€m | 1-5 years<br>€m | Over 5 years<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Cash and balances at central banks | 5,192 | - | - | - | - | 5,192 |
| Trading securities | - | - | - | 18 | - | 18 |
| Derivative financial instruments | 205 | 305 | 605 | 1,299 | 1,295 | 3,709 |
| Other financial assets at fair value through profit or loss[1] | 1,130 | 24 | 30 | 152 | 3,286 | 4,622 |
| Loans and advances to banks | 469 | 2,639 | 240 | - | 1 | 3,349 |
| Available for sale financial assets[1] | - | 723 | 1,381 | 5,161 | 3,505 | 10,770 |
| Held to maturity financial assets | - | - | - | - | 1,872 | 1,872 |
| NAMA senior bonds[2] | - | - | - | 451 | - | 451 |
| Loans and advances to customers (before impairment provisions) | 2,347 | 5,347 | 7,454 | 26,745 | 40,469 | 82,362 |
| | 9,343 | 9,038 | 9,710 | 33,826 | 50,428 | 112,345 |
| Liabilities | | | | | | |
| Deposits from banks | 74 | 1,615 | - | - | - | 1,689 |
| Drawings from Monetary Authorities (gross) | - | 181 | 292 | 2,947 | - | 3,420 |
| Customer accounts | 55,492 | 9,359 | 6,849 | 3,198 | 269 | 75,167 |
| Derivative financial instruments | 207 | 76 | 114 | 762 | 1,714 | 2,873 |
| Debt securities in issue[3] | - | 398 | 1,751 | 4,288 | 2,813 | 9,250 |
| Subordinated liabilities | - | - | 1 | 248 | 1,176 | 1,425 |
| Short positions in trading securities | 47 | - | - | - | - | 47 |
| Total | 55,820 | 11,629 | 9,007 | 11,443 | 5,972 | 93,871 |

[1] *Excluding equity shares which have no contractual maturity.*
[2] *The maturity date of the NAMA senior bonds is based on their assessed behavioural maturity.*
[3] *Comparative figures have been adjusted to reflect a change in assessment of the maturity dates for certain debt securities in issue. Debt securities in issue repayable: 1-5 years has been restated by €1.5 billion from €2.7 billion to €4.2 billion and over 5 years has been restated by €1.5 billion from €4.3 billion to €2.8 billion with no change to overall debt securities in issue.*

## 28 Financial risk management (continued)

The tables below summarise the maturity profile of the Group's financial liabilities (excluding those arising from insurance and investment contracts in Bank of Ireland Life) at 31 December 2017 and at 31 December 2016 based on contractual undiscounted repayment obligations. The Group does not manage liquidity risk on the basis of contractual maturity. Instead the Group manages liquidity risk based on expected cash flows.

Unit linked investment liabilities and unit linked insurance liabilities with a carrying value of €5,766 million and €10,878 million respectively (2016: €5,647 million and €10,458 million respectively) are excluded from this analysis as their repayment is linked directly to the financial assets backing these contracts.

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

The balances will not agree directly to the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

| **Group**<br>**2017**<br>**Contractual maturity** | **Demand**<br>**€m** | **Up to 3 months**<br>**€m** | **3-12 months**<br>**€m** | **1-5 years**<br>**€m** | **Over 5 years**<br>**€m** | **Total**<br>**€m** |
|---|---|---|---|---|---|---|
| Deposits from banks | 87 | 699 | - | - | - | 786 |
| Monetary Authorities secured funding | - | 170 | 1,733 | 3,126 | - | 5,029 |
| Customer accounts | 61,131 | 7,702 | 4,915 | 2,434 | 41 | 76,223 |
| Debt securities in issue | - | 586 | 95 | 5,214 | 1,716 | 7,611 |
| Subordinated liabilities | 9 | 42 | 188 | 917 | 1,702 | 2,858 |
| Contingent liabilities | 366 | 100 | 106 | 108 | 18 | 698 |
| Commitments | 12,172 | 22 | 1,113 | 2,556 | - | 15,863 |
| Dividend payable to parent | 800 | - | - | - | - | 800 |
| **Total** | **74,565** | **9,321** | **8,150** | **14,355** | **3,477** | **109,868** |

| Group<br>2016<br>Contractual maturity | Demand<br>€m | Up to 3 months<br>€m | 3-12 months<br>€m | 1-5 years<br>€m | Over 5 years<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|
| Deposits from banks | 74 | 1,617 | - | - | - | 1,691 |
| Monetary Authorities secured funding | - | 181 | 294 | 2,963 | - | 3,438 |
| Customer accounts | 55,534 | 9,395 | 6,909 | 3,290 | 280 | 75,408 |
| Debt securities in issue[1] | - | 448 | 1,869 | 4,798 | 3,019 | 10,134 |
| Subordinated liabilities | - | 22 | 72 | 559 | 1,366 | 2,019 |
| Contingent liabilities | 475 | 15 | 119 | 123 | 180 | 912 |
| Short positions in trading securities | 47 | - | - | - | - | 47 |
| Commitments | 11,687 | 22 | 497 | 2,317 | - | 14,523 |
| Total | 67,817 | 11,700 | 9,760 | 14,050 | 4,845 | 108,172 |

[1] *Comparative figures have been adjusted to reflect a change in assessment of the maturity dates for certain debt securities in issue. Debt securities in issue repayable: 1-5 years has been restated by €1.5 billion from €3.3 billion to €4.8 billion and over 5 years has been restated by €1.5 billion from €4.5 billion to €3.0 billion with no change to overall debt securities in issue.*

## 28 Financial risk management (continued)

As set out in note 19, derivatives held for trading comprise derivatives entered into with trading intent as well as derivatives entered into with economic hedging intent to which the Group does not apply hedge accounting. Derivatives held with hedging intent also include all derivatives to which the Group applies hedge accounting. The tables below summarise the maturity profile of the Group's derivative liabilities.

The Group manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

| **Group**<br>**2017**<br>**Derivative financial instruments** | **Demand**<br>**€m** | **Up to 3 months**<br>**€m** | **3-12 months**<br>**€m** | **1-5 years**<br>**€m** | **Over 5 years**<br>**€m** | **Total**<br>**€m** |
|---|---|---|---|---|---|---|
| **Derivatives held with hedging intent** | | | | | | |
| Gross settled derivative liabilities - outflows | - | 328 | 162 | 571 | - | 1,061 |
| Gross settled derivative liabilities - inflows | - | (304) | (140) | (528) | - | (972) |
| Gross settled derivative liabilities - net flows | - | 24 | 22 | 43 | - | 89 |
| Net settled derivative liabilities | - | 86 | 213 | 726 | 287 | 1,312 |
| **Total derivatives held with hedging intent** | **-** | **110** | **235** | **769** | **287** | **1,401** |
| | | | | | | |
| Derivative liabilities held with trading intent | 631 | - | - | - | - | 631 |
| **Total derivative cash flows** | **631** | **110** | **235** | **769** | **287** | **2,032** |

| Group<br>2016<br>Derivative financial instruments | Demand<br>€m | Up to 3 months<br>€m | 3-12 months<br>€m | 1-5 years<br>€m | Over 5 years<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|
| Derivatives held with hedging intent | | | | | | |
| Gross settled derivative liabilities - outflows | - | 351 | 323 | 268 | - | 942 |
| Gross settled derivative liabilities - inflows | - | (318) | (261) | (202) | - | (781) |
| Gross settled derivative liabilities - net flows | - | 33 | 62 | 66 | - | 161 |
| Net settled derivative liabilities | - | 122 | 303 | 943 | 452 | 1,820 |
| Total derivatives held with hedging intent | - | 155 | 365 | 1,009 | 452 | 1,981 |
| | | | | | | |
| Derivative liabilities held with trading intent | 1,027 | - | - | - | - | 1,027 |
| Total derivative cash flows | 1,027 | 155 | 365 | 1,009 | 452 | 3,008 |

## 28 Financial risk management (continued)

The tables below summarise the maturity profile of the Bank's financial liabilities (excluding those arising on derivative financial instruments) at 31 December 2017 and 31 December 2016 based on contractual undiscounted repayment obligations. The Bank does not manage liquidity risk on the basis of contractual maturity. Instead the Bank manages liquidity risk based on expected cash flows.

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

The balances will not agree directly to the Bank balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal and interest payments.

**Bank**

| **2017 Contractual maturity** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| Deposits from banks | 166 | 2,245 | 379 | 891 | 568 | 4,249 |
| Monetary Authorities secured funding | - | - | 1,500 | 1,750 | - | 3,250 |
| Customer accounts | 48,662 | 5,202 | 2,183 | 1,820 | 41 | 57,908 |
| Debt securities in issue | - | 1 | 17 | 872 | 235 | 1,125 |
| Subordinated liabilities | 9 | 42 | 184 | 905 | 1,651 | 2,791 |
| Contingent liabilities | 350 | 100 | 104 | 47 | 2 | 603 |
| Short positions in trading securities | - | - | - | - | - | - |
| Commitments | 7,178 | - | - | 2,429 | - | 9,607 |
| Dividend payable to parent | 800 | - | - | - | - | 800 |
| **Total** | **57,165** | **7,590** | **4,367** | **8,714** | **2,497** | **80,333** |

Bank

| 2016 Contractual maturity | Demand €m | Up to 3 months €m | 3-12 months €m | 1-5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|---|
| Deposits from banks | 140 | 3,347 | 596 | 1,468 | 588 | 6,139 |
| Monetary Authorities secured funding | - | - | 292 | 2,250 | - | 2,542 |
| Customer accounts | 44,531 | 6,344 | 3,159 | 2,302 | 278 | 56,614 |
| Debt securities in issue | - | 360 | 812 | 962 | 271 | 2,405 |
| Subordinated liabilities | - | 20 | 65 | 527 | 1,210 | 1,822 |
| Contingent liabilities | 326 | 15 | 118 | 119 | 113 | 691 |
| Short positions in trading securities | 47 | - | - | - | - | 47 |
| Commitments | 6,888 | - | - | 1,973 | - | 8,861 |
| Total | 51,932 | 10,086 | 5,042 | 9,601 | 2,460 | 79,121 |

## 28 Financial risk management (continued)

The tables below summarise the maturity profile of the Bank's derivative liabilities. The Bank manages liquidity risk based on expected cash flows, therefore the undiscounted cash flows payable on derivatives liabilities held with hedging intent are classified according to their contractual maturity, while derivatives held with trading intent have been included at fair value in the 'demand' time bucket.

| **Bank**<br>**2017**<br>**Derivative financial instruments** | **Demand €m** | **Up to 3 months €m** | **3-12 months €m** | **1-5 years €m** | **Over 5 years €m** | **Total €m** |
|---|---|---|---|---|---|---|
| **Derivatives held with hedging intent** | | | | | | |
| Gross settled derivative liabilities - outflows | - | 236 | 72 | 558 | - | 866 |
| Gross settled derivative liabilities - inflows | - | (213) | (51) | (515) | - | (779) |
| **Gross settled derivative liabilities - net flows** | **-** | **23** | **21** | **43** | **-** | **87** |
| Net settled derivative liabilities | - | 85 | 213 | 723 | 282 | 1,303 |
| **Total derivatives held with hedging intent** | **-** | **108** | **234** | **766** | **282** | **1,390** |
| Derivative liabilities held with trading intent | 631 | - | - | - | - | 631 |
| **Total derivative cash flows** | **631** | **108** | **234** | **766** | **282** | **2,021** |

| Bank<br>2016<br>Derivative financial instruments | Demand €m | Up to 3 months €m | 3-12 months €m | 1-5 years €m | Over 5 years €m | Total €m |
|---|---|---|---|---|---|---|
| Derivatives held with hedging intent | | | | | | |
| Gross settled derivative liabilities - outflows | - | 202 | 218 | 269 | - | 689 |
| Gross settled derivative liabilities - inflows | - | (178) | (161) | (203) | - | (542) |
| Gross settled derivative liabilities - net flows | - | 24 | 57 | 66 | - | 147 |
| Net settled derivative liabilities | - | 121 | 304 | 941 | 446 | 1,812 |
| Total derivatives held with hedging intent | - | 145 | 361 | 1,007 | 446 | 1,959 |
| Derivative liabilities held with trading intent | 1,026 | - | - | - | - | 1,026 |
| Total derivative cash flows | 1,026 | 145 | 361 | 1,007 | 446 | 2,985 |

### Market risk

**Definition and background**

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

**Risk management, measurement and reporting**

The management of market risk in the Group is governed by the Group's RAS and by the Group Policy on market risk, both of which are approved by the Court. The Group has an established governance structure for market risk that involves the Court, the Court Risk Committee, the Group Risk Policy Committee and Group ALCO, which has primary responsibility for the oversight of market risk in the Group. The relevant limits and other controls are set by ALCO.

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

The Group Market Risk function is responsible for ensuring that the Group identifies, understands, measures and controls the market risks to which it is exposed.

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

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

## 28 Financial risk management (continued)

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

The total VaR at 31 December 2017 was €0.8 million (€1.8 million in 2016). Total VaR is the sum of overall interest rate, foreign exchange and traded credit VaR. Overall Interest Rate VaR is a correlated measure of trading book interest rate and discretionary IRRBB.

**Structural and other risks**
Notwithstanding the overriding objective of running minimal levels of market risk, certain structural market risks remain and are managed centrally as part of the Group's asset and liability management process.

The structural FX positions at 31 December 2017 and the preceding year end were as follows:

**Group**

| Structural FX position | 2017 €m | 2016 €m |
|---|---|---|
| Sterling - net asset position | 2,396 | 2,170 |
| US dollar - net asset position | 547 | 641 |
| **Total structural FX position** | **2,943** | **2,811** |

| Total Value at Risk - Group and Bank | 2017 €m | 2016 €m |
|---|---|---|
| Total | 0.8 | 1.8 |

### Life insurance risk *(Group only)*

**Definition**
Life insurance risk is the result of unexpected variation in the amount and timing of claims associated with insurance benefits. This variation, arising from changing customer mortality, life expectancy, health or behaviour characteristics, may be short or long term in nature. Mortality risk is the risk of deviations in timing and amounts of cash flows due to the incidence of death being higher than expected. Longevity risk is the risk of deviations in timing and amount of cash flows due to life expectancy being longer than expected. Morbidity risk is the risk of deviations in timing and amount of cash flows due to the incidence of disability and sickness being higher than expected. Persistency or lapse risk is the risk to profitability if policies surrender early as the company will lose the future income streams on these contracts. Expense risk is the risk to profitability if expenses differ to expectation.

**Risk management**
Life insurance risk is controlled by the Group Risk Appetite and is underwritten and managed by NIAC, a wholly owned subsidiary of the Group. The management of insurance risk is the responsibility of the board of NIAC as delegated through internal governance structures. Reinsurance risk is managed within the NIAC risk management framework with responsibilities delegated through the Reinsurance Risk Policy as approved by the NIAC board. The responsibilities include completing a review of reinsurance arrangements at least annually. This includes a review of the panel of reinsurers that may be used and the structure of reinsurance arrangements. Senior members of the management team with actuarial and underwriting expertise contribute to the effective oversight of this risk.

**Risk measurement**
Risk experience is monitored regularly with actual claims experience being compared to the underlying risk assumptions. The results of this analysis are used to inform management of the appropriateness of those assumptions for use in pricing, capital management and new product design.

Exposure to life insurance risk is measured by means of sensitivity and scenario testing. Risk capital is calculated for each individual risk type by stressing the best estimate assumptions of future experience by extreme, but plausible, factors. The stress factors are pre-defined by regulation and are set at a level with an expected frequency of occurrence of one year in every 200. NIAC also carries out an Own Risk and Solvency Assessment (ORSA) annually which is overseen by the NIAC board. Within the ORSA, NIAC's risk profile is considered, both quantitatively and qualitatively, in a holistic manner with potential areas of risk identified along with conclusions in respect of how those risks will be mitigated. Further details can be found in note 38 on page 117.

**Risk mitigation**
NIAC mitigates the potential impact of insurance risk through a number of measures. Capital is held against exposure to life insurance risk. Exposure to risk is also managed and controlled by the use of medical and financial underwriting, risk mitigating contract design features and reinsurance, as detailed in risk management policies.

**Risk reporting**
An update on the status of life insurance risk is included in the Court Risk Report which is presented to the GRPC, the CRC, and the Court on a quarterly basis. The ORSA report in respect of the NIAC annual assessment is also presented to the GRPC on an annual basis.

### Capital management

The objectives of the Group's capital management policy are to ensure that the Group has sufficient capital to cover the risks of its business and support its strategy and at all times to comply with regulatory capital requirements. It seeks to minimise refinancing risk by managing the maturity profile of non-equity capital whilst the currency mix of capital is managed to ensure that the sensitivity of capital ratios to currency movements is minimised.

The capital adequacy requirements set by the SSM / ECB and economic capital

## 28 Financial risk management (continued)

**Group capital resources**

| | **2017 €m** | Restated[1] 2016 €m |
|---|---|---|
| Stockholders' equity | 7,958 | 8,678 |
| Other equity instruments | 740 | 740 |
| Non-controlling interests - equity | 2 | 1 |
| **Total equity** | **8,700** | **9,419** |
| Undated subordinated loan capital | 122 | 159 |
| Dated subordinated loan capital | 1,988 | 1,266 |
| **Total capital resources** | **10,810** | **10,844** |

based on internal models are used by the Group as the basis for its capital management. The Group seeks to maintain sufficient capital to ensure that these requirements are met.

The current status of capital adequacy, including risk dashboards and risk appetite compliance, is reported to senior executives and the Court through the Court Risk Report on a monthly basis.

At 31 December 2017, the Group's total capital resources of €10.8 billion were consistent with 2016 primarily due to:

- the issuance of Stg£300 million and US$500 million Tier 2 capital with a maturity of ten years; and
- attributable profit generated during the year and movements in other comprehensive income;

offset by:

- the dividend of €1.0 billion to BOIG plc.

## 29 Shares in Group undertakings

**Bank**

| | **2017 €m** | 2016 €m |
|---|---|---|
| At beginning of year | 4,060 | 4,415 |
| Exchange adjustments | (69) | (324) |
| Acquisitions | 271 | - |
| Disposal of investments | (7) | - |
| Repayment of investments | (72) | (6) |
| Impairment of investments | (6) | (25) |
| **At end of year** | **4,177** | **4,060** |
| **Group undertakings** | | |
| *of which:* | | |
| - Credit Institutions | 3,468 | 3,336 |
| - Others | 709 | 724 |
| | **4,177** | **4,060** |

On 27 October 2017, the Bank invested in €200 million of Additional tier 1 (AT1) securities issued by Bank of Ireland Mortgage Bank.

The Bank's Shares in Group Undertakings are reviewed if events or circumstances indicate that impairment may have occurred, by comparing the carrying value of each investment to its recoverable amount. An impairment charge arises if the carrying value exceeds the recoverable amount. An impairment charge of €6 million was recognised in 2017 (2016: €25 million).

The recoverable amount of an asset is the higher of its fair value less costs to sell and its VIU, where the VIU is the present value of the future cash flows expected to be derived from the asset. The calculation of the recoverable amount for each cash generating unit is based upon a VIU calculation that discounts expected pre-tax cash flows at an interest rate appropriate to the cash generating unit. The determination of both require the exercise of judgement. The estimation of pre-tax cash flows is sensitive to the periods for which forecasted cash flows are available and to assumptions underpinning the sustainability of those cash flows. While forecasts are compared with actual performance and external economic data, expected cash flows reflect management's view of future performance. The values assigned to key assumptions reflect past experience, performance of the business to date and management judgement.

The recoverable amount calculations performed for the significant amount of shares in Group undertakings are sensitive to changes in the following key assumptions:

**Cash flow forecasts**
Cash flow forecasts are based on internal management information for a period of up to five years, after which a long-term growth rate appropriate for the business is applied (see below). The next five years' cash flows are consistent with approved plans for each business.

**Growth rates**
Growth rates beyond five years are determined by reference to long-term economic growth rates.

**Discount rate**
The discount rate applied is the pre-tax weighted average cost of capital for the Bank increased to include a risk premium to reflect the specific risk profile of the cash generating unit to the extent that such risk is not already reflected in the forecast cash flows.

The forecast cash flows reflect management's view of future business prospects. The impact of changes in these cash flows, growth rate and discount rate assumptions has been assessed in the review.

## 30 Interest in associates

| Group | 2017 €m | 2016 €m |
|---|---|---|
| At beginning of year | 56 | 56 |
| Increase in investments | 11 | 13 |
| Decrease in investments | (11) | (11) |
| Share of results after tax (note 16) | 3 | (2) |
| **At end of year** | **59** | **56** |

The Group has availed of the venture capital exemption in accounting for its interests in associates. In line with the accounting policy set out on pages 44 and 45, these interests have been designated at initial recognition at fair value through profit or loss. Changes in the fair value of these interests are included in the share of results of associates (after tax) line on the income statement.

In presenting details of the associates of the Group, the exemption permitted by Section 316 of the Companies Act 2014 has been availed of and the Group will annex a full listing of associates to its annual return to the Companies Registration Office.

## 31 Interest in joint ventures

| Group | 2017 €m | 2016 €m |
|---|---|---|
| At beginning of year | 71 | 83 |
| Exchange adjustments | (3) | (15) |
| Share of results after tax (note 16) | 40 | 43 |
| *- First Rate Exchange Services* | *40* | *43* |
| Dividends received | (39) | (40) |
| **At end of year** | **69** | **71** |

For further information on joint ventures refer to note 55 Interests in other entities.

## 32 Business combinations

| Group<br>**Marshall Leasing Limited** | 24 November 2017 €m |
|---|---|
| Fair value of consideration transferred | 48 |
| **Recognised amounts of identifiable net assets** | |
| Property, plant and equipment | 90 |
| Intangible assets | 15 |
| Loans and advances to banks | 2 |
| Other assets | 3 |
| Deferred tax assets | 2 |
| Deposits from banks | (79) |
| Other liabilities | (15) |
| Current tax | (1) |
| **Net identifiable assets and liabilities** | **17** |
| **Goodwill** | **31** |

On 24 November 2017, the Group acquired 100% of the ordinary share capital of Marshall Leasing Limited (MLL), a car and commercial vehicle leasing and fleet management company based in the UK.

**Consideration transferred**
The acquisition was settled in cash of €48 million to purchase 100% of the ordinary share capital of MLL.

**Goodwill**
Goodwill recognised on the acquisition date relates to the expected growth, cost synergies and the value of MLL's workforce which cannot be separately recognised as an intangible asset. The goodwill has been allocated to the Group's Retail UK segment and is not expected to be deductible for tax purposes.

**MLL's contribution to the Group results**
The acquisition of MLL has had no material impact on the Group's total operating income and operating profit respectively, from the acquisition date to 31 December 2017. For the full year ended 31 December 2017, MLL had total revenue of €24 million (net of depreciation on rental vehicles of €22 million) and operating profit of €5 million.

## 33 Intangible assets and goodwill

| Group | 2017 | | | | | 2016 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Goodwill €m | Computer software externally purchased €m | Computer software internally generated €m | Other externally purchased intangible assets €m | Total €m | Goodwill €m | Computer software externally purchased €m | Computer software internally generated €m | Other externally purchased intangible assets €m | Total €m |
| **Cost** | | | | | | | | | | |
| **At 1 January** | **-** | **101** | **1,379** | **201** | **1,681** | **-** | **114** | **1,233** | **219** | **1,566** |
| Additions | - | - | 233 | 2 | 235 | - | 1 | 206 | 12 | 219 |
| Acquisitions | 31 | - | - | 15 | 46 | - | - | - | - | - |
| Disposals / write-offs | - | (29) | (46) | (5) | (80) | - | (11) | (31) | (10) | (52) |
| Exchange adjustments | - | (1) | (6) | (5) | (12) | - | (3) | (29) | (20) | (52) |
| **At 31 December** | **31** | **71** | **1,560** | **208** | **1,870** | **-** | **101** | **1,379** | **201** | **1,681** |
| **Accumulated amortisation** | | | | | | | | | | |
| **At 1 January** | **-** | **(99)** | **(829)** | **(118)** | **(1,046)** | **-** | **(113)** | **(803)** | **(124)** | **(1,040)** |
| Disposals / write-offs | - | 29 | 46 | 5 | 80 | - | 11 | 31 | 10 | 52 |
| Amortisation charge for the year (note 12) | - | - | (115) | (19) | (134) | - | - | (80) | (18) | (98) |
| Exchange adjustments | - | - | 5 | 4 | 9 | - | 3 | 23 | 14 | 40 |
| **At 31 December** | **-** | **(70)** | **(893)** | **(128)** | **(1,091)** | **-** | **(99)** | **(829)** | **(118)** | **(1,046)** |
| **Net book value** | **31** | **1** | **667** | **80** | **779** | **-** | **2** | **550** | **83** | **635** |

The category computer software internally generated includes the Core Banking Platform (CBP) asset with a carrying value of €163 million (2016: €77 million).

**Goodwill**
As described in note 32, in 2017 the Group acquired 100% of the ordinary share capital of MLL and recognised €31 million of goodwill on the acquisition date. The goodwill has been tested for impairment and no impairment has been identified as at 31 December 2017.

**Impairment review - intangible assets**
Intangible assets have been reviewed for any indication that impairment may have occurred. Where any such indication exists impairment has been measured by comparing the carrying value of the intangible asset to its recoverable amount.

There was no impairment identified in the year ended 31 December 2017 (2016: €nil).

| Bank | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Computer software externally purchased €m | Computer software internally generated €m | Other externally purchased intangible assets €m | Total €m | Computer software externally purchased €m | Computer software internally generated €m | Other externally purchased intangible assets €m | Total €m |
| **Cost** | | | | | | | | |
| **At 1 January** | **76** | **1,250** | **106** | **1,432** | **89** | **1,098** | **110** | **1,297** |
| Additions | - | 237 | 2 | 239 | - | 211 | 12 | 223 |
| Disposals / write-offs | (27) | (41) | - | (68) | (11) | (38) | (10) | (59) |
| Exchange adjustments | - | (5) | (1) | (6) | (2) | (21) | (6) | (29) |
| **At 31 December** | **49** | **1,441** | **107** | **1,597** | **76** | **1,250** | **106** | **1,432** |
| **Accumulated amortisation** | | | | | | | | |
| **At 1 January** | **(76)** | **(720)** | **(50)** | **(846)** | **(89)** | **(692)** | **(54)** | **(835)** |
| Disposals / write-offs | 27 | 41 | - | 68 | 11 | 30 | 10 | 51 |
| Amortisation charge for the year | - | (111) | (12) | (123) | - | (74) | (11) | (85) |
| Exchange adjustments | - | 3 | 1 | 4 | 2 | 16 | 5 | 23 |
| **At 31 December** | **(49)** | **(787)** | **(61)** | **(897)** | **(76)** | **(720)** | **(50)** | **(846)** |
| **Net book value** | **-** | **654** | **46** | **700** | **-** | **530** | **56** | **586** |

**Impairment review - intangible assets**
There was no impairment identified in the Bank's intangible assets in 2017 (2016: €nil).

## 34 Investment properties

| Group | 2017 €m | 2016 €m |
|---|---|---|
| At beginning of year | 864 | 841 |
| Exchange adjustment | (9) | (43) |
| Additions | 74 | 65 |
| Revaluation | 40 | 14 |
| Disposals | (57) | (13) |
| **At end of year** | **912** | **864** |

In 2017, rental income from investment property amounted to €43 million (2016: €44 million). Expenses directly attributable to investment property generating rental income was €8 million (2016: €8 million). There were no expenses directly attributable to investment properties which are not generating rental income for 2017 or 2016.

At 31 December 2017, the Group held investment property of €912 million (2016: €864 million) on behalf of Bank of Ireland Life policyholders.

## 35 Property, plant and equipment

| Group<br>2017 | Freehold land and buildings and long leaseholds (held at fair value) €m | Adaptations (at cost) €m | Computer and other equipment (at cost) €m | Finance lease assets (at cost) €m | Payments on accounts and assets in the course of construction (at cost) €m | Total €m |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| **At 1 January 2017** | **167** | **187** | **301** | **25** | **14** | **694** |
| Exchange adjustments | (2) | (1) | (4) | - | - | (7) |
| Acquisitions | - | - | 90 | - | - | 90 |
| Additions | - | - | 7 | 6 | 31 | 44 |
| Disposals / write-offs | - | (40) | (32) | (16) | - | (88) |
| Reversal of impairment (note 12) | 4 | - | - | - | - | 4 |
| Revaluation recognised in other comprehensive income | 16 | - | - | - | - | 16 |
| Reclassifications | (30) | 10 | 23 | - | (34) | (31) |
| **At 31 December 2017** | **155** | **156** | **385** | **15** | **11** | **722** |
| **Accumulated depreciation** | | | | | | |
| **At 1 January 2017** | **-** | **(118)** | **(202)** | **(21)** | **-** | **(341)** |
| Exchange adjustments | - | 1 | 3 | - | - | 4 |
| Disposals / write-offs | - | 38 | 30 | 16 | - | 84 |
| Charge for the year (note 12) | - | (9) | (23) | (3) | - | (35) |
| **At 31 December 2017** | **-** | **(88)** | **(192)** | **(8)** | **-** | **(288)** |
| **Net book value at 31 December 2017** | **155** | **68** | **193** | **7** | **11** | **434** |

At 31 December 2017, property, plant and equipment held at fair value was €155 million (2016: €167 million). The historical cost of property, plant and equipment held at fair value was €76 million (2016: €97 million). The net book value of property, plant and equipment held at cost less accumulated depreciation and impairment was €279 million (2016: €186 million).

As outlined in note 32, the Group acquired assets to the value of €90 million through its acquisition of MLL in 2017.

The Group is in the process of disposing of an office building in Dublin. This asset has been reclassified from property, plant and equipment to assets classified as held for sale. This asset is held at fair value less costs to sell and the disposal is expected to be completed in 2018.

## 35 Property, plant and equipment (continued)

| Group<br>2016 | Freehold land and buildings and long leaseholds (held at fair value)<br>€m | Adaptations (at cost)<br>€m | Computer and other equipment (at cost)<br>€m | Finance lease assets (at cost)<br>€m | Payments on accounts and assets in the course of construction (at cost)<br>€m | Total<br>€m |
|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | |
| At 1 January 2016 | 167 | 189 | 478 | 21 | 5 | 860 |
| Exchange adjustments | (8) | (5) | (20) | - | - | (33) |
| Acquisitions | - | - | - | - | - | - |
| Additions | - | - | 8 | 4 | 49 | 61 |
| Disposals / write-offs | - | (16) | (187) | - | - | (203) |
| Reversal of impairment (note 12) | 5 | - | - | - | - | 5 |
| Revaluation recognised in other comprehensive income | 4 | - | - | - | - | 4 |
| Reclassifications | (1) | 19 | 22 | - | (40) | - |
| At 31 December 2016 | 167 | 187 | 301 | 25 | 14 | 694 |
| Accumulated depreciation | | | | | | |
| At 1 January 2016 | - | (127) | (381) | (18) | - | (526) |
| Exchange adjustments | - | 3 | 14 | - | - | 17 |
| Disposals / write-offs | - | 16 | 186 | - | - | 202 |
| Charge for the year (note 12) | - | (10) | (21) | (3) | - | (34) |
| At 31 December 2016 | - | (118) | (202) | (21) | - | (341) |
| Net book value at 31 December 2016 | 167 | 69 | 99 | 4 | 14 | 353 |

| **Bank**<br>**2017** | **Freehold land and buildings and long leaseholds (held at fair value)**<br>**€m** | **Adaptations (at cost)**<br>**€m** | **Computer and other equipment (at cost)**<br>**€m** | **Finance lease assets (at cost)**<br>**€m** | **Payments on accounts and assets in the course of construction (at cost)**<br>**€m** | **Total**<br>**€m** |
|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | |
| **At 1 January 2017** | **140** | **181** | **296** | **26** | **14** | **657** |
| Exchange adjustments | - | (1) | (4) | - | - | (5) |
| Additions | - | - | 2 | 6 | 31 | 39 |
| Disposals / write-offs | - | (37) | (26) | (16) | - | (79) |
| Reversal of impairment | 1 | - | - | - | - | 1 |
| Revaluation recognised in other comprehensive income | 7 | - | - | - | - | 7 |
| Reclassifications | (20) | 10 | 23 | - | (33) | (20) |
| **At 31 December 2017** | **128** | **153** | **291** | **16** | **12** | **600** |
| **Accumulated depreciation** | | | | | | |
| **At 1 January 2017** | **-** | **(116)** | **(196)** | **(21)** | **-** | **(333)** |
| Exchange adjustments | - | 1 | 3 | - | - | 4 |
| Disposals / write-offs | - | 36 | 25 | 16 | - | 77 |
| Charge for the year | - | (10) | (21) | (4) | - | (35) |
| **At 31 December 2017** | **-** | **(89)** | **(189)** | **(9)** | **-** | **(287)** |
| **Net book value at 31 December 2017** | **128** | **64** | **102** | **7** | **12** | **313** |

Property, plant and equipment in 2017 held at fair value was €128 million (2016: €140 million). The historical cost of property, plant and equipment held at fair value in 2017 was €50 million (2016: €71 million). The net book value of property plant and equipment in 2017 held at cost less accumulated depreciation and impairment amounted to €185 million (2016: €184 million).

## 35 Property, plant and equipment (continued)

| Bank<br>2016 | Freehold land and buildings and long leaseholds (held at fair value) €m | Adaptations (at cost) €m | Computer and other equipment (at cost) €m | Finance lease assets (at cost) €m | Payments on accounts and assets in the course of construction (at cost) €m | Total €m |
|---|---|---|---|---|---|---|
| Cost or valuation | | | | | | |
| At 1 January 2016 | 141 | 184 | 471 | 22 | 5 | 823 |
| Exchange adjustments | (5) | (6) | (19) | - | - | (30) |
| Additions | - | - | 8 | 4 | 49 | 61 |
| Disposals / write-offs | (1) | (16) | (186) | - | - | (203) |
| Reversal of impairment | 3 | - | - | - | - | 3 |
| Revaluation recognised in other comprehensive income | 3 | - | - | - | - | 3 |
| Reclassifications | (1) | 19 | 22 | - | (40) | - |
| At 31 December 2016 | 140 | 181 | 296 | 26 | 14 | 657 |
| Accumulated depreciation | | | | | | |
| At 1 January 2016 | - | (125) | (375) | (18) | - | (518) |
| Exchange adjustments | - | 4 | 14 | - | - | 18 |
| Disposals / write-offs | - | 15 | 185 | - | - | 200 |
| Charge for the year | - | (10) | (20) | (3) | - | (33) |
| At 31 December 2016 | - | (116) | (196) | (21) | - | (333) |
| Net book value at 31 December 2016 | 140 | 65 | 100 | 5 | 14 | 324 |

**Property**

A revaluation of Group property was carried out as at 31 December 2017.

**Future capital expenditure**

The table below shows future capital expenditure in relation to both property, plant and equipment and intangible assets.

| | Group | | Bank | |
|---|---|---|---|---|
| **Future capital expenditure** | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| Contracted but not provided for in the financial statements | 31 | 20 | 30 | 18 |
| Authorised by the Directors but not contracted | 161 | 179 | 159 | 178 |

**Operating leases**

The Group leases a number of branch and office premises to carry out its business. The commercial leases typically are 25 to 35 year operating leases with five-yearly rent reviews. The majority of the rent reviews are on an upwards only basis. Some leases also include break options. The Group also holds a number of short-term leases for less than ten years and a number of long-term leases at market rent with less than 135 years unexpired.

Minimum future rentals are the rentals payable under operating leases up to the next available break option where this exists or to expiry date of the lease. Both the required break option notice period and the amount of any penalty rent have been included in the amounts payable below.

The Group has entered into a small number of sub-leases as lessor which represent properties and components of properties surplus to the Group's own requirements.

## 35 Property, plant and equipment (continued)

| Group | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Payable €m** | **Receivable €m** | Payable €m | Receivable €m |
| Not later than 1 year | 64 | 26 | 63 | 3 |
| Later than 1 year (not later than 5 years) | 236 | 33 | 236 | 9 |
| Later than 5 years | 441 | 2 | 494 | 4 |

| Bank | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Payable €m** | **Receivable €m** | Payable €m | Receivable €m |
| Not later than 1 year | 58 | 2 | 59 | 3 |
| Later than 1 year (not later than 5 years) | 215 | 5 | 228 | 9 |
| Later than 5 years | 418 | 1 | 474 | 4 |

**Minimum future rentals under non-cancellable operating leases**
Included in this table, for 2017, is an amount of €10 million in relation to sub-lease rental (2016: €12 million) (Bank 2017: €7 million, 2016: €11 million).

Included in receivable for 2017 is €48 million for future income receivable from existing car rental contracts relating to the newly acquired company MLL.

**Finance leases**
The Group leases computer equipment under finance lease agreements. The leases range from one to five years, contain no material contingent rents or restrictions imposed by lease agreements and contain standard terms of renewal.

| Group | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Total minimum future payments €m** | **Future finance charges €m** | **Present value of finance lease commitments €m** | Total minimum future payments €m | Future finance charges €m | Present value of finance lease commitments €m |
| Not later than 1 year | 4 | - | 4 | 2 | - | 2 |
| Later than 1 year not later than 5 years | 3 | - | 3 | 3 | - | 3 |

| Bank | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Total minimum future payments €m** | **Future finance charges €m** | **Present value of finance lease commitments €m** | Total minimum future payments €m | Future finance charges €m | Present value of finance lease commitments €m |
| Not later than 1 year | 4 | - | 4 | 2 | - | 2 |
| Later than 1 year not later than 5 years | 3 | - | 3 | 3 | - | 3 |

At 31 December 2017, the net carrying amount of the assets held under finance leases in Group and the Bank was €7 million (2016: €5 million).

## 36 Deferred tax

| | Group | | Bank | |
|---|---|---|---|---|
| | 2017 €m | Restated[1] 2016 €m | 2017 €m | 2016 €m |
| The movement on the deferred tax account is as follows: | | | | |
| At beginning of year | 1,236 | 1,385 | 1,143 | 1,221 |
| Income statement charge (note 18) | (90) | (121) | (50) | (71) |
| Cash flow hedges credit / (charge) to other comprehensive income | 16 | (3) | 13 | - |
| Pensions and other retirement benefits | 14 | (17) | 16 | (14) |
| Additional tier 1 - credit to equity (note 49) | 7 | 10 | 7 | 10 |
| Available for sale financial assets - credit / (charge) to other comprehensive income | 2 | 41 | - | 42 |
| Revaluation of property | (1) | (1) | (1) | (1) |
| Other movements (including foreign exchange) | - | (58) | 15 | (44) |
| **At end of year** | **1,184** | **1,236** | **1,143** | **1,143** |
| Deferred tax assets and liabilities are attributable to the following items: | | | | |
| **Deferred tax assets** | | | | |
| Unutilised tax losses | 1,253 | 1,270 | 1,121 | 1,135 |
| Pensions and other post retirement benefits | 70 | 65 | 59 | 52 |
| Provision for loan impairment | 15 | 12 | 15 | 12 |
| Accelerated capital allowances on equipment used by the Group / Bank | 14 | 14 | 13 | 13 |
| Cash flow hedge reserve | 5 | - | 6 | - |
| Other temporary differences | 17 | 27 | 3 | 11 |
| **Deferred tax assets** | **1,374** | **1,388** | **1,217** | **1,223** |
| **Deferred tax liabilities** | | | | |
| Life companies | (57) | (64) | - | - |
| Available for sale reserve | (49) | (51) | (47) | (47) |
| Property revaluation surplus | (13) | (12) | (11) | (11) |
| Cash flow hedge reserve | - | (11) | - | (7) |
| Other temporary differences | (71) | (14) | (16) | (15) |
| **Deferred tax liabilities** | **(190)** | **(152)** | **(74)** | **(80)** |
| **Represented on the balance sheet as follows:** | | | | |
| Deferred tax assets | 1,237 | 1,298 | 1,143 | 1,143 |
| Deferred tax liabilities | (53) | (62) | - | - |
| | **1,184** | **1,236** | **1,143** | **1,143** |

In accordance with IAS 12, in presenting the deferred tax balances above, the Group offsets DTAs and deferred tax liabilities where:

- an entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- the DTAs and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred tax liabilities have not been recognised for tax that may be payable if earnings of certain overseas subsidiaries were remitted to Ireland as the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future. Unremitted earnings for overseas subsidiaries totalled €432 million (2016: €479 million).

The DTA of €1,237 million (2016: €1,298 million) shown on the balance sheet is after netting by jurisdiction (€1,374 million before netting by jurisdiction (2016: €1,388 million)). This includes an amount of €1,253 million at 31 December 2017 (2016: €1,270 million) in respect of operating losses which are available to relieve future profits from tax. Of these losses approximately €1.1 billion relates to Irish tax losses and €0.1 billion relates to UK tax losses.

The UK corporation tax rate reduced to 19% for years beginning on or after 1 April 2017 and will reduce to 17% for years beginning on or after 1 April 2020.

The US corporation tax rate will reduce to 21% for years beginning on or after 1 January 2018. This reduction was enacted at the balance sheet date and the effect of this change has been to reduce the DTA at 31 December 2017 by €10 million.

The recognition of a DTA requires the Directors to be satisfied that it is probable that the Group will have sufficient future taxable profits against which the DTAs can be utilised to the extent they have not already reversed.

The Group's projections of future taxable profits 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. The Group projections are based on the current business plan. The Group assumes long-term growth in profitability thereafter.

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 36 Deferred tax (continued)

Based on the Group's projections the DTA in respect of tax losses is estimated to be recovered in full by the end of 2036 (2016: 2038).

The use of alternative assumptions representing reasonably possible alternative outcomes would not impact the recognition of the Group's DTAs, although they could increase or decrease the recovery period. If the projected rate of growth of taxable profits was increased or decreased by two percentage points, the Group estimates that this would respectively decrease the recovery period by one year or increase the recovery period by two years.

The amount of the DTA expected to be recovered after more than one year is c.€1.2 billion (2016: c.€1.2 billion) (Bank 2017: €1.2 billion, 2016: c.€1.1 billion). The amount of deferred tax liability expected to be settled after more than one year is c.€0.1 billion (2016: c.€0.1 billion).

The Group has US tax losses carried forward which are subject to a twenty year life, and are scheduled to expire in the period 2025 to 2029. A DTA of €44 million (2016: €91 million) has not been recognised in respect of these losses as an annual limitation on use will result in their expiring unused.

## 37 Other assets

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | Restated[1] 2016 €m | **2017 €m** | 2016 €m |
| Reinsurance asset | 740 | 765 | - | - |
| Value of in Force asset (note 38) | 565 | 540 | - | - |
| Sundry and other debtors | 289 | 271 | 87 | 82 |
| Interest receivable | 254 | 314 | 218 | 272 |
| Accounts receivable and prepayments | 145 | 135 | 98 | 82 |
| **Other assets** | **1,993** | **2,025** | **403** | **436** |
| Other assets are analysed as follows: | | | | |
| Within 1 year | 634 | 652 | 377 | 407 |
| After 1 year | 1,359 | 1,373 | 26 | 29 |
| | **1,993** | **2,025** | **403** | **436** |
| The movement in the reinsurance asset is noted below: | | | | |
| At beginning of year | 765 | 776 | - | - |
| New business | 10 | 11 | - | - |
| Changes in business | (35) | (22) | - | - |
| **At end of year** | **740** | **765** | **-** | **-** |

For the purpose of disclosure of credit risk exposures, the reinsurance asset is included within other financial instruments of €24.0 billion (2016: €25.8 billion) in note 28 on page 97.

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

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## 38 Life assurance business

| Group<br>Value of in Force asset | 2017<br>€m | Restated[1]<br>2016<br>€m |
|---|---|---|
| At beginning of year | 540 | 531 |
| Income statement movement in Value of in Force asset (gross of tax) | 25 | 9 |
| **At end of year** | **565** | **540** |

The Group recognises the ViF life assurance business asset as the present value of future profits expected to arise from contracts classified as insurance contracts under IFRS 4. The ViF asset, which is presented gross of attributable tax, represents the present value of future profits, less an allowance for the cost of required capital, expected to arise from insurance contracts written by the balance sheet date. It is determined by projecting the future surpluses and other cashflows attributable to the shareholder arising from these contracts and discounting using risk free interest rates as specified under the Solvency II directive.

The process used in determining the key economic and experience assumptions is as follows:

***Interest rates and unit growth rate***
Interest rates and unit-growth rates are based on a range of duration specific rates determined by a risk free yield curve. This yield curve is provided by the European Insurance and Occupational Pensions Authority (EIOPA).

***Shareholder tax rate***
The current rate of corporation tax is assumed to be maintained over the term of the business. Deferred tax has been allowed for on future surpluses attributable to shareholders estimated to arise from insurance contracts.

***Mortality and morbidity***
The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant market data.

***Persistency rate***
Persistency rates refer to the rate of policy termination for insurance policies. Best estimate policy lapse rate assumptions are set with regard to the Group's actual experience and other relevant market data.

***Maintenance expenses***
Allowance is made for future policy costs and expense inflation explicitly.

**Sensitivities**
This table indicates the standalone impact of changes in the key assumptions on profit.

While this table shows the impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

| Group<br>Sensitivities: impact on annual profit before tax | 2017<br>€m | Restated[1]<br>2016<br>€m |
|---|---|---|
| 1% increase in interest rates and unit growth rates | (27) | (29) |
| 1% decrease in interest rates and unit growth rates | 20 | 19 |
| 10% improvement in mortality | 19 | 19 |
| 10% improvement in longevity | (30) | (37) |
| 10% improvement in morbidity | 9 | 9 |
| 10% deterioration in persistency | (21) | (20) |
| 10% increase in equity and property markets | 38 | 36 |
| 5% improvement in maintenance expenses | 17 | 16 |
| 0.5% widening in bond spreads | (70) | (75) |

## 39 Deposits from banks

| | Group | | Bank | |
|---|---|---|---|---|
| | 2017<br>€m | 2016<br>€m | 2017<br>€m | 2016<br>€m |
| Monetary Authority secured funding | 3,553 | 1,973 | 1,806 | 1,091 |
| Deposits from banks | 786 | 1,676 | 4,315 | 5,932 |
| Securities sold under agreement to repurchase - private market repos | - | 13 | - | 13 |
| **Deposits from banks** | **4,339** | **3,662** | **6,121** | **7,036** |
| **Amounts include:** | | | | |
| Due to Group undertakings | - | - | 3,628 | 4,464 |

Deposits from banks include cash collateral of €0.6 billion (2016: €1.0 billion) received from derivative counterparties in relation to net derivative asset positions (note 19) (Bank 2017: €0.5 billion, 2016: €0.9 billion).

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 39 Deposits from banks (continued)

| Group | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **Monetary Authority secured funding** | **TLTRO €m** | **TFS €m** | **ILTR €m** | **Total €m** | TLTRO €m | TFS €m | ILTR €m | Total €m |
| Deposits from banks | 1,806 | 1,353 | 394 | 3,553 | 799 | 701 | 473 | 1,973 |
| Debt securities in issue (note 41) | 1,455 | - | - | 1,455 | 1,447 | - | - | 1,447 |
| **Total** | **3,261** | **1,353** | **394** | **5,008** | **2,246** | **701** | **473** | **3,420** |

| Bank | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| **Monetary Authority secured funding** | **TLTRO €m** | **ILTR €m** | **Total €m** | TLTRO €m | ILTR €m | Total €m |
| Deposits from banks | 1,806 | - | 1,806 | 799 | 292 | 1,091 |
| Debt securities in issue (note 41) | 1,455 | - | 1,455 | 1,447 | - | 1,447 |
| **Total** | **3,261** | **-** | **3,261** | **2,246** | **292** | **2,538** |

The Group and the Bank's secured funding from the ECB comprises drawings under Targeted Longer Term Refinancing Operation (TLTRO). These TLTRO borrowings will be repaid between June 2018 and March 2021, in line with the terms and conditions of the TLTRO facility.

Drawings under the Term Funding Scheme (TFS) from the Bank of England will be repaid between October 2020 and November 2021.

Index Long Term Repo (ILTR) funding from the Bank of England has a maturity of less than one year.

The Group and the Bank's Monetary Authority funding is secured by available for sale financial assets and loans and advances to customers.

## 40 Customer accounts

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| Current accounts | 30,715 | 26,199 | 30,656 | 27,324 |
| Demand deposits | 26,034 | 23,486 | 15,198 | 13,972 |
| Term deposits and other products | 19,317 | 25,482 | 11,985 | 15,219 |
| **Customer accounts** | **76,066** | **75,167** | **57,839** | **56,515** |
| | | | | |
| **Amounts include:** | | | | |
| Due to BOIG plc | 197 | - | 197 | - |
| Due to associates and joint ventures | 43 | 39 | n/a | n/a |
| Due to Group undertakings | n/a | n/a | 3,143 | 4,101 |

At 31 December 2017, the Group's largest 20 customer deposits amounted to 4% (2016: 3%) of customer accounts. Deposit accounts where a period of notice is required to make a withdrawal are classified within term deposits and other products. Information on the contractual maturities of customer accounts is set out in note 28 on page 103.

Term deposits and other products include a number of term accounts that contain easy access features. These allow the customer to access a portion or all of their deposit notwithstanding that this repayment could result in financial penalty being paid by the customer. For such accounts, the portion subject to the potential early access has been classified in the 'demand' category in the liquidity risk and profile analysis (see page 103).

Term deposits and other products for Group and Bank include €91 million (2016: €63 million) relating to sale and repurchase agreements with financial institutions who do not hold a banking licence.

Under the European Communities (Deposit Guarantee Schemes) Regulations 2015, eligible deposits of up to €100,000 per depositor per credit institution are covered. Eligible deposits includes credit balances in current accounts, demand deposit accounts and term deposit accounts. The scheme is administered by the Central Bank of Ireland and is funded by the credit institutions covered by the scheme.

## 40 Customer accounts (continued)

On 24 November 2015, the European Commission released a proposal, European Deposit Insurance Scheme (EDIS), designed to achieve a common European deposit protection scheme by 2024.

The European Union (Bank Recovery and Resolution) Regulations 2015, which transposed the Bank Recovery and Resolution Directive (BRRD) into Irish Law, provides that covered deposits (i.e. eligible deposits up to €100,000) are excluded from the scope of the bail-in tool. The bail-in tool enables a resolution authority to write down the value of certain liabilities or convert them into equity, to the extent necessary to absorb losses and recapitalise an institution. It also introduces 'depositor preference', where shareholders' equity and other unsecured creditors (including senior bondholders) will have to be fully written down before losses are imposed on preferred depositors. The bail-in rules allow in exceptional circumstances for the exclusion or partial exclusion of certain liabilities (with a key focus being eligible deposits) from the application of the write down or conversion powers.

In addition to the deposits covered by these Regulations, certain other Group deposits are covered by the deposit protection schemes in other jurisdictions, chiefly the UK Financial Services Compensation Scheme (in respect of eligible deposits with Bank of Ireland (UK) plc).

## 41 Debt securities in issue

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| Bonds and medium term notes | 5,794 | 7,859 | 979 | 2,005 |
| Monetary Authorities secured funding (note 39) | 1,455 | 1,447 | 1,455 | 1,447 |
| Other debt securities in issue | 1,141 | 1,391 | 42 | 241 |
| **Debt securities in issue** | **8,390** | **10,697** | **2,476** | **3,693** |

*The movement on debt securities in issue is analysed as follows:*

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| Opening balance | 10,697 | 13,243 | 3,693 | 5,086 |
| Issued during the year | 172 | 3,939 | - | 1,710 |
| Redemptions | (2,184) | (5,474) | (1,038) | (2,241) |
| Repurchases | (183) | (941) | (173) | (859) |
| Other movements | (112) | (70) | (6) | (3) |
| **Closing balance** | **8,390** | **10,697** | **2,476** | **3,693** |

## 42 Liabilities to customers under investment and insurance contracts

| **Group** | | |
|---|---|---|
| **Investment contract liabilities** | **2017 €m** | 2016 €m |
| **Liabilities to customers under investment contracts, at fair value** | **5,766** | **5,647** |

*The movement in gross life insurance contract liabilities can be analysed as follows:*

| **Insurance contract liabilities** | **2017 €m** | Restated[1] 2016 €m |
|---|---|---|
| At beginning of year | 10,458 | 9,833 |
| New business | 1,338 | 1,220 |
| Changes in existing business | (918) | (595) |
| **At end of year** | **10,878** | **10,458** |

Bank of Ireland Life writes the following life assurance contracts that contain insurance risk:

**Non-unit linked life assurance contracts**
These contracts provide the policyholder with insurance in the event of death, critical illness or permanent disability (principally mortality and morbidity risk).

**Non-unit linked annuity contracts**
These contracts provide the policyholder with an income until death (principally longevity and market risk).

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 42 Liabilities to customers under investment and insurance contracts (continued)

**Unit linked insurance contracts**
These contracts include both policies primarily providing life assurance protection and policies providing investment but with a level of insurance risk deemed to be significant (principally mortality and market risk).

Insurance contract liabilities, which consist of both unit linked and non-unit linked liabilities, are calculated based on recognised actuarial methods with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

Unit linked liabilities reflect the value of the underlying funds in which the policyholder is invested. Non-unit linked liabilities are calculated using either a gross premium or net premium method of valuation.

The key assumptions used in the valuation of insurance contract liabilities are:

***Interest rate:***
The interest rates used are based on risk free rates published by EIOPA in line with the Solvency II Directive.

***Mortality and morbidity:***
The mortality and morbidity assumptions, which include an allowance for improvements in longevity for annuitants, are set with regard to the Group's actual experience and / or relevant industry data.

***Maintenance expenses:***
Allowance is made for future policy costs and expense inflation explicitly.

**Options and guarantees**
The Group has a very limited range of options and guarantees in its business portfolio as the bulk of the business is unit linked without investment guarantees. Where investment guarantees do exist they are either hedged with an outside party or matched through appropriate investment assets.

**Uncertainties associated with insurance contract cash flows and risk management activities**
For life assurance contracts where death is the insured risk, the most significant factors that could adversely affect the frequency and severity of claims are the incidence of disease and general changes in lifestyle. Where the insured risk is longevity, advances in medical care is the key factor that increases longevity. The Group manages its exposures to insurance risks through a combination of applying strict underwriting criteria, asset and liability matching, transferring risk to reinsurers and the establishment of prudent insurance contract liabilities.

**Credit risk**
Reinsurance programmes are in place to restrict the amount of exposure on any single life. The Group uses a panel of highly rated reinsurance companies to diversify credit risk.

**Capital management and available resources**
The Solvency II framework came into full effect from 1 January 2016 and introduced new capital, risk management, governance and reporting requirements for all European insurance entities. Under Solvency II, insurance entities are required to hold technical provisions to meet liabilities to policyholders using best estimate assumptions plus a risk margin. In addition, entities are required to hold a risk based Solvency Capital Requirement (SCR) which is calculated by considering the capital required to withstand a number of shock scenarios.

As part of the new disclosure requirements, the Group's life assurance entity, NIAC, annually publishes a public document called the Solvency and Financial Condition Report (SFCR) setting out more detail on its solvency and capital management.

## 43 Other liabilities

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| Notes in circulation | 1,222 | 1,210 | - | - |
| Dividend payable to parent | 800 | - | 800 | - |
| Sundry creditors | 282 | 247 | 86 | 73 |
| Accrued interest payable | 204 | 245 | 95 | 102 |
| Accruals and deferred income | 151 | 148 | 52 | 43 |
| Finance lease obligations | 7 | 5 | 7 | 5 |
| Short position in trading securities | - | 47 | - | 47 |
| Other | 616 | 563 | 322 | 291 |
| **Other liabilities** | **3,282** | **2,465** | **1,362** | **561** |
| Other liabilities are analysed as follows: | | | | |
| Within 1 year | 3,160 | 2,356 | 1,309 | 526 |
| After 1 year | 122 | 109 | 53 | 35 |
| | **3,282** | **2,465** | **1,362** | **561** |

In December 2017, upon receipt of approval from the ECB, the Bank declared and approved a €1 billion dividend payable to its parent, BOIG plc. The Bank paid €200 million of this dividend in December 2017. As the dividend became a legally binding liability of the Bank upon its declaration and approval, the full amount of the dividend has been recognised by the Bank.

## 44 Provisions

| Group | Restructuring €m | Onerous contracts €m | Legal and other €m | Total €m |
|---|---|---|---|---|
| As at 1 January 2017 | 21 | 4 | 71 | 96 |
| Exchange adjustment | - | - | (1) | (1) |
| Charge to income statement | 51 | - | 173 | 224 |
| Utilised during the year | (52) | (1) | (58) | (111) |
| Unused amounts reversed during the year | - | (1) | (2) | (3) |
| **As at 31 December 2017** | **20** | **2** | **183** | **205** |

| Expected utilisation | Restructuring €m | Onerous contracts €m | Legal and other €m | Total €m |
|---|---|---|---|---|
| Less than 1 year | 15 | - | 179 | 194 |
| 1 to 2 years | 1 | 1 | 2 | 4 |
| 2 to 5 years | 3 | 1 | 1 | 5 |
| 5 to 10 years | 1 | - | 1 | 2 |
| **Total** | **20** | **2** | **183** | **205** |

| Bank | Restructuring €m | Onerous contracts €m | Legal and other €m | Total €m |
|---|---|---|---|---|
| As at 1 January 2017 | 21 | 4 | 39 | 64 |
| Exchange adjustment | - | - | - | - |
| Charge to income statement | 51 | - | 27 | 78 |
| Utilised during the year | (52) | (1) | (16) | (69) |
| Unused amounts reversed during the year | - | (1) | (2) | (3) |
| **As at 31 December 2017** | **20** | **2** | **48** | **70** |

| Expected utilisation | Restructuring €m | Onerous contracts €m | Legal and other €m | Total €m |
|---|---|---|---|---|
| Less than 1 year | 15 | - | 45 | 60 |
| 1 to 2 years | 1 | 1 | 1 | 3 |
| 2 to 5 years | 3 | 1 | 1 | 5 |
| 5 to 10 years | 1 | - | 1 | 2 |
| **Total** | **20** | **2** | **48** | **70** |

The Group has recognised provisions in relation to restructuring costs, onerous contracts, legal and other. Such provisions are sensitive to a variety of factors, which vary depending on their nature. The estimation of the amounts of such provisions is judgemental because the relevant payments are due in the future and the quantity and probability of such payments is uncertain.

The methodology and the assumptions used in the calculation of provisions are reviewed regularly and, at a minimum, at each reporting date. Of the €20 million provision for restructuring in Group and the Bank, €11 million relates to staff exits and €9 million relates to property and other costs.

During 2016, as part of the industry wide examination of tracker mortgages, the Group identified a number of accounts where a right to, or the option of, a tracker rate of interest was not provided to the customer in accordance with their loan agreement. The Group also identified a rate differential on a number of accounts already on a tracker rate of interest. At 31 December 2016, the Group had provided €25 million in respect of redress, compensation and costs associated with the examination (Bank: €6 million).

In 2017, the Group agreed to include an additional c.6,000 accounts within the scope of the compensation scheme. Of these additonal accounts, 5,400 were deemed impacted under the examination. A charge of €170 million has been recognised in the income statement to provide principally for the redress, compensation and costs relating to these additional impacted accounts. Of this amount, €96 million was recognised in Interest income (see note 4) and the remaining €74 million was charged to Operating expenses (see note 12).

The Group utilised €38 million of the provision during 2017, the majority of which related to the payment of redress and compensation to impacted customers. The Group expects that the majority of the remaining €158 million provision will be fully utilised within 12 months of the balance sheet date (Bank: €35 million).

The Group has made considerable progress in contacting impacted customers and advising them of their proposed redress and compensation. This therefore has largely informed the quantum of this element of the provision however there are still a number of uncertainties as to the eventual total cost of the examination.

Management has therefore exercised judgement to determine the appropriate provision in respect of certain key items in addition to the core elements of the redress and compensation to be paid to customers. These key judgemental items principally comprise the following:

- Appeals: Impacted customers can lodge appeals in the 12 months after receiving their letter offering redress and compensation. The appeals are considered by an independent appeals panel. In arriving at the provision, management has made estimates of the level of appeals and the associated costs of processing and settling such appeals.
- Loss of ownership cases: There are a small number of cases in which customers have lost ownership of their property as a direct result of the Group's actions. Management recognises the difficult nature of these cases and the fact that complex solutions will be required to appropriately compensate such customers. In determining the provision management has sought to estimate the volume and financial impact of these cases.
- Programme costs: In determining the provision in respect of the examination management has had to consider a range of costs associated with bringing the examination to an ultimate conclusion. This includes costs associated with the running of the appeals panel, tax liabilities that the Group will settle on behalf of customers, data system costs, tracing agents and various oversight and governance processes, including relating to the conclusion of the ongoing Central Bank of Ireland examination.

## 45 Retirement benefit obligations

The Group and Bank sponsor a number of DB and defined contribution schemes in Ireland and overseas. The DB schemes are funded and the assets of the schemes are held in separate trustee administered funds. In determining the level of contributions required to be made to each scheme and the relevant charge to the income statement the Group has been advised by independent actuaries, which in the case of the majority of the Group's schemes is Willis Towers Watson.

The most significant DB scheme in the Group is the Bank of Ireland Staff Pensions Fund (BSPF) which accounts for approximately 75% of the total liabilities across all Group sponsored DB schemes (80% of the total liabilities across all of the Bank DB schemes) at 31 December 2017. The BSPF and all of the Group's other RoI and UK DB schemes were closed to new members during 2007, and a new hybrid scheme (which included elements of DB and defined contribution) was introduced for new entrants to the Group. The hybrid scheme was subsequently closed to new entrants in late 2014 and a new defined contribution scheme, RetireWell, was introduced for new entrants to the Group from that date.

Retirement benefits under the BSPF and a majority of the other DB plans are calculated by reference to pensionable service and pensionable salary at normal retirement date.

**Regulatory Framework**
The Group operates the DB plans under broadly similar regulatory frameworks. Benefits under the BSPF are paid to members from a fund administered by Trustees, who are responsible for ensuring compliance with the Pensions Act 1990 and other relevant legislation. These responsibilities include ensuring that contributions are received, investing the scheme assets and making arrangements to pay the benefits. Plan assets are held in trusts and are governed by local regulations and practice in each country.

In order to assess the level of contributions required, triennial valuations are carried out with plan obligations generally measured using prudent assumptions and discounted based on the return expected from assets held in accordance with the actual scheme investment policy.

The BSPF is also subject to an annual valuation under the Irish Pensions Authority Minimum Funding Standard (MFS). The MFS valuation is designed to assess whether the scheme has sufficient funds to provide a minimum level of benefits in a wind-up scenario. If the MFS valuation indicates a funding level of below 100%, action would be required. This generally takes the form of agreeing a 'Funding Proposal' with the Trustees with the aim of meeting the MFS by a specified future point in time.

The responsibilities of the Trustees, and the regulatory framework, are broadly similar for the Group's other DB schemes and take account of pension regulations in each specific jurisdiction. The Group works closely with the Trustees of each scheme to manage the plans.

The nature of the relationship between the Group and the Trustees is governed by local regulations and practice in each country and by the respective legal documents underpinning each plan.

**Actuarial Valuation of the BSPF**
The last formal triennial valuation of the BSPF was carried out as at 31 December 2015.

The triennial valuation disclosed that the fair value of scheme assets represented 97% of the benefits that had accrued to members, after allowing for expected future increases in earnings and pensions. In respect of future service, the actuary recommended a joint employer / employee future service contribution rate, using the Attained Age method, of 23.4% (increased from 19.8% at the previous triennial valuation).

In addition to the future service contributions, the Group continues to make additional deficit-reducing contributions to the BSPF arising from the 2013 Group Pensions Review. During 2017, the Group accelerated the payment of €90 million of these additional contributions. Future deficit-reducing contributions arising from the 2013 Group Pensions Review in the form of cash or other suitable assets are estimated to be €140 million for the BSPF and are payable between 2018 and 2020.

The next formal triennial valuation of the BSPF will be carried out during 2019 based on the position at 31 December 2018.

The actuarial valuations are available for inspection by members but are not available for public inspection.

**Group UK pension scheme**
The Group UK Pension Scheme has a charge over a portfolio of Group assets with a value of €9 million in 2017 (2016: €19 million).

**Negative past service cost**
A negative past service cost of €nil, excluding the impact of restructuring, was recognised in 2017 (2016: €20 million).

**Settlements**
During 2017, the Group completed a liability management exercise which resulted in no gain or loss recognised in the income statement (2016: €1 million gain).

**Plan details**
The following table sets out details of the membership of the BSPF.

| BSPF plan details at last valuation date (31 December 2015) | Number of members | Proportion of funding liability |
|---|---|---|
| Active members | 5,961 | 35.9% |
| Deferred members | 8,087 | 27.1% |
| Pensioner members | 3,793 | 37.0% |
| **Total** | **17,841** | **100%** |

## 45 Retirement benefit obligations (continued)

*The significant financial assumptions used in measuring the Group's and Bank's defined benefit pension liability under IAS 19 are set out in the table below.*

| Financial assumptions | **2017 % p.a.** | 2016 % p.a. |
|---|---|---|
| **Irish schemes** | | |
| Discount rate | 2.10 | 2.20 |
| Inflation rate | 1.65 | 1.55 |
| Rate of general increase in salaries[1] | 2.15 | 2.05 |
| Rate of increase in pensions in payment[1] | 0.98 | 0.93 |
| Rate of increase to deferred pensions | 1.60 | 1.50 |
| **UK schemes** | | |
| Discount rate | 2.75 | 2.55 |
| Consumer Price Inflation | 2.20 | 2.40 |
| Retail Price Inflation | 3.20 | 3.40 |
| Rate of general increase in salaries[1] | 3.70 | 3.90 |
| Rate of increase in pensions in payment[1] | 2.16 | 2.27 |
| Rate of increase to deferred pensions | 2.20 | 2.40 |

**Financial and Demographic assumptions**
The assumptions used in calculating the accounting costs and obligations of the Group's DB pension plans, as detailed below, are set by the Directors after consultation with independent actuaries.

Discount rates are determined in consultation with the Group's independent actuary, with reference to market yields at the balance sheet date on high quality corporate bonds (AA rated or equivalent) with a term corresponding to the term of the benefit payments. During 2017, the Group refined its approach to the determination of the discount rate used to value sterling denominated liabilities under IAS 19, by adopting a more appropriate, recently developed model produced by the independent actuary and available to all its clients. The UK discount rate determined using this approach was 2.75%. For information, the discount rate under the previous approach would have been 2.40%, which if used, would have increased pension obligations by approximately €110 million and increased DTAs by approximately €14 million at 31 December 2017.

The assumption for RoI price inflation is informed by reference to the European Central Bank inflation target for eurozone countries, which is to maintain inflation at close to but below 2% per annum, and to the long-term expectation for eurozone inflation as implied by the difference between eurozone fixed interest and indexed linked bonds. The assumptions for UK price inflation are determined with reference to the Group's independent actuary's standard cash flow matching inflation assumption methodology, except for UK Consumer Price Index (CPI) inflation, which is set by reference to RPI inflation, with an adjustment applied, as there are insufficient CPI-linked bonds from which to derive an assumption.

The salary assumption takes into account inflation, promotion and current employment markets relevant to the Group. Other financial assumptions are reviewed in line with changing market conditions to determine best estimate assumptions. Demographic assumptions are reviewed periodically in line with the actual experience of the Group's schemes.

| Mortality assumptions | **2017 years** | 2016 years |
|---|---|---|
| **Longevity at age 70 for current pensioners** | | |
| Males | 17.7 | 17.6 |
| Females | 19.2 | 19.1 |
| **Longevity at age 60 for active members currently aged 60 years** | | |
| Males | 27.2 | 27.0 |
| Females | 29.0 | 28.9 |
| **Longevity at age 60 for active members currently aged 40 years** | | |
| Males | 29.6 | 29.5 |
| Females | 31.1 | 31.0 |

**Mortality assumptions**
The mortality assumptions adopted for Irish pension arrangements reflect both a base table and projected table developed from various Society of Actuaries in Ireland mortality investigations that are considered a best fit for the Group's expected future mortality experience.

[1] *Weighted average increase across all Group schemes.*

## 45 Retirement benefit obligations (continued)

**Amounts recognised in financial statements**

The table below outlines where the Group's DB plans are recognised in the financial statements:

| Group | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Irish Pension Plans €m** | **UK Pension Plans[1] €m** | **Total €m** | Irish Pension Plans €m | UK Pension Plans[1] €m | Total €m |
| **Income statement credit / (charge)** | | | | | | |
| - Other operating expenses | (99) | (26) | (125) | (97) | (21) | (118) |
| - Cost of restructuring programme | 1 | 2 | 3 | 3 | 1 | 4 |
| **Statement of other comprehensive income** | | | | | | |
| Impact of remeasurement | (203) | 76 | (127) | 249 | (65) | 184 |
| **Balance sheet obligations** | **(481)** | **3** | **(478)** | **(365)** | **(81)** | **(446)** |
| This is shown on the balance sheet as: | | | | | | |
| Retirement benefit obligation | | | (536) | | | (454) |
| Retirement benefit asset | | | 58 | | | 8 |
| **Total net liability** | | | **(478)** | | | **(446)** |

The table below outlines where the Bank's DB plans are recognised in the financial statements:

| Bank | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Irish Pension Plans €m** | **UK Pension Plans[1] €m** | **Total €m** | Irish Pension Plans €m | UK Pension Plans[1] €m | Total €m |
| **Balance sheet obligations** | **(387)** | **(9)** | **(396)** | **(267)** | **(83)** | **(350)** |
| This is shown on the balance sheet as: | | | | | | |
| Retirement benefit obligation | | | (442) | | | (356) |
| Retirement benefit asset | | | 46 | | | 6 |
| **Total net liability** | | | **(396)** | | | **(350)** |

[1] *The UK Pension Plans include a portion of the BSPF which relates to UK members.*

## 45 Retirement benefit obligations (continued)

The movement in the net DB obligation over the year in respect of the Group's DB plans is as follows:

| Group | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Present value of obligation €m** | **Fair value of plan assets €m** | **Surplus / (deficit) of plans €m** | Present value of obligation €m | Fair value of plan assets €m | Surplus / (deficit) of plans €m |
| **At 1 January** | **(7,738)** | **7,292** | **(446)** | **(7,548)** | **6,812** | **(736)** |
| Cost of restructuring programme | | | | | | |
| - Negative past service cost | 3 | - | 3 | 4 | - | 4 |
| Other operating expenses | (198) | 73 | (125) | (275) | 157 | (118) |
| *- Current service cost* | *(117)* | *-* | *(117)* | *(123)* | *-* | *(123)* |
| *- Negative past service cost* | *-* | *-* | *-* | *20* | *-* | *20* |
| *- Interest (expense) / income* | *(170)* | *162* | *(8)* | *(180)* | *164* | *(16)* |
| *- Impact of settlements* | *89* | *(89)* | *-* | *8* | *(7)* | *1* |
| Return on plan assets not included in income statement | - | (39) | (39) | - | 464 | 464 |
| Change in demographic assumptions | 15 | - | 15 | 4 | - | 4 |
| Change in financial assumptions | (103) | - | (103) | (406) | - | (406) |
| Experience gains | (5) | - | (5) | 61 | - | 61 |
| Employer contributions | - | 217 | 217 | - | 220 | 220 |
| *- Deficit-reducing[1]* | *-* | *124* | *124* | *-* | *128* | *128* |
| *- Other* | *-* | *93* | *93* | *-* | *92* | *92* |
| Employee contributions | (11) | 11 | - | (12) | 12 | - |
| Benefit payments | 252 | (252) | - | 210 | (210) | - |
| Changes in exchange rates | 59 | (54) | 5 | 224 | (163) | 61 |
| **At 31 December** | **(7,726)** | **7,248** | **(478)** | **(7,738)** | **7,292** | **(446)** |
| *The above amounts are recognised in the financial statements as follows: (charge) / credit* | | | | | | |
| Other operating expenses | (198) | 73 | (125) | (275) | 157 | (118) |
| Cost of restructuring programme | 3 | - | 3 | 4 | - | 4 |
| **Total amount recognised in income statement** | **(195)** | **73** | **(122)** | **(271)** | **157** | **(114)** |
| Changes in financial assumptions | (103) | - | (103) | (406) | - | (406) |
| Return on plan assets not included in income statement | - | (39) | (39) | - | 464 | 464 |
| Change in demographic assumptions | 15 | - | 15 | 4 | - | 4 |
| Changes in exchange rates | 59 | (54) | 5 | 224 | (163) | 61 |
| Experience gains | (5) | - | (5) | 61 | - | 61 |
| **Total remeasurements in other comprehensive income** | **(34)** | **(93)** | **(127)** | **(117)** | **301** | **184** |
| **Total Negative past service cost comprises** | | | | | | |
| Impact of restructuring programme | 3 | - | 3 | 4 | - | 4 |
| Other operating expenses | - | - | - | 20 | - | 20 |
| **Total** | **3** | **-** | **3** | **24** | **-** | **24** |

[1] *Deficit-reducing contributions consist principally of additional contributions related to the Group's Pensions Reviews.*

## 45 Retirement benefit obligations (continued)

The movement in the net DB obligation over the year in respect of the Bank's DB plans is as follows:

| **Bank** | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Present value of obligation €m** | **Fair value of plan assets €m** | **Surplus / (deficit) of plans €m** | Present value of obligation €m | Fair value of plan assets €m | Surplus / (deficit) of plans €m |
| **At 1 January** | **(7,283)** | **6,933** | **(350)** | **(7,074)** | **6,481** | **(593)** |
| Cost of restructuring programme | | | | | | |
| - Negative past service cost | 3 | - | 3 | 2 | - | 2 |
| Other operating expenses | (179) | 65 | (114) | (269) | 149 | (120) |
| *- Current service cost* | *(108)* | *-* | *(108)* | *(113)* | *-* | *(113)* |
| *- Negative past service cost* | *-* | *-* | *-* | *4* | *-* | *4* |
| *- Interest (expense) / income* | *(160)* | *154* | *(6)* | *(168)* | *156* | *(12)* |
| *- Impact of settlements* | *89* | *(89)* | *-* | *8* | *(7)* | *1* |
| Return on plan assets not included in income statement | - | (60) | (60) | - | 435 | 435 |
| Change in demographic assumptions | 14 | - | 14 | - | - | - |
| Change in financial assumptions | (91) | - | (91) | (386) | - | (386) |
| Experience gains | (7) | - | (7) | 42 | - | 42 |
| Employer contributions | - | 203 | 203 | - | 209 | 209 |
| *- Deficit-reducing[1]* | *-* | *118* | *118* | *-* | *123* | *123* |
| *- Other* | *-* | *85* | *85* | *-* | *86* | *86* |
| Employee contributions | (9) | 9 | - | (10) | 10 | - |
| Benefit payments | 237 | (237) | - | 197 | (197) | - |
| Changes in exchange rates | 58 | (52) | 6 | 215 | (154) | 61 |
| **At 31 December** | **(7,257)** | **6,861** | **(396)** | **(7,283)** | **6,933** | **(350)** |
| *The above amounts are recognised in the financial statements as follows: (charge) / credit* | | | | | | |
| Other operating expenses | (179) | 65 | (114) | (269) | 149 | (120) |
| Cost of restructuring programme | 3 | - | 3 | 2 | - | 2 |
| **Total amount recognised in income statement** | **(176)** | **65** | **(111)** | **(267)** | **149** | **(118)** |
| Changes in financial assumptions | (91) | - | (91) | (386) | - | (386) |
| Return on plan assets not included in income statement | - | (60) | (60) | - | 435 | 435 |
| Change in demographic assumptions | 14 | - | 14 | - | - | - |
| Changes in exchange rates | 58 | (52) | 6 | 215 | (154) | 61 |
| Experience gains | (7) | - | (7) | 42 | - | 42 |
| **Total remeasurements in other comprehensive income** | **(26)** | **(112)** | **(138)** | **(129)** | **281** | **152** |
| **Total Negative past service cost comprises** | | | | | | |
| Impact of restructuring programme | 3 | - | 3 | 2 | - | 2 |
| Other operating expenses | - | - | - | 4 | - | 4 |
| **Total** | **3** | **-** | **3** | **6** | **-** | **6** |

[1] *Deficit-reducing contributions are additional contributions related to the Group's Pensions Reviews.*

## 45 Retirement benefit obligations (continued)

The retirement benefit schemes' assets in Group and the Bank include BOIG plc shares amounting to €7 million (2016: €7 million) and one property occupied by Group companies to the value of €38 million (2016: €38 million).

| | Group | | Bank | |
|---|---|---|---|---|
| **Asset breakdown** | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| Liability Driven Investment (unquoted) | 2,272 | 2,300 | 2,272 | 2,300 |
| Equities (quoted) | 1,706 | 1,643 | 1,467 | 1,430 |
| Property (unquoted) | 648 | 541 | 621 | 516 |
| Corporate bonds (quoted) | 463 | 446 | 452 | 437 |
| Property and infrastructure (quoted) | 432 | 428 | 432 | 428 |
| Cash and other (quoted) | 382 | 423 | 369 | 405 |
| Government bonds (quoted) | 329 | 386 | 232 | 292 |
| Reinsurance (unquoted) | 254 | 299 | 254 | 299 |
| Senior secured loans (unquoted) | 285 | 297 | 285 | 297 |
| Private equities (unquoted) | 296 | 266 | 296 | 266 |
| Hedge funds (unquoted) | 181 | 263 | 181 | 263 |
| **Total fair value of assets** | **7,248** | **7,292** | **6,861** | **6,933** |

**Sensitivity of defined benefit obligation to key assumptions**
The table below sets out how the DB obligation would have been affected by changes in the significant actuarial assumptions that were reasonably possible.

| | Group | | Bank | |
|---|---|---|---|---|
| **Impact on defined benefit obligations** | **Impact on defined benefit obligation Increase / (decrease) 2017 €m** | Impact on defined benefit obligation Increase / (decrease) 2016 €m | **Impact on defined benefit obligation Increase / (decrease) 2017 €m** | Impact on defined benefit obligation Increase / (decrease) 2016 €m |
| **RoI schemes** | | | | |
| Discount rate | | | | |
| - Increase of 0.25% | (304) | (293) | (282) | (271) |
| - Decrease of 0.25% | 328 | 316 | 303 | 293 |
| Inflation rate | | | | |
| - Increase of 0.10% | 85 | 81 | 79 | 75 |
| - Decrease of 0.10% | (83) | (78) | (77) | (73) |
| Salary growth | | | | |
| - Increase of 0.10% | 29 | 26 | 25 | 23 |
| - Decrease of 0.10% | (28) | (24) | (24) | (21) |
| Life expectancy | | | | |
| - Increase of 1 year | 185 | 174 | 172 | 162 |
| - Decrease of 1 year | (184) | (172) | (172) | (161) |

## 45 Retirement benefit obligations (continued)

| Impact on defined benefit obligations | Group: **Impact on defined benefit obligation Increase / (decrease) 2017 €m** | Group: Impact on defined benefit obligation Increase / (decrease) 2016 €m | Bank: **Impact on defined benefit obligation Increase / (decrease) 2017 €m** | Bank: Impact on defined benefit obligation Increase / (decrease) 2016 €m |
|---|---|---|---|---|
| **UK schemes** | | | | |
| Discount rate | | | | |
| - Increase of 0.25% | (71) | (85) | (69) | (81) |
| - Decrease of 0.25% | 77 | 91 | 74 | 87 |
| RPI inflation | | | | |
| - Increase of 0.10% | 21 | 21 | 20 | 20 |
| - Decrease of 0.10% | (18) | (22) | (17) | (21) |
| Salary growth | | | | |
| - Increase of 0.10% | 3 | 4 | 3 | 3 |
| - Decrease of 0.10% | (3) | (4) | (3) | (4) |
| Life expectancy | | | | |
| - Increase of 1 year | 44 | 42 | 42 | 40 |
| - Decrease of 1 year | (44) | (42) | (42) | (40) |

| Impact on plan assets | Group: **Impact on plan assets increase / (decrease) 2017 €m** | Group: Impact on plan assets increase / (decrease) 2016 €m | Bank: **Impact on plan assets increase / (decrease) 2017 €m** | Bank: Impact on plan assets increase / (decrease) 2016 €m |
|---|---|---|---|---|
| **All schemes** | | | | |
| Sensitivity of plan assets to a movement in global equity markets with allowance for other correlated diversified asset classes | | | | |
| - Increase of 5.00% | 128 | 122 | 115 | 112 |
| - Decrease of 5.00% | (128) | (124) | (115) | (112) |
| Sensitivity of liability-matching assets to a 25bps movement in interest rates | | | | |
| - Increase of 0.25% | (271) | (217) | (267) | (214) |
| - Decrease of 0.25% | 287 | 231 | 283 | 227 |
| Sensitivity of liability-matching assets to a 10bps movement in inflation rates | | | | |
| - Increase of 0.10% | 74 | 48 | 74 | 48 |
| - Decrease of 0.10% | (73) | (48) | (72) | (48) |

The table above sets out the estimated sensitivity of plan assets to changes in equity markets, interest rates and inflation rates.

The sensitivity analysis is prepared by the independent actuaries calculating the DB obligation under the alternative assumptions and the fair value of plan assets using alternative asset prices.

While the DB obligation table above shows the estimated impact of an individual assumption change, a change in one assumption could impact on other assumptions due to the relationship between assumptions.

Some of the reasonably possible changes in DB obligation assumptions may have an impact on the value of the schemes' investment holdings. For example, the plans hold a proportion of their assets in corporate bonds. A fall in the discount rate as a result of lower corporate bond yields would be expected to lead to an increase in the value of these assets, thus partly offsetting the increase in the DB obligation. The extent to which these sensitivities are managed is discussed further below.

## 45 Retirement benefit obligations (continued)

**Future cash flows**
The plans' liabilities represent a long-term obligation and most of the payments due under the plans will occur several decades into the future.

The duration or average term to payment for the benefits due, weighted by liability for both the Group and Bank, is c.21 years for the Irish plans and c.21 years for the UK plans.

Expected employer contributions for 2018 are €121 million for the Group and €109 million for the Bank. This excludes any additional contributions arising from the 2013 Group Pensions Review. Future deficit-reducing contributions arising from the 2013 Group Pensions Review in the form of cash or other suitable assets are estimated to be €140 million for the BSPF and are payable between 2018 and 2020. Expected employee contributions for 2018 are €10 million for the Group and €9 million for the Bank.

**Risks and risk management**
The Group's DB pension plans have a number of areas of risk.

The risks are considered from both a funding perspective, which drives the cash commitments of the Group, and from an accounting perspective, i.e. the extent to which such risks affect the amounts recorded in the Group's financial statements.

Changes in bond yields, interest rate and inflation risks, along with equity risk, are the DB schemes' largest risks. From an accounting liability perspective, the schemes are also exposed to movements in corporate bond spreads. As part of its risk management, the largest Group sponsored pension scheme, the BSPF has invested 37% of its assets in a Liability Driven Investment (LDI) approach to help manage its interest rate and inflation risk.

The key areas of risk, and the ways in which the Group has sought to manage them, are set out below:

***Asset volatility***
The DB pension plans hold a significant proportion of their assets in equities and other return-seeking assets. The returns on such assets tend to be volatile. For the purposes of the triennial valuation, the DB liabilities are calculated using a discount rate set with reference to government bond yields, with allowance for additional return to be generated from the investment portfolio.

For measurement of the obligation in the financial statements under IAS 19, however, the DB obligation is calculated using a discount rate set with reference to high-quality corporate bond yields.

The movement in the asset portfolio is not fully correlated with the movement in the two liability measures and this means that the funding level is likely to be volatile in the short-term, potentially resulting in short-term cash requirements and an increase in the net DB deficit recorded on the balance sheet.

In order to limit the volatility in asset returns, the schemes' assets are well-diversified by investing in a range of asset classes, including listed equity, private equity, hedge funds, infrastructure, reinsurance, property, government bonds and corporate bonds. In Q1 2017, the level of both euro and sterling interest rate and inflation hedging was increased in the BSPF LDI portfolio to 75% of assets and a similar increase to 75% was executed for the Bank Affiliated Pension Fund in Q4. These changes are expected to reduce asset volatility and provide a better match to the fund's liabilities.

The investment in bonds is discussed further below.

***Changes in bond yields***
The LDI approach invests in cash, government bonds, interest rate and inflation swaps, and other financial derivatives to create a portfolio which is both inflation-linked and of significantly longer duration than possible in the physical bond market. It also provides a closer match to the expected timing of cash flow / pension payments. The portfolio broadly hedges against movements in long-term interest rates although it only hedges a portion of the BSPF's interest rate risks. Furthermore, the portfolio does not hedge against changes in the credit spread on corporate bonds used to derive the accounting liabilities. However, the investment in corporate and government bonds offers a further degree of matching, i.e. the movement in assets arising from changes in bond yields partially matches the movement in the funding or accounting liabilities. In this way, the exposure to movements in bond yields is further reduced.

***Inflation risk***
The majority of the plans' benefit obligations are linked to inflation and higher inflation will lead to higher liabilities, although in most cases caps on the level of inflationary increases are in place to protect the plans against high inflation and the 2013 Group Pensions Review changes have further limited this exposure. The LDI portfolio broadly hedges against movements in inflation expectations although it only hedges a portion of the BSPF's inflation risks.

Furthermore, the portfolio does not protect against differences between expectations for eurozone average inflation and the fund's Irish inflation exposure.

***Life expectancy***
The majority of the plans' obligations are to provide a pension for the life of the member, which means that increases in life expectancy will result in an increase in the plans' liabilities.

Investment decisions are the responsibility of the Trustees and the Group supports the efficient management of risk including through the appointment of a Group Pensions Chief Investment Officer. The role of Group Pensions Chief Investment Officer is to advise and support the Trustees of the Group sponsored pension schemes in the design, implementation and management of investment strategy to meet the various scheme liabilities. The duties include, but are not limited to, the identification and management of risks such as the risk of insufficient asset returns, changing interest rates, inflation, FX risk, counterparty exposures, geographical risk, asset concentration risk, liquidity risk, regulatory risk, manager risk and longevity risk.

## 46 Subordinated liabilities

| | Note | Group 2017 €m | Group 2016 €m | Bank 2017 €m | Bank 2016 €m |
|---|---|---|---|---|---|
| **Undated loan capital** | | | | | |
| ***The Governor and Company of the Bank of Ireland*** | | | | | |
| Stg£75 million 13⅜% Perpetual Subordinated Bonds | (a) | 85 | 89 | 85 | 89 |
| ***Bristol & West plc*** | | | | | |
| Stg£32.6 million 8⅛% Non-Cumulative Preference Shares | (b) | 37 | 38 | - | - |
| ***Bank of Ireland UK Holdings plc*** | | | | | |
| €600 million 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities | | - | 32 | - | - |
| | | **122** | **159** | **85** | **89** |
| **Dated loan capital** | | | | | |
| ***The Governor and Company of the Bank of Ireland*** | | | | | |
| €600 million Subordinated Floating Rate Notes 2027 | | - | 1 | - | 1 |
| €1,002 million 10% Fixed Rate Subordinated Notes 2020 | (c) | 222 | 229 | 222 | 229 |
| Stg£197 million 10% Fixed Rate Subordinated Notes 2020 | | 2 | 2 | 2 | 2 |
| €250 million 10% Fixed Rate Subordinated Notes 2022 | (d) | 264 | 270 | 264 | 270 |
| €750 million 4.25% Fixed Rate Subordinated Notes 2024 | (e) | 759 | 764 | 759 | 764 |
| Stg£300 million 3.425% Fixed Rate Reset Callable Subordinated Notes 2027 | (f) | 334 | - | 334 | - |
| US$500 million 4.425% Fixed Rate Reset Callable Subordinated Notes 2027 | (f) | 407 | - | 407 | - |
| | | **1,988** | **1,266** | **1,988** | **1,266** |
| **Total subordinated liabilities** | | **2,110** | **1,425** | **2,073** | **1,355** |
| *of which:* | | | | | |
| Due to BOIG plc | | 741 | - | 741 | - |

**Subordinated liabilities in issue at 31 December 2017**

*Undated loan capital*

The remaining €32 million of outstanding Bank of Ireland UK Holdings plc 7.40% Guaranteed Step-up Callable Perpetual Preferred Securities were redeemed and cancelled in June 2017.

The principal terms and conditions of the subordinated liabilities which were in issue by the Group and the Bank in 2017 are set out below:

*(a)* The 13⅜% Perpetual Subordinated Bonds were revalued as part of the fair value adjustments on the acquisition by Bristol & West plc of the business of Bristol & West Building Society in July 1997. The Bank became the issuer of these bonds in 2007 in connection with the transfer of the business of Bristol & West plc to the Bank.

*(b)* These preference shares, which are non-redeemable, non-equity shares, rank equally amongst themselves as regards participation in profits and in priority to the ordinary shares of Bristol & West plc. Holders of the preference shares are entitled to receive, in priority to the holders of any other class of shares in Bristol & West plc, a non-cumulative preference dividend at a fixed rate per annum payable in equal half yearly instalments in arrears on 15 May and 15 November each year. This preference dividend will only be payable to the extent that payment can be made out of profits available for distribution as at each dividend payment date in accordance with the provisions of the UK Companies Acts.

On 1 October 2007 in connection with the transfer of the business of Bristol & West plc to the Bank, the Bank entered into a Guarantee and Capital Maintenance Commitment (the Guarantee) with respect to the preference shares. Under the terms of the Guarantee, the liability of Bristol & West plc in relation to the ongoing payment of dividends and any repayment of capital in relation to the preference shares that remained following the transfer of business would be protected. Under the Guarantee, the Bank agreed, subject to certain conditions, to (i) contribute capital to Bristol & West plc to the extent required to ensure that Bristol & West plc has sufficient distributable reserves to pay the dividends on the preference shares and to the extent required, repay the preference share capital and (ii) guarantee Bristol & West plc's obligations to make repayment of the dividends and preference share capital.

The Guarantee contains provisions to the effect that the rights of the Bank's creditors under the Guarantee are subordinated to (i) unsubordinated creditors and debtors of the Bank and (ii) subordinated creditors of the Bank other than those whose claims rank, or are expressed to rank, pari passu or junior to the payments under the Guarantee.

*Dated loan capital*

Dated loan capital, which includes bonds and notes, constitute unsecured obligations of the Bank subordinated in right of payments to the claims of depositors and other unsubordinated creditors of the Bank and rank pari passu without any preference among themselves.

## 46 Subordinated liabilities (continued)

The table on the previous page provides a description of the dated loan capital, including:

- the currency of the issue;
- if the issue is fixed, floating or a combination of both; and
- maturity.

All of the dated notes in issue at 31 December 2017 were issued under the Bank's Euro Note Programme.

*(c)* ***€1,002 million 10% Fixed Rate Subordinated Notes 2020***
On 12 February 2010, the Bank issued 10 year fixed rate subordinated notes with a coupon rate of 10% and a maturity date of February 2020. The notes rank pari passu with all other dated subordinated debt.

*(d)* ***€250 million 10% Subordinated Debt 2022***
On 18 December 2012, the Bank issued 10 year fixed rate loan notes with a coupon rate of 10% and a maturity date of December 2022. The notes rank pari passu with all other dated subordinated debt.

*(e)* ***Fixed Rate Subordinated Notes 2024***
On 11 June 2014, the Bank issued a €750 million 10 year (callable at the end of year five) Tier 2 capital instrument. The bond carries a coupon of 4.25%. Following the implementation in Ireland of the European Union (Bank Recovery and Resolution) Regulations 2015, the instrument is loss absorbing at the point of non-viability. Redemption in whole but not in part is at the option of the Bank upon (i) Regulatory reasons (capital event), or (ii) Tax reasons (additional amounts payable on the Notes). Any redemption before the Maturity Date is subject to such approval by the Competent Authority as may be required by the Capital Requirements Regulation (CRR) and / or such other laws and regulations which are applicable to the Issuer.

*(f)* ***Sterling and US Dollar Subordinated fixed rate notes***
On 19 September 2017, the Bank completed a dual tranche issuance, of Stg£300 million and US$500 million 10 year (callable at the end of year five) Tier 2 capital instruments to its parent company, BOIG plc. The sterling bond has a coupon of 3.425% and the US dollar bond has a coupon on 4.425%. Following the implementation in Ireland of the European Union (Bank Recovery and Resolution) Regulations 2015, the instrument is loss absorbing at the point of non-viability and Noteholders acknowledge that the notes may be subject to the exercise of Irish statutory loss absorption powers by the relevant resolution authority. Redemption in whole but not in part is at the option of the Bank upon (i) regulatory reasons (capital event), or (ii) tax reasons (additional amounts payable on the notes). Any redemption before the maturity date is subject to such approval by the Competent Authority as may be required by the CRR and / or such other laws and regulations which are applicable to the Issuer.

## 47 Corporate reorganisation

**Establishment of new holding company, Bank of Ireland Group plc**
The Group announced in February 2017 that it had been notified by the Single Resolution Board (SRB) that the resolution authorities (being the SRB and the BoE working together within the Resolution College) had reached a joint decision on the resolution plan for the Group, being a single point of entry bail-in strategy at a holding company level. The Group subsequently announced that the reorganisation would be implemented by a scheme of arrangement under the Companies Act 2014 (the 'Scheme').

On 28 April 2017, the ordinary stockholders of the Bank approved the resolutions necessary to implement the corporate reorganisation and on 23 June 2017 the High Court approved the Scheme.

The Scheme became effective on 7 July 2017 and, as a result, BOIG plc became the new parent entity of the Bank on that date.

Holders of ordinary stock in the Bank on 7 July 2017 were issued with BOIG plc shares on the basis of the exchange ratio of one BOIG plc share for each individual holding of 30 units of ordinary stock in the Bank (which included a rounding up mechanism).

## 48 Capital stock

| Authorised - Group and Bank | **2017** | 2016 |
|---|---|---|
| **Eur€** | **€m** | €m |
| 90 billion units of ordinary stock of €0.05 each | 4,500 | 4,500 |
| 228 billion units of deferred stock of €0.01 each | 2,280 | 2,280 |
| 100 million units of non-cumulative preference stock of €1.27 each | 127 | 127 |
| 100 million units of undesignated preference stock of €0.25 each | 25 | 25 |
| 3.5 billion units of non-cumulative 2009 Preference Stock of €0.01 each | 35 | 35 |
| **Stg£** | **£m** | £m |
| 100 million units of non-cumulative preference stock of Stg£1 each | 100 | 100 |
| 100 million units of undesignated preference stock of Stg£0.25 each | 25 | 25 |
| **US$** | **$m** | $m |
| 8 million units of non-cumulative preference stock of US$25 each | 200 | 200 |
| 100 million units of undesignated preference stock of US$0.25 each | 25 | 25 |

| | **Group** | | **Bank** | |
|---|---|---|---|---|
| **Allotted and fully paid** | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| 32.363 billion units of ordinary stock of €0.05 each (2016 Group: 32.337 billion units, Bank: 32.363 billion units) | 1,618 | 1,616 | 1,618 | 1,617 |
| Nil units of deferred stock of €0.01 each (2016: 91.981 billion units) | - | 920 | - | 920 |
| Nil units of treasury stock of €0.05 each (2016 Group: 48.752 million units, Bank: 22.009 million units) | - | 2 | - | 1 |
| 1.9 million units of non-cumulative preference stock of Stg£1 each | 3 | 3 | 3 | 3 |
| 3.0 million units of non-cumulative preference stock of €1.27 each | 4 | 4 | 4 | 4 |
| | **1,625** | **2,545** | **1,625** | **2,545** |

As outlined in note 47, the Group undertook a corporate reorganisation during the year whereby BOIG plc became the parent company of the Bank.

**Ordinary Stock**
Upon the effectiveness of the Scheme (7 July 2017), all of the ordinary stock with nominal value of €0.05 of the Bank (with the exception of one unit of 'Designated Stock' issued to BOIG plc on 3 April 2017 (at a subscription price of €0.05 and market value on that date of €0.226), any 'Transfer Stock' and the Treasury Stock, in each case as defined in the Scheme documentation) was cancelled and extinguished without reducing the authorised capital stock of the Bank. 32,363,275,073 new units of ordinary stock with nominal value of €0.05 each were then allotted and issued, credited as fully paid, to BOIG plc. Accordingly, upon the effectiveness of the Scheme, all of the units of ordinary stock with nominal value of €0.05 each were held by BOIG plc. The ownership of the remaining capital stock of the Bank was unchanged as a result of the Scheme.

All units of ordinary stock carry the same voting rights.

There were no outstanding options on units of ordinary stock under employee schemes as at 31 December 2017 or 2016.

**Own stock held by New Ireland Assurance Company plc**
As at 31 December 2017, New Ireland Assurance Company plc held no units of ordinary stock as 'own shares' (2016: 26,743,037 units). As at 31 December 2017, the consideration paid for these shares amounted to €nil (2016: €10.9 million).

**Treasury Stock**
Immediately upon the effectiveness of the Scheme, the Bank cancelled all 22,008,690 units of ordinary stock with nominal value of €0.05 each held in treasury in accordance with section 109(6)(a) of the Companies Act. In addition, 91,860,116 units of own stock issued by the Bank and held for the benefit of life assurance policyholders were also cancelled and replaced by shares in BOIG plc as described above.

**Deferred stock**
Immediately upon the effectiveness of the Scheme, the Bank acquired all of the 90.682 billion units of deferred stock with a nominal value of €0.01 each in issue, which were not held by the Bank in treasury, for no consideration and immediately cancelled all units of stock in issue in accordance with the Bye-laws of the Bank. The Bank held a further 1.299 billion units of deferred stock in treasury as at the effective date of the Scheme which were cancelled based on Court resolutions passed on 29 June 2017.

As at 31 December 2017, the total authorised deferred stock was 228 billion units at a par value of €0.01 per unit.

The deferred stock in issue had no voting or dividend rights and, on a winding up of, or other return of capital (other than on a redemption of stock of any class in the capital of the Bank) by the Bank, the deferred stockholders would have been entitled to receive the amount paid up or credited as paid up on such unit of deferred stock only after ordinary stockholders had received, in aggregate, any amounts paid up or credited as paid

## 48 Capital stock (continued)

up on those units of ordinary stock held by them at that time, plus €10 million in cash per unit of €0.05 ordinary stock, the purpose of which was to ensure that the units of deferred stock had no economic value.

The deferred stock in issue was not transferable at any time, other than with the prior written consent of the Directors. At the appropriate time, the Bank was able to redeem or repurchase the deferred stock in issue, make an application to the High Court of Ireland for the deferred stock to be cancelled, or acquire, cancel or seek the surrender of the deferred stock (in each case for no consideration) using such other lawful means as the Directors may have determined.

**Preference stock - Stg£1 each and €1.27 each**
As at 31 December 2017 and 2016, 1,876,090 units of sterling preference stock and 3,026,598 units of euro preference stock were in issue.

The preference stock is non-redeemable. The holders of preference stock are entitled to receive at the discretion of the Bank a non-cumulative preferential dividend, which in the case of the sterling preference stock is payable in sterling, in a gross amount of Stg£1.2625 per unit per annum and in the case of euro preference stock is payable in euro in a gross amount of €1.523686 per unit per annum, in equal semi-annual instalments, in arrears, on 20 February and 20 August in each year. On a winding up of, or other return of capital, by the Bank (other than on a redemption of stock of any class in the capital of the Bank) the holders of preference stock will be entitled to receive an amount equal to the amount paid up or credited as paid up on each unit of the preference stock held (including the premium) out of the surplus assets available for distribution to the Bank's members. Subject to the Bank's Bye-Laws, the preference stockholders may also be entitled to receive a sum in respect of dividends payable.

The preference stockholders are not entitled to vote at any General Court except in certain exceptional circumstances. Such circumstances did not arise during 2017 and consequently the preference stockholders were not entitled to vote at the Annual General Court (AGC) held on 28 April 2017.

| **Group** | **Ordinary stock** | | **Treasury stock** | |
|---|---|---|---|---|
| **Movements in ordinary and treasury stock (units)** | **2017** | 2016 | **2017** | 2016 |
| At beginning of year | 32,336,532,036 | 32,345,699,711 | 48,751,727 | 39,584,052 |
| Stock sold / (purchased) and held for the benefit of life assurance policyholders | (65,117,079) | (9,167,675) | 65,117,079 | 9,167,675 |
| Impact of corporate reorganisation | 91,860,117 | - | (113,868,806) | - |
| *- Issuance of Designated Stock to BOIG plc* | *1* | - | - | - |
| *- Cancellation of Capital Stock* | *(32,271,414,957)* | - | *(91,860,116)* | - |
| *- Cancellation of Treasury Stock* | - | - | *(22,008,690)* | - |
| *- Issue of Capital Stock to BOIG plc* | *32,363,275,073* | - | - | - |
| **At end of year** | **32,363,275,074** | **32,336,532,036** | **-** | **48,751,727** |

| **Bank** | **Ordinary stock** | | **Treasury stock** | |
|---|---|---|---|---|
| **Movements in ordinary and treasury stock (units)** | **2017** | 2016 | **2017** | 2016 |
| At beginning of year | 32,363,275,073 | 32,363,275,073 | 22,008,690 | 22,008,690 |
| Impact of corporate reorganisation | 1 | - | (22,008,690) | - |
| *- Issuance of Designated Stock to BOIG plc* | *1* | - | - | - |
| *- Cancellation of Capital Stock* | *(32,363,275,073)* | - | - | - |
| *- Cancellation of Treasury Stock* | - | - | *(22,008,690)* | - |
| *- Issue of Capital Stock to BOIG plc* | *32,363,275,073* | - | - | - |
| **At end of year** | **32,363,275,074** | **32,363,275,073** | **-** | **22,008,690** |

## 49 Other equity instruments - Additional tier 1

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| Balance at the beginning of the year | 740 | 740 | 740 | 740 |
| **Balance at the end of the year** | **740** | **740** | **740** | **740** |

In June 2015, the Bank issued AT1 securities with a par value of €750 million at an issue price of 99.874%.

In 2017, the Group paid €55 million relating to the coupons on its AT1 securities (2016: €83 million). A deferred tax credit of €7 million was recognised by the Group in respect of this payment. The net reduction in the equity of €48 million has been recognised directly in stockholders' equity.

The principal terms of the AT1 securities are as follows:

- the securities constitute direct, unsecured and subordinated obligations of the Bank, rank behind Tier 2 instruments, pari passu with preference shareholders and in priority to ordinary shareholders;
- the securities bear a fixed rate of interest of 7.375% until the first call date (on 18 June 2020). After the initial call date, in the event that they are not redeemed, the AT1 securities will bear interest at rates fixed periodically in advance for five-year periods based on market rates at that time;
- the Bank may elect at its sole and full discretion to cancel (in whole or in part) the interest otherwise scheduled to be paid on any interest payment date;
- the securities have no fixed redemption date, and the security holders will have no right to require the Bank to redeem or purchase the securities at any time;
- the Bank may, in its sole and full discretion but subject to the satisfaction of certain conditions elect to redeem all (but not some only) of the securities on the initial call date or semi-annually on any interest payment date thereafter. In addition, the AT1 securities are repayable, at the option of the Bank, due to certain regulatory or tax reasons. Any repayments require the prior consent of the regulatory authorities;
- the securities will be written down together with any accrued but unpaid interest if the Group's CET 1 ratio or the Bank's CET 1 ratio (calculated on an individual consolidated basis) falls below 5.125%; and
- subsequent to any write-down event the Bank may, at its sole discretion, write-up some or all of the written-down principal amount of the AT1 instrument provided regulatory capital requirements and certain conditions are met.

## 50 Cash and cash equivalents

*For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:*

| Group | **2017 €m** | 2016 €m |
|---|---|---|
| Cash and balances at central banks | 7,379 | 5,192 |
| Loans and advances to banks (with an original maturity of less than 3 months) | 2,822 | 3,107 |
| **Cash and cash equivalents** | **10,201** | **8,299** |

*Cash and balances at central banks is made up as follows:*

| | **2017 €m** | 2016 €m |
|---|---|---|
| Republic of Ireland (Central Bank of Ireland) | 4,137 | 3,032 |
| United Kingdom (Bank of England) | 2,190 | 1,506 |
| United States (Federal Reserve) | 668 | 328 |
| Other (cash holdings) | 384 | 326 |
| **Total** | **7,379** | **5,192** |

The Group's cash and cash equivalents comprise cash in hand and balances with central banks and banks which can be withdrawn on demand. It also comprises balances with an original maturity of less than three months.

Cash and cash equivalents for the Group in 2017 increased by €1,902 million during the year despite a decrease of €159 million due to the effect of foreign currency exchange translation (2016: decrease of €2,676 million including a decrease of €873 million due to the effect of foreign currency translation).

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## 51 Changes in liabilities arising from financing activities

| Group | Subordinated liabilities €m | Interest on subordinated liabilities €m | Dividend on ordinary stock €m |
|---|---|---|---|
| At beginning of year | 1,425 | 39 | - |
| Dividend declared on ordinary stock | - | - | 1,000 |
| Cash flows | | | |
| - Proceeds from issue of subordinated liabilities | 753 | - | - |
| - Repayment of subordinated liabilities | (32) | - | - |
| - Interest paid on subordinated liabilities | - | (88) | - |
| - Dividend on ordinary stock paid in cash | - | - | (200) |
| Other non-cash changes | | | |
| - Charge to income statement | - | 98 | - |
| - Fair value hedge adjustments | (20) | - | - |
| - Exchange adjustments | (19) | - | - |
| - Other movements | 3 | - | - |
| **At end of year** | **2,110** | **49** | **800** |

This table sets out the changes in liabilities arising from financing activities between cash and non-cash items.

For more information on subordinated liabilities, see note 46. Interest accrued on subordinated liabilities is included within other liabilities.

## 52 Related party transactions

A number of banking transactions are entered into by the Bank with its subsidiaries and parent in the normal course of business. These include extending secured and unsecured loans, investing in debt securities issued by subsidiaries, taking of deposits and undertaking foreign currency transactions.

***(a) Bank of Ireland (UK) plc***

The Bank guarantees amounts owing by Bank of Ireland (UK) plc to the Bank of England and its subsidiary, The Bank of England Asset Purchase Facility Fund Limited.

***(b) Associates, joint ventures and joint operations***

The Group provides to and receives from its associates, joint ventures and joint operations certain banking and financial services, which are not material to the Group, on similar terms to third party transactions. These include loans, deposits and foreign currency transactions. The amounts outstanding during 2017 are set out in notes 30 and 31.

***(c) Pension funds***

The Group provides a range of normal banking and financial services, which are not material to the Group, to various pension funds operated by the Group for the benefit of its employees (principally to the Bank of Ireland Staff Pensions Fund (BSPF)), which are conducted on similar terms to third party transactions. Details on the Group's contributions to the pension funds are set out in note 45.

The Group occupies one property owned by the Group's pension schemes. At 31 December 2017, the value of this property was €38 million (2016: €38 million). In 2017, the rental income paid to the Group's pension schemes was €2 million (2016: €2 million).

The Group UK Pension Scheme has a charge over a portfolio of Group assets with a value of €9 million in 2017 (2016: €19 million).

At 31 December 2017, the Group's pension schemes assets included BOIG plc shares amounting to €7 million (2016: €7 million).

***(d) Transactions with the State***

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

Details of individually or collectively significant transactions with the State and entities under its control or joint control are set out in note 53.

***(e) Transactions with Directors and Key Management Personnel***

*(i) Loans to Directors*

The following information is presented in accordance with the Companies Act 2014. For the purposes of the Companies Acts disclosures, Directors means the Court of Directors, any past Directors who were Directors during the relevant period and Directors of the parent company, Bank of Ireland Group plc.

Directors' emoluments are provided within this note.

Where no amount is shown in the tables below, this indicates either a credit balance, a balance of €nil, or a balance of less than €500. The value of arrangements at the beginning and end of the financial year as stated below in accordance with Section 307 of the Companies Act 2014, expressed as a percentage of the net assets of the Group at the beginning and end of the financial year is less than 1%.

## 52 Related party transactions (continued)

| Group<br>Companies Acts disclosure<br>Loans | Balance as at 1 January 2017[1] €'000 | Balance as at 31 December 2017[1] €'000 | Aggregate maximum amount outstanding during the year ended 31 December 2017[2] €'000 | Repayments during the year ended 31 December 2017[3] €'000 |
|---|---|---|---|---|
| **Directors at 31 December 2017** | | | | |
| **A Keating** | | | | |
| Credit card total[4] | 1 | - | 5 | - |
| **Total** | **1** | **-** | **5** | **-** |
| **P Kennedy** | | | | |
| Mortgages total | 2,991 | 2,981 | 2,991 | 29 |
| Credit card total | 4 | 1 | 14 | - |
| Current account total | - | - | 1 | - |
| **Total** | **2,995** | **2,982** | **3,006** | **29** |
| **F Muldoon** | | | | |
| Mortgage total | 165 | 135 | 165 | 36 |
| Credit card total | 6 | 9 | 11 | - |
| **Total** | **171** | **144** | **176** | **36** |
| **P Mulvihill** | | | | |
| Credit card total | - | - | - | - |
| Current account total | - | - | - | - |
| **Total** | **-** | **-** | **-** | **-** |
| **Directors no longer in office at 31 December 2017** | | | | |
| **R Boucher** | | | | |
| Mortgage total | 16 | - | 16 | 16 |
| Credit card total | 1 | - | 4 | - |
| **Total** | **17** | **-** | **20** | **16** |
| **T Considine** *(resigned 31 December 2017)* | | | | |
| Credit card total | 2 | 1 | 4 | - |
| **Total** | **2** | **1** | **4** | **-** |

K Atkinson, P Butler (resigned 31 December 2017), R Goulding, P Haren, A Kane, D Marston, B Martin (resigned 28 April 2017) and F McDonagh had no loans from the Group in 2017. F McDonagh had a mortgage facility for €985,000 approved during the year, which was not drawn down. No advances were made during the year. No amounts were waived during 2017.

S Crowe and B Kealy were Directors of BOIG plc, the Bank's parent company, during the year ended 31 December 2017, with both resigning on 23 March 2017. As this was prior to the date of the corporate reorganisation, neither was a Director of BOIG plc while it was the parent company of the Bank. S Crowe had no loans from the Group in 2017. B Kealy had loans of €536,037 outstanding at 1 January 2017 and €446,648[1] at 31 December 2017, with mortgage repayments[3] of €113,052 during the year and no amounts were waived.

There are no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon in 2017 (2016: €nil). There is no interest which having fallen due on the above loans has not been paid in 2017 (2016: €nil).

All Directors except T Considine (resigned 31 December 2017) have other transactions with the Bank. The nature of these transactions includes investments, pension funds, deposits, general insurance, life assurance and current accounts with credit balances. The relevant balances on these accounts are included in the aggregate figure for deposits on page 139.

Other than as indicated, all loans to Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons unconnected with the Group and of similar financial standing and do not involve more than normal risk of collectability.

1 *Balances include principal and interest.*
2 *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid only.*
3 *Repayments include principal and interest; revolving credit facilities are not included.*
4 *On terms, including interest rates and collateral, similar to those available to staff generally.*

## 52 Related party transactions (continued)

| Group<br>Companies Acts disclosure<br>Loans | Balance as at 1 January 2016[1] €'000 | Balance as at 31 December 2016[1] €'000 | Aggregate maximum amount outstanding during the year ended 31 December 2016[2] €'000 | Repayments during the year ended 31 December 2016[3] €'000 |
|---|---|---|---|---|
| Directors at 31 December 2016 | | | | |
| R Boucher | | | | |
| Mortgage total | 49 | 16 | 49 | 33 |
| Other loans total | 181 | - | 181 | 183 |
| Credit card total | 9 | 1 | 15 | - |
| Total | 239 | 17 | 245 | 216 |
| T Considine | | | | |
| Credit card total | 1 | 2 | 4 | - |
| Total | 1 | 2 | 4 | - |
| A Keating | | | | |
| Credit card total[4] | 1 | 1 | 6 | - |
| Total | 1 | 1 | 6 | - |
| P Kennedy | | | | |
| Mortgages total | 3,002 | 2,991 | 3,001 | 30 |
| Credit card total | 6 | 4 | 7 | - |
| Current account total | - | - | - | - |
| Total | 3,008 | 2,995 | 3,008 | 30 |
| F Muldoon | | | | |
| Mortgage total | 188 | 165 | 187 | 29 |
| Credit card total | 5 | 6 | 11 | - |
| Current account total | - | - | - | - |
| Total | 193 | 171 | 198 | 29 |
| P Mulvihill | | | | |
| Credit card total | - | - | - | - |
| Current account total | - | - | - | - |
| Total | - | - | - | - |

K Atkinson, P Butler, P Haren, A Kane, D Marston and B Martin had no loans from the Group during 2016. No advances were made to any Director during the year. No amounts were waived during 2016.

[1] *Balances include principal and interest.*
[2] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid only.*
[3] *Repayments include principal and interest; revolving credit facilities are not included.*
[4] *On terms, including interest rates and collateral, similar to those available to staff generally.*

## 52 Related party transactions (continued)

*(ii) Loans to connected persons on favourable terms*

| Group<br>2017<br>**Loans to connected persons[1] on favourable terms[2]** | **Balance as at 31 December 2017[3] €'000** | **Maximum amounts outstanding during 2017[4] €'000** | **Number of persons as at 31 December 2017** | **Maximum number of persons during 2017** |
|---|---|---|---|---|
| Directors no longer in office at 31 December 2017 | | | | |
| R Boucher | - | 1 | 1 | 1 |

There were no loans to connected persons, as defined by Section 220 of the Companies Act 2014, on favourable terms as at 31 December 2016.

*(iii) Loans to connected persons - Central Bank licence condition disclosures*
Under its banking licence, the Bank is required to disclose in its annual audited financial statements details of:

- the aggregate amount of lending to all connected persons, as defined in Section 220 of the Companies Act 2014; and
- the aggregate maximum amount outstanding during the year for which those financial statements are being prepared.

Disclosure is subject to certain de minimis exemptions and to exemptions for loans relating to principal private residences where the total of such loans to an individual connected person does not exceed €1 million.

The following information is presented in accordance with this licence condition.

| **Group**<br>**2017**<br>**Connected persons[1] of the following Directors** | **Balance as at 31 December 2017[3] €'000** | **Maximum amounts outstanding during 2017[4] €'000** | **Number of persons as at 31 December 2017** | **Maximum number of persons during 2017** |
|---|---|---|---|---|
| Persons connected to P Butler *(resigned 31 December 2017)* | 184 | 404 | 1 | 1 |
| Persons connected to P Kennedy | 1,651 | 1,733 | 1 | 1 |
| Persons connected to F Muldoon | 444 | 754 | 1 | 1 |
| 2016<br>Connected persons[1] of the following Directors | Balance as at 31 December 2016[3] €'000 | Maximum amounts outstanding during 2016[4] €'000 | Number of persons as at 31 December 2016 | Maximum number of persons during 2016 |
| Persons connected to P Butler | 404 | 434 | 1 | 1 |
| Persons connected to P Kennedy | 1,726 | 1,810 | 1 | 1 |
| Persons connected to F Muldoon | 307 | 332 | 1 | 1 |

*(iv) Key management personnel (KMP) - loans and deposits (IAS 24)*
For the purposes of IAS 24 'Related party disclosures', the Group has 25 KMPs (2016: 22) which comprise the Directors of the Court, the members of the Group Executive Committee (GEC), the Group Secretary and any past KMP who was a KMP during the relevant period. In addition to Executive Directors, the GEC comprises the Head of Group Strategy Development, Group Treasurer, Chief Executive, Retail (UK) and Interim Chief Executive, Retail Ireland, Chief Operating Officer, Chief Governance Risk Officer, Chief Credit and Market Risk Officer, Interim Head of Group Human Resources and Chief Executive, Corporate and Treasury Division. Key management personnel, including Directors, hold products with Group companies in the ordinary course of business.

[1] *Connected persons of Directors are defined by Section 220 of the Companies Act 2014.*
[2] *Terms similar to those available to staff generally.*
[3] *Balance includes principal and interest.*
[4] *These figures include credit card exposures at the maximum statement balance. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*

## 52 Related party transactions (continued)

Other than as indicated, all loans to Non-executive Directors are made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for similar transactions with other persons, and do not involve more than the normal risk of collectability. Loans to key management personnel other than Non-executive Directors are made on terms similar to those available to staff generally and / or in the ordinary course of business on normal commercial terms.

The aggregate amounts outstanding, in respect of all loans, quasi-loans and credit transactions between the Bank and its KMP, as defined above, together with members of their close families and entities influenced by them are shown in the following table.

**Group**

| **IAS 24 Disclosures**<br>**2017**<br>**Key management personnel** | **Balance as at 1 January 2017[1,2] €'000** | **Balance as at 31 December 2017[1] €'000** | **Maximum amounts outstanding during 2017[3] €'000** | **Total number of relevant KMP as at 1 January 2017** | **Total number of relevant KMP as at 31 December 2017** |
|---|---|---|---|---|---|
| Loans | 6,092 | 6,031 | 6,655 | 16 | 16 |
| Deposits | 4,743 | 6,605 | 14,544 | 21 | 24 |

| 2016<br>Key management personnel | Balance as at 1 January 2016[1,2] €'000 | Balance as at 31 December 2016[1] €'000 | Maximum amounts outstanding during 2016[3] €'000 | Total number of relevant KMP as at 1 January 2016 | Total number of relevant KMP as at 31 December 2016 |
|---|---|---|---|---|---|
| Loans | 5,907 | 6,092 | 6,777 | 16 | 16 |
| Deposits | 5,829 | 4,743 | 29,936 | 21 | 21 |

KMP have other protection products with the Bank. The nature of these products includes mortgage protection, life assurance and critical illness cover. It also includes general insurance products which are underwritten by a number of external insurance companies and for which the Bank acts as an intermediary only. None of these products has any encashment value at 31 December 2017 or 31 December 2016.

Included in the above IAS 24 loan disclosure figures are loans to key management personnel and close family members of KMP on preferential staff rates, amounting to €31,847 (2016: €35,452).

There are no provisions or expenses in respect of any failure or anticipated failure to repay any of the above loans or interest thereon.

There are no guarantees entered into by the Bank in favour of KMP of the Bank and no guarantees in favour of the Bank have been entered into by the KMP of the Bank.

*(v) Compensation of KMP*

Details of compensation paid to KMP are provided below:

**Group**

| **Remuneration** | **2017 €'000** | 2016 €'000 |
|---|---|---|
| Salaries and other short-term benefits[4] | 8,372 | 7,246 |
| Post employment benefits[5] | 886 | 869 |
| Termination benefits[6] | 401 | - |
| **Total** | **9,659** | **8,115** |
| Number of KMP | 25 | 22 |

*[1] Balance includes principal and interest.*

*[2] The opening balance includes balances and transactions with KMP who retired during 2016 and are not related parties during 2017. Therefore these KMPs are not included in the maximum amounts outstanding.*

*[3] These figures include credit card exposures at the maximum statement balance. In all cases key management personnel have not exceeded their approved limits. The maximum approved credit limit on any credit card held by key management personnel is €30,000. The maximum amount outstanding was calculated using the maximum balance on each account. The highest maximum outstanding liability for any member of key management personnel, close family and entities influenced by them did not exceed €3.1 million during 2017 (2016: €3.1 million). In some cases with investment type products (i.e. funds based products, life assurance and other policies) the maximum balance amounts were not available, in which case the greater of the balance at the start of the year and the balance at the end of the year has been included as the maximum balance amount. While the closing balance includes interest accrued and interest paid, the maximum balance includes interest paid.*

*[4] Comprises gross salary, Employer Pay Related Social Insurance contributions, fees, cash in lieu of pension, car allowance and other short-term benefits paid in the year.*

*[5] This comprises Employer contributions paid to pension funds.*

*[6] These include, inter alia, contractual payments due in lieu of notice periods.*

## 52 Related party transactions (continued)

| Group | 2017 €'000 | 2016 €'000 |
|---|---|---|
| Fees | 802 | 804 |
| Other emoluments | 2,026 | 1,780 |
| Post employment benefits[1] | | |
| - Defined benefit plans | 285 | 279 |
| - Defined contribution plans | 8 | 8 |
| **Total Directors' remuneration** | **3,121** | **2,871** |

*(vi) Directors' remuneration*
Details of Director's remuneration are provided in this table. No other fees or bonuses were paid to Directors during 2017 (2016: €nil). No stock options were granted or exercised during 2017 (2016: €nil).

## 53 Summary of relations with the State

The Group considers that the State is a related party under IAS 24 as it is in a position to exercise significant influence over the Group.

A relationship framework between the Minister for Finance and the Bank has been in place since 30 March 2012. The purpose of this framework is to provide the basis on which the relationship shall be governed. This framework is available on the Department of Finance website.

*(a) Ordinary shares*
At 31 December 2017, the State held through the Ireland Strategic Investment Fund (ISIF) 13.95% of the ordinary shares of BOIG plc (2016: 13.95% of the capital stock of the Bank).

*(b) Guarantee schemes*
*Credit Institutions (Eligible Liabilities Guarantee) Scheme 2009 (ELG Scheme)*
The ELG Scheme ended for all new liabilities on 28 March 2013. After this date no new liabilities were guaranteed under the ELG Scheme. All qualifying deposits and other liabilities made up to the date of expiry of the ELG Scheme continued to be covered until the date of maturity of the deposit or liability. A fee was payable in respect of each liability guaranteed under the ELG Scheme. The Group no longer has any guaranteed liabilities for the purposes of the ELG Scheme and no fees were payable in respect of year ended 2017(2016: €20 million).

Although the Group no longer has any guaranteed liabilities under the ELG Scheme, the ELG Scheme shall continue to exist until terminated by the Minister for Finance. Pending that termination, the Bank, BoIMB and Bank of Ireland (UK) plc continue to be bound by the terms of the ELG Scheme including the provision of certain covenants and an indemnity for the costs of the ELG Scheme in favour of the Minister pursuant to the Scheme documents of the ELG Scheme.

*European Communities (Deposit Guarantee Schemes) Regulations 2015*
Details of the deposits protected by these schemes are set out in note 40.

*(c) National Asset Management Agency Investment Limited (NAMAIL)*
The Group, through its wholly-owned subsidiary NIAC, holds 17 million B shares in NAMAIL, corresponding to one-third of the 51 million B shares issued by NAMAIL, acquired at a cost of €17 million. NAMAIL also issued 49 million A shares to National Asset Management Agency (NAMA). As a result the Group holds 17% of the total ordinary share capital of NAMAIL.

NAMAIL is a holding company and its subsidiaries include the entities to which NAMA Participating Institutions transferred eligible bank assets and which issued the NAMA senior bonds and NAMA subordinated debt as consideration for those assets. The A shares and B shares generally rank equally, except as otherwise provided in the Articles of Association of NAMAIL. As holder of the A shares, NAMA has veto rights in relation to: the declaration of dividends; the

| Group | 2017 €m | 2016 €m |
|---|---|---|
| **Assets** | | |
| NAMA senior bonds (guaranteed by the State) (note 24) | - | 451 |
| Available for sale financial assets: | | |
| - Unguaranteed senior bonds issued by AIB | 182 | 297 |
| - Unguaranteed subordinated bonds issued by AIB | 32 | 30 |
| - NAMA subordinated bonds (note 22) | 293 | 274 |
| - Bonds issued by the State | 4,762 | 2,248 |
| Held to maturity financial assets | | |
| - Bonds issued by the State (note 23) | - | 1,872 |
| Other financial assets at fair value through the profit and loss | | |
| - Bonds issued by the State | 367 | 376 |
| Loans and advances to banks | | |
| - AIB | 13 | 59 |
| **Liabilities** | | |
| *Customer Accounts* | | |
| - State (including its agencies and entities under its control or joint control) | 1,485 | 1,527 |
| - IBRC (in Special Liquidation) and its associates | 28 | 464 |
| - National Treasury Management Agency (NTMA) | - | 90 |
| Debt securities in issue | | |
| - State (including its agencies and entities under its control or joint control) | 147 | 146 |

[1] *The amounts shown relate to post employment benefits accrued for two Directors during 2017 (2016: two).*

## 53 Summary of relations with the State (continued)

appointment or removal of Directors; the exercise of voting rights in respect of any subsidiary of NAMAIL and the appointment of a Chairman. A holder of the B shares may not sell the shares without the consent of NAMA. On a winding-up, the return on B shares is capped at 110% of the capital invested, (€18.7 million in the case of the Group), and the maximum loss that may be suffered is limited to the original amount invested (€17 million in the case of the Group). A discretionary non-cumulative dividend on the capital invested may be paid on an annual basis and is limited to the yield on ten year State bonds. A dividend of €0.2 million was received by the Group on 31 March 2017 (31 March 2016: €0.1 million).

***(d) Other transactions with the State and entities under its control or joint control***

In addition to the matters set out above, the Group enters into other transactions in the normal course of business with the State, its agencies and entities under its control or joint control. This includes transactions with AIB Group plc and its subsidiaries (AIB), Permanent TSB Group Holdings plc, Government departments, local authorities, county councils, embassies, NAMA, NAMAIL and the National Treasury Management Agency (NTMA) which are all considered to be 'controlled' by the Government. These transactions include the provision of banking services, including money market transactions, dealing in government securities and trading in financial instruments issued by certain banks. The amounts outstanding at 31 December 2017 and 2016 in respect of these transactions, which are considered individually significant, are set out above.

***(e) Irish bank levy***

The Finance Act (No 2) 2013 introduced a bank levy on certain financial institutions, including the Group. An income statement charge is recognised annually on the date on which all of the criteria set out in the legislation are met. The annual levy paid by the Group on 20 October 2017 was €29 million (20 October 2016: €38 million).

The Finance Act 2016, enacted in December 2016, confirmed the revised basis on which the levy would be calculated for the years 2017 to 2021. The revised levy equals 59% of each financial institution's Deposit Interest Retention Tax (DIRT) payment for a particular year with the levy for 2017 and 2018 to be based on the DIRT payment for 2016, the revised levy for 2019 and 2020 to be based on the 2017 DIRT payment and the revised levy for 2021 to be based on the 2019 DIRT payment.

## 54 Principal undertakings

The Parent company of the Group is The Governor and Bank of Ireland (the 'Bank').

The principal Group undertakings for 2017 were:

| **Group**<br>**Name** | **Principal activity** | **Country of incorporation** | **Statutory year end** |
|---|---|---|---|
| Bank of Ireland (UK) plc[1] | Retail financial services | England and Wales | 31 December |
| New Ireland Assurance Company plc | Life assurance business | Ireland | 31 December |
| Bank of Ireland Mortgage Bank[1] | Mortgage lending and mortgage covered securities | Ireland | 31 December |
| First Rate Exchange Services Limited[2] | Foreign exchange | England and Wales | 31 March |
| N.I.I.B. Group Limited | Personal finance and leasing | Northern Ireland | 31 December |

All the Group undertakings are included in the consolidated financial statements. Unless stated otherwise, the Group owns 100% of the equity of the principal Group undertakings and 100% of the voting shares of all these undertakings.

In presenting details of the principal subsidiary undertakings, the exemption permitted by Section 316 of the Companies Act 2014 has been availed of and the Bank will annex a full listing of Group undertakings to its annual return to the Companies Registration Office.

**Bank of Ireland Mortgage Bank (BoIMB)**

BoIMB's principal activities are the issuance of Irish Residential mortgages and mortgage covered securities in accordance with the Asset Covered Securities Act 2001 and the Asset Covered Securities (Amendment) Act 2007. BoIMB asset covered securities may be purchased by the Bank and other members of the Group or third parties.

In 2017, the total amount outstanding in respect of mortgage covered securities issued was €7.0 billion (2016: €7.9 billion).

In 2017, the total amount of principal outstanding in the mortgage covered pool including mortgage assets and cash was €10.2 billion (2016: €11.3 billion).

BoIMB issues other debt securities under BoIMB's obligation to the Central Bank of Ireland within the terms of the Special Mortgage Backed Promissory Note (SMBPN) programme. At 31 December 2017, BoIMB had no such debt securities in issue (2016: €nil).

*[1] Direct subsidiary of The Governor and Company of the Bank of Ireland.*
*[2] This entity is a subsidiary of First Rate Exchange Services Holdings Limited, a joint venture with the UK Post Office, in which the Group holds 50% of the equity of the business.*

## 55 Interests in other entities

**(a) General**

The Group holds ordinary shares and voting rights in a significant number of entities. Management has assessed its involvement in all such entities in accordance with the definitions and guidance in:

- IFRS 10 'Consolidated Financial Statements';
- IFRS 11 'Joint Arrangements';
- IAS 28 'Investments in Associates and Joint Ventures'; and
- IFRS 12 'Disclosure of interests in other entities'.

See Group accounting policies on pages 44 and 45.

**(b) Significant restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group**

Regulated banking and insurance subsidiaries are required to maintain minimum regulatory liquidity and solvency ratios and are subject to other regulatory restrictions that may impact on transactions between these subsidiaries and the Bank, including on the subsidiaries ability to make distributions.

Certain transactions between Bank of Ireland (UK) plc and the Bank are subject to regulatory limits and approvals agreed with the Prudential Regulation Authority (PRA). Total assets of Bank of Ireland (UK) plc at 31 December 2017 were €29.6 billion (2016: €30.3 billion) and liabilities were €27.3 billion (2016: €27.9 billion).

The activities of Bank of Ireland Mortgage Bank (BoIMB) are subject to the Asset Covered Securities Act 2001 to 2007 which imposes certain restrictions over the assets of BoIMB. Total assets of BoIMB at 31 December 2017 were €17 billion (2016: €20.8 billion) and liabilities were €15.8 billion (2016: €19.5 billion).

The Group's life assurance entity, NIAC, is required to hold shareholder equity that exceeds a solvency capital requirement, see note 42 for details. In addition, the Group's Isle of Man insurance entity is required to hold shareholder equity that exceeds the solvency requirements specified by the Isle of Man Financial Services Authority.

Under Section 357 (1)(b) of the Companies Act 2014, the Bank has given an irrevocable guarantee to meet the commitments entered into by certain Group undertakings. For further details on the Group's undertakings please see note 62 to the Bank financial statements. At 31 December 2017, the commitments of these undertakings amounted to €176 million (2016: €32 million).

The increase in the amount of the commitments guaranteed by the Bank in 2017 has resulted from an amendment to Section 357(1)(b) in June 2017. The amendment provides that in addition to the actual liabilities of the covered Group undertakings, all of their commitments and contingent liabilities must now also be covered by the guarantee.

**(c) Structured entities**

In the case of structured entities, the Group considers it has control over the investee in the following situations:

- securitisation vehicles whose purpose is to finance specific loans and advances to customers; or
- defeasance companies set up to facilitate big-ticket leasing transactions.

In each case the Group considers that it has power over the entity, is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity, even though the Group normally owns less than half of the voting rights of those entities.

The Group does not consider it controls an investee when:

- the Group's only involvement in the arrangement is to administer transactions, for which the Group receives a fixed fee, on the basis that the Group is acting as an agent for the investors; or
- an entity is in the process of being liquidated, on the basis that the entity is controlled by the liquidator.

In the case of some venture capital investments, the Group may hold 50% or more of the voting power of an entity, but has been considered to have significant influence, rather than control of the entity because the Group is not involved in directing the relevant activities of the entity and does not have the right to remove the manager of the entity.

The Group holds interests in a number of structured entities (Brunel Residential Mortgage Securitisation No. 1 plc, Bowbell No. 1 plc), whose purpose is to acquire mortgage loans and other financial assets and issue mortgage backed securities. All of the assets and liabilities of these entities are restricted. Total assets amounted to €4.8 billion (2016: €5.7 billion) and liabilities amounted to €2.5 billion (2016: €3.3 billion).

During 2016, the Group entered into a credit default swap transaction transferring a portion of the credit risk on a reference portfolio of performing Irish SME and corporate exposures to Grattan Securities DAC (Grattan), a newly established structured entity. During 2017, the Group entered into a credit default swap transaction transferring a portion of the credit risk on a reference portfolio of performing leveraged acquisition finance exposures to Mespil Securities DAC (Mespil), a newly established structured entity. No assets or liabilities were transferred to Grattan or Mespil as part of the transactions. Grattan and Mespil each cash collateralised their exposure under the respective credit default swaps through the issue of credit linked notes to third party investors. The reference portfolios can, at the option of the Group, be replenished up to the third anniversary of the dates of issue of the notes. The protection provided by Grattan matures in 2024, while that provided by Mespil matures in 2025.

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support. In 2017 and 2016 the Group did not provide financial or other support, nor does it expect or intend to do so.

All of these entities are consolidated in the Group's financial statements.

**(d) Treatment of changes in control of a subsidiary during the reporting period**

From time to time, the Group may wind up a wholly owned company. During this process, the Group voluntarily appoints a liquidator to manage the winding up of relevant

## 55 Interests in other entities (continued)

entities. Upon appointment of the liquidator, the Group is considered to have lost control of the companies and accounts for this loss of control as a disposal. In accordance with IAS 21, the Group must reclassify net cumulative FX losses relating to these companies from the FX reserve to the income statement. In 2017, €11 million was transferred (2016: €4 million) (page 39).

**(e) Joint arrangements**

A joint arrangement is an arrangement of which two or more parties have joint control i.e. contractually agreed sharing of control of an arrangement where decisions about the relevant activities require the unanimous consent of the parties sharing control. These arrangements are identified by reference to the power sharing agreements, ensuring that unanimous consent of all parties is a requirement. Where the arrangement has been structured through a separate vehicle, the Group has accounted for it as a joint venture.

The following table shows the Group's principal joint arrangements for the year ended 31 December 2017. All joint ventures investments are unquoted and are measured using the equity method of accounting. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for 2017 or cumulatively in respect of these entities. Other than disclosed in note 60, the Group does not have any further commitments or contingent liabilities in respect of these entities other than its investment to date.

**Group**

| Joint arrangement | Holding | Classification | Country of operation | Nature of activities |
|---|---|---|---|---|
| First Rate Exchange Services Holdings Limited | 50% | Joint venture | UK | Sale of financial products through the UK PO relationship |
| Enterprise 2000 Fund | 50% | Joint venture | Ireland | Investment in venture capital companies |

**(f) Associates**

An associated undertaking is an entity over which the Group has significant influence, but not control, over the entity's operating and financial policy decisions. If the Group holds 20% or more of the voting power of an entity, it is presumed that the Group has significant influence, unless it could be clearly demonstrated that this was not the case. There are no such cases where the Group holds 20% or more of the voting power of an entity, and is not considered to have significant influence over that entity.

The Group holds a number of investments in associates, none of which is individually material. All income from these investments has been included in profit or loss from continuing operations. There are no significant restrictions on the ability of these entities to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group. Nor is there any unrecognised share of losses either for 2017 or cumulatively in respect of these entities. The Group does not have any contingent liabilities in respect of these entities other than its investment to date.

**(g) Unconsolidated structured entities**

The Group has incorporated certain entities to provide investment opportunities to clients in international commercial properties. The Group considers that it sponsors these entities where it continues to be involved in the entity or if it is in receipt of income from the entity during the year. At 31 December 2017, there was 1 entity (2016: 2). At 31 December 2017 the total gross asset value of these entities was €51 million (2016: €134 million).

With regard to the remaining unconsolidated structured entity, it is a property holding company whose principal activity is managing property investments. In 2017, the Group earned asset management fees from this entity.

These structured entities are not consolidated, the associated Fee and Commission income in relation to these entities was €0.4 million for 2017 (2016: €0.3 million) and is included in the Group's financial statements.

The carrying amount of assets and liabilities in relation to these entities in the Group's financial statements is €nil (2016: €nil).

The Group's maximum exposure to loss in respect of its unconsolidated structured entities is €nil (2016: €nil).

In relation to these entities, there are no contractual arrangements that require the Group to provide financial support.

**(h) Coterminous year end dates**

The Group consolidates certain entities where the entity does not have the same year end reporting date as the Group. This is to ensure the reporting dates of these Group entities are kept consistent with the principal legal agreements used to engage in its core business.

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

## 56 Measurement basis of financial assets and financial liabilities

The table below analyses the carrying amounts of the financial assets and financial liabilities by accounting treatment and by balance sheet heading.

| Group | At fair value through profit or loss | | | At fair value through other comprehensive income (OCI) | | | | |
|---|---|---|---|---|---|---|---|---|
| 2017 | Derivatives designated as fair value hedging instruments €m | Held for trading €m | Designated upon initial recognition €m | Available for sale €m | Cash flow hedge derivatives €m | Held at amortised cost €m | Insurance contracts €m | Total €m |
| **Financial assets** | | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 7,379 | - | 7,379 |
| Items in the course of collection from other banks | - | - | - | - | - | 307 | - | 307 |
| Trading securities | - | 68 | - | - | - | - | - | 68 |
| Derivative financial instruments | 234 | 1,587 | - | - | 527 | - | - | 2,348 |
| Other financial assets at fair value through profit or loss | - | - | 14,454 | - | - | - | - | 14,454 |
| Loans and advances to banks | - | - | - | - | - | 3,061 | - | 3,061 |
| Available for sale financial assets | - | - | - | 13,223 | - | - | - | 13,223 |
| Held to maturity financial assets | - | - | - | - | - | - | - | - |
| NAMA senior bonds | - | - | - | - | - | - | - | - |
| Loans and advances to customers | - | - | - | - | - | 76,128 | - | 76,128 |
| Interest in associates | - | - | 59 | - | - | - | - | 59 |
| **Total financial assets** | **234** | **1,655** | **14,513** | **13,223** | **527** | **86,875** | **-** | **117,027** |
| **Financial liabilities** | | | | | | | | |
| Deposits from banks | - | - | - | - | - | 4,339 | - | 4,339 |
| Customer accounts | - | - | 1,363 | - | - | 74,703 | - | 76,066 |
| Items in the course of transmission to other banks | - | - | - | - | - | 263 | - | 263 |
| Derivative financial instruments | 300 | 1,659 | - | - | 28 | - | - | 1,987 |
| Debt securities in issue | - | - | 536 | - | - | 7,854 | - | 8,390 |
| Liabilities to customers under investment contracts | - | - | 5,766 | - | - | - | - | 5,766 |
| Insurance contract liabilities | - | - | - | - | - | - | 10,878 | 10,878 |
| Subordinated liabilities | - | - | - | - | - | 2,110 | - | 2,110 |
| Short positions in trading securities | - | - | - | - | - | - | - | - |
| **Total financial liabilities** | **300** | **1,659** | **7,665** | **-** | **28** | **89,269** | **10,878** | **109,799** |

## 56 Measurement basis of financial assets and financial liabilities (continued)

| Group<br>Restated[1]<br>2016 | At fair value through profit or loss: Derivatives designated as fair value hedging instruments €m | At fair value through profit or loss: Held for trading €m | At fair value through profit or loss: Designated upon initial recognition €m | At fair value through other comprehensive income (OCI): Available for sale €m | At fair value through other comprehensive income (OCI): Cash flow hedge derivatives €m | Held at amortised cost €m | Insurance contracts €m | Total €m |
|---|---|---|---|---|---|---|---|---|
| Financial assets | | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 5,192 | - | 5,192 |
| Items in the course of collection from other banks | - | - | - | - | - | 242 | - | 242 |
| Trading securities | - | 18 | - | - | - | - | - | 18 |
| Derivative financial instruments | 295 | 2,259 | - | - | 1,155 | - | - | 3,709 |
| Other financial assets at fair value through profit or loss | - | - | 13,249 | - | - | - | - | 13,249 |
| Loans and advances to banks | - | - | - | - | - | 3,349 | - | 3,349 |
| Available for sale financial assets | - | - | - | 10,794 | - | - | - | 10,794 |
| Held to maturity financial assets | - | - | - | - | - | 1,872 | - | 1,872 |
| NAMA senior bonds | - | - | - | - | - | 451 | - | 451 |
| Loans and advances to customers | - | - | - | - | - | 78,477 | - | 78,477 |
| Interest in associates | - | - | 56 | - | - | - | - | 56 |
| Total financial assets | 295 | 2,277 | 13,305 | 10,794 | 1,155 | 89,583 | - | 117,409 |
| Financial liabilities | | | | | | | | |
| Deposits from banks | - | - | - | - | - | 3,662 | - | 3,662 |
| Customer accounts | - | - | 1,766 | - | - | 73,401 | - | 75,167 |
| Items in the course of transmission to other banks | - | - | - | - | - | 223 | - | 223 |
| Derivative financial instruments | 405 | 2,404 | - | - | 64 | - | - | 2,873 |
| Debt securities in issue | - | - | 660 | - | - | 10,037 | - | 10,697 |
| Liabilities to customers under investment contracts | - | - | 5,647 | - | - | - | - | 5,647 |
| Insurance contract liabilities | - | - | - | - | - | - | 10,458 | 10,458 |
| Subordinated liabilities | - | - | - | - | - | 1,425 | - | 1,425 |
| Short positions in trading securities | - | 47 | - | - | - | - | - | 47 |
| Total financial liabilities | 405 | 2,451 | 8,073 | - | 64 | 88,748 | 10,458 | 110,199 |

The fair value and contractual amount due on maturity of financial liabilities designated at fair value upon initial recognition are shown in the table below.

| **Group** | **2017 Fair values €m** | **2017 Contractual amount due on maturity €m** | 2016 Fair values €m | 2016 Contractual amount due on maturity €m |
|---|---|---|---|---|
| Customer accounts | 1,363 | 1,361 | 1,766 | 1,762 |
| Liabilities to customers under investment contracts | 5,766 | 5,766 | 5,647 | 5,647 |
| Debt securities in issue | 536 | 505 | 660 | 631 |
| **Financial liabilities designated at fair value through profit or loss** | **7,665** | **7,632** | **8,073** | **8,040** |

For financial assets and financial liabilities which are measured at fair value through profit or loss or through other comprehensive income, a description of the methods and assumptions used to calculate those fair values is set out in note 57.

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 56 Measurement basis of financial assets and financial liabilities (continued)

| Bank | At fair value through profit or loss | | | At fair value through other comprehensive income (OCI) | | | |
|---|---|---|---|---|---|---|---|
| 2017 | Derivatives designated as fair value hedging instruments €m | Held for trading €m | Designated upon initial recognition €m | Available for sale €m | Cash flow hedge derivatives €m | Held at amortised cost €m | Total €m |
| **Financial assets** | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 5,310 | 5,310 |
| Items in the course of collection from other banks | - | - | - | - | - | 92 | 92 |
| Trading securities | - | 68 | - | - | - | - | 68 |
| Derivative financial instruments | 127 | 1,703 | - | - | 524 | - | 2,354 |
| Other financial assets at fair value through profit or loss | - | - | 45 | - | - | - | 45 |
| Loans and advances to banks | - | - | - | - | - | 12,129 | 12,129 |
| Available for sale financial assets | - | - | - | 11,985 | - | - | 11,985 |
| Held to maturity financial assets | - | - | - | - | - | - | - |
| NAMA senior bonds | - | - | - | - | - | - | - |
| Other debt securities | - | - | - | - | - | 2,195 | 2,195 |
| Loans and advances to customers | - | - | - | - | - | 39,018 | 39,018 |
| **Total financial assets** | **127** | **1,771** | **45** | **11,985** | **524** | **58,744** | **73,196** |
| **Financial liabilities** | | | | | | | |
| Deposits from banks | - | - | 1 | - | - | 6,120 | 6,121 |
| Customer accounts | - | - | 1,993 | - | - | 55,846 | 57,839 |
| Items in the course of transmission to other banks | - | - | - | - | - | 142 | 142 |
| Derivative financial instruments | 263 | 1,801 | - | - | 12 | - | 2,076 |
| Debt securities in issue | - | - | 174 | - | - | 2,302 | 2,476 |
| Subordinated liabilities | - | - | - | - | - | 2,073 | 2,073 |
| Short positions in trading securities | - | - | - | - | - | - | - |
| **Total financial liabilities** | **263** | **1,801** | **2,168** | **-** | **12** | **66,483** | **70,727** |

## 56 Measurement basis of financial assets and financial liabilities (continued)

| Bank | At fair value through profit or loss | | | At fair value through other comprehensive income (OCI) | | | |
|---|---|---|---|---|---|---|---|
| 2016 | Derivatives designated as fair value hedging instruments €m | Held for trading €m | Designated upon initial recognition €m | Available for sale €m | Cash flow hedge derivatives €m | Held at amortised cost €m | Total €m |
| Financial assets | | | | | | | |
| Cash and balances at central banks | - | - | - | - | - | 3,822 | 3,822 |
| Items in the course of collection from other banks | - | - | - | - | - | 90 | 90 |
| Trading securities | - | 18 | - | - | - | - | 18 |
| Derivative financial instruments | 121 | 2,405 | - | - | 1,148 | - | 3,674 |
| Other financial assets at fair value through profit or loss | - | - | 32 | - | - | - | 32 |
| Loans and advances to banks | - | - | - | - | - | 15,093 | 15,093 |
| Available for sale financial assets | - | - | - | 9,330 | - | - | 9,330 |
| Held to maturity financial assets | - | - | - | - | - | 1,872 | 1,872 |
| NAMA senior bonds | - | - | - | - | - | 451 | 451 |
| Other debt securities | - | - | - | - | - | 2,195 | 2,195 |
| Loans and advances to customers | - | - | - | - | - | 37,691 | 37,691 |
| Total financial assets | 121 | 2,423 | 32 | 9,330 | 1,148 | 61,214 | 74,268 |
| Financial liabilities | | | | | | | |
| Deposits from banks | - | - | 74 | - | - | 6,962 | 7,036 |
| Customer accounts | - | - | 2,594 | - | - | 53,921 | 56,515 |
| Items in the course of transmission to other banks | - | - | - | - | - | 123 | 123 |
| Derivative financial instruments | 329 | 2,629 | - | - | 59 | - | 3,017 |
| Debt securities in issue | - | - | 302 | - | - | 3,391 | 3,693 |
| Subordinated liabilities | - | - | - | - | - | 1,355 | 1,355 |
| Short positions in trading securities | - | 47 | - | - | - | - | 47 |
| Total financial liabilities | 329 | 2,676 | 2,970 | - | 59 | 65,752 | 71,786 |

## 57 Fair values of assets and liabilities

**Fair value of assets and liabilities**
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where possible, the Group calculates fair value using observable market prices. Where market prices are not available, fair values are determined using valuation techniques which may include DCF models or comparisons to instruments with characteristics either identical or similar to those of the instruments held by the Group or of recent arm's length market transactions. These fair values are classified within a three-level fair value hierarchy, based on the inputs used to value the instrument. Where the inputs might be categorised within different levels of the fair value hierarchy, the fair value measurement in its entirety is categorised in the same level of the hierarchy as the lowest level input that is significant to the entire measurement. The levels are defined as:

*Level 1*
Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

*Level 2*
Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

*Level 3*
Inputs are unobservable inputs for the asset or liability.

Transfers between different levels are assessed at the end of all reporting periods.

**(a) Financial assets and financial liabilities recognised and subsequently measured at fair value**
All financial instruments are initially recognised at fair value. The Group subsequently measures trading securities, other financial assets and financial liabilities designated at fair value through profit or loss, derivatives and available for sale financial assets at fair value in the balance sheet. These instruments are measured

## 57 Fair values of assets and liabilities (continued)

either at fair value through profit or loss (FVTPL) or at fair value through other comprehensive income.
A description of the methods and assumptions used to calculate fair values of these assets and liabilities is set out below. For fair value measurements categorised within level 3 of the fair value hierarchy, the valuation policies and procedures are developed by the management of the relevant business unit. The valuation process is documented before being reviewed and approved by senior management to ensure that the valuation method is consistent with market practice, that the output is reasonable and that the methodology is consistent both across the Group and compared to prior reporting periods.

***Financial assets and financial liabilities held for trading***
These instruments are valued using observable market prices (level 1 inputs), directly from a recognised pricing source or an independent broker or investment bank.

***Derivative financial instruments***
The Group's derivative financial instruments are valued using valuation techniques commonly used by market participants. These consist of DCF and options pricing models, which typically incorporate observable market data, principally interest rates, basis spreads, FX rates, equity prices and counterparty credit (level 2 inputs).

The fair values of the Group's derivative financial liabilities reflect the impact of changes in own credit spreads derived from observable market data (debit valuation adjustment). The impact of the cost of funding derivative positions is also taken into account in determining the fair value of derivative financial instruments (funding valuation adjustment). The funding cost is derived from observable market data; however the model may perform numerical procedures in the pricing such as interpolation when market data input values do not directly correspond to the exact parameters of the trade. Both methodologies are considered to use level 2 inputs.

Certain derivatives are valued using unobservable inputs relating to counterparty credit such as credit grade, which are significant to their valuation. The effect of using reasonably possible alternative assumptions in the valuation of these derivatives would be to increase their fair value by up to €4 million or decrease their fair value by up to €4 million, with a corresponding impact on the income statement. Where the impact of unobservable inputs is material to the valuation of the asset or liability, it is categorised as level 3 on the fair value hierarchy.

In addition a small number of derivative financial instruments are valued using significant unobservable inputs other than counterparty credit (level 3 inputs). However, changing one or more assumptions used in the valuation of these derivatives would not have a significant impact as they are entered into to hedge the exposure arising on certain customer accounts (see below), leaving the Group with no net valuation risk due to the unobservable inputs.

***Other financial assets at fair value through profit or loss***
These consist of assets designated at fair value through profit or loss, which are predominantly held for the benefit of unit linked policyholders, with any changes in valuation accruing to the policyholders. These assets consist principally of bonds, equities and unit trusts, which are traded on listed exchanges, are actively traded and have readily available prices. Substantially all of these assets are valued using valuation techniques which use observable market data i.e. level 1 or level 2 inputs. A small number of assets have been valued using DCF models, which incorporate unobservable inputs (level 3). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets.

***Available for sale financial assets***
For available for sale financial assets for which 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).

A small number of assets have been valued using vendor prices, which are not considered to represent observable market data, or DCF models which incorporate unobservable inputs (level 3 inputs).

Securities with terms and conditions substantially similar to the NAMA subordinated debt trade in an active market. The quoted price of these securities has been used to value the NAMA subordinated debt (level 2 inputs).

***Interest in associates***
Investments in associates, which are venture capital investments, are accounted for at fair value through profit or loss and are valued in accordance with the 'International Private Equity and Venture Capital Valuation Guidelines'. This requires the use of various inputs such as DCF analysis and comparison with the earnings multiples of listed comparative companies amongst others. Although the valuation of unquoted equity instruments is subjective by nature, the relevant methodologies are commonly applied by other market participants and have been consistently applied over time. Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. As the inputs are unobservable, the valuation is deemed to be based on level 3 inputs.

***Customer accounts***
Customer accounts designated at fair value through profit or loss consist of deposits which contain an embedded derivative (typically an equity option). These instruments are typically valued using valuation techniques which use observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to recent transactions in the same instrument or in similar instruments issued by the Group (level 2 inputs).

A small number of customer accounts are valued using additional non-observable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these customer accounts would not have a significant impact as these customer accounts are hedged with

## 57 Fair values of assets and liabilities (continued)

offsetting derivatives (see above), leaving the Group with no net valuation risk due to those non-observable inputs.

***Liabilities to customers under insurance and investment contracts***
In line with the accounting policy set out on pages 52 and 53, the fair value of liabilities to customers under both insurance and investment unit linked contracts is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date. Their value is never less than the amount payable on surrender, discounted for the required notice period where applicable.

***Debt securities in issue***
Debt securities in issue with a fair value of €536 million (2016: €660 million) are measured at fair value through profit or loss, in order to reduce an accounting mismatch which would otherwise arise from hedging derivatives. Their fair value is based on valuation techniques incorporating observable market data. The Group incorporates the effect of changes in its own credit spread when valuing these instruments. The Group estimates this spread by reference to market observable credit spreads of similar instruments issued by the Group or other comparable financial institutions (level 2 inputs).

A small number of debt securities in issue are valued using additional unobservable inputs (level 3 inputs). However, changing one or more assumptions used in the valuation of these debt securities in issue would not have a significant impact.

**(b) Financial assets and liabilities held at amortised cost**
For financial assets and financial liabilities which are not subsequently measured at fair value on the balance sheet, the Group discloses their fair value in a way that permits them to be compared to their carrying amounts. The methods and assumptions used to calculate the fair values of these assets and liabilities are set out below.

***Loans and advances to banks***
The estimated fair value of floating rate placements and overnight placings is their carrying amount. The estimated fair value of fixed interest bearing placements is based on DCFs using prevailing money market interest rates for assets with similar credit risk and remaining maturity (level 2 inputs).

***Loans and advances to customers***
Loans and advances 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:
- 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); and
- recent arm's length transactions in similar assets (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 DCFs using interest rates for new deposits with similar remaining maturity (level 2 inputs).

***Debt securities in issue and subordinated liabilities***
The fair values of these instruments are calculated based on quoted market prices where available (level 1 inputs). For those notes where quoted market prices are not available, a DCF model is used based on a current yield curve appropriate to the Group for the remaining term to maturity. The yield curve used incorporates the effect of changes in the Group's own credit spread (level 2 and level 3 inputs).

**(c) Fair value on offsetting positions**
Where the Group manages certain financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the Group applies the exception allowed under paragraph 48 of IFRS 13. That exception permits the Group to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, the Group measures the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

**(d) Fair value of non-financial assets**
***Investment properties***
Investment properties are carried at fair value as determined by external qualified property surveyors appropriate to the properties held. Fair values have been calculated using current trends in the market of property sales and rental yields in the retail, office and industrial property markets (level 2 inputs). Other inputs take into consideration occupancy rate forecasts, sales price expectations and letting prospects (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

***Property***
A revaluation of Group property was carried out as at 31 December 2017. All freehold and long leasehold commercial properties were valued by Lisney (or its partner, Sanderson Weatherall) as external valuers, with the exception of some select properties which were valued internally by the Bank's qualified surveyors. External valuations were made on the basis of observable inputs such as comparable lettings and sales (level 2 inputs). Unobservable inputs such as profile, lot size, layout and presentation of

## 57 Fair values of assets and liabilities (continued)

accommodation are also used (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

***Assets classified as held for sale***
The fair value of the property is based on a Lisney valuation received in November 2017.

The following tables set out the level of the fair value hierarchy for assets and liabilities held at fair value. Information is also given for items carried at amortised cost where the fair value is disclosed.

| Group | 2017 | | | | Restated[1] 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1 €m** | **Level 2 €m** | **Level 3 €m** | **Total €m** | Level 1 €m | Level 2 €m | Level 3 €m | Total €m |
| **Financial assets held at fair value** | | | | | | | | |
| Trading securities | 68 | - | - | 68 | 18 | - | - | 18 |
| Derivative financial instruments | 3 | 2,301 | 44 | 2,348 | 4 | 3,651 | 54 | 3,709 |
| Other financial assets at FVTPL | 13,941 | 451 | 62 | 14,454 | 12,668 | 532 | 49 | 13,249 |
| AFS financial assets | 12,853 | 321 | 49 | 13,223 | 10,375 | 344 | 75 | 10,794 |
| Interest in associates | - | - | 59 | 59 | - | - | 56 | 56 |
| **Non-financial assets held at fair value** | | | | | | | | |
| Investment property | - | - | 912 | 912 | - | - | 864 | 864 |
| Property held at fair value | - | - | 155 | 155 | - | - | 167 | 167 |
| Assets classified as held for sale | - | - | 28 | 28 | - | - | - | - |
| | **26,865** | **3,073** | **1,309** | **31,247** | **23,065** | **4,527** | **1,265** | **28,857** |
| **Financial liabilities held at fair value** | | | | | | | | |
| Customer accounts | - | 1,360 | 3 | 1,363 | - | 1,747 | 19 | 1,766 |
| Derivative financial instruments | 1 | 1,985 | 1 | 1,987 | 3 | 2,869 | 1 | 2,873 |
| Liabilities to customers under investment contracts | - | 5,766 | - | 5,766 | - | 5,647 | - | 5,647 |
| Insurance contract liabilities | - | 10,878 | - | 10,878 | - | 10,458 | - | 10,458 |
| Debt securities in issue | - | 534 | 2 | 536 | - | - | 660 | 660 |
| Short positions in trading securities | - | - | - | - | 47 | - | - | 47 |
| | **1** | **20,523** | **6** | **20,530** | **50** | **20,721** | **680** | **21,451** |
| **Fair value of financial assets held at amortised cost** | | | | | | | | |
| Loans and advances to banks | - | 3,061 | - | 3,061 | - | 3,349 | - | 3,349 |
| Loans and advances to customers | - | - | 73,075 | 73,075 | - | - | 74,246 | 74,246 |
| NAMA senior bonds | - | - | - | - | - | 454 | - | 454 |
| Held to maturity financial assets | - | - | - | - | 1,918 | - | - | 1,918 |
| **Fair value of financial liabilities held at amortised cost** | | | | | | | | |
| Deposits from banks | - | 4,339 | - | 4,339 | - | 3,662 | - | 3,662 |
| Customer accounts | - | 74,718 | - | 74,718 | - | 73,453 | - | 73,453 |
| Debt securities in issue | 4,492 | 3,051 | 395 | 7,938 | 5,445 | 4,340 | 303 | 10,088 |
| Subordinated liabilities | 54 | 2,147 | 120 | 2,321 | 48 | 1,375 | 135 | 1,558 |

[1] *As outlined in the Group accounting policies on page 44, comparative figures have been restated to reflect the impact of the voluntary change in the Life assurance operations policy. See note 61 for additional information.*

## 57 Fair values of assets and liabilities (continued)

| Bank | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1 €m** | **Level 2 €m** | **Level 3 €m** | **Total €m** | Level 1 €m | Level 2 €m | Level 3 €m | Total €m |
| **Financial assets held at fair value** | | | | | | | | |
| Trading securities | 68 | - | - | 68 | 18 | - | - | 18 |
| Derivative financial instruments | 3 | 2,304 | 47 | 2,354 | 4 | 3,616 | 54 | 3,674 |
| Other financial assets at FVTPL | - | - | 45 | 45 | - | - | 32 | 32 |
| AFS financial assets | 11,688 | 293 | 5 | 11,986 | 9,013 | 301 | 16 | 9,330 |
| **Non-financial assets held at fair value** | | | | | | | | |
| Property held at fair value | - | - | 127 | 127 | - | - | 140 | 140 |
| | **11,759** | **2,597** | **224** | **14,580** | **9,035** | **3,917** | **242** | **13,194** |
| **Financial liabilities held at fair value** | | | | | | | | |
| Deposits from banks | - | 1 | - | 1 | - | 74 | - | 74 |
| Customer accounts | - | 1,989 | 3 | 1,992 | - | 2,575 | 19 | 2,594 |
| Derivative financial instruments | 2 | 2,074 | - | 2,076 | 3 | 3,012 | 2 | 3,017 |
| Debt securities in issue | - | 172 | 2 | 174 | - | - | 302 | 302 |
| Short positions in trading securities | - | - | - | - | 47 | - | - | 47 |
| | **2** | **4,236** | **5** | **4,243** | **50** | **5,661** | **323** | **6,034** |
| **Fair value of financial assets held at amortised cost** | | | | | | | | |
| Loans and advances to banks | - | 12,129 | - | 12,129 | - | 15,112 | - | 15,112 |
| Loans and advances to customers | - | - | 37,189 | 37,189 | - | - | 35,591 | 35,591 |
| NAMA senior bonds | - | - | - | - | - | 454 | - | 454 |
| Held to maturity financial assets | - | - | - | - | 1,918 | - | - | 1,918 |
| Other debt securities | - | - | 2,195 | 2,195 | - | - | 2,195 | 2,195 |
| **Fair value of financial liabilities held at amortised cost** | | | | | | | | |
| Deposits from banks | - | 6,120 | - | 6,120 | - | 6,962 | - | 6,962 |
| Customer accounts | - | 55,849 | - | 55,849 | - | 53,919 | - | 53,919 |
| Debt securities in issue | - | 2,322 | - | 2,322 | - | 3,421 | - | 3,421 |
| Subordinated liabilities | - | 2,147 | 120 | 2,267 | - | 1,357 | 108 | 1,465 |

## 57 Fair values of assets and liabilities (continued)

| Group<br>2017<br>Movements in level 3 assets | Other financial assets at FVTPL €m | Derivative financial instruments €m | Available for sale financial assets €m | Interest in associates €m | Investment property €m | Property held at fair value €m | Assets classified as held for sale €m | Total €m |
|---|---|---|---|---|---|---|---|---|
| Opening Balance | 49 | 54 | 75 | 56 | 864 | 167 | - | 1,265 |
| Exchange Adjustment | - | (2) | - | - | (9) | (1) | - | (12) |
| Total gains or losses in: | | | | | | | | |
| Profit or loss | | | | | | | | |
| - Net trading income / (expense) | 13 | (2) | - | - | - | - | - | 11 |
| - Reversal of impairment charges | - | - | - | - | - | 4 | - | 4 |
| - Revaluation | - | - | - | - | - | 8 | - | 8 |
| - Impairment charge | - | - | - | - | - | - | - | - |
| - Share of results of associates | - | - | - | 3 | - | - | - | 3 |
| - Life assurance investment income and gains | - | - | - | - | 42 | - | - | 42 |
| - Other operating income | - | - | 18 | - | (2) | - | - | 16 |
| Other comprehensive income | - | - | (6) | - | - | 8 | - | 2 |
| Additions | - | - | 5 | 11 | 74 | - | - | 90 |
| Disposals | - | - | (39) | (11) | (57) | - | (3) | (110) |
| Redemptions | - | - | (4) | - | - | - | - | (4) |
| Reclassifications | - | - | - | - | - | (31) | 31 | - |
| Transfers out of level 3 | | | | | | | | |
| - from level 3 to level 2 | - | (8) | - | - | - | - | - | (8) |
| Transfers into level 3 | | | | | | | | |
| - from level 2 to level 3 | - | 2 | - | - | - | - | - | 2 |
| **Closing balance** | **62** | **44** | **49** | **59** | **912** | **155** | **28** | **1,309** |
| Other transfers | | | | | | | | |
| - from level 1 to level 2 | - | - | - | - | - | - | - | - |
| - from level 2 to level 1 | - | - | 4 | - | - | - | - | 4 |
| Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year | | | | | | | | |
| - Net trading income / (expense) | 14 | (5) | - | - | - | - | - | 9 |
| - Reversal of impairment charges | - | - | - | - | - | 3 | - | 3 |
| - Revaluation | - | - | - | - | - | 8 | - | 8 |
| - Life assurance investment income and gains | - | - | - | - | 42 | - | - | 42 |
| - Other operating income | - | - | 20 | - | (2) | - | - | 18 |
| - Share of results of associates | - | - | - | 3 | - | - | - | 3 |

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2017 which were unavailable at 31 December 2016.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

The transfer from level 2 to level 1 arose as a result of the availability of level 1 inputs at 31 December 2017 which were unavailable at 31 December 2016.

## 57 Fair values of assets and liabilities (continued)

| Group<br>2016<br>Movements in level 3 assets | Other financial assets at FVTPL €m | Derivative financial instruments €m | Available for sale financial assets €m | Interest in associates €m | Investment property €m | Property held at fair value €m | Total €m |
|---|---|---|---|---|---|---|---|
| Opening Balance | 17 | 164 | 201 | 56 | 841 | 167 | 1,446 |
| Exchange Adjustment | - | (19) | (3) | - | (43) | (8) | (73) |
| Total gains or losses in: | | | | | | | |
| Profit or loss | | | | | | | |
| - Net trading income / (expense) | 3 | 83 | - | - | - | - | 86 |
| - Reversal of impairment charges | - | - | - | - | - | 5 | 5 |
| - Impairment charge | - | - | (2) | - | - | - | (2) |
| - Share of results of associates | - | - | - | (2) | - | - | (2) |
| - Life assurance investment income and gains | - | - | - | - | 17 | - | 17 |
| - Other operating income | - | - | 14 | - | (3) | - | 11 |
| Other comprehensive income | - | - | 8 | - | - | 4 | 12 |
| Additions | 29 | - | 24 | 13 | 65 | - | 131 |
| Disposals | - | (9) | (183) | (11) | (13) | - | (216) |
| Redemptions | - | (2) | (6) | - | - | - | (8) |
| Reclassifications | - | - | - | - | - | (1) | (1) |
| Transfers out of level 3 | | | | | | | |
| - from level 3 to level 2 | - | (170) | - | - | - | - | (170) |
| Transfers into level 3 | | | | | | | |
| - from level 2 to level 3 | - | 7 | 22 | - | - | - | 29 |
| Closing balance | 49 | 54 | 75 | 56 | 864 | 167 | 1,265 |
| Other transfers | | | | | | | |
| - from level 1 to level 2 | - | - | 3 | - | - | - | 3 |
| - from level 2 to level 1 | - | - | - | - | - | - | - |
| Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year | | | | | | | |
| - Net trading income / (expense) | 3 | 23 | - | - | - | - | 26 |
| - Life assurance investment income and gains | - | - | - | - | 17 | - | 17 |
| - Other operating income | - | - | 8 | - | (3) | - | 5 |
| - Share of results of associates | - | - | - | (3) | - | - | (3) |

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2016 which were unavailable at 31 December 2015.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

The transfer from level 1 to level 2 arose as a result of the unavailability of level 1 inputs at 31 December 2016 which were available at 31 December 2015. For such assets observable inputs (other than level 1 inputs) were available at 31 December 2016.

## 57 Fair values of assets and liabilities (continued)

| **Bank**<br>**2017**<br>**Movements in level 3 assets** | **Other financial assets at FVTPL €m** | **Derivative financial instruments €m** | **Available for sale financial assets €m** | **Property held at fair value €m** | **Total €m** |
|---|---|---|---|---|---|
| Opening Balance | 32 | 54 | 16 | 140 | 242 |
| Exchange Adjustment | - | (2) | - | (1) | (3) |
| Total gains or losses in: | | | | | |
| Profit or loss | | | | | |
| - Net trading income / (expense) | 13 | (2) | - | - | 11 |
| - Reversal of impairment charges | - | - | - | 1 | 1 |
| Other comprehensive income | - | - | - | 7 | 7 |
| Additions | - | - | 5 | - | 5 |
| Disposals | - | - | (16) | - | (16) |
| Redemptions | - | - | - | - | - |
| Reclassifications | - | 3 | - | (20) | (17) |
| Transfers out of level 3 | | | | | |
| - from level 3 to level 2 | - | (8) | - | - | (8) |
| Transfers into level 3 | | | | | |
| - from level 2 to level 3 | - | 2 | - | - | 2 |
| **Closing balance** | **45** | **47** | **5** | **127** | **224** |
| Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year | | | | | |
| - Net trading income / (expense) | 14 | (5) | - | - | 9 |
| - Interest income | - | - | - | - | - |

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2017 which were unavailable at 31 December 2016.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

There were no transfers between level 1 and level 2.

## 57 Fair values of assets and liabilities (continued)

| Bank<br>2016<br>Movements in level 3 assets | Other financial assets at FVTPL €m | Derivative financial instruments €m | Available for sale financial assets €m | Property held at fair value €m | Total €m |
|---|---|---|---|---|---|
| Opening Balance | - | 164 | 1,636 | 141 | 1,941 |
| Exchange Adjustment | - | (19) | (3) | (4) | (26) |
| Total gains or losses in: | | | | | |
| Profit or loss | | | | | |
| - Net trading income / (expense) | 3 | 83 | - | - | 86 |
| - Reversal of impairment charges | - | - | - | 1 | 1 |
| Other comprehensive income | - | - | 15 | 5 | 20 |
| Additions | 29 | - | 2,017 | - | 2,046 |
| Disposals | - | (9) | (104) | (1) | (114) |
| Redemptions | - | (3) | (1,350) | - | (1,353) |
| Reclassifications | - | - | (2,195)[1] | (2) | (2,197) |
| Transfers out of level 3 | | | | | |
| - from level 3 to level 2 | - | (169) | - | - | (169) |
| Transfers into level 3 | | | | | |
| - from level 2 to level 3 | - | 7 | - | - | 7 |
| Closing balance | 32 | 54 | 16 | 140 | 242 |
| Total gains / (losses) for the year included in profit or loss for level 3 assets at the end of the reporting year | | | | | |
| - Net trading income / (expense) | 3 | 23 | - | - | 26 |
| - Interest income | - | - | 4 | - | 4 |

The transfer from level 3 to level 2 arose as a result of the availability of observable inputs at 31 December 2016 which were unavailable at 31 December 2015.

The transfer from level 2 to level 3 arose as a result of the unobservable inputs becoming significant to the fair value measurement of these assets.

There were no transfers between level 1 and level 2.

[1] *AFS financial assets reclassified in 2016 to Other debt securities (see note 25).*

## 57 Fair values of assets and liabilities (continued)

| Group | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **Movements in level 3 liabilities** | **Customer accounts €m** | **Derivative financial instruments €m** | **Debt securities in issue €m** | **Total €m** | Customer accounts €m | Derivative financial instruments €m | Debt securities in issue €m | Total €m |
| Opening balance | 19 | 1 | 660 | 680 | - | 4 | 685 | 689 |
| Exchange adjustments | - | - | - | - | - | (1) | - | (1) |
| Total gains or losses in: | | | | | | | | |
| Profit or loss | | | | | | | | |
| - Net trading expense / (income) | 4 | 2 | 2 | 8 | (1) | 3 | 18 | 20 |
| Additions | 3 | - | 2 | 5 | 20 | - | 43 | 63 |
| Redemptions and maturities | - | (1) | (128) | (129) | - | - | (86) | (86) |
| Transfers out of level 3 | | | | | | | | |
| - from level 3 to level 2 | (23) | (1) | (534) | (558) | - | (5) | - | (5) |
| **Closing balance** | **3** | **1** | **2** | **6** | **19** | **1** | **660** | **680** |
| Total gains / (losses) for the year included in profit or loss for level 3 liabilities at the end of the reporting year | | | | | | | | |
| Net trading income / (expense) | - | (1) | (1) | (2) | 1 | (1) | (16) | (16) |

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities.

There were no transfers between levels 1 and 2.

| Bank | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| **Movements in level 3 liabilities** | **Customer accounts €m** | **Derivative financial instruments €m** | **Debt securities in issue €m** | **Total €m** | Customer accounts €m | Derivative financial instruments €m | Debt securities in issue €m | Total €m |
| Opening balance | 19 | 2 | 302 | 323 | - | 5 | 381 | 386 |
| Exchange adjustments | - | - | - | - | - | (1) | - | (1) |
| Total gains or losses in: | | | | | | | | |
| Profit or loss | | | | | | | | |
| - Net trading expense / (income) | 3 | 1 | - | 4 | (1) | 3 | 7 | 9 |
| Additions | 3 | - | - | 3 | 20 | - | - | 20 |
| Redemptions and maturities | - | (5) | (128) | (133) | - | - | (86) | (86) |
| Reclassifications | - | 3 | - | 3 | - | - | - | - |
| Transfers out of level 3 | | | | | | | | |
| - from level 3 to level 2 | (22) | (1) | (172) | (195) | - | (5) | - | (5) |
| **Closing balance** | **3** | **-** | **2** | **5** | **19** | **2** | **302** | **323** |
| Total gains / (losses) for the year included in profit or loss for level 3 liabilities at the end of the reporting year | | | | | | | | |
| Net trading income / (expense) | - | (1) | (1) | (2) | 1 | (1) | (16) | (16) |

The transfers from level 3 to level 2 arose due to unobservable inputs becoming less significant to the fair value measurement of these liabilities.

There were no transfers between levels 1 and 2.

## 57 Fair values of assets and liabilities (continued)

**Group**

**Quantitative information about fair value measurements using significant unobservable inputs (Level 3)**

| **Level 3 assets** | **Valuation technique** | **Unobservable input** | **Fair value 2017 €m** | Fair value 2016 €m | **Range 2017 %** | Range 2016 % |
|---|---|---|---|---|---|---|
| Derivative financial assets | Discounted cash flow<br>Option pricing model | Credit Spread[1] | 44 | 54 | 0%-4% | 0%-4% |
| Other financial assets at fair value through profit or loss | Discounted cash flow<br>Equity Value less discount | Discount rate[2]<br>Discount | 62 | 49 | Third party pricing<br>0%-50% | Third party pricing<br>0%-50% |
| AFS financial assets | Market comparable companies | Discount rate[2]<br>EBITDA multiple[3]<br>Liquidity factor | 49 | 75 | Third party pricing | Third party pricing |
| Interest in associates | Market comparable companies | Price of recent investment<br>Earnings multiple[3]<br>Revenue multiple[3] | 59 | 56 | Third party pricing | Third party pricing |
| Investment property | Market comparable property transactions | Property valuation assumptions | 912 | 864 | Third party pricing | Third party pricing |
| Property held at fair value | Market comparable property transactions | Property valuation assumptions | 155 | 167 | Third party pricing | Third party pricing |
| Assets classified as held for sale | Market comparable property transactions | Property valuation assumptions | 28 | - | Third party pricing | Third party pricing |

| **Level 3 liabilities** | **Valuation technique** | **Unobservable input** | **Fair value 2017 €m** | Fair value 2016 €m | **Range 2017 %** | Range 2016 % |
|---|---|---|---|---|---|---|
| Customer accounts | Discounted cash flow<br>Option pricing model | Credit Spread[1] | 3 | 19 | 0%-4% | 0%-4% |
| Derivative financial liabilities | Discounted cash flow<br>Option pricing model | Credit Spread[1] | 1 | 1 | Third party pricing<br>0%-4% | Third party pricing<br>0%-4% |
| Debt securities in issue | Discounted cash flow | Credit Spread[1] | 2 | 660 | 0%-4% | 0%-4% |

*[1] The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.*
*[2] The discount rate represents a range of discount rates that market participants would use in valuing these investments.*
*[3] The Group's multiples represent multiples that market participants would use in valuing these investments.*

*Note: 100 basis points = 1%*

## 57 Fair values of assets and liabilities (continued)

**Bank**

**Quantitative information about fair value measurements using significant unobservable inputs (Level 3)**

<table>
<tr><th rowspan="2">Level 3 assets</th><th rowspan="2">Valuation technique</th><th rowspan="2">Unobservable input</th><th colspan="2">Fair value</th><th colspan="2">Range</th></tr>
<tr><th>2017 €m</th><th>2016 €m</th><th>2017 %</th><th>2016 %</th></tr>
<tr><td>Derivative financial assets</td><td>Discounted cash flow<br>Option pricing model</td><td>Credit Spread[1]</td><td>47</td><td>54</td><td>0%-4%</td><td>0%-4%</td></tr>
<tr><td rowspan="2">Other financial assets at fair value through profit or loss</td><td>Discounted cash flow</td><td>Discount rate[2]</td><td rowspan="2">45</td><td rowspan="2">32</td><td rowspan="2">0%-50%</td><td rowspan="2">0%-50%</td></tr>
<tr><td>Equity Value less discount</td><td>Discount</td></tr>
<tr><td>AFS financial assets</td><td>Market comparable companies</td><td>Discount rate[2]<br>EBITDA multiple[3]<br>Liquidity factor</td><td>5</td><td>16</td><td>Third party pricing</td><td>Third party pricing</td></tr>
<tr><td>Property held at fair value</td><td>Market comparable property transactions</td><td>Property valuation assumptions</td><td>127</td><td>140</td><td>Third party pricing</td><td>Third party pricing</td></tr>
</table>

<table>
<tr><th rowspan="2">Level 3 liabilities</th><th rowspan="2">Valuation technique</th><th rowspan="2">Unobservable input</th><th colspan="2">Fair value</th><th colspan="2">Range</th></tr>
<tr><th>2017 €m</th><th>2016 €m</th><th>2017 %</th><th>2016 %</th></tr>
<tr><td>Customer accounts</td><td>Discounted cash flow<br>Option pricing model</td><td>Credit Spread[1]</td><td>3</td><td>19</td><td>0%-4%</td><td>0%-4%</td></tr>
<tr><td>Derivative financial liabilities</td><td>Discounted cash flow<br>Option pricing model</td><td>Credit Spread[1]</td><td>-</td><td>2</td><td>Third party pricing<br>0%-4%</td><td>Third party pricing<br>0%-4%</td></tr>
<tr><td>Debt securities in issue</td><td>Discounted cash flow</td><td>Credit Spread[1]</td><td>2</td><td>302</td><td>0%-4%</td><td>0%-4%</td></tr>
</table>

[1] *The credit spread represents the range of credit spreads that market participants would use in valuing these contracts.*
[2] *The discount rate represents a range of discount rates that market participants would use in valuing these investments.*
[3] *The Group's multiples represent multiples that market participants would use in valuing these investments.*

*Note: 100 basis points = 1%*

## 57 Fair values of assets and liabilities (continued)

The carrying amount and the fair value of the Group and Bank's financial assets and liabilities which are carried at amortised cost, are set out in the tables below. Items where the carrying amount is a reasonable approximation of fair value are not included, as permitted by IFRS 7.

| **Group** | **2017** | | 2016 | |
|---|---|---|---|---|
| **Non-trading financial instruments** | **Carrying amount €m** | **Fair values €m** | Carrying amount €m | Fair values €m |
| **Assets** | | | | |
| Loans and advances to banks | 3,061 | 3,061 | 3,349 | 3,349 |
| Loans and advances to customers | 76,128 | 73,075 | 78,477 | 74,246 |
| NAMA senior bonds | - | - | 451 | 454 |
| Held to maturity financial assets | - | - | 1,872 | 1,918 |
| **Liabilities** | | | | |
| Deposits from banks | 4,339 | 4,339 | 3,662 | 3,662 |
| Customer accounts | 74,703 | 74,718 | 73,400 | 73,453 |
| Debt securities in issue | 7,854 | 7,938 | 10,037 | 10,088 |
| Subordinated liabilities | 2,110 | 2,321 | 1,425 | 1,558 |

| **Bank** | **2017** | | 2016 | |
|---|---|---|---|---|
| **Non-trading financial instruments** | **Carrying amount €m** | **Fair values €m** | Carrying amount €m | Fair values €m |
| **Assets** | | | | |
| Loans and advances to banks | 12,129 | 12,129 | 15,093 | 15,112 |
| Loans and advances to customers | 39,018 | 37,189 | 37,691 | 35,591 |
| NAMA senior bonds | - | - | 451 | 454 |
| Held to maturity financial assets | - | - | 1,872 | 1,918 |
| Other debt securities | 2,195 | 2,195 | 2,195 | 2,195 |
| **Liabilities** | | | | |
| Deposits from banks | 6,120 | 6,120 | 6,962 | 6,962 |
| Customer accounts | 55,846 | 55,849 | 53,921 | 53,919 |
| Debt securities in issue | 2,302 | 2,322 | 3,391 | 3,421 |
| Subordinated liabilities | 2,073 | 2,267 | 1,355 | 1,465 |

## 58 Transferred financial assets

| Group | Carrying amount of transferred assets €m | Carrying amount of associated liabilities[1] €m | Fair value of transferred assets €m | Fair value of associated liabilities[1] €m | Net fair value position €m |
|---|---|---|---|---|---|
| **2017** | | | | | |
| **Securitisation** | | | | | |
| *Loans and receivables* | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[2] | 633 | 748 | 611 | 729 | (118) |
| **Sale and repurchase / similar products** | | | | | |
| Available for sale financial assets[3] | 147 | 144 | n/a | n/a | n/a |
| **2016** | | | | | |
| **Securitisation** | | | | | |
| *Loans and receivables* | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[2] | 770 | 968 | 725 | 889 | (164) |
| **Sale and repurchase / similar products** | | | | | |
| Available for sale financial assets[3] | 76 | 76 | n/a | n/a | n/a |

| Bank | Carrying amount of transferred assets €m | Carrying amount of associated liabilities[1] €m | Fair value of transferred assets €m | Fair value of associated liabilities[1] €m | Net fair value position €m |
|---|---|---|---|---|---|
| **2017** | | | | | |
| **Securitisation** | | | | | |
| *Loans and receivables* | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[2] | 633 | 748 | 611 | 729 | (118) |
| **Sale and repurchase / similar products** | | | | | |
| Available for sale financial assets[3] | 147 | 144 | n/a | n/a | n/a |
| Other debt securities[4] | 1,993 | 1,747 | n/a | n/a | n/a |
| **2016** | | | | | |
| **Securitisation** | | | | | |
| *Loans and receivables* | | | | | |
| Residential mortgages book (Brunel SPE) - Including buybacks[2] | 770 | 968 | 725 | 889 | (164) |
| **Sale and repurchase / similar products** | | | | | |
| Available for sale financial assets[3] | 76 | 76 | n/a | n/a | n/a |
| Other debt securities[4] | 910 | 800 | n/a | n/a | n/a |

The Group and Bank has transferred certain financial assets that are not derecognised from the Group's balance sheet. Such arrangements are securitisations and sale or repurchase agreements. The Group is exposed to substantially all risks and rewards including credit and market risk associated with the transferred assets.

The Group has not entered into any agreements on the sale of assets that entail the Group's continuing involvement in derecognised financial assets.

[1] *For the purposes of this disclosure, associated liabilities include liabilities issued by securitisation SPEs, held by other Group entities.*
[2] *For each securitisation the relevant loan book / pool is ring-fenced whereby the cash flows associated with these assets can only be used to repay the related notes holders plus associated issuance fees / costs.*
[3] *Assets sold or transferred subject to repurchase agreements are retained on the balance sheet and reclassified as pledged assets when the transferee has the right by contract to sell or repledge the collateral; the counterparty liability is included in deposits by banks or customer accounts, as appropriate. The difference between the original sale price of the bonds and the repurchase price is the repo rate.*
[4] *Debt securities issued by Bank of Ireland Mortgage Bank and held by the Bank as other debt securities, used to service Monetary Authority Funding. Comparative figures have been updated to include these balances.*

*n/a: Not applicable as arrangement has recourse to assets other than the transferred assets.*

## 59 Offsetting financial assets and liabilities

The following tables set out the effect or potential effect of netting arrangements on the Group and Bank's financial positions. This includes the effect or potential effect of rights of set-off associated with the Group and Bank's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with paragraph 42 of IAS 32.

| Group | | | | Related amounts not set off in the balance sheet | | |
|---|---|---|---|---|---|---|
| Assets | Gross amounts of recognised financial assets €m | Gross amounts of recognised financial liabilities set off in the balance sheet €m | Net amounts of financial assets presented in the balance sheet €m | Financial instruments[1] €m | Cash collateral received[2] €m | Net amount €m |
| **2017** | | | | | | |
| Derivative financial assets | 2,057 | - | 2,057 | (1,395) | (583) | 79 |
| Loans and advances to customers | 942 | (942) | - | - | - | - |
| **Total** | **2,999** | **(942)** | **2,057** | **(1,395)** | **(583)** | **79** |
| **2016** | | | | | | |
| Derivative financial assets | 3,272 | - | 3,272 | (1,937) | (1,000) | 335 |
| Loans and advances to customers | 1,261 | (1,261) | - | - | - | - |
| Total | 4,533 | (1,261) | 3,272 | (1,937) | (1,000) | 335 |

| Bank | | | | Related amounts not set off in the balance sheet | | | |
|---|---|---|---|---|---|---|---|
| Assets | Gross amounts of recognised financial assets €m | Gross amounts of recognised financial liabilities set off in the balance sheet €m | Net amounts of financial assets presented in the balance sheet €m | Financial instruments[1] €m | Cash collateral received[2] €m | Deposits by banks[3] €m | Net amount €m |
| **2017** | | | | | | | |
| Derivative financial assets | 1,979 | - | 1,979 | (1,395) | (505) | - | 79 |
| Loans and advances to banks | 2,242 | - | 2,242 | - | - | (1,571) | 671 |
| Loans and advances to customers | 297 | (297) | - | - | - | - | - |
| **Total** | **4,518** | **(297)** | **4,221** | **(1,395)** | **(505)** | **(1,571)** | **750** |
| **2016** | | | | | | | |
| Derivative financial assets | 3,123 | - | 3,123 | (1,937) | (851) | - | 335 |
| Loans and advances to banks | 2,233 | - | 2,233 | - | - | (2,380) | (147) |
| Loans and advances to customers | 344 | (344) | - | - | - | - | - |
| **Total** | **5,700** | **(344)** | **5,356** | **(1,937)** | **(851)** | **(2,380)** | **188** |

*[1] Amounts of €1,395 million represent recognised derivatives liabilities at fair value that do not meet the offsetting criteria (2016: €1,937 million).*
*[2] Cash collateral amounts disclosed reflect the maximum collateral available for offset. Cash collateral received is reported within deposits from banks (see note 39).*
*[3] Loans and advances to banks of €2,242 million (2016: €2,233 million) and deposits by banks of €1,571 million (2016: €2,380 million) represent balances with a subsidiary undertaking, Bank of Ireland (UK) plc. Comparative figures have been updated to include these balances.*

## 59 Offsetting financial assets and liabilities (continued)

The following financial liabilities are subject to offsetting, enforceable master netting arrangements.

| Group<br>Liabilities | Gross amounts of recognised financial liabilities €m | Gross amounts of recognised financial assets set off in the balance sheet €m | Net amounts of financial liabilities presented in the balance sheet €m | Related amounts not set off in the balance sheet: Financial instruments[1] €m | Related amounts not set off in the balance sheet: Cash collateral pledged[2] €m | Net amount €m |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Derivative financial liabilities | 1,914 | - | 1,914 | (1,395) | (465) | 54 |
| Customer deposits | 942 | (942) | - | - | - | - |
| **Total** | **2,856** | **(942)** | **1,914** | **(1,395)** | **(465)** | **54** |
| **2016** | | | | | | |
| Derivative financial liabilities | 2,763 | - | 2,763 | (1,937) | (698) | 128 |
| Customer deposits | 1,261 | (1,261) | - | - | - | - |
| Total | 4,024 | (1,261) | 2,763 | (1,937) | (698) | 128 |

| Bank<br>Liabilities | Gross amounts of recognised financial liabilities €m | Gross amounts of recognised financial assets set off in the balance sheet €m | Net amounts of financial liabilities presented in the balance sheet €m | Related amounts not set off in the balance sheet: Financial instruments[1] €m | Related amounts not set off in the balance sheet: Cash collateral received[2] €m | Related amounts not set off in the balance sheet: Loans & advances to banks[3] €m | Net amount €m |
|---|---|---|---|---|---|---|---|
| **2017** | | | | | | | |
| Derivative financial liabilities | 1,914 | - | 1,914 | (1,395) | (465) | - | 54 |
| Deposits by banks | 1,571 | - | 1,571 | - | - | (2,242) | (671) |
| Customer deposits | 297 | (297) | - | - | - | - | - |
| **Total** | **3,782** | **(297)** | **3,485** | **(1,395)** | **(465)** | **(2,242)** | **(617)** |
| **2016** | | | | | | | |
| Derivative financial liabilities | 2,763 | - | 2,763 | (1,937) | (698) | - | 128 |
| Deposits by banks | 2,380 | - | 2,380 | - | - | (2,233) | 147 |
| Customer deposits | 344 | (344) | - | - | - | - | - |
| **Total** | **5,487** | **(344)** | **5,143** | **(1,937)** | **(698)** | **(2,233)** | **275** |

The 'Financial Instruments' column identifies financial assets and liabilities that are subject to set off under netting agreements such as an ISDA Master agreement. The agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities are settled on a gross basis: however each party to the master netting agreement has the option to settle all such amounts on a net basis in the event of default of the other party.

[1] *Amounts of €1,395 million represent recognised derivatives assets at fair value that do not meet the offsetting criteria (2016: €1,937 million).*
[2] *Cash collateral amounts disclosed reflect the maximum collateral available for offset.*
[3] *Loans and advances to banks of €2,242 million (2016: €2,233 million) and deposits by banks of €1,571 million (2016: €2,380 million) represent balances with a subsidiary undertaking, Bank of Ireland (UK) plc. Comparative figures have been updated to include these balances.*

## 60 Contingent liabilities and commitments

| | Group | | Bank | |
|---|---|---|---|---|
| | **2017 €m** | 2016 €m | **2017 €m** | 2016 €m |
| **Contingent liabilities** | | | | |
| Guarantees and irrevocable letters of credit | 445 | 595 | 415 | 513 |
| Acceptances and endorsements | 5 | 6 | 5 | 6 |
| Other contingent liabilities | 249 | 311 | 183 | 172 |
| | **699** | **912** | **603** | **691** |
| **Commitments** | | | | |
| Documentary credits and short-term trade related transactions | 71 | 99 | 71 | 99 |
| Undrawn formal standby facilities, credit lines and other commitments to lend: | | | | |
| - revocable or irrevocable with original maturity of 1 year or less | 12,618 | 11,441 | 6,502 | 6,137 |
| - irrevocable with original maturity of over 1 year | 3,174 | 2,983 | 3,034 | 2,625 |
| | **15,863** | **14,523** | **9,607** | **8,861** |

The table above gives the contract amounts of contingent liabilities and commitments. The maximum exposure to credit loss under contingent liabilities and commitments is the contractual amount of the instrument in the event of non-performance by the other party where all counter claims, collateral or security prove worthless.

In common with other banks, the Group conducts business involving acceptances, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

An **acceptance** is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, but reimbursement by the customer is normally immediate. **Endorsements** are residual liabilities of the Group in respect of bills of exchange, which have been paid and subsequently rediscounted.

**Guarantees and letters of credit** are given as security to support the performance of a customer to third parties. As the Group will only be required to meet these obligations in the event of the customer's default, the cash requirements of these instruments are expected to be considerably below their nominal amounts.

**Other contingent liabilities** primarily include performance bonds and are generally short-term commitments to third parties which are not directly dependent on the customers' credit worthiness. The Group is also party to legal, regulatory, taxation and other actions arising out of its normal business operations.

**Documentary credits** commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

**Commitments** to lend are agreements to lend to a customer in the future, subject to certain conditions. Included within total commitments above is an amount of €109 million of unrecognised loan commitments to the Group's joint ventures (2016: €58 million).

## 61 Impact of change in Life assurance operations policy

**Group**

*Impact of the restatement on the relevant financial statement line items for the year ended 31 December 2016:*

| 2016 | Published €m | Impact of change in in policy €m | Restated €m |
|---|---|---|---|
| **Consolidated income statement (selected lines)** | | | |
| Other operating income | 287 | 16 | 303 |
| Insurance contract liabilities and claims paid | (1,564) | (13) | (1,577) |
| Profit before tax | 1,032 | 3 | 1,035 |
| Taxation charge | (239) | 3 | (236) |
| Profit for the year | 793 | 6 | 799 |
| **Consolidated statement of comprehensive income (selected lines)** | | | |
| Profit for the year | 793 | 6 | 799 |
| Other comprehensive expense for the year, net of tax | (422) | - | (422) |
| Total comprehensive income for the year, net of tax | 371 | 6 | 377 |
| Total comprehensive income attributable to equity stockholders | 371 | 6 | 377 |
| **Consolidated balance sheet (selected lines)** | | | |
| **Assets** | | | |
| Other assets | 2,487 | (462) | 2,025 |
| Total assets | 123,129 | (462) | 122,667 |
| **Liabilities** | | | |
| Insurance contract liabilities | 10,934 | (476) | 10,458 |
| Deferred tax liabilities | 65 | (3) | 62 |
| Total liabilities | 113,727 | (479) | 113,248 |
| **Equity** | | | |
| Other reserves | 342 | 17 | 359 |
| Stockholders' equity | 8,661 | 17 | 8,678 |
| Total equity excluding non-controlling interests | 9,401 | 17 | 9,418 |
| Total equity | 9,402 | 17 | 9,419 |

As outlined in the Life assurance operations accounting policy on pages 52 and 53 and Adoption of new accounting standards and voluntary changes in accounting policies on page 43, the Group has voluntarily changed its accounting policy for the valuation of insurance contract liabilities and the ViF asset. It has not been practicable to calculate the amount of the adjustment as a result of this change in accounting policy for the year ended 31 December 2017.

This change in accounting policy has been accounted for retrospectively as required under IAS 8, and the comparative periods have been restated to reflect this change. The effect of this change is explained in this note.

## 61 Impact of change in Life assurance operations policy (continued)

**Group**

*Impact of the restatement on the relevant financial statement line items for the year ended 31 December 2016 (continued):*

| 2016 | Published €m | Impact of change in in policy €m | Restated €m |
|---|---|---|---|
| **Consolidated statement of changes in equity (selected lines)** | | | |
| **Retained earnings** | | | |
| Balance at the beginning of the year | 4,950 | - | 4,950 |
| Profit retained | 712 | 6 | 718 |
| Transfer to capital reserve | (3) | (6) | (9) |
| Balance at the end of the year | 5,214 | - | 5,214 |
| **Other reserves: Capital reserve** | | | |
| Balance at the beginning of the year | 502 | 11 | 513 |
| Transfer from retained earnings | 3 | 6 | 9 |
| Redemption of 2009 Preference Stock | 7 | - | 7 |
| Balance at the end of the year | 512 | 17 | 529 |
| Total other reserves | 342 | 17 | 359 |
| Total stockholders' equity excluding other equity instruments | 8,661 | 17 | 8,678 |
| Total equity | 9,402 | 17 | 9,419 |
| **Consolidated cash flow statement (selected lines)** | | | |
| **Cash flows from operating activities** | | | |
| Profit before tax | 1,032 | 3 | 1,035 |
| Cashflows from operating activities before changes in operating assets and liabilities | 1,510 | 3 | 1,513 |
| Net change in other assets | 102 | (97) | 5 |
| Net change in insurance contract liabilities | 531 | 94 | 625 |
| Net cash flow from operating assets and liabilities | (96) | (3) | (99) |
| Net cash flow from operating activities before tax | 1,414 | - | 1,414 |

**Group**

*Impact of the restatement on the consolidated balance sheet as at 1 January 2016[1]:*

| | Published €m | Impact of change in in policy €m | Restated €m |
|---|---|---|---|
| **Consolidated balance sheet (selected lines)** | | | |
| **Assets** | | | |
| Other assets | 2,640 | (559) | 2,081 |
| Total assets | 130,960 | (559) | 130,401 |
| **Liabilities** | | | |
| Insurance contract liabilities | 10,403 | (570) | 9,833 |
| Total liabilities | 121,847 | (570) | 121,277 |
| **Equity** | | | |
| Other reserves | (260) | 11 | (249) |
| Stockholders' equity | 8,372 | 11 | 8,383 |
| Total equity excluding non-controlling interests | 9,112 | 11 | 9,123 |
| Total equity | 9,113 | 11 | 9,124 |

[1] *Opening balance sheet as at 1 January 2016 reflects the Group's restated closing balance at 31 December 2015.*

## 62 Other

(a) The Bank financial statements are prepared in accordance with Section 290 (1) of the Companies Act 2014.

(b) The Bank is domiciled in Ireland.

(c) The Bank is a corporation established in Ireland in 1783 under Royal Charter, with registration number of C-1.

(d) The Bank's immediate and ultimate holding undertaking, Bank of Ireland Group plc, includes the Bank in its consolidated financial statements. The consolidated financial statements of the BOIG plc Group are prepared in accordance with IFRS, are available to the public and may be obtained from the Bank of Ireland Head Office, Mespil Road, Dublin 4.

(e) As at 31 December 2017, the Bank has provided a guarantee under Section 357 of the Companies Act, 2014 for the following companies:

Bank of Ireland Asset Management (US) Limited, First Rate Enterprises Limited (in Members' Voluntary Liquidation), Bank of Ireland Commercial Finance Limited, Bank of Ireland Finance Limited, Bank of Ireland Insurance & Investments Limited, Bank of Ireland Insurance Management Services Limited, Bank of Ireland Insurance Services Limited, Bank of Ireland International Finance DAC, Bank of Ireland Leasing Limited, Bank of Ireland Life Holdings Limited, Bank of Ireland Nominee 1 Limited, Bank of Ireland Nominee 3 Limited, Bank of Ireland Pensions Trust Unlimited Company, Bank of Ireland Treasury and International Banking Limited, Bank of Ireland Trust Services Limited, Bank of Ireland Unit Managers Limited, BIAM Holdings Unlimited Company, BoI Capital Holdings Limited, BoI-IF Services No. 5 Company Unlimited Company, BoI-IF Services No. 10 Company Unlimited Company, Bushfield Leasing Limited, C and I (Division) Holdings Unlimited Company, Centurion Card Services Limited, Central Pensions Administration Limited, December Leasing Limited, Edendork Leasing Limited, Florenville Limited, General Investment Trust DAC, Hibernian Bank Limited, Hill Wilson Secretarial Limited, IBI Property Nominees Limited, Kilkenny Promotion Project Limited, Lansdowne Leasing Unlimited Company, Leopardstown Office Management Company Limited by Guarantee, Nerling Limited, Nestland Limited, New Ireland Life Management Services Limited, New Ireland Financial Services Limited, New Ireland Investment Managers Limited, Professional Audit Services Limited, Rolmur Unlimited Company, Scribe Holdings Limited, Tockhill Unlimited Company, The Investment Bank of Ireland Limited, The National Bank of Ireland Limited, Trustcase Limited, Tustin Limited.

(f) The Bank entered into a framework agreement on 28 June 2012 with the Central Bank of Ireland (the 'Central Bank') under which the Bank may issue special mortgage-backed euro promissory notes to the Central Bank as security for Eurosystem credit operations. This framework agreement was amended by way of an amendment agreement dated 15 May 2014 between the Central Bank and the Bank. These obligations under the special mortgage-backed euro promissory notes are secured by way:
(i) two deeds of floating charge; and
(ii) a floating charge which in each case are over all the Bank's right, title, interest and benefit, present and future in and to certain UK mortgages and related loans forming part of a mortgage pool and the benefit of all related security (one deed of floating charge relates to property in Northern Ireland and the other deed of floating charge relates to property in England and Wales; the floating charge relates to property in Scotland).

Each of the three charges contains a provision whereby during the subsistence of the security constituted thereby, otherwise than with the prior written consent of the Central Bank, the Bank shall:
(i) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged thereunder or any part thereof; or
(ii) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged thereunder or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

The Bank also entered into a framework agreement on 22 September 2014 with the Central Bank under which the Bank may issue special mortgage-backed euro promissory notes to the Central Bank as security for Eurosystem credit operations. These obligations are secured by way of a deed of floating charge over all the Bank's right, title, interest and benefit, present and future in and to certain RoI mortgages and related loans forming part of a mortgage pool and the benefit of all related security. The deed of floating charge contains a provision whereby during the subsistence of the security constituted thereby, otherwise than with the prior written consent of the Central Bank, the Bank shall:
(i) not create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged thereunder or any part thereof; or
(ii) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the property charged thereunder or any part thereof or redeem, agree to redeem or accept repayment in whole or in part of any loan or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

(g) The Bank entered into a framework agreement in respect of Eurosystem Operations secured over collateral pool assets (the 'Pooling Agreement') with the Central Bank, together with a related Deed of Charge (the 'Pooling Deed of Charge'), on 15 May 2014. Pursuant to the Pooling Agreement, the Bank may participate in Eurosystem Operations (as defined therein) which, inter alia, provides for access to the Eurosystem's main refinancing operations (MRO). The Pooling Agreement and the Pooling Deed of Charge replaced the master repurchase agreement previously entered into by the Bank to access the MRO. As more fully described in the Pooling Deed of Charge, the Bank's obligations pursuant to the Pooling Agreement are secured by way of:

## 62 Other (continued)

(i) a first fixed charge over the Bank's right, title, interest and benefit, present and future in and to eligible assets (as identified as such by the Central Bank) which comprise present and future rights, title, interest, claims and benefits of the Bank at that time in and to, or in connection with, a collateral account (the 'Collateral Account') and eligible assets which stand to the credit of the Collateral Account (together, the 'Collateral Account Assets'); and
(ii) a floating charge over the Bank's right, title, interest and benefit, present and future in and to other eligible assets of the Bank.

The Pooling Deed of Charge provides that the Bank may not, save with the prior written consent of the Central Bank or as permitted by the Pooling Agreement, until its obligations under the Pooling Agreement have been discharged in full:
(i) receive, withdraw, redeem or otherwise transfer or deal with the Collateral Account Assets;
(ii) assign, transfer or otherwise dispose of all or any of its rights, title, interest or benefit in or to the Collateral Account Assets;
(iii) give any instructions in respect of the Collateral Account Assets;
(iv) create or attempt to create or permit to arise or subsist any encumbrance on or over the property charged under the Pooling Deed of Charge;
(v) sell, transfer, lend or otherwise dispose of or deal in the assets subject to the fixed charge under the Pooling Deed of Charge or any part thereof or, in each case, attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time; and
(vi) otherwise than in the ordinary course of business (and provided that (A) no event of default or event that, with the giving of notice or the lapse of time or both, would constitute an event of default, has occurred, (B) the floating charge has not crystallised without being reconverted into, and continuing in effect as, a floating charge), sell, transfer, lend or otherwise dispose of or deal in the assets subject to the floating charge under the Pooling Deed of Charge or any part thereof, or redeem, agree to redeem or accept repayment in whole or in part of any credit claim subject to the floating charge, or enforce or release any related security or, in each case, attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

(h) Bank income statement:
In accordance with Section 304 of Companies Act 2014, the Bank is availing of the exemption to not present its individual income statement to the Annual General Court (AGC) and from filing it with the Registrar of Companies. The Bank's profit after tax for the year ended 31 December 2017 determined in accordance with FRS 101 is €696 million (2016: €624 million).

(i) BOI Capital Funding (No 1) LP, BOI Capital Funding (No 2) LP, BOI Capital Funding (No 3) LP and BOI Capital Funding (No 4) LP, which are funding vehicles for the Group, have been included in the results of the Group using acquisition accounting on the basis that the Bank controls these entities. The general partner of these companies is BOI GP No 1 Limited, a wholly owned subsidiary of the Bank.

The Group avails of the exemption provided under Regulation 7 of The Partnerships (Accounts) Regulations 2008 of the United Kingdom. Under this exemption, the financial statements of the Limited Partnerships which BOI GP No 1 Limited manages are not required to be filed as appended to the annual financial statements of BOI GP No 1 Limited as the Limited Partnerships are consolidated within the financial statements of the Group.

## 63 Post balance sheet events

On 21 February, the Group announced that Mr Archie Kane intends to step down as Chairman of BOIG plc and as Governor of the Bank this year. As part of the Board's ongoing succession planning a selection process is underway to appoint a new Chairman and Governor. Accordingly, the effective date of Mr Kane's departure will be announced in due course.

## 64 Approval of financial statements

The Court of Directors approved the Consolidated and Bank financial statements on 23 February 2018.

# Other disclosures

## TARGET 2

1. On 15 February 2008 a first floating charge was placed in favour of the Central Bank of Ireland (CBI) over all The Governor and Company of the Bank of Ireland's right, title, interest and benefit, present and future, in and to the balances now or at any time standing to the credit of The Governor and Company of the Bank of Ireland's account held as a TARGET 2 participant with the CBI (the Charged Property) where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.

   This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, The Governor and Company of the Bank of Ireland shall:
   (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof; or
   (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the charged property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

2. On 15 February 2008 a first floating charge was placed in favour of the CBI over all The Governor and Company of the Bank of Ireland's right, title, interest and benefit, present and future, in and to certain segregated securities (the Charged Property) listed in an Eligible Securities Schedule kept by The Governor and Company of the Bank of Ireland for purposes of participating in TARGET 2 where TARGET 2 is a real time gross settlement system for payments in euro with settlement in central bank money.
   This floating charge contains a provision whereby during the subsistence of the security, otherwise than with the prior written consent of the CBI, The Governor and Company of the Bank of Ireland shall:

   (a) not create or attempt to create or permit to arise or subsist any encumbrance on or over the charged property or any part thereof; or
   (b) not, otherwise than in the ordinary course of business, sell, transfer, lend or otherwise dispose of the Charged Property or any part thereof or attempt or agree to do so whether by means of one or a number of transactions related or not and whether at one time or over a period of time.

# Glossary

**Further information related to certain measures referred to in the Business Review**

**Constant currency:** To enable a better understanding of performance, certain variances are calculated on a constant currency basis by adjusting for the impact of movements in exchange rates during the period as follows:

- for balance sheet items, by reference to the closing rate at the end of the current and prior period ends; and
- for items relating to the income statement, by reference to the current and prior period average rates.

**Forborne collateral realisation** loans (FCRs) that are not greater than 90 days past due and / or impaired consist of loans (primarily residential mortgages) where forbearance is in place and where future reliance on the realisation of collateral is expected, for the repayment in full of the relevant borrower loan. Such arrangements will include Split Mortgages and certain 'Interest Only' / 'Interest Only plus' arrangements.

**Gross new lending volumes** represent loans and advances to customers drawn down during the period and portfolio acquisitions.

**Liquid assets** are comprised of cash and balances at central banks, loans and advances to banks (excluding balances in Bank of Ireland Life), held to maturity financial assets, NAMA senior bonds and certain AFS financial assets.

**Loan to deposit ratio** is calculated as being net loans and advances to customers divided by customer deposits.

**Non-performing exposures** consist of impaired loans, loans past due greater than 90 days but not impaired, Forborne Collateral Realisation loans (FCRs) and other / probationary loans that have yet to satisfy exit criteria in line with EBA guidance to return to performing.

**Organic capital generation** consists of attributable profit, AFS reserve movements, the reduction in DTA deduction (DTAs that rely on future profitability), movements in the Expected Loss deduction and RWA book size and quality movements.

**Return on assets** is calculated as being statutory net profit (being profit after tax) divided by total assets, in line with the requirement in the European Union (Capital Requirements) Regulations 2014.

**Underlying** excludes non-core items which are those items that the Group believes obscure the underlying performance trends in the business. See page 5 for further information.

**Wholesale funding** is comprised of deposits by banks (including collateral received) and debt securities in issue.

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